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Volume XV 2012

ISMR

Indian Securities Market A Review

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A Review

Indian Securities Market

Volume XV 2012

This publication reviews the developments in the securities market in India

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NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Indian Securities Market
A Review

This publication reviews the developments in the Indian Securities Market upto September 2012. The views expressed herein do not necessarily reflect those of NSE. NSE does not guarantee the accuracy of the data included in this publication and accepts no responsibility whatsoever for any consequence of their use.

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CONTENTS

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 Systems
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
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

Part I
Securities Market Developments

A. Market Review / Analysis

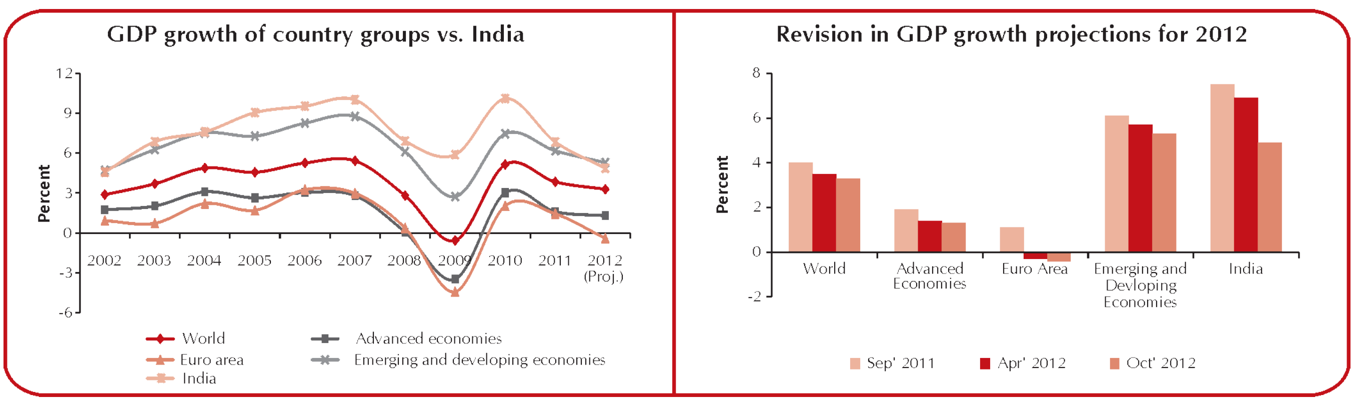
1. Macroeconomic Developments and Securities Markets

Section-I: Macroeconomic Developments

Global Economic Environment

Following the slowdown witnessed in 2011, the global growth outlook has deteriorated further in 2012. According to the latest available IMF forecast (released in October 2012), the global output growth is expected to decline from 3.8 percent in 2011 to 3.3 percent in 2012 (Chart 1-1), mainly reflecting a sharp downward revision in growth projections in some of the euro area advanced economies (such as, Germany, France, Italy and Spain) and BRIC [1] economies. Furthermore, the outlook for income growth in 2012 for almost all countries across the globe has deteriorated in successive forecasts. For 2012, while the growth projection fell from 1.9 percent in the September 2011 forecast to 1.3 percent in the October 2012 forecast, the projection for emerging economies fell from 6.1 percent to 5.3 percent between these two forecasts. The only bright spot is that between these two forecasts for output growth in 2012, the projection for the US economy has improved from 1.8 percent to 2.2 percent.

Chart 1-1: Global Growth Projections for 2012 by IMF



Source: WEO database, IMF

The reasons for the pessimism in growth outlook mainly relate to the continued sovereign debt overhang and the financial market uncertainties in the euro area. Euro area risks have affected business confidence and have also caused world trade to decelerate. Consequently, several emerging and developing economies (EDEs) face weaker external demand on top of an already slowing domestic demand.

Further downside risks to global growth may stem from a possible 'fiscal cliff'[2] leading to sudden and sharp fiscal consolidation in the US, notwithstanding the 'open-ended' quantitative easing (QE)[3] announced by the Federal

[1] An acronym for a group of four countries (Brazil, Russia, India and China) which are deemed to be at a comparable stage of economic development.

[2] The fiscal cliff refers to a possible large reduction in the federal budget deficit in 2013 on account of expiry of both tax and expenditure cuts, becoming effective from January 2013.

[3] QE is an unconventional monetary policy used by central banks to stimulate the national economy when conventional monetary policy becomes ineffective. The Federal Reserve announced the QE 3 in September 2012 to buy US$ 40 billion worth of bonds every month.

Reserve. The US Congressional Budget Office (CBO) forecasts that the US fiscal deficit will decline by 3.3 percentage points to 4 percent of GDP in 2013 due to the looming fiscal cliff. There are fears that such a sharp fiscal consolidation in the US, the largest economy of the world may have adverse impact on the global growth prospects.

The developments in the euro area deserve some explanation. The euro area is basically finding it difficult to get out of the troubled situation, being caught in a deep structural and multifaceted crisis characterized by large fiscal deficit, enormous public debt and banking problems. Beginning with the peripheral euro area in 2009, the sovereign debt crisis has of late spread to engulf core euro area economies, such as France and Austria, which were downgraded in January 2012 from their AAA rating status. The sovereign debt crisis has also raised the probability of Greece exiting from the euro and has resulted in a spillover to a banking crisis in Spain and Portugal. The main problem is that as countries in a currency union, the individual affected economies do not have the liberty of using exchange rate and monetary policy as stabilization measures.

The policy measures taken to alleviate the euro zone crisis have been mainly fourfold: (i) regional financial arrangements and euro-IMF joint provision of resources, (ii) exceptional liquidity facility provided by ECB, (iii) measures to recapitalize and strengthen prudential norms in the European banking system and (iv) structural measures to correct a distorted fiscal system.[4] These policy measures, however, have not proved to be effective in debt crisis resolution. Concerns over fiscal sustainability and solvency of these economies still remain. For example, in June 2012, Spain's economic condition worsened necessitating bail-out packages for its banks. These measures appear to be aimed at staving off the crisis rather than addressing its structural issues.

The economic activities in Emerging and Developing Economies (EDEs) have been affected by the slowdown in advanced economies as well as some domestic constraints. The BRIC economies, for example, continued to slow. China's growth has decelerated for the seventh consecutive quarter to 7.6 percent (y-o-y) in Q3 of 2012. Russia's growth weakened further to 4.1 percent in Q2 of 2012, decelerating continuously for three successive quarters. Brazil's growth fell for the tenth successive quarter to 0.5 percent in Q2 of 2012. The growth rate of the Indian economy was 5.4 percent in the first-half of the year 2012-13 as compared to 7.3 percent in the corresponding period of the previous fiscal. With continuing risks to global growth and trade, near-term improvement in growth prospects for EDEs, including India, seems unlikely.

How has the slowdown affected the global capital flows? After having surged to unprecedented levels in 2007 and first half of 2008, the net private capital flows [5] to emerging markets and developing countries slowed down from US$ 604.7 billion in 2010 to US$ 503 billion in 2011; it is projected to slump further to US$ 268.3 billion in 2012. (Table 1-1)

Further, faltering growth in the developed economies hit exports from emerging and developing economies. As per IMF's World Economic Outlook (WEO) update of October 2012, World Trade Volume (goods & services) is projected to grow by 3.2 percent in 2012 as compared to 12.6 per cent in 2010 and 5.8 per cent in 2011. Partially reflecting a slowdown in the imports of advanced economies to 1.7 per cent (projected) in 2012 from 4.4 per cent in 2011, the projected growth for emerging and developing economies is 4.0 per cent for 2012 as compared to 6.5 per cent in 2011. (Table 1-1)

4 Reserve Bank of India Annual Report, 2012.

5 Private capital flows cover direct investment, portfolio investment and other investment.

Table 1-1: Global Economic Prospects (in terms of Capital Flows and International Trade)

	Item	2010	2011	2012 P	2013 P
I	**Net Capital Flows to Emerging Market and Developing Countries (US$ billion)**				
i	Net Private Capital Flows (a+b+c)	604.7	503.0	268.2	399.7
	a) Net Private Direct Investment	392.0	462.4	393.8	409.0
	b) Net Private Portfolio Investment	240.8	129.7	133.0	150.9
	c) Net Other Private Capital Flows	-28.1	-89.1	-258.6	-160.2
ii	Net Official Flows	62.8	-108.3	-51.8	-89.2
II	**World Trade in Goods and Services @ (percent)**				
i	Trade Volume (exports and imports)	12.6	5.8	3.2	4.5
ii	Export Volume				
	a) Advanced Economies	12.0	5.3	2.2	3.6
	b) Emerging Market & developing Countries	13.7	6.5	4.0	5.7

Note: P - Projections, @ - Annual percentage change for world trade of goods and services.
Source: Ministry of Finance, Govt. of India

Against this backdrop, most currencies experienced huge exchange rate volatility vis-à-vis the US dollar, which continues to function as the world's key reserve currency. Due to weakening foreign equity inflows and widening trade deficits, developing country currencies continued to depreciate in 2012, with major currencies such as the South African rand, Indian rupee, Brazilian real, Turkish lire and Mexican peso losing 15 percent or more against the US dollar in the one year up to August 2012. The sudden reversal in flows and weakening currencies prompted several countries to intervene by selling off foreign currency reserves in support of their currencies.

Macroeconomic Developments in India

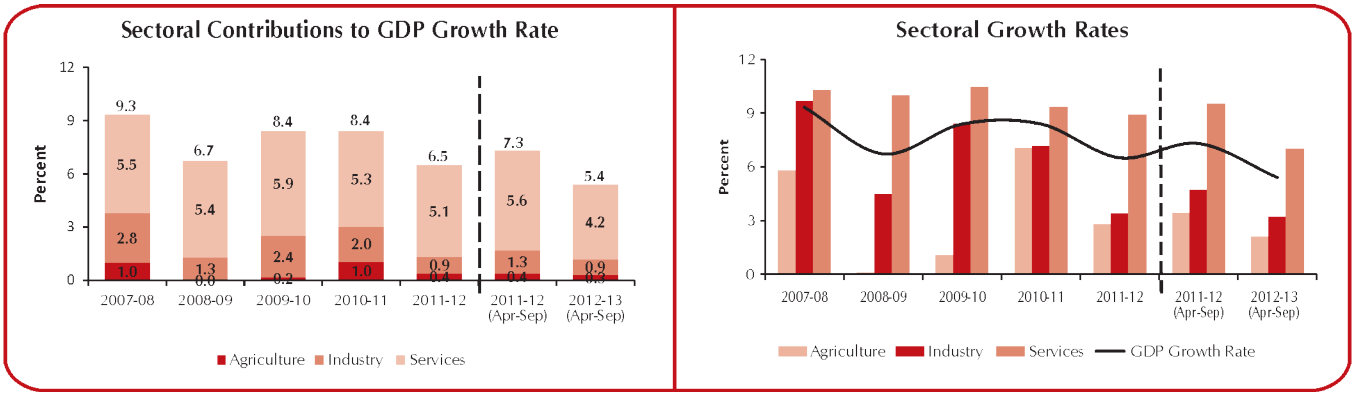
While greater integration with the world economy and global financial markets have benefited India in several ways over the years, it has also made India become vulnerable to global shocks, as evidenced by the global financial crisis of 2008. More recently, the European debt crisis and global slowdown have been posing serious challenges to the Indian economy.

After a recovery from the global financial crisis with two successive years (2009-10 and 2010-11) of robust growth of 8.4 percent, the GDP growth decelerated sharply to a nine-year low of 6.5 percent in 2011-12. The slowdown in the Indian economy began in Q2 of 2011-12, when the growth rate declined from a level of 8.0 percent in the first quarter to 6.7 percent. The slowdown continued in subsequent quarters and growth has been in the range of 5.3-5.5 percent in the last three quarters (from Q4 of 2011-12 to Q2 of 2012-13). The deceleration in the Indian economy in 2011-12 was on account of all round fall in demand – consumption (both private and government), investment and external (net exports).[6]

The slowdown was also reflected in all the three sectors of the economy but industrial sector suffered the sharpest deceleration (Chart 1-2). While the slowdown in agriculture sector growth was on account of the strong base effect, the growth in the industrial sector declined mainly due to sharp moderation in manufacturing sector growth. The slowdown was on account of moderation in demand (both domestic and external), hardening of interest rates, slowdown in consumption expenditure (especially in interest-rate sensitive commodities), subdued business confidence and persistent global economic uncertainty. The moderation in the services sector growth was led by sharp deceleration in 'construction' and 'trade, hotels, transport and communication'. Despite the moderation, however, the predominance of the services sector remains a unique feature of the overall growth story and the process of structural change in India.[7]

6 Reserve Bank of India Annual Report, 2012.
7 *Ibid.*

Chart 1-2: Sectoral Contribution and Growth to India's GDP



Source: CSO

The sluggish growth of the economy has been accompanied by high inflation. The high inflation phase that started in Q4 of 2009-10 has persisted, although it has somewhat moderated in the recent months. Inflation remained high at over 9 percent in the first eight months of 2011-12, before softening moderately in December. It has since remained sticky in the range of 7.2-8.1 percent, a level much higher than RBI's comfort level of 5.5-6.0 percent. Food inflation rebounded sharply since beginning of the year: from negative zone to the double digit level in April 2012 and has since been hovering around the same level. The non-food manufactured products inflation moderated from a high of 8.4 percent in November 2011 to below 5 percent by March 2012.

The reasons behind the high inflation in recent months are (a) higher international prices of crude, precious metals etc. (b) revision in MSP prices for some of the essential commodities and (c) revision in petroleum prices in September 2012, among others. The persistence of high inflation, even as growth is slowing, has emerged as a major challenge for monetary policy.

On the fiscal sector, there was a considerable slippage from the central government's budgeted fiscal deficit (4.6 percent of GDP) in 2011-12 to the realized fiscal deficit (5.8 percent of GDP). The slippage was due to many factors, both domestic and external. The firming up of international crude oil prices and the resultant increase in fuel subsidies, the reduction in indirect taxes on petroleum products, shortfall in revenue due to more than anticipated slowdown in economic growth and lower than budgeted disinvestment receipts contributed to the fiscal slippage in 2011-12. With the central government already accounting for 65 percent of the budgeted fiscal deficit in the first-half of 2012-13 itself, there could be another considerable slippage in 2012-13 unless immediate remedial measures are undertaken. Against this backdrop, the government has announced some policy measures since the second week of September 2012 towards fiscal consolidation such as reducing fuel subsidies and clearing stake sales in select public enterprises.

On the external front, the year 2011-12 was characterized by a burgeoning trade and current account deficit (CAD), subdued equity inflows, depletion of foreign exchange reserves, rising external debt and deteriorating international investment position. These indicators reflect the weakening external sector resilience of the Indian economy and thus, present a formidable challenge for policy makers.

India's trade deficit increased in absolute terms to US$ 189.8 billion (10.3 percent of GDP) in 2011-12 as compared to US$ 130.6 billion (7.8 percent of GDP) in 2010-11. Economic slowdown in advanced countries and its spill-over effects in EMEs coupled with rising crude oil and gold prices were responsible for the sharp increase in trade deficit. During April – September 2012, exports recorded a sharper decline of 7.4 percent relative to the imports (4.3 percent).

The current account deficit (CAD) increased both in absolute terms as well as a proportion of GDP in 2011-12, reflecting widening trade deficit on account of subdued external demand, relatively inelastic imports of petroleum, oil and lubricant (POL) and higher imports of gold & silver. The CAD in 2011-12 was US$ 78.2 billion (4.2 percent of GDP) as compared with US$ 45.9 billion (2.7 percent of GDP) in 2010-11. In April – September 2012, the CAD has worsened further rising sharply to 4.6 percent as compared to 4.0 percent in the corresponding period of the previous fiscal.

Although the CAD widened in 2011-12, India was fortunate to receive larger net capital flows. The net capital inflows were higher at US$ 67.8 billion in 2011-12 as compared to US$ 62.0 billion in 2010-11, mainly due to higher FDI inflows and NRI deposits. Though the capital inflows increased, they fell short of financing current account deficit, resulting in some reserve drawdown in 2011-12.

The large twin deficits (CAD and fiscal deficit) pose significant risks to macroeconomic stability and growth sustainability. Financing the huge fiscal deficit from internal domestic savings would potentially crowd out private investment, thus lowering growth prospects. This, in turn, will deter capital inflows, making it more difficult to finance the increasing CAD which in a sense is a result of global slowdown. As India is structurally a current account deficit country, capital inflows play a very important role in financing the CAD and it is very important to have a very high and sustainable net capital inflows.

Further, increase in external debt, contributed by a marked increase in commercial borrowings and short-term debt has led to a deterioration of the external sector vulnerability indicators during 2011-12. Key external sector vulnerability indicators, such as the reserve cover of imports, the ratio of short-term debt to total external debt, the ratio of foreign exchange reserves to total debt, and the debt service ratio deteriorated during the year (Table 1-2).

Table 1-2: India's Key External Debt Indicators

Year	External Debt (US$ billion)	External Debt to GDP (percent)	Debt Service Ratio (percent)	Foreign Exchange Reserves as percent of Total External Debt	Short-Term Debt as percent of Foreign Exchange Reserves	Short-Term Debt as percent of Total External Debt	Reserves Cover of Imports (in months)
2005-06	139.1	16.8	10.1	109.0	12.9	14.0	11.6
2006-07	172.4	17.5	4.7	115.6	14.1	16.3	12.5
2007-08	224.4	18.0	4.8	138.0	14.8	20.4	14.4
2008-09	224.5	20.3	4.4	112.1	17.2	19.3	9.8
2009-10	260.9	18.3	5.8	106.8	18.8	20.0	11.1
2010-11	305.9	17.8	4.3	99.6	21.3	21.2	9.6
2011-12 (PR)	**345.8**	**20.0**	**6.0**	**85.1**	**26.6**	**22.6**	**7.1**
2012-13 (Apr-Sep) QE	**365.3**	**21.4**	**-**	**80.7**	**28.7**	**23.1**	**7.6**

Source: Ministry of Finance, Govt. of India

Against the backdrop, a number of policy measures have been undertaken to augment the capital flows into India.

- With deregulation of interest rates on rupee denominated non-resident Indian (NRI), greater NRI deposit flows have been facilitated: in 2011-12, NRI deposit flows witnessed a sharp rise at US$ 11.9 billion compared to an inflow of US$ 3.2 billion in the previous fiscal. In addition, remittances facilities for Indian expatriates have been streamlined. Such flows have huge beneficial impact for bridging the CAD.
- There has been enhancement in the investment limits for the FIIs in sovereign and corporate bonds. The limit on FII investment in G-Secs has been enhanced to US$ 20 billion from US$ 15 billion. Long term investors like Sovereign Wealth Funds (SWFs), multi-lateral agencies, endowment funds, insurance funds, pension funds and foreign central banks have now been permitted to invest in Government securities. Similarly, the limit on investment in corporate bonds has been enhanced to US$ 45 billion from US$ 40 billion and the holding period

and residual maturity requirements for bonds in the infrastructure sector have been reduced. A new scheme allowing the Qualified Foreign Investors (QFIs) to invest up to US$ 1 billion in corporate bonds has been introduced.

- Further, a number of measures such as increasing the limit for availing of external commercial borrowing (ECB) under the automatic route, increasing the limit for refinancing the Rupee loans out of ECBs, new US$ 10 billion scheme of ECBs for export earners, etc. have been taken to rationalize the regulatory framework for ECBs.

India's financial markets–particularly securities markets–were also affected by the global slowdown as reflected in some of the following indicators. In the primary market, the resource mobilized through public and rights issues has fallen from about Rs 144 billion in the first half of 2011-12 to Rs 100 billion during the same period in 2012-13. The secondary market has been affected too. While the market-cap to GDP ratio has fallen marginally to 64.3 percent in September 2012 from 65.7 percent a year ago, the average daily market turnover during the first half of 2012-13 has fallen by 9 percent from the level prevailing in the corresponding period of 2011-12.

Amidst these gloomy trends, there were some green shoots in the securities market. Net FII investment stood at US$ 8.4 billion in the first half of 2012-13 compared to US$ 2.1 billion in the corresponding period of the previous year. Volatility in the equity market has fallen as reflected in a decrease in the volatility of the benchmark index S&P CNX Nifty 50, from 1.4 percent in September 2011 to 0.9 in September 2012.

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Section-II: Structure and Trends of the Indian Securities Markets in 2011-2012

In this section, the basic structure of the Indian securities market as it exists now, together with the broad trends in different segments of the market in 2011-12 have been outlined.

The securities market has essentially three categories of participants—the issuer of the securities, the investors in the securities, and the intermediaries. The issuers are the borrowers or deficit savers, who issue securities to raise funds. The investors, who are surplus savers, deploy their savings by subscribing to these securities. The intermediaries are the agents who match the needs of the users and the suppliers of funds for a commission. These intermediaries function to help both the issuers and the investors to achieve their respective goals. There are a large variety and number of intermediaries providing various services in the Indian securities market (Table 1-3). This process of mobilizing the resources is carried out under the supervision and overview of the regulators. The regulators develop fair market practices and regulate the conduct of the issuers of securities and the intermediaries. They are also in charge of protecting the interests of the investors. The regulator ensures a high service standard from the intermediaries, as well as the supply of quality securities and non-manipulated demand for them in the market.

Table 1-3: Market Participants in Securities Market

Market Participants	FY 2011	FY 2012	As on Sep 30, 2012
Securities Appellate Tribunal (SAT)	1	1	1
Regulators*	4	4	4
Depositories	2	2	2
Stock Exchanges			
With Equities Trading	19	19	19
With Debt Market Segment	2	2	2
With Derivative Trading	2	2	2
With Currency Derivatives	4	4	4
Brokers (Cash Segment) **	10,203	10,268	10,165
Corporate Brokers (Cash Segment)	4,774	4,877	4,827
Brokers (Equity Derivatives)	2,111	2,337	2,416
Brokers (Currency Derivatives)	2,008	2,173	2,201
Sub-brokers	83,808	77,141	74,224
FIIs	1,722	1,765	1,753
Portfolio Managers	267	250	251
Custodians	17	19	19

Contd.

Contd.

Market Participants	FY 2011	FY 2012	As on Sep 30, 2012
Registrars to an issue & Share Transfer Agents	73	74	75
Merchant Bankers	192	200	202
Bankers to an Issue	55	57	57
Debenture Trustees	29	31	31
Underwriters	3	3	3
Venture Capital Funds	184	212	211
Foreign Venture Capital Investors	153	176	182
Mutual Funds	51	49	49
Collective Investment Schemes	1	1	1
KYC Registration Agency (KYC)	--	--	4

** DCA, DEA, RBI & SEBI.*
***Including brokers on Mangalore SE (58), HSE (303), Magadh SE (197), SKSE (399).*
Source: SEBI

Market Segments

The securities market has two interdependent and inseparable segments, namely, the new issues (primary) market and the stock (secondary) market. The primary market provides the channel for the creation and sale of new securities, while the secondary market deals in 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 mobilized either through a public issue or through a private placement route. If anybody can subscribe for the issue, it is 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 debt securities (dated securities and treasury bills).

The secondary market enables 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 are traded in the stock (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 informal 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 (day = T) are settled together after a certain time (T + 2 day). The trades executed on exchanges are cleared and settled by a clearing corporation. The clearing corporation acts as a counterparty and guarantees settlement. A variant 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 market. Presently, only two exchanges in India—the National Stock Exchange of India Ltd. (NSE) and the Bombay Stock Exchange (BSE)—provide trading in Futures and Options.

International Scenario

Global integration—the widening and intensifying of links—between high-income and developing countries has accelerated over the years. Over the past few years, the financial markets have become increasingly global. The Indian market has gained from foreign inflows through the investment of Foreign Institutional Investors (FIIs). Following the implementation of reforms in the securities industry in the past few years, Indian stock markets have stood out in the world ranking. As per Standard and Poor's Fact Book 2012, India ranked 11th in terms of market capitalization, 17th in terms of total value traded in stock exchanges, and 30th in terms of turnover ratio, as of December 2011.

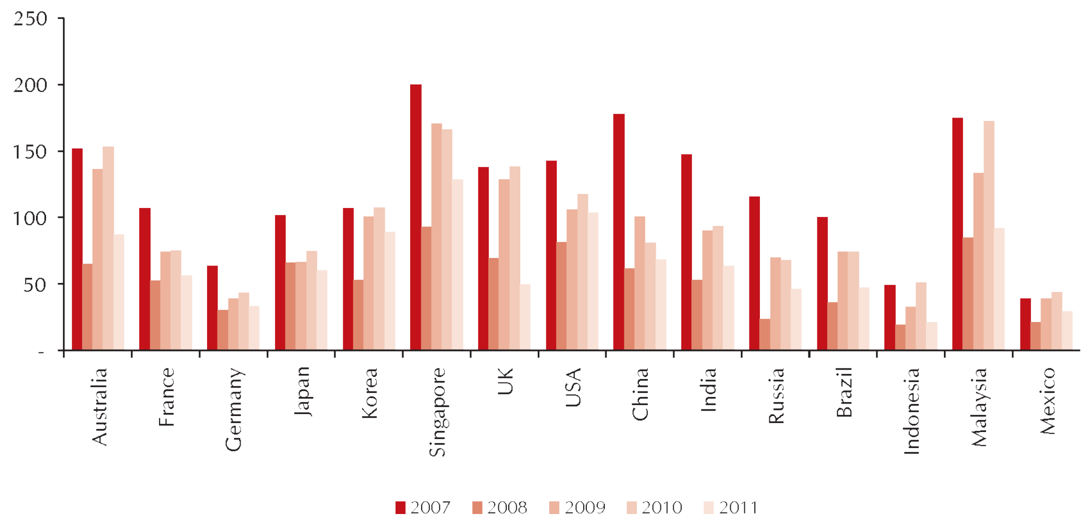
The turnover of all the markets taken together has increased from US $ 65 trillion in 2010 to US $ 66.4 trillion in 2011. Significantly, the US alone accounted for about 46.3 percent of the worldwide turnover in 2011. Despite having a large number of companies listed on its exchanges, India accounted for a meager 1.1 percent of the total world turnover in 2011. As can be observed from Table 1-4, the market capitalization of all the listed companies taken together across all the markets stood at US $ 45.08 trillion in 2011 (US $ 54.51 trillion in 2010). The share of the US in worldwide market capitalization increased from 31.4 percent at the end of 2010 to 34.7 percent at the end of 2011, while the Indian listed companies accounted for 2.3 percent of the total market capitalization at the end of 2011. The stock market capitalization for some developed and emerging countries is shown in Chart 1-3.

Table 1-4: International Comparison of Global Stock Markets

International Comparison	Market Capitalisation (US $ mn)			Market Capitalisation Ratio (in percent)			No. of listed Companies		
Markets	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
Developed Market	**33,531,413**	**39,309,690**	**33,169,049**				**24,635**	**27,024**	**27,497**
Australia	1,258,456	1,454,547	1,198,164	136.07	157.28	87.34	1,882	1,913	1,922
France	1,972,040	1,926,488	1,568,730	74.43	72.71	56.57	941	901	893
Germany	1,297,568	1,429,707	1,184,459	38.77	42.72	33.17	601	571	670
Japan	3,377,892	4,099,591	3,540,685	66.66	80.90	60.35	3,208	3,553	3,961
Korea	836,462	1,089,217	994,302	100.47	130.83	89.08	1,778	1,781	1,792
Singapore	310,766	370,091	308,320	170.53	203.09	128.63	459	461	462
UK	2,796,444	3,107,038	1,202,031	128.60	142.88	49.43	2,179	2,056	2,001
USA	15,077,286	17,138,978	15,640,707	105.76	120.22	103.62	4,401	4,279	4,171
Emerging Markets	**13,848,456**	**15,201,722**	**11,913,772**				**24,073**	**21,675**	**22,056**
China	5,007,646	4,762,837	3,389,098	100.46	95.55	68.42	1,700	2,063	2,342
India	1,179,235	1,615,860	1,015,370	90.01	123.33	63.81	4,955	4,987	5,112
Russia	861,424	1,004,525	796,376	69.99	81.62	46.37	279	345	327
Brazil	1,167,335	1,545,566	1,228,969	74.26	98.32	47.13	377	373	366
Indonesia	178,191	360,388	390,107	32.98	66.70	21.04	398	420	440
Malaysia	255,952	410,534	395,083	133.59	214.27	91.85	960	957	941
Mexico	340,565	454,345	408,691	38.93	51.93	29.48	125	130	128
World Total	**47,379,869**	**54,511,412**	**45,082,821**	–	–	–	48,732	48,782	49,553
USA as percent of World	31.8	31.4	34.7	–	–	–	9.03	8.77	8.42
India as percent of World	2.5	3.0	2.3	–	–	–	10.17	10.22	10.32

Note:
Listed companies in India pertain to BSE.
Market Capitalisation ratio is computed as a percentage of GDP.
Korea has been classified as developed markets from 2010 onwards.
Source:S&P Global Stock Market Factbook, 2012 and World Development Indicators, World Bank

Chart 1-3: Stock Market Capitalization (as percentage of GDP)



Source:S&P Global Stock Market Factbook, 2012 and World Development Indicators, World Bank

According to the World Development Indicators 2012, World Bank, there has been an increase in the market capitalization as a percentage of Gross Domestic Product (GDP) in the high income countries, while it has remained at the same levels for middle income and low & middle income countries, as is evident from Table 1-5. The market capitalization as a percentage of GDP was 95.9 percent for the high-income countries at the end of 2010 while for middle income countries it was 72.6 percent and for low and middle income countries it was 72.1 percent. The market capitalization as a percentage of GDP in India increased from 85.6 percent at the end of 2009 to 93.6 percent in 2010. The turnover ratio, which is a measure of liquidity, was 143 percent for the high-income countries and 102.8 percent for the low and middle-income countries in 2011. The total number of listed companies stood at 30,214 for the high-income countries, 18,737 for the middle-income countries, and 19,339 for the low and middle-income countries at the end of 2011.

Table 1-5 : Select Stock Market Indicators

Markets	Market Capitalisation as percent of GDP			Turnover Ratio (percent)			Listed Domestic Companies		
	2008	2009	2010	2009	2010	2011	2009	2010	2011
High Income	**62.9**	**89.9**	**95.9**	**187.1**	**128.5**	**143.0**	**31,198**	**29,574**	**30,214**
Middle Income	**49.5**	**73.2**	**72.6**	**213.8**	**101.1**	**103.0**	**9,819**	**16,778**	**18,737**
Low & Middle Income	**48.9**	**72.6**	**72.1**	**213.8**	**100.8**	**102.8**	**16,120**	**17,497**	**19,339**
East Asia & Pacific	58	91.0	79.9	229.5	146.0	154.3	3962	4,758	5,181
Europe & Central Asia	44.4	50.8	51.8	68.0	91.2	121.1	3610	2,963	4,368
Latin America & Caribbean	31.9	52.9	57.6	46.1	46.1	46.4	1417	1,457	1,446
Middle East & N. Africa	55.9	38.0	34.6	28.7	27.7	19.4	717	1,007	1,012
South Asia	47	73.3	81.9	88.9	73.5	55.4	6123	6,364	6,400
Sub-Saharan Africa	148.5	154.1	149.5	76.5	37.1	37.2	820	948	932
India	**55.7**	**85.6**	**93.6**	**116.3**	**75.6**	**56.3**	**4,946**	**4,987**	**5,112**
World	**59.2**	**85.2**	**88.7**	**--**	**122.0**	**133.4**	**--**	**47,071**	**49,553**

** Aggregates not preserved as data for high-income economies are not available for 2008.*
Source: World Development Indicators 2012, World Bank

Household Investments in India

According to the RBI data, investments in fixed income instruments accounted for 89.2 percent of the household financial savings during 2011–2012, which has increased in comparison to 85.9 percent in 2010-2011.

In the fiscal year 2011-2012, the household sector invested 52.8 percent of financial savings in deposits, 38.7 percent in insurance/provident funds, -2.3 percent in small savings, and -0.8 percent in the securities market including government securities, units of mutual funds, and other securities (Table 1-6). To sum up, fixed-income-bearing instruments were the preferred assets of the household sector.

Table 1-6: Savings of Household Sector in Financial Assets

Financial Assets	2009-10 R	2010-11 R	2011-12 P
Currency	**9.8**	**13.8**	**11.3**
Fixed income investments	**85.5**	**85.9**	**89.2**
Deposits	41.9	45.6	52.8
Insurance/Provident & Pension Funds	39.3	36.3	38.7
Small Savings	4.3	4.0	-2.3
Securities Market	**4.2**	**-0.3**	**-0.8**
Mutual Funds	3.3	-1.2	-1.1
Government Securities	0.0	0.0	0.0
Other Securities	0.9	0.9	0.3
Total	**100**	**100**	**100**

R: Revised
P: Preliminary Estimates
Note: Here other securities include shares and debentures of private corporate business, banking and bonds of PSUs.
Mutual funds include units of UTI.
Source: RBI Annual Report 2011-12

Primary Market

An aggregate of ₹ 9,926 billion was raised by the government and the corporate sector in 2011–2012, compared to ₹ 8,690 billion in 2010-11 (an increase of 14.2 percent). Private placement accounted for 93.3 percent of the domestic total resource mobilization by the corporate sector. Resource mobilization through Euro Issues dropped significantly by 71.3 percent to ₹ 27 billion in 2011–2012. (More details are provided in Chapter 2).

Secondary Market

The exchanges in the country offer screen-based trading system. There were 10,268 trading members registered with SEBI at the end of March 2012 (Table 1-7). The market capitalization has grown over the period, indicating that more companies are using the trading platform of the stock exchange. The market capitalization across India was around ₹ 62,191 billion (US $ 1,215 billion) at the end of March 2012. Market capitalization ratio is defined as the market capitalization of stocks divided by the GDP. It is used as a measure that denotes the importance of equity markets relative to the GDP. It is of economic significance since the market is positively correlated with the ability to mobilize capital and diversify risk. The all-India market capitalization ratio decreased to 70.2 percent in 2011–2012 from 89.2 percent in 2010-11.

Table 1-7: Select Indicators in the Secondary Market

At the End of Financial Year	Capital Market Segment of Stock Exchanges									Non-Repo Government Sec Turnover				Derivatives	
	No. of Brokers	Nifty 50	Sensex	Market Capitalisation (₹ mn)	Market Capitalisation (US $ mn)	Market Capitalisation Ratio (percent)	Turnover (₹ mn)	Turnover (US $ mn)	Turnover Ratio (percent)	On WDM Segment of NSE (₹ mn)	On SGL (₹mn)	On WDM Segment of NSE (US $ mn)	On SGL (US $ mn)	Turnover (₹ mn)	Turnover (US $ mn)
2000-01	9,782	1148.20	3,604.4	7,688,630	164,851	54.50	28,809,900	617,708	374.71	4,124,958	5,721,456	88,442	122,673	40,180	861
2001-02	9,687	1129.55	3,469.4	7,492,480	153,534	36.36	8,958,180	183,569	119.56	9,269,955	12,119,658	189,958	248,354	1,038,480	21,280
2002-03	9,519	978.2	3,048.7	6,319,212	133,036	28.49	9,689,098	203,981	153.33	10,305,497	13,923,834	216,958	293,133	4,423,333	93,123
2003-04	9,368	1771.9	5,590.6	13,187,953	303,940	52.3	16,209,326	373,573	122.91	12,741,190	17,013,632	293,643	392,110	21,422,690	493,724
2004-05	9,128	2035.7	6,492.8	16,984,280	388,212	54.4	16,668,960	381,005	98.14	8,493,250	12,608,667	194,131	288,198	25,641,269	586,086
2005-06	9,335	3402.6	11,280.0	30,221,900	677,469	85.6	23,901,030	535,777	79.09	4,508,016	7,080,147	101,054	158,712	48,242,590	1,081,430
2006-07	9,443	3821.6	13,072.1	35,488,081	814,134	86.0	29,014,715	665,628	81.76	2,053,237	3,982,988	47,103	91,374	74,152,780	1,701,142
2007-08	9,487	4734.5	15,644.4	51,497,010	1,288,392	109.3	51,308,160	1,283,667	99.63	2,604,088	5,003,047	65,151	125,170	133,327,869	3,335,698
2008-09	9,628	3021.0	9,708.5	30,929,738	607,061	55.4	38,520,970	756,054	124.54	2,911,124	6,645,488	57,137	130,432	110,227,501	2,302,643
2009-10	9,772	5249.1	17,527.8	61,704,205	1,366,952	95.6	55,168,330	1,222,161	89.41	4,217,022	9,018,385	93,421	199,787	176,638,990	3,921,825
2010-11	10,203	5833.8	19,445.2	68,430,493	1,532,598	89.2	46,850,341	1,049,280	68.46	4,035,492	7,083,067	90,381	158,635	321,582,080	7,202,286
2011-12	**10,268**	**5295.6**	**17,404.2**	**62,191,859**	**1,215,718**	**70.2**	**34,843,820**	**681,122**	**56.03**	**4,643,860**	**7,802,466**	**90,778**	**152,521**	**345,720,145**	**6,758,088**
Apr-Sep'12	**10,165**	**5703.3**	**18,762.7**	**65,636,224**	**1,202,129**	**70.4#**	**15,336,110**	**280,881**	**23.37**	**2,708,887**	**5,398,753**	**49,613**	**98,878**	**189,293,800**	**3,466,919**

Note:
 # NSE staff estimates.
For April-Sep 2012, turnover for capital market segment of stock exchanges includes only NSE and BSE.
Source: SEBI, CMIE Prowess and NSE

The trading volumes on the stock exchanges had picked up from 2002–2003 onwards. It stood at ₹ 9,689 billion (US $ 203 billion) in 2002–2003, and witnessed a year-on-year increase of 67.3 percent in 2003–2004, standing at ₹ 16,209 billion (US $ 374 billion). The upsurge continued for the next few years, and in 2006–2007, the turnover showed an increase of 21.4 percent, reaching ₹ 29,014 billion (US $ 665 billion) from ₹ 23,901 billion (US $ 535 billion) in 2005–2006. Significant increase of 76.8 percent was witnessed in trading volumes in 2007-2008 followed by a fall of 24.9 percent in 2008-2009. Trading volume, again peaked at ₹ 55,168 billion (US $ 1,222 billion) in 2009–2010. Since last two years, the turnover in all India cash market has plunged continuously. In 2010-2011, the cash market witnessed a fall of 15.1 percent to ₹ 46,824 billion (US $ 1,048 billion) in 2010–2011, while in 2011-2012, it dropped by 25.6 percent to ₹ 34,843 billion.

Government Securities

The aggregate trading volumes in central and state government dated securities on SGL increased from ₹ 4,035 billion in 2010–2011 to ₹ 4,643 billion in 2011–2012.

Derivatives Market

The equity derivative market turnover on the Indian exchanges increased by 7.5 percent to ₹ 345,720 billion in 2011-12 from 321,582 billion in 2010-2011. NSE has created a niche for itself in terms of derivatives trading in various instruments (this is discussed in detail with statistics in Chapter 6). The currency derivatives trading in India started in August 2008 at NSE with currency futures on the underlying USD-INR exchange rate followed by futures trading in currency pairs such as GBP-INR, EURO-INR and JPY-INR. Later in October 2010, currency options trading was allowed on USD-INR. The currency derivatives trading in India increased by 17.7 percent to ₹ 98,964 billion.

Regulators

The absence of conditions for perfect competition in the securities market makes the role of the regulator extremely important. The regulator ensures that the market participants behave in a certain manner so that the securities markets continue to be a major 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 Company Affairs (MCA), the Reserve Bank of India (RBI), and SEBI. The orders of SEBI under the securities laws are appealable before a Securities Appellate Tribunal (SAT).

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. The powers in respect of the contracts for 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 Act and the Depositories Act are mostly administered by SEBI. The rules under the securities laws are framed by the government and the regulations by SEBI. All these rules are administered by SEBI. The powers under the Companies Act relating to the issue and transfer of securities and the non-payment of dividend are administered by SEBI in the case of listed public companies and public companies proposing to get their securities listed. The SROs ensure compliance with their own rules as well as with the rules relevant to them under the securities laws.

Regulatory Framework

At present, the five main Acts governing the securities markets are (a) the SEBI Act, 1992; (b) the Companies Act, 1956, which sets the code of conduct for the corporate sector in relation to issuance, allotment, and transfer of securities, and disclosures to be made in public issues; (c) the Securities Contracts (Regulation) Act, 1956, which provides for the regulation of transactions in securities through control over stock exchanges; (d) the Depositories Act, 1996 which provides for electronic maintenance and transfer of ownership of demat (dematerialized) shares; and (e) the Prevention of Money Laundering Act, 2002.

Legislations

The SEBI Act, 1992: The SEBI Act, 1992 was enacted to empower SEBI with statutory powers for (a) protecting the interests of investors in securities, (b) promoting the development of the securities market, and (c) regulating the securities market. Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with the securities market. It can conduct enquiries, audits, and inspection of all concerned, and adjudicate offences under the Act. It has the powers to register and regulate all market intermediaries, as well as to penalize them in case of violations of the provisions of the Act, Rules, and Regulations made thereunder. SEBI has full autonomy and the authority to regulate and develop an orderly securities market.

Securities Contracts (Regulation) Act, 1956: This Act provides for the direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges, and aims to prevent undesirable transactions in securities. It gives the Central Government regulatory jurisdiction over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) the listing of securities on the stock exchanges. As a condition of recognition, a stock exchange complies with the conditions prescribed by the Central Government. Organized trading activity in securities takes place on a specified recognized stock exchange. The stock exchanges determine their own listing regulations, which have to conform to the minimum listing criteria set out in the Rules.

Depositories Act, 1996: The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy, and security by (a) making securities of public limited companies freely transferable, subject to certain exceptions; (b) dematerializing the securities in the depository mode; and (c) providing for the maintenance of ownership records in a book entry form. In order to streamline the settlement process, the Act envisages the transfer of ownership of securities electronically by book entry, without making the securities move from person to person. The Act has made the securities of all public limited companies freely transferable, restricting the company's right to use discretion in effecting the transfer of securities, and the transfer deed and other procedural requirements under the Companies Act have been dispensed with.

Companies Act, 1956: It deals with the issue, allotment, and transfer of securities, as well as various aspects relating to company management. It provides the standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and the management's perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights, and bonus issues, the payment of interest and dividends, the supply of annual reports, and other information.

Prevention of Money Laundering Act, 2002: The primary objective of this Act is to prevent money laundering, and to allow the confiscation of property derived from or involved in money laundering. According to the definition of "money laundering," anyone who acquires, owns, possess, or transfers any proceeds of crime, or knowingly enters into any transaction that is related to the proceeds of crime either directly or indirectly, or conceals or aids in the concealment of the proceeds or gains of crime within India or outside India commits the offence of money laundering. Besides prescribing the punishment for this offence, the Act provides other measures for the prevention of money laundering. The Act also casts an obligation on the intermediaries, the banking companies, etc. to furnish information of such prescribed transactions to the Financial Intelligence Unit-India, to appoint a principal officer, to maintain certain records, etc.

Rules and Regulations

The Government has framed rules under the SCRA, the SEBI Act, and the Depositories Act. SEBI has framed regulations under the SEBI Act and the Depositories Act for the registration and regulation of all market intermediaries, and for the prevention of unfair trade practices, insider trading, etc. Under these Acts, the Government and SEBI issue notifications, guidelines, and circulars that the market participants need to comply with. The SROs, like the stock exchanges, have also laid down their own rules and regulations.

Role of NSE in the Indian Securities Market

The National Stock Exchange of India (NSE) was recognized as a stock exchange in April 1993. NSE was set up with the objectives of (a) establishing a nationwide trading facility for all types of securities; (b) ensuring equal access to all investors across the country through an appropriate communication network; (c) providing a fair, efficient, and transparent securities market using an electronic trading system, (d) enabling shorter settlement cycles and book entry settlements; and (e) meeting the international benchmarks and standards. Within a short span of time, these objectives have been realized, and the Exchange has played a leading role in transforming the Indian Capital Market to its present form.

NSE has set up an infrastructure that serves as a role model for the securities industry in terms of trading systems, and clearing and settlement practices and procedures. The standards set by NSE in terms of market practices, products, technology, and service standards have become industry benchmarks, and are being replicated by other market participants. It provides a screen-based automated trading system with a high degree of transparency and equal access to investors irrespective of geographical location. The high level of information dissemination through its online system has helped in integrating retail investors on a national basis.

NSE has been playing the role of a catalytic agent in reforming the market in terms of microstructure and market practices. Right from its inception, the Exchange has adopted the purest form of a demutualized setup, whereby the ownership, management, and trading rights are in the hands of three different sets of people. This has completely eliminated any conflicts of interest and has helped NSE to aggressively pursue policies and practices within a public interest framework. It has helped in shifting the trading platform from the trading hall in the premises of the exchange to the computer terminals at the premises of the trading members located across the country, and subsequently, to the personal computers in the homes of investors. Settlement risks have been eliminated with NSE's innovative endeavors in the area of clearing and settlement, namely, the reduction of the settlement cycle, professionalization of the trading members, a fine-tuned risk management system, the dematerialization and electronic transfer of securities, and the establishment of a clearing corporation. Consequently, the market today uses state-of-the-art technology to provide an efficient and transparent trading, clearing, and settlement mechanism.

NSE provides a trading platform for of all types of securities—equity, debt, and derivatives. Following its recognition as a stock exchange under the Securities Contracts (Regulation) Act, 1956 in April 1993, it commenced operations in the Wholesale Debt Market (WDM) segment in June 1994, in the Capital Market (CM) segment in November 1994, and in the Equity Derivatives segment in June 2000. The Exchange started providing trading in retail debt of government securities in January 2003, and trading in currency futures in August 2008. NSE started providing trading in currency option in October 2010. Derivatives on global indices such as S&P 500, Dow Jones Industrial Average and FTSE 100 have been introduced for trading on the NSE. The future contracts for trading on Dow Jones Industrial Average (DJIA) and futures and options contracts on S&P 500 were introduced on August 29, 2011. The futures and options contracts on FTSE 100 were introduced on May 3, 2012.

The WDM segment provides the trading platform for the trading of a wide range of debt securities. Its product, the FIMMDA NSE MIBID/MIBOR—which is now disseminated jointly with the FIMMDA—is used as a benchmark rate for the majority of the deals struck for Interest Rate Swaps, Forwards Rate Agreements, Floating Rate Debentures, and Term Deposits in the country. Its Zero Coupon Yield Curve as well as the NSE-VaR for Fixed Income Securities have also become very popular for the valuation of sovereign securities across all maturities irrespective of liquidity, and have facilitated the pricing of corporate papers and the GOI Bond Index.

NSE's Capital Market segment offers a fully automated screen-based trading system, known as the National Exchange for Automated Trading (NEAT) system, which operates on a strict price/time priority. It enables members from across the country to trade simultaneously with enormous ease and efficiency.

NSE's Equity Derivatives segment provides the trading of a wide range of derivatives such as Index Futures, Index Options, Stock Options, Stock Futures, and futures on global indices such as S&P 500 and DJIA and S&P 500.

NSE's Currency Derivatives segment provides the trading of currency futures contracts on the USD-INR, which commenced on August 29, 2008. In February 2010, trading in additional pairs such as the GBP-INR, the EUR-INR, and the JPY-INR was allowed, while USD-INR currency options were allowed for trading on October 29, 2010. The interest rate futures trade on the currency derivatives segment of the NSE, and they were allowed for trading on August 31, 2009.

Once again, the NSE registered as the market leader, with 80.9 percent of total turnover (volumes in cash market, equity derivatives, and currency derivatives) in 2011–2012. NSE proved itself the market leader, contributing a share of 80.7 percent in equity trading and nearly 90.7 percent share in the equity derivatives segment in 2011–2012 (Table 1-8).

Table 1-8: Market Segments on NSE for 2011-12 (Select Indicators)

Segments	Market Capitalisation as of March 2012		Trading Value for 2011-12		Market Share (in percent)
	₹ mn	US $ mn	₹ mn	US$ mn	
CM	60,965,176	1,191,739	28,108,932	549,469	80.7
Equity F&O	-		313,497,318	6,128,201	90.7
Currency F&O	-		46,749,899	1,047,030	47.2
Total	**60,965,176**	**1,191,739**	**388,356,149**	**7,724,701**	**81.0**

Source: NSE

Technology and Application Systems in NSE

Technology has been the backbone of the NSE. Providing the services to the investor community and the market participants using technology at the cheapest possible cost has been its main thrust. NSE chose to harness technology to create a new market design. The exchange believes that technology provides the necessary impetus for an organization to retain its competitive edge and to ensure timeliness and satisfaction in customer service. In recognition of the fact that technology will continue to redefine the shape of the securities industry, NSE stresses on innovation and sustained investment in technology to remain ahead of competition. The NSE is the first exchange in the world to use satellite communication technology for trading. It uses satellite communication technology to energize participation from about 1,800+ VSATs from nearly 159 cities spread across the country.

NSE's trading system, called the National Exchange for Automated Trading (NEAT), is a state-of-the-art client-server-based application. At the server end, all trading information is stored in an in-memory database to achieve minimum response time and maximum system availability for users. It has an uptime record of 99.999 percent. For all trades entered into the NEAT system, there is a uniform response time in the range of milliseconds. NSE has been continuously undertaking capacity enhancement measures in order to effectively meet the requirements of the increasing number of users and the associated trading loads. NSE's Internet Based Information System (NIBIS) has also been put in place for online real-time dissemination of trading information over the Internet.

As part of its business continuity plan, the NSE has established a disaster back-up site at along with its entire infrastructure, including the satellite earth station and a high-speed optical fiber link with its main site at Mumbai. This site is a replica of the production environment at Mumbai. The transaction data is backed up on near-real-time basis from the main site to the disaster back-up site through the 4 STM-4 (2.4 GB) high-speed links to keep both the sites synchronized with each other all the time.

2. Primary Market

Introduction

The primary market enables the government as well corporates in raising the capital that is required to meet their requirements of capital expenditure and/or discharge of other obligations such as exit opportunities for venture capitalist/ PE firms. The most common primary mechanism for raising capital is an initial public offer (IPO), under which shares are offered to the public as a precursor to trading in the secondary market of an exchange. The price at which the shares are to be issued is decided with the help of the book building mechanism; in the case of oversubscription, the shares are allotted on a pro-rata basis. When securities are offered exclusively to the existing shareholders of company, as opposed to the general public, it is known as rights issue. Another mechanism whereby a listed company can issue equity shares, as well as fully and partly convertible debentures that can be later converted into equity shares, to a qualified institutional buyer (QIB) is termed as qualified institutional placement (QIP). In addition to raising capital in the domestic market, companies can also issue securities in the international market through the ADR/GDR/ECB route to raise capital.

The issuers mobilize resources through public issues and private placements. The resources that are raised by corporates and the government from domestic as well as international markets are presented in Table 2-1. The total resources mobilized through corporate and government securities in 2011-2012 increased by 14.2 percent compared to the figures for the previous year. The resources mobilized in 2011-2012 amounted to ₹ 9,926 billion (US $ 194 billion) as against ₹ 8,690 billion (US $ 195 billion) in 2010-2011.

Table 2-1: Resource Mobilization by Government and Corporate Sector

Issues	2010-11 (₹ bn)	2011-12 (₹ bn)	2010-11 (US $ bn)	2011-12 (US $ bn)
Corporate Securities	**2,855**	**2,336**	**64**	**46**
Domestic Issues	2,760	2,308	62	45
Public Issues	376	129	8	3
Private Placement	2,384	2,180	53	43
Euro Issues	94	27	2	0.5
Government Securities	**5,835**	**7,590**	**131**	**148**
Central Government	4,795	6,004	107	117
State Governments	1,040	1,586	23	31
Total	**8,690**	**9,926**	**195**	**194**

Source: RBI

Corporate Securities

The primary market for corporate securities witnessed a drop of 18.2 percent in 2011-2012 due to the 8.6 percent drop in capital raised through private placements. The resources raised through public issues plunged by 65.8 percent from ₹ 376 billion (US $ 8 billion) in 2010-2011 to ₹ 129 billion (US $ 3 billion) in 2011-2012. This accounted for a mere 1.3 percent of the total resources mobilized domestically. The resources raised by Indian corporates from the international capital market through the issuance of FCCBs, GDRs, and ADRs also witnessed a decrease of 71.2 percent in 2011-2012, raising ₹ 27 billion (US $ 0.5 billion) as against ₹ 94 billion (US $ 2 billion) in the previous year; this accounted for just 0.3 percent of the total resources mobilized by the government and the corporate sector (Table 2-1).

Public and Rights Issues

For most of the financial year 2011-2012 primary market activities were subdued and effect of this lull is getting reflected in the declining number of public issues from 68 in 2010-11 to 55 issues in 2011-12. In 2011-2012, the resources mobilized from public and rights issues decreased by 28.3 percent to ₹ 485 billion (US $ 10 billion) compared to ₹ 676 billion (US $ 15 billion) in 2010-2011. Resource mobilization by way of IPOs reached to a dismal low of ₹ 59 billion in 2011-2012 from ₹ 356 billion in 2010-2011 (Table 2-2). Though the total number of equity public issues in 2011-2012 decreased to 35 from 58 in 2010-11, there was an increase in resource mobilization through public issues of bonds/NCD from ₹ 95 billion in 2010-2011 to ₹ 356 billion in 2011-2012. The change of preference towards debt capital can be observed from the fact that, the share of equity public issues in the total resources mobilized witnessed a drop from 72 percent in 2010-2011 to 21.6 percent in 2011-2012. The mobilization of resources through right issues recorded a massive drop of 75 percent in 2011-2012. It witnessed a drop from ₹ 95 billion in 2010-2011 to ₹ 24 billion in 2011-2012. By numbers, the last year witnessed only 16 companies using the rights route, compared to the previous year that had seen 23 issues.

Table 2-2: Resource Mobilization from Public and Rights Issues

Public and Rights Issues	2010-11			2011-12			(Apr - Sep'12)		
	Number	Amount (₹ bn)	Amount (US $ bn)	Number	Amount (₹ bn)	Amount (US $ bn)	Number	Amount (₹ bn)	Amount (US $ bn)
1. Public Issues (i) + (ii)	**68**	**581**	**13**	**55**	**461**	**9**	**17**	**24**	**0.4**
i. Public Issues	58	487	11	35	105	2	13	5	0.1
Public Issues (IPO)	53	356	8	34	59	1	13	5	0.1
Public Issues (FPO)	5	131	3	1	46	1	0	0	0
ii. Public Issues (Bond/NCD)	10	95	2	20	356	7	4	19	0.3
2. Rights Issues	**23**	**95**	**2**	**16**	**24**	**0.5**	**10**	**67**	**1.2**
Total (1+2)	**91**	**676**	**15**	**71**	**485**	**9**	**27**	**91**	**1.6**

Source: SEBI

During the period April-September 2012, private issuers raised ₹ 72,577 million - - 50.8 percent of what they mobilized in 2011-2012 -whereas public issuers remained dormant as they raised ₹ 18,718 million - - 5.5 percent of the capital mobilized through public issues in 2011-2012 (Table 2-3).

Table 2-3: Sector-wise Distribution of Resources Mobilized

Sector	2010-11		2011-12		Apr - Sep'12	
	Number	Amount (₹ mn)	Number	Amount (₹ mn)	Number	Amount (₹ mn)
Private	77	293,850	60	142,930	23	72,577
Public	14	382,230	11	341,750	4	18,718
Total	**91**	**676,090**	**71**	**484,680**	**27**	**91,295**

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

Resource Mobilisation - Industry-wise and Size-wise Distribution

The banking sector contributed the maximum share (42.3 percent) of the total resources mobilized during 2011-2012, with 11 issues mobilizing ₹ 205 billion. The finance sector was at the leading position in the league with ₹ 15,525 million, accounting for 17 percent of the total resources mobilized in the first six months of FY 2013. In 2011-2012, the finance sector contributed only 26.4 percent to the total resources. Over the years, several industries have emerged as the major contributors of the resources mobilized (Table 2-4).

Table 2-4: Industry-wise Distribution of Resources Mobilized

Industry	2010-11			2011-12			Apr-Sep'12		
	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share
Banking/FIs	18	172,480	25.5	11	205,030	42.3	3	12,718	13.9
Cement & Construction	3	28,410	4.2	2	1,870	0.4	0	0	0.0
Chemical	5	2,470	0.4	0	0	0.0	1	94	0.1
Electronics	0	0	0.0	1	1,210	0.2	0	0	0.0
Engineering	5	13,940	2.1	1	2,170	0.4	2	740	0.8
Entertainment	4	7,150	1.1	1	890	0.2	0	0	0.0
Finance	3	22,100	3.3	18	128,160	26.4	4	15,525	17.0
Food Processing	1	12,450	1.8	0	0	0.0	0	0	0.0
Healthcare	3	2,920	0.4	1	650	0.1	2	2,102	2.3
Information Technology	1	1,700	0.3	2	1,380	0.3	1	41	0.0
Paper & Pulp	0	0	0.0	2	3,060	0.6	5	4,420	4.8
Power	4	94,690	14.0	0	0	0.0	0	0	0.0
Telecom	0	0	0.0	0	0	0.0	0	0	0.0
Textile	3	2,070	0.3	0	0	0.0	0	0	0.0
Others	41	315,710	46.6	32	140,250	28.9	9	55,655	61.0
Total	**91**	**676,090**	**100.0**	**71**	**484,670**	**100.0**	**27**	**91,295**	**100.0**

Source: SEBI

Table 2-5 exhibits the size-wise distribution of public and rights issues in 2011-2012. About 96.7 percent of the resource mobilization was through public issues of issue size above ₹ 100 crore. In terms of the number of issues, however, there were only 34 issues out of 71 that were above ₹ 100 crore.

Table 2-5: Size-wise Distribution of Resources Mobilized

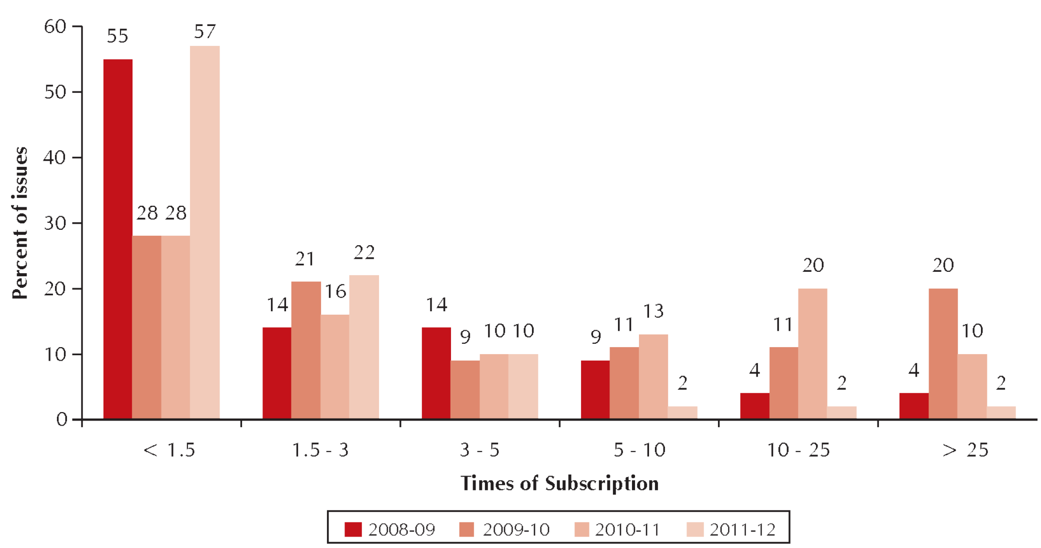
Issue Size	2010-11			2011-12			Apr-Sep'12		
	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share
< ₹ 5 crore	1	20	0.003	2	90	0.02	1	41	0.04
≥ ₹ 5 crore & < ₹ 10 crore	2	110	0.02	2	140	0.03	8	531	0.6
≥ ₹ 10 crore & < ₹ 50 crore	13	4,550	0.7	19	5,350	1.1	6	1,231	1.3
≥ ₹ 50 crore & < ₹ 100 crore	20	14,060	2.1	14	10,180	2.1	1	550	0.6
≥ ₹ 100 crore	55	657,350	97.2	34	468,910	96.8	11	88,942	97.4
Total	**91**	**676,090**	**100.0**	**71**	**484,680**	**100.0**	**27**	**91,295**	**100.0**

Source: SEBI

There were 3 mega issues (₹ 3,000 million and above) during April 2011-September 2012, the largest being the IPO issue of L&T Finance Holdings Limited (₹ 12 billion), followed by the IPO issue of the Muthoot Finance Limited (₹ 9 billion). The 3 mega issues mobilized 60.1 percent of the total resources raised.

The Prime Database captures the Indian public's response to public issues, which is presented in Chart 2-1. The public issues which hit primary market in 2011-2012 couldn't manage to generate enough euphoria among the investors, which can be seen from the fact that 57 percent of the issues were subscribed less than one and half times as a result of lack of investors' interests, compared to 28 percent in 2010-2011.

Chart 2-1: Response to Public Issues (IPO and FPO)



Note: This chart includes only public issues, not rights issues.
Source: Prime Database

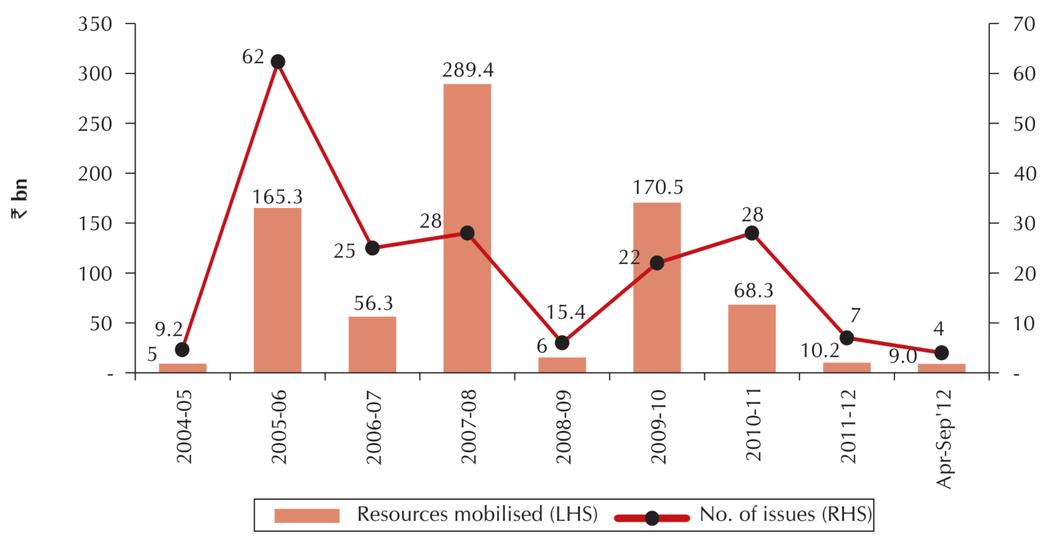
Euro Issues

Indian companies raise resources from international markets through the issue of foreign currency convertible bonds (FCCBs), and through GDRs, ADRs, GDS, ADS, which are similar to Indian shares and are traded on overseas stock exchanges. In India, they are reckoned as part of foreign direct investment, and hence, need to conform to the existing FDI policy.

In 2011-2012, as a result of the turbulent global financial market, there was a steep decline in the resources mobilized through Euro issues, which decreased to ₹ 27 billion (US $ 0.5 billion) compared to ₹ 94 billion (US $ 2 billion) raised in 2010-2011 (Table 2-1).

The resources mobilized by the companies listed on NSE through GDRs, ADRs, GDSs, and ADSs also witnessed a decline from ₹ 68 billion (US $ 1.5 billion) in 2010-2011 to ₹ 10 billion (US $ 0.2 billion) in 2011-2012. In the current fiscal year, four companies mopped up ₹ 9 billion collectively, with an average issue size of ₹ 2 billion, 33.3 percent up from the issue size of ₹ 1.5 billion in 2011-2012 (Chart 2-2).

Chart 2-2: Resources Mobilized on NSE through GDR, ADR, GDS, and ADS



Source: NSE

Performance of Initial Public Offerings (IPOs) listed on NSE

In 2011-2012, ₹ 48 billion (US $ 0.9 billion) was raised through the 25 IPOs listed on the NSE. They were from various sectors, such as finance, construction, engineering, and power. L&T Finance Holdings Limited came out with an IPO of equity shares, mobilizing ₹ 12 billion (US $ 0.2 billion). Of the 25 IPOs (excluding the NCDs), 20 issues had reported listing gains, but only six had managed to close in green by the end of 2011-2012. Around 5 IPOs showed negative returns on the first day of trading, and 19 IPOs showed negative returns by March 2012 when compared to their issue price. The IPO of SRS Limited marked its outperformance with listing gains of 17.2 percent on its first day of trading, and the IPO of Onelife Capital Advisors Limited rewarded its shareholders with a whopping 193.5 percent increase in price over the issue price at the end of March 2012(Tables 2-6).

In April 2012-September 2012, ₹ 7 billion was raised through the five IPOs listed on the NSE. Out of those five IPOs, three issues had reported listing gains and four had managed to close in green by the end of September 2012. The IPO of MT Educare Limited got listed with a listing gains of 7.6 percent and rewarded its shareholders with a price appreciation of 39.1 percent over the issue price, as of September 2012 (Table 2-7).

Table 2-6: Performance of IPOs Listed on NSE in April 2011 - March 2012

Sr. No.	Company Name	Issue size (₹ mn)	Date of Listing	Issue Price (₹)	Listing price (₹)	Close Price at end of Mar'12 (₹)	Listing gains (in percent)	Price Appreciation/ Depreciation at end March 2012 with the issue price (in percent)
1	Shilpi Cable Technologies Limited	559	8-Apr-11	69	78	11.55	13.0	-83.3
2	Muthoot Finance Limited	9,013	6-May-11	175	197	126.60	12.3	-27.7
3	Paramount Printpackaging Limited	458	6-May-11	35	37	6.15	4.3	-82.4
4	Future Ventures India Limited	7,500	10-May-11	10	9	8.50	-10.0	-15.0
5	Servalakshmi Paper Limited	600	12-May-11	29	29	4.60	0.0	-84.1
6	Innoventive Industries Limited	2,174	13-May-11	117	112	110.05	-4.3	-5.9
7	Sanghvi Forging and Engineering Limited	369	23-May-11	85	88	49.90	3.5	-41.3
8	Aanjaneya Lifecare Limited	1,170	27-May-11	234	218	545.45	-6.8	133.1
9	Timbor Home Limited	233	22-Jun-11	63	72	20.00	14.3	-68.3
10	Rushil Decor Limited	406	7-Jul-11	72	75	206.40	3.5	186.7
11	Bharatiya Global Infomedia Limited	551	28-Jul-11	82	82	6.70	-0.1	-91.8
12	Inventure Growth & Securities Limited	819	4-Aug-11	117	117	294.05	0.0	151.3
13	L&T Finance Holdings Limited	12,450	12-Aug-11	52	54	47.85	3.6	-8.0
14	Tree House Education & Accessories Limited	1,121	26-Aug-11	135	132	210.75	-2.2	56.1
15	Brooks Laboratories Limited	630	5-Sep-11	100	100	16.35	0.0	-83.7
16	TD Power Systems Limited	2,270	8-Sep-11	256	260	244.60	1.6	-4.5
17	SRS Limited	2,030	16-Sep-11	58	68	30.25	17.2	-47.8
18	PG Electroplast Limited	1,206	26-Sep-11	210	215	201.95	2.4	-3.8
19	Prakash Constrowell Limited	600	4-Oct-11	138	147	98.80	6.7	-28.4
20	Tijaria Polypipes Limited	600	14-Oct-11	60	61	6.85	1.7	-88.6
21	Onelife Capital Advisors Limited	369	17-Oct-11	110	110	322.85	0.0	193.5
22	Flexituff International Limited	1,046	19-Oct-11	155	157	235.20	1.2	51.7
23	Taksheel Solutions Limited	825	19-Oct-11	150	157	10.85	4.7	-92.8
24	M & B Switchgears Limited	930	20-Oct-11	186	190	69.45	2.2	-62.7
25	Indo Thai Securities Limited	296	2-Nov-11	74	76	10.30	2.7	-86.1

Source: NSE

Table 2-7: Performance of IPOs Listed on NSE in April 2012 - September 2012

Sr. No.	Company Name	Issue size (₹ mn)	Date of Listing	Issue Price (₹)	Listing price (₹)	Close Price at end of Sep'12	Listing gains (in percent)	Price Appreciation/ Depreciation at end Sep'12 with the issue price (in percent)
1	MT Educare Limited	990	12-Apr-12	80	86.1	111.3	7.6	39.1
2	National Buildings Construction Corporation Limited	1,272	12-Apr-12	106	101.0	103.8	-4.7	-2.1
3	Tribhovandas Bhimji Zaveri Limited	2,000	9-May-12	120	115.1	140.9	-4.1	17.4
4	Speciality Restaurants Limited	1,760	30-May-12	150	152.0	178.5	1.3	19.0
5	VKS Projects Limited	550	18-Jul-12	55	56.4	75.3	2.5	36.9

Source: NSE

Debt Issues

The government and the corporate sector collectively raised a total of ₹ 10,461 billion (US $ 204 billion) from the primary market in 2011-2012. With lower valuations in secondary market and lackluster performance of primary market, corporates preferred to raise the capital through private placement which accounted for 24 percent of the total capital raised and witnessed growth of more than 30 percent over the previous year (Table 2-8).

Table 2-8: Resources Raised from Debt Markets

Issuer	2010-11 (₹ bn)	2011-12 (₹ bn)	2010-11 (US $ bn)	2011-12 (US $ bn)
Corporate	**2,017**	**2,870**	**45**	**56**
Public Issues	95	356	2	7
Private Placement*	1,922	2,514	43	49
Government	**5,835**	**7,590**	**131**	**148**
Central	4,795	6,004	107	117
State	1,040	1,586	23	31
Total	**7,852**	**10,461**	**176**	**204**

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

Private Placement of Debt

According to the Prime Database, a total of 164 issuers (institutional and corporate) raised ₹2,514 billion (US $ 49 billion) through 1,327 privately placed issues in 2011-2012. The response to most of the issues was good, as 312 out of 1,327 issues-i.e., around 23.5 percent of the total issues-were made by the government sector units, which mobilized 77 percent of the total (Table 2-9). During the period April-September 2012, there were 115 issuers who placed 473 issues amounting to ₹ 1,312 billion (US $ 24 billion). The amount raised through the private placement of debt issues has been on an increasing trend over the past few years (Chart 2-3).

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 (₹ bn)	Resource Mobilisation through Private Placement of Debt (US $ bn)
1995-96	47	73	100	3
1996-97	159	204	184	5
1997-98	151	253	310	8
1998-99	204	444	386	9
1999-00	229	711	551	13
2000-01	214	603	525	11
2001-02	204	557	454	9
2002-03	171	485	484	10
2003-04	140	364	484	11
2004-05	117	321	554	13
2005-06	99	366	818	18
2006-07	98	500	939	22
2007-08	104	613	1,153	29
2008-09	167	799	1,743	34
2009-10	192	806	1,895	42
2010-11	182	831	1,922	43
2011-12	**164**	**1,327**	**2,514**	49
Apr-Sep'12	**115**	**473**	**1,312**	**24**

Source: Prime Database

The debt securities were mainly privately placed. Although there were some instances of private placement of equity shares, there was no comprehensive data coverage of these instances. The two sources of information regarding the private placement market in India are the Prime Database and the RBI. The former data set, however, pertains exclusively to debt issues. The RBI data, which is compiled from information gathered from arrangers, covers equity private placements also. The RBI estimates the share of equities in total private placements to be rather insignificant. Some idea, however, can be derived from the equity shares issued by NSE-listed companies on a private placement basis.

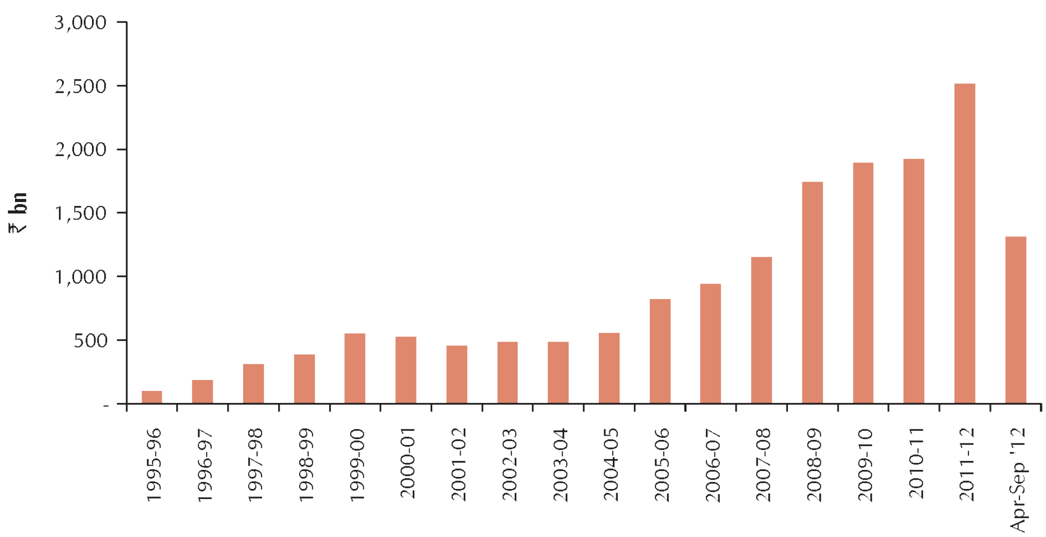
A total of 357 private placements were made during April 2011 to September 2012 (Annexure 2-1).

Table 2-10: Issuer-wise Distribution of Private Placement of Debt

Issuer	Issue Amount (₹ mn)			Issue Amount (US $ mn)			Percentage of Issue Amount		
	2010-11	2011-12	Apr-Sep'12 *	2010-11	2011-12	Apr-Sep'12 *	2010-11	2011-12	Apr-Sep'12 *
All India Financial Institutions/Banks	1,162,309	1,603,688	772,178	26,032	31,349	14,142	60.5	63.8	58.9
State Financial Institutions	14,255	15,747	8,055	319	308	148	0.7	0.6	0.6
Public Sector Undertakings	124,499	271,755	99,925	2,788	5,312	1,830	6.5	10.8	7.6
State Level Undertakings	19,814	41,835	41,289	444	818	756	1.0	1.7	3.1
Private Sector	600,393	581,341	390,152	13,447	11,364	7,146	31.2	23.1	29.7
Total	**1,921,270**	**2,514,367**	**1,311,598**	**43,030**	**49,150**	**24,022**	**100.0**	**100.0**	**100.0**

* *Tentative*
Source: Prime Database

Chart 2-3: Growth of Private Placement of Debt



Source: Prime Database

The sectoral distribution shows that the banking and financial services sector continued to dominate the private placement market, accounting for a combined 77.1 percent in 2011-2012, followed by the power sector, which accounted for 9.4 percent during the year (Table 2-11).

Table 2-11: Sectoral Distribution of Resources Mobilized through Private Placement

(in percent)

Sector	2010-11	2011-12	Apr-Sep '12
Banking	47.9	51.4	40.3
Financial Services	23.1	25.7	31.0
Power	9.9	9.4	5.4
Roads & Highways	2.0	1.1	2.0
Travel/Transportation	0.4	2.8	0.2
Telecommunications	0.3	1.3	2.0
Others	16.3	8.3	19.0
Total	**100.0**	**100.0**	**100.0**

Source: Prime Database

The maturity profile of the issues in the private placement market ranged between 12 months to 240 months in 2011-2012. The highest number of placements was for 36 months (378 placements) and 120 months (286 placements). A total of 84 offers had a put option, while 102 offers had a call option. Rating was, however, required for listing. Of the 1,327 debt private placements deals in 2011-2012, 1,298 issues went for credit rating, while 29 were not rated.

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 2011-2012, the total resources raised by the corporate sector increased by 15.4 percent to ₹ 2,999 billion, compared to the gross mobilization of ₹ 2,598 billion in 2010-2011. The equity route was used to raise 3.5 percent of the total resources through public equity shares down from 18.7 percent used in 2010-2011. The share of rights issues was 0.8 percent. The resources raised through the debt issues (debt public issues and debt private placements) accounted for 95.7 percent, which reflects the preference of borrowers for debt capital over equity capital.

Table 2-12: Resources Raised by Corporate Sector

Year	Public Equity Issues (₹ mn)	Rights Issues (₹ mn)	Debt Public Issues (₹ mn)	Debt Private Placements (₹ mn)	Total Resource Mobilisation (₹ mn)	Total Resource Mobilisation (US $ mn)	Percentage Share in the Total Resource Mobilisation			
							Public Equity issues	Rights Issues	Debt Public Issues	Debt Private Placements
2008-09	20,830	126,370	15,000	1,743,267	1,905,467	37,399	1.1	6.6	0.8	91.5
2009-10	467,366	83,186	25,000	1,894,777	2,470,329	54,726	18.9	3.4	1.0	76.7
2010-11	486,540	95,030	94,510	1,922,253	2,598,333	58,193	18.7	3.7	3.6	74.0
2011-12	**104,820**	**23,750**	**356,110**	**2,514,367**	**2,999,047**	**58,625**	**3.5**	**0.8**	**11.9**	**83.8**
Apr-Sep'12	**5,086**	**67,492**	**18,718**	**1,311,598**	**1,402,894**	**28,674**	**0.4**	**4.8**	**1.3**	**93.5**

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

Annexure 2-1: List of Private Placement Issues in the Equity Segment by NSE-Listed Companies in April 2011-September 2012

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
1	3i Infotech Limited	216,732,584	4,278	10.00	19.74
2	3i Infotech Limited	21,470,504	424	10.00	19.74
3	Aanjaneya Lifecare Limited	1,310,484	650	10.00	496.00
4	Aarti Industries Limited	2,400,000	139	5.00	58.00
5	ADF Foods Limited	200,000	13	1.00	65.00
6	Aegis Logistics Limited	2,120,190	683	10.00	322.00
7	Alchemist Limited	640,000	138	10.00	215.00
8	Allahabad Bank	29,515,418	6,700	10.00	227.00
9	Allahabad Bank	23,810,771	4,594	10.00	192.94
10	Allied Digital Services Limited	200,000	55	5.00	277.00
11	Alok Industries Limited	16,000,000	816	10.00	51.00
12	Amtek Auto Limited	16,800,000	3,024	2.00	180.00
13	Andhra Bank	74,580,364	11,730	10.00	157.28
14	Andhra Cements Limited	147,500,000	1,770	10.00	12.00
15	Ansal Housing and Construction Limited	1,000,000	70	10.00	70.00
16	Apar Industries Limited	3,636,363	800	10.00	220.00
17	APL Apollo Tubes Limited	1,000,000	176	10.00	176.00
18	APL Apollo Tubes Limited	641,953	113	10.00	176.00
19	Apollo Hospitals Enterprise Limited	6,666,666	3,300	5.00	495.00
20	Apollo Hospitals Enterprise Limited	3,089,242	1,192	5.00	385.88
21	Apollo Hospitals Enterprise Limited	3,276,922	1,548	5.00	472.46
22	Arihant Foundations & Housing Limited	1,120,000	100	10.00	89.00
23	Asian Granito India Limited	1,100,000	55	10.00	50.00
24	Autolite (India) Limited	2,000,000	20	10.00	10.00
25	Autolite (India) Limited	780,000	20	10.00	25.00
26	Autolite (India) Limited	1,000,000	48	10.00	47.50
27	B.A.G Films and Media Limited	7,860,000	136	2.00	17.30
28	B.A.G Films and Media Limited	5,000,000	89	2.00	17.70
29	Bajaj Finance Limited	4,690,000	3,053	10.00	651.00
30	Bank of Baroda	27,279,579	24,610	10.00	902.14
31	Bank of Baroda	19,577,304	16,447	10.00	840.10
32	Bank of India	21,304,870	10,100	10.00	474.07
33	Bank of India	27,300,000	10,375	10.00	380.02
34	Bank of Maharashtra	51,192,553	3,520	10.00	68.76
35	Bank of Maharashtra	107,879,529	6,051	10.00	56.09
36	Bharati Shipyard Limited	1,370,000	110	10.00	80.00
37	Bharati Shipyard Limited	1,378,464	276	10.00	200.00
38	Bhartiya International Limited	800,000	34	10.00	43.00
39	Bhartiya International Limited	600,000	26	10.00	43.00
40	Bhartiya International Limited	400,000	24	10.00	60.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
41	Birla Cotsyn (India) Limited	50,372,750	57	1.00	1.13
42	Birla Cotsyn (India) Limited	56,372,750	64	1.00	1.13
43	Blue Star Infotech Limited	385,000	40	10.00	104.20
44	Bodal Chemicals Limited	9,595,860	121	2.00	12.60
45	Bombay Dyeing & Mfg Company Limited	1,930,000	1,019	10.00	527.83
46	Bombay Dyeing & Mfg Company Limited	760,000	401	10.00	527.83
47	Bombay Rayon Fashions Limited	4,200,000	811	10.00	193.00
48	Bombay Rayon Fashions Limited	2,500,000	658	10.00	263.00
49	Burnpur Cement Limited	17,100,000	205	10.00	12.00
50	Burnpur Cement Limited	2,900,000	35	10.00	12.00
51	C & C Constructions Limited	2,056,005	500	10.00	243.19
52	Celestial Biolabs Limited	2,200,000	59	10.00	27.00
53	Central Bank of India	89,509,090	9,453	10.00	105.61
54	Cholamandalam Investment and Finance Company Limited	13,255,454	2,121	10.00	160.00
55	Clutch Auto Limited	1,249,700	62	10.00	50.00
56	Clutch Auto Limited	827,300	41	10.00	50.00
57	Core Education & Technologies Limited	3,650,451	675	2.00	185.00
58	Corporation Bank	4,692,554	3,090	10.00	658.49
59	Crew B.O.S. Products Limited	75,000	4	10.00	50.33
60	DCW Limited	6,945,455	76	2.00	11.00
61	Deep Industries Limited	1,375,000	105	10.00	76.00
62	Delta Corp Limited	21,330,000	1,088	1.00	51.00
63	Delta Magnets Limited	1,212,800	34	10.00	28.10
64	Dena Bank	46,565,874	5,390	10.00	115.75
65	Dena Bank	16,669,453	1,512	10.00	90.73
66	Development Credit Bank Limited	19,650,000	940	10.00	47.84
67	Development Credit Bank Limited	20,641,388	987	10.00	47.84
68	Dewan Housing Finance Corporation Limited	11,909,873	3,043	10.00	255.50
69	Dhanus Technologies Limited	83,268,333	1,665	10.00	20.00
70	Dhanus Technologies Limited	66,731,667	1,335	10.00	20.00
71	Dharani Sugars & Chemicals Limited	4,000,000	158	10.00	39.56
72	Edserv Softsystems Limited	155,763	33	10.00	214.00
73	Edserv Softsystems Limited	2,500,000	350	10.00	140.00
74	Edserv Softsystems Limited	93,458	20	10.00	214.00
75	Educomp Solutions Limited	35,129	19	2.00	538.00
76	Educomp Solutions Limited	2,580,778	500	2.00	193.74
77	Educomp Solutions Limited	1,723,883	334	2.00	193.74
78	Educomp Solutions Limited	18,503,419	2,760	2.00	149.16
79	Eon Electric Limited	845,000	42	10.00	50.00
80	Eon Electric Limited	890,000	62	10.00	70.00

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Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
81	Everonn Education Limited	167,652	104	10.00	620.33
82	Everonn Education Limited	2,618,120	1,382	10.00	528.00
83	Excel Infoways Limited	10,180,000	257	10.00	25.25
84	First Winner Industries Limited	25,000,000	500	10.00	20.00
85	GATI Limited	850,000	49	2.00	58.00
86	Gemini Communication Limited	6,755,100	122	1.00	18.00
87	Genus Power Infrastructures Limited	7,000,000	133	1.00	19.00
88	Global Offshore Services Limited	97,000	12	10.00	121.00
89	Global Offshore Services Limited	440,000	53	10.00	121.00
90	Global Offshore Services Limited	131,000	16	10.00	121.00
91	Global Offshore Services Limited	160,700	19	10.00	121.00
92	Global Offshore Services Limited	62,300	8	10.00	121.00
93	Glodyne Technoserve Limited	1,000,000	432	6.00	432.00
94	Godrej Consumer Products Limited	16,707,317	6,850	1.00	410.00
95	GTL Infrastructure Limited	869,839,670	10,995	10.00	12.64
96	GTL Limited	51,263,018	2,330	10.00	45.45
97	GTL Limited	8,426,842	383	10.00	45.45
98	Gujarat Apollo Industries Limited	275,000	-	10.00	-
99	Gujarat Apollo Industries Limited	550,000	99	10.00	180.00
100	Gujarat Pipavav Port Limited	34,128,668	1,995	10.00	58.45
101	Gujarat Pipavav Port Limited	25,751,571	1,505	10.00	58.45
102	HCL Infosystems Limited	4,620,667	706	2.00	152.90
103	Himachal Futuristic Communications Limited	246,981,857	2,430	1.00	9.84
104	Hindustan Motors Limited	11,800,000	145	5.00	12.25
105	Hindustan Motors Limited	11,800,000	145	5.00	12.25
106	Housing Development and Infrastructure Limited	4,000,000	1,100	10.00	275.00
107	Housing Development Finance Corporation Limited	50,000	30	2.00	600.00
108	Housing Development Finance Corporation Limited	2,500	2	2.00	600.00
109	Housing Development Finance Corporation Limited	2,350	1	2.00	600.00
110	Housing Development Finance Corporation Limited	1,350	1	2.00	600.00
111	Housing Development Finance Corporation Limited	3,700	2	2.00	600.00
112	Housing Development Finance Corporation Limited	3,700	2	2.00	600.00
113	Housing Development Finance Corporation Limited	100	0	2.00	600.00
114	Housing Development Finance Corporation Limited	9,250	6	2.00	600.00
115	Housing Development Finance Corporation Limited	33,300	20	2.00	600.00
116	Housing Development Finance Corporation Limited	4,020,250	2,412	2.00	600.00
117	Housing Development Finance Corporation Limited	4,573,070	2,744	2.00	600.00
118	Housing Development Finance Corporation Limited	1,518,960	911	2.00	600.00
119	Housing Development Finance Corporation Limited	3,210,100	1,926	2.00	600.00
120	Housing Development Finance Corporation Limited	788,150	473	2.00	600.00

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Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
121	Housing Development Finance Corporation Limited	4,413,875	2,648	2.00	600.00
122	Housing Development Finance Corporation Limited	2,994,430	1,797	2.00	600.00
123	Housing Development Finance Corporation Limited	1,835,650	1,101	2.00	600.00
124	Housing Development Finance Corporation Limited	728,300	437	2.00	600.00
125	Housing Development Finance Corporation Limited	1,756,050	1,054	2.00	600.00
126	Housing Development Finance Corporation Limited	3,798,400	2,279	2.00	600.00
127	Housing Development Finance Corporation Limited	2,414,850	1,449	2.00	600.00
128	Housing Development Finance Corporation Limited	3,983,400	2,390	2.00	600.00
129	Housing Development Finance Corporation Limited	4,594,800	2,757	2.00	600.00
130	Housing Development Finance Corporation Limited	8,256,010	4,954	2.00	600.00
131	Housing Development Finance Corporation Limited	921,680	553	2.00	600.00
132	Housing Development Finance Corporation Limited	1,147,800	689	2.00	600.00
133	Housing Development Finance Corporation Limited	1,728,705	1,037	2.00	600.00
134	Housing Development Finance Corporation Limited	252,900	152	2.00	600.00
135	Housing Development Finance Corporation Limited	858,220	515	2.00	600.00
136	Housing Development Finance Corporation Limited	841,300	505	2.00	600.00
137	IDBI Bank Limited	188,556,509	21,305	10.00	112.99
138	IDBI Bank Limited	105,187,760	11,885	10.00	112.99
139	IDFC Limited	47,727,272	8,400	10.00	176.00
140	IFB Industries Limited	5,000,000	420	10.00	84.00
141	Igarashi Motors India Limited	6,500,000	496	10.00	76.30
142	Impex Ferro Tech Limited	17,500,000	350	10.00	20.00
143	Indian Overseas Bank	73,949,343	10,540	10.00	142.53
144	Indian Overseas Bank	30,937,467	3,026	10.00	97.82
145	Indian Overseas Bank	147,311,388	14,410	10.00	97.82
146	Indo Count Industries Limited	2,166,667	33	10.00	15.00
147	Indowind Energy Limited	2,000,000	76	10.00	38.18
148	Ind-Swift Laboratories Limited	1,000,000	50	10.00	50.00
149	Ind-Swift Laboratories Limited	535,000	27	10.00	50.00
150	Ind-Swift Laboratories Limited	1,585,000	131	10.00	82.50
151	Ind-Swift Laboratories Limited	1,600,000	132	10.00	82.50
152	Ind-Swift Laboratories Limited	1,939,000	160	10.00	82.50
153	Ind-Swift Laboratories Limited	1,561,000	129	10.00	82.50
154	Ind-Swift Limited	1,000,000	40	2.00	40.00
155	Ind-Swift Limited	2,044,000	51	2.00	25.00
156	Ind-Swift Limited	4,000,000	160	2.00	40.00
157	ING Vysya Bank Limited	15,000,014	5,131	10.00	342.09
158	ING Vysya Bank Limited	13,257,349	4,564	10.00	344.23
159	Jayaswal Neco Industries Limited	69,959,559	2,798	10.00	40.00
160	Jayaswal Neco Industries Limited	38,863,000	1,555	10.00	40.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
161	JHS Svendgaard Laboratories Limited	2,500,000	244	10.00	97.75
162	JHS Svendgaard Laboratories Limited	500,000	49	10.00	97.75
163	JIK Industries Limited	27,265,000	273	10.00	10.00
164	JM Financial Limited	87,000	2	1.00	27.56
165	JSW ISPAT Steel Limited	130,031,371	1,917	10.00	14.74
166	K S Oils Limited	33,767,282	245	1.00	7.25
167	K S Oils Limited	12,346,002	673	1.00	54.50
168	K S Oils Limited	16,461,337	897	1.00	54.50
169	Kalindee Rail Nirman (Engineers) Limited	150,000	23	10.00	150.52
170	Kamdhenu Ispat Limited	1,588,934	25	10.00	16.00
171	Kamdhenu Ispat Limited	2,800,000	45	10.00	16.00
172	Karuturi Global Limited	3,472,222	75	1.00	21.60
173	Kavveri Telecom Products Limited	2,952,500	399	10.00	135.00
174	Kavveri Telecom Products Limited	4,000,000	452	10.00	113.00
175	Kavveri Telecom Products Limited	2,800,000	316	10.00	113.00
176	Kavveri Telecom Products Limited	200,000	23	10.00	113.00
177	KEI Industries Limited	3,000,000	84	2.00	28.00
178	Kemrock Industries and Exports Limited	19,000	7	10.00	360.00
179	Kemrock Industries and Exports Limited	669,732	241	10.00	360.00
180	Kinetic Motor Company Limited	871,795	34	10.00	39.00
181	Kinetic Motor Company Limited	1,800,000	26	10.00	14.20
182	Kinetic Motor Company Limited	3,800,000	54	10.00	14.20
183	Kingfisher Airlines Limited	231,870,340	14,951	10.00	64.48
184	Kingfisher Airlines Limited	79,868,051	1,997	10.00	25.01
185	Kingfisher Airlines Limited	35,642,361	842	10.00	23.63
186	Kingfisher Airlines Limited	62,160,364	1,443	10.00	23.21
187	Kingfisher Airlines Limited	133,272,991	2,811	10.00	21.09
188	Kokuyo Camlin Limited	6,934,000	589	1.00	85.00
189	KPIT Cummins Infosystems Limited	7,758,621	1,125	2.00	145.00
190	LIC Housing Finance Limited	30,000,000	8,100	2.00	270.00
191	Lloyds Steel Industries Limited	28,918,450	500	10.00	17.29
192	Lloyds Steel Industries Limited	244,261,802	2,846	10.00	11.65
193	Magma Fincorp Limited	49,854,375	4,387	2.00	88.00
194	Magma Fincorp Limited	10,000,000	500	2.00	50.00
195	Mahindra Forgings Limited	4,299,270	589	10.00	137.00
196	Man Industries (India) Limited	500,000	18	5.00	35.00
197	Man Industries (India) Limited	1,818,181	300	5.00	165.00
198	Marico Limited	29,411,764	5,000	1.00	170.00
199	Max India Limited	24,079,700	5,219	2.00	216.75
200	Max India Limited	8,000,000	1,734	2.00	216.75

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
201	McDowell Holdings Limited	605,000	81	10.00	134.22
202	McDowell Holdings Limited	635,000	64	10.00	101.00
203	McDowell Holdings Limited	607,977	30	10.00	49.00
204	Micro Technologies (India) Limited	408,000	56	10.00	138.29
205	Micro Technologies (India) Limited	1,224,439	200	10.00	163.34
206	Micro Technologies (India) Limited	575,000	80	10.00	139.00
207	Micro Technologies (India) Limited	925,000	129	10.00	139.00
208	Minda Industries Limited	1,835,000	401	10.00	218.70
209	Motilal Oswal Financial Services Limited	700,240	92	1.00	131.37
210	Motilal Oswal Financial Services Limited	112,907	12	1.00	103.48
211	MSP Steel & Power Limited	10,000,000	600	10.00	60.00
212	Murli Industries Limited	2,500,000	124	2.00	49.60
213	Murli Industries Limited	5,300,000	263	2.00	49.60
214	Murudeshwar Ceramics Limited	1,840,000	31	10.00	17.00
215	Natco Pharma Limited	3,000,000	675	10.00	225.00
216	National Steel and Agro Industries Limited	11,897,058	281	10.00	23.65
217	Nicco Corporation Limited	1,459,204	35	2.00	23.78
218	Nicco Corporation Limited	3,656,307	20	2.00	5.47
219	Nicco Corporation Limited	11,900,000	73	2.00	6.12
220	Nicco Corporation Limited	980,392	6	2.00	6.12
221	Nicco Corporation Limited	4,656,862	28	2.00	6.12
222	Nicco Corporation Limited	2,985,074	16	2.00	5.36
223	Omnitech Infosolutions Limited	2,000	0	10.00	122.59
224	Omnitech Infosolutions Limited	860,000	105	10.00	122.59
225	Orient Paper & Industries Limited	12,000,000	687	1.00	57.25
226	Oriental Bank of Commerce	41,221,482	17,400	10.00	422.11
227	Pantaloon Retail (India) Limited	8,163,265	2,000	2.00	245.00
228	Paramount Communications Limited	871,795	11	2.00	13.00
229	Paramount Communications Limited	3,520,000	46	2.00	13.00
230	Patel Integrated Logistics Limited	107,200	3	10.00	27.00
231	Phillips Carbon Black Limited	1,250,000	245	10.00	196.00
232	Pipavav Defence and Offshore Engineering Company Limited	25,400,000	1,778	10.00	70.00
233	Pitti Laminations Limited	4,050,000	159	10.00	39.15
234	Pochiraju Industries Limited	1,000,000	20	10.00	20.15
235	Pratibha Industries Limited	1,630,435	150	2.00	92.00
236	Precot Meridian Limited	525,000	51	10.00	98.00
237	Precot Meridian Limited	525,000	51	10.00	98.00
238	Prime Focus Limited	10,000,000	555	1.00	55.47
239	Punjab & Sind Bank	11,152,000	953	10.00	85.46
240	Punjab National Bank	1,509,657	1,840	10.00	1,218.82

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
241	Punjab National Bank	15,840,607	15,899	10.00	1,003.69
242	Punjab National Bank	6,525,919	6,550	10.00	1,003.69
243	R. S. Software (India) Limited	390,000	20	10.00	51.86
244	Rainbow Papers Limited	4,000,000	244	2.00	61.00
245	Raj Rayon Industries Limited	890,000	15	10.00	17.00
246	Raj Rayon Industries Limited	5,478,500	93	10.00	17.00
247	Raj Rayon Industries Limited	1,332,200	23	10.00	17.00
248	Ramkrishna Forgings Limited	950,000	102	10.00	107.50
249	Ramkrishna Forgings Limited	770,000	83	10.00	107.50
250	REI Six Ten Retail Limited	1,395,002	270	2.00	193.54
251	Religare Enterprises Limited	9,597,156	4,050	10.00	422.00
252	Responsive Industries Limited	5,267,700	585	1.00	111.00
253	Rohit Ferro-Tech Limited	25,000,000	1,500	10.00	60.00
254	S. Kumars Nationwide Limited	12,425,000	802	10.00	64.53
255	Samtel Color Limited	4,651,163	105	10.00	22.49
256	Samtel Color Limited	2,325,581	52	10.00	22.49
257	Samtel Color Limited	31,901,831	464	10.00	14.55
258	Sarda Energy & Minerals Limited	1,804,891	920	10.00	510.00
259	Saregama India Limited	2,727,000	279	10.00	102.47
260	Sathavahana Ispat Limited	800,000	48	10.00	60.00
261	Sathavahana Ispat Limited	400,000	24	10.00	60.00
262	Sathavahana Ispat Limited	1,830,000	110	10.00	60.00
263	SEL Manufacturing Company Limited	12,000,000	183	10.00	15.25
264	Sezal Glass Limited	20,000,000	180	1.00	9.00
265	Sezal Glass Limited	27,500,000	110	1.00	4.00
266	Shasun Pharmaceuticals Limited	6,578,947	500	2.00	76.00
267	Shilpa Medicare Limited	500,000	175	2.00	350.00
268	Shri Lakshmi Cotsyn Limited	1,570,000	245	10.00	156.00
269	Shri Lakshmi Cotsyn Limited	3,930,000	613	10.00	156.00
270	Shri Lakshmi Cotsyn Limited	1,500,000	234	10.00	156.00
271	Shriram City Union Finance Limited	2,300,000	1,311	10.00	570.00
272	Sical Logistics Limited	16,080,010	1,222	10.00	76.00
273	Simbhaoli Sugars Limited	870,000	40	10.00	46.00
274	Simbhaoli Sugars Limited	472,500	22	10.00	46.00
275	SKS Microfinance Limited	30,498,069	2,300	10.00	75.40
276	Software Technology Group International Limited	1,100,000	15	10.00	13.50
277	Software Technology Group International Limited	1,237,140	12	10.00	10.00
278	Southern Petrochemicals Industries Corporation Limited	12,631	0	10.00	19.00
279	Spanco Limited	3,285,000	509	10.00	155.00
280	Spanco Limited	1,500,000	233	10.00	155.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
281	Spentex Industries Limited	3,747,000	64	10.00	16.95
282	Spentex Industries Limited	1,950,000	33	10.00	16.95
283	Sree Rayalaseema Hi-Strength Hypo Limited	496,298	21	10.00	41.55
284	Sree Rayalaseema Hi-Strength Hypo Limited	547,370	24	10.00	43.95
285	Sri Adhikari Brothers Television Network Limited	1,500,000	70	10.00	46.50
286	Sri Adhikari Brothers Television Network Limited	1,500,000	70	10.00	46.50
287	State Bank of India	36,045,243	79,000	10.00	2,191.69
288	Steel Strips Wheels Limited	365,000	110	10.00	300.00
289	Sterlite Technologies Limited	18,250,000	-	2.00	-
290	Sterlite Technologies Limited	18,250,000	1,084	2.00	59.40
291	Sujana Tower Limited	27,500,000	303	1.00	11.00
292	Sujana Universal Industries Limited	15,000,000	150	10.00	10.00
293	Sujana Universal Industries Limited	15,000,000	188	10.00	12.50
294	Sumeet Industries Limited	18,294,578	553	10.00	30.25
295	Surana Industries Limited	7,700,000	3,850	10.00	500.00
296	Surya Pharmaceutical Limited	9,500,000	67	1.00	7.00
297	Surya Pharmaceutical Limited	10,000,000	70	1.00	7.00
298	Suryajyoti Spinning Mills Limited	1,830,000	57	10.00	31.00
299	Suryajyoti Spinning Mills Limited	1,170,000	36	10.00	31.00
300	Suryalakshmi Cotton Mills Limited	1,160,000	157	10.00	135.00
301	Syndicate Bank	51,317,389	6,330	10.00	123.35
302	Syndicate Bank	28,664,284	3,272	10.00	114.15
303	Tantia Constructions Limited	850,000	72	10.00	84.25
304	Tata Steel Limited	12,000,000	7,128	10.00	594.00
305	The Dhampur Sugar Mills Limited	141,052	27	10.00	194.56
306	The Dhampur Sugar Mills Limited	3,000,000	189	10.00	63.00
307	The Dhampur Sugar Mills Limited	1,000,000	63	10.00	63.00
308	The Indian Hotels Company Limited	48,000,000	4,975	1.00	103.64
309	The South Indian Bank Limited	200,000,000	4,426	1.00	22.13
310	Tilaknagar Industries Limited	4,018,264	293	10.00	73.00
311	Tilaknagar Industries Limited	4,284,236	313	10.00	73.00
312	Titagarh Wagons Limited	1,250,000	484	10.00	387.00
313	Trent Limited	2,741,228	2,500	10.00	912.00
314	Trent Limited	204,081	200	10.00	980.00
315	Trent Limited	526,000	515	10.00	980.00
316	Tricom India Limited	6,045,000	121	2.00	20.00
317	Tricom India Limited	8,510,000	115	2.00	13.50
318	Trident Limited	30,000,000	512	10.00	17.05
319	Trigyn Technologies Limited	1,380,000	26	10.00	18.81
320	Trigyn Technologies Limited	1,445,000	27	10.00	18.81

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
321	Twilight Litaka Pharma Limited	400,000	34	5.00	86.00
322	Twilight Litaka Pharma Limited	1,600,000	138	5.00	86.00
323	Twilight Litaka Pharma Limited	500,000	43	5.00	86.00
324	Twilight Litaka Pharma Limited	1,000,000	86	5.00	86.00
325	UCO Bank	78,157,479	9,400	10.00	120.27
326	UCO Bank	37,194,761	3,068	10.00	82.49
327	Union Bank of India	19,214,515	6,820	10.00	354.94
328	Union Bank of India	26,216,620	6,503	10.00	248.05
329	Uniply Industries Limited	1,898,793	20	10.00	10.77
330	United Bank of India	27,989,821	3,080	10.00	110.04
331	United Bank of India	16,578,299	1,322	10.00	79.74
332	Usher Agro Limited	1,400,000	57	10.00	41.00
333	Usher Agro Limited	2,100,000	86	10.00	41.00
334	Vakrangee Softwares Limited	1,150,000	81	10.00	70.00
335	Vakrangee Softwares Limited	1,220,000	85	10.00	70.00
336	Vardhman Polytex Limited	497,000	20	10.00	39.53
337	Vardhman Polytex Limited	1,800,000	122	10.00	68.00
338	Varun Industries Limited	7,000,000	302	10.00	43.20
339	Venus Remedies Limited	600,000	168	10.00	279.72
340	Venus Remedies Limited	600,000	168	10.00	279.72
341	Vijaya Bank	39,148,936	3,680	10.00	94.00
342	Vijaya Bank	22,872,258	1,470	10.00	64.27
343	Visesh Infotecnics Limited	220,000,000	2,310	10.00	10.50
344	Visu International Limited	500,000	9	10.00	17.50
345	Vivimed Labs Limited	449,789	133	10.00	295.00
346	Vivimed Labs Limited	1,830,137	598	10.00	327.00
347	Websol Energy System Limited	466,700	35	10.00	75.00
348	West Coast Paper Mills Limited	3,300,000	179	2.00	54.30
349	Windsor Machines Limited	1,360,000	3	2.00	2.00
350	Winsome Diamonds and Jewellery Limited	400,000	28	10.00	70.00
351	Winsome Diamonds and Jewellery Limited	36,363,636	2,000	10.00	55.00
352	Winsome Diamonds and Jewellery Limited	3,000,000	210	10.00	70.00
353	Winsome Yarns Limited	12,067,500	193	10.00	16.00
354	XL Energy Limited	50,000	7	10.00	135.00
355	Zenith Birla (India) Limited	1,560,000	33	10.00	21.40
356	Zicom Electronic Security Systems Limited	3,300,000	152	10.00	46.00
357	Zicom Electronic Security Systems Limited	1,000,000	46	10.00	46.00

Notes:
The Data includes 30 Issues of Conversion of Warrants issued on QIP Basis.
The private placement data comprises of Preferential and QIP issues only.
Source:NSE

3. Collective Investment Vehicles

Introduction

A collective investment vehicle (CIV) is any entity that allows investors to pool their money and invest the pooled funds, instead of buying securities directly as individuals. The most common types of collective investment vehicles are mutual funds and exchange-traded funds. Collective investment schemes are well established in many jurisdictions, and serve as an investment vehicle for a wide range of investment opportunities around the world.

The International Organization of Securities Commission (IOSCO) in its *Report on Investment Management of the Technical Committee* defined a collective investment scheme (CIS) as "an open ended collective investment scheme that issues redeemable units and invests primarily in transferable securities or money market instruments."

The distinct categories of collective investment vehicles in operation in India are, namely, mutual funds (MFs); index funds; exchange traded funds; alternate investment funds (comprising private equity fund, venture capital fund, private investment in public equity (PIPE) fund, debt fund, infrastructure fund, real estate fund, social venture fund, small and medium enterprises fund and strategy fund), which mobilize resources from the market for investment purposes. This chapter discusses growth and performance of the mutual fund industry, exchange traded funds and index funds.

Mutual Funds

Mutual funds are considered a good route to invest and earn returns with reasonable safety. Some of the other major benefits of investing in them include the options of investing in various schemes, diversification, professional management, liquidity, effective regulations, transparency, tax benefits, and affordability.

The Unit Trust of India (UTI) that was created in 1964 was the first MF in India. It enjoyed complete monopoly in MFs until 1986. Other public sector mutual funds were set up by public sector banks and the Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC) in 1987. SBI Mutual Fund was the first non-UTI mutual fund established in June 1987. The MF business was progressively opened to competition after 1988. This move gathered momentum in India after economic liberalization in 1991, and the establishment of the SEBI in 1992.

Resource Mobilization

The MF vehicle is quite popular with investors who are wary of directly investing in the securities markets. The popularity of MFs as an investment avenue is clearly visible from the data presented in Table 3-1. The MFs in India have primarily been sponsored by government, banks, and FIs. Thus, the MF schemes of the commercial banks and the insurance companies that entered the market in 1987 were well received. The boom continued into the 90s with liberalization evoking positive responses from the investors. The net resource mobilizations by MFs remained steady during 1992–1995, with the annual net resource mobilization of nearly ₹ 437 billion per annum during the period. However, the MFs were hit severely by the bearish sentiments in the secondary market since October 1994.

The years 1995–1996 and 1996–1997 witnessed net outflows of funds from MFs. The MF industry managed to mobilize modest sums during the next two financial years. It was in the late 90s and first few years of the next decade that the MF industry witnessed a sharp turnaround. Tax sops announced in the Union Budget 1999–2000 and the emergence of bullish trends in the secondary market fuelled the recovery. The year 2000–2001 witnessed a slowdown once again, with the net resource mobilization by all MFs taken together aggregating ₹ 111 billion, 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 2002–2003, the resource mobilization by all MFs together aggregated to a further low of ₹ 46 billion, with UTI having a net outflow of ₹ 94 billion. The fiscal years 2003–2004 witnessed a sharp rise in the net resources mobilized compared to the previous year, aggregating ₹ 478 billion; however the net resources mobilized reduced to ₹ 28 billion in 2004-05. The uptrend was seen in the fiscal year 2005–2006—the net resources mobilized were ₹ 525 billion. The performance of the private sector MFs was also consistent as compared to the previous year—they mobilized ₹ 416 billion. (Table 3-1).

The maximum resource mobilization ever was witnessed in 2007–2008, which saw net resources mobilization worth ₹ 1,485 billion from mutual fund industry, compared to ₹ 941 billion attracted by the industry in 2006–2007. Due to the global crisis, the resources mobilized by the industry have been quite volatile for the last couple of years. The fiscal year 2008–2009 witnessed a sharp drop in the net resources mobilized compared to the previous year, aggregating ₹ -246 billion, as private sector MFs witnessed a net outflow of ₹ 314 billion. The trend was reversed in 2009–2010; the net resources mobilized were ₹ 785 billion. The year 2010–2011 witnessed a slowdown once again, with the net resource mobilization by all the MFs taken together aggregating ₹ -488 billion. The mutual fund industry continued to see the decline in net resources mobilization at ₹ -437 billion in 2011-12.

Table 3-1: Net Resource Mobilised by Mutual Funds

Year	UTI	Bank Sponsored Mutual Funds	FI-sponsored mutual funds	Private Sector mutual funds	Total	Total
	₹ bn					(US $ bn)
2000-01	3	2	13	93	111	2
2001-02	-73	9	4	161	101	2
2002-03	-94	10	9	121	46	1
2003-04	11	45	8	415	479	11
2004-05	-25	7	-34	79	28	1
2005-06	34	54	21	416	525	12
2006-07	73	30	42	795	941	22
2007-08	107	76	22	1,280	1,485	37
2008-09	-37	45	60	-314	-246	-5
2009-10	157	99	49	482	785	17
2010-11	-166	13	-170	-165	-488	-11
2011-12P	**-32**	**11**	**-31**	**-385**	**-437**	**-9**

P: Provisional
Source: RBI

Number of Mutual Funds and New Fund Offers

As on March 31, 2012, the number of MFs registered with the SEBI was 49; it remained 49 till the end of September 2012. As against the 1,131 schemes in 2010–2011, there were 1,309 mutual fund schemes as on March 31, 2012, of which 775 were income oriented schemes, 303 were growth/equity-oriented schemes, 30 were balanced schemes. In addition, there were 14 gold exchange-traded funds, 21 other ETFs and 20 schemes operating as fund of funds. During 2011-12, the aggregate sales of all the schemes amounted to ₹ 68,196,790 million, and the redemptions during the year equalled ₹ 68,417,020 million (Table 3-2).

Table 3-2: Accretion of Funds with Mutual Funds

Category			2010-11				2011-12				Assets Under Management		
			Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $ mn)	Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $ mn)	March-11 # (₹ mn)	March-12 # (₹ mn)	March-12 (US $ mn)
A	**Bank Sponsored**		**15,546,740**	**15,683,960**	**-137,220**	**-3,073**	**11,798,420**	**11,819,250**	**-20,830**	**-407**	**1,227,980**	**1,196,770**	**23,394**
	i.	Joint Ventures - Predominantly Indian	6,124,400	6,116,180	8,220	184	4,660,910	4,649,640	11,270	220	494,960	510,820	9,985
	ii.	Joint Ventures-Foreign	889,030	894,230	-5,200	-116	678,810	675,500	3,310	65	25,850	41,910	819
	iii.	Others	8,533,310	8,673,550	-140,240	-3,141	6,458,700	6,494,110	-35,410	-692	707,170	644,040	12,590
B	**Institutions**		**4,708,200**	**4,878,080**	**-169,880**	**-3,805**	**344,900**	**375,880**	**-30,980**	**-606**	**111,950**	**57,990**	**1,134**
C	**Private Sector (i+ii+iii+iv)**		**68,340,210**	**68,527,170**	**-186,960**	**-4,187**	**56,053,470**	**56,221,890**	**-168,420**	**-3,292**	**5,665,450**	**5,393,160**	**105,425**
	i.	Indian	32,953,490	33,074,940	-121,450	-2,720	24,990,930	25,216,020	-225,090	-4,400	2,410,480	1,905,840	37,255
	ii.	Joint Ventures-Predominantly Indian	29,708,550	29,720,000	-11,450	-256	26,612,620	26,547,960	64,660	1,264	2,540,450	2,744,870	53,656
	iii.	Joint Ventures - Predominantly Foreign	2,649,960	2,696,020	-46,060	-1,032	1,815,740	1,809,470	6,270	123	167,730	165,520	3,236
	iv.	Foreign	3,028,210	3,036,210	-8,000	-179	2,634,180	2,648,440	-14,260	-279	546,790	576,930	11,278
Grand Total (A+B+C)			**88,595,150**	**89,089,210**	**-494,060**	**-11,065**	**68,196,790**	**68,417,020**	**-220,230**	**-4,305**	**7,005,380**	**6,647,920**	**129,953**

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

Table 3-3: Accretion of Funds with Mutual Funds

Category			April 12 - June 12				Assets Under Management at the end of	
			Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $ mn)	June - 12 (₹ mn)	June - 12 (US $ mn)
A	**Bank Sponsored**		**3,502,030**	**3,293,840**	**208,190**	**3,813**	**1,285,650**	**23,547**
	i.	Joint Ventures - Predominantly Indian	1,384,700	1,340,410	44,290	811	569,330	10,427
	ii.	Joint Ventures- Predominantly Foreign	294,540	271,770	22,770	417	55,110	1,009
	ii.	Others	1,822,790	1,681,660	141,130	2,585	661,210	12,110
B	**Institutions**		**46,930**	**46,540**	**390**	**7**	**59,190**	**1,084**
C	**Private Sector (i+ii+iii+iv)**		**13,946,800**	**13,200,190**	**746,610**	**13,674**	**5,583,050**	**102,254**
	i.	Indian	6,390,090	6,035,750	354,340	6,490	1,945,220	35,627
	ii.	Joint Ventures- Predominantly Indian	6,389,490	6,064,610	324,880	5,950	2,900,290	53,119
	iii.	Joint Ventures - Predominantly Foreign	422,130	399,500	22,630	414	154,180	2,824
	iv.	Foreign	745,090	700,330	44,760	820	583,360	10,684
Grand Total (A+B+C)			**17,495,760**	**16,540,570**	**955,190**	**17,494**	**6,927,890**	**126,884**

Source: AMFI Updates

Institution-wise Resource Mobilization

The resource mobilization through the route of mutual funds is done broadly by three categories, namely, 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.

The private sector MFs accounted for 82.2 percent of the resource mobilization (sales) by the MF industry in 2011–2012. These private sector MFs witnessed a net outflow of ₹ 168,420 million (US $ 3,292 million) in 2011–2012, compared to a net outflow of ₹ 186,960 million (US $ 4,187 million) in 2010–2011.

In 2011-12, bank-sponsored MFs mobilized resources worth ₹ 11,798,420 million, which was 24.1 percent lower than the resource mobilization in 2010-11 (₹ 15,546,740 million). The bank-sponsored schemes accounted for 17.3 percent of the gross resource mobilization in 2011–2012. In net terms, the bank-sponsored MFs witnessed an outflow of ₹ 20,830 million (US $ 407 million) in 2011–2012.

Resource Mobilization as per Maturity Period/Tenor

The share of open-ended schemes in the total sales of mutual funds in 2011–2012 continued to dominate over the other schemes (such as close-ended and interval funds). The share of open-ended schemes in the total sales of mutual funds was 97.8 percent in 2011–2012, same as last year. Close-ended schemes saw a year-on-year increase in sales of 5.2 percent in 2011–2012 over the previous fiscal year. The details of the sales and redemptions of the mutual funds based on their tenor for 2010–2011 and 2011–2012, are presented in Table 3-4.

Table 3-4: Resource Mobilisation by Mutual Funds- based on the Tenor of the Scheme

Scheme	2010-11				2011-12			
	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase
	(₹ mn)		(US $ mn)		(₹ mn)		(US $ mn)	
Open-ended	86,657,260	87,889,450	1,940,812	1,968,409	66,705,260	66,855,230	1,303,945	1,306,877
Close-ended	1,288,740	572,160	28,863	12,814	1,355,140	1,320,720	26,490	25,817
Interval fund	649,150	627,600	14,539	14,056	136,390	241,070	2,666	4,712
Total	**88,595,150**	**89,089,210**	**1,984,214**	**1,995,279**	**68,196,790**	**68,417,020**	**1,333,101**	**1,337,406**

Source : AMFI Updates

Resource Mobilization as per Investment Objective

The liquid/money market schemes have become very popular among investors due to the attractive returns delivered by them. They accounted for 87.2 percent of the gross resource mobilization in 2011–2012. During the current fiscal year, the sale as well as repurchase was the highest in the case of these schemes, resulting in a net outflow of ₹ 71,040 million (US $ 1,389 million).

The income/debt-oriented schemes that provide regular and steady income to investors by investing in fixed income securities such as bonds, corporate debentures, government securities, and money market instruments were also popular among investors, and accounted for 11.8 percent of the total sales of all the schemes in 2011–2012 which was less than last year. These schemes witnessed the highest net outflow of ₹ 185,280 million (US $ 3,622 million).

The scheme-wise resource mobilization by MFs for 2010–2011, and 2011–2012 is depicted in Table 3-5.

Table 3-5: Scheme-wise Resource Mobilisation by Mutual Funds

Scheme	2010-11				2011-12			
	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)
	(₹ mn)			(US $ mn)	(₹ mn)			(US $ mn)
Income	21,728,600	22,095,660	-367,060	-8,221	8,035,650	8,220,930	-185,280	-3,622
Growth	631,420	765,470	-134,050	-3,002	479,210	476,570	2,640	52
Balanced	74,900	61,460	13,440	301	50,270	46,450	3,820	75
Liquid/ Money Market	65,997,240	66,032,440	-35,200	-788	59,464,990	59,536,030	-71,040	-1,389
Gilt	44,500	45,660	-1,160	-26	40,500	40,700	-200	-4
ELSS-Equity	34,500	31,840	2,660	60	26,980	28,400	-1,420	-28
GOLD ETFs	28,430	5,930	22,500	504	52,650	16,190	36,460	713
Other ETFs *	48,670	34,790	13,880	311	32,980	39,210	-6,230	-122
Funds of Funds Investing Overseas	6,890	15,960	-9,070	-203	13,560	12,540	1,020	20
Total	**88,595,150**	**89,089,210**	**-494,060**	**-11,065**	**68,196,790**	**68,417,020**	**-220,230**	**-4,305**

* *This scheme was earlier classified as growth funds and included in that category.*

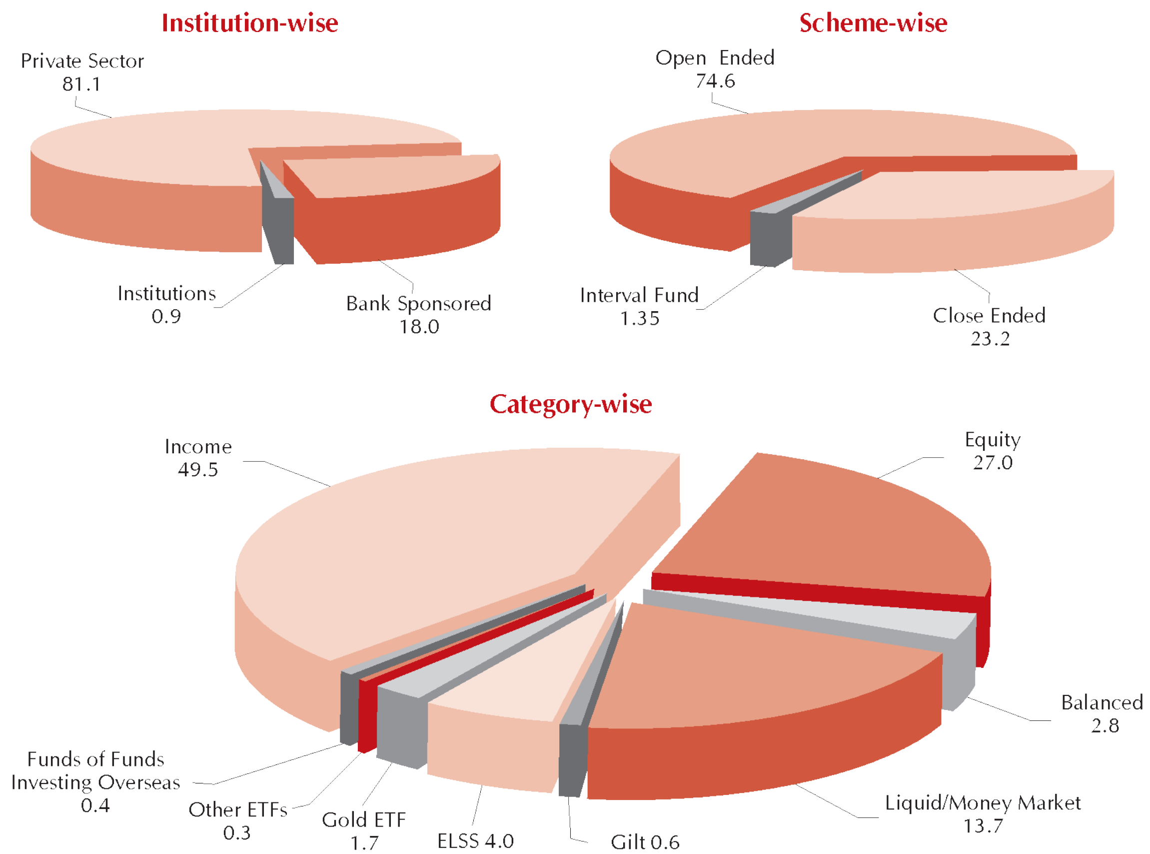
Source: AMFI Updates

Assets under Management

As on March 31, 2012, the MFs have managed assets totaling ₹ 5,872,170 million (US $ 114,788 million) (Table 3-6). The open-ended schemes and the close-ended schemes accounted for 75.2 percent and 23.4 percent, respectively, of the total assets under management of MFs (Chart 3-1) as on March 31, 2012.

The income schemes accounted for 49.5 percent of the total assets under management at the end of March 2011, followed by the equity schemes with 27 percent. The liquid/money market schemes accounted for 13.7 percent of the assets under management of MFs (Chart 3-1).

Chart 3-1: Assets under Management of Mutual Funds (Jan to Mar 2012) (in percent)



Source : AMFI

Mutual Fund Service System (MFSS)

In November 2009, the SEBI allowed transactions in mutual fund schemes through the stock exchange infrastructure. Consequent to this market development, the 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 30 fund houses have joined the NSE MFSS platform as on March 31, 2012, and there were 1,991 sub schemes available for trading. During April 2011 to March 2012, there were 109,814 orders placed for subscriptions worth ₹ 4,891 million and 10,662 orders worth ₹ 3,353 million were redeemed. The trend moved northwards in the April–September period of 2012–2013, when 82,727 orders were placed for subscriptions worth ₹ 3,882 million, and 11,499 orders worth ₹ 2,808 million were redeemed (Table 3-7).

Table 3-6: Assets under Management

Scheme	At the end of March 2011						At the end of March 2012					
	Open Ended	Close Ended	Interval Fund#	Total	Total	Percent to total	Open Ended	Close Ended	Interval Fund#	Total	Total	Percent to total
	(₹ mn)				(US $ mn)		(₹ mn)				(US $ mn)	
Income	1,532,210	1,206,100	181,440	2,919,750	65,392	49.3	1,477,720	1,350,990	79,730	2,908,440	56,854	49.5
Equity	1,676,200	21,210	130	1,697,540	38,019	28.7	1,584,030	290	-	1,584,320	30,970	27.0
Balanced	173,600	10,850	-	184,450	4,131	3.1	162,500	110	-	162,610	3,179	2.8
Liquid/Money Market	736,660	-	-	736,660	16,499	12.4	803,540	-	-	803,540	15,707	13.7
Gilt	34,090	-	-	34,090	763	0.6	36,590	-	-	36,590	715	0.6
ELSS	224,880	30,810	-	255,690	5,727	4.3	211,490	24,950	-	236,440	4,622	4.0
Gold ETF	44,000	-	-	44,000	985	0.7	98,860	-	-	98,860	1,933	1.7
Other ETFs *	25,160	-	-	25,160	563	0.4	16,070	-	-	16,070	314	0.3
Funds of Funds Investing Overseas	25,160	-	-	25,160	563	0.4	25,300	-	-	25,300	495	0.4
Total	**4,471,960**	**1,268,970**	**181,570**	**5,922,500**	**132,643**	**100**	**4,416,100**	**1,376,340**	**79,730**	**5,872,170**	**114,788**	**100**

* *This scheme was earlier classified as growth funds and included in that category.*
\# *This category was introduced since April 2008.*
Source: AMFI Updates

Table 3-7: MFSS Trade Statistics

Date	Subscription		Redemption		Total orders
	No. of orders	Total subscription amount (₹ mn)	No. of orders	Total redemption amount (₹ mn)	
2010 - 11	19,836	1,604	2,674	546	22,510
2011-12	**109,814**	**4,891**	**10,662**	**3,353**	**120,476**
April - Sep'12	**82,727**	**3,882**	**11,499**	**2,808**	**94,226**

Source: NSE

Unit Holding Pattern of Mutual Funds

The unit holding pattern of mutual funds depicted in Table 3-8 shows that the individual investors accounted for 94.5 percent of the total number of investor accounts at the end of March 2012. They were followed by corporate/institution, who constituted a meager 3.6 percent of the total number of investor accounts. The individuals accounted for 48.2 percent of the net assets of the MF industry in 2011–2012, followed by corporate/institution, who accounted for 44.9 percent. The individuals saw the highest increase in net assets among the four categories, with a year-on-year improvement of 24.8 percent in 2011–2012. On the other hand, corporate and institutions saw a decline of 27.9 percent.

Table 3-8: Unit Holding Pattern of Mutual Funds

Category	Percentage to total investors		Percentage to total net assets	
	2010-11	2011-12	2010-11	2011-12
Individuals	97.0	94.5	23.4	48.2
NRIs	1.9	1.9	2.0	6.0
FIIs	0.0	0.0	1.8	0.9
Corporate/Institutions/Others	1.1	3.6	72.8	44.9
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: SEBI

Index Funds

At the end of September 2012, there were 43 index funds in the mutual fund industry. The performance of these ETFs (in terms of returns in 3 months, 6 months, and 12 months) and their details, such as their date of launch and their underlying index, are depicted in Table 3-9.

Table 3-9: Performance of Index Funds

Index Funds - Schemewise		Launch Date	Benchmark Index	Returns (in percent)		
				3M	6M	12M
1	Birla Sun Life Index Fund - Dividend	18-Sep-02	S&P Nifty	7.9	7.9	14.7
2	Birla Sun Life Index Fund - Growth	18-Sep-02	S&P Nifty	7.9	7.9	14.7
3	Canara Robeco Nifty Index - Dividend	8-Oct-04	S&P Nifty	8.0	8.1	15.4
4	Canara Robeco Nifty Index - Growth	8-Oct-04	S&P Nifty	8.0	8.1	15.4
5	Franklin India Index Fund - BSE Sensex Plan - Dividend	26-Mar-04	BSE Sensex	7.8	8.5	14.1
6	Franklin India Index Fund - BSE Sensex Plan - Growth	26-Mar-04	BSE Sensex	7.8	8.5	14.1
7	Franklin India Index Fund - NSE Nifty Plan - Dividend	4-Aug-00	S&P Nifty	8.1	8.3	15.3

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	Index Funds - Schemewise	Launch Date	Benchmark Index	Returns (in percent)		
				3M	6M	12M
8	Franklin India Index Fund - NSE Nifty Plan - Growth	26-Mar-04	S&P Nifty	8.1	8.3	15.3
9	HDFC Index Fund - Nifty Plan	17-Jul-02	S&P Nifty	8.1	8.4	15.0
10	HDFC Index Fund - Sensex Plan	17-Jul-02	BSE Sensex	7.8	8.6	14.6
11	HDFC Index Fund - Sensex Plus Plan	17-Jul-02	BSE Sensex	7.7	8.9	16.3
12	ICICI Prudential Index Fund	26-Feb-02	S&P Nifty	7.8	8.0	15.1
13	IDBI Nifty Index Fund - Dividend	25-Jun-10	S&P Nifty	8.0	8.1	15.2
14	IDBI Nifty Index Fund - Growth	25-Jun-10	S&P Nifty	8.0	8.1	15.2
15	IDFC Nifty Fund - Dividend	30-Apr-10	S&P Nifty	8.1	9.4	17.2
16	IDFC Nifty Fund - Growth	30-Apr-10	S&P Nifty	8.1	9.4	17.1
17	LIC Nomura MF Index Fund - Nifty Plan - Dividend	6-Dec-02	S&P Nifty	8.0	8.3	15.5
18	LIC Nomura MF Index Fund - Nifty Plan - Growth	6-Dec-02	S&P Nifty	8.0	8.3	15.5
19	LIC Nomura MF Index Fund - Sensex Advantage Plan - Div	6-Dec-02	BSE Sensex	7.7	8.0	14.5
20	LIC Nomura MF Index Fund - Sensex Advantage Plan - Growth	6-Dec-02	BSE Sensex	7.7	8.0	14.5
21	LIC Nomura MF Index Fund - Sensex Plan - Dividend	6-Dec-02	BSE Sensex	7.9	8.8	14.7
22	LIC Nomura MF Index Fund - Sensex Plan - Growth	6-Dec-02	BSE Sensex	7.9	8.8	14.7
23	Principal Index Fund - Dividend	26-Jul-99	S&P Nifty	7.2	7.3	14.7
24	Principal Index Fund - Growth	26-Jul-99	S&P Nifty	7.2	7.3	14.7
25	Reliance Index Fund - Nifty Plan - Ann Dividend	28-Sep-10	S&P Nifty	8.3	8.7	16.6
26	Reliance Index Fund - Nifty Plan - Bonus	28-Sep-10	S&P Nifty	8.3	8.7	16.6
27	Reliance Index Fund - Nifty Plan - Growth	28-Sep-10	S&P Nifty	8.3	8.7	16.6
28	Reliance Index Fund - Nifty Plan - Half Yly Dividend	28-Sep-10	S&P Nifty	8.3	8.7	16.6
29	Reliance Index Fund - Nifty Plan - Qtly Dividend	28-Sep-10	S&P Nifty	8.3	8.7	16.6
30	Reliance Index Fund - Sensex Plan - Ann Dividend	28-Sep-10	BSE Sensex	8.0	9.0	15.0
31	Reliance Index Fund - Sensex Plan - Bonus	28-Sep-10	BSE Sensex	8.0	9.0	15.0
32	Reliance Index Fund - Sensex Plan - Growth	28-Sep-10	BSE Sensex	8.0	9.0	15.0
33	Reliance Index Fund - Sensex Plan - Half Yly Dividend	28-Sep-10	BSE Sensex	8.0	9.0	15.0
34	Reliance Index Fund - Sensex Plan - Qtly Dividend	28-Sep-10	BSE Sensex	8.0	9.0	15.0
35	SBI Magnum Index Fund - Dividend	17-Jan-02	S&P Nifty	8.1	8.2	15.6
36	SBI Magnum Index Fund - Growth	17-Jan-02	S&P Nifty	8.1	8.2	15.6
37	Tata Index Fund - Nifty Plan - Option A	25-Feb-03	S&P Nifty	8.2	8.7	16.2
38	Tata Index Fund - Sensex Plan - Option A	25-Feb-03	BSE Sensex	7.9	8.9	15.2
39	Tata Index Fund - Sensex Plan - Plan A	25-Feb-03	BSE Sensex	7.7	8.5	14.3
40	Taurus Nifty Index Fund - Dividend	19-Jun-10	S&P Nifty	8.4	8.6	12.7
41	Taurus Nifty Index Fund - Growth	19-Jun-10	S&P Nifty	8.4	8.6	13.9
42	UTI Nifty Fund - Dividend	14-Feb-00	S&P Nifty	8.4	8.5	15.7
43	UTI Nifty Fund - Growth	14-Feb-00	S&P Nifty	8.4	8.5	15.7

Note: Returns are calculated as at end of September 2012. M : Month
Source: NSE and ICRA Online

Exchange-Traded Funds

At the end of September 2012, there were 34 exchange-traded funds in India (listed on the NSE and the BSE), of which 20 were index-based ETFs and 14 were gold-based ETFs. The performance of these ETFs (in terms of returns in 3 months, 6 months, and 12 months) and their details, such as their date of launch and their underlying index, are depicted in Table 3-10.

Table 3-10: Performance of Exchange Traded Funds

(in percent)

	Name of ETFs	Underlying Index	Launched by AMC	Listed at	Launch Date	3 M	6 M	12 M
Index Based / Money Market ETFs								
1	GS Bank BeES	CNX Bank	Goldman Sachs Asset Management (India) Private Limited	NSE	27-May-04	11.2	14.1	21.5
2	GS Hang Seng BeES	Hang Seng	Goldman Sachs Asset Management (India) Private Limited	NSE	18-Mar-10	2.0	7.8	31.5
3	ICICI SENSEX Prudential ETF	Sensex	ICICI Prudential Mutual Fund	BSE	13-Jan-03	7.7	8.9	17.1
4	IIFL Nifty	Nifty 50	India Infoline Asset Management Company Limited	NSE	18-Oct-11	8.4	8.9	--
5	GS Junior BeES	CNX Nifty Junior	Goldman Sachs Asset Management (India) Private Limited	NSE	21-Feb-03	9.8	6.2	13.0
6	Kotak Nifty	Nifty 50	Kotak Mahindra Asset Management Company Limited	NSE	2-Feb-10	8.4	8.8	16.6
7	Kotak PSU Bank	CNX PSU Bank	Kotak Mahindra Asset Management Company Limited	NSE	16-Nov-07	3.3	1.5	7.0
8	Kotak Sensex	Sensex	Kotak Mahindra Asset Management Company Limited	BSE	16-Jun-08	8.0	8.9	15.3
9	GS Infra BeES	CNX Infrastructure	Goldman Sachs Asset Management (India) Private Limited	NSE	7-Oct-11	5.2	1.0	-2.3
10	Birla Sun Life Nifty	Nifty 50	Birla Sun Life Asset Management Company Limited	NSE	4-Jul-11	8.3	8.7	16.4
11	GS Liquid BeES	Crisil Liquid Fund	Goldman Sachs Asset Management (India) Private Limited	NSE	27-May-04	1.4	2.9	6.1
12	MOSt Shares M50	Nifty 50	Motilal Oswal Asset Management Company Limited	NSE	30-Jun-10	8.4	7.8	17.7
13	MOSt Shares M100	CNX 100	Motilal Oswal Asset Management Company Limited	NSE	Jan-11	7.3	2.6	11.6
14	MOSt Shares NASDAQ 100	NASDAQ	Motilal Oswal Asset Management Company Limited	NSE	31-Mar-11	3.6	5.2	38.6
15	GS Nifty BeES	Nifty 50	Goldman Sachs Asset Management (India) Private Limited	NSE	28-Dec-01	8.4	8.9	14.7
16	GS PSU Bank BeES	CNX PSU Bank	Goldman Sachs Asset Management (India) Private Limited	NSE	1-Nov-07	4.3	2.4	8.0

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	Name of ETFs	Underlying Index	Launched by AMC	Listed at	Launch Date	3 M	6 M	12 M
17	Quantum Index Fund - Growth	Nifty 50	Quantum Asset Management Co. Private Ltd	NSE	18-Jul-08	8.3	8.7	16.6
18	R* Shares Banking	CNX Bank	Reliance Capital Asset Management Limited	NSE	27-Jun-08	10.7	13.6	22.3
19	GS S&P Shariah BeES	Nifty 50	Goldman Sachs Asset Management (India) Private Limited	NSE	18-Mar-09	6.8	4.5	10.9
20	Religare Nifty	Nifty 50	Religare Mutual Fund	NSE	23-May-11	8.3	8.6	16.1
GOLD ETFs								
21	Axis Gold	–	Axis Asset Management Company Limited	NSE	30-Oct-10	5.9	10.0	19.8
22	Birla Sun Life Gold	–	Birla Sun Life Asset Management Company Limited	NSE	25-Apr-11	6.1	10.3	20.0
23	Canara Robeco Gold	–	Canara Robeco Asset Management Company Limited	NSE	22-Mar-12	5.8	9.9	--
24	GS Gold BeES	–	Goldman Sachs Asset Management (India) Private Limited	NSE	19-Mar-07	5.8	10.1	20.0
25	HDFC Gold	–	HDFC Asset Management Company Limited	NSE	30-Jun-09	5.8	10.1	20.0
26	ICICI Prudential Gold	–	ICICI Prudential Mutual Fund	BSE	16-Jul-10	6.0	10.1	19.9
27	IDBI Gold	–	IDBI Asset Management Limited	NSE	9-Nov-11	5.9	10.1	--
28	Kotak Gold	–	Kotak Mutual Fund	NSE	8-Aug-07	5.8	10.1	20.7
29	MOSt Shares Gold	–	Motilal Oswal Asset Management Company Limited	NSE	22-Mar-12	5.7	9.7	--
30	Quantum Gold Fund - Growth	–	Quantum Asset Management Co. Private Ltd	NSE	28-Feb-08	6.0	10.1	20.1
31	R* Shares Gold - Dividend	–	Reliance Capital Asset Management Limited	NSE	27-Jun-08	6.0	10.2	20.1
32	Religare Gold	–	Reliance Capital Asset Management Limited	NSE	29-Jan-10	6.0	10.2	20.1
33	SBI Gold	–	SBI Mutual Fund	NSE	28-May-09	5.9	10.2	20.2
34	UTI Gold	–	UTI Asset Management Co. Ltd.	NSE	1-Mar-07	5.9	10.2	20.1

Notes: UTI Master Index Fund and S&P CNX Nifty UTI Notional Depository Receipts Scheme (SUNDER) merged with UTI Nifty Fund on 15th March 2012.
Source: BSE, NSE and ICRA Online

Table 3-11: Turnover of ETFs Listed at NSE and BSE

Sr. No.		Name of ETF	ETF Symbol on NSE	2011-12		April-September 2012	
				Sum of Total Traded Value (₹ mn)	Sum of Total Traded Value (US $ mn)	Sum of Total Traded Value (₹ mn)	Sum of Total Traded Value (US $ mn)
1	INDEX BASED / MONEY MARKET ETFs	GS Bank BeES	BANK BEES	793	15	318	6
2		Birla Sun Life Nifty	BSLNIFTY	50	1	2	0.04
3		GS Hang Seng BeES	HNGSNGBEES	238	5	172	3
4		GS Infrastructure	INFRABEES	30	1	27	1
5		GS Junior BeES	JUNIOR BEES	915	18	290	5
6		IIFL Nifty	IIFLNIFTY	830	16	519	10
7		Kotak Nifty	KOTAK NIFTY	649	13	629	12
8		Kotak PSU Bank	KOTAK PSU BK	637	12	25	0.5
9		Kotak Sensex	KOTAK SENSEX	85	2	318	6
10		GS Liquid BeES	LIQUIDBEES	38,500	753	19,838	363
11		MOSt Shares M100	M100	393	8	89	2
12		MOSt Shares M50	M50	528	10	125	2
13		MOSt Shares NASDAQ 100	N100	210	4	161	3
14		GS Nifty BeES	NIFTY BEES	14,457	283	4,718	86
15		GS PSU Bank BeES	PSUBNK BEES	154	3	52	1
16		Quantum Nifty	QNIFTY	11	0.2	7	0.1
17		Reliance Banking	RELBANK	31	1	13	0.2
18		Religare Nifty	RELGRNIFTY	81	2	6	0.1
19		GS S & P Shariah BeES	SHARIA BEES	7	0.1	2	0.0
20		ICICI Sensex Prudential Exchange Traded Fund (SPICE)	SPICE-ETF	7	0.1	2	0.0
21		S&P CNX NIFTY UTI Notional Depository Receipts Scheme (SUNDER)	UTISUNDERETF	32	1	-	-
		Total Turnover of Index Funds		**58,639**	**1,146**	**27,312**	**500**

Contd.

Contd.

Sr. No.		Name of ETF	ETF Symbol on NSE	2011-12		April-September 2012	
				Sum of Total Traded Value (₹ mn)	Sum of Total Traded Value (US $ mn)	Sum of Total Traded Value (₹ mn)	Sum of Total Traded Value (US $ mn)
22	GOLD BASED ETFs	Axis Gold	AXISGOLD	861	17	215	4
23		Birla Sun Life Gold	BSLGOLDETF	1,129	22	76	1
24		GS - Gold BeES	GOLDBEES	83,404	1,630	27,472	503
25		Canara Robeco Gold	CRMFGETF	3	0	78	1
26		HDFC Gold	HDFCMFGETF	3,197	62	1,116	20
27		ICICI Prudential Gold	IPGETF	537	10	161	3
28		IDBI Gold	IDBIGOLD	150	3	378	7
29		Kotak Gold	KOTAKGOLDETF	15,844	310	3,601	66
30		MOSt Gold	MGOLD	13	0.2	466	9
31		Quantum Gold	QGOLDHALF	454	9	196	4
32		Reliance Gold	RELGOLD	10,382	203	2,848	52
33		Religare Gold	RELIGAREGO	1,290	25	335	6
34		SBI Gold	SBIGETS	6,367	124	2,306	42
35		UTI Gold Share	GOLDSHARE	7,055	138	1,561	29
		Total Turnover of Gold Based ETFs		**130,685**	**2,555**	**40,810**	747
		Total Turnover of all ETFs		**189,324**	**3,701**	**68,122**	**1,248**
		Percentage of Index Funds Turnover to total ETF Turnover		31.0		40.1	
		Percentage of Gold based ETF Turnover to total ETF turnover		69.0		59.9	

Notes: UTI Master Index Fund and S&P CNX NIFTY UTI Notional Depository Receipts Scheme (SUNDER) merged with UTI Nifty Fund on 15th March 2012.
Source: BSE, ICRA Online and NSE

The total traded value of the ETFs listed on the NSE and the BSE during the fiscal year 2011–2012 was ₹ 189,324 million (US $ 3,701 million). The details of the ETF turnover at the NSE and the BSE is given in Table 3-11.

4. Capital Market

Introduction

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

Turnover and Market Capitalization: Growth

The trading volumes in the equity segments of the stock exchanges have witnessed a phenomenal growth over the last few years. The trading volumes saw a considerable increase in the late 90s. The compounded annual growth rate of the trading volumes on all the stock exchanges taken together has been 15.3 percent over the period 2002-2003 to 2011-2012.

The NSE and the BSE were the only two stock exchange that reported significant trading volumes. With the exception of the Calcutta Stock Exchange, all the other stock exchanges in India did not report any trading volumes during 2011-2012. The NSE consolidated its position as the market leader by contributing 80.7 percent of the total turnover in India in 2011-2012, and 83 percent in first half of 2012-2013. Since its inception in 1994, the NSE has emerged as the favoured exchange among trading members. The consistent increase in popularity of the NSE is evident from Annexure 4-1, which presents the business growth of the CM segment of the NSE. The NSE has been successful in creating a niche for itself not only in the national arena but also in the international markets.

Looking at the trends in turnover in the NSE and the BSE from 2009-2010 to the first half of 2012-2013 (Table 4-1), one finds that decline in turnover on the exchanges continued, mainly on account of the crisis and the uncertainties in global financial markets. The turnover on the NSE declined by 21.4 percent in 2011-2012 compared to the turnover in 2010-2011, and the turnover on the BSE dipped by 39.6 percent over the same period. The average daily turnover on the NSE stood at US $ 2.2 billion in 2011-2012 compared to US $ 3.1 billion in 2010-2011. The average daily turnover on the BSE decreased by 38.1 percent to US $ 26.8 billion in 2011-2012, and decreased by more than 40 percent to US $ 0.58 billion in the first half of 2011-2012 (compared to 2010-2011).

Table 4-1: Capital Market Turnover on Stock Exchanges in India

Stock Exchanges		Capital Market Turnover						Share in Turnover (percent)		
		2010-11		2011-12		Apr-Sep 2012				
		(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)	2010-11	2011-12	Apr-Sep'12
1	NSE	35,774,100	801,212	28,108,930	549,469	12,725,710	233,072	76.4	80.7	83.0
2	BSE	11,050,270	247,486	6,674,980	130,482	2,610,400	47,810	23.6	19.2	17.0
3	Calcutta	25,970	582	59,910	1,171	0	0	0.1	0.2	0.0
4	Uttar Pradesh	1	0	0	0	0	0	0.0	0.0	0.0
5	Ahmedabad	0	0	0	0	0	0	0.0	0.0	0.0
6	Delhi	0	0	0	0	0	0	0.0	0.0	0.0
7	Pune	0	0	0	0	0	0	0.0	0.0	0.0
8	Ludhiana	0	0	0	0	0	0	0.0	0.0	0.0
9	Bangalore	0	0	0	0	0	0	0.0	0.0	0.0
10	ICSE	0	0	0	0	0	0	0.0	0.0	0.0
11	Madras	0	0	0	0	0	0	0.0	0.0	0.0
12	Madhya Pradesh	0	0	0	0	0	0	0.0	0.0	0.0
13	Vadodara	0	0	0	0	0	0	0.0	0.0	0.0
14	OTCEI	0	0	0	0	0	0	0.0	0.0	0.0
15	Gauhati	0	0	0	0	0	0	0.0	0.0	0.0
16	Cochin	0	0	0	0	0	0	0.0	0.0	0.0
17	Bhubaneshwar	0	0	0	0	0	0	0.0	0.0	0.0
18	Coimbatore	0	0	0	0	0	0	0.0	0.0	0.0
19	Jaipur	0	0	0	0	0	0	0.0	0.0	0.0
	Total	**46,850,341**	**1,049,280**	**34,843,820**	**681,122**	**15,336,110**	**280,881**	**100.0**	**100.0**	**100.0**

Source: BSE, NSE, SEBI

Turnover showed a decline in 2011-2012 compared to 2010-2011, the same was the case with market capitalization for securities available for trading on the equity segment of the NSE and the BSE (Table 4-2). The market capitalization of the NSE, which at the end of March 2011 amounted to ₹ 67,026,156 million (US $ 1,501 billion), was decreased to ₹ 60,965,176 million (US $ 1,192 billion) on the NSE (as at the end of March 2012). As at the end September of 2012, there has been some improvement in market capitalization to US $ 64,316,550 million (US $ 1,177 billion) (as at the end of March 2012) for the NSE.

According to the WFE statistics, in terms of the number of trades in equity shares, the NSE ranks second with 1,384,112 thousand trades at the end of December 2011, and first with 10,66,793 thousand trades in January-September 2012. The trade details of the top-ranked stock exchanges are presented in Table 4-3.

Table 4-2: Stock Market Indicators–Monthly Trends on NSE and BSE

Month / Year	Turnover				Average Daily Turnover				Market Capitalisation (end of period)			
	NSE		BSE		NSE		BSE		NSE		BSE	
	₹ mn	US $ mn	₹ mn	US $ mn	₹ mn	US $ mn	₹ mn	US $ mn	₹ mn	US $ mn	₹ mn	US $ mn
2009-10	41,380,234	864,429	13,788,090	288,032	169,591	3,543	56,510	1,180	60,091,732	1,255,311	61,656,190	1,287,992
2010-11	35,774,098	798,832	11,050,280	246,695	140,291	3,142	43,330	970	67,026,156	1,501,146	68,390,840	1,531,710
Apr-11	2,283,484	44,637	693,370	13,554	126,860	2,480	38,520	787	67,536,144	1,380,393	69,080,900	1,411,967
May-11	2,338,760	45,718	594,940	11,630	106,307	2,078	27,040	553	65,697,427	1,342,811	67,318,690	1,375,948
Jun-11	2,224,571	43,486	593,370	11,599	101,117	1,977	26,970	551	65,747,432	1,343,833	67,309,470	1,375,760
Jul-11	2,300,025	44,961	595,550	11,642	109,525	2,141	28,360	580	64,622,377	1,320,838	66,172,730	1,352,526
Aug-11	2,352,534	45,987	533,010	10,419	112,025	2,190	25,380	519	59,216,837	1,210,352	60,616,260	1,238,955
Sep-11	2,352,702	45,990	543,600	10,626	112,033	2,190	25,890	529	58,203,341	1,189,637	59,538,870	1,216,934
Oct-11	1,932,928	37,785	435,150	8,506	101,733	1,989	22,903	448	61,018,914	1,192,789	62,401,550	1,219,817
Nov-11	2,063,439	40,336	438,720	8,576	103,172	2,017	21,936	429	55,477,230	1,084,461	56,722,550	1,108,804
Dec-11	1,888,864	36,923	394,920	7,720	89,946	1,758	18,806	368	52,322,733	1,022,797	53,486,450	1,045,546
Jan-12	2,368,722	46,303	525,710	10,277	107,669	2,105	23,896	467	59,370,389	1,160,564	60,593,470	1,184,473
Feb-12	3,278,082	64,079	699,470	13,673	163,904	3,204	34,974	684	62,332,504	1,218,467	63,566,970	1,242,598
Mar-12	2,724,821	53,264	627,170	12,260	123,856	2,421	28,508	557	60,965,176	1,191,739	62,149,410	1,214,888
2011-12	**28,108,932**	**549,469**	**6,674,980**	**130,482**	**112,887**	**2,207**	**26,807**	**524**	**60,965,176**	**1,191,739**	**62,149,410**	**1,214,888**
Apr-12	1,983,244	36,323	423,050	7,748	99,162	1,816	21,150	387	60,592,580	1,109,754	61,753,770	1,131,021
May-12	2,167,549	39,699	416,550	7,629	98,525	1,804	18,930	347	56,955,472	1,043,141	58,174,220	1,065,462
Jun-12	2,021,036	37,015	443,150	8,116	96,240	1,763	21,100	386	60,267,655	1,103,803	61,523,090	1,126,797
Jul-12	2,103,254	38,521	444,750	8,146	95,602	1,751	20,220	370	59,515,398	1,090,026	60,765,410	1,112,920
Aug-12	2,048,738	37,523	427,890	7,837	97,559	1,787	20,380	373	59,425,096	1,088,372	60,807,980	1,113,699
Sep-12	2,401,892	43,991	455,010	8,334	120,095	2,200	22,750	417	64,316,550	1,177,959	65,590,500	1,201,291
Apr-Sep'12	**12,725,714**	**233,072**	**2,610,400**	**47,810**	**100,998**	**1,850**	**20,720**	**379**	**64,316,550**	**1,177,959**	**65,590,500**	**1,201,291**

Source: BSE, NSE, SEBI

Table 4-3: Total Number of Trades in Equity Shares* (in thousands)

Exchange	End December 2010	End December 2011	End September 2012
NYSE Euronext (US)	2,050,985	1,832,922	1,058,754
Shanghai Stock Exchange	1,661,489	1,273,277	722,170
NSE	1,556,620	1,384,112	1,066,793
Shenzhen SE	1,329,288	1,030,324	731,873
Korea Exchange	921,843	1,191,124	944,790

** Year to date.*

Source : WFE Reports

World Traded Value and Market Capitalization

In 2011, the United States ranked first in terms of traded value (US $ 30,751 billion) and also in terms of market capitalization (US $ 15,641 billion). China ranked second with traded value of US $ 7,671 billion followed by Japan and the United Kingdom. In terms of market capitalization, Japan was second with a market capitalization of US $ 3,541 billion, followed by China. India ranked seventeen in terms of traded value (US $ 740 billion) and ranked eleven in market capitalization (US $ 1,015 billion) for 2011 (Table 4-4).

Table 4-4: Top 20 Countries World Value Traded and Market Capitalisation, 2011

Rank	Country	Total Value Traded (US $ mn)	Country	Total Market Capitalisation (US $ mn)
1	United States	30,750,596	United States	15,640,707
2	China	7,671,365	Japan	3,540,685
3	Japan	4,160,543	China	3,389,098
4	United Kingdom	2,971,840	Canada	1,906,589
5	Korea	2,032,862	France	1,568,730
6	Germany	1,758,185	Brazil	1,228,969
7	Hong Kong	1,551,636	United Kingdom	1,202,031
8	Canada	1,519,979	Australia	1,198,164
9	France	1,474,235	Germany	1,184,459
10	Spain	1,419,229	Spain	1,030,951
11	Australia	1,246,414	India	1,015,370
12	Russia	1,146,422	Korea	994,302
13	Brazil	961,306	Switzerland	932,207
14	Switzerland	928,119	Hong Kong	889,597
15	Italy	887,454	South Africa	855,711
16	Taiwan	866,616	Russia	796,376
17	India	740,177	Taiwan	623,412
18	Netherlands	554,303	Netherlands	594,732
19	Sweden	505,636	Sweden	470,122
20	Turkey	413,698	Italy	431,471

Source: S&P Global Stock Markets Factbook 2012

The BRIC (Brazil, Russia, India and China) economies posted a year-on-year drop of 2.5 percent in the trading value from US $ 10,788 billion in 2010 to US $ 10,519 billion in 2011 (Table 4-5). Russia witnessed the highest rise in turnover during this period, followed by Brazil. India recorded a year-on-year dip of 29.9 percent in turnover. Regarding the market capitalization of the BRIC economies, there was a drop of 28 percent at the end of December 2011 compared to the figures at the end of December 2010, as against increase of 8.7 percent at the end of December 2010 compared to the figures at the end of December, 2009. The largest drop in market capitalization was in India, followed by China and Russia. Brazilian markets witnessed shrinkage of 20.5 percent in market capitalization. The share of the BRIC economies in the total traded value of emerging economies substantially decreased to 77.9 percent in 2011 compared to 79 percent in 2010. Similarly, the share of the BRIC economies in the total world market capitalization decreased from 16.4 percent in 2010 to 14.3 percent in 2011.

Table 4-5: Market Capitalisation and Turnover of BRIC Economies

Country	Traded Value (US $ mn)				Market Capitalisation (US $ mn)			
	Dec - 09	Dec -10	Dec -11	YoY Percentage Change	Dec - 09	Dec -10	Dec - 11	YoY Percentage Change
Brazil	649,187	901,105	961,306	6.7	1,167,335	1,545,566	1,228,969	-20.5
Russia	682,540	799,688	1,146,422	43.4	861,424	1,004,525	796,376	-20.7
India	1,088,889	1,056,808	740,177	-30.0	1,179,235	1,615,860	1,015,370	-37.2
China	8,956,188	8,029,969	7,671,365	-4.5	5,007,646	4,762,837	3,389,098	-28.8
BRIC Economies	**11,376,804**	**10,787,570**	**10,519,270**	**-2.5**	**8,215,640**	**8,928,788**	**6,429,813**	**-28.0**
Emerging Market Economies	**15,975,394**	**13,656,065**	**13,508,871**	**-1.1**	**13,848,456**	**15,201,722**	**11,913,772**	**-21.6**
World Total	**81,329,729**	**65,031,978**	**66,419,276**	**2.1**	**47,379,869**	**54,511,412**	**45,082,821**	**-17.3**
Percentage share of BRIC Economies to								
1) Total turnover/ market capitalisation of Emerging Economies	71.2	79.0	77.9		59.3	58.7	54.0	
2) Total turnover/ market capitalisation of World	14.0	16.6	15.8		17.3	16.4	14.3	

Source: S&P Global Stock Markets Factbook 2012

Market Movements

The movement of a few of the selected indices presented in Table 4-6 brings out the trends witnessed in the Indian and foreign markets during 2010-2011 and 2011-2012. A global comparison of these selected indices indicates that in 2010-11, all these indices barring Nikkei 225 witnessed average returns in the range of 10-15 percent. However, in 2011-2012 all these indices depicted varied kinds of performance, US indices and Nikkei 225 managed to close in green and rest all indices closed in red compared to 2010-2011 values. The period April-September 2012 saw some mixed performance again. The S&P CNX Nifty gained 7.7 percent, while the Nikkei 225 Index lost the maximum ground, to the tune of 12.1 percent in the first six months of 2012-13.

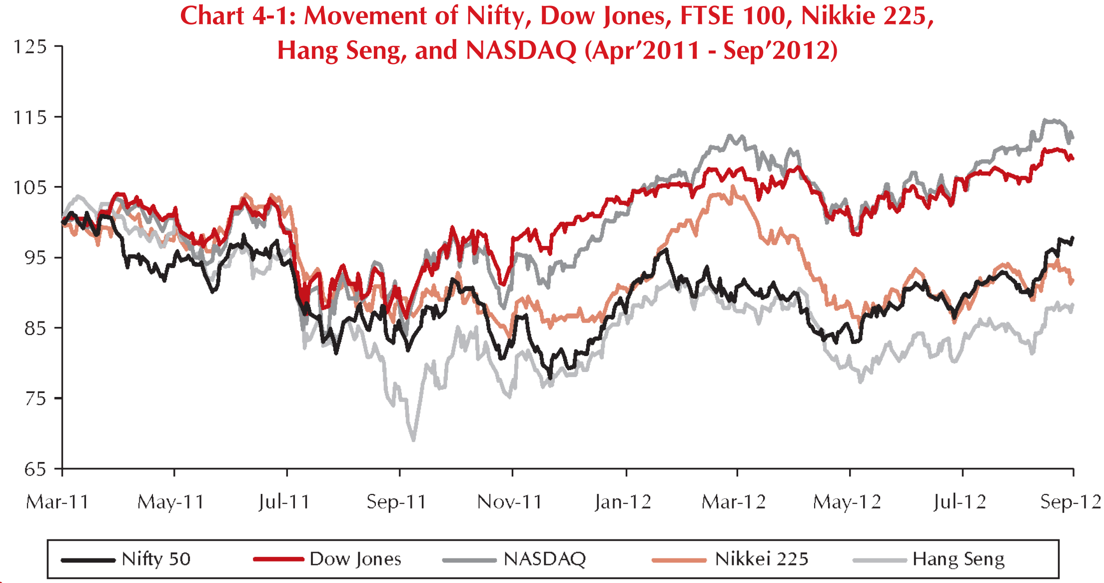
Table 4-6: Movement of Select Indices on Indian & Foreign Markets

Region	Index - Country	Index Value as on			Change during 2011-12 (Percent)	Change during Apr-Sep'12 (Percent)
		31-Mar-11	31-Mar-12	30-Sep-12		
Americas	Dow Jones - US	12319.73	13212.04	13437.13	7.2	1.7
	Nasdaq - US	2781.07	3091.57	3116.23	11.2	0.8
Europe	FTSE 100- UK	5908.80	5768.45	5742.07	-2.4	-0.5
	CAC- France	3989.18	3423.81	3354.82	-14.2	-2.0
Asia Pacific	Nifty 50 (S&P CNX Nifty)- India	5833.75	5295.55	5703.30	-9.2	7.7
	BSE Sensex- India	19445.22	17404.20	18762.74	-10.5	7.8
	Hang Seng- Hong Kong (China)	23527.52	20555.58	20840.38	-12.6	1.4
	Nikkei- Japan	9755.10	10083.56	8870.16	3.4	-12.0
	Kospi - South Korea	2106.70	2014.04	1996.21	-4.4	-0.9

Source: Bloomberg, BSE & NSE

Comparing the movement of the Nifty, SENSEX, and NASDAQ over 2010-2011 (as depicted in Chart 4-1), the Nifty 50 performed better than other Asian indices such as the Nikkie 225 and the Hang Seng Index for most of the year. The returns on the NASDAQ were 11.2 percent in 2011-2012, while that of the FTSE 100 and the Hang Seng Index declined to 2.4 percent and 12.6 percent, respectively, over the same period (Table 4-6). The Japanese stock market indicator Nikkie 225 yielded returns of 3.4 percent.

Chart 4-1: Movement of Nifty, Dow Jones, FTSE 100, Nikkie 225, Hang Seng, and NASDAQ (Apr'2011 - Sep'2012)



Source: NSE, Bloomberg

Table 4-7: Stock Market Index, Volatility and P/E Ratio: April '11 to Sep '12

Month/Year	Nifty 50			Sensex		
	Index	Volatility (Percent)**	P/E Ratio*	Index	Volatility (Percent)**	P/E Ratio*
Apr-11	5749.5	1.0	21.4	19136.0	1.1	21.1
May-11	5560.2	1.1	20.5	18503.3	1.1	19.7
Jun-11	5647.4	1.0	20.8	18845.9	1	19.4
Jul-11	5482.0	1.0	19.8	18197.2	1	19.6
Aug-11	5001.0	1.5	18.1	16676.8	1.5	18.4
Sep-11	4943.3	1.6	17.9	16453.8	1.6	18.4
Oct-11	5326.3	1.6	18.9	17705.0	1.6	18.2
Nov-11	4832.1	1.3	17.5	16123.0	1.3	17.6
Dec-11	4624.3	1.5	16.8	15455.0	1.5	16.9
Jan-12	5199.3	1.1	18.5	17194.0	1.1	17.1
Feb-12	5385.2	1.1	19.1	17753.0	1.1	18.3
Mar-12	5295.6	1.3	18.7	17404.0	1.3	17.9
Apr-12	5248.2	0.8	18.1	17318.8	0.8	17.6
May-12	4924.3	1.0	16.7	16218.5	1.0	16.5
Jun-12	5278.9	1.1	17.5	17430.0	1.1	16.4
Jul-12	5229.0	0.9	17.1	17236.2	0.9	16.7
Aug-12	5258.5	0.6	17.6	17429.6	0.6	16.7
Sep-12	5703.3	1.0	19.2	18762.7	0.9	16.7

* *As on the last trading day of the month.*

** *Volatility is calculated as standard deviation of the natural log of returns of indices for the respective period.*

Source: BSE, NSE, SEBI

The volatility across the different sectoral indices for the period April 2011 to September 2012 varied widely, as shown in Table 4-9. The CNX IT index was the most volatile index with the highest volatility among the sectoral indices during most of the months. August 2011 saw the highest volatility of 2.7 percent in this index.

Returns in Indian Market

The performance of the Nifty 50 and various other indices for the last one month to 12 months (as at the end of March 2012 and September 2012) is presented in Table 4-8. Over a 1-year horizon for the period ending March 2012, all the indices showed negative returns in the range of 4 percent to 20 percent, with the largest loss recorded by the S & P CNX Defty index on account of rupee depreciation. Whereas 6-month and 3-month returns were positive for all the indices as at the end of March 2011. As at the end of September 2012, the 1-year returns indicate that all the indices were in green. The S&P CNX Nifty index generated returns of more than 15 percent in September 2012 compared to the figures in September 2011.

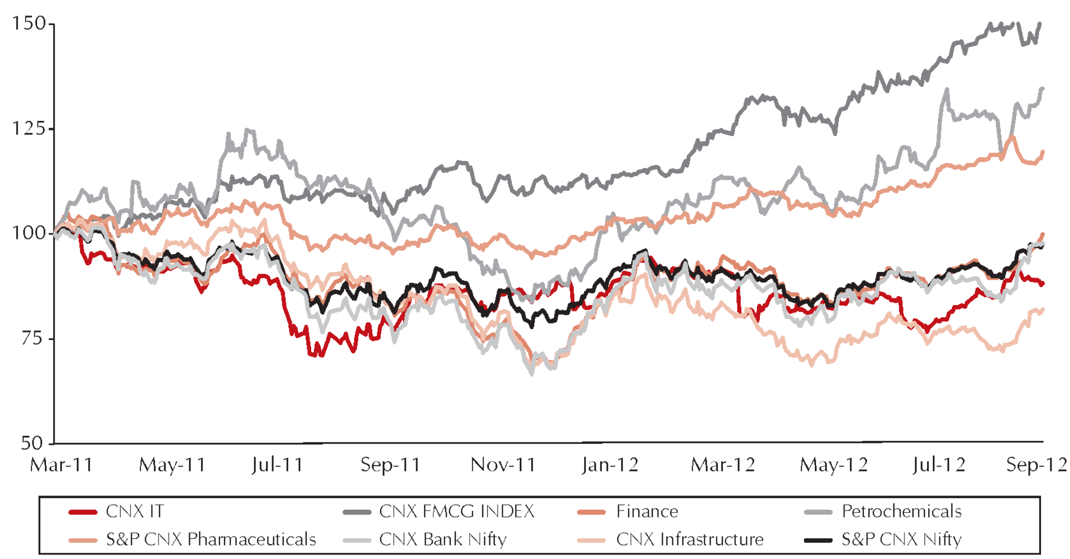
Table 4-8: Performance of Select Indices - NSE

As at end March 2012- in percent				
Indices	**1 month**	**3 month**	**6 month**	**1 year**
S&P CNX Nifty	-1.66	14.52	7.13	-9.23
S&P CNX 500	-1.26	17.35	6.12	-8.75
S&P CNX Defty	-5.26	20.02	3.15	-20.47
CNX Nifty Junior	0.12	25.41	6.39	-7.35
CNX Midcap	0.08	26.17	8.70	-4.09
As at end Sep 2012 - in percent				
Indices	**1 month**	**3 month**	**6 month**	**1 year**
S&P CNX Nifty	8.46	8.04	7.70	15.38
S&P CNX 500	9.07	8.00	6.69	13.22
S&P CNX Defty	14.69	14.86	4.09	7.37
CNX Nifty Junior	11.63	9.34	5.67	12.43
CNX Midcap	10.96	6.65	1.67	10.52

Source: NSE

The comparative performance of the seven major sectoral indices-the Petrochemicals Index, the Finance Index, the CNX FMCG Index, the S&P CNX Pharma Index, the CNX Infrastructure Index, the CNX Bank Nifty and the CNX IT Index-with the Nifty 50 Index for the period April 2011 to September 2012 is presented in Chart 4-2. During the early part of the financial year 2011-2012, indices such as the S&P CNX FMCG and the CNX Petrochemicals outperformed the other sectoral indices by generating higher returns. However, during the same period, the CNX Infrastructure and CNX IT grossly underperformed the benchmark S&P CNX Nifty and the other sectoral indices to trade at a year-end low. Except for the CNX Infrastructure, all the other sectoral indices performed better by generating higher returns than the S&P CNX Nifty.

Chart 4-2: Movement of Nifty 50 and Sectoral Indices (April 2011 to September 2012)



Source: NSE

The monthly closing prices of these sectoral indices are presented in Table 4-9.

Table 4-9: Performance of Sectoral Indices

Month/ Year	Monthly Index value*						Average Daily Volatility (percent)					
	S&P CNX Nifty	CNX FMCG	CNX IT	Finance	S&P CNX Pharma-ceuticals	S&P CNX Petro-chemicals	S&P CNX Nifty	CNX FMCG	CNX IT	S&P CNX Finance	S&P CNX Petro-chemi-cals	S&P CNX Phar-maceu-ticals
Mar-11	5,834	9,188	7,148	4,291	7,701	8,367	1.3	1.0	1.5	1.3	1.4	1.1
Apr-11	5,750	9,585	6,718	4,318	7,977	9,029	1.0	0.8	2.0	1.0	1.2	0.5
May-11	5,560	9,828	6,539	3,986	8,136	9,133	1.1	1.1	0.8	1.5	2.1	1.1
Jun-11	5,647	10,369	6,625	3,962	8,135	9,606	1.0	1.1	1.3	1.0	1.4	0.8
Jul-11	5,482	10,436	6,335	4,141	8,172	9,859	1.0	0.9	1.1	1.1	1.8	0.9
Aug-11	5,001	10,050	5,451	3,714	7,587	9,435	1.5	1.1	2.7	1.7	1.6	1.1
Sep-11	4,943	9,948	5,679	3,592	7,475	8,719	1.6	1.2	2.2	1.3	1.1	0.8
Oct-11	5,327	10,670	6,279	3,694	7,820	8,882	1.6	1.1	2.1	1.2	1.5	0.8
Nov-11	4,832	10,271	5,893	3,230	7,641	7,844	1.3	1.0	1.2	1.1	1.5	0.8
Dec-11	4,624	10,217	6,139	2,984	7,368	7,405	1.5	0.9	1.2	1.3	1.6	0.7
Jan-12	5,199	10,328	6,194	3,571	7,909	8,704	1.1	0.9	1.8	1.2	1.6	0.6
Feb-12	5,385	10,560	6,607	3,952	7,919	8,558	1.1	0.5	0.9	1.7	1.5	0.6
Mar-12	5,296	11,426	6,516	3,910	8,257	9,433	1.3	0.9	1.1	1.3	1.2	0.9
Apr-12	5,248	12,140	6,085	3,948	8,458	8,973	0.9	0.8	2.6	0.9	0.9	0.5
May-12	4,924	11,646	6,009	3,659	8,195	8,965	1.0	1.2	1.0	1.1	1.0	0.6
Jun-12	5,279	12,729	6,145	3,809	8,460	9,915	1.1	1.2	0.8	0.9	1.3	0.8
Jul-12	5,229	12,893	5,695	3,833	8,779	10,057	0.9	1.1	1.5	0.9	1.2	0.5
Aug-12	5,259	13,642	6,072	3,847	9,153	10,749	0.6	0.8	0.9	0.7	1.7	0.4
Sep-12	5,703	14,136	6,314	4,290	9,208	11,266	1.0	1.3	1.1	0.7	1.6	0.9

* *Closing index value as of last day of month.*

Source: NSE

Liquidity

During 2011-12, the percentage of companies traded to companies listed on NSE was 93.1 percent while at BSE it was 58 percent. During the period April 2012 to September 2012 58.3 percent of the companies traded on the BSE, while 92.8 percent of the companies traded on the NSE (Table 4-10).

Table 4-10: Trading Frequency on NSE & BSE

Month/ Year	NSE			BSE		
	Companies Available for Trading*	Companies Traded	Percent of Traded to Available for Trading	Companies Available for Trading*	Companies Traded	Percent of Traded to Available for Trading
Apr-11	1,578	1,453	92.1	5,069	2,977	58.7
May-11	1,585	1,463	92.3	5,078	2,922	57.5
Jun-11	1,599	1,474	92.2	5,085	2,968	58.4
Jul-11	1,606	1,478	92.0	5,096	2,976	58.4
Aug-11	1,615	1,489	92.2	5,086	2,921	57.4
Sep-11	1,622	1,495	92.2	5,092	2,851	56.0
Oct-11	1,631	1,510	92.6	5,102	2,934	57.5
Nov-11	1,633	1,512	92.6	5,105	2,832	55.5
Dec-11	1,640	1,520	92.7	5,112	2,896	56.7
Jan-12	1,641	1,520	92.6	5,115	2,931	57.3
Feb-12	1,644	1,523	92.6	5,122	3,010	58.8
Mar-12	1,646	1,533	93.1	5,133	2,977	58.0
Apr-12	1,649	1,529	92.7	5,133	2,853	55.6
May-12	1,651	1,530	92.7	5,140	2,694	52.4
Jun-12	1,648	1,532	93.0	5,141	2,952	57.4
Jul-12	1,652	1,532	92.7	5,149	2,835	55.1
Aug-12	1,652	1,535	92.9	5,157	2,903	56.3
Sep-12	1,657	1,538	92.8	5,163	3,010	58.3

** At the end of the month. Includes listed/permitted to trade companies but excludes suspended companies.*
Source: NSE and SEBI

The share of companies that traded on the BSE for more than 100 days in 2011-2012 has come down to 81.3 percent from 85.4 percent recorded in 2010-2011; on the NSE, it has increased to 94 percent from 93.7 percent in 2010-2011 (Table 4-11). During the year 2011-2012, out of 3,923 companies that were listed on the BSE, 8.2 percent witnessed trading for less than 11 days compared to 2.7 percent of the NSE companies that witnessed trading for less than 11 days.

Table 4-11: Trading Frequency of Listed Stocks

Trading Frequency (Range of Days)	2010-11				2011-12			
	BSE		NSE		BSE		NSE	
	No. of Shares Traded	Percentage of Total	No. of Shares Traded	Percentage of Total	No. of Shares Traded	Percentage of Total	No. of Shares Traded	Percentage of Total
Above 100	3,203	85.4	1,444	93.7	3,190	81.3	1,530	94.0
91-100	28	0.7	7	0.5	37	0.9	5	0.3
81-90	21	0.6	5	0.3	43	1.1	8	0.5
71-80	31	0.8	7	0.5	39	1.0	7	0.4
61-70	35	0.9	11	0.7	35	0.9	5	0.3
51-60	33	0.9	5	0.3	45	1.1	6	0.4
41-50	26	0.7	6	0.4	56	1.4	3	0.2
31-40	29	0.8	8	0.5	53	1.4	3	0.2
21-30	19	0.5	8	0.5	53	1.4	8	0.5
11-20	57	1.5	11	0.7	50	1.3	8	0.5
1-10	270	7.2	29	1.9	322	8.2	44	2.7
Total	**3,752**	**100.0**	**1,541**	**100.0**	**3,923**	**100.0**	**1,627**	**100.0**

Source: BSE, NSE

Takeovers

In 2011-2012, there were 71 takeovers under the open category involving ₹ 193 billion (US $ 3.8 billion) as against 102 takeovers involving ₹ 193 billion (US $ 4 billion) in the preceding year (Table 4-12). Under the exempted category, there were 205 takeovers involving ₹ 121 billion (US $ 2.4 billion) as against 410 takeovers involving ₹ 280 billion (US $ 6.3 billion) in the previous year.

Table 4-12: Substantial Acquisition of Shares and Takeovers

Year	Open Offers									Automatic Exemption		
	Objectives						Total			No.	Value of Shares Acquired	
	Change in Control of Management		Consolidation of Holdings		Substantial Acquisition							
	No.	Value (₹ mn)	No.	Value (₹ mn)	No.	Value (₹ mn)	No.	Value (₹ mn)	Value (US $ mn)		(₹ mn)	(US $ mn)
1994-95	0	0	1	1,140	1	42	2	1,182	–	--	--	–
1995-96	4	301	4	255	0	0	8	556	–	--	--	–
1996-97	11	118	7	783	1	23	19	924	–	--	--	–
1997-98	18	1,429	10	3,398	13	956	41	5,784	–	93	35,022	–
1998-99	29	997	24	4,163	12	3,271	65	8,430	199	201	18,881	445
1999-00	42	2,588	9	711	23	1,300	74	4,599	105	252	46,774	1,072
2000-01	70	11,404	5	1,890	2	425	77	13,719	294	248	48,732	1,045
2001-02	54	17,562	26	18,152	1	390	81	36,104	740	276	25,390	520
2002-03	46	38,144	40	25,733	2	14	88	63,891	1,345	238	24,284	511
2003-04	38	3,952	16	1,966	11	10,030	65	15,948	368	171	14,357	331
2004-05	35	35,030	12	1,650	14	9,640	61	46,320	1,059	212	69,580	1,590
2005-06	78	32,520	9	1,190	15	7,090	102	40,800	915	245	171,320	3,840
2006-07	66	67,710	15	44,980	6	830	87	113,520	2,604	223	186,080	4,269
2007-08	78	116,570	28	132,540	8	37,960	114	287,070	7,182	232	64,580	1,616
2008-09	80	37,130	13	5,980	6	4,000	99	47,110	925	227	105,020	2,061
2009-10	56	36,490	14	17,610	6	4,480	76	58,580	1,298	206	138,640	3,071
2010-11	71	102,510	17	89,020	14	1,450	102	192,980	4,322	410	280,420	6,280
2011-12	**57**	**187,260**	**8**	**2,860**	**6**	**2,940**	**71**	**193,060**	**3,774**	**205**	**121,190**	**2,369**
Apr-Sep'12	**13**	**7,690**	**7**	**1,800**	**19**	**16,210**	**39**	**25,690**	**471**	**------**		
Total	**846**	**699,406**	**262**	**355,821**	**160**	**101,051**	**1,271**	**1,156,268**	**25,599**	**------**		

Source: SEBI

Annexure 4-1: Business Growth of Cash Market Segment of NSE

Month/Year	No. of Trading Days	No. of Companies Traded	No. of Trades (mn)	Traded Quantity (mn)	Demat Turnover (₹ mn)	Market Capitalisation (₹ mn) *
2001-02	247	1,019	175	27,841	5,128,661	6,368,610
2002-03	251	899	240	36,407	6,179,845	5,371,332
2003-04	254	804	379	71,330	10,995,339	11,209,760
2004-05	253	856	451	79,769	11,400,720	15,855,853
2005-06	251	928	609	84,449	15,695,579	28,132,007
2006-07	249	1,114	785	85,546	19,452,865	33,673,500
2007-08	251	1,244	1,173	149,847	35,510,382	48,581,217
2008-09	243	1277	1,365	142,635	27,520,230	28,961,942
2009-10	244	1,359	1,682	221,553	41,380,234	60,091,732
2010-11	255	1,483	1,551	182,451	35,774,098	67,026,156
Apr-11	18	1,453	107	12,943	2,283,484	67,536,144
May-11	22	1,463	115	11,586	2,338,760	65,697,427
Jun-11	22	1,474	116	12,230	2,224,571	65,747,432
Jul-11	21	1,478	116	12,259	2,300,025	64,622,377
Aug-11	21	1,489	124	13,311	2,352,534	59,216,837
Sep-11	21	1,495	123	13,230	2,352,702	58,203,341
Oct-11	19	1,510	101	10,120	1,932,928	61,018,914
Nov-11	20	1,512	111	12,380	2,063,439	55,477,230
Dec-11	21	1,520	108	11,511	1,888,864	52,322,733
Jan-12	22	1,520	131	14,830	2,368,722	59,370,389
Feb-12	20	1,523	154	20,799	3,278,082	62,332,504
Mar-12	22	1,533	133	16,498	2,724,821	60,965,176
2011-12	**249**	**1,551**	**1,438**	**161,698**	**28,108,930**	**60,965,176**
Apr-12	20	1,529	100	11,676	1,983,244	60,592,580
May-12	22	1,530	114	13,000	2,167,549	56,955,472
Jun-12	21	1,532	106	12,502	2,021,036	60,267,655
Jul-12	22	1,532	110	13,820	2,103,254	59,515,398
Aug-12	21	1,535	106	12,185	2,048,738	59,425,096
Sep-12	20	1,538	117	14,380	2,401,892	64,316,550
Apr-Sep'12	**126**	**1,558**	**652**	**77,562**	**12,725,714**	**64,316,550**

**At the end of the period.*
Source: NSE

5. Debt Market

Introduction

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

The g-secs are the most dominant category of debt markets and form a major part of the market in terms of outstanding issues, market capitalization, 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 OTC derivatives in interest rate products exists. The exchange-traded interest rate derivatives that were introduced recently are debt instruments; this market is currently small, and would gradually pick up in the years to come.

Trends

In 2011-12, the government and the corporate sector collectively mobilized ₹ 10,462 billion (US $ 205 billion) from the primary debt market, an increase of 33.3 percent compared to the preceding year's numbers (Table 5-1). About 72.6 percent of the resources were raised by the government (the central and the state governments), while the balance was mobilized by the corporate sector through public and private placement issues. The turnover in the secondary debt market in 2011-12 aggregated ₹ 75,191 billion (US $ 1,470 million), 4 percent higher than that in the previous fiscal year.

Table 5-1: Debt Market: Selected Indicators

Issuer / Securities	Amount raised from Primary Market		Turnover in Secondary Market		Amount raised from Primary Market		Turnover in Secondary Market	
	(₹ bn)		(₹ bn)		(US $ bn)		(US $ bn)	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
Government	5,834	7,591	70,683	73,431	131	148	1,583	1,435
Corporate/Non Government	2,017	2,871	1,592	1,761	45	56	36	34
Total	**7,851**	**10,462**	**72,274**	**75,191**	**176**	**205**	**1,619**	**1,470**

Source : BSE, Primedatabase, RBI and NSE

Primary Market

In 2011-12, the central government and the state governments borrowed ₹ 6,004 billion (US $ 117 billion) and ₹ 1,588 billion (US $ 31 billion), respectively. The gross borrowings of the central and the state governments taken together were budgeted 30.1 percent higher, from ₹ 5,835 billion (US $ 131 billion) in 2010-11 to ₹ 7,592 billion (US $ 148 billion) in 2011-12 (Table 5-2). Their net borrowings also increased by 49.7 percent, from ₹ 4,147 billion (US $ 93 billion) in 2010-11 to ₹ 6,211 billion (US $ 121 billion) in 2011–2012.

Table 5-2: Market Borrowings of Central and Sate Governments

Type of Government	Gross Borrowings				Net Borrowings			
	2010-11 (₹ bn)	2010-11 US $ bn	2011-12 (₹ bn)	2011-12 (US $ bn)	2010-11 (₹ bn)	2010-11 (US $ bn)	2011-12 (₹ bn)	2011-12 (US $ bn)
Central	4,795	107	6,004	117	3,264	73	4,843	95
State	1,040	23	1,588	31	883	20	1,368	27
Total	**5,835**	**131**	**7,592**	**148**	**4,147**	**93**	**6,211**	**121**

Source: RBI

The gross amounts raised through dated securities and 364-day treasury bills by Central government in 2011–2012 was higher by around 25 percent, respectively, compared to the amounts raised in the previous year.[1] The increase in actual market borrowings compared to the budget estimate was higher for the central government compared to the previous year. The central government's gross market borrowing through dated securities was budgeted at ₹ 4,171 billion, which was increased in two stages (September and December 2011) to ₹ 5,100 billion (net ₹ 3,254 billion) in 2010-11. The net market borrowing of the central government amounted to ₹ 4,843 billion (US $ 95 billion) in 2011–2012, compared to the net borrowings of ₹ 3,264 billion (US $ 73 billion) in 2010-11. The increase in net market borrowings by Central and State government was necessitated by the shortfall in financing from other sources (such as small savings, disinvestment proceeds, etc.) and accelerated expenditure on account of two supplementary demands for grants.

With continuing inflationary pressure in 2011-12, RBI increased the key policy rates by 175 basis points in five stages. Liquidity conditions remained tight with a worsening in the last four months of 2011-12 while there was an increase in government borrowing. The RBI conducted the market borrowing programme with the objective of minimizing the cost of borrowing for the government while pursuing debt maturity profiles that posed a low rollover risk.[2]

The state governments collectively raised ₹ 1,588 billion (US $ 31 billion) in 2011–2012 as against ₹ 1,040 billion (US $ 23 billion) in the preceding year. The net borrowings of the state governments in 2011–2012 were higher by 54.6 percent, and amounted to ₹ 1,368 billion (US $ 20 billion) (Table 5-2).

Secondary Market

Turnover

The aggregate secondary market transactions in debt securities (including government and non-government securities) increased by 4 percent to ₹ 75,192 billion (US $ 1,470 billion) in 2011-12 from ₹ 72,275 billion (US $ 1,619 billion) in 2010–2011. Non-government securities accounted for a meager 2.2 percent of the total turnover in the debt market. The NSE accounted for about 2.3 percent of the total turnover in debt securities (in both g-sec and non-g-sec securities) in 2011–2012 (Table 5-3).

[1] Source: RBI Annual Report 2011-12, Chapter VII on Public Debt Management.
[2] Source: RBI Annual Report 2011-12

Table 5-3: Turnover of Debt Securities

Securities	2010-11	2011-12	2010-11	2011-12
	(₹ bn)		(US $ bn)	
Government Securities*	**70,683**	**73,431**	**1,583**	**1,435**
WDM Segment of NSE	4,035	4,644	90	80
Rest of SGL	66,647	68,787	1,493	1,356
Non Government Securities	**1,592**	**1,761**	**36**	**34**
CM Segment of NSE	30	36	0.7	0.7
WDM Segment of NSE	1,559	1,688	35	33
'F' Category of BSE	3	36	0.1	0.7
Total	**72,275**	**75,192**	**1,619**	**1,470**

** includes NDS-OM turnover.*
Source: RBI, BSE and NSE

The non-government securities are traded on the WDM and the CM segments of the NSE, and on the BSE (F Category). Except for the WDM, the volumes were quite insignificant on the other segments of the non-government securities. The turnover in the non-government securities on the WDM segment of the NSE was ₹ 1,688 billion (US $ 33 billion) in 2011–2012, which was higher by 8.3 percent than that during the preceding year. The BSE reported a turnover of ₹ 36 billion (US $ 0.7 billion) in 2011–2012. Both exchanges accounted for 2.1 percent of the total turnover in non-government securities during the year (Table 5-4).

The aggregate turnover in central and state government dated securities and t-bills through non-repo SGL transactions touched ₹ 7,802,466 million (US $ 152,496 million) in 2011–2012, recording an increase of 10.2 percent from ₹ 7,083,067 million (US $ 158,635 million) in the previous year. The monthly turnover in non-repo transactions for the year 2011-12 ranged between ₹ 377,636 million (US $ 7,381 million) and ₹ 1,051,788 million (US $ 20,557 million) (Table 5-4).

Table 5-4: Secondary Market Transactions in Government Securities

Month/ Year	SGL Non-Repo Transactions				Share in Non-Repo Turnover (in percent)	
	GOI Securities	Treasury Bills	Total	Total	GOI Securities	T-Bills
	(₹ mn)			(US $ mn)		
2000-01	5,120,836	600,620	5,721,456	122,673	89.5	10.5
2001-02	11,446,342	673,316	12,119,658	248,354	94.4	5.6
2002-03	13,155,989	767,845	13,923,834	293,133	94.5	5.5
2003-04	15,813,076	1,200,556	17,013,632	392,110	92.9	7.1
2004-05	9,897,351	2,711,314	12,608,665	288,198	78.5	21.5
2005-06	4,986,040	2,094,107	12,066,187	270,482	41.3	17.4
2006-07	2,747,384	1,235,603	3,982,988	91,374	69.0	31.0
2007-08	3,541,760	1,461,287	5,003,047	125,170	70.8	29.2
2008-09	5,427,749	1,217,740	6,645,488	130,432	81.7	18.3
2009-10	6,304,237	2,714,149	9,018,385	199,787	69.9	30.1
2010-11	5,137,117	1,945,950	7,083,067	158,635	72.5	27.5
Apr-11	244,240	188,116	432,356	8,450	56.5	43.5
May-11	305,108	167,750	472,858	9,242	64.5	35.5
Jun-11	358,075	243,236	601,311	11,752	59.5	40.5

Contd.

Contd.

Month/ Year	SGL Non-Repo Transactions				Share in Non-Repo Turnover (in percent)	
	GOI Securities	Treasury Bills	Total	Total	GOI Securities	T-Bills
	(₹ mn)			(US $ mn)		
Jul-11	433,247	237,809	671,056	13,116	64.6	35.4
Aug-11	531,751	125,783	657,534	12,851	80.9	19.1
Sep-11	494,474	181,234	675,709	13,206	73.2	26.8
Oct-11	257,329	120,306	377,636	7,381	68.1	31.9
Nov-11	316,183	141,261	457,443	8,941	69.1	30.9
Dec-11	697,221	306,481	1,003,703	19,617	69.5	30.5
Jan-12	802,370	249,419	1,051,788	20,557	76.3	23.7
Feb-12	553,064	208,833	761,897	14,891	72.6	27.4
Mar-12	370,695	268,480	639,175	12,492	58.0	42.0
2011-12	**5,363,758**	**2,438,708**	**7,802,466**	**152,496**	**68.7**	**31.3**
Apr-12	448,837	273,916	722,753	13,237	62.1	37.9
May-12	584,586	263,514	848,100	15,533	68.9	31.1
Jun-12	899,763	287,861	1,187,624	21,751	75.8	24.2
Jul-12	680,849	244,449	925,298	16,947	73.6	26.4
Aug-12	571,901	285,822	857,723	15,709	66.7	33.3
Sep-12	665,591	191,663	857,255	15,701	77.6	22.4
Apr-Sep'12	**3,851,528**	**1,547,226**	**5,398,753**	**98,878**	**71.3**	**28.7**

Source : NSE

The share of the WDM segment of the NSE in the total turnover of non-repo SGL transactions increased substantially in 2010–2011 to 57 percent from 46.8 percent in 2009-2010. If further increased to 59.5 percent in 2011-2012 (Table 5-5). The share of the WDM in the turnover of non-repo dated securities (central and state government securities) also witnessed an increase from 59.3 percent in 2010-2011 to 60.6 percent in 2011–2012. The share of the WDM in the turnover of non-repo t-bills increased to 57.2 percent in 2011–2012 as compared to 50.7 percent in the preceding year.

Table 5-5: Share of WDM in Transactions of Government Securities

Year	Turnover of Non-Repo Govt Securities			Turnover of Non-Repo Central & State Govt Securities			Turnover of Non-Repo T-Bills		
	On SGL (₹ mn)	On WDM (₹ mn)	Share of WDM (in percent)	On SGL (₹ mn)	On WDM (₹ mn)	Share of WDM (in percent)	On SGL (₹ mn)	On WDM (₹ mn)	Share of WDM (in percent)
2000-01	5,721,456	4,124,958	72.1	5,120,836	3,893,523	62.9	600,620	231,435	38.5
2001-02	12,119,658	9,269,955	76.5	11,446,342	9,015,121	60.9	673,316	254,834	37.8
2002-03	13,923,834	10,305,497	74.0	13,155,989	9,991,507	55.4	767,845	313,990	40.9
2003-04	17,013,632	12,741,190	74.9	15,813,076	12,185,221	49.0	1,200,556	555,969	46.3
2004-05	12,608,667	8,493,250	67.4	9,902,244	7,246,655	73.2	2,706,422	1,246,595	46.1
2005-06	7,080,147	4,508,016	63.7	4,986,040	3,455,832	69.3	2,094,107	1,052,184	50.2

Contd.

Contd.

Year	Turnover of Non-Repo Govt Securities			Turnover of Non-Repo Central & State Govt Securities			Turnover of Non-Repo T-Bills		
	On SGL (₹ mn)	On WDM (₹ mn)	Share of WDM (in percent)	On SGL (₹ mn)	On WDM (₹ mn)	Share of WDM (in percent)	On SGL (₹ mn)	On WDM (₹ mn)	Share of WDM (in percent)
2006-07	3,982,988	2,053,237	51.6	2,747,384	1,533,697	55.8	1,235,603	519,540	42.0
2007-08	5,003,047	2,604,088	52.1	3,541,760	1,944,140	54.9	1,461,287	659,948	45.2
2008-09	6,645,488	2,911,124	43.8	5,427,749	2,342,884	43.2	1,217,740	568,241	46.7
2009-10	9,018,385	4,217,022	46.8	6,304,237	3,285,111	52.1	2,714,149	931,911	34.3
2010-11	7,083,067	4,035,492	57.0	5,137,117	3,048,360	59.3	1,945,950	987,131	50.7
Apr-11	432,356	278,657	64.5	244,240	182,509	74.7	188,116	96,148	51.1
May-11	472,858	281,458	59.5	305,108	166,205	54.5	167,750	115,253	68.7
Jun-11	601,311	348,635	58.0	358,075	235,827	65.9	243,236	112,809	46.4
Jul-11	671,056	311,206	46.4	433,247	185,219	42.8	237,809	125,987	53.0
Aug-11	657,534	411,680	62.6	531,751	361,761	68.0	125,783	49,920	39.7
Sep-11	675,709	397,717	58.9	494,474	316,276	64.0	181,234	81,441	44.9
Oct-11	377,636	235,827	62.4	257,329	178,555	69.4	120,306	57,272	47.6
Nov-11	457,443	292,950	64.0	316,183	181,696	57.5	141,261	111,254	78.8
Dec-11	1,003,703	719,714	71.7	697,221	455,740	65.4	306,481	263,975	86.1
Jan-12	1,051,788	609,965	58.0	802,370	472,625	58.9	249,419	137,340	55.1
Feb-12	761,897	372,102	48.8	553,064	286,476	51.8	208,833	85,626	41.0
Mar-12	639,175	383,949	60.1	370,695	225,785	60.9	268,480	158,164	58.9
2011-12	**7,802,466**	**4,643,860**	**59.5**	**5,363,758**	**3,248,673**	**60.6**	**2,438,708**	**1,395,187**	**57.2**
Apr-12	722,753	385,880	53.4	448,837	213,432	47.6	273,916	172,448	63.0
May-12	848,100	398,578	47.0	584,586	261,094	44.7	263,514	137,484	52.2
Jun-12	1,187,624	573,065	48.3	899,763	399,267	44.4	287,861	173,798	60.4
Jul-12	925,298	506,007	54.7	680,849	346,544	50.9	244,449	159,464	65.2
Aug-12	857,723	335,197	39.1	571,901	186,890	32.7	285,822	148,307	51.9
Sep-12	857,255	510,160	59.5	665,591	355,322	53.4	191,663	154,838	80.8
Apr-Sep'12	**5,398,753**	**2,708,887**	**50.2**	**3,851,528**	**1,762,547**	**45.8**	**1,547,226**	**946,340**	**61.2**

Note : SGL Non-Repo Turnover excludes NDS-OM turnover.
Source: NSE

Settlement of Trades in Government Securities

In 2011-2012, 442,072 trades in government securities amounting to ₹ 72,520,800 million (US $ 1,417,391 million) were settled by the CCIL. Of the total trades, 93.3 percent of the trades were outright transactions, and the rest were repo (Table 5-6).

Table 5-6: Settlement of Trades in Government Securities

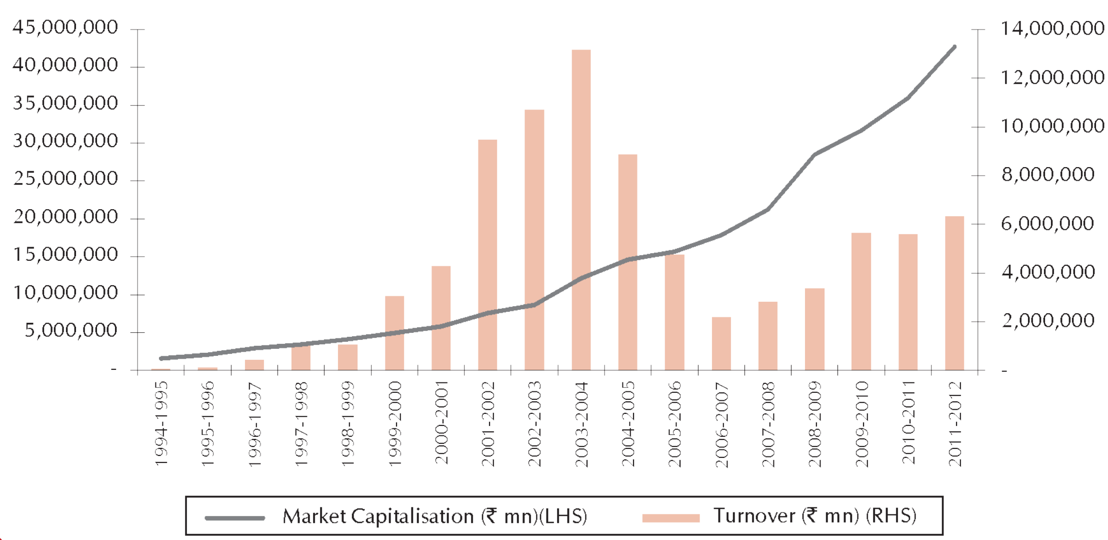
Month	Outright Transactions		Repo Transactions		Total		
	No. of Trades	Amount (Face Value in ₹ mn)	No. of Trades	Amount (Face Value in ₹ mn)	No. of Trades	Amount (Face Value in ₹ mn)	Amount (Face Value in US $ mn)
2001-02	7,131	389,190	524	159,300	7,655	548,480	11,239
2002-03	191,843	10,761,470	11,672	4,682,290	203,515	15,443,760	325,132
2003-04	243,585	15,751,330	20,972	9,431,890	264,512	25,183,220	580,392
2004-05	160,682	11,342,221	24,364	15,579,066	185,046	26,921,287	615,344
2005-06	125,509	8,647,514	25,673	16,945,087	151,182	25,592,601	573,697
2006-07	137,100	10,215,357	29,008	25,565,014	166,108	35,780,371	802,071
2007-08	188,843	16,538,512	26,612	39,487,508	215,455	56,026,020	1,401,702
2008-09	245,964	21,602,334	24,280	40,942,858	270,244	62,545,192	1,227,580
2009-10	316,956	29,138,900	28,651	60,728,290	345,607	89,867,190	1,990,855
2010-11	332,540	28,709,520	27,409	40,992,840	359,949	69,702,360	1,561,083
2011-12	**412,266**	**34,882,030**	**29,806**	**37,638,770**	**442,072**	**72,520,800**	**1,417,391**
Apr-Sep'12	**299,119**	**28,012,270**	**20,734**	**24,619,880**	**319,853**	**52,632,150**	**963,959**

Source: CCIL

Turnover in WDM Segment of NSE

In 2011-2012, the turnover in the WDM segment of the NSE (of g-secs, t-bills, PSU bonds, and others) registered an increase of 13.2 percent to ₹ 6,331,786 million (US $ 123,752 million) from ₹ 5,594,468 million (US $ 125,296 million) in 2010-11. The average daily turnover also increased from ₹ 22,558 million (US $ 505 million) to ₹ 26,493 million (US $ 518 million) in the same period (Annexure 5-1).

Chart 5-1: Business Growth of WDM Segment



Source: NSE

The summary statement of the business growth of the WDM segment is presented in Annexure 5-1 and Chart 5-1. The highest turnover of ₹ 893,369 million (US $ 17,461 million) was witnessed in December 2011 during the fiscal year 2011-12. The average daily turnover ranged between ₹ 17,310 million (US $ 338 million) and ₹ 42,541 million (US $ 831 million).

Securities Profile

The turnover in government securities decreased by 4.9 percent in 2011–2012 compared to the previous year, and accounted for a turnover of ₹ 2,899,958 million (US $ 56,688 million). Its share in the total turnover was 51.3 percent in 2011–2012 (Table 5-7). The share of T-Bills in the WDM turnover accounted for a 22 percent share in 2011–2012 (Chart 5-2).

Table 5-7: Security-wise Distribution of WDM Turnover

Month/Year	Turnover (₹ mn)					Turnover (percent)			
	Government Securities	T-Bills	PSU/ Inst. Bonds	Others	Total WDM Turnover	Government Securities	T-Bills	PSU/ Inst. Bonds	Others
1994-95 (June-March)	30,264	26,337	8,239	2,970	67,812	44.6	38.8	12.2	4.4
1995-96	77,294	22,596	11,495	7,292	118,677	65.1	19.0	9.7	6.1
1996-97	273,522	109,570	27,692	11,992	422,776	64.7	25.9	6.6	2.8
1997-98	847,159	188,703	40,500	36,272	1,112,633	76.1	17.0	3.6	3.3
1998-99	845,757	107,051	50,414	51,469	1,054,691	80.2	10.2	4.8	4.9
1999-00	2,828,906	110,126	48,675	54,455	3,042,162	93.0	3.6	1.6	1.8
2000-01	3,909,520	231,434	78,859	66,002	4,285,815	91.2	5.4	1.8	1.5
2001-02	9,021,049	255,742	109,874	86,194	9,471,912	95.2	2.7	1.2	0.9
2002-03	10,005,182	322,748	199,847	159,237	10,687,014	93.6	3.0	1.9	1.5
2003-04	12,187,051	556,709	271,116	146,087	13,160,962	92.6	4.2	2.1	1.1
2004-05	7,248,302	1,248,422	178,346	197,866	8,872,936	81.7	14.1	2.0	2.2
2005-06	3,455,629	1,052,333	121,734	125,538	4,755,235	72.7	22.1	2.6	2.6
2006-07	1,533,697	519,541	44,178	93,648	2,191,065	70.0	23.7	2.0	4.3
2007-08	1,943,470	660,622	92,318	126,760	2,823,170	68.8	23.4	3.3	4.5
2008-09	2,342,884	568,239	300,080	148,313	3,359,515	69.7	16.9	8.9	4.4
2009-10	3,278,374	929,611	868,329	561,845	5,638,159	58.1	16.5	15.4	10.0
2010-11	3,048,360	987,131	1,095,855	463,121	5,594,468	54.5	17.6	19.6	8.3
Apr-11	182,509	96,148	78,084	40,777	397,518	45.9	24.2	19.6	10.3
May-11	166,205	115,253	53,509	28,537	363,504	45.7	31.7	14.7	7.9
Jun-11	235,827	112,809	105,312	54,284	508,231	46.4	22.2	20.7	10.7
Jul-11	185,219	125,987	100,311	58,213	469,731	39.4	26.8	21.4	12.4
Aug-11	361,761	49,920	100,163	36,415	548,258	66.0	9.1	18.3	6.6
Sep-11	316,276	81,441	80,985	24,443	503,145	62.9	16.2	16.1	4.9
Oct-11	178,555	57,272	100,089	26,902	362,818	49.2	15.8	27.6	7.4
Nov-11	181,696	111,254	115,230	30,290	438,470	41.4	25.4	26.3	6.9
Dec-11	455,740	263,975	129,587	44,068	893,369	51.0	29.5	14.5	4.9
Jan-12	472,625	137,340	103,185	38,095	751,245	62.9	18.3	13.7	5.1
Feb-12	286,476	85,626	128,450	57,375	557,927	51.3	15.3	23.0	10.3
Mar-12	225,785	158,164	104,124	49,498	537,570	42.0	29.4	19.4	9.2
2011-12	**3,248,673**	**1,395,187**	**1,199,030**	**488,896**	**6,331,786**	**51.3**	**22.0**	**18.9**	**7.7**
Apr-12	213,432	172,448	53,788	37,766	477,433	44.7	36.1	11.3	7.9
May-12	261,094	137,484	75,499	35,331	509,408	51.3	27.0	14.8	6.9
Jun-12	399,267	173,798	103,396	47,016	723,476	55.2	24.0	14.3	6.5
Jul-12	346,544	159,464	106,464	49,401	661,872	52.4	24.1	16.1	7.5
Aug-12	186,890	148,307	107,933	43,125	486,255	38.4	30.5	22.2	8.9
Sep-12	355,322	154,838	144,480	58,626	713,266	49.8	21.7	20.3	8.2
Apr - Sep'12	**1,762,547**	**946,340**	**591,559**	**271,265**	**3,571,710**	**49.3**	**26.5**	**16.6**	**7.6**

Source : NSE

Participant Profile

Indian banks, foreign banks, and PDs together accounted for over 40.9 percent of the WDM turnover in 2011–2012, and 43.4 percent of the WDM turnover during April–September 2012. The share of the Indian banks though on a declining trend increased to 15.3 percent in 2011–2012 from 13.1 percent in 2010-2011. The trading members' contribution was the highest at 54.5 percent in 2011–2012 (Table 5-8 and Chart 5-3).

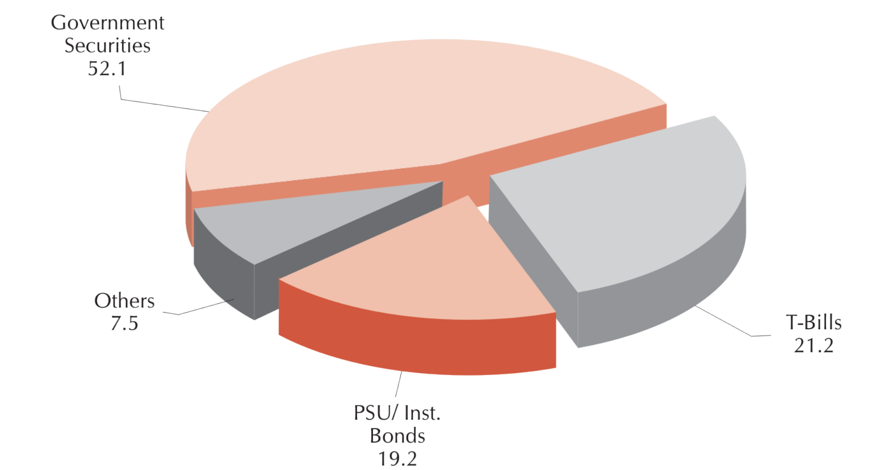
Table 5-8: Participant wise Distribution of WDM Turnover

Month/ Year	Turnover (in ₹ mn)						Turnover (in percent)				
	Trading Members	FIs/MFs/ Corporates	Primary Dealers	Indian Banks	Foreign Banks	Total Turnover	Trading Members	FIs/ MFs/ Corporates	Primary Dealers	Indian Banks	Foreign Banks
2000-01	996,023	179,147	948,879	1,437,462	724,303	4,285,815	23.2	4.2	22.1	33.5	16.9
2001-02	2,227,794	394,032	2,131,180	3,466,720	1,252,187	9,471,912	23.5	4.2	22.5	36.6	13.2
2002-03	2,651,448	402,900	2,354,349	4,143,355	1,134,961	10,687,014	24.8	3.8	22.0	38.8	10.6
2003-04	4,580,015	600,140	2,241,312	4,785,326	954,170	13,160,962	34.8	4.6	17.0	36.4	7.3
2004-05	3,013,249	456,069	1,641,493	2,652,121	1,110,004	8,872,936	34.0	5.1	18.5	29.9	12.5
2005-06	1,522,151	186,405	1,040,921	1,334,794	670,964	4,755,235	32.0	3.9	21.9	28.1	14.1
2006-07	676,601	59,159	434,269	570,334	450,702	2,191,065	30.9	2.7	19.8	26.0	20.6
2007-08	1,077,039	66,062	243,922	671,350	764,797	2,823,170	38.2	2.3	8.6	23.8	27.1
2008-09	1,500,142	114,076	221,060	608,509	915,728	3,359,515	44.7	3.4	6.6	18.1	27.3
2009-10	2,775,924	147,645	260,962	1,118,852	1,334,776	5,638,159	49.2	2.6	4.6	19.8	23.7
2010-11	2,993,600	134,827	235,527	732,316	1,498,198	5,594,468	53.5	2.4	4.2	13.1	26.8
Apr-11	264,707	3,737	18,962	34,862	75,250	397,518	66.6	0.9	4.8	8.8	18.9
May-11	227,626	3,090	18,102	42,639	72,046	363,504	62.6	0.9	5.0	11.7	19.8
Jun-11	274,902	11,791	29,274	80,605	111,658	508,231	54.1	2.3	5.8	15.9	22.0
Jul-11	274,745	19,729	22,688	62,380	90,188	469,731	58.5	4.2	4.8	13.3	19.2
Aug-11	268,482	32,402	35,746	79,552	132,075	548,258	49.0	5.9	6.5	14.5	24.1
Sep-11	245,384	28,126	21,686	88,855	119,094	503,145	48.8	5.6	4.3	17.7	23.7
Oct-11	210,434	12,227	12,009	43,212	84,936	362,818	58.0	3.4	3.3	11.9	23.4
Nov-11	269,001	8,199	12,716	57,571	90,983	438,470	61.4	1.9	2.9	13.1	20.8
Dec-11	473,754	41,095	39,130	149,103	190,288	893,369	53.0	4.6	4.4	16.7	21.3
Jan-12	366,608	46,051	24,791	126,735	187,060	751,245	48.8	6.1	3.3	16.9	24.9
Feb-12	274,500	42,737	15,064	119,620	106,006	557,927	49.2	7.7	2.7	21.4	19.0
Mar-12	301,523	35,910	13,601	80,528	106,009	537,570	56.1	6.7	2.5	15.0	19.7
2011-2012	**3,451,456**	**284,930**	**264,035**	**965,597**	**1,365,766**	**6,331,786**	**54.5**	**4.5**	**4.2**	**15.3**	**21.6**
Apr-12	238,621	14,466	21,055	90,617	112,674	477,433	50.0	3.0	4.4	19.0	23.6
May-12	264,128	22,465	22,771	92,916	107,128	509,408	51.9	4.4	4.5	18.2	21.0
Jun-12	369,986	39,719	33,063	115,612	165,097	723,476	51.1	5.5	4.6	16.0	22.8
Jul-12	361,448	26,938	18,797	103,517	151,172	661,872	54.6	4.1	2.8	15.6	22.8
Aug-12	264,766	15,560	12,886	61,609	131,435	486,255	54.5	3.2	2.7	12.7	27.0
Sep-12	371,255	29,672	21,683	132,454	158,202	713,266	52.1	4.2	3.0	18.6	22.2
Apr-Sep'12	**1,870,204**	**148,820**	**130,254**	**596,723**	**825,709**	**3,571,710**	**52.4**	**4.2**	**3.6**	**16.7**	**23.1**

Source : NSE

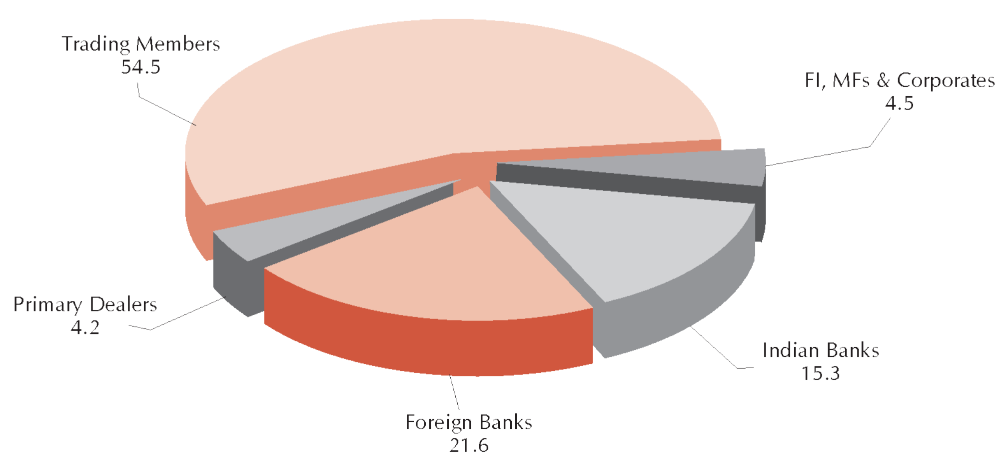
The share of the top 10 securities increased to 44.2 percent in 2011–2012, compared to 38.6 percent in 2010–2011 (Table 5-9). The share of the top 100 securities decreased to 72.1 percent in 2011–2012, as against 74.2 percent in 2010–11. The top 50 securities accounted for 61.5 percent of the turnover in 2011–2012.

Chart 5-2: Security-wise Distribution of Turnover, 2011-2012 (in percent)



Source: NSE

Chart 5-3: Participant-wise Distribution of Turnover, 2011–2012 (in percent)



Source: NSE

The top 50 trading members accounted for the total turnover of the WDM in 2011–2012, which is indicative of the narrow membership structure of the WDM segment (Table 5-9).

Table 5-9: Share of Top 'N' Securities/Trading Members/ Participants in Turnover in WDM Segment

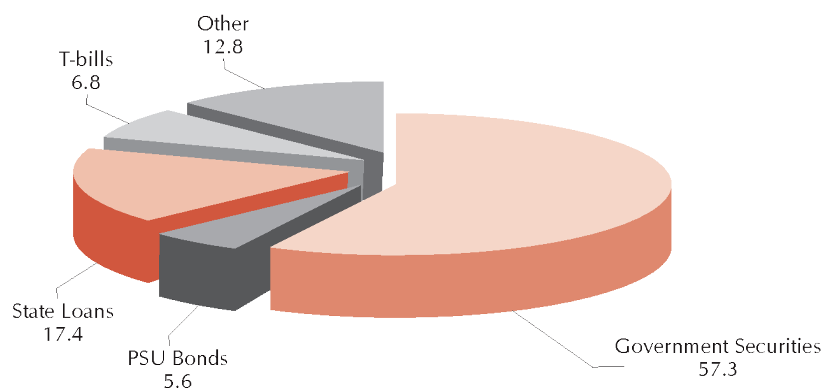
Year	Percent				
	Top 5	Top 10	Top 25	Top 50	Top 100
Securities					
2000-01	42.2	58.3	80.7	90.0	95.1
2001-02	51.6	68.5	88.7	94.3	97.2
2002-03	43.1	65.2	86.9	92.7	96.1
2003-04	37.1	54.4	81.6	90.7	95.1
2004-05	43.7	57.5	71.7	80.6	89.6
2005-06	47.4	59.8	72.0	81.0	89.4
2006-07	40.9	51.3	65.8	77.2	86.9
2007-08	39.7	53.3	68.4	79.6	49.6
2008-09	31.3	43.1	60.4	72.5	83.9
2009-10	24.2	35.1	53.1	65.6	77.9
2010-11	26.7	38.6	51.7	61.5	74.2
2011-12	**36.4**	**44.2**	**52.6**	**61.5**	**72.1**
Apr-Sep'12	**36.5**	**42.2**	**54.0**	**64.4**	**76.1**
Trading Members					
2000-01	35.2	54.3	86.8	100.0	--
2001-02	35.2	58.7	88.4	100.0	--
2002-03	31.8	53.7	85.5	100.0	--
2003-04	30.7	53.0	86.7	100.0	--
2004-05	35.8	56.8	86.7	100.0	--
2005-06	39.7	60.6	89.4	100.0	--
2006-07	57.8	78.0	96.4	100.0	--
2007-08	65.3	80.2	97.6	100.0	--
2008-09	69.9	82.9	98.4	100.0	--
2009-10	73.7	85.3	98.0	100.0	--
2010-11	73.6	86.1	98.7	100.0	--
2011-2012	**77.5**	**89.1**	**99.4**	**100.0**	--
Apr-Sep'12	**82.4**	**91.2**	**99.7**	**100.0**	--
Participants					
2000-01	17.5	28.9	50.6	69.7	76.8
2001-02	17.5	29.3	50.2	69.2	76.5
2002-03	17.3	28.3	49.2	68.1	75.2
2003-04	16.7	25.7	44.3	59.9	65.2
2004-05	16.8	28.6	47.2	61.7	66.0
2005-06	17.5	30.5	53.6	65.8	68.0
2006-07	25.9	40.7	60.0	68.2	69.1
2007-08	28.4	40.6	55.6	61.8	61.8
2008-09	24.1	38.2	51.2	55.3	55.4
2009-10	23.4	36.9	47.6	50.8	50.8
2010-11	23.5	35.9	44.6	46.5	46.5
2011-12	**20.6**	**33.8**	**44.6**	**45.5**	**45.5**
Apr-Sep'12	**22.3**	**34.9**	**46.9**	**47.6**	**47.6**

Source: NSE

Market Capitalization

The market capitalization of the WDM segment witnessed a constant increase. The total market capitalization of the securities available for trading in the WDM segment stood at ₹ 42,727,365 million (US $ 835,090 million) at the end of March 2012, registering a growth of 18.9 percent over the figures at the end of March 2011. The market capitalization at the end of September 2012 was ₹ 46,633,278 million (US $ 854,089 million). The relative shares of the different securities in market capitalization at the end of March 2012 is shown in Chart 5-4. The growth of the market capitalization of the WDM segment is presented in Table 5-10.

Chart 5-4: Market Capitalization of WDM Segment at the end September 2012 (in percent)



Source: NSE

Corporate Bonds

The movement in the corporate bond market is shown in Table 5-11. The data on corporate bonds at the NSE and the BSE includes the trades on the respective trading systems as well as the reports of the trades carried out in the OTC market. The volumes of the trades on the NSE increased by a meager 8.2 percent to ₹ 1,934,350 million (US $ 37,806 million) in 2011–2012 from ₹ 1,559,510 million (US $ 34,927 million) in the previous fiscal year. The BSE volumes in 2011-2012 were at ₹ 498,420 million (US $ 9,741 million), while the FIMMDA volumes were ₹ 3,505,060 million (US $ 68,505 million).

Table 5-11: Secondary Market Corporate Bond Trades at the Exchanges and OTC

Month/ Year	BSE			NSE			FIMMDA		
	No. of trades	Amount (₹ mn)	Amount (US $ mn)	No. of trades	Amount (₹ mn)	Amount (US $ mn)	No. of trades	Amount (₹ mn)	Amount (US $ mn)
2007-08	27,697	411,870	10,304	3,787	314,530	7,869	4,089	234,790	5,874
2008-09	8,327	373,200	7,325	4,902	495,050	9,716	9,501	615,350	13,632
2009-10	7,408	533,230	11,813	12,522	1,519,200	33,655	18,300	1,959,550	43,507
2010-11	4,465	395,810	8,865	8,006	1,559,510	34,927	31,589	4,097,420	91,768
2011-12	**6,424**	**498,420**	**9,741**	**11,973**	**1,934,350**	**37,806**	**33,136**	**3,505,060**	**68,505**
Apr - Sep' 12	**4,225**	**233,820**	**4,282**	**10,108**	**1,065,400**	**19,513**	**16,878**	**1,961,920**	**35,933**

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

Table 5-10: Market Capitalisation of WDM Securities

Month/ Year (end of period)	Market Capitalisation (₹ mn)						Total (US $ mn)	(percent)				
	Govt. Securities	PSU Bonds	State Loans	T-Bills	Others	Total		Govt. Securities	PSU Bonds	State Loans	T-Bills	Others
Mar-00	3,198,650	393,570	394,770	153,450	799,890	4,940,330	113,257	64.7	8.0	8.0	3.1	16.2
Mar-01	3,972,280	363,650	446,240	177,250	848,940	5,808,360	124,536	68.4	6.3	7.7	3.1	14.6
Mar-02	5,426,010	399,440	613,850	238,490	890,160	7,567,950	155,081	71.7	5.3	8.1	3.2	11.8
Mar-03	6,580,017	383,828	720,940	349,188	610,839	8,644,812	181,996	76.1	4.4	8.3	4.0	7.1
Mar-04	9,593,017	568,319	793,403	326,920	876,979	12,158,638	280,218	78.9	4.7	6.5	2.7	7.2
Mar-05	10,061,070	683,981	2,232,082	735,018	905,193	14,617,344	334,111	68.8	4.7	15.3	5.0	6.2
Mar-06	10,597,890	887,160	2,419,270	701,860	1,069,560	15,675,740	351,395	67.6	5.7	15.4	4.5	6.8
Mar-07	11,822,777	896,275	2,498,474	1,151,827	1,478,652	17,848,006	409,452	66.2	5.0	14.0	6.5	8.3
Mar-08	13,922,192	962,685	3,156,607	1,115,621	2,076,357	21,233,463	531,235	65.6	4.5	14.9	5.3	9.8
Mar-09	18,499,710	1,294,988	4,223,616	1,476,171	2,988,670	28,483,155	559,041	64.9	4.5	14.8	5.2	10.5
Mar-10	19,504,360	1,629,786	5,369,956	1,356,961	3,798,232	31,659,295	661,360	61.6	5.1	17.0	4.3	12.0
Mar-11	21,857,214	1,909,216	6,220,693	1,376,770	4,584,878	35,948,772	805,124	60.8	5.3	17.3	3.8	12.8
Apr-11	22,144,241	1,940,645	6,284,530	1,595,950	4,615,010	36,580,375	714,949	60.5	5.3	17.2	4.4	12.6
May-11	22,245,077	1,949,396	6,318,948	1,885,760	4,666,215	37,065,396	724,429	60.0	5.3	17.0	5.1	12.6
Jun-11	22,508,683	2,010,243	6,409,589	2,095,882	4,695,985	37,720,382	737,230	59.7	5.3	17.0	5.6	12.4
Jul-11	22,398,626	2,067,550	6,514,947	2,327,573	4,738,877	38,047,572	743,625	58.9	5.4	17.1	6.1	12.5
Aug-11	22,976,390	2,139,912	6,635,609	2,363,682	4,774,167	38,889,760	760,085	59.1	5.5	17.1	6.1	12.3
Sep-11	23,052,230	2,205,830	6,740,332	2,153,209	4,804,391	38,955,992	761,380	59.2	5.7	17.3	5.5	12.3
Oct-11	23,252,056	2,229,088	6,845,589	2,181,597	4,855,010	39,363,341	769,341	59.1	5.7	17.4	5.5	12.3
Nov-11	23,617,105	2,256,738	6,956,302	2,192,381	4,931,698	39,954,224	780,890	59.1	5.6	17.4	5.5	12.3
Dec-11	23,917,944	2,348,781	7,082,543	2,068,581	5,063,743	40,481,591	791,197	59.1	5.8	17.5	5.1	12.5
Jan-12	24,183,271	2,380,849	7,242,279	2,262,459	5,218,881	41,287,740	806,953	58.6	5.8	17.5	5.5	12.6
Feb-12	24,693,414	2,399,664	7,392,410	2,530,735	5,365,065	42,381,288	828,326	58.3	5.7	17.4	6.0	12.7
Mar-12	24,721,786	2,441,650	7,572,813	2,592,709	5,398,407	42,727,365	835,090	57.9	5.7	17.7	6.1	12.6
Apr-12	24,726,762	2,478,711	7,608,566	2,776,157	5,517,827	43,108,023	789,524	57.4	5.8	17.7	6.4	12.8
May-12	25,081,442	2,536,326	7,732,270	3,157,197	5,526,195	44,033,430	806,473	57.0	5.8	17.6	7.2	12.6
Jun-12	25,751,867	2,579,238	7,814,236	3,209,418	5,658,119	45,012,877	824,412	57.2	5.7	17.4	7.1	12.6
Jul-12	26,320,004	2,642,109	7,953,898	3,248,646	5,785,071	45,949,727	841,570	57.3	5.8	17.3	7.1	12.6
Aug-12	26,772,165	2,690,740	8,048,904	3,171,063	5,950,406	46,633,278	854,089	57.4	5.8	17.3	6.8	12.8
Sep-12	26,734,858	2,630,117	8,128,180	3,175,726	5,964,396	46,633,278	854,089	57.3	5.6	17.4	6.8	12.8

Source: NSE

Settlement of Trades in Corporate Bonds

In 2011-2012, there were 37,421 trades in corporate bonds amounting to ₹ 3,989,771 million (US $ 77,979, million) were settled by the NSCCL and the ICCL (Table 5-12). During April –September 2012, 20,491 trades amounting to ₹ 2,078,192 million (US $ 38,062 million) were settled by the NSCCL and the ICCL.

Table 5-12: Settlement Statistics of Corporate Bonds

Month	NSE			BSE			Total		
	Total No. of Trades Settled	Settled Value ₹ mn	Settled Value US $ mn	Total No. of Trades Settled	Settled Value ₹ mn	Settled Value US $ mn	Total No. of Trades Settled	Settled Value ₹ mn	Settled Value US $ mn
Dec'09-Mar'10	8,922	1,200,059	26,585	437	548,247	12,145	9,386	1,254,883	27,800
2010-11	30,948	4,326,317	96,894	1,714	174,915	3,917	32,662	4,501,232	100,304
Apr-11	2,308	261,569	5,112	158	7,883	154	2,466	269,452	5,266
May-11	2,271	221,395	4,327	211	4,422	86	2,482	225,817	4,414
Jun-11	2,976	350,094	6,842	259	7,519	147	3,235	357,612	6,989
Jul-11	2,919	329,855	6,447	281	7,958	156	3,200	337,813	6,602
Aug-11	2,782	332,041	6,490	246	7,486	146	3,028	339,527	6,636
Sep-11	3,622	329,475	6,439	216	8,485	166	3,838	337,960	6,605
Oct-11	2,426	280,093	5,474	189	6,741	132	2,615	286,833	5,606
Nov-11	2,467	306,384	5,988	269	15,199	297	2,736	321,583	6,285
Dec-11	3,201	397,479	7,769	279	14,434	282	3,480	411,914	8,051
Jan-12	3,227	330,685	6,463	249	8,055	157	3,476	338,741	6,621
Feb-12	2,900	410,257	8,018	256	5,027	98	3,156	415,284	8,117
Mar-12	3374	339,583	6,637	335	7653.4	150	3709	347,237	6,787
2011- 12	**34,473**	**3,888,910**	**76,007**	**2,948**	**100,861**	**1,971**	**37,421**	**3,989,771**	**77,979**
Apr-12	2,156	218,002	3,993	351	10,356	190	2,507	228,358	4,182
May-12	2,292	228,182	4,179	458	10,185	187	2,750	238,367	4,366
Jun-12	3,315	398,002	7,289	452	10,873	199	3,767	408,876	7,489
Jul-12	3,676	381,404	6,985	432	20,533	376	4,108	401,937	7,361
Aug-12	2,972	344,633	6,312	554	30,808	564	3,526	375,441	6,876
Sep-12	3,124	380,900	6,976	709	44,314	812	3,833	425,214	7,788
Apr - Sep'12	**17,535**	**1,951,123**	**35,735**	**2,956**	**127,069**	**2,327**	**20,491**	**2,078,192**	**38,062**

Source: SEBI

Yields

The yields (yield-to-maturity) on government and corporate securities of different maturities of 0–1 year, 5–6 years, 9–10 years, and above 10 years are presented in Table 5-13.

Table 5-13: Yields on Government and Corporate Securities (April 2011-Sep 2012)

(percent)

Month/ Year	Government Securities				Corporate Securities			
	0-1 year	5-6 years	9-10 years	Above 10 years	0-1 year	5-6 years	9-10 years	Above 10 years
Apr-11	7.15	7.83	8.04	8.32	9.18	9.48	9.47	9.45
May-11	7.85	8.27	8.36	8.53	9.68	9.79	9.46	9.27
Jun-11	8.10	8.23	8.30	8.50	10.21	9.81	9.44	9.69
Jul-11	8.11	8.27	8.33	8.54	9.57	9.58	9.42	9.34
Aug-11	8.30	8.26	8.28	8.50	9.60	9.41	9.40	9.62
Sep-11	8.34	7.70	8.31	8.52	9.68	9.54	9.43	9.43
Oct-11	8.51	8.64	8.67	8.85	9.81	9.53	9.68	9.57
Nov-11	8.77	8.73	8.89	9.05	9.91	9.56	9.76	9.70
Dec-11	8.41	8.33	8.47	8.68	9.82	9.46	9.39	9.57
Jan-12	8.23	8.14	8.27	8.49	10.12	9.50	9.27	9.22
Feb-12	8.70	8.35	8.20	8.43	10.19	9.53	9.29	9.13
Mar-12	8.73	8.37	8.42	8.56	11.00	9.76	9.49	9.32
Apr-12	8.45	8.26	8.52	8.73	16.26	9.59	9.38	9.33
May-12	8.37	8.27	8.54	8.79	10.38	9.52	9.42	9.36
Jun-12	8.11	8.04	8.35	8.49	10.09	9.60	9.64	9.25
Jul-12	8.12	8.01	8.18	8.47	9.68	9.45	9.82	9.30
Aug-12	8.17	8.14	8.27	8.53	9.35	9.32	9.36	9.22
Sep-12	8.09	8.13	8.21	8.45	9.09	9.24	9.27	9.02

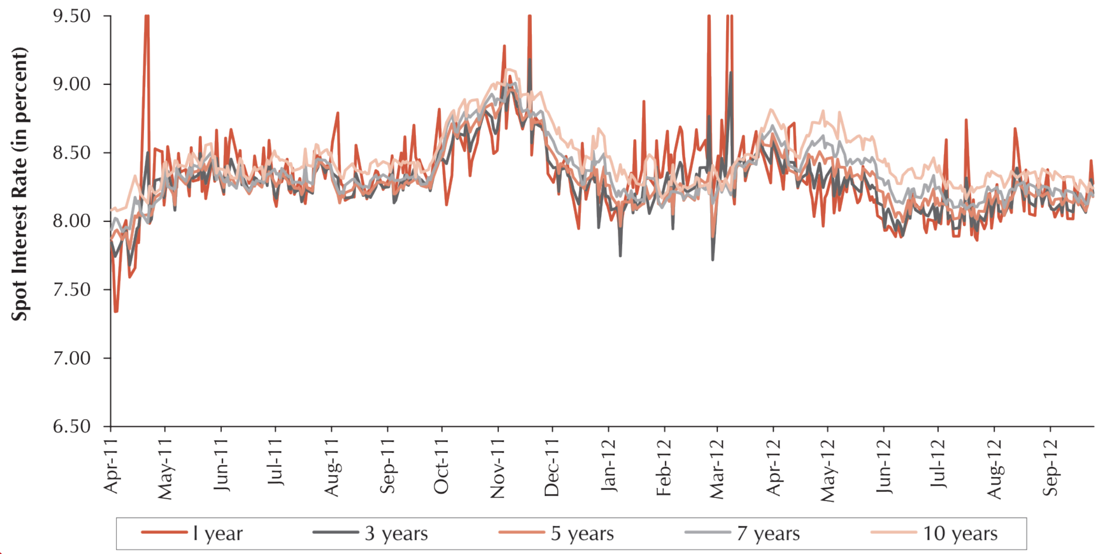
Source: NSE

WDM Products and Services

Zero Coupon Yield Curve

Keeping in mind the requirements of the banking industry, financial institutions, mutual funds, and insurance companies that have substantial investments in sovereign papers, the NSE disseminates a Zero Coupon Yield Curve (ZCYC) (NSE Zero Curve) to help in the valuation of securities across all maturities, irrespective of its liquidity in the market. This product has been developed using the Nelson-Siegel model to estimate the term structure of the interest rate at any given point of time, and has been successfully tested using the daily WDM trades data. This is disseminated daily. The ZCYC depicts the relationship between the interest rates in the economy and the associated terms to maturity. The estimates of the daily ZCYC are available from February 1998. Chart 5-5 plots the spot interest rates at different maturities for the period April 2011 to September 2012.

Chart 5-5: Zero Coupon Yield Curve, April 2011–September 2012



Source: NSE

FIMMDA-NSE MIBID/MIBOR[3]

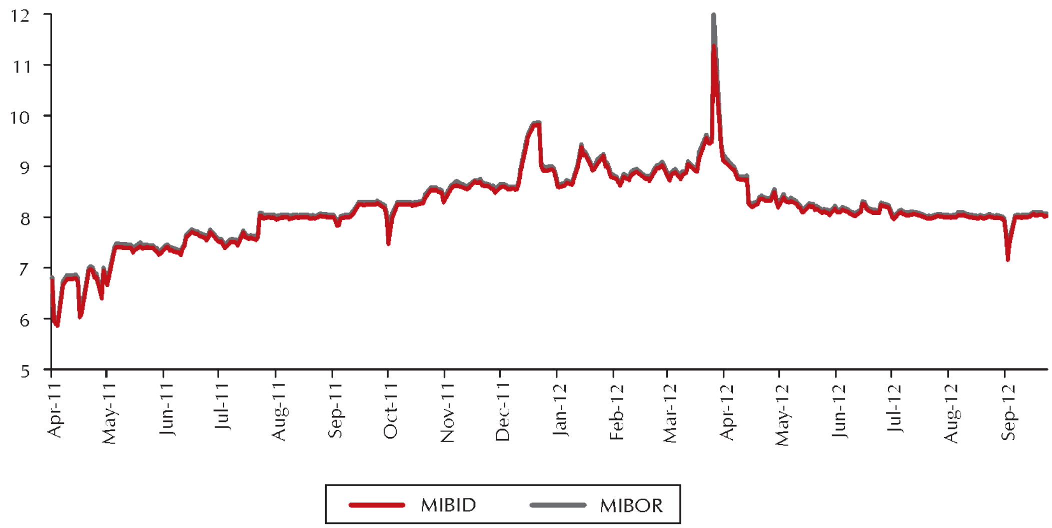
The NSE has been computing and disseminating the NSE Mumbai Inter-bank Bid Rate (MIBID) and the NSE Mumbai Inter-bank Offer Rate (MIBOR) for the overnight money market from June 15, 1998, the 14-day MIBID/MIBOR from November 10, 1998, the 1-month and 3-month MIBID/MIBOR from December 1, 1998, and the 3-day MIBID/MIBOR from June 06, 2008, which are calculated and disseminated on the last working day of every week. In view of the robust methodology of the computation of these rates and their extensive use by the market participants, these have been co-branded with the Fixed Income and Money Market Dealers' Association (FIMMDA) from March 4, 2002. These are now known as the FIMMDA-NSE MIBID/MIBOR.

The FIMMDA-NSE MIBID/MIBOR are based on rates polled by the NSE from a representative panel of 32 banks/institutions/primary dealers. Currently, the quotes are polled and processed daily by the Exchange at 09:40 (IST) for the overnight rate, at 11:30 (IST) for the 14-day, 1-month, and 3-month rates, and at 09:40 (IST) for the 3-day rate, on the last working day of the week. The rates polled are then processed using the bootstrap method to arrive at an efficient estimate of the reference rates. The overnight rates are disseminated daily, and the 3-day rates are disseminated on the last working day of the week to the market at about 09:55 (IST), whereas the 14-day, 1-month, and 3-month rates are disseminated at about 11:45 (IST).

The FIMMDA-NSE MIBID/MIBOR rates for the month ends are presented in Annexure 5-2. The daily FIMMDA-NSE MIBID/MIBOR rates are available at www.nseindia.com. Chart 5-6 presents the overnight FIMMDA-NSE MIBID/MIBOR rates from April 2011 to September 2012. These rates touched a peak of 11.37 percent and 11.99 percent, respectively, on March 30, 2012 and a low of 5.86 and 5.92 percent, respectively, on April 8, 2011.

3 A reference rate is an accurate measure of the market price. In a fixed income market, it is an interest rate that the market respects and closely matches.

Chart 5-6: Overnight NSE-FIMMDA MIBID/MIBOR Rates (April 2011–September 2012)



NSE-VaR System

The NSE has developed a VaR system for measuring the market risk inherent in the Government of India (GOI) securities. The NSE-VaR system builds on the NSE database of daily yield curves (ZCYC) and provides measures of VaR using five alternative methods (variance-covariance, historical simulation method, weighted normal method, weighted historical simulation method, and extreme value method). Together, these five methods provide a range of options for the market participants to choose from. The NSE-VaR system releases daily estimates of security-wise VaR at 1-day and multi-day horizons for the securities traded on the WDM segment of the NSE and all outstanding GoI securities with effect from January 1, 2002. Participants can compute their portfolio risk as the weighted average of security-wise VaRs, the weights being proportionate to the market value of a given security in their portfolio. The 1-day VaR (99 percent) measure for the GoI Securities traded on the NSE-WDM on September 30, 2012 is depicted in Table 5-14.The VaRs for the other GOI securities are available at www.nseindia.com.

Table 5-14: 1-day VaR (99 percent) for GoI Securities Traded on NSE-WDM as of Sep 2012

Security Type	Security Name	Issue Name	VaR (in percent)					Clean Price (off NSE-ZCYC)
			Normal	Weighted Normal	Historical Simulation	Weighted Historical Simulation	EVT	
GS	CG2018	7.83%	1.1660	0.4990	1.3120	0.3950	1.0020	97.7120
GS	CG2018	8.24%	1.1600	0.4960	1.3070	0.3910	1.0010	99.4930
GS	CG2020	8.19%	1.2650	0.4670	1.3600	0.7840	1.0720	99.0520
GS	CG2021	8.79%	1.4180	0.5030	1.4600	1.1750	1.1860	102.5300
GS	CG2022	8.13%	1.5610	0.5430	1.6710	0.9070	1.3020	98.1970
GS	CG2022A	8.15%	1.5220	0.5330	1.6220	0.8460	1.2660	98.3750
GS	CG2025	8.20%	2.0860	0.6350	2.3340	0.5500	1.8300	97.9830
GS	CG2026	8.33%	2.2400	0.6590	2.5670	0.7400	1.9810	98.8140

Contd.

Contd.

Security Type	Security Name	Issue Name	VaR (in percent)					Clean Price (off NSE-ZCYC)
			Normal	Weighted Normal	Historical Simulation	Weighted Historical Simulation	EVT	
GS	CG2030	8.97%	3.1460	0.9530	3.9290	1.6340	3.0630	103.7180
GS	CG2032	8.28%	3.5230	1.1350	4.6410	1.7110	3.5010	97.1040
GS	CG2036	8.33%	4.4390	1.7700	5.8660	4.4970	4.6020	96.7050
GS	CG2041	8.83%	5.2760	2.4820	7.3050	3.9400	5.5360	101.1620
TB	182D	10313	0.4380	0.2590	0.5590	0.1400	0.4840	96.5560
TB	182D	231112	0.1940	0.1050	0.2450	0.1330	0.2090	98.7310
TB	182D	290313	0.4930	0.2960	0.6350	0.4230	0.5480	95.9450
TB	364D	110113	0.3280	0.1870	0.4210	0.1010	0.3580	97.6360
TB	364D	200913	0.7460	0.4780	0.9160	0.2780	0.8110	92.2240
TB	364D	301112	0.2150	0.1180	0.2720	0.0630	0.2320	98.5740
TB	91D	211212	0.2740	0.1530	0.3490	0.2000	0.2970	98.1040
TB	91D	231112	0.1940	0.1050	0.2450	0.1330	0.2090	98.7310
TB	91D	301112	0.2150	0.1180	0.2720	0.0630	0.2320	98.5740

Source: NSE

Bond Index

A widely tracked benchmark for the performance of bonds is the ICICI Securities' (Isec) Bond Index (i-BEX), which measures the performance of the bond markets by tracking the returns on government securities. There are other indices also, such as the NSE's Government Securities (G-Sec) Index and the NSE's T-Bills Index. These have emerged as the benchmark of choice across all classes of market participants—banks, financial institutions, primary dealers, provident funds, insurance companies, mutual funds, and foreign institutional investors. It has two variants, namely, a Principal Return Index (PRI) and a Total Return Index (TRI). The PRI tracks the price movements of bonds or capital gains/losses from the base date. It is the movement of prices quoted in the market, and could be seen as the mirror image of yield movements. In 2011–2012, the PRI of the i-BEX and the NSE G-Sec Index declined by 1.5 percent and 2.8 percent, respectively.[4]

The TRI, on other hand, tracks the total returns available in the bond market. It captures both interest accruals as well as capital gains/losses. In a declining interest rate scenario, the index gains due to interest accrual and capital gains, while losing on reinvestment income. During rising interest rate periods, the interest accrual and reinvestment income is offset by capital losses. Therefore, the TRI typically has a positive slope, except during periods when the drop in market prices is higher than the interest accrual. In 2011–2012, the TRI registered a rise of percent and 6.7 percent for the i-BEX and the NSE G-Sec Index, respectively. While constructing the NSE G-Sec Index, prices from the NSE ZCYC are used so that the movements reflect the returns to an investor due to changes in the interest rates. The index provides a benchmark for portfolio management by various investment managers and gilt funds. The movements of popular fixed income indices at monthly rates are presented in Table 5-15.

[4] March 2012 index figures were compared with March 2011 index figures.

Table 5-15: Debt Market Indices

At the end of the month	I Sec I-BEX (Base August 1 , 1994 = 1000)		NSE-T-Bills Index		NSE-G Sec Index	
	TRI	PRI	TRI	PRI	TRI	PRI
Apr-11	5650.42	1276.22	287.25	287.25	303.59	106.63
May-11	5636.56	1264.62	289.5	289.5	303.84	106.09
Jun-11	5698.21	1270.31	291.81	291.81	306.71	106.48
Jul-11	5706.69	1263.78	293.3	293.3	305.38	105.68
Aug-11	5789.35	1273.94	295.5	295.5	306.26	105.83
Sep-11	5825.77	1273.54	295.67	295.67	310.86	107.05
Oct-11	5720.21	1241.42	297.51	297.51	301.79	103.45
Nov-11	5767.00	1242.91	299.5	299.5	304.52	103.8
Dec-11	5916.83	1267.19	301.9	301.9	313.76	106.32
Jan-12	6027.11	1282.64	303.8	303.8	316.32	106.57
Feb-12	6076.83	1284.96	305.68	305.68	320.8	107.56
Mar-12	6045.65	1269.10	308.17	308.17	316.73	105.72
Apr-12	6072.92	1266.09	310.22	310.22	316.37	104.97
May-12	6184.46	1281.04	312.6	312.6	322.48	106.32
Jun-12	6267.14	1289.52	314.65	314.65	327.01	107.22
Jul-12	6325.11	1292.64	316.79	316.79	331.29	108.01
Aug-12	6352.22	1289.35	318.94	318.94	330.99	107.55
Sep-12	6433.01	1297.10	321.06	321.06	336.49	108.8

Source: ICICI Securities and NSE

Annexure 5-1: Business Growth of WDM Segment

Month/ Year	All Trades							Retail Trades			
	No. of Active Securities	Number of Trades	Turnover (₹ mn)	Average Daily Turnover (₹ mn)	Average Trade Size (₹ mn)	Turnover (US $ mn)	Average Daily Turnover (US $ mn)	Number of Trades	Turnover (₹ mn)	Turnover (US $ mn)	Share in Total Turnover (percent)
2000-01	1,038	64,470	4,285,815	14,830	66	91,891	318	498	1,318	28.26	0.03
2001-02	979	144,851	9,471,912	32,775	65	194,097	672	378	1,094	22.42	0.01
2002-03	1,123	167,778	10,687,014	35,983	64	224,990	758	1,252	2,995	63.05	0.03
2003-04	1,078	189,518	13,160,962	44,765	69	303,318	1,032	1,400	3,317	76.45	0.03
2004-05	1,151	124,308	8,872,936	30,283	71	202,810	692	1,278	4,101	93.74	0.05
2005-06	897	61,891	4,755,235	17,547	77	106,596	393	892	3,104	69.58	0.07
2006-07	762	19,575	2,191,065	8,980	112	50,265	206	399	1,015	23.29	0.05
2007-08	601	16,179	2,823,170	11,380	175	70,632	285	211	490	12.26	0.02
2008-09	711	16,129	3,359,515	14,116	208	84,051	277	257	635	12.47	0.02
2009-10	1,144	24,069	5,638,159	23,591	234	141,060	523	2,235	4,328	95.87	0.08
2010-11	1,111	20,383	5,594,468	22,558	274	125,296	505	1,397	3,052	59.65	0.05
Apr-11	224	1,194	397,518	24,845	333	7,769	486	95	178	3.48	0.04
May-11	193	1,136	363,504	17,310	320	7,105	338	93	234	4.57	0.06
Jun-11	243	1,791	508,231	23,101	284	9,933	452	191	402	7.86	0.08
Jul-11	280	2,012	469,731	22,368	234	9,181	437	145	467	9.13	0.10
Aug-11	258	2,411	548,258	27,413	227	10,715	536	40	129	2.52	0.02
Sep-11	256	2,122	503,145	25,157	237	9,834	492	104	210	4.10	0.04
Oct-11	235	1,643	362,818	20,157	221	7,091	394	324	665	13.00	0.18
Nov-11	270	1,567	438,470	21,924	280	8,570	428	32	78	1.52	0.02
Dec-11	330	2,971	893,369	42,541	301	17,461	831	146	244	4.77	0.03
Jan-12	237	2,999	751,245	35,774	250	14,683	699	29	99	1.93	0.01
Feb-12	295	1,979	557,927	29,365	282	10,904	574	37	83	1.62	0.01
Mar-12	299	1,622	537,570	26,879	331	10,507	525	45	137	2.68	0.03
2011-12	**1,140**	**23,447**	**6,331,786**	**26,493**	**270**	**123,752**	**518**	**1,281**	**2,927**	**53.61**	**0.05**
Apr-12	259	1,700	477,433	26,524	281	8,744	486	11	37	0.68	0.01
May-12	288	2,078	509,408	23,155	245	9,330	424	90	173	3.17	0.03
Jun-12	341	2,576	723,476	34,451	281	13,250	631	73	142	2.60	0.02
Jul-12	326	2,416	661,872	30,085	274	12,122	551	69	112	2.05	0.02
Aug-12	343	1,930	486,255	23,155	252	8,906	424	198	372	6.81	0.08
Sep-12	358	2,648	713,266	37,540	269	13,063	688	184	325	5.95	0.05
Apr-Sep ' 12	**868**	**13,348**	**3,571,711**	**29,152**	**267**	**65,416**	**534**	**625**	**1,161**	**21.26**	**0.03**

Source: NSE

Annexure 5-2: FIMMDA NSE MIDBID/MIBOR Rates

(in percent)

Month/ Date	OVERNIGHT AT 9.40 a.m.		3 DAY AT 9.40 a.m.		14 DAY AT 11.30 a.m.		1 MONTH RATE AT 11.30 a.m.		3 MONTH RATE AT 11.30 a.m.	
	MIBID	MIBOR	MIBID	MIBOR	MIBID	MIBOR	MIBID	MIBOR	MIBID	MIBOR
29-Apr-11	6.82	6.89	6.82	6.89	7.31	7.67	7.79	8.24	8.68	9.06
31-May-11	7.34	7.40	7.40	7.45	7.87	8.18	8.51	8.90	9.31	9.70
30-Jun-11	7.70	7.75	7.70	7.75	8.32	8.64	8.75	9.07	9.15	9.43
29-Jul-11	7.97	8.04	7.96	8.03	8.35	8.66	8.78	9.05	9.16	9.41
30-Aug-11	8.01	8.06	7.97	8.02	8.34	8.67	8.71	9.05	9.12	9.50
29-Sep-11	8.27	8.32	8.27	8.33	8.73	9.01	8.96	9.24	9.23	9.51
31-Oct-11	8.53	8.58	8.53	8.58	8.65	8.98	8.99	9.27	9.3	9.57
30-Nov-11	8.56	8.60	8.62	8.67	8.79	9.06	9.05	9.31	9.34	9.63
30-Dec-11	8.91	8.99	8.91	8.97	9.5	9.69	9.53	9.80	9.55	9.84
31-Jan-12	9.00	9.08	9.11	9.19	9.25	9.45	9.43	9.68	9.62	9.91
29-Feb-12	8.96	9.02	8.72	8.76	9.25	9.53	9.68	9.97	9.99	10.28
30-Mar-12	11.37	11.99	14.02	14.96	10.48	10.90	10.90	11.32	10.71	11.09
30-Apr-12	8.32	8.37	8.32	8.38	8.89	9.06	9.11	9.33	9.32	9.64
31-May-12	8.08	8.14	8.16	8.22	8.84	9.11	9.08	9.33	9.42	9.78
29-Jun-12	8.23	8.28	8.30	8.36	8.95	9.15	9.08	9.30	9.21	9.41
31-Jul-12	8.01	8.06	7.98	8.03	8.32	8.55	8.61	8.88	8.93	9.24
31-Aug-12	7.99	8.04	8.00	8.04	8.25	8.43	8.47	8.66	8.71	8.95
28-Sep-12	-	-	8.05	8.10	8.28	8.45	8.46	8.67	8.59	8.81

Source: NSE

6. Derivatives Market

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. 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. By providing investors and issuers with a wider array of tools for managing risks and raising capital, derivatives improve the allocation of credit and the sharing of risk in the global economy, lowering the cost of capital formation and stimulating economic growth. Now that world markets for trade and finance have become more integrated, derivatives have strengthened these important linkages between global markets, increasing market liquidity and efficiency, and have facilitated the flow of trade and finance.

Following the growing instability in the financial markets, the financial derivatives gained prominence after 1970. 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. Financial derivatives 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 the NSE and 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 in single stock derivatives in November 2001. Since then, equity derivatives have come a long way. New products, an expanding list of eligible investors, 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.

India's experience with the equity derivatives market has been extremely positive. The derivatives turnover on the NSE has surpassed the equity market turnover. The turnover of derivatives on the NSE increased from ₹ 24 billion in 2000–2001 to ₹ 292,482 billion in 2010–2011, and reached ₹ 313,497 billion in 2011–2012. The average daily turnover in this segment of the markets on the NSE was ₹ 1,259 billion in 2011–2012 compared to ₹ 1,152 billion in 2010–2011.

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 are shown in table 6-1 including the derivatives on global indices such as Dow Jones, S&P 500 and FTSE 100. The month wise trading volumes of global indices are shown in Annexure 6-1.

Table 6-1: Benchmark Indices Contracts & Volume in Futures & Options Segment of NSE for the fiscal 2011-12 and first-half of 2012-13

Indices	No. of Contracts Traded	Traded Value (₹ mn)	Traded Value (US $ mn)	Percent-age of Contracts to Total Contracts	No. of Contracts Traded	Traded Value (₹ mn)	Traded Value (US $ mn)	Percent-age of Contracts to Total Contracts
	2011-2012				Apr-Sep'12			
Index Futures								
NIFTY	113,204,121	29,561,621	577,866	11.2	39,608,148	10,320,314	189,017	8.3
MINIFTY	14,204,108	1,483,352	28,996	1.4	4,805,566	499,194	9,143	1.0
BANKNIFTY	17,866,253	4,450,944	87,006	1.8	11,632,310	2,957,588	54,168	2.4
CNXIT	68,961	21,365	418	0.0	20,070	6,011	110	0.0
NFTYMCAP50	6,273	1,875	37	0.0	1,085	370	7	0.0
CNXINFRA	1,383	329	6	0.0	51	12	0	0.0
CNXPSE	1,136	241	5	0.0	24	5	0	0.0
DJIA	487,787	148,647	2,906	0.0	103,300	33,222	608	0.0
S&P500	348,718	111,610	2,182	0.0	34,903	11,908	218	0.0
FTSE 100	-	-	-	-	271,724	74,751	1,369	0.1
Index Options								
NIFTY	860,741,549	226,438,507	4,426,388	85.2	411,106,404	107,789,489	1,974,166	86.5
MINIFTY	471,516	54,279	1,061	0.0	449,387	47,970	879	0.1
BANKNIFTY	2,751,967	691,892	13,525	0.3	7,246,940	1,892,758	34,666	1.5
CNXINFRA	3,829	920	18	0.0	0	0	0	0.0
CNXPSE	3,044	592	12	0.0	0	0	0	0.0
CNXIT	797	255	5	0.0	23	7	0	0.0
NFTYMCAP50	2,949	764	15	0.0	8	2	0	0.0
FTSE100	-	-	-	-	106,333	29,737	545	0.0
S&P500	42,085	13,108	256	0.0	1,741	593	11	0.0
Total of all Indices	**1,010,206,476**	**262,980,300**	**5,140,702**	**100**	**475,388,017**	**123,663,931**	**2,264,907**	**100**
Total of Nifty Index Futures and Options	**973,945,670**	**256,000,128**	**5,004,254**	**96.4**	**450,714,552**	**118,109,803**	**2,163,183**	**94.8**

Notes :
With effect from 29th August 2011 two new indices i.e. DJIA and S&P500 have been included.
With effect from 03rd May 2012 new index i.e. FTSE100 has been included.
Source: NSE

Global Derivatives Markets

As per the FIA Annual Volume Survey, year 2011 was a year with smaller trends. The survey noted that the number of futures and options traded on exchanges around the world rose 11.4 percent to a total of 25 billion contracts. The growth rate was more or less on par with the growth rate in the years preceding the 2008 crisis.

Looking at the global trends in derivatives volume by category, we find that the currency sector was the most powerful driver of increase in the volumes of exchange-traded derivative contracts in 2011, followed by trading in equity index products, which grew at 14.1 percent (Table 6-2). The trading volume in individual equity, on the other hand, continued to gain in 2011 when compared to the volume in 2010, with an increase in volume by 12.2 percent.

Table 6-2: Global Exchange Traded Derivatives Volume by Category

Category	Jan-Dec 2010 (in mn)	Jan-Dec 2011 (in mn)	Change (in percent)
Equity Index	7,416	8,460	14.1
Individual Equity	6,295	7,062	12.2
Interest Rate	3,202	3,491	9.0
Agricultural	1,306	991	-24.1
Energy	724	815	12.6
Currency	2,526	3,147	24.6
Precious Metal	175	341	95.1
Non-precious metal	644	435	-32.4
Other	138	230	66.9
Total Volume	**22,425**	**24,972**	**11.4**

Source: Futures Industry Annual Volume Survey, March 2012

Exchanges in North America grew especially rapidly, with growth rates of 14.2 percent, accounting for 32.8 percent of the global volume, compared to 39.3 percent for Asia - Pacific and 20.1 percent for Europe. According to the annual volume survey by Futures Industry, the bulk of that growth has come from the emerging markets of Brazil, China, India and Russia, which have been marching forward year by year relatively unaffected by the turmoil of 2008 and 2009. In India, the growth story was driven mainly by financial contracts, foreign exchange contracts in particular. Last year the total volume of U.S. dollar/Indian rupee futures traded on these three exchanges reached 1,846 million. That was equivalent to almost a fifth of the Asia-Pacific region's total volume for the year. One of the most interesting stories in the Asia-Pacific region is the growth of equity index futures and options. These products are traded all across the regions, with some being relatively new to the market and others being very well-established.

In terms of the number of single stock futures contracts traded in 2011, the NSE held the third position. It was second in terms of the number of stock index options contracts traded and third in terms of the number of stock index futures contracts traded in 2011. These rankings are based on the World Federation of Exchanges (WFE) Market Highlights 2011 (Table 6-3).

Table 6-3: Top 5 Exchanges in Various Derivatives Contracts

Top 5 Exchanges by number of single stock future contracts traded in 2011 (in million)			
	Exchange	**2011**	**2011/2010 growth rate (in percent)**
1	NYSE Liffe Europe	250	-14.0
2	Eurex	174	15.6
3	**National Stock Exchange of India**	161	-8.4
4	Korea Exchange	60	34.1
5	Johannesburg Stock Exchange	48	-39.1
Top 5 Exchanges by number of single stock option contracts traded in 2011 (in million)			
	Exchange	**2011**	**2011/2010 growth rate (in percent)**
1	BM&FBOVESPA	838	4.5
2	NASDAQ OMX PHLX	701	9.6
3	NYSE Euronext US	634	NA
4	Chicago Board Options Exchange (CBOE)	516	-9.9
5	International Securities Exchange (ISE)	454	-3.5

Contd.

Contd.

Top 5 Exchanges by number of stock index option contracts traded in 2011 (in million)			
	Exchange	**2011**	**2011/2010 growth rate (in percent)**
1	Korea Exchange	3672	4.1
2	**National Stock Exchange India**	871	64.4
3	Eurex	468	36.6
4	Chicago Board Options Exchange (CBOE)	320	18.7
5	TAIFEX	126	30.1
Top 5 Exchanges by number of stock index futures contracts traded in 2011 (in million)			
	Exchange	**2011**	**2011/2010 growth rate (in percent)**
1	CME Group	736	5.9
2	Eurex	486	19.3
3	**National Stock Exchange of India**	156	-0.4
4	Osaka Securities Exchange	137	-5.7
5	NYSE Liffe Europe	97	3.1

Source: WFE Market Highlights 2011

Table 6-4 provides the ranking of the top 10 exchanges in terms of the number of futures and options traded and/ or cleared in 2011. The NSE maintained its ranking in 2011 in terms of traded volumes in futures and options taken together, improving its worldwide ranking from 15th in 2006 to eighth position in 2008, seventh in 2009, and fifth in 2010 and 2011. The traded volumes in the derivatives segment of the NSE saw an increase of 36.2 percent in 2011, compared to the volumes in 2010.

Table 6-4: Global Futures and Options Volume

Rank		Exchange	Volume (in million)	
2011	2010		Jan-Dec 2011	Jan-Dec 2010
1	1	Korea Exchange	3,928	3749
2	2	CME Group (includes CBOT and Nymex)	3,387	3080
3	3	Eurex (includes ISE)	2,822	2642
4	4	NYSE Euronext (includes all EU and US markets)	2,283	2155
5	**5**	**National Stock Exchange of India**	**2,200**	**1616**
6	6	BM&F Bovespa	1,500	1414
7	8	Nasdaq OMX Group	1,296	1099
8	7	Chicago Board Options Exchange group	1,217	1124
9	9	Multi Commodity Exchange of India (includes MCX-SX)	1,196	1082
10	10	Russian Trading Systems Stock Exchange	1,083	624

Note: Ranked by number of contracts traded and/or cleared.
Source: Futures Industry Annual Volume Survey, March 2012

Trading Volumes In Equity Derivatives

The total trading volumes in the equity derivatives at NSE and BSE increased from ₹ 292,483,751 million in 2010-11 to ₹ 321,582,088 million (US $ 6,427,599 million) in 2011-12. At NSE, 1205 million contracts with a turnover of ₹ 313,497,318 million (US $ 6,268,683 million) were traded while at BSE 32 million contracts traded with trading volumes of ₹ 8,084,770 million (US $ 158,915 million) were traded (Table 6-5).

Table 6-5: Trade Details of Derivatives Market

Month/ Year	NSE			BSE			TOTAL		
	No. of Contracts Traded	Turnover (₹ mn)	Turnover (US $ mn)	No. of Contracts Traded	Turnover (₹ mn)	Turnover (US $ mn)	No. of Contracts Traded	Turnover (₹ mn)	Turnover (US $ mn)
2009-10	679,293,922	176,636,663	3,913,085	9,026	2,341	52	679,302,948	176,639,004	3,913,137
2010-11	1,034,212,062	292,482,211	6,550,553	5,623	1,540	34	1,034,217,685	292,483,751	6,550,588
Apr-11	81,540,014	23,513,002	480,590	4,925	1,480	30	81,544,939	23,514,482	480,620
May-11	96,041,825	26,051,378	532,473	9,054	2,830	58	96,050,879	26,054,208	532,530
Jun-11	90,744,339	24,381,766	498,347	2,418	720	15	90,746,757	24,382,486	498,362
Jul-11	91,377,746	25,649,648	524,261	1,268	360	7	91,379,014	25,650,008	524,269
Aug-11	116,885,761	29,637,492	605,770	2,164	580	12	116,887,925	29,638,072	605,782
Sep-11	114,305,645	28,352,638	579,509	31,782	8400	1,034	114,337,427	28,361,038	580,543
Oct-11	89,140,784	22,332,211	436,547	188,502	50,610	989	89,329,286	22,382,821	437,536
Nov-11	110,362,429	27,165,587	531,029	898,268	230,720	4,510	111,260,697	27,396,307	535,539
Dec-11	116,748,014	27,688,629	541,253	1,924,485	466,150	9,112	118,672,499	28,154,779	550,366
Jan-12	91,396,342	22,514,875	440,118	2,792,865	691,550	13,518	94,189,207	23,206,425	453,636
Feb-12	95,939,660	26,417,781	516,411	17,703,449	4,344,190	84,920	113,643,109	30,761,971	601,331
Mar-12	110,562,905	29,792,310	582,376	8,663,645	2,287,180	44,709	119,226,550	32,079,490	627,085
2011-12	**1,205,045,464**	**313,497,318**	**6,268,683**	**32,222,825**	**8,084,770**	**158,915**	**1,237,268,289**	**321,582,088**	**6,427,599**
Apr-12	82,812,184	22,073,169	404,270	14,115,666	3,697,170	67,714	96,927,850	25,770,339	471,984
May-12	110,152,708	27,198,431	498,140	25,119,550	6,242,960	114,340	135,272,258	33,441,391	612,480
Jun-12	105,012,433	26,407,065	483,646	28,986,767	7,324,830	134,154	133,999,200	33,731,895	617,800
Jul-12	93,181,580	24,530,832	449,283	37,912,818	9,781,430	179,147	131,094,398	34,312,262	628,430
Aug-12	90,991,925	24,321,686	445,452	32,826,346	8,743,550	160,138	123,818,271	33,065,236	605,590
Sep-12	93,363,996	25,919,485	474,716	11,109,685	3,053,190	55,919	104,473,681	28,972,675	530,635
Apr-Sep'12	**575,514,826**	**150,450,667**	**2,755,507**	**150,070,832**	**38,843,130**	**711,413**	**725,585,658**	**189,293,797**	**3,466,919**

Source: BSE, NSE

The index options segment was the clear leader in the product-wise turnover of the futures and options segment in the NSE in 2011–2012 (Table 6-6). The turnover in the index options category was 72.5 percent of the total turnover in the F&O segment of the NSE, whereas products such as stock futures and index futures witnessed a year-on-year drop of 5.4 percent and 23.3 percent, respectively. This trend continued in the first half of 2012–2013, with index options constituting around 73 percent of the total turnover in this segment.

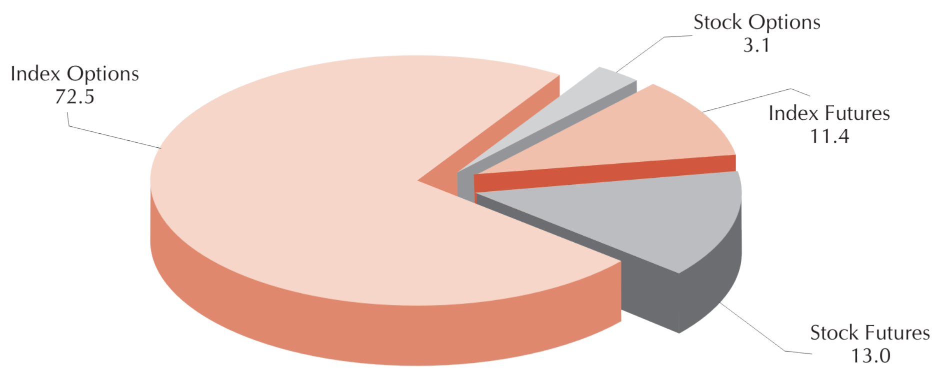
Table 6-6: Product - wise Turnover on the Equity Derivatives Segment of NSE

Period	Index Futures			Stock Futures			Index Options			Stock Options			Total		Average Daily Turnover (₹ mn)
	No. of contracts	Turnover (₹ mn)	Per-cent-age-share in total turn-over	No. of contracts	Turnover (₹ mn)	Per-cent-age share in total turn-over	No. of contracts	Notional Turnover (₹ mn)	Per-cent-age-share in total turn-over	No. of contracts	Notional Turnover (₹ mn)	Per-cent-age share in total turn-over	No. of contracts	Turnover (₹ mn)	
2009-10	178,306,889	39,343,887	22.3	145,591,240	51,952,466	29.4	341,379,523	80,279,642	45.4	14,016,270	5,060,652	2.9	679,293,922	176,636,647	723,921
2010-11	165,023,653	43,567,545	14.9	186,041,459	54,957,567	18.8	650,638,557	183,653,657	62.8	32,508,393	10,303,441	3.5	1,034,212,062	292,482,211	1,151,505
Apr-11	10,271,439	2,823,027	12.0	12,880,705	3,531,593	15.0	56,031,353	16,458,807	70.0	2,356,517	699,576	3.0	81,540,014	23,513,002	1,306,278
May-11	11,888,838	3,057,446	11.7	13,474,455	3,366,886	12.9	68,034,536	18,928,965	72.7	2,643,996	698,082	2.7	96,041,825	26,051,378	1,184,154
Jun-11	10,313,335	2,651,777	10.9	12,993,351	3,226,950	13.2	64,833,325	17,845,705	73.2	2,604,328	657,335	2.7	90,744,339	24,381,766	1,108,262
Jul-11	10,048,859	2,656,409	10.4	12,260,020	3,498,907	13.6	66,268,437	18,677,255	72.8	2,800,430	817,077	3.2	91,377,746	25,649,648	1,221,412
Aug-11	14,585,694	3,471,766	11.7	13,366,537	3,337,909	11.3	86,141,851	22,095,237	74.6	2,791,679	732,580	2.5	116,885,761	29,637,492	1,411,309
Sep-11	14,796,435	3,468,263	12.2	13,329,926	3,262,895	11.5	83,122,036	20,857,300	73.6	3,057,248	764,180	2.7	114,305,645	28,352,638	1,350,126
Oct-11	11,289,988	2,659,450	11.9	11,358,625	2,799,709	12.5	63,950,603	16,211,187	72.6	2,541,568	661,866	3.0	89,140,784	22,332,211	1,175,380
Nov-11	13,469,578	3,121,389	11.5	13,398,165	3,054,215	11.2	80,542,787	20,272,364	74.6	2,951,899	717,620	2.6	110,362,429	27,165,587	1,358,279
Dec-11	13,886,601	3,071,977	11.1	12,755,993	2,799,207	10.1	86,880,013	21,087,513	76.2	3,225,407	729,932	2.6	116,748,014	27,688,629	1,318,506
Jan-12	10,856,475	2,507,379	11.1	13,958,030	3,508,481	15.6	62,424,041	15,425,422	68.5	4,157,796	1,073,593	4.8	91,396,342	22,514,875	1,023,403
Feb-12	11,289,436	2,911,384	11.0	15,306,021	4,518,693	17.1	65,316,148	17,772,197	67.3	4,028,055	1,215,507	4.6	95,939,660	26,417,781	1,320,889
Mar-12	13,492,062	3,379,718	11.3	13,262,789	3,841,263	12.9	80,472,606	21,568,366	72.4	3,335,448	1,002,964	3.4	110,562,905	29,792,310	1,354,196
2011-12	**146,188,740**	**35,779,984**	**11.4**	**158,344,617**	**40,746,707**	**13.0**	**864,017,736**	**227,200,316**	**72.5**	**36,494,371**	**9,770,311**	**3.1**	**1,205,045,464**	**313,497,318**	**1,259,025**
Apr-12	9,218,725	2,289,887	10.4	10,739,998	3,038,533	13.8	59,396,590	15,738,600	71.3	3,456,871	1,006,149	4.6	82,812,184	22,073,169	1,103,658
May-12	11,444,310	2,660,016	9.8	12,748,867	3,030,079	11.1	81,452,069	20,379,366	74.9	4,507,462	1,128,970	4.2	110,152,708	27,198,431	1,236,292
Jun-12	11,066,729	2,643,043	10.0	12,482,626	3,047,964	11.5	77,261,461	19,634,771	74.4	4,201,617	1,081,286	4.1	105,012,433	26,407,065	1,257,479
Jul-12	9,049,837	2,245,044	9.2	12,436,098	3,357,854	13.7	66,982,807	17,571,902	71.6	4,712,838	1,356,031	5.5	93,181,580	24,530,832	1,115,038
Aug-12	7,881,956	1,996,284	8.2	11,675,491	3,156,989	13.0	66,359,441	17,729,998	72.9	5,075,037	1,438,415	5.9	90,991,925	24,321,686	1,158,176
Sep-12	7,815,624	2,069,101	8.0	12,441,509	3,498,774	13.5	67,458,468	18,705,919	72.2	5,648,395	1,645,691	6.3	93,363,996	25,919,485	1,295,974
Apr-Sep'12	**56,477,181**	**13,903,375**	**9.2**	**72,524,589**	**19,130,193**	**12.7**	**418,910,836**	**109,760,557**	**73.0**	**27,602,220**	**7,656,542**	**5.1**	**575,514,826**	**150,450,667**	**1,194,053**

Source: NSE

Chart 6-1: Product-wise Distribution of Turnover of F&O Segment of NSE, 2011-12

(in percent)



Source: NSE

In fact, according to the Future Industry Association (FIA) Survey 2011, NSE's S&P CNX Nifty Index options, surged in popularity with volume rising 64.3 percent to 868.68 million contracts in 2011.

Open Interest

Open interest is the total number of open contracts on a security, that is, the number of future contracts or options contracts that have not been exercised, expired or fulfilled by delivery. Hence, we can say that the open interest position at the end of each day represents the net increase or decrease in the number of contracts for that day. Increasing open interest means that fresh funds are fl owing in the market, while declining open interest means that the market is liquidating. The highest open interest in index futures at NSE was recorded at 8,84,082 contracts on April 15, 2009. The daily open interest for near month index futures at NSE is presented in (Chart 6-2).

Implied Interest Rate

In the futures market, the implied interest rate or cost of carry is often used interchangeably. Cost of carry is more appropriately used for commodity futures, as by definition it means the total costs required to carry a commodity or any other good forward in time. The costs involved are storage cost, insurance cost, transportation cost, and financing cost. In the case of equity futures, the cost of carry is the cost of financing minus the dividend returns. Assuming zero dividends, the only relevant factor is the cost of financing.

Implied interest rate is the percentage difference between the future value of an index and the spot value, annualized on the basis of the number of days before the expiry of the contract. Cost of carry or implied interest rate plays an important role in determining the price differential between the spot and the futures market. The degree of relative costliness of a future rate can be assessed by comparing the implied rate with the spot rate. Implied interest rate is also a measure of the profitability of an arbitrage position. Theoretically, if the futures price is less than the spot price plus cost of carry, or if the futures price is greater than the spot price plus cost of carry, arbitrage opportunities exist.

The futures prices are available for different contracts at different points of time. (Chart 6-3) presents Nifty 50 futures close prices for the near month contracts, and the spot Nifty 50 close values from April 2008 to June 2009. The difference between the future and the spot price is called basis. As the time to expiration approaches, the basis reduces. Daily implied interest rate for Nifty 50 futures from April 2011 to September 2012 is presented in (Chart 6-4).

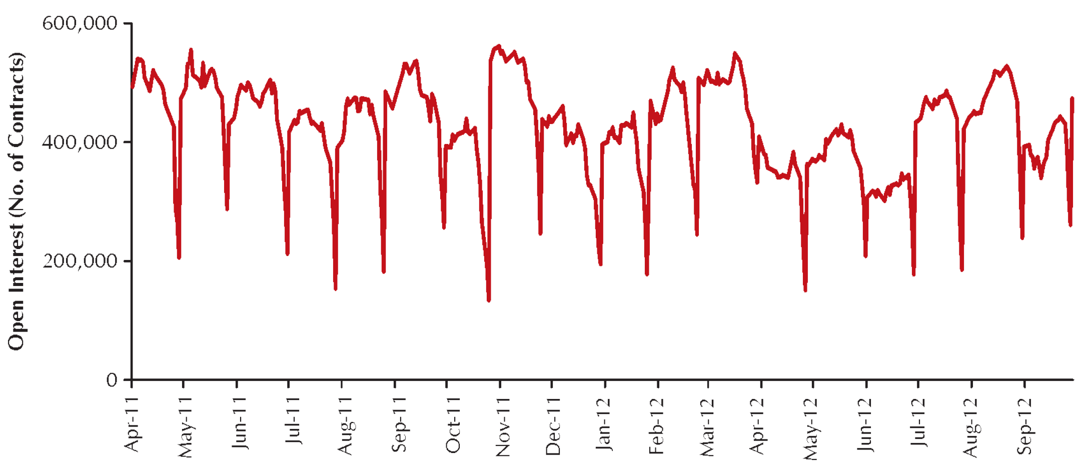
The implied interest rate for near month Nifty 50 futures as on last trading of the month is presented in Table 6-7.

Table 6-7: Implied Interest Rate for Near Month Nifty Futures (April 2011 - September 2012)

Month	Expiry Date of Near Month Contract	Closing Future Price (₹)	Closing Spot Price (₹)	Implied Interest Rate (in percent)
Apr-11	28-Apr-2011	5753.80	5749.50	1.0
May-11	26-May-2011	5554.90	5560.15	-1.1
Jun-11	30-Jun-2011	5644.10	5627.20	2.7
Jul-11	28-Jul-2011	5488.05	5482.00	1.5
Aug-11	25-Aug-2011	5003.00	5001.00	0.5
Sep-11	29-Sep-2011	4934.30	4943.25	-2.6
Oct-11	25-Oct-2011	5347.10	5326.60	5.8
Nov-11	24-Nov-2011	4832.35	4832.05	0.1
Dec-11	29-Dec-2011	4634.40	4624.30	3.1
Jan-12	25-Jan-2012	5223.35	5199.25	7.3
Feb-12	23-Feb-2012	5439.50	5385.20	12.6
Mar-12	29-Mar-2012	5333.25	5295.55	9.6
Apr-12	26-Apr-2012	5267.85	5248.15	4.4
May-12	31-May-2012	4916.25	4924.25	-4.8
Jun-12	28-Jun-2012	5297.35	5278.90	4.7
Jul-12	26-Jul-2012	5240.55	5229.00	2.7
Aug-12	30-Aug-2012	5291.65	5258.50	8.5
Sep-12	27-Sep-2012	5729.55	5703.30	6.2

Note: (1) The implied interest rate is calculated on the last trading day of the month for near month Nifty futures
(2) Number of days in a year have been taken as 365.
Source: NSE

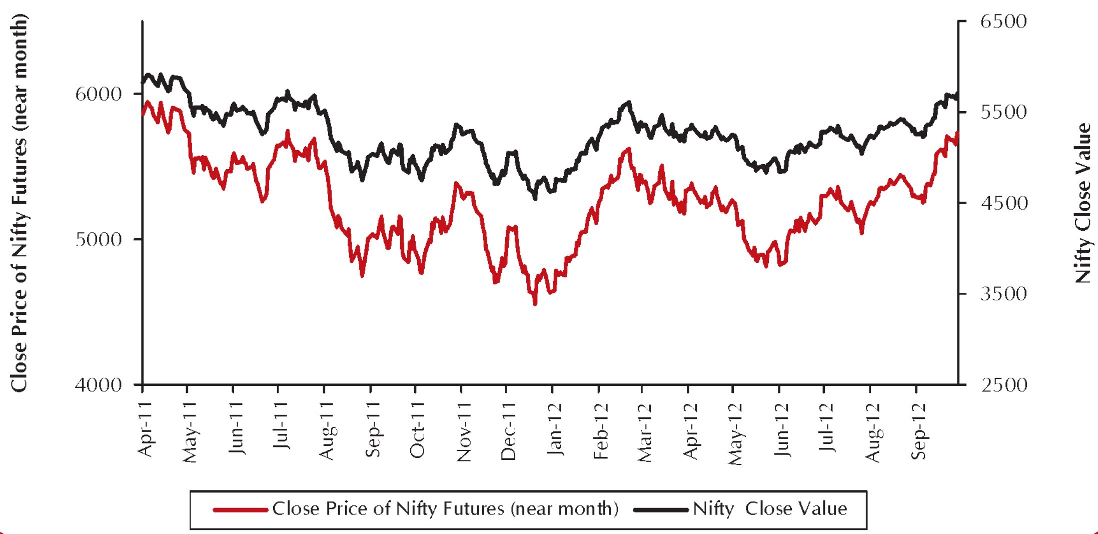
Chart 6-2: Daily Open Interest for Near Month Nifty Futures (April 2011 - September 2012)



Source : NSE

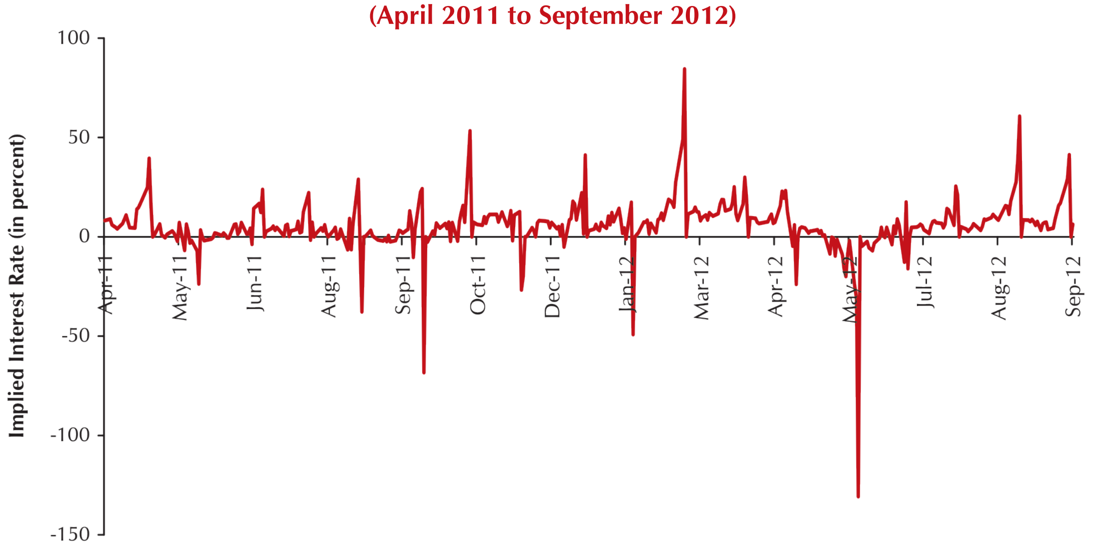
The implied interest rate for near month Nifty 50 futures as on the last trading day of the month is presented in Table 6-7.

Chart 6-3: Nifty Futures and Spot Price (April 2011-September 2012)



Source : NSE

Chart 6-4: Implied Interest Rate for Near Month Nifty Futures (April 2011 to September 2012)



Source : NSE

Implied Volatility

Volatility is one of the important factors that are taken into account while pricing options. It is a measure of the amount and the speed of price change. To estimate the future volatility, a time-series analysis of historical volatility may be carried out to know the future movements of the underlying. Alternatively, one could work out the implied volatility by entering all the parameters into an option pricing model, and then solving it for volatility. For example, the Black Scholes model solves for the fair price of the option by using the following parameters: days to expiry, strike price, spot price, and volatility of underlying, interest rate, and dividend. The reverse of this model could be used to arrive at the implied volatility by putting the current price of the option prevailing in the market.

To put it simply, implied volatility is the estimate of how volatile the underlying will be from the present until the expiry of the option. If the volatility is high, then the options premiums are relatively expensive, and vice versa. However, the implied volatility estimate can be biased, especially if they are based on options that are thinly traded samples.

Settlement

All derivative contracts are currently cash settled. In 2011–2012, the cash settlement amounted to ₹ 723 billion, compared to ₹ 837 billion in 2010–2011. During the first half of 2012–2013, the cash settlement amounted to ₹ 272 billion. The detail of the settlement statistics in the F&O segment is presented in Table 6-8.

Table 6-8: Settlement Statistics in F&O Segment

Month/Year	Index/Stock Futures		Index/Stock Options		Total Settlement (₹ mn)	Total (US $ mn)
	MTM Settlement	Final Settlement	Premium Settlement	Exercise Settlement		
	(₹ mn)					
2006-07	613,137	7,975	31,944	11,888	664,945	15,255
2007-08	1,446,547	13,121	67,602	37,923	1,565,193	39,159
2008-09	751,936	14,983	109,605	41,876	918,400	18,026
2009-10	606,557	13,953	110,110	38,808	769,428	17,045
2010-11	672,879	15,906	127,034	21,189	837,009	18,746
Apr-11	35,037	1,036	8,727	562	45,362	927
May-11	54,501	1,263	9,320	767	65,852	1,346
Jun-11	38,700	695	10,100	1,493	50,988	1,042
Jul-11	40,082	1,518	8,825	612	51,036	1,043
Aug-11	75,436	1,017	14,796	2,338	93,587	1,913
Sep-11	55,355	1,512	11,222	1,170	69,259	1,416
Oct-11	41,040	1,006	8,971	925	51,943	1,015
Nov-11	46,058	1,085	10,964	1,062	59,169	1,157
Dec-11	45,632	1,048	11,753	2,571	61,004	1,192
Jan-12	36,945	803	9,407	1,644	48,799	954
Feb-12	43,853	915	10,667	1,530	56,965	1,114
Mar-12	53,990	837	13,230	942	68,999	1,349
2011-12	**566,629**	**12,735**	**127,983**	**15,615**	**722,962**	**14,132**
Apr-12	28,842	334	8,990	564	38,730	709
May-12	42,796	518	10,412	931	54,657	1,001
Jun-12	33,995	287	10,925	1,244	46,450	851
Jul-12	34,579	1,631	14,022	745	50,976	934
Aug-12	23,747	596	10,244	637	35,224	645
Sep-12	32,727	656	10,624	1,459	45,467	833
Apr - Sep '12	**196,686**	**4,021**	**65,217**	**5,579**	**271,503**	**4,973**

Source: NSE

Table 6-9 : Business Growth of Currency Futures and Options Segment at NSE

Month/ Year	Currency Futures		Currency Options				Total		Total Turnover (US $ mn)
	No. of Contracts	Turnover (₹ mn)	Call		Put		No. of Contracts	Turnover (₹ mn)	
			No. of Contracts	Turnover (₹ mn)	No. of Contracts	Turnover (₹ mn)			
2010-11	712,181,928	32,790,021	23,297,306	1,065,061	14,122,841	642,795	749,602,075	34,497,877	674,360
Apr-11	55,564,072	2,511,591	13,997,224	628,497	7,692,250	344,584	77,253,546	3,484,672	68,118
May-11	71,874,854	3,297,923	12,837,811	584,268	9,830,047	442,825	94,542,712	4,325,016	84,545
Jun-11	71,692,233	3,298,959	15,593,859	708,131	9,336,323	421,685	96,622,415	4,428,775	86,573
Jul-11	85,383,927	3,897,340	23,693,577	1,064,810	13,194,701	590,666	122,272,205	5,552,816	108,546
Aug-11	87,940,090	4,068,389	19,411,623	886,229	19,888,142	896,608	127,239,855	5,851,226	114,379
Sep-11	59,402,945	2,888,475	12,099,974	583,040	13,639,884	644,014	85,142,803	4,115,529	80,450
Oct-11	40,286,286	2,014,120	8,369,448	418,588	6,049,710	298,436	54,705,444	2,731,144	53,388
Nov-11	43,759,113	2,263,981	9,639,713	499,845	8,897,214	452,837	62,296,040	3,216,663	62,879
Dec-11	44,666,235	2,386,692	9,347,785	500,999	8,144,859	430,355	62,158,879	3,318,046	64,861
Jan-12	50,511,361	2,609,505	11,115,582	579,615	7,829,350	405,687	69,456,293	3,594,807	70,271
Feb-12	44,637,071	2,219,194	8,317,221	416,987	6,715,582	332,780	59,669,874	2,968,961	58,037
Mar-12	45,653,787	2,328,719	9,280,363	476,401	7,049,916	357,125	61,984,066	3,162,245	61,815
2011-12	**701,371,974**	**33,784,889**	**153,704,180**	**7,347,408**	**118,267,978**	**5,617,602**	**973,344,132**	**46,749,899**	**9,137,086**
Apr-12	37,256,978	1,953,855	6,661,632	351,016	5,765,959	299,638	49,684,569	2,604,510	47,702
May-12	61,319,344	3,377,763	10,529,545	583,599	10,641,630	578,097	82,490,519	4,539,459	83,140
Jun-12	52,671,206	2,977,691	8,862,587	505,336	8,090,560	453,162	69,624,353	3,936,189	72,091
Jul-12	60,118,966	3,358,298	12,346,594	696,308	11,146,429	618,133	83,611,989	4,672,739	85,581
Aug-12	43,248,100	2,422,669	8,815,001	495,812	6,652,073	370,587	58,715,174	3,289,068	60,239
Sep-12	51,589,559	2,825,082	11,946,477	658,107	9,015,497	492,729	72,551,533	3,975,918	72,819
Apr-Sep'12	**306,204,153**	**16,915,358**	**59,161,836**	**3,290,178**	**51,312,148**	**2,812,347**	**416,678,137**	**23,017,883**	**4,215,729**

Note: Currency Futures trading started at NSE on August 29, 2008.
Currency Options were introduced at NSE w.e.f October 29, 2010.
Source: NSE

Table 6-10: Business Growth of Currency Futures and Options (Currency Pairs) at NSE

Month/ Year	USD-INR Options		USD-INR Futures		EUR-INR Futures		JPY-INR Futures		GBP-INR Futures		Total	
	No. of contracts	Traded Value (₹ mn)	No. of Contracts	Traded Value (Notional) (₹ mn)	No. of Contracts	Traded Value (Notional) (₹ mn)	No. of Contracts	Traded Value (Notional) (₹ mn)	No. of Contracts	Traded Value (Notional) (₹ mn)	No. of Contracts	Traded Value (Notional) (₹ mn)
2009-10	--	--	372,495,580	17,443,161	5,709,979	358,783	199,419	9,991	202,005	14,146	378,606,983	17,826,080
2010-11	37,420,147	170,786	691,678,302	31,544,673	15,326,870	920,467	2,755,184	151,171	2,421,572	173,710	749,602,075	32,960,807
Apr-11	21,689,474	973,081	53,637,776	2,387,905	1,332,198	85,891	284,288	15,183	309,810	22,612	77,253,546	3,484,672
May-11	22,667,858	1,027,093	68,935,958	3,106,858	2,092,978	135,159	351,894	19,544	494,024	36,362	94,542,712	4,325,016
Jun-11	24,930,182	1,129,816	68,134,350	3,066,603	2,269,836	146,688	479,438	26,799	808,609	58,869	96,622,415	4,428,775
Jul-11	36,888,278	1,655,476	80,600,204	3,589,413	3,177,833	201,919	605,859	34,151	1,000,031	71,856	122,272,205	5,552,816
Aug-11	39,299,765	1,782,837	83,392,911	3,774,532	2,673,585	172,868	1,102,179	63,910	771,415	57,079	127,239,855	5,851,226
Sep-11	25,739,858	1,227,054	57,659,635	2,772,477	976,038	63,895	443,659	27,803	323,613	24,300	85,142,803	4,115,529
Oct-11	14,419,158	717,024	39,202,467	1,939,523	657,245	44,666	236,373	15,137	190,201	14,795	54,705,444	2,731,144
Nov-11	18,536,927	952,682	42,644,348	2,184,696	649,459	44,902	209,113	13,742	256,193	20,641	62,296,040	3,216,663
Dec-11	17,492,644	931,354	43,624,532	2,310,953	525,952	36,643	235,465	16,026	280,286	23,070	62,158,879	3,318,046
Jan-12	18,944,932	985,302	49,629,233	2,547,989	513,615	34,087	154,571	10,272	213,942	17,157	69,456,293	3,594,807
Feb-12	15,032,803	749,767	43,939,438	2,171,750	362,703	23,802	164,241	10,271	170,689	13,371	59,669,874	2,968,961
Mar-12	16,330,279	833,526	44,848,202	2,273,443	394,742	26,497	221,147	13,572	189,696	15,207	61,984,066	3,162,245
2011-12	**271,972,158**	**12,965,010**	**676,249,054**	**32,126,143**	**15,626,184**	**1,017,017**	**4,488,227**	**266,408**	**5,008,509**	**375,320**	**973,344,132**	**46,749,899**
Apr-12	12,427,591	650,654	36,610,229	1,907,877	313,516	21,539	175,310	11,251	157,923	13,188	49,684,569	2,604,510
May-12	21,171,175	1,161,696	60,494,350	3,316,869	410,833	28,714	210,395	14,464	203,766	17,716	82,490,519	4,539,459
Jun-12	16,953,147	958,498	51,955,948	2,924,286	350,640	24,768	195,013	13,812	169,605	14,825	69,624,353	3,936,189
Jul-12	23,493,023	1,314,441	59,335,290	3,301,022	402,298	27,527	203,657	14,353	177,721	15,397	83,611,989	4,672,739
Aug-12	15,467,074	866,399	42,544,735	2,369,660	292,188	20,224	191,866	13,578	219,311	19,207	58,715,174	3,289,068
Sep-12	20,961,974	1,150,836	50,578,103	2,749,835	541,615	37,996	221,540	15,438	248,301	21,813	72,551,533	3,975,918
Apr-Sep'12	**110,473,984**	**6,102,525**	**301,518,655**	**16,569,549**	**2,311,090**	**160,767**	**1,197,781**	**82,896**	**1,176,627**	**102,146**	**416,678,137**	**23,017,883**

Note: Currency Futures on EUR-INR, GBP-INR and JPY-INR were introduced w.e.f. February 01, 2010.
Source: NSE

Business Growth in Currency Futures & Options Segment

The currency futures and options volumes on the NSE increased by 29.8 percent from ₹ 34,497,877 million in 2010-11 to ₹ 46,749,899 million in 2011-12. The trading volume for the period April 2012 to September 2012 was ₹ 23,017,883 million. Table 6-9 presents the business growth in the currency derivatives segments (currency futures and options volumes) on the NSE while table 6-10 presents the number of contracts and turnover for USD-INR futures and option contracts; and future contracts on Euro-INR, Japanese Yen-INR and GBP-INR.

Currency option contracts based on the currency pair USD-INR were launched by NSE in 2010-2011 (October 29, 2010). From April 2011 to March 2012, number of option contracts traded stood at 271,972,158 with a trading volume of ₹ 12,965,010 million.

During April 2011- March 2012, cash settlement for currency futures amounted to ₹ 44,671 (US $ 873 million). The details of settlement statistics for currency futures and options at NSE is presented in Table 6-11.

Table 6-11: Settlement Statistics of Currency Futures and Options at NSE

Month/Year	NSE				Total	Total
	Currency Futures		Currency Options			
	MTM Settlement	Final Settlement	MTM Settlement	Final Settlement		
	(₹ mn)	(₹ mn)	(₹ mn)	(₹ mn)	(₹ mn)	(US $ mn)
2010-11	24,108	903	2,457	644	28,112	630
2011-12	**58,290**	**1,561**	**14,210**	**8,843**	**82,904**	**1,621**
Apr-12	3,503	24	807	423	4,757	93
May-12	9,478	225	1,721	754	12,178	238
Jun-12	6,205	93	1,155	420	7,872	154
Jul-12	6,675	65	1,682	259	8,682	170
Aug-12	3,212	17	1,033	248	4,510	88
Sep-12	4,872	62	1,382	356	6,672	130
Apr-Sep'12	**33,945**	**486**	**7,780**	**2,460**	**44,671**	**873**

Source: NSE

Annexure 6-1: Business Growth in Derivatives on Global Indices at NSE

Month / Year	S&P 500 Futures			S&P 500 Options			FTSE Futures			FTSE Options			DJIA Futures		
	No. of Contracts traded	Turnover (₹ mn)	Turnover (US $ mn)	No. of Contracts traded	Turnover (₹ mn)	Turnover (US $ mn)	No. of Contracts traded	Turnover (₹ mn)	Turnover (US $ mn)	No. of Contracts traded	Turnover (₹ mn)	Turnover (US $ mn)	No. of Contracts traded	Turnover (₹ Crs)	Turnover (US $ mn)
Aug-11	2,266	675	13	3,118	953	19	-	-	-	-	-	-	3,062	875	17
Sep-11	20,644	6,036	118	17,134	5,171	101	-	-	-	-	-	-	44,941	12,500	244
Oct-11	23,808	7,090	139	5,065	1,529	30	-	-	-	-	-	-	44,270	12,609	246
Nov-11	42,793	13,025	255	3,096	959	19	-	-	-	-	-	-	68,066	19,992	391
Dec-11	45,812	14,190	277	2,610	820	16	-	-	-	-	-	-	70,489	21,239	415
Jan-12	98,122	31,557	617	6,029	1,963	38	-	-	-	-	-	-	114,796	35,655	697
Feb-12	71,245	23,944	468	3,356	1,134	22	-	-	-	-	-	-	89,556	28,704	561
Mar-12	44,028	15,092	295	1,677	579	11	-	-	-	-	-	-	52,607	17,073	334
2011-12	**348,718**	**111,610**	**2,182**	**42,085**	**13,108**	**256**	-	-	-	**-**	**-**	-	**487,787**	**148,647**	**2,906**
Apr-12	7,267	2,509	46	305	107	2	-	-	-	-	-	-	15,105	4,889	90
May-12	6,443	2,146	39	875	296	5	135,205	36,813	674	19,247	5,204	95	20,553	6,504	119
Jun-12	7,321	2,419	44	336	111	2	77,487	20,976	384	15,628	4,285	78	20,251	6,337	116
Jul-12	5,336	1,811	33	70	24	0	23,098	6,497	119	25,774	7,186	132	16,637	5,311	97
Aug-12	5,427	1,900	35	24	9	0	18,032	5,234	96	24,384	6,925	127	18,448	6,049	111
Sep-12	3,109	1,122	21	131	46	1	17,902	5,230	96	21,300	6,136	112	12,306	4,132	76
Apr-Sep'12	**34,903**	**11,908**	**218**	**1,741**	**593**	**11**	**271,724**	**74,751**	**1,369**	**106,333**	**29,737**	**545**	**103,300**	**33,222**	**608**

Note : With effect from May 03, 2012 - FTSE100 index has been included.
Source: NSE

7. Foreign Investments in India

Introduction

From 1992, foreign institutional investors (FIIs) have been allowed to invest in all securities traded on the primary and secondary markets, including shares, debentures and warrants issued by companies which were listed or were to be listed on the stock exchanges in in India and in schemes floated by domestic mutual funds. Foreign Institutional Investors (FIIs) registered with SEBI are eligible to purchase shares and convertible debentures issued by Indian companies under the portfolio investment scheme (PIS). In the Budget 2011-I2, the Government of India, for the first time, permitted qualified foreign investors (QFIs), who meet the KYC norms, to directly invest in Indian equity mutual fund (MF) schemes and in MF debt schemes that invest in infrastructure. It was for the first time that this new class of investors was allowed to directly participate in the Indian capital market. In January 2012, the Government expanded this scheme to allow QFIs to directly invest in Indian equity markets. In the budget 2012-13, Government announced its intention to permit QFIs to invest in corporate bonds in India. This chapter discusses the investments and purchases of FIIs and private equity.

Foreign Institutional Investors (FIIs)

The monthly trend in FII investments in 2011–2012 (depicted in Table 7-1) shows that the net FII investments were negative for certain months such as May 2011, August 2011, September 2011 and November 2011. In February 2012, the net investment of ₹ 352,280 million (US $ 7,164) by FIIs was the highest monthly net investment in 2011-12. The total net investment by FIIs in 2011-12 stood at US $ 18,923 million, and it dried up in the first half of 2012-13 at US $ 8,020 million.

Table 7-1: Trends in FII Investment

Period	Gross Purchases (₹ mn)	Gross Sales (₹ mn)	Net Investment (₹ mn)	Net Investment (US $ mn)	Cumulative Net Investment (US $ mn)
2000-01	740,506	641,164	99,342	2,159	13,396
2001-02	499,199	411,650	87,549	1,846	15,242
2002-03	470,601	443,710	26,891	562	15,804
2003-04	1,448,575	990,940	457,635	9,949	25,754
2004-05	2,169,530	1,710,730	458,800	10,173	35,927
2005-06	3,449,780	3,055,120	394,660	9,334	45,261
2006-07	5,205,090	4,896,680	308,410	6,709	51,967
2007-08	9,480,196	8,389,304	1,090,892	16,040	68,006
2008-09	6,145,810	6,603,920	-458,110	-11,356	56,650

Contd.

Contd.

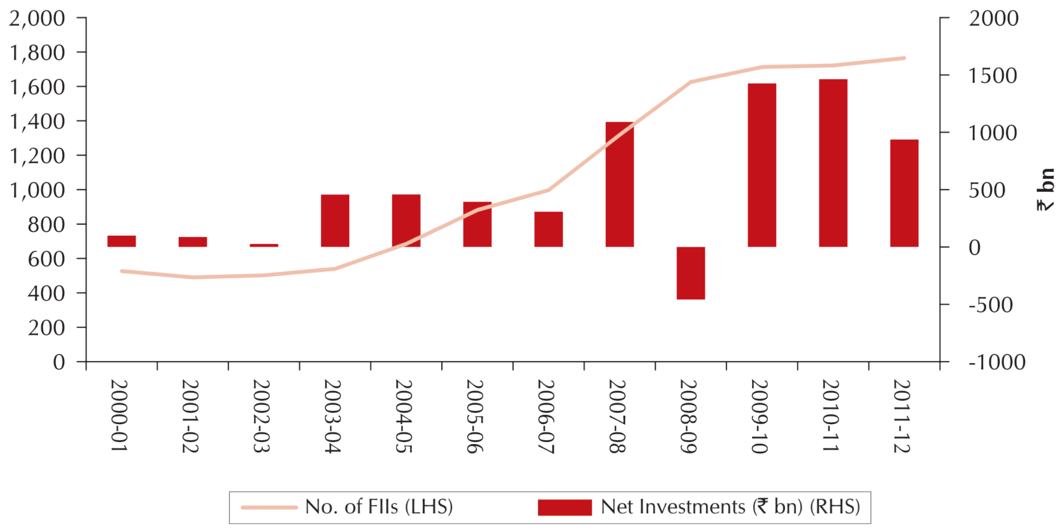
Period	Gross Purchases (₹ mn)	Gross Sales (₹ mn)	Net Investment (₹ mn)	Net Investment (US $ mn)	Cumulative Net Investment (US $ mn)
2009-10	8,464,400	7,037,810	1,426,580	30,253	89,333
2010-11	9,925,990	8,461,610	1,464,380	32,226	121,561
Apr-11	767,320	695,360	71,960	1,616	123,175
May-11	770,460	813,220	-42,760	-948	122,227
Jun-11	806,240	757,410	48,830	1,083	123,310
Jul-11	772,180	665,660	106,530	2,399	125,709
Aug-11	695,900	774,930	-79,030	-1,766	123,943
Sep-11	648,680	667,350	-18,660	-342	123,600
Oct-11	644,110	613,320	30,790	634	124,235
Nov-11	622,960	655,590	-32,630	-586	123,649
Dec-11	920,200	701,470	218,730	4,195	127,844
Jan-12	765,480	502,200	263,280	5,087	132,930
Feb-12	1,036,340	684,060	352,280	7,164	140,095
Mar-12	762,980	745,050	17,930	387	140,482
2011-12	**9,212,850**	**8,275,620**	**937,250**	**18,923**	**140,482**
Apr-12	504,250	553,220	-48,970	-927	139,555
May-12	598,000	565,780	32,220	597	140,152
Jun-12	634,750	622,950	11,800	209	140,361
Jul-12	675,200	538,560	136,640	2,463	142,824
Aug-12	599,510	488,820	110,690	1,996	144,820
Sep-12	829,694	630,857	198,840	3,682	148,502
Apr-Sep '12	**3,841,397**	**3,400,172**	**441,234**	**8,020**	**148,502**

Source: SEBI

Number of Foreign Institutional Investors (FIIs)

The net addition in the SEBI-registered FIIs failed to keep up the momentum that was seen in 2007–2008 and 2008–2009, where 322 and 316 FIIs, respectively, were added. There was a net addition of 43 SEBI-registered FIIs in 2011–2012, which took their total number to 1,765 at the end of March 2012, compared to that of 1,722 at the end of March 2011 (Chart 7-1).

Chart 7-1: Number of FIIs and Net Investments



Source: SEBI

Foreign Institutional Investments—Equity and Debt

In 2011–2012; the net FII investments in equity fell by 60.3 percent from last year to ₹ 437,380 million. (Table 7-2)

The net investments by FIIs in the debt segment grew by 37.6 percent in 2011–2012 with a staggering all-time high of ₹ 217,750 million, compared to ₹ 363,190 in 2010–2011. During April–September, 2012, the FIIs made net investments worth ₹ 57,428 million in debt while net investments of ₹ 383,806 million were made in equity in the first half of 2012–2013.

Table 7-2: Net Investments by FIIs in Equity and Debt

Year	FIIs			
	Net Investment in Equity (₹ mn)	Net Investment in Debt (₹ mn)	Net Investment in Equity (US $ mn)	Net Investment in Debt (US $ mn)
2001-02	80,670	6,850	1,653	140.37
2002-03	25,280	600	532	12.63
2003-04	399,590	58,050	9,209	1,338
2004-05	441,230	17,590	10,085	402
2005-06	488,010	-73,340	12,209	-1,835
2006-07	252,370	56,070	5,790	1,286
2007-08	534,038	127,753	13,361	3,196
2008-09	-477,070	18,950	-9,363	372
2009-10	1,102,200	324,380	24,417	7,186

Contd.

Contd.

Year	FIIs			
	Net Investment in Equity (₹ mn)	Net Investment in Debt (₹ mn)	Net Investment in Equity (US $ mn)	Net Investment in Debt (US $ mn)
2010-11	1,101,207	363,190	24,663	8,134
Apr-11	72,130	-170	1,410	-3
May-11	-66,140	23,380	-1,293	457
Jun-11	45,720	3,110	894	61
Jul-11	80,300	26,230	1,570	513
Aug-11	-108,340	29,310	-2,118	573
Sep-11	-1,580	-17,070	-31	-334
Oct-11	16,770	14,010	328	274
Nov-11	-41,980	9,350	-821	183
Dec-11	980	217,750	19	4,257
Jan-12	103,580	159,710	2,025	3,122
Feb-12	252,120	100,160	4,928	1,958
Mar-12	83,810	-65,890	1,638	-1,288
2011-12	**437,380**	**499,880**	**8,550**	**9,772**
Apr-12	-11,091	-37,875	-203	-694
May-12	-3,471	35,691	-64	654
Jun-12	-5,013	16,818	-92	308
Jul-12	102,727	33,917	1,881	621
Aug-12	108,039	2,652	1,979	49
Sep-12	192,615	6,225	3,528	114
Apr-Sep '12	**383,806**	**57,428**	**7,029**	**1,052**

Source: SEBI

FII Turnover – Equity and Derivatives

Equity Market

The gross turnover of FIIs in the equity market segment on the Indian stock exchanges (the NSE and the BSE) accounted for ₹ 12,324,747 million in 2011–2012, which marked a year-on-year fall of 14 percent. The total turnover of the FIIs in the equity market constituted 17.7 percent of the total turnover on the BSE and the NSE in 2011–2012, an improvement from 15.3 percent recorded in 2010–2011 (Table 7-3 and Chart 7-2).

Table 7-3: Gross Turnover of FIIs in Equity Market Segment of NSE and BSE

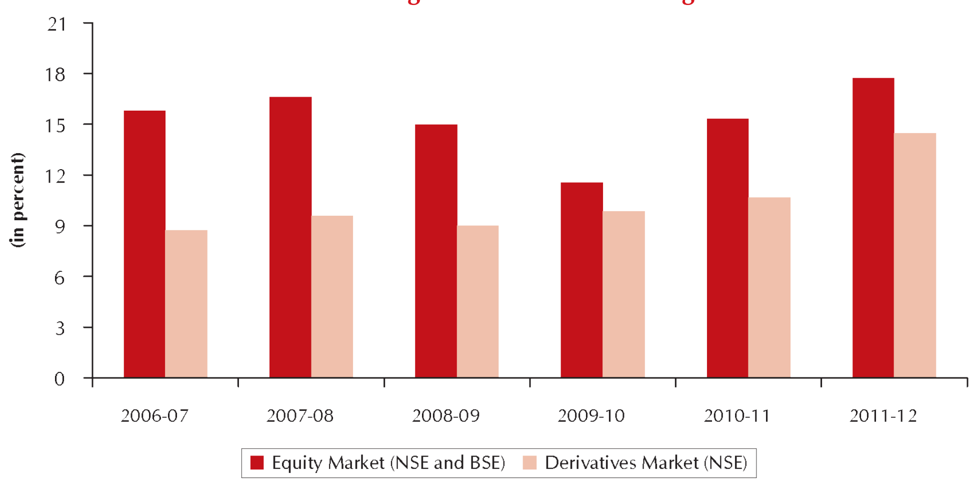
Year	Buy Value (₹ mn)	Buy Value (US $ mn)	Sell Value (₹ mn)	Sell Value (US $ mn)	Gross Turnover of FIIs (₹ mn)	Gross Turnover of FIIs (US $ mn)	Total Turnover on Exchanges (₹ mn)	Total Turnover on Exchanges (US $ mn)	Percent of FII turnover to total turnover on Exchanges
2006-07	4,550,232	104,387	4,595,466	105,425	9,145,698	209,812	57,946,240	1,329,347	15.8
2007-08	8,329,655	208,398	8,705,790	217,808	17,035,445	390,811	102,515,340	2,564,807	16.6
2008-09	5,396,976	105,927	6,129,276	120,300	11,526,252	226,227	77,037,880	1,512,029	15.0
2009-10	6,568,931	145,524	6,181,265	136,935	12,750,197	282,459	110,336,640	2,444,321	11.6
2010-11	7,715,649	172,803	6,614,442	148,140	14,330,091	320,943	93,648,740	2,097,396	15.3
2011-12	**6,269,806**	**122,561**	**6,054,941**	**118,361**	**12,324,747**	**240,922**	**69,558,313**	**1,359,716**	**17.7**
Apr-Sep '12	**2,878,897**	**52,727**	**2,555,099**	**46,797**	**5,433,995**	**99,524**	**30,669,358**	**561,710**	**17.7**

Source: NSE

Derivative Market

The FII gross turnover in the F&O Segment of the NSE in 2011–2012 was ₹ 90,607,826 million, which was 14.5 percent of the turnover of the derivatives market (₹ 313,492,317 million) at the NSE. The share of the FIIs' gross turnover increased to 16.2 percent of the derivatives turnover on the NSE during the first half of 2012–2013 (Table 7-4 and Chart 7-2).

Chart 7-2: Percentage of FII Turnover in Equity and Derivative Segments of Stock Exchanges



Source: NSE

Offshore Derivative Instruments (ODIs)

Offshore derivative instruments include participatory notes, equity-linked notes, capped return notes, investment notes, and similar instruments issued by FIIs/sub-accounts outside India against their underlying investments in India, that are listed or are proposed to be listed on any stock exchange in India.

Table 7-4: FII Turnover in F&O Segment of NSE

Year	Buy Side			Sell Side			Gross No. of contracts traded	Gross Turnover of FIIs		F&O Turnover on NSE (₹ mn)	Percent of FII turnover to total F & O turnover on NSE
	No. of contracts	Amount (₹ mn)	Amount (US $ mn)	No. of contracts	Amount (₹ mn)	Amount (US $ mn)		Amount (₹ mn)	Amount (US $ mn)		
2006-07	20,215,981	6,484,665	148,765	19,659,868	6,360,392	145,914	39,875,849	12,845,058	294,679	147,124,840	8.7
2007-08	47,880,785	12,633,510	316,075	46,078,979	12,401,616	310,273	93,959,764	25,035,126	626,348	261,809,559	9.6
2008-09	58,338,152	10,165,351	199,516	55,464,681	9,680,224	189,995	113,802,833	19,845,575	389,511	220,209,643	9.0
2009-10	68,934,646	17,519,697	388,119	67,561,143	17,252,480	382,199	136,495,789	34,772,177	770,319	353,273,294	9.8
2010-11	114,061,171	31,853,782	713,411	108,896,036	30,518,144	683,497	222,957,207	62,371,926	1,396,908	584,964,421	10.7
2011-12	**178,302,194**	**45,715,596**	**893,642**	**174,737,062**	**44,892,230**	**877,547**	**353,039,256**	**90,607,826**	**1,771,189**	**626,994,635**	**14.5**
Apr-Sep'12	**94,989,891**	**24,584,747**	**450,270**	**93,014,556**	**24,113,078**	**441,631**	**188,004,447**	**48,697,825**	**891,902**	**300,901,333**	**16.2**

Note: The data for FII turnover is only the data of NSE which is reported to SEBI.
Source: NSE

Participatory notes are the most common type of ODIs. The PNs are instruments used by foreign funds that are not registered in the country for trading in the domestic market. They are a derivative instrument issued against an underlying security that permits the holder to share in the capital appreciation and income from the underlying security.

As of March 2012, the total value of PNs with underlying Indian securities as a percentage of assets under custody of FIIs has further deteriorated to 15 percent from 15.8 percent in March 2011 and 16.1 percent in March 2010. (Table 7-5).

Table 7-5: Total Value of Participatory Notes compared to Assets Under Management of FIIs

Month	*Total Value of PNotes on Equity and Debt with Underlying Indian securities (A) (₹ mn)	*Total Value of PNotes with Underlying Indian securities (US $ mn)	#Assets Under Custody of FIIs (B) (₹ mn)	#Assets Under Custody of FIIs (US $ mn)	A as percent of B
Mar-06	1,548,630	35,284	4,536,360	113,494	34.1
Mar-07	2,428,390	55,329	5,470,100	125,490	44.4
Mar-08	2,508,520	57,155	7,367,530	184,326	34.0
Mar-09	694,450	15,823	3,919,540	76,929	17.7
Mar-10	1,450,370	33,046	9,008,690	199,572	16.1
Mar-11	1,750,970	39,895	11,065,500	247,828	15.8
Apr-11	1,664,440	37,923	11,067,180	216,340	15.0
May-11	2,111,990	48,120	10,819,960	211,507	19.5
Jun-11	1,532,910	34,926	10,863,880	212,366	14.1
Jul-11	1,504,140	34,271	10,770,960	210,549	14.0
Aug-11	1,522,880	34,698	9,858,930	192,721	15.4
Sep-11	1,752,910	39,939	9,791,640	191,406	17.9
Oct-11	1,800,020	41,012	10,255,300	200,469	17.6
Nov-11	1,790,350	40,792	9,380,980	183,378	19.1
Dec-11	1,387,110	31,604	9,179,300	179,436	15.1
Jan-12	1,576,970	35,930	10,431,300	203,910	15.1
Feb-12	1,831,510	41,730	11,156,480	218,085	16.4
Mar-12	1,658,320	37,784	11,073,990	216,473	15.0
Apr-12	1,300,120	29,622	10,939,550	200,358	11.9
May-12	1,288,950	29,368	10,405,470	190,576	12.4
Jun-12	1,298,510	29,586	10,903,590	199,699	11.9
Jul-12	1,295,860	29,525	10,964,920	200,823	11.8
Aug-12	1,417,100	32,288	11,138,940	204,010	12.7
Sep-12	1,466,000	33,402	12,191,630	223,290	12.0

** Figures compiled based on reports submitted by PNote issuing FIIs.*
 # Figures compiled based on reports submitted by custodians.

Source: SEBI

Share of FIIs in NSE-Listed Companies

The FII ownership of shares in the various sectors of NSE-listed companies is depicted in Table 7-6. At the end of March 2012, FIIs held the highest stake of 15.9 percent in the banking sector, followed by FMCG and finance (9.4 percent and 8.4 percent, respectively). The total percentage of shares held by FIIs across different sectors was 6 percent of the total shares of the companies listed on the NSE as at the end of March 2012.

Table 7-6: FII Share in Different Sectors of Companies Listed on NSE

(in percent)

Sectors	Mar-12
Banks	15.9
Engineering	5.1
Finance	8.4
FMCG	9.4
Information Technology	7.3
Infrastructure	5.9
Manufacturing	4.8
Media & Entertainment	5.8
Petrochemicals	4.5
Pharmaceuticals	6.2
Services	5.4
Telecommunication	5.7
Miscellaneous	6.1
Total stake of FIIs in all the Sectors	**6.0**

Source : NSE

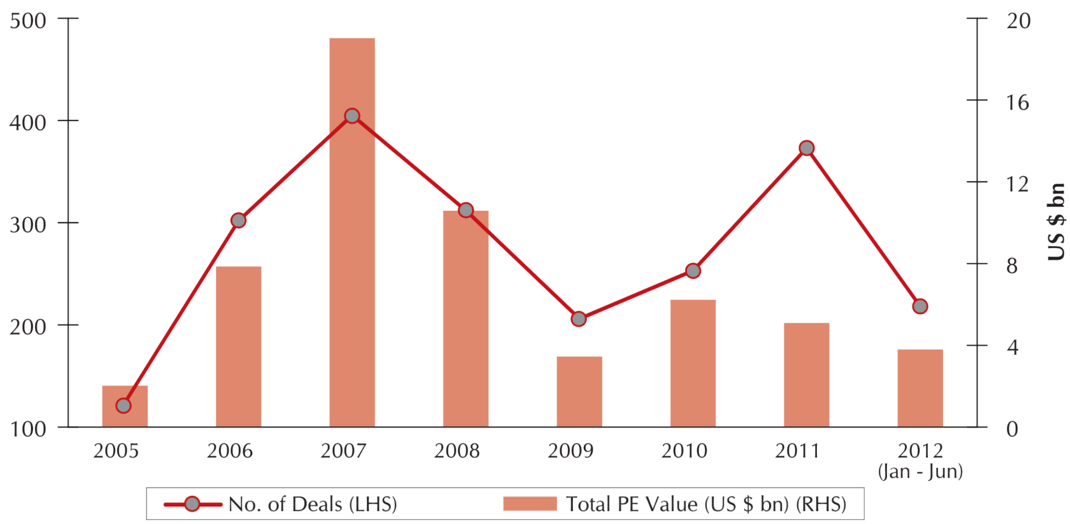
Private Equity (PE) Investments in India

Growth in PE deals in India

The PE investments gained momentum in the late nineties with the growth of Indian IT companies and with the simultaneous global dot-com boom. Following the global IT boom, the Indian IT sector was viewed as a prominent funding opportunity, and consequently, saw a lot of venture capital coming into the country.

According to the Grant Thornton Report, 2011, there were 373 PE deals worth US $ 5 billion (Chart 7-3) in 2012. However, in value terms, the PE deals showed a year-on-year decline of 18.1 percent. According to Emerging Market Private Equity Association (EMPEA), in India, the PE investment as a percent to GDP fell to 0.3 percent in 2011 from 0.4 percent in 2010.

Chart 7-3: Private Equity Deals in India



Source: Grant Thornton, 2011

PE Fundraising / Investments in BRIC Countries

According to the data reported by the Emerging Markets Private Equity Association (EMPEA) in August 2012, among the BRIC economies, China and Brazil were seen to be the most preferred destination for private equity players in 2011 compared to last year when India was a preferred destination. In 2011, fundraising by private equity in China and Brazil was US $ 16,619 million and US $ 7,079 million, respectively. However, Russia saw a decline in the PE fundraising by around 83.5 percent in 2010. Other than India, all countries saw a significant spurt in the PE fundraising in 2010 (Table 7-7)

Table 7-7: Private Equity Fund Raising in BRIC Countries

(in US $ mn)

Year	Brazil	Russia	India	China
2001	323	375	259	152
2002	270	100	142	105
2003	230	175	236	213
2004	480	200	706	311
2005	158	1,254	2,741	2,243
2006	2,098	222	2,884	4,279
2007	2,510	1,790	4,569	3,890
2008	3,589	880	7,710	14,461
2009	401	455	3,999	6,617
2010	1,078	75	3,268	7,509
2011	**7,079**	**135**	**2,737**	**16,616**
2012 (Jan - Jun)	**675**	**82**	**1,225**	**3,977**

Source: Emerging Market Private Equity Association (EMPEA), August 2012

In 2011, China saw an increase of 14.6 percent in PE investments, followed by Russia where PE investments rose by 4.2 percent. In contrast to the fundraising scenario in Brazil, the PE investments fell by 46.5 percent, while India saw a minor fall of 0.8 percent in investments. (Table 7-8).

Table 7-8: Private Equity Investments in BRIC Countries

(in US $ mn)

Year	Brazil	Russia	India	China
2001	281	77	320	1,575
2002	261	127	40	126
2003	321	113	456	1,667
2004	120	240	1,272	1,389
2005	474	240	1,377	2,991
2006	1,342	402	5,687	8,200
2007	5,285	805	9,905	9,458
2008	3,020	2,647	7,483	8,994
2009	989	217	4,011	6,288
2010	4,604	1,516	6,222	9,190
2011	**2,461**	**1,579**	**6,172**	**10,529**
2012 (Jan - Jun)	**1,271**	**639**	**1,571**	**3,962**

Source: Emerging Markets Private Equity Association (EMPEA), August 2012

NRI Investments

The NRI turnover data at the NSE is depicted in Table 7-9. The NRI turnover at the cash market of the NSE registered a year-on-year decline of 8.3 percent in 2011-2012,and stood at ₹ 97,386 million. In the derivatives market of the NSE, the total NRI turnover stood at ₹ 159,005 million in 2011-2012, a year-on-year growth of 43.2 percent over 2010–2011.

Table 7-9 : NRI Turnover at NSE

Year	Cash Market Gross Turnover (₹ mn)	Cash Market Gross Turnover (US $ mn)	Derivatives Market Gross Turnover (₹ mn)	Derivatives Market Gross Turnover (US $ mn)
2007-08	85,443	2,138	39,464	987
2008-09	50,161	985	30,190	593
2009-10	103,546	2,294	42,646	945
2010-11	106,180	2,378	111,052	2,487
2011-12	**97,386**	**1,904**	**159,005**	**3,108**

Source: NSE

B. Policy Developments

Policy Developments[1]

With the objectives of maintaining fair and efficient markets, developing new products, improving the securities market arena, enhancing operational efficiencies, encouraging small investors, and attracting new players, various regulatory changes were made by the regulators in India—the Ministry of Finance (MoF), the SEBI, and the RBI—in the Indian securities market.

The policies and programmes initiated by the regulators for the period April 2011 to September 2012 are discussed in this section under six major heads: primary market, collective investment schemes, capital markets, debt market, derivatives market, and foreign investments in India.

1. Primary Market

I. ASBA facility through syndicate / sub-syndicate members (SEBI Circular dated April 29, 2011)

To enhance the role of the Applications Supported by Blocked Amount (ASBA) facility in public issues and to increase the reach of ASBA as well as its use by investors, syndicate/sub-syndicate members were allowed to procure ASBA forms from investors. For this purpose, syndicate/sub-syndicate members were mandated to commence this facility initially from the twelve bidding centres that account for the maximum number of applications in public issues.

II. ASBA facility mandatory for QIBs and NIIs (SEBI Circular dated April 29, 2011)

The ASBA facility was made mandatory for non-retail investors—qualified institutional buyers (QIBs) and non-institutional investors (NIIs)—making applications in public/rights issues, with effect from May 01, 2011.

III. Adjustment of differential pricing amount at the time of application for allotment of specified securities (SEBI Circular dated May 16, 2011)

The Securities and Exchange Board of India (SEBI) observed that the effect of differential pricing—such as the discount for retail individuals (if any) in a public issue—was being given to the eligible investors only during the allotment of the specified securities, and not at the time of filing an application for such allotment. This took away certain benefits from the investors such as lower cash outflow at a price net of discount, the ability to apply for more shares with the same cash outlay, and so on. In order to address this issue, it was decided to allow the investors who are eligible for differential pricing in public issues to make the payment at a price net of discount (if any) at the time of application itself.

The same SEBI circular clarified that:

- Merchant bankers should ensure that appropriate disclosures are given in the offer document/application forms to the effect that investors eligible for discount can make the payment after adjusting the discount, if any. It should be disclosed that such investors would have to indicate the bid price before adjusting for discount (if any) in the relevant column. Further, it should be clearly disclosed under what circumstances the application would be liable for rejection in case of errors (if any) in this regard.

[1] The policy developments section was compiled from the relevant circulars, notification and press releases issued by the respective regulators. For more details on specific policies, refer to the original circulars and press releases.

- For the ease of calculation by those investors eligible for differential pricing, it would be preferable that the discount (if any) were stated in absolute rupee terms subject to the maximum discount that can be given on the issue price, as per the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

IV. Redemption of Indian Depository Receipts (IDRs) into underlying equity shares (SEBI Circular dated June 3, 2011)

The SEBI, in consultation with the RBI, took the following decisions regarding the redemption of Indian Depository Receipts (IDRs):

- After the completion of one year from the date of issuance of IDRs, the redemption of IDRs will be permitted only if the IDRs are infrequently traded on the stock exchanges in India. For this purpose, the IDRs would be deemed to be "infrequently traded" if the annualised trading turnover in the IDRs during the six calendar months immediately preceding the month of redemption is less than 5 percent of the listed IDRs.
- The issuer company should test the frequency of trading of IDRs on a half-yearly basis ending on June and December of every year.
- If the IDRs are considered "infrequently traded" according to the criterion discussed earlier, this would be the trigger event for redemption.
- The issuer company would have to make a public announcement in the prescribed format in an English as well as a Hindi language newspaper with wide circulation (including brief details about the trigger of the redemption event, the time period for the submission of applications, and the procedure for processing the applications), and would also have to notify the stock exchange(s). This announcement should be made within seven days of the closure of the half-year ending in which the liquidity criteria is tested. A suitable format for this purpose will be prescribed by the stock exchange(s).
- The IDR holders may submit their applications to the domestic depository for the redemption of IDRs within a period of thirty days from the date of the public announcement.
- The redemption of IDRs should be completed within a period of thirty days from the date of receipt of the application for redemption.
- Pursuant to such redemption, the domestic depository should notify the revised shareholding pattern of the issuer company to the concerned stock exchanges within seven days of completion of the process of redemption.

V. Amendment to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 for revision of bid-cum-application form and abridged prospectus (SEBI Press Release dated July 28, 2011)

In order to ensure that materially important information is provided in a structured, logical, and user-friendly manner that will aid the investor in making his/her investment decision, the SEBI revised the structure, design, format, contents, and order of information of the bid-cum-application form and the abridged prospectus. This was done based on the recommendations of a group comprising a cross-section of market participants that had been constituted by the SEBI. The abridged prospectus will include company-/project-specific information, and will highlight materially relevant disclosures, such as peer comparison of important financial ratios and risk factors.

Upon implementation, the following benefits will accrue:

a) Ease of handling the application/abridged prospectus, as it would be in an A4-size booklet form;

b) Approximately 50 percent reduction in the number of pages;

c) Rationalisation and logical sequencing of information, which would to make it more readable and investor friendly, and highlight material disclosures and availability of information regarding price;

d) Standardisation of forms, and a single form for ASBA/Non-ASBA;

e) 100 percent increase in space for key data fields in the application form, facilitating easier form filling;

f) Track record of book running lead managers (BRLMs).

VI. Eligibility criteria for companies coming out with IPOs through the profitability track record (SEBI Press Release dated July 28, 2011)

In the case of a pure offer for sale, the requirement that not more than 50 percent of the net tangible assets should be held as monetary assets will not be applicable. The requirement of a track record of distributable profits for at least three of the immediately preceding five years would have to be complied with on both a stand-alone as well as a consolidated basis.

VII. Disclosure of quarterly financial results (SEBI Press Release dated July 28, 2011)

In order to give a better comparative picture of the quarterly financial results, which could aid investors while making investment decisions, it was mandated that companies have to disclose the financial results of the immediately preceding quarter in addition to the disclosures of the financial results pertaining to the corresponding periods in the previous year.

VIII. Mode of supplying annual reports to shareholders (SEBI Press Release dated July 28, 2011)

As a green initiative to contain the environmental costs associated with printing and publishing annual reports, it was decided that instead of supplying complete and full annual reports to all the shareholders, listed entities would supply soft copies of the full annual report to all those shareholders who had registered their email addresses for this purpose, hard copies of the full annual report to those shareholders who had requested for the same, and hard copies of the abridged annual report to all other shareholders.

IX. Disclosure of voting results by listed entities (SEBI Press Release dated July 28, 2011)

In order to ensure the wider dissemination of information regarding voting results—which would give a better picture of how the meetings were conducted and how the different categories of investors voted on a resolution—listed entities were mandated to disclose the voting results/patterns in the prescribed format on their websites as well as to the exchanges within 48 hours after the conclusion of the concerned shareholders' meeting. To begin with, this requirement would apply to the top 500 listed entities based on market-capitalisation.

X. Disclosure of price information of past issues handled by merchant bankers (SEBI Notification dated September 23, 2011)

The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 was revised to specify that the price information of the past issues handled by merchant bankers should be disclosed along with the due diligence certificate in the draft red herring prospectus/red herring prospectus/prospectus filed with the SEBI or the Registrar of Companies (as applicable) on or after November 01, 2011.

XI. Regulatory framework for rights issue of Indian Depository Receipts (SEBI Notification dated September 23, 2011)

To facilitate the simultaneous rights offering by foreign issuers (who have listed their IDRs in Indian stock exchanges) in their home jurisdiction and in India, the framework for the rights issue of IDRs was notified. To simplify the requirements, it was mandated that for circulation in India, an additional wrap—disclosing information required under Indian jurisdiction as well as issue processes relevant to the IDR holders—could be attached with the letter of offer circulated by the overseas investors in their home jurisdiction.

The disclosure requirements for IDR rights issue were also made (more or less) in line with the reduced disclosure requirements applicable for domestic rights issues. Further, IDR issuers who were in compliance with the continuous listing requirements were provided with the facility of filing the offer document on a fast track basis.

XII. Tenure for conversion of warrants issued along with public/rights issues fixed to maximum of 12 months (SEBI Press Release dated November 24, 2011)

In its board meeting held on November 24, 2011, the SEBI decided to specify a maximum tenure of 12 months for warrants issued along with public/rights issue of securities to avoid possible misuse. The issuer would also be required to provide disclosures about the utilisation of funds raised in this manner, both in the offer document as well as on a continuous basis.

XIII. Introduction of institutional placement programme (IPP) (SEBI Press Release dated January 3, 2012)

In order to comply with the minimum public shareholding requirements under the Securities Contracts (Regulation) Rules, 1957 (SCRR), the SEBI introduced the institutional placement programme (IPP) through stock exchanges.

The broad features of these are discussed below.

Institutional placement programme:

- This method can be used only for the purpose of complying with the minimum public shareholding requirements under the SCRR, either by way of fresh issue of capital or dilution by the promoters through an offer for sale. Using this method, public shareholding can be increased by 10 percent or whatever lesser percentage is required to comply with the minimum public shareholding requirement.
- There would need to be simultaneous filing of the red herring prospectus/prospectus with the SEBI, the Registrar of Companies, and the stock exchanges.
- The offer would be made only to qualified institutional buyers (QIBs). A minimum percentage (specified as 25 percent) would be reserved for mutual funds and insurance companies. If the mutual funds and insurance companies do not subscribe to this reserved minimum percentage or any part thereof, such minimum portion or part thereof may be allotted to other QIBs.
- The issuer should announce an indicative floor price or price band at least one day prior to the opening of the offer.
- The aggregate demand schedule should be displayed by the stock exchanges.
- The issuers would have to endeavour to maximise the number of allottees in order to ensure wider distribution of shares. There should be at least 10 allottees in every IPP issuance. No single investor can receive an allotment that is more than 25 percent of the offer size.
- The allotment of shares could be made on price-priority basis, proportionate basis, or according to pre-specified criteria; this has to be disclosed in advance in the prospectus, and cannot be changed subsequently.

XIV. Reservation for convertible security holders in rights/bonus issuances (SEBI Press Release dated January 28, 2012)

On the issue of reservation for convertible debt holders, it was clarified that reservation in rights/bonus issuances would be made only to the holders of compulsorily convertible debt securities. Earlier, the regulatory framework mandated a compulsory reservation in the case of rights/bonus issues for the entire category of fully or partially convertible debentures. This was done with the objective of curtailing the twin benefits arising out of price resetting as well as reservations for such holders.

XV. Review of policy on allotment to anchor investors (SEBI Notification dated January 30, 2012)

The concept of anchor investors (AIs) was introduced by the SEBI in June 2009, to distinguish a class of committed investors who could be relied on to anchor an issue of capital in all market conditions, adverse or otherwise. The SEBI notification dated January 30, 2011 stated that the allocation to anchor investors would be on a discretionary basis, subject to the following conditions:

- A maximum of two AIs will be permitted for allocations up to ₹ 10 crore;
- A minimum of two and a maximum of 15 AIs will be permitted for allocations above ₹ 10 crore and up to ₹ 250 crore, subject to a minimum allotment of ₹ 5 crore per AI;
- A minimum of five and a maximum of 25 AIs will be permitted for allocations above ₹ 250 crore, subject to a minimum allotment of ₹ 5 crore per AI.

XVI. Comprehensive guidelines on offer for sale (OFS) of shares by promoters through the stock exchange mechanism (SEBI Circular dated July 18, 2012)

Several representations/suggestions were received from the market participants on some of the provisions highlighted in the SEBI circulars related to the offer for sale of shares by promoters through the stock exchange mechanism, dated February 1, 2012, February 23, 2012, and February 27, 2012. After due examination and deliberation with the market participants, it was decided to replace the procedures and instructions contained in these SEBI circulars. Some of these procedures and instructions are mentioned below.

<table>
<tr><td>Eligibility</td><td>(a) Exchanges
The facility of offer for sale (OFS) of shares would be available on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).
(b) Sellers
(i) All promoter(s)/promoter group entities of those companies that are eligible for trading and are required to increase public shareholding to meet the minimum public shareholding requirements in terms of Rule 19(2)(b) and 19A of the Securities Contracts (Regulation) Rules, 1957 (SCRR), read with clause 40A (ii) (c) of the Listing Agreement.
(ii) All promoter(s)/promoter group entities of the top 100 companies based on average market capitalisation in the last completed quarter.
For (i) and (ii) above, the promoter(s)/promoter group entities should not have purchased and/or sold the shares of the company in the 12-week period prior to the offer, and they should undertake not to purchase and/or sell the shares of the company in the 12-week period after the offer. However, within the cooling-off period of +12 weeks, the promoter(s)/promoter group entities can offer their shares only through an OFS or the institutional placement programme (IPP), with a gap of 2 weeks between successive offers.
These restrictions also apply to promoter(s)/promoter group entities who have already offered their shares through an OFS or IPP.
(c) Buyers
All investors registered with the brokers of the BSE and the NSE other than the promoter(s)/promoter group entities.</td></tr>
<tr><td>Size of offer for sale of shares</td><td>The size of the offer should be a minimum of ₹ 25 crore. However, the size of the offer can be less than ₹ 25 crore so as to achieve the minimum public shareholding in a single tranche.</td></tr>
<tr><td>Floor price</td><td>(i) In those cases where the seller chooses to disclose the floor price, the seller(s) would need to declare it after the close of trading hours and before the close of business hours of the exchanges on T-1 day. Otherwise, the seller(s) must give the floor price in a sealed envelope to the designated stock exchange (DSE) before the opening of the offer (T day being the day of the offer for sale).
(ii) If the floor price is not declared to the market, it should not be disclosed to anybody, including the selling broker(s).
(iii) The sealed envelope should be opened by the DSE after the closure of the offer for sale, and the floor price should then be suitably disseminated to the market.</td></tr>
</table>

Order placement	(i) A separate window for the purpose of the offer for sale of shares should be created by the stock exchanges. Modifications or cancellations of orders/bids would be allowed during the duration of the offer only for those bids for which 100 percent upfront margin has been received. However, modification/cancellation of orders/bids would not be allowed during the last 60 minutes of the duration of the offer. (ii) Cumulative orders/bid quantity information should be made available online by the exchanges at specific time intervals. The indicative price should be disclosed by the exchanges only during the last 60 minutes of the duration of the offer for sale. (iii) If the security has a price band in the normal segment, the same should not apply for the orders placed in the offer for sale. Stock-specific tick size as per the extant practice in normal trading sessions would apply to this window. (iv) In the case of the shares under offer for sale, the trading in the normal market would also continue. However, in the case of market closure due to a breach of the market-wide index-based circuit filter, the offer for sale would also be halted. (v) Only limit orders/bids would be permitted. (vi) Multiple orders from a single buyer would be permitted. (vii) If the floor price is disclosed, orders/bids below the floor price would not be accepted.
Allocation	(a) A minimum of 25 percent of the shares offered would be reserved for mutual funds and insurance companies, subject to the allocation methodology. Any unsubscribed portion of this reserved minimum percentage would be made available to the other bidders. (b) The orders should be cumulated by the DSE immediately on close of the offer. Based on the methodology for allocation that is to be followed as disclosed in the notice, the DSE should draw up the allocation, i.e., either on a price-priority (multiple prices) basis or on a proportionate basis at a single clearing price. (c) No allocation would be made if the order/bid is below the floor price. (d) No single bidder other than mutual funds and insurance companies should be allocated more than 25 percent of the size of the offer for sale. (e) The allocation details should be shared by the DSE with the other exchange after the allocation is finalised.
Settlement	(a) The allocation and the resulting obligations should be intimated to the brokers on T day. (b) The settlement should take place along similar lines as the trade for trade basis, and should be completed on T+1 day. There should be no netting of settlement at the broker's end. (c) The funds collected from the bidders who have not been allocated shares should be released after the download of the obligation. (d) On T+1 day, the clearing corporation/clearing house of the DSE should transfer the number of shares to the extent of the obligation determined to the clearing corporation/clearing house of the other stock exchange, without consideration of money. Excess shares (if any) should be returned to the seller(s)/broker(s). The shares should be directly credited to the demat account of the successful bidder, provided this manner of credit is indicated/approved by the broker/bidder.

2. Collective Investment Vehicles

I. Option to hold mutual fund units in demat form (SEBI Circular dated May 19, 2011)

The SEBI (vide the SEBI circular dated May 19, 2011) asked all asset management companies (AMCs) to provide investors the option to receive the allotment of mutual fund units in their demat account while subscribing to any scheme (open-ended/close-ended/interval). It was observed that many mutual funds provided an option to hold the units in either physical or demat form in the case of close-ended schemes, but they offered no such option in the case of open-ended schemes. Therefore, in order to assist investors, mutual funds/AMCs were advised to always provide an option to the investors to mention their demat account details in the subscription form if they desired to hold units in demat form, with effect from October 01, 2011.

II. Investment by foreign investors in mutual fund schemes (SEBI Circular dated August 9, 2011)

Earlier, only foreign institutional investors (FIIs) and sub-accounts registered with the SEBI as well as NRIs were allowed to invest in mutual fund schemes. To liberalise the portfolio investment route, it was decided to permit SEBI-registered mutual funds to accept subscriptions from foreign investors who meet the Know Your Customer (KYC) requirements for equity schemes. This would enable Indian mutual funds (MFs) to have direct access to foreign investors and would widen the class of foreign investors in the Indian equity market. In order to facilitate this, in consultation with the Government of India and the RBI, it was decided that foreign investors (termed as qualified foreign investors or QFIs) who meet the KYC requirements could invest in the equity and debt schemes of MFs through two routes:

a) Direct route: Holding MF units in a demat account through a SEBI-registered depository participant (DP).

b) Indirect route: Holding MF units via a Unit Confirmation Receipt (UCR).

A qualified foreign investor (QFI) refers to a person resident in a country that is compliant with the Financial Action Task Force (FATF) standards and that is a signatory to the International Organization of Securities Commission's (IOSCO) Multilateral Memorandum of Understanding, provided that the person is not resident in India, provided further that such person is not registered with the SEBI as an FII or sub-account. The MF shall ensure that systematic investments, transfers, withdrawals, and switches are not available to the QFIs. The QFIs can only subscribe or redeem.

III. Transaction charges for mutual funds (SEBI Circular dated August 22, 2011)

To enable access to MFs for people with small savings potential and to increase the reach of mutual fund products in urban areas and smaller towns, it was decided that a transaction charge per subscription of ₹ 10,000 and above should be paid to the distributors of mutual fund products, effective from August 22, 2011. However, there would be no transaction charges on direct investments. The transaction charge would be subject to the following:

- For existing investors in a mutual fund, the distributor may be paid ₹ 100 as transaction charge per subscription of ₹ 10,000 and above.
- As an incentive to attract new investors, the distributor may be paid ₹ 150 as transaction charge for every first-time investor in mutual funds.
- The terms and conditions relating to the transaction charge should be included in the application form in bold print.
- The transaction charge (if any) should be deducted by the AMC from the subscription amount and paid to the distributor; the balance should be invested.
- The statement of account should clearly state that the net investment equals the gross subscription minus the transaction charge, and provide the number of units allotted against the net investment.
- Distributors should be able to decide whether or not to opt out of charging the transaction charge. However, the opt-out option would be available only at the distributor level, not at the investor level; i.e., a distributor would not be allowed to charge one investor while choosing not to charge another investor.
- The AMCs would be responsible for any malpractice/mis-selling by the distributor(s) while charging transaction costs.
- There would be no transaction charge on subscriptions below ₹ 10,000.

- In the case of systematic investment plans (SIPs), the transaction charge would be applicable only if the total commitment through the SIPs amounts to ₹ 10,000 and above. In such cases, the transaction charge shall be recovered in 3–4 instalments.
- There would be no transaction charges on transactions other than purchases/subscriptions relating to new inflows.

IV. Commission disclosures by mutual funds (SEBI Circular dated August 22, 2011)

Mutual funds/AMCs are required to disclose on their respective websites the total commission and expenses paid to select distributors who have:

- Multiple points of presence (more than 20 locations); or
- Assets under management (AUMs) that raised over ₹ 100 crore across industries in the non-institutional category, including high net worth individuals (HNIs); or
- Received commission over ₹ 1 crore p.a. across industries; or
- Received commission over ₹ 50 lakh from a single mutual fund/AMC.

V. Disclosures on AUMs (SEBI Circular dated August 22, 2011)

Mutual funds need to disclose the assets under management (AUM) figures for the fund, with disclosure on the bifurcation of the AUM into debt, equity, balanced, and so on, as well as the percentage of AUM by geography (i.e., top 5 cities, next 10 cities, next 20 cities, next 75 cities, and others). The mutual funds should disclose this data on their respective websites as well as to the Association of Mutual Funds in India (AMFI), and the AMFI should disclose the industry-wide figures on its website.

VI. Issue of regulatory guidelines for Infrastructure debt fund schemes (SEBI MF Regulations, 1996 amendment dated August 30, 2011)

The SEBI issued the regulatory guidelines for infrastructure debt fund (IDF) schemes under Chapter VI B of the Mutual Fund Regulations vide its notification dated August 30, 2011. As per the regulatory provisions, an IDF scheme would mean a mutual fund scheme that invests a minimum of 90 percent of the scheme's assets in the notified infrastructure debt securities.

The salient features of the IDF scheme are:

a) The IDF would invest 90 percent of its assets in the debt securities of infrastructure companies or special purpose vehicles (SPVs) across all infrastructure sectors. The minimum investment into an IDF would be ₹ 1 crore, with ₹ 10 lakh as the minimum size of the unit. The credit risks associated with the underlying securities would be borne by the investors, not by the IDF.

b) A firm commitment from strategic investors to the extent of ₹ 25 crore.

c) An IDF scheme has to be launched either as a close-ended scheme maturing after more than five years, or as an interval scheme with a lock-in period of five years.

d) Fully paid up units of IDF schemes have to be listed on a recognised stock exchange.

e) An IDF shall have a minimum of five investors, and no single investor shall hold more than 50 percent of the net assets of the scheme.

f) Mutual funds may disclose the indicative portfolio of an IDF scheme to its potential investors by disclosing the type of assets in which the mutual fund will be investing. Mutual funds launching an IDF scheme may issue partly paid units to the investors.

VII. Trading desk of mutual funds in India (SEBI MF Regulations, 1996 amendment dated August 30, 2011)

As per the amendment to Regulation 25 of the SEBI (Mutual Funds) Regulations, 1996 that were notified on August 30, 2011, the following provisions were added:

a) An AMC should not invest in any of its schemes, unless full disclosure of its intention to invest has been made in the offer documents, provided that the AMC is not entitled to charge any fee on its investment in that scheme.

b) An AMC should not carry out its operations including trading desk, unit holder servicing, and investment operations outside the territory of India, provided that an AMC having any of its operations outside India winds them up and brings them within the territory of India within a period of one year from the date of notification of these provisions.

VIII. Mailing of annual report/abridged annual report by AMCs (Circular dated September 08, 2011)

In order to ensure cost-effectiveness in printing and dispatching the annual reports or the abridged reports, and as a green initiative measure, the AMCs should communicate to the unitholders (whose email addresses are available with the mutual fund) that henceforth, the scheme's annual reports or abridged reports would only be emailed to them. In the case of those unitholders whose email addresses are not available with the mutual fund, the AMCs should ask them to provide their email addresses for registration in the database. The communication in both these cases should clearly mention that the scheme's annual accounts or abridged reports would henceforth be sent to these email addresses only (unless otherwise specified by the unitholder), and not as physical copies. The communication should also provide an option for the investors to indicate whether they wish to receive the reports as physical copies.

As per the amendments to Regulation 36 of the SEBI (Mutual Fund) Regulations 1996 that were notified on August 30, 2011, the AMC should identify the common investors across fund houses by their permanent account number. The AMC has to then issue the consolidated account statement for each calendar month (on or before the tenth day of the succeeding month) to all the investors in whose folios transactions have taken place during that month, detailing all the transactions and holdings at the end of the month—including transaction charges paid to the distributor(s)—across all schemes of all mutual funds. Further, the AMC should ensure that a consolidated account statement is issued on a half-yearly basis (September/March) on or before the tenth day of the succeeding month, detailing the holdings at the end of the six months across all schemes of all mutual funds to all such investors in whose folios no transaction has taken place during that period.

IX. Due diligence process for distributors of mutual funds (SEBI Circulars dated August 22, 2011 and February 28, 2012)

As a first step towards regulating the distributors of mutual funds, selected distributors will be regulated through Asset Management Companies (AMCs) by putting in place the due diligence process to be conducted by the AMCs. The due diligence process would initially apply to those distributors who satisfy one or more of the following criteria:

a) Multiple points of presence (more than 20 locations); or

b) AUMs that raised over ₹ 100 crore across industries in the non-institutional category, including high net worth individuals (HNIs); or

c) Received commission over ₹ 1 crore p.a. across industries; or

d) Received commission over ₹ 50 lakh from a single mutual fund.

It is estimated that this measure would cover the distributors handling about half of the total AUMs in the industry. The AMCs should disclose the commissions paid to the distributors who meet one or more of the above criteria, and the AMFI would have to disclose the aggregate amount of commissions paid to such distributors by the MF industry.

Vide the SEBI circular dated February 28, 2012, it was further clarified that the diligence of distributors is entirely the responsibility of mutual funds/AMCs. The responsibility cannot be delegated to any agency. However, mutual funds/ AMCs may take the assistance of an agency while carrying out the due diligence process of distributors.

X. Review of advertisement code for mutual funds (SEBI MF Regulations, 1996 amendment dated February 21, 2012)

To ensure accuracy, fairness, transparency, and so on, the advertisement code for mutual funds was amended vide the notification dated February 21, 2012. As per the amended provisions, the advertisements of a mutual fund or its schemes should include all forms of communication issued by or on behalf of the AMC/mutual fund that could influence the investment decisions of any investor/prospective investor. The advertisements should be accurate, true, fair, clear, complete, unambiguous, and concise. They should not contain statements that are false, misleading, biased, or deceptive, or statements that are based on assumptions/projections. They should also not contain any testimonials or rankings based on any criteria. The mutual funds and/or the AMC would be liable for action in case the advertisement issued is in contravention of the advertisement code. For the detailed advertisement code, refer to Schedule 6 of the SEBI (Mutual Fund) Regulations 2012, which was amended with effect from February 21, 2012.

XI. Review of valuation norms of mutual funds (SEBI MF Regulations, 1996 amendment dated February 21, 2012)

The valuation norms of mutual funds were reviewed to ensure fair treatment to all investors—existing investors as well as investors seeking to purchase or redeem units of mutual funds. The principles of fair valuation were outlined vide the notification dated February 21, 2012.

The AMCs would be required to follow the valuation guidelines elaborated in the SEBI (Mutual Fund) Regulations, 1996.

- The valuation of investments should be based on the principles of fair valuation; i.e., valuation should reflect the realisable value of the securities/assets. The valuation should be done in good faith and in a true and fair manner through appropriate valuation policies and procedures.
- The policies and procedures approved by the Board of the AMC should identify the methodologies that would be used for valuing each type of securities/assets held by the mutual fund schemes.
- The AMC and the sponsor of the mutual fund would be liable to compensate the affected investors and/or the scheme for any unfair treatment to any investor as a result of inappropriate valuation. The mutual fund and/or the AMC would be liable for action if the valuation of securities was in contravention of the principles of fair valuation specified in Schedule 8 of the SEBI (Mutual Funds) Regulations, 1996.

XII. Valuation of debt and money market instruments (SEBI Circular dated February 28, 2012)

In order to move towards the valuation of securities of all maturities that reflected the realisable value/fair value, it was mandated that all the debt and money market securities across maturity should be valued at the weighted average price at which they are traded on a particular valuation day. If such securities are not traded on a particular valuation day, the securities with residual maturity up to 60 days should be valued on an amortisation basis, and securities with residual maturity over 60 days should be valued at the benchmark yield/matrix of spread over risk free benchmark yield obtained from agencies entrusted with this task by the AMFI, provided such valuation reflects the realisable value/fair value of the securities/assets.

To further enhance transparency, the AMCs would be required to disclose all details of the debt and money market securities transacted (including inter-scheme transfers) in their schemes' portfolios on their website; this information should also be forwarded to the AMFI for consolidation and dissemination.

XIII. Resolving conflicts of interest in fund management (SEBI Circular dated February 28, 2012)

In order to address the issue of conflicts of interest in situations where a fund manager manages the schemes of a mutual fund and is also engaged in other permissible activities of the AMC, the SEBI amended Regulation 24 of the SEBI (Mutual Funds) Regulations, 1996.

The amended Regulation 24 mandates that AMCs should appoint a separate fund manager for each separate fund managed by it unless the investment objectives and assets allocations are the same, and the portfolio is replicated across all the funds managed by the fund manager.

It was represented to the SEBI that the perfect replication of portfolios across the mutual fund scheme and the schemes/products under the other permissible activities of an AMC may not be achieved at all times.

After examination of the same, it was decided that the replication of a minimum of 70 percent of the portfolio value would be considered as adequate for the purpose of compliance, provided that the AMC has a written policy in place for trade allocation, and it ensures at all points of time that the fund manager does not take directionally opposite positions in the schemes managed by him/her.

In order to ensure transparency while addressing the issue of conflicts of interest in situations where a fund manager is common across mutual fund schemes and the schemes/products under other permissible activities of an AMC, the AMC should take the following actions:

- The AMC must display on its website the returns provided by such managers for all the schemes (mutual funds, pension funds, offshore funds, and so on) on a monthly basis.
- If any performance advertisement is issued by the AMC for any scheme, the details of the returns for all the schemes (mutual funds, pension funds, offshore funds, etc.) managed by that fund manager should be provided.
- If the difference in the annual returns provided by the schemes managed by the same fund manager is more than 10 percent, this should be reported to the trustee, and an explanation for the same has to be disclosed on the website of the AMC.

XIV. SEBI notifies the SEBI (Alternative Investment Funds) Regulations, 2012 (SEBI Press Release dated May 21, 2012)

The SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations) were notified on May 21, 2012. The SEBI AIF Regulations endeavour to extend the perimeter of regulation to cover unregulated funds, with a view to bringing about systemic stability as well as consumer protection, increasing market efficiency, and encouraging the formation of new capital. The salient features of the SEBI AIF Regulations are presented below.

Scope of the AIF Regulations and applicability to existing funds

- All alternative investment funds (AIFs)—regardless of whether they are operating as private equity funds, real estate funds, or hedge funds—must register with the SEBI under the SEBI AIF Regulations.
- The SEBI (Venture Capital Funds) Regulations, 1996 (VCF Regulations) were repealed. However, existing venture capital funds (VCFs) would continue to be regulated by the SEBI VCF Regulations until the existing fund or scheme managed by the fund was wound up. However, existing VCFs should not increase the targeted corpus of the fund or scheme as it stands on the day of notification of these Regulations. Such VCFs may also seek re-registration under the SEBI AIF Regulations, subject to the approval of 66.67 percent of their investors by value.
- Existing funds that are not registered under the SEBI VCF Regulations would not be allowed to float any new scheme without registration under the SEBI AIF Regulations. However, the schemes floated by such funds before the SEBI AIF Regulations came into force would continue to be governed by the existing contractual terms till maturity, except that no rollover/extension or raising of any fresh funds would be allowed.
- Existing funds that are not registered under the VCF Regulations and seek registration but are not able to comply with all the provisions of the SEBI AIF Regulations may seek exemption from strict compliance with the SEBI AIF Regulations of SEBI.

Categories of funds

The SEBI AIF Regulations seek to include all types of funds into three broad categories. An application can be made to the SEBI for registration as an AIF under one of the following three categories:

Category I AIFs: This category would include those AIFs with positive spillover effects on the economy, for which certain incentives or concessions might be considered by the SEBI, or the Government of India, or the other regulators in India. This category would include VCFs, SME Funds, social venture funds, infrastructure funds, and other alternative investment funds as may be specified. These funds should be close-ended, should not engage in leverage, and should follow the investment restrictions that are prescribed for each category. The investment restrictions for VCFs are similar to the restrictions in the existing SEBI VCF Regulations.

Category II AIFs: This category would include those AIFs for which no specific incentives or concessions are given by the government or any other regulator. These AIFs should not undertake any leverage other than to meet day-to-day operational requirements as permitted in the Regulations. This category would include private equity funds, debt funds, fund of funds, and other funds that are not classified as Category I or III. These funds should be close-ended and should not engage in leverage; they have no other investment restrictions.

Category III AIFs: This would include hedge funds that trade with a view to make short term returns. These AIFs could employ diverse or complex trading strategies, and may employ leverage, including through investment in listed or unlisted derivatives. These funds can be open-ended or close-ended. Category III funds would be regulated through the issuance of directions regarding areas such as operational standards, conduct of business rules, prudential requirements, and restrictions on redemption as well as conflicts of interest as specified by SEBI.

Other salient features

- An AIF should not accept an investment of value less than ₹ 1 crore from an investor. Further, the AIF should have a minimum corpus of ₹ 20 crore.
- The fund or any scheme of the fund should not have more than 1000 investors.
- The manager or sponsor for a Category I AIF and a Category II AIF should have a continuing interest in the AIF of not less than 2.5 percent of the initial corpus or ₹ 5 crore (whichever is lower), and such interest should not be through the waiver of management fees.
- For Category III AIFs, the continuing interest should be not less than 5 percent of the corpus or ₹ 10 crore, whichever is lower.
- Category I and II AIFs should be close-ended and should have a minimum tenure of three years. However, a Category III AIF may either be close-ended or open-ended.
- Schemes may be launched under an AIF subject to the filing of the information memorandum with SEBI, along with applicable fees.
- Units of the AIF may be listed on the stock exchange(s) subject to a minimum tradable lot of ₹ 1 crore. However, an AIF should not raise funds through the stock exchange mechanism.
- Category I and II AIFs would not be permitted to invest more than 25 percent of the investible funds in a single investee company. Category III AIFs can invest not more than 10 percent of the corpus in one investee company.
- An AIF should not invest in associates except with the approval of 75 percent of its investors by value of their investment in the AIF.
- All AIFs should have QIB status as per the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.
- The Regulations provide for transparency and disclosures as well as a mechanism to avoid conflicts of interest.

XV. Steps to energise the mutual fund industry (SEBI Circular dated September 13, 2012)

In order to increase the penetration of mutual fund products and to energise the distribution network while protecting the interest of the investors, the SEBI held a series of meetings with various stakeholders in the mutual fund industry.

The Mutual Fund Advisory Committee (MFAC) also deliberated and offered its recommendations on the various issues that the industry faced. Pursuant to the SEBI's approval of the various recommendations, it was decided to implement the following with effect from October 1, 2012.

A. Total Expense Ratio (TER)

Additional total expense ratio (TER) can be charged up to 30 basis points on the daily net assets of the scheme as per Regulation 52 of the SEBI (Mutual Funds) Regulations, 1996 (henceforward referred to as Regulations), if the new inflows from beyond the top 15 cities are at least (a) 30 percent of the gross new inflows in the scheme, or (b) 15 percent of the average assets under management (year to date) of the scheme (whichever is higher). If the inflows from beyond the top 15 cities are less than the higher of (a) and (b), an additional TER on the daily net assets of the scheme would be charged as follows:

(Daily net assets × 30 basis points × New inflows from beyond top 15 cities) / (365 × Higher of (a) and (b) above)[1]

The top 15 cities in this context refers to the top 15 cities based on the AMFI data on "AUM by Geography: Consolidated Data for Mutual Fund Industry" as at the end of the previous financial year.

The additional TER that was charged on account of the inflows from beyond the top 15 cities should be clawed back if the same is redeemed within a period of one year from the date of investment.

Mutual funds/AMCs should make complete disclosures in the half-yearly trustee report to the SEBI regarding the efforts undertaken by them to increase the geographical penetration of the mutual funds as well as the details regarding the opening of new branches, especially at locations beyond the top 15 cities.

B. Service tax

Mutual funds/AMCs may charge a service tax on the investment and advisory fees of the scheme in addition to the maximum limit of the TER as prescribed in Regulation 52 of the SEBI MF Regulations. The service tax on fees other than the investment and advisory fees (if any) should be borne by the scheme within the maximum limit of the TER as per Regulation 52 of the SEBI MF Regulations.

The service tax on exit load (if any) should be paid out of the exit load proceeds, and the exit load net of the service tax (if any) should be credited to the scheme.

The service tax on brokerage and transaction costs paid for asset purchases (if any) should be within the limit prescribed under Regulation 52 of the SEBI MF Regulations.

C. Single plan structure for mutual fund schemes

Mutual funds/AMCs should launch schemes under a single plan, and ensure that all new investors are subject to a single expense structure. Existing schemes with multiple plans based on the amount of investment (i.e., retail, institutional, super-institutional, and so on) should accept fresh subscriptions only under one plan. Other plans would continue as long as the existing investors remained invested in the plan.

D. Distribution of mutual fund products

According to the SEBI circulars dated September 25, 2001, November 28, 2002, April 03, 2003, February 04, 2004, and June 24, 2010, the agents/distributors of mutual fund units were required to obtain a certification from the National Institute of Securities Markets (NISM) as well as registration from the AMFI.

A new cadre of distributors—such as postal agents, retired government and semi-government officials (Class III and above, or equivalent) with at least 10 years of service, retired teachers with at least 10 years of service, retired bank officers with at least 10 years of service, and other similar persons (such as bank correspondents) as may be notified by the AMFI or the AMC from time to time—would be allowed to sell units of simple and performing mutual fund schemes.

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[1] The value would be 366 instead of 365 where applicable.

Simple and performing mutual fund schemes should comprise diversified equity schemes, fixed maturity plans (FMPs), and index schemes, and should have returns equal to or better than their scheme benchmark returns during each of the preceding three years.

This new cadre of distributors would require a simplified form of NISM certification and AMFI Registration.

The AMFI would create a unique identity number of the employee/relationship manager/sales person of the distributor who would be interacting with the investor for the sale of the mutual fund products, in addition to the AMFI Registration Number (ARN) of the distributor.

The application form for the mutual fund schemes should have a provision for disclosing the unique identity number of such sales personnel along with the ARN of the distributor.

E. Investor education and awareness

Mutual funds/AMCs should annually set apart at least 2 basis points on the daily net assets within the maximum limit of TER as per Regulation 52 of the Mutual Fund Regulations for investor education and awareness initiatives. Mutual funds should make complete disclosures in the half-yearly trustee report to the SEBI regarding the investor education and awareness initiatives that were undertaken.

F. Harmonising applicability of NAV across schemes

In partial modification of the SEBI circulars dated October 24, 2008 and November 26, 2010 with respect to the purchase of units of mutual fund schemes (other than liquid schemes), the closing net asset value (NAV) of the day on which the funds are available for utilisation should be applicable for application amounts equal to or greater than ₹ 2 lakh, irrespective of the time of receipt of the application(s).

G. Monthly portfolio disclosures

Mutual funds/AMCs should disclose their portfolio—along with their International Securities Identification Number (ISIN)—for all their schemes as on the last day of the month on their respective websites on or before the tenth day of the succeeding month, in a user-friendly and downloadable format (preferably in a spreadsheet).

The format of the monthly portfolio disclosure should be the same as that of the half-yearly portfolio disclosures. Mutual funds/AMCs may disclose additional information (such as ratios) subject to compliance with the advertisement code. In this regard, the SEBI circular dated March 19, 2009 stands withdrawn.

H. Cash investments in mutual funds

In partial modification of the SEBI circular dated September 30, 2002, in order to help enhance the reach of mutual fund products among small investors who may not be taxpayers and may not have a PAN or bank accounts (such as farmers, small traders, businessmen, and workers), cash transactions in mutual funds to the extent of ₹ 20,000 per investor per mutual fund per financial year would be allowed, subject to (i) compliance with the Prevention of Money Laundering Act, 2002 and the Rules framed thereunder, the SEBI circular(s) on Anti Money Laundering (AML) and other applicable AML rules, regulations, and guidelines; and (ii) the provision of sufficient systems and procedures.

Repayment in the form of redemptions, dividends, and so on with respect to these investments should be paid only through the banking channel.

I. Prudential limits and disclosures on portfolio concentration risk in debt-oriented mutual fund schemes

Mutual funds/AMCs should ensure that the total exposure of the debt schemes of the mutual funds in a particular sector—excluding investments in bank CDs, CBLO, G-Secs, T-Bills, and AAA-rated securities issued by public financial institutions and public sector banks—does not exceed 30 percent of the net assets of the scheme.

Existing schemes should comply with this requirement within a period of one year from the date of issue of this SEBI circular. During this one year, the total exposure of the existing debt schemes of the mutual funds in a particular sector should not increase from the existing levels (if above 30 percent) from September 13, 2012.

Appropriate disclosures should be made in scheme information document (SID) and the key information memorandum (KIM) of the debt schemes.

J. Transaction charges

In partial modification of the SEBI circular dated August 22, 2011, distributors would have the option to either opt in or opt out of levying transaction charges based on the type of the product.

K. Disclosure with respect to half-yearly financial results

Mutual funds/AMCs should make half-yearly disclosures of their unaudited financial results on their respective websites in a user-friendly and downloadable format (preferably in a spreadsheet).

L. Additional disclosures

In partial modification of the SEBI circular dated August 22, 2011, in addition to the total commission and expenses paid to distributors, mutual funds/AMCs should make additional disclosures on their respective websites on a yearly basis regarding the distributor-wise gross inflows (indicating whether the distributor is an associate or group company of the sponsor(s) of the mutual fund), net inflows, average assets under management (AUM), and the ratio of AUM to gross inflows. If this data suggests that a distributor has an excessive portfolio turnover ratio (i.e., more than two times the industry average), the AMCs should conduct an additional due diligence of such distributors. Mutual funds/AMCs should also submit this data to the AMFI, and the consolidated data in this regard would be disclosed on the AMFI website.

XVI. Review of margining of exchange-traded funds (SEBI Circular dated September 26, 2012)

Vide the SEBI circular dated September 26, 2012, SEBI came out with additional provisions relating to the risk management framework for exchange-traded funds (ETFs).

A. Use of VaR methodology with respect to ETFs

- Index ETFs are based on a basket of securities. However, for computing margins on ETFs, they are treated at par with stocks, and the margins that are applicable to stocks are applied to the ETFs. In order to bring about efficiency in the margining of index ETFs, it was decided that the Value at Risk (VaR) margin computation for ETFs that track an index should be computed as 5 percent of the ETF or three times sigma of the ETF (whichever is higher).
- The revised margin framework would be applicable to ETFs that track broad-based market indices, and would not include ETFs that track sectoral indices.

B. Introduction of cross-margining facility in respect of offsetting positions in ETFs based on equity indices and constituent stocks

The SEBI (vide the SEBI circular dated December 02, 2008) allowed cross-margining across the cash segment and the exchange-traded derivatives segments. In order to facilitate the efficient use of margin capital by market participants, it was decided to extend the cross-margining facility to the ETFs based on equity index and their constituent stocks for the following offsetting positions in the cash market segment:

- ETFs and constituent stocks (in the proportion specified for the ETF) to the extent that they offset each other;
- ETFs and constituent stocks futures (in the proportion specified for the ETF) to the extent that they offset each other; and
- ETFs and relevant index futures to the extent that they offset each other.

In the event of a suspension on creation or redemption of the ETF units, the cross-margining benefit would be withdrawn.

3. Capital Markets

I. Review of Internet-based trading and securities trading using wireless technology (SEBI Circular dated June 30, 2011)

In a review of the extant guidelines on Internet-based trading (IBT) and securities trading using wireless technology (STWT), the SEBI issued certain guidelines for brokers.

- A broker should, inter alia, capture the Internet Protocol (IP) address (from where the orders originate) for all IBT/STWT orders.
- The broker system should have built-in high system availability to address any single point failure.
- There should be secure end–to-end encryption for all data transmission between the client and the broker through a secure standardised protocol. A procedure of mutual authentication between the client and broker server should be implemented.
- The broker system should have adequate safety features to ensure it is not susceptible to internal/external attacks.
- In the event of a failure of either the IBT or the STWT, the alternate channel of communication should have adequate capabilities for client identification and authentication.

II. Clarification regarding admission of limited liability partnerships as members of stock exchanges (SEBI Circular dated July 11, 2011)

The Securities Contract Regulation Rules, 1957 (SCRR) do not explicitly mention limited liability partnerships (LLPs), as the Limited Liability Partnership Act, 2008 (LLP Act) was a subsequent development. As per the LLP Act, the LLP is a corporate body. Sub-rules 4A and 5 of Rule 8 of the SCRR state that limited liability companies (LLC) and partnership firms are eligible to be admitted as members of the stock exchange(s). In this context, it may be stated that LLPs are similar to LLCs and partnership firms. Since the Parliament has put in place a legal framework for LLPs, the stock exchanges may consider granting membership to LLPs, subject to the LLP complying with the conditions laid down in Rule 8(4A) of the SCRR.

III. SMS and email alerts to investors from stock exchanges (SEBI Circular dated August 2, 2011)

The SEBI receives complaints from investors about stock brokers who allegedly include unauthorised trading in their accounts. The SEBI had taken various steps in the past to address this issue. As an additional measure, stock exchanges are now required to send the details of the transactions to the investors through SMSes and email alerts by the end of the trading day. These guidelines are applicable to the equity, cash, and derivative segments of the stock exchanges. Stock brokers should upload the details of their clients, including the client's name, mobile number, address for correspondence, and email address. After the stock brokers upload these details, the stock exchanges are required to take necessary steps to verify the details by whatever mode is considered appropriate by the exchanges. Upon receipt of confirmation from the investors, the stock exchanges should start sending the transaction details (which are generated based on each investor's Permanent Account Number) directly to them.

IV. Simplification and rationalisation of opening process for trading accounts (SEBI Circular dated August 22, 2011)

With a view to simplify and rationalise the account opening process for trading accounts, the SEBI reviewed, consolidated, and updated all the documents/requirements that were prescribed over the years regarding the account opening process, in consultation with the major stock exchanges and market participants.

The steps for simplification included the replacement of all the client-broker agreements with the Rights and Obligations document, which would be mandatory and binding for the existing and new stock brokers (including trading members) as well as clients. Accordingly, the SEBI (Stock Broker and Sub-Broker) Regulations, 1992 were amended suitably vide the SEBI Notification dated August 17, 2011.

V. Notification of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (SEBI Notification dated September 23, 2011)

The SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (SAST) were notified on September 23, 2011 by repealing the earlier SEBI (SAST) Regulations, 1997. These Regulations came into effect from October 22, 2011.

The salient features of the SAST include:

- The initial threshold was set at 25 percent for the trigger of the mandatory open offer, which was 15 percent earlier.
- The minimum offer size was set at 26 percent, which was 20 percent earlier.
- There was no provision for the payment of non-compete fee.
- Voluntary offers were introduced, subject to certain conditions.
- Mandatory recommendation on the open offer by the committee of independent directors of the target company was introduced.
- The parameters for determining the open offer price were modified.
- The timelines for the various activities related to open offer process and so on were reduced.

VI. Guidelines on outsourcing of activities by intermediaries (SEBI Circular dated December 15, 2011)

The risks associated with outsourcing include operational risk, reputational risk, legal risk, country risk, strategic risk, exit-strategy risk, counterparty risk, concentration risk, and systemic risk. In order to address the concerns related to the outsourcing of activities by intermediaries based on the principles advocated by the IOSCO and the experience specific to the Indian markets, the SEBI prepared a concept paper on the outsourcing of activities related to the services offered by intermediaries.

Based on the feedback received on the concept paper as well as the discussions with various intermediaries, stock exchanges, and depositories, the principles for outsourcing by intermediaries were framed, which, inter alia, stated the following:

- Implement a comprehensive policy on the outsourcing of activities.
- Establish a comprehensive outsourcing risk management program to address outsourced activities and the relationship with the third party.
- Ensure that the outsourcing arrangements neither diminish the ability to fulfil the obligation to customers and regulators nor impede effective supervision by the regulators.
- Conduct appropriate due diligence in selecting the third party and monitoring its performance.
- Govern various aspects of outsourcing through written agreements/contracts that contain all material aspects of the outsourcing arrangement.
- Establish and maintain contingency plans for disaster recovery and periodic testing of the back-up facilities.
- Take appropriate steps to protect the confidential information of an intermediary and its customers from intentional or inadvertent disclosure to unauthorised persons.
- Put safeguards to avoid/prevent the commingling of documents/records/assets by the outsourcing agency.

The intermediaries were advised not to outsource their core business activities and compliance functions. It was also clarified that in spite of outsourcing, the primary responsibility of compliance with the regulations would lie with the intermediary. These guidelines were based on the principles advocated by the IOSCO.

VII. Call auction in pre-open session for initial public offerings and re-listed scrips (SEBI Circular dated January 20, 2012)

The SEBI decided to extend the call auction to 60 minutes in the pre-open session—from 9:00 am to 10:00 am—for initial public offerings (IPOs) and re-listed stocks. The initial 45 minutes were allowed for order entry, order modification, and order cancellation; the next 10 minutes were meant for order matching and trade confirmation; and the remaining 5 minutes was the buffer period to facilitate the transition from the pre-open session to the normal trading session.

VIII. Trade controls in normal trading session for IPOs and re-listed scrips (SEBI Circular dated January 20, 2012)

In light of the high volatility and price movements observed on the first day of trading and the recommencement of trading in the case of IPOs and re-listed scrips, the SEBI put in place a framework of trade controls for the normal trading session. The normal trading session should commence only after the conclusion of the call auction session for such scrips on the BSE and the NSE.

Price bands for IPO scrips:

For issue sizes up to ₹ 250 crore, the applicable price bands for the first day would be determined as follows:

i. If the equilibrium price is discovered in the call auction, the price band in the normal trading session would be 5 percent of the equilibrium price.

ii. If the equilibrium price is not discovered in the call auction, the price band in the normal trading session would be 5 percent of the issue price.

iii. For stock exchanges that are not eligible to offer call auctions, the reference price for price bands for the first day would be determined as follows:

   (a) If the equilibrium price is discovered in the call auction at the BSE/NSE, the price band in the normal trading session would be 5 percent of the discovered equilibrium price. If there are multiple equilibrium prices, the discovered equilibrium price closer to the issue price would be taken as the reference price for the price band on the first day.

   (b) If the equilibrium price is not discovered in the call auction, the price band in the normal trading session would be 5 percent of the issue price. Additionally, the trading would take place in the trade-for-trade (TFT) segment for the first 10 days from the commencement of trading.

   For issue sizes greater than ₹ 250 crore, the applicable price bands for the first day would be determined as follows:

   i. If the equilibrium price is discovered in the call auction, the price band in the normal trading session would be 20 percent of the equilibrium price.

   ii. If the equilibrium price is not discovered in the call auction, the price band in the normal trading session would be 20 percent of the issue price.

   iii. For stock exchanges that are not eligible to offer call auctions, the reference price for price bands for the first day would be determined as follows:

      (a) If the equilibrium price is discovered in the call auction at the BSE/NSE, the price band in the normal trading session would be 20 percent of the discovered equilibrium price. If there are multiple equilibrium prices, the discovered equilibrium price closer to the issue price would be taken as the reference price for the price band on the first day.

      (b) If the equilibrium price is not discovered in the call auction, the price band in the normal trading session would be 20 percent of the issue price.

Price bands for re-listed scrips:

Trading would take place in the TFT segment for the first 10 days with the applicable price bands, with the following rules applying for the first day:

i. If the equilibrium price is discovered in the call auction, the price band in the normal trading session would be 5 percent of the discovered price.

ii. If the equilibrium price is not discovered in the call auction, the scrip would continue to trade in the call auction sessions until the price is determined.

IX. Amendment to SEBI (Buyback of Securities) Regulations, 1998 (SEBI Notification dated February 7, 2012)

As a part of SEBI's constant endeavour to align the regulatory requirements with the principle of equitable treatment of all shareholders, as well as to enhance the efficiency of the buyback process, the following changes were made to the tender offer method of buyback:

i. Procedure for acceptance of shares in buyback through the tender offer:

   The company should announce the ratio of buyback as is done in the case of rights issues, and should fix a record date for the determination of entitlements as per shareholding on the record date. While the shareholders are free to tender over and above their entitlement, the acceptance of shares should first be based on the entitlement of each shareholder and if any shares are still left to be bought back, the acceptance of additional shares tendered over and above the entitlement should be in proportion to the excess shares tendered by the shareholder.

ii. Record date in lieu of specified date:

   The company should fix the record date for the purpose of deciding the entitlement for buyback, in keeping with the practice followed for other corporate actions as laid down in the Listing Agreement.

X. Standardised lot size for SME Exchange (SEBI Circular dated February 21 2012)

The SEBI decided to standardise the lot size for IPOs proposing to list on the SME exchange and for the secondary market trading on such exchange(s). The Registrar to the issue, in consultation with merchant bankers, issuers, and the stock exchange, should finalise the basis of allotment in minimum lots and in multiples of the minimum lot size, as prescribed by the SEBI. The lot size should not be reduced by the exchange to below the initial lot size if the trading price is below the IPO issue price. The stock exchange can review the lot size once in six months, after giving an advance notice of at least one month to the market.

XI. Broad guidelines on algorithmic trading (SEBI Circular dated March 30, 2012)

Based on the recommendations of the Technical Advisory Committee (TAC) and the Secondary Market Advisory Committee (SMAC), the SEBI put in place broad guidelines for algorithmic trading in the securities market.

The guidelines define algorithmic trading as any order that is generated using automated execution logic.

Guidelines for the stock exchanges and the stock brokers:

- The stock exchanges should have arrangements, procedures, and system capability to manage the load on their systems in such a manner as to achieve consistent response time for all stock brokers.
- The stock exchange(s) should continuously study the performance of its systems and undertake system upgradation, if necessary, including the periodic upgradation of its surveillance system, in order to keep pace with the speed of trade and volume of data that could arise through algorithmic trading.
- In order to ensure orderly trading in the market, the stock exchange(s) should put in place effective economic disincentives with regard to high daily order-to-trade ratio of algorithmic orders of the stock broker. Further,

the stock exchange(s) should put in place monitoring systems to identify and initiate measures to impede any possible instances of order flooding by algorithms.

- The stock exchange(s) should ensure that all algorithmic orders are necessarily routed through broker servers located in India, and that the stock exchange has adequate risk control mechanisms to address the risk emanating from algorithmic orders and trades. The minimum order-level risk controls should include the following:
    (a) Price check: The price quoted by the order should not violate the price bands defined by the exchange for the security. For securities that do not have price bands, dummy filters should be brought into effective use to serve as an early warning system to detect any sudden surge in prices.
    (b) Quantity check: The quantity quoted in the order should not violate the maximum permissible quantity per order as defined by the exchange for the security.
- In the interests of orderly trading and market integrity, the stock exchange(s) should put in place a system to identify dysfunctional algorithms (i.e., algorithms leading to loops or runaway situations) and take suitable measures, including advising the member to shut down such algorithms and to remove any outstanding orders in the system that originated from such dysfunctional algorithms. Further, in exigent circumstances, the stock exchange(s) should be in a position to shut down the broker's terminal.
- The stock exchange(s) should ensure that the stock broker provides the facility of algorithmic trading only after obtaining prior permission from the stock exchange.

XII. Streamlined consent process (SEBI Circular dated May 25, 2012)

The SEBI came out with modified consent order norms in which certain defaults such as insider trading and front running, as well as the cases where the SEBI had issued summons, were excluded from the consent process. No consent application should be considered if any of the following violations are committed within a period of two years from the date of the consent order:

- Insider trading, i.e., violation of Regulations 3 and 4 of the SEBI (Prohibition of Insider Trading) Regulations, 1992.
- Serious fraudulent and unfair trade practices that, in the opinion of SEBI, cause substantial losses to investors and/or affects their rights, especially those of retail investors and small shareholders, or have or may have market wide impact, except those defaults where the entity makes good the losses due to the investors.
- Failure to make the open offer, except where the entity agrees to make the open offer, or if in the opinion of SEBI, the open offer is not beneficial to the shareholders, and/or the case is referred for adjudication.
- Front-running, which in this context refers to the use of non-public information to directly or indirectly buy/sell securities or enter into options/futures contracts in advance of a substantial order on an impending transaction, in the same or related securities/futures/options contracts, in anticipation that when the information becomes public, the price of such securities or contracts may change.
- Defaults relating to the manipulation of the net asset value or other mutual funds (MF) defaults, where the actions of the asset management company/mutual fund/sponsor result in substantial losses to the unit holders, except where the entity has made good the losses of the unit holders to the satisfaction of SEBI.
- Failure to redress investor grievances, except cases where the issue involved is of delayed redressal only.
- Failure to make the disclosures required under the ICDR and Debt Securities Regulations, which in the opinion of SEBI, materially affect the rights of the investors.
- Non-compliance with the summons issued by the SEBI.
- Non-compliance with an order passed by the Adjudicating Officer (AO), Designated Member (DM), or Whole Time Member (WTM).

- Any other default by an applicant who continues to be non-compliant with any order passed by the AO, DM, or WTM.

Consent application would not be considered in the following cases:

- Before the completion of any investigation/inspection, or contemplated in respect of the alleged default.
- If an alleged default is committed within a period of two years from the date of any consent order, except where the default is minor in nature.
- If the applicant has already obtained more than two consent orders, for a period of three years from the date of the last consent order;
- Where more than one proceeding arising out of the same cause of action is pending, unless it applies to all the proceedings.

The SEBI would not consider any consent application that is filed 60 days after the date that the show cause notice was served.

XIII. Notification of SECC Regulations on review of ownership and governance of market infrastructure institutions (SEBI Notification dated June 20, 2012)

The SEBI notified the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012, (SECC) on June 20, 2012 to regulate the recognition, ownership, and governance in stock exchanges and clearing corporations. Some of the provisions related to net worth, ownership, and governance are mentioned below.

Net worth	The stock exchanges should have minimum net worth of ₹ 100 crore. The existing stock exchanges with lesser net worth as on the date of commencement of the SECC Regulations (June 20, 2012) would be required to achieve a minimum net worth of ₹ 100 crore within a period of three years from the date of commencement of the SECC Regulations. Every recognised clearing corporation should achieve a minimum net worth of ₹ 300 crore within a period of three years from the date of recognition granted under the SECC Regulations.
Shareholding in a recognised stock exchange	• At least 51 percent of the paid up equity share capital of a recognised stock exchange should be held by the public. • No person resident in India should at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than 5 percent of the paid up equity share capital in a recognised stock exchange. However, a stock exchange, a depository, a banking company, an insurance company, and a public financial institution may acquire or hold, directly or indirectly, either individually or together with persons acting in concert, up to 15 percent of the paid up equity share capital of a recognised stock exchange. • No person resident outside India should, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than 5 percent of the paid up equity share capital in a recognised stock exchange. • The combined holdings of all persons resident outside India in the paid up equity share capital of a recognised stock exchange should not at any time exceed 49 percent of its total paid up equity share capital, subject to the following: (a) The combined holdings of such persons that were acquired through the foreign direct investment route should not exceed 26 percent of the total paid up equity share capital at any time. (b) The combined holdings of FIIs should not exceed 23 percent of the total paid up equity share capital at any time.

	(c) No FII should acquire the shares of a recognised stock exchange other than through the secondary market. The acquisition of shares in a recognised stock exchange through the secondary market would be governed by the following: i. If the recognised stock exchange is not listed, the FII may acquire its shares through transactions outside of a recognised stock exchange, provided it is not an initial allotment of shares. ii. If the recognised stock exchange is listed, the transactions by the FII should be done through the recognised stock exchange where such shares are listed. • No clearing corporation should hold any right, stake, or interest of any nature whatsoever in any recognised stock exchange.
Shareholding in a recognised clearing corporation	• At least 51 percent of the paid up equity share capital of a recognised clearing corporation should be held by one or more recognised stock exchange(s). No recognised stock exchange should, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than 15 percent of the paid up equity share capital in more than one recognised clearing corporation. • No person resident in India (except a recognised stock exchange) should at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than 5 percent of the paid up equity share capital in a recognised clearing corporation. However a depository, a banking company, an insurance company, and a public financial institution may acquire or hold, directly or indirectly, either individually or together with persons acting in concert, up to 15 percent of the paid up equity share capital of a recognised clearing corporation. • No person resident outside India should, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than 5 percent of the paid up equity share capital in a recognised clearing corporation. • The combined holdings of all persons resident outside India in the paid up equity share capital of a recognised clearing corporation should not at any time exceed 49 percent of its total paid up equity share capital, subject to the following: (a) The combined holdings of such persons that were acquired through the foreign direct investment route should not exceed 26 percent of the total paid up equity share capital at any time. (b) The combined holdings of FIIs should not exceed 23 percent of the total paid up equity share capital at any time. (c) No FII should acquire shares of a recognised clearing corporation otherwise than through the secondary market. • Any person holding equity shares in a recognised clearing corporation in excess of the limits specified in the SECC Regulations on the date of commencement of these Regulations should comply with the conditions specified in the SECC Regulations within a period of three years from the date of commencement.
Composition of the governing board	• The governing board of every recognised stock exchange and recognised clearing corporation should include shareholder directors, public interest directors, and a managing director. Subject to the prior approval of SEBI, the chairperson would be elected by the governing board from among the public interest directors. • The number of public interest directors should not be less than the number of shareholder directors in a recognised stock exchange.

	• The number of public interest directors of a recognised clearing corporation should not be less than two-third of its governing board strength, and the number of shareholder directors should not exceed one-third of its governing board strength. • The managing director should be an ex-officio director on the governing board, and should not be included in either the category of public interest directors or shareholder directors. • Any employee of a recognised stock exchange or recognised clearing corporation may be appointed to the governing board in addition to the managing director, and such a director would be deemed to be a shareholder director. • No trading member or clearing member (or their associates and agents) should be on the governing board of any recognised stock exchange or recognised clearing corporation. • At least one public interest director should be present in the meetings of the governing board to constitute the quorum. • No FII should have any representation in the governing board of a recognised stock exchange or a recognised clearing corporation. • Every recognised stock exchange should ensure compliance with the provisions of the SECC Regulations within three months from the date of commencement of these Regulations.
Segregation of regulatory department	• The recognised stock exchange and recognised clearing corporation should segregate their regulatory departments from their other departments. In order to ensure the segregation of regulatory departments, every recognised stock exchange and recognised clearing corporation should adopt a Chinese Wall policy, which separates the regulatory departments of the recognised stock exchange or recognised clearing corporation from the other departments. • The employees in the regulatory departments should not communicate any information concerning regulatory activities to anyone in the other departments. • The employees in the regulatory areas may be physically segregated from the employees in the other departments, including with respect to access controls. • Under exceptional circumstances, the employees from the other departments may be given confidential information on a need-to-know basis, after intimating the Compliance Officer.
Oversight committees	• Every recognised stock exchange should constitute independent oversight committees of the governing board, each of which will be chaired by a public interest director, in order to address the conflicts of interests regarding member regulation, listing functions, as well as trading and surveillance functions. • A recognised stock exchange should follow the minimum listing standards that are specified by the Board from time to time. • The heads of departments handling the matters that are referred to in Sub-regulation (1) should report directly to the respective committee, and also to the managing director. • Any action of a recognised stock exchange against a head of a regulatory department would be subject to an appeal to the respective committee specified under sub-regulation (1), within such period as may be determined by the governing board. • The provisions of the SECC Regulations would, *mutatis mutandis*, apply to a recognised clearing corporation.

Advisory committee	• An advisory committee should be constituted by the governing board of every recognised stock exchange and recognised clearing corporation to advise the governing board on non-regulatory and operational matters including product design, technology, charges, and levies. • The advisory committee of a recognised stock exchange should comprise its trading members, and the advisory committee of a recognised clearing corporation should comprise its clearing members. • The chairperson of the governing board should be the head of the advisory committee, and the managing director would be a permanent invitee to every meeting of the advisory committee. • The advisory committee should meet at least four times a year, with a maximum gap of three months between two meetings. • The recommendations of the advisory committee should be placed for consideration in the ensuing meeting of the governing board of the recognised stock exchange or the recognised clearing corporation, and the recommendations along with the decisions of the governing board on the same should be disclosed on their respective websites. • Trading members and clearing members should not be part of any other committee of the recognised stock exchange or the recognised clearing corporation, as the case may be.
Listing of securities	• Subject to the provisions of the applicable laws that are in force, a recognised stock exchange may apply for the listing of its securities on any recognised stock exchange other than itself and its associated stock exchange, if: (a) it is compliant with the provisions of SECC Regulations, particularly those relating to ownership and governance; (b) it has completed three years of continuous trading operations immediately preceding the date of application for listing; and (c) it has obtained the approval of the Board. • SEBI may specify such conditions as it may deem fit in the interest of the securities market, including those in relation to the transfer of shares held by any person. • A recognised stock exchange should not list the securities of any of its associates. • The securities of a recognised clearing corporation should not be listed on any stock exchange.

XIV. Exit policy for de-recognised/non-operational stock exchanges (SEBI Circular dated May 30, 2012)

The exit policy for de-recognised and non-operational stock exchanges was reviewed and modified by the SEBI Board. The process of de-recognition is described below.

- Exchanges may seek exit through voluntary surrender of their recognition.
- A stock exchange with annual trading turnover less than ₹ 1,000 crore on its own platform can apply to the SEBI for voluntary surrender of recognition, and exit at any time before the expiry of two years from May 30, 2012.
- If the stock exchange is not able to achieve the prescribed turnover of ₹ 1,000 crore on a continuous basis, or does not apply for voluntary surrender of recognition and exit before the expiry of two years from May 30, 2012, the SEBI would proceed with compulsory de-recognition and exit of such stock exchanges, according to the conditions specified by the SEBI.

Stock exchanges that are already de-recognised as on date should make an application for exit within two months from May 30,2012. On failure to do so, the de-recognised exchange would be subject to the compulsory exit process.

XV. Guidelines for business continuity plan and disaster recovery (SEBI Circulars dated April 13, 2012 and June 22, 2012)

In the event of a disaster, the disruption in the trading system of stock exchanges/depository systems may affect not only the market integrity but also the confidence of investors. In order to address this issue, the current business continuity plan (BCP) and disaster recovery (DR) setups of some of the stock exchanges with nation-wide terminals and depositories were examined by the Technical Advisory Committee (TAC) of the SEBI. The broad guidelines for BCP-DR based on the recommendations of the TAC are given below:

- The stock exchanges and depositories should have in place a business continuity plan (BCP) and a disaster recovery site (DRS) in order to maintain data and transaction integrity.
- Apart from the DRS, the stock exchanges should also have a near site (NS) to ensure zero data loss, while the depositories should ensure zero data loss by adopting a suitable mechanism.
- The location of the DRS should be sufficiently removed from the Primary Data Centre (PDC), i.e., in a different seismic zone, to ensure that both the DRS and the PDC are not affected by the same disaster(s).
- The manpower deployed at the DRS/NS should have expertise similar to what is available at the PDC in terms of knowledge/awareness of the various technological and procedural systems and processes relating to all the operations, such that the DRS/NS can function independently at short notice.

Other details regarding the configuration of the DRS/NS with the PDC, the DR drills for testing, and the DR policy document were also listed in the SEBI (BCP) circulars dated April 13, 2012 and June 22, 2012.

4. Debt Market

I. Setting up of Central Electronic Registry under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (RBI Circular dated April 21, 2011)

Pursuant to the announcement made by the Finance Minister in the budget speech for 2011-12, the Ministry of Finance notified the establishment of the Central Electronic Registry. The objective of setting up the Central Registry was to prevent frauds in loan cases involving multiple lending from different banks on the same immovable property. This Registry became operational on March 31, 2011. The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), a government company licensed under Section 25 of the Companies Act, 1956, was incorporated for the purpose of operating and maintaining the Central Registry under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

It may be noted that initially, the transactions relating to securitisation and reconstruction of financial assets as well as those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions as defined under the SARFAESI Act are to be registered in the Central Registry. The records maintained by the Central Registry would be available for search by any lender or any other person desirous of dealing with the property. The availability of such records would prevent frauds involving multiple lending against the security of the same property as well as fraudulent sale of property without disclosing the security interest for such property. Under the provisions of Section 23 of the SARFAESI Act, the particulars of any charge creating security interest over a property is required to be filed with the Registry within 30 days from the date of creation.

II. Shut Period (July 1, 2011)[2]

To bring about uniformity in the shut periods for corporate bonds, the SEBI (in June 2011) directed exchanges to do away with the shut period for interest payments or for part redemptions. Further, the SEBI directed the exchanges to ensure that the issuers have a record date not more than 15 days prior to book closure for all prospective privately placed issues of corporate bonds.

[2] Vide SEBI Letter IMD/DFA/OW/21036/2011 (Source: NSE circular No. 521 dated July 21, 2011).

III. Guidelines for issue and listing of structured products/market linked debentures (SEBI Circular dated September 28, 2011)

In September 2011, the SEBI put in place a framework for the issue of structured products. In India, structured products are issued as debt instruments with returns linked to equity or other underlying assets. In view of the nature of the risk profile of such securities, additional disclosures were specified in the offer documents for the issue of structured products that sought listing on the stock exchanges. The SEBI prescribed the initial and continuous disclosure norms applicable to all such securities with an underlying principal component in the form of debt securities, where the returns are linked to market returns on other underlying securities/indices.

- Eligibility criteria for issuers: Only those issuers with a minimum net worth of ₹ 100 crore are eligible to issue such instruments.
- Minimum ticket size: The minimum ticket size for subscribing to such securities is ₹ 10 lakh.
- Disclosure requirements: Additional disclosures pertaining to the riskiness of such instruments, the scenario analysis showing its value under various market conditions, the commission structure embedded therein, and the requirements for primary issuance and sale of securities to retail investors are required.
- Appointment of third party valuation agency: Third party valuation of such securities by a credit rating agency was made mandatory, and the same should be disclosed to the public.
- Primary issuance and sale of securities to retail investors: The issuer should ensure that such securities are sold to retail investors with the prescribed safeguards.

IV. Direct access to Negotiated Dealing System-Order Matching (NDS-OM) (RBI Notification dated November 18, 2011)

With a view to widening the reach of secondary market in government securities to more participants, the RBI extended direct access to the Negotiated Dealing System-Order Matching (NDS-OM) to licensed Urban Co-operative Banks (UCB) and Systemically Important Non-Deposit taking Non-Banking Financial Companies (NBFC-ND-SI).[3]

V. Ban on incentives in public issues of debt (SEBI Circular dated December 26, 2011)

The SEBI gathered from the market participants that in public issues of debt securities, some brokers/distributors were passing on part of their brokerage/commission to the final investor(s) for subscription to such public issues of debt. As a result, it gave an unfair advantage/bargaining power to a certain set of investors and distributors, while adding to the cost of issuance for the company.

In order to curb such practices, the SEBI advised that with regard to the public issues of debt securities, no person connected with the issue should offer any incentive, whether direct or indirect, in any manner, whether in cash, kind, services, or otherwise, to any person for making an application for the allotment of specified securities. Nothing in this SEBI circular applies to the fees or commission for services rendered in relation to the issue. In the context of these guidelines, the expression "person connected with the issue" includes a person connected with the distribution of the issue.

VI. Clearing and settlement of OTC trades in commercial papers and certificates of deposit (SEBI Circular dated March 5, 2012)

Vide the SEBI circular dated July 30, 2010, it was mandated that all SEBI-regulated entities should report their OTC transactions in certificates of deposit (CDs) and commercial papers (CPs) on the FIMMDA reporting platform within 15 minutes of the trade, for the online dissemination of market information (with effect from August 16, 2010).

3 The business (or part of the business) of NBFC-ND-SIs is the acquisition of shares, stock, bonds, debentures, or securities issued by a government or local authority, or other marketable securities of a similar nature.

It has now been decided that all SEBI-regulated entities should settle their OTC trades in CDs and CPs along the lines of the already existing process for the settlement of OTC trades in corporate bonds, through the National Securities Clearing Corporation Limited (NSCCL) and the Indian Clearing Corporation Limited (ICCL), with effect from April 01, 2012.

VII. Standardisation of application form and abridged prospectus for public issue of debt securities (SEBI Circular dated July 25, 2012)

The SEBI (Issue and Listing of Debt Securities) Regulations was notified in 2008, specifying the norms for the public issue of debt securities and privately placed listed debt securities. With respect to the public issue of debt securities, there was no specified standard format for the application form and abridged prospectus. This resulted in different application forms and abridged prospectus being used in the public issues of debt securities.

In order to standardise the application form and abridged prospectus for the public issue of debt securities, the existing forms and abridged prospectus were discussed and deliberated upon with market participants. Based on the discussions, the structure, design, format, contents, and organisation of information in the application form and abridged prospectus were standardised and made uniform for all public issues of debt securities.

VIII. System for making online applications for public issue of debt securities (SEBI Circular dated July 27, 2012)

To provide a system for making online applications for the public issue of debt securities and to reduce the timelines of the issue process for the public issue of debt securities, the SEBI decided to extend the ASBA facility to the public issues of debt securities, and provide an option for subscribing to debt securities through an online interface with the facility to make online payment.

IX. Report of Working Group on 'Enhancing Liquidity in the Government Securities Market' (RBI Notification dated August 13, 2012)

The RBI released the report of the Working Group on Enhancing Liquidity in the Government Securities and Interest Rate Derivatives Markets. The Group made various recommendations, which were categorised into essential recommendations, desirable recommendations, and operational recommendations. Some of the important recommendations made by the Group are as follows:

(a) **Government Securities Market:**

- Consolidation of outstanding government securities, based on model plan indicated in the report.
- Allocation of specific securities to each primary dealer for market making.
- Gradual increase in the investment limit for FIIs in government securities, keeping in view the country's overall external debt position, current account deficit, size of the government's borrowing programme, and so on.
- A roadmap to gradually bring down the upper limit on the held-to-maturity portfolio in a calibrated manner to make it non-disruptive for the entities and the other stakeholders.
- Promotion of the term repo market with suitable restrictions on leverage, and introduction of tripartite repo in government securities.

(b) **Retail Participation:**

- The services of banks—and post offices at a later stage, if possible and in consultation with the Government of India—may be utilised as a distribution channel and nodal point for interface with individual investors.
- A centralised market maker for retail participants in government securities in the long term, who would quote two-way prices of government securities for retail/individual investors.

5. Derivatives Market

I. Self clearing member in the currency derivatives segment (SEBI Circular dated May 13, 2011)

Vide the SEBI circular dated May 13, 2011, it was clarified that the minimum net worth of the self clearing members in the currency derivatives segment would be ₹ 5 crore.

II. Short-collection/non-collection of client margin in derivatives segment (SEBI Circular dated August 10, 2011)

In consultation with the stock exchanges, the SEBI prescribed a penalty structure for short-collection/non-collection of margins from clients in the derivatives segment (equity and currency). This SEBI circular came into effect from September 1, 2011.

The penalty structure for each member is as follows.

For each member	
Short-collection/non-collection of margins per client per segment per day	**Per day penalty as percentage of short-collection/non-collection of margins per client per segment per day**
(< ₹ 1 lakh) and (< 10 percent of applicable margin)	0.5
(≥ ₹ 1 lakh) or (≥ 10 percent of applicable margin)	1.0

If the short-collection/non-collection of margins for a client continues for more than three consecutive days, the penalty of 5 percent of the shortfall amount should be levied for each day of continued shortfall beyond the third day of shortfall. If the short-collection/non-collection of margins for a client takes place for more than five days in a month, the penalty of 5 percent of the shortfall amount should be levied for each such day during the month beyond the fifth day of shortfall.

Notwithstanding the above penalty, if the short-collection of margins from clients is caused due to a movement of 3 percent or more in the index (close to the closing value of the Nifty/Sensex for all equity derivatives) and in the underlying currency pair (close to the closing settlement price of the currency futures, for all currency derivatives) on a given day, (day T), the penalty for short-collection should be imposed only if the shortfall continues on to T+2 day.

All instances of non-reporting would amount to 100 percent short collection, and the penalty as applicable should be charged on these instances in respect of short-collection.

In addition, it was mandated that for wrong/false reporting of client margins, the member should be penalised 100 percent of the falsely reported amount along with suspension of trading for one day in that segment.

III. Liquidity enhancement schemes for illiquid securities in equity derivatives segment (SEBI Circular dated June 2, 2011)

In consultation with the stock exchanges, the SEBI decided to permit the stock exchanges to introduce one or more liquidity enhancement schemes (LES) to enhance the liquidity of illiquid securities in their equity derivatives segments.

The stock exchanges have to ensure that the LES (including any modifications therein or its discontinuation) has the prior approval of the SEBI, and that its implementation and outcome are monitored by the SEBI at quarterly intervals. The exchanges have to disclose to the market at least 15 days in advance, and its outcome (incentives granted and volume achieved, liquidity enhancer-wise and security-wise) should be disseminated monthly within a week of the close of the month.

The LES can be introduced in any of the following securities:

- New securities permitted on the stock exchange(s) after June 2, 2011.

- Securities in the case of a new stock exchange/new segment.
- Securities where the average trading volume for the last 60 trading days on the stock exchange is less than 0.1 percent of the market capitalisation of the underlying.

The LES can be discontinued at any time with an advance notice of 15 days. However, it will be discontinued as soon as the average trading volume on the stock exchange during the last 60 trading days reaches 1 percent of the market capitalisation of the underlying, or six months from the introduction of the scheme, whichever is earlier.

The incentives under the LES should be transparent and measurable. These may take one of two forms:

(a) Discount in fees, adjustment in fees in other segments, cash payment; or

(b) Shares, including options and warrants, of the stock exchange.

If a stock exchange chooses option (a) the incentives under all the LES during a financial year should not exceed 25 percent of the net profits, or 25 percent of the free reserves of the stock exchange (whichever is higher), as per the audited financial statements of the preceding financial year. If a stock exchange chooses option (b) the shares—including the shares that may accrue on the exercise of warrants or options—given as incentives under all LES during a financial year should not exceed 25 percent of the issued and outstanding shares of the stock exchange as on the last day of the preceding financial year

IV. Exchange-traded interest rate futures on 2-year and 5-year notional coupon-bearing Government of India securities (SEBI Circular dated December 30, 2011)

The SEBI permitted the stock exchanges to introduce cash-settled futures on 2-year and 5-year notional coupon-bearing Government of India (GoI) securities on the currency derivatives segment of the stock exchanges. Eligible stock exchanges may do so after obtaining prior approval from the SEBI.

V. Revised position limits for trading member (banks) in exchange-traded US $ - INR derivative contracts (SEBI Circular dated May 23, 2012)

The gross open positions of the bank across all the contracts (both futures and options contracts) should not exceed 15 percent of the total open interest or US $ 100 million, whichever is lower.

VI. Revision of eligibility and retention criteria for stocks in derivatives segment (SEBI Circular dated July 23, 2012)

In order to improve market integrity, the SEBI in consultation with the stock exchanges revised the eligibility and exit criteria for stocks in the derivatives segment.

Revised eligibility criteria for stocks in derivatives segment

- The minimum median quarter sigma order size (MQSOS) requirement for a stock to be eligible for introduction in the derivatives segment was revised from ₹ 5 lakh ₹ 10 lakh.
- The minimum market wide position limit (MWPL) requirement for a stock to be eligible for introduction in the derivatives segment was raised from ₹ 100 crore to ₹ 300 crore.

Revised exit criteria for stocks in derivatives segment

- The stock's MQSOS over the last six months should be not less than ₹ 5 lakh.
- The MWPL of the stock should not be less than ₹ 200 crore.
- The stock's average monthly turnover in the derivatives segment over the last three months should not be less than ₹ 100 crore.

VII. Report of Working Group on 'Enhancing Liquidity in the Interest Rate Derivatives Market' (RBI Press Release dated August 13, 2012)

The RBI released the report of the Working Group on Enhancing Liquidity in the Government Securities and Interest Rate Derivatives Markets. The Group made various recommendations regarding the interest rate derivatives market.

- An electronic swap execution facility (electronic trading platform) for the interest rate swap (IRS) market can be introduced with a central counterparty mechanism for guaranteed settlement through the electronic platform.
- Insurance companies, provident funds, and other financially sound entities can be permitted to participate in the IRS market.
- Futures contracts that have a high probability of attracting participant interest (such as interest rate futures (IRF) based on overnight call borrowing rate) could be introduced.
- Cash-settled 10-year IRF subject to appropriate regulations (such as restricted participation, entity-based open position limit, price band, and so on) could be introduced.

The RBI would examine and initiate appropriate action based on the recommendations made by the Working Group.

6. Foreign Investments in India

I. Infrastructure finance companies as eligible issuers for FIIs investment limit in debt instrument for infrastructure (SEBI Circular dated August 26, 2011)

The Non-Banking Financial Companies (NBFCs) categorised as Infrastructure Finance Companies (IFCs) by the RBI would be considered eligible issuers for the purposes of FII investment under the corporate debt long-term infra category.

II. Changes in re-investment period of FII debt limit (SEBI Circular dated January 3, 2012)

The SEBI decided that the re-investment period would not be allowed for all new allocations of debt limits to FIIs/sub-accounts. Thus, the limits acquired in the bidding sessions (going forward) would expire/lapse on either the sale or the redemption at maturity of the debt investments. These limits would then be allocated again in the subsequent bidding processes.

Entities that currently hold limits/investments:

As of January 3, 2012, for those FIIs and sub-accounts that already have acquired limits and/or have invested in debt, the existing limits would expire in the following manner:

(a) The facility of re-investment would continue until any one of the following thresholds is breached:

- Total sales made from the existing debt portfolio (current debt investment and the un-utilised limit currently with the entity, if any) is twice the size of its debt portfolio as of January 3, 2012; or
- Completion of two years from January 3, 2012 (until January 02, 2014).

(b) The re-investment period for these purposes would continue as prescribed earlier via the SEBI circular dated November 26, 2010.

After the threshold is breached, in the case of any sale or redemption of the investments, the limit shall expire/lapse. These limits would then be allocated again in the subsequent bidding processes.

The SEBI clarified that the FII/sub-account is not required to sell its investments in debt instruments after it reaches the threshold mentioned above. Thus, it can continue to retain the debt investments beyond the threshold. However, the sale or redemption thereon will not be eligible for re-investment beyond the thresholds mentioned above.

Investments in long-term infra debt category—New allocations:

For all new allocations of debt limits under this category, if an FII decides to sell the holdings during the lock-in period to another FII, the limit would be automatically transferred to the purchasing entity. However, if an FII decides to sell/redeem the holdings after the lock-in period, the limit would expire/lapse. These limits would then be allocated again in the subsequent bidding processes.

III. Investment by qualified foreign investors in Indian equity shares (SEBI Circulars dated January 13, 2012 and January 25, 2012)

The Central Government (vide a press release dated January 1, 2012) announced its decision to allow qualified foreign investors (QFIs) to directly invest in the Indian equity market, in order to widen the class of investors, attract more foreign funds, reduce market volatility, and to deepen the Indian capital market.

In order to facilitate this move, it has been decided (in consultation with the Government and the RBI) that foreign investors (termed as qualified foreign investors) who meet the prescribed Know Your Customer (KYC) requirements may be allowed to invest in the equity shares listed on the recognised stock exchanges and in the equity shares offered to the public in India. In order to enable this, they will be required hold the equity shares in a demat account opened with a SEBI-registered qualified depository participant.

The framework for QFI investment in mutual funds and equity shares was prescribed vide the SEBI circulars dated August 9, 2011, January 13, 2012, and January 25, 2012. The SEBI circulars prescribed the conditions for becoming a qualified depository participant (DP), the transactions allowed for QFIs, the account opening process and the manner of operation by QFIs, the investment restrictions and the monitoring of investment limits for QFIs, the process flow for QFIs' purchases, sales, dividends, and other corporate actions, and so on.

IV. Revision in framework for qualified foreign investors' investment in equity shares and mutual fund schemes (SEBI Circular dated June 7, 2012)

Vide the SEBI circulars dated August 09, 2011 and January 13, 2012, QFIs were allowed to invest in the schemes of Indian mutual funds and Indian equity shares, subject to the terms and conditions mentioned therein. Subsequently, vide the SEBI circular dated January 25, 2012, the eligibility criteria for a qualified DP were revised.

Following a review by the SEBI, and in consultation with the Government of India (GoI) and the RBI, it was decided to revise the definition of a qualified foreign investor (QFI).

A QFI would mean a person who fulfils the following criteria:

- The person is resident in a country that is a member of the Financial Action Task Force (FATF) or a member of a group that is a member of FATF.
- The person is resident in a country that is a signatory to IOSCO's MMOU or a signatory of a bilateral MOU with the SEBI.
- The person is not resident in a country listed in the public statements issued by the FATF from time to time regarding (i) jurisdictions having strategic Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) deficiencies to which counter measures apply; and (ii) jurisdictions that have not made sufficient progress in addressing the deficiencies or have not committed to an action plan developed with the FATF to address the deficiencies.
- The person is not resident in India.
- The person is not registered with the SEBI as an FII, sub-account, or foreign venture capital investor.

The QFIs would be allowed to make fresh purchases of eligible securities, out of the sale/redemption/dividend proceeds of any of the eligible securities. Further, it was clarified that all the eligible securities should be held in a single demat account of the QFI. Eligible securities in this context would mean mutual fund units (under both the direct as well as the indirect route), equity shares, corporate debts, and any other security that is permitted for investment by the QFIs from time to time by the GoI, the RBI and the SEBI.

It has been further decided to extend the option of the appointment of a custodian of securities by the QFI. The QFI, if it so desires, may appoint a custodian of securities, who would be obligated to perform the clearing and the settlement of securities on behalf of the QFI client. However, no person can be appointed as a custodian by the QFI unless said person is the qualified DP of the QFI, and is also registered as a custodian with the SEBI under the SEBI (Custodian of Securities) Regulations, 1996.

A QFI should open a single non-interest bearing Rupee account with an AD Category-I bank in India, for routing the receipt and payment for transactions relating to the purchase and the sale of the eligible securities, subject to the conditions that may be prescribed by the RBI from time to time. It was clarified that, henceforth, the opening and maintenance of a single Rupee pool bank account by the qualified DP would not be required. Henceforth, the QFIs should invest in all eligible securities through their single non-interest bearing Rupee account.

V. FII Investment in Government debt long term and corporate debt long-term infra category (SEBI Circular dated June 26, 2012)

The RBI (vide the RBI circular dated June 25, 2012) decided to enhance the existing limit for investment by SEBI-registered FIIs in government debt by a further amount of US $ 5 billion, taking the overall limit for FII investment in Government debt from US $ 15 billion to US $ 20 billion. Accordingly, the SEBI (vide the SEBI circular June 26, 2012) announced that the current limit of US $ 5 billion for FII investment in government securities with 5-year residual maturity would be enhanced to US $ 10 billion. Further, the residual maturity for the said US $ 10 billion limit would stand reduced from aforesaid five years to three years.

Vide RBI circular dated June 25, 2012 it has been decided that the conditions for the limit of US $ 22 billion for FII investment in corporate debt long term infra category, including the sub-limit of US $ 5 billion with one year lock-in/ residual maturity requirement and US $ 10 billion for nonresident investment in IDFs (which are all within the overall limit of US $ 25 billion for investment in infrastructure corporate bonds) have been changed as unders:

- The lock-in period for investments under this limit has been uniformly reduced to one year; and
- The residual maturity of the instrument at the time of first purchase by an FII/eligible IDF investor would be at least 15 months.

VI. Investment by qualified foreign investors in Indian corporate debt (SEBI Circular dated July 18, 2012)

Vide the SEBI circulars dated August 09, 2011 and January 13, 2012, QFIs were allowed to invest in the schemes of Indian mutual funds and Indian equity share (subject to the terms and conditions mentioned therein) by opening a demat account with a qualified depository participant (DP). In consultation with the GoI, the SEBI, and the RBI, it has now been decided to allow QFIs to invest in Indian corporate debt securities and the debt schemes of Indian mutual funds.

The QFI transactions would be limited to the following debt securities:

- Purchase and sale of corporate debt securities listed on recognised stock exchange(s).
- Purchase of corporate debt securities through public issues, if the listing on the recognised stock exchange(s) is committed to be done as per the extant provisions of the Companies Act, 1956.
- Sale of corporate debt securities by way of buyback or redemption by the issuer.
- Purchase and sale of units of the debt schemes of Indian mutual funds.

Limits for investment in corporate debt:

The QFIs are permitted to invest in the corporate debt securities (without any lock-in or residual maturity clause) and the mutual fund debt schemes subject to a total overall ceiling of US $ 1 billion. This limit would be over and above the limit of US $ 20 billion for FII investment in corporate debt, and should be monitored and allocated in the manner prescribed in the SEBI circular dated July 18, 2012. Some of the salient points are as follows:

- A QFI can invest without obtaining prior approval until the aggregate QFI investments reaches 90 percent of US $ 1 billion, i.e., US $ 0.9 billion.
- The monitoring and allocation of investment limits would be broadly in terms of the SEBI circular dated January 13, 2012.
- The depositories should administer and monitor, so as to ensure that the aggregate investment of all QFIs is not more than 90 percent of the investment limit.
- The depositories should jointly publish/disseminate to the public the aggregate investments of the QFIs on a daily basis.

C. Corporate Governance Developments

Corporate Governance in India: Developments and Policies

A. Importance of Corporate Governance in the Capital Market

Good corporate governance is essential for the integrity of corporations, financial institutions and markets and has a bearing on the growth and stability of the economy. Over the past decade, India has made significant strides in the areas of corporate governance reforms, which have improved public trust in the market. A compelling evidence of the improving standards comes from the growing interest of FIIs in the Indian market; gross FII portfolio investment has risen from US $ 2.7 billion in 1995/96 to US $ 218 billion in 2010/11.

While continuing governance reforms have led to rising foreign investment, globalization of the economy has also provided an impetus to the CG practices. An important side effect of internationalization of Indian capital markets was a drive toward a more stringent corporate governance regime by the Indian industry itself. To market their securities to foreign investors, Indian companies making public offerings in India were persuaded to comply with corporate governance norms that investors in the developed world were familiar with. Further, Indian companies listing abroad to raise capital were subject to stiff corporate governance requirements applicable to listing on those Exchanges. They also adhered to the norms and practices of corporate governance applicable to markets where they listed their securities. It must however be recognized that such practices have remained largely confined to only some large companies and have not percolated to majority of Indian companies.

International Comparison

According to a World Bank study "Doing Business 2012", India ranks 46th worldwide in terms of investor protection across all countries considered. It has fared better than China, Brazil and Russia (Table-1). It may be noted that India has been outperforming other BRIC countries persistently over the past 5 years, for which data are available. At an overall score of 6 out of 10, India beats the South Asia and East Asia averages of 5 and is equal to the OECD average of 6.

Table-1: Countrywise Ranking in Terms of Protecting Investors

Parameters	India	China	Brazil	Russia	UK
Protecting investors (rank)	46	97	79	111	10
Extent of disclosure Index (0-10)	7	10	6	6	10
Extent of director liability index (0-10)	4	1	7	2	7
Ease of shareholder suits index (0-10)	7	4	3	6	7
Strength of investor protection index (0-10)	6	5	5.3	4.7	8

Source: Doing Business 2012, World Bank

Another recent study (CG Watch 2012: Corporate governance in Asia)[1] puts India in the seventh position (Table - 2) among the Asian countries, in terms of overall CG score. According to the ACGA, India's CG standards—although short of 'world class'— are improving.

1 This was conducted by CLSA Asia Pacific Markets in collaboration with Asian Corporate Governance Association (ACGA)

Table-2: Corporate Governance Quality - Market Category Scores (in percent)

Rank. Country	Total	CG rules & practices	Enforcement	Political & regulatory	IGAAP	CG culture
1. Singapore	69	68	64	73	87	54
2. Hong Kong	66	62	68	71	75	53
3. Thailand	58	62	44	54	80	50
4. = Japan	55	45	57	52	70	53
4. = Malaysia	55	52	39	63	80	38
6. Taiwan	53	50	35	56	77	46
7. India	51	49	42	56	63	43
8. Korea	49	43	39	56	75	34
9. China	45	43	33	46	70	30
10. Philippines	41	35	25	44	73	29
11. Indonesia	37	35	22	33	62	33

Source: CG Watch 2012—Corporate Governance in Asia, CLSA Asia-Pacific Markets

B. Reforms in CG Framework for Listed Companies

During the period April, 2011 to September, 2012, the following changes have been made to the CG framework for listed companies.

a. E-voting

The participation of retail (or even institutional) shareholders in Indian companies' decision-making is still far lower than desirable. The Government has, however, been taking steps to enhance shareholders' participation. In this regard, the concept of postal ballot was introduced about a decade ago but it did not make significant inroads which necessitated the next round of reforms such as the e-voting.

To facilitate wider participation of shareholders in important proposals, SEBI has decided to mandate top listed companies to introduce e-voting facility for their shareholders in respect of those businesses which are transacted through postal ballot by the listed companies. This mandatory e-voting for top listed companies, which comes into effect on October 1, 2012, is in addition to the postal ballot option that continues to be available. It is to be noted, however, that e-voting is not yet suggested for either AGMs or EGMs.

b. Disclosure of voting results by listed companies

To ensure wider dissemination of information regarding voting results, SEBI, vide its circular dated October 05, 2011, has decided that listed entities shall disclose their voting results in the prescribed format to the exchanges and also place the same on their websites, within 48 hours from the conclusion of the concerned shareholders' meeting. To begin with, this requirement shall be applicable to top 500 listed entities based on market capitalization computed as on the date of this circular.

c. Business responsibility reports

In line with the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business', and considering the larger interest of public disclosure regarding steps taken by listed entities from an 'environmental, social and governance' ("ESG") perspective, SEBI has decided to mandate inclusion of Business Responsibility Reports ("BR reports") as part of the Annual Reports for listed entities. The requirement to include BR Reports as part of the Annual Reports have been made mandatory for top 100 listed entities based on market capitalisation at BSE and NSE as on March 31, 2012. Other listed entities may voluntarily disclose BR Reports as part of their Annual Reports.

d. Offer for sale of shares by promoters through the stock exchange mechanism

To facilitate promoters to dilute/offload their holding in listed companies in a transparent manner with wider participation, SEBI has decided to allow the offer for sale of shares by promoters of such companies through a separate window provided by the stock exchange(s).

The size of the offer shall be a minimum of Rs 25 crores. However, size of offer can be less than Rs 25 crores in case it is meant to achieve minimum public shareholding in a single tranche.

e. Manner of achieving minimum public shareholding requirements in terms of Securities Contracts (Regulation) Rules, 1957 (SCRR, 1957)

With a view to facilitate the listed entities to comply with the minimum public shareholding requirements within the time specified in Securities Contracts (Regulation) Rules, 1957 ("SCRR, 1957"), SEBI, vide its circular dated August 29, 2012, has made the following additional methods available :

i. Rights Issues to public shareholders, with promoters/ promoter group shareholders forgoing their rights entitlement.

ii. Bonus Issues to public shareholders, with promoters/ promoter group shareholders forgoing their bonus entitlement.

f. Standardization of shareholding pattern reporting format

SEBI has decided, vide its circular dated October 24, 2011, to standardize the format of reporting of shareholding pattern of the recognized stock exchange under MIMPS Regulations (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges).

C. Corporate Governance Provisions in the Companies Bill 2012[2]

Following are the main provisions relating to corporate governance that have been incorporated in the new Companies Bill, 2012.

I. Board Committees

a. Audit Committee (Clause 177)

- The audit committee shall consist of a minimum of three directors with independent directors forming a majority. The committee shall act in accordance with the terms of reference specified in writing by the Board which shall *inter alia* include: (a) the recommendation for appointment, remuneration and terms of appointment of auditors of the company; (b) review and monitor the auditor's independence and performance, and effectiveness of audit process; (c) examination of the financial statement and the auditors' report thereon; (d) approval or any subsequent modification of transactions of the company with related parties; (e) evaluation of internal financial controls and risk management systems.

b. Corporate Social Responsibility Committee (Clause 135)

- Every company having net worth of Rs 500 crore or more, or turnover of Rs 1,000 crore or more or a net profit of Rs 5 crore or more during any financial year shall constitute a Corporate Social Responsibility (CSR) Committee which shall approve the CSR Policy for the company. The committee would consist of three or more directors, out of which at least one director shall be an independent director.

[2] At the time of the document going to the press, the Companies Bill 2012 was passed in the Lok Sabha. http://www.mca.gov.in/Ministry/pdf/The_Companies_Bill_2012.pdf

- The Board shall disclose contents of such policy in its report and also place it on the company's website. In pursuance of its CSR Policy, the Board shall make every endeavour to ensure that the company spends in every financial year, at least 2 percent of the average net profits of the company made during the 3 immediately preceding financial years. If the company fails to spend such amount, the Board shall specify the reasons for not spending the amount.

c. **Nomination and Remuneration Committee (Clause 178)**

- Board of Directors of every listed company shall constitute the Nomination and Remuneration Committee consisting of three or more non-executive directors out of which not less than one half shall be independent directors. The committee shall identify persons who are qualified to become directors, recommend to the Board the appointment and removal of directors and shall carry out evaluation of every director's performance.
- Further, the committee shall ensure that (a) the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully, (b) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and (c) remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long term performance objectives appropriate to the working of the company and its goals.

d. **Stakeholders Relationship Committee (Clause 178)**

- The Board of Directors of a company which consists of more than 1000 shareholders, debenture-holders, deposit-holders and any other security holders at any time during a financial year shall constitute a Stakeholders Relationship Committee consisting of a chairperson (who shall be a non-executive director) and such other members as may be decided by the Board. The committee shall consider and resolve the grievances of security holders of the company. However, non-consideration of resolution of any grievance by this committee in good faith shall not constitute a contravention of this section.

II. **Independent Directors (Clause 149)**

- Every listed public company shall have at least 1/3rd of the total number of directors as independent directors (IDs). An independent director in relation to a company means a director other than a managing director or a whole-time director or a nominee director, who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience[3]; further, the ID possesses such other qualifications as may be prescribed.
- An ID may be selected from a data bank containing names, addresses and qualifications of persons who are eligible and willing to act as IDs, maintained by any body, institute or association, as may be notified by the Central Government. The responsibility of exercising due diligence before selecting an ID from the data bank shall lie with the company making such an appointment.
- An ID shall hold office for a term up to 5 consecutive years on the Board of a company, but shall be eligible for re-appointment on passing of a special resolution by the company and disclosure of such appointment in the Board's report. An ID shall hold office for not more than two consecutive terms, but such an ID shall be eligible for appointment after the expiration of three years of ceasing to become an ID. During the said period of three years, however, the ID shall not to be appointed in or be associated with the company in any other capacity, either directly or indirectly.

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[2] The criteria for qualifying as an ID have been defined.

- Every ID shall give a declaration that he / she meets the criteria of independence and shall comply with code of conduct. An ID should not be entitled to any remuneration other than sitting fees, reimbursement of expenses for participation in the Board and other meetings and profit related commission as may be approved by the members.
- An ID shall be liable only in respect of such acts of omission or commission by a company which had occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently.

III. **Rotation of Auditors**

No listed company shall appoint or re-appoint—

(a) an individual as auditor for more than one term of five consecutive years; an individual auditor who has completed his term under this clause, shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term;

(b) an audit firm as auditor for more than two terms of five consecutive years; an audit firm which has completed its term under this clause, shall not be eligible for re-appointment as auditor in the same company for five years from the completion of such term.

IV. **Whistle Blower Mechanism**

Every listed company shall establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed. The vigil mechanism shall provide for adequate safeguard against victimisation of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases. Details of establishment of such mechanism shall be disclosed by the company on its website, if any, and in the Board's report.

D. Ownership Structure

An important hurdle in raising corporate governance standards in India relates to the ownership pattern. First, there is high concentration of ownership, which gives particular individuals or families actual or effective control of most companies, even publicly traded companies. For example, the share of promoters in NSE listed companies rose from 47.7 percent in March 2002 to 57.8 percent in March 2010, but fell subsequently to 53.3 percent in March 2012. The picture is not very different for the top companies.

Second, a large number of companies in India are grouped together under the common control of a single shareholder or family. In other words, not only are most firms effectively controlled by a promoter group, but the same promoter group often controls a large number of firms. This pattern of ownership poses challenges for improving governance, partly because it raises probability of price manipulation and partly because it gives rise to serious potential for conflicts of interest between the promoter group and the minority investors. This pattern of ownership makes it easier for the controlling shareholders to use related party transactions (RPTs) as a vehicle for illegitimate expropriation of corporate value at the cost of minority shareholders' interest.

Partly with the aim of addressing this situation, the minimum public shareholding norms were prescribed in August 2010. Accordingly, the existing (as of the date of the circular) listed private sector companies have to ensure a minimum 25 percent public shareholding by June 2013 and existing public sector companies have to ensure a minimum 10 percent public shareholding by August 2013. As of the quarter ended in September 2012, 10 PSUs and 59 non-PSUs listed on NSE are non-compliant with the above provisions.

A reduction in concentration of holding can enhance liquidity in the market and provide easier exit options for the investors. By cutting liquidity risk, this regulation can potentially reduce the cost of capital.

E. Emergence of Proxy Advisory Firms

The proxy advisory space in India has gained a lot of traction recently. A concept which was hitherto unexplored has suddenly seen a spurt of activity with the emergence of three proxy advisory firms – Institutional Investor Advisory Services (IiAS), Ingovern and Stakeholders Empowerment Services (SES). These firms provide research and advice on critical governance issues along with recommendations on specific shareholder resolutions for their clients, mostly institutional investors.

The resultant shareholder engagement has been widely hailed as a step in the right direction by the market participants such as mutual funds, insurance companies, FIIs, retail investors and even corporates. In a market characterized by high promoter holdings, the independent research provided by these proxy advisers can provide a much needed boost towards better corporate democracy.

F. Seminar on "Independent Directors: Issues and Challenges"

At the behest of the SEBI, NSE organized a seminar on **"Independent Directors: Issues and Challenges"** jointly with CFA Institute, National Institute of Securities Markets (NISM) and Bombay Stock Exchange (BSE) on May 25, 2012. There were two panel discussions: one on how to make Independent Directors (IDs) more effective and the other on expectations from and delivery by IDs. The panelists and presenters were IDs, investors, academicians and industry experts from India and abroad. A wide spectrum of stakeholders participated in the seminar as audience. An edited transcript of the proceedings at the seminar is available at http://www.nseindia.com/research/content/res_sem_1.pdf

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World Bank (2012), *"Doing Business"*.

"CG Watch 2012—Corporate Governance in Asia", CLSA Asia-Pacific Markets in collaboration with the Asian Corporate Governance Association (ACGA).

Government of India (2012), *The Companies Bill 2012*, Ministry of Corporate Affairs.

Several circulars by SEBI (during the period April, 2011 to September, 2012) pertaining to the corporate governance framework in India.

D. EMERGE: NSE's Platform for SME Listing

EMERGE: NSE's Platform for SME Listing[1]

Introduction

India has always had a strong tradition of small and medium enterprise (SME) listings. Compared to other markets, Indian exchanges have kept their minimum capital requirements comparatively low, and this has encouraged relatively small companies to tap the public equity market. At the same time, small IPOs have presented challenges to issuers as well as investors. Smaller firms find it hard to bear the cost of the IPO and the recurring costs associated with being a publicly listed company. For investors, smaller firms pose challenges because they do not have the earnings predictability that is typically associated with mature corporations that access the public equity market. Regulators have also been concerned about the quality of small IPOs that mushroom during bull runs. So-called "vanishing companies" that were listed in the mid-nineties only to disappear a few years later provide a good example of what can go wrong if the small IPO market is not managed with care.

In view of these challenges, SEBI announced a landmark regulation in April 2010 that has the potential to revolutionise the way small and growing companies obtain access to capital. A new chapter was added to the Regulations (ICDR) for facilitating the emergence of a dedicated SME platform in the recognised exchanges. The market responded positively. By the end - December 2012, 13 SMEs were listed in the dedicated SME platforms in India. NSE's EMERGE was launched in March 2012, and the first SME was listed on it in September 2012.

The journey from the announcement of the Regulations to the actual listing provides us with an interesting case study on the challenges involved in creating a new market ecosystem. The discussion that follows explores this new SME landscape, and ways in which the roles of key market intermediaries have been changed and tailored to provide the optimal setting for a market where a large number of SMEs are able to raise and service capital in a cost-effective, orderly, and well-supervised manner.

There have been unsuccessful attempts in the past to set up a separate exchange for SMEs in India, and it was important to get the formula right this time. Globally, there were only a few successes in the creation of junior boards, though a large number of countries had tried to establish the same. While NASDAQ remains the most talked about market that started by creating a new and alternate investment class, it is today a large market competing with the New York Stock Exchange (NYSE) and is no more a junior market. The other successes were in the Canadian market (the Toronto Stock Exchange), the Korean market (KOSDAQ), and the junior market of the London Stock Exchange (Alternative Investment Market) (LSE (AIM)). These markets have a significant number of listings. Some other markets such as the Growth Enterprise Market (Hong Kong), AltX (South Africa), Mothers (Tokyo), and so on have remained relatively low volume markets with very modest listings.

Setting up EMERGE

A dedicated team at NSE conducted in-depth research of the global junior platforms to understand the success factors or the pitfalls faced by these markets. Understanding these in context of the Indian ecosystem

[1] Chief Contributors: Vidhu Shekhar, Consultant, NSE and Khyati Shah, Chief Manager, NSE. The views expressed here are strictly of the contributors and do not necessarily reflect those of NSE.

was crucial to formulating the SME platform product for India. Indian SMEs today stand ready to exploit unprecedented opportunities, driven by a fast-growing domestic economy and the increased credibility of Indian SMEs in the global markets. The availability of adequate capital for growth is one of the key factors required to encourage the SMEs to exploit these opportunities and grow exponentially. The Indian landscape has also changed—the Indian markets have matured substantially over the past decade and are now ready for a platform such as an SME Exchange.

The NSE was always very clear that the SME exchange should ensure that there is no compromise on risk management, while ensuring product innovation. Conversely, small and growing companies are riskier investments and as such require higher levels and quality of scrutiny. The SEBI placed the responsibility of gate-keeping on the exchanges, and would not be making observations on the SME offer documents. This was taken as an opportunity to establish processes to suit the issuer and investor profiles that are expected on such a platform. For the market to function in an orderly manner, it is important for the exchange(s) to ensure that this does not become a platform for unscrupulous promoters who may raise funds for unclear purposes, siphon public money, or worse, become a vanishing company. Therefore, to ensure the protection of the investors' interests, it is important to put in place adequate controls and processes such that only good quality entities are allowed access to the market. The NSE has established a process that will include a third-party due diligence of the company to instil confidence in the investors.

The fundamental question was to identify the various components of the platform ecosystem: *Who is the ultimate customer? Who would be the right participants? What will make this platform successful in the long run?* With plenty of brainstorming and interactions with various market participants, the researchers at the NSE arrived at the following conclusions for a desirable platform ecosystem.

Desirable Platform Ecosystem

The SME platform should be a market that can attract informed and institutional players to a new asset class. The platform should evolve as a Public Venture Platform, where venture-like investment opportunities are available at an early stage to a wider investor base. The ideal profiles of the participants in such a platform are described below.

Issuer profile

The SME platform should ideally be positioned as an aspirational platform for fast-growing and innovative enterprises to raise capital, which will also provide liquidity to early-stage risk investors in the company. The platform should be a place for companies that offer venture-like investment opportunities and may require repeated amounts of capital to meet the growth requirements.

The attributes of the issuers that would attract this class of investors are expected to be innovative and scalable business models, their acquisition potential, their potential as future main board success stories, and the credibility of high governance standards of the issuers.

Investor profile

The SME platform offers capital raising opportunities to businesses that are in a growth phase. These companies could still be struggling to establish a foothold in the market, and would require capital to scale their operations, explore new markets, fund R&D, and so on. Such companies need patient funding from serious medium- to long-term institutional investors who are looking for opportunities to invest early in promising companies.

Institutional investors such as insurance companies, mutual funds, and banks invest after rigorous diligence, and therefore, can act as anchors and instil confidence in other investors. VCs should approach this platform as a preferred exit route as well as an investment avenue in new and growing businesses. Longer term funds from these institutions would give the companies an opportunity to absorb the capital and deliver performance, unlike in the current market scenario, where small issues attract speculative investment and high volatility in prices.

Intermediaries

The platform regulations allow the same merchant bankers and the brokers of the main board to carry on merchant banking and broking activities as well on the SME platform, without any separate registration. The merchant banker's role is deeper and longer on the platform. It is critical to attract merchant bankers who have high-level structuring abilities, relationships with risk investors such as VCs, and their own broking arms, and have adequate capital to act as market makers.

Challenges

Like any new product, EMERGE had its own share of challenges. While there is a clear need for a platform where SMEs can raise risk capital, the concept has been slow to pick up.

High regulatory obligation: The regulations impose high demands on the merchant banks in terms of market making requirements and 100 percent underwriting. On the main boards, the merchant banks typically have an event relationship with issuers that ends with the listing of the securities. The intermediaries are highly sceptical of the new responsibilities as it involves huge capital commitments from them.

Cost: The cost for listing should also be reduced significantly on this platform to make it a serious place for raising capital by good quality issuers. Presently, the cost of raising capital for small issuers is significantly high, and it discourages them from approaching the capital markets.

Liquidity: The next big concern for this market would be liquidity. Experience on the main boards already shows that apart from the top 20–25 percent of the listed entities, liquidity in the remaining scrips is low, and it is almost negligible in some of the smaller scrips. Globally also, junior boards have repeatedly faced problems of liquidity drying up, especially when there are economic downturns. It is important for the exchange to devise structures to ensure that there is continued interest in the listed companies. The proposed market making on the SME exchange should help in creating basic liquidity in the listed scrips. However, it is critical that the market making mechanism works in a credible manner. The NSE offers an alternative price discovery option to companies listed on its SME platform, namely, the call auction mechanism, which will aggregate liquidity in short trading sessions and thereby reduce volatility.

Information dissemination: Facilitating extensive research coverage for the listed SME scrips is also critical for investor interest. The NSE has tied up with CRISIL to provide research coverage on the companies listed on its main board as well as the SME platform, improving access to information for investors.

Preparing SMEs: The SMEs need handholding for initiation into the capital markets. They have to be introduced to the notion of becoming process-driven, rather than promoter-driven. Many good SMEs stay away from the capital markets because the many compliance requirements perplex them. The NSE has developed a unique Web-based interface that has made the quarterly compliances much easier and quicker for the corporates. Such initiatives ensure that compliances are not viewed as a burden by the issuers.

First Issue Experience

Thejo Engineering Ltd. was the first company to get listed on EMERGE. The entire process was a great learning experience for everyone involved. The NSE played an active role in handholding the company to prepare for the big event. The NSE supported the merchant bankers in spreading awareness and garnering interest from the investor community. There were several highs and lows faced during the process which lasted over six months. Finally however, the efforts were vindicated when the issue was oversubscribed 1.5 times with strong institutional support in an otherwise dull capital market.

A snapshot of the Thejo IPO is provided below.

Thejo Engineering Ltd.	
Business	Thejo Engineering Ltd. (Thejo) provides products and services related to conveyor belt operations in bulk material handling, mineral processing, and corrosion protection applications for power, cement, steel, ports, and mining industries. The services include belt conveyor maintenance and operations, while the product portfolio covers the design, manufacture, and supply of engineering products for bulk material handling, mineral processing, and corrosion protection.
Grade assigned	SME Fundamental Grade 5/5 by CRISIL
Book Running Lead Manager	IDBI Capital Market Services Limited
Date of Issue	04/09/2012 to 06/09/2012
Trading Market	Call auction
Issue Size (lakh shares)	₹ 1,900.66 lakh
Issue Price	₹ 402
Date of Listing	18/09/2012
No. of Times Subscribed	1.53 (Overall): QIB (1.00) HNI (0.91) Retail (2.61)

Conclusion

We are still in the early days of the EMERGE experiment, but the response has been encouraging. Market intermediaries have taken ownership of this new market and are prepared to invest their resources, as they see huge potential in attracting early-stage innovative companies. The EMERGE platform provides a unique opportunity for all the participants in the market ecosystem, whether they are small issuers, merchant bankers, wealth managers, or astute early-stage investors. With time, the EMERGE platform has the potential to revolutionise the way in which companies get access to public equity at the early stages of their development.

Part II
Market Design

Market Design[1]

This section discusses the market design of primary markets, collective investment vehicles (such as mutual funds, alternate investment funds), equity market, debt market (government securities market, corporate bonds etc.), derivatives market (equity and currency) and foreign investors (foreign institutional investors, qualified foreign investors and foreign venture capital investors).

1. Primary Market[1]

The primary market is governed by the provisions of the Companies Act, 1956, which deals with, listing, and allotment of securities. Additionally, SEBI prescribes the eligibility and disclosure norms through the ICDR Regulations 2009 that the issuer and the promoter need to comply with for accessing the market. Here, we discuss the market design related to public issues, offer for sale, and rights issue by listed and unlisted companies, as per the ICDR Regulations prescribed by SEBI.

Eligibility Norms

Any company issuing securities has to satisfy the following conditions at the time of filing the draft offer document and the final offer document with SEBI and the registrar of companies (RoCs)/designated stock exchanges:

- File a draft offer document with SEBI, along with the specified fees through an eligible merchant banker, at least 30 days prior to the filing of the red herring prospectus or shelf prospectus with the registrar of companies (RoCs) or the filing of the letter of offer with the designated stock exchanges, as the case may be.
- Obtain in-principle approval from all the recognized stock exchanges in which the issuer proposes to get its specified securities listed.
- Enter into an agreement with the depository for the dematerialization of its securities that are already issued or are proposed to be issued.

A company can make an IPO as per the following conditions:

- It has net tangible assets of at least ₹ 3 crore in each of the preceding three full years, of which not more than 50 percent is held in monetary assets, provided that if more than 50 percent of the net tangible assets are held in monetary assets, the issuer has made firm commitments to deploy such excess monetary assets in its business/ project. Provided further that the limit of 50 percent on monetary assets shall not be applicable in case the public offer is made entirely through an offer for sale.

  It has a minimum average pre-tax operating profit of ₹ 15 crore, calculated on a restated and consolidated basis, during the three most profitable years out of the immediately preceding five years.

  It has a net worth of at least ₹ 1 crore in each of the preceding three full years;

  The aggregate of the proposed issue and all previous issues made in the same financial year in terms of size does not exceed five times its pre-issue net worth as per the audited balance sheet of the preceding financial year; and

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

In case the company has changed its name within the last one year, at least 50 percent of the revenue for the preceding one full year is earned by the company from the activity suggested by the new name.

In case these conditions are not satisfied, an issuer can still make an IPO on complying with the following guidelines:

- The issuer may make an initial public offer if the issue is made through the book-building process and the issuer undertakes to allot, at least 75 percent of the net offer to public to QIBs and to refund full subscription money if it fails to make the said minimum allotment to QIBs.

A company can make an IPO of convertible debt instruments without making a prior public issue of its equity shares, and can list the same.

Pursuant to a public issue, no allotment can be made if the number of prospective allottees is less than one thousand.

The issuer will not make an IPO if there are any outstanding convertible securities or any other rights that would entitle any person with any option to receive equity shares.

Credit Rating for Debt Instruments

No public issue or rights issue of convertible debt instruments can be made unless a credit rating of not less than investment grade is obtained from at least one credit rating agency registered with SEBI. In case the credit rating is obtained from more than one credit rating agency, all the credit ratings, including the unaccepted credit ratings, should be disclosed. All the credit ratings obtained in the three years preceding the public or rights issue of debt instruments (including convertible instruments) for any listed security of the issuer company should be disclosed in the offer document.

IPO Grading

No issuer should make an IPO of equity shares or any other securities that may be converted into or exchanged with equity shares at a later date, unless the following conditions are satisfied as on the date of filing of the prospectus (in the case of fixed price issues) or the red herring prospectus (RHP) (in the case of book built issues) with the RoC:

- The issuer has obtained a grading for the IPO from at least one credit rating agency.
- Disclosures of all the grades obtained along with the rationale/description furnished by the credit rating agency/ agencies for each of the grades obtained, have been made in the prospectus (in the case of fixed price issues) or the red herring prospectus (in the case of book built issues).

Every company obtaining a grading for its IPO should disclose the grades obtained—along with the rationale/description furnished by the credit rating agency/agencies for each of the grades obtained.

Pricing of Public Issues

An issuer may determine the price of specified securities, coupon rate, and conversion price of convertible debt instruments in consultation with the lead merchant banker or through the book building process. An issuer making an IPO may determine the face value of equity shares subject to the provisions of the Companies Act, 1956, the SEBI Act and Regulations.

If the issue price per equity share is ₹ 500 or more, the issuer shall have the option of determining the face value at less than ₹ 10 per equity share, subject to the condition that the face value shall not be less than ₹ 1 per equity share. In case the issue price per equity share is less than ₹ 500 per equity share, the face value of the shares shall be ₹ 10 per equity share. The previous clause does not apply to IPOs made by any government company, statutory authority or corporation, or any special purpose vehicle set up by any of them that is engaged in the infrastructure sector.

The disclosure of the face value of equity shares (including the statement about the issue price being x times the face value) shall be made in the advertisements, offer documents, and application forms in identical font size as that of issue price or price band.

Differential Pricing

An issuer may offer equity shares and convertible securities at different prices, subject to the following conditions:

(a) The retail individual investors/shareholders or employees entitled for reservation making an application for equity shares and convertible securities of value not more than ₹ 2 lakh may be offered equity shares and convertible securities at a price lower than the price at which the net offer is made to other categories of applicants, provided that such difference is not more than 10 percent of the price at which the equity shares and convertible securities are offered to other categories of applicants.

(b) In the case of a book built issue, the price of the equity shares and convertible securities offered to an anchor investor cannot be lower than the price offered to other applicants.

(c) In the case of a composite issue, the price of the specified securities offered in the public issue may be different from the price offered in the rights issue, and the justification for this price difference should be given in the offer document.

(d) 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. However, the difference between the floor price and the price at which the equity shares and convertible securities are offered to the employees should not be more than 10 percent of the floor price.

Price and Price Band

The issuer can mention the price or price band in the draft prospectus (in the case of a fixed price issue) and the floor price or price band in the red herring prospectus (in the case of a book built issue) and determine the price at a later date before registering the prospectus with the registrar of companies, which would need to contain only one price or the specific coupon rate, as the case may be. The issuer shall announce the floor price or price band at least five working days before the opening of the bid in the case of an IPO, and at least one working day before the opening of the bid in the case of an FPO.

The cap on the price band shall be less than or equal to 120 percent of the floor price. The floor price or the final price shall not be less than the face value of the specified securities. The 'cap on the price band' includes the cap on the coupon rate in the case of convertible debt instruments.

Contribution of Promoters and Lock-in

- The promoters' contribution in the case of an IPO should not be less than 20 percent of the post-issue capital provided that in case the post issue shareholding of the promoters is less than 20 percent, alternative investment funds may contribute for the purpose of meeting the shortfall in minimum contribution as specified for promoters, subject to a maximum of 10 percent of the post issue capital.
- In the case of a further public offer, the promoters should contribute up to 20 percent of the proposed issue, or should ensure a post-issue share holding that is up to 20 percent of the post-issue capital excluding the right issue component.
- For a composite issue, the promoters' contribution should be either 20 percent of the proposed issue size or 20 percent of the post-issue capital.
- At least one day prior to the opening of the issue, the promoters should bring in the amount of the promoters' contribution, which should be kept in an escrow account with a Scheduled Commercial Bank, and the said contribution/amount should be released to the company along with the public issue proceed.
- The minimum promoters' contribution (including contribution made by alternative investment funds) should be locked in for a period of three years in the case of public issues. However, if the promoters' contribution exceeds the required minimum, then the excess is locked in for a period of one year.
- The lock-in period starts from the date of commencement of commercial production (the last date of the month in which commercial production in a manufacturing company is expected to commence, as stated in the offer document) or the date of allotment in the public issue, whichever is later.

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 pay the requisite fee in accordance with Regulation 24A of the Securities and Exchange Board of India (Merchants Bankers) Rules and Regulations, 1992, along with the draft offer document filed with SEBI. In the case of a fast track issue, the requisite fee shall be paid along with the copy of the red herring prospectus, prospectus, or letter of offer, as the case may be.

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 of the relevant regulation.

In the case of undersubscription 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 in terms of the regulations as specified in of the relevant regulation.

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

Post-Issue Obligations

Subsequent to the issue, the lead merchant banker should ensure that the post-issue monitoring reports are submitted, irrespective of the level of subscription. Additionally, the merchant banker should be associated with the allotment, refund, and dispatch, and should 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 finalization of the allotment in a fair and proper manner as specified in the ICDR Regulations.

The lead merchant banker should ensure that the dispatch of the share certificates/refund orders and demat credit is completed, and that the allotment and listing documents are submitted to the stock exchanges within two working days following the date of allotment.

Credit Rating

Credit rating agencies (CRA) 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 ₹ 100 crore for the previous five years. Further, foreign credit rating agencies recognized by or under any law in force at the moment in the country of its incorporation, having 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, and not 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 disclosed in the offer document. Where ratings are obtained from more than one CRA, all the ratings including the unaccepted ratings should 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 the merchant bankers have to be registered with SEBI. The details about them are presented below:

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

Only a corporate body other than a non-banking financial company having the necessary infrastructure, with at least two experienced employees can apply for registration as a merchant banker. The capital adequacy requirement should be a net worth of ₹ 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 SEBI.
Demat Issues SEBI has mandated that all new IPOs should be compulsorily traded in a dematerialized form only. Further, Section 68B of the Companies Act, 1956 requires that every listed public company making an IPO of any security for ₹ 10 crore or more should issue the same only in dematerialized form. The investors, however, would have the option of subscribing to securities in either physical or dematerialized form.
Private Placement Private placement involves the issue of securities, debt, or equity to selected subscribers, such as banks, FIs, MFs, and high net worth individuals. It is arranged through a merchant/investment banker, who acts as an agent of the issuer and brings together the issuer and the investor(s). Since these securities are allotted to a few sophisticated and experienced investors, the stringent public disclosure regulations and registration requirements are relaxed. The Companies Act, 1956, states that an offer of securities to more than 50 persons is deemed to be a public issue.

2. Collective Investment Vehicles

Under the collective investment vehicles, market design of mutual funds, index funds, exchange traded funds (ETFs) and alternative investment funds (AIFs) have been discussed.

Mutual Funds

Mutual Fund	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 person 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, have a positive net worth in all the immediately preceding five years, and integrity in all his business transactions. In the case of an existing MF, for such funds that are in the form of a trust and the trust deed has been approved by SEBI, the sponsor should contribute at least 40 percent of the net worth of the AMC (provided that any person who holds 40 percent or more of the net worth of an asset management company should be deemed to be a sponsor and would be required to fulfill the eligibility criteria specified in the SEBI Regulations).
Trustees	Trustees mean the board of trustees or the trustee company who holds the property of the mutual fund in trust for the benefit of the unitholders. The trustees are appointed with the approval of SEBI. Two-thirds of the trustees are independent individuals, who are not associated with the sponsors in any manner whatsoever. Since the trustees are the primary guardians of the unitholders' 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 AMC as per the defined objectives, in accordance with the trust deed and the SEBI (MF) Regulations.

Asset Management Company (AMC)	The AMC, which is appointed by the sponsor or the trustees and is approved by SEBI, acts as the investment manager of the trust. The AMC should have at least a net worth of ₹ 10 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 between the fund sponsors, trustees, custodians, and the AMC. The AMC is required to obtain prior in-principle approval from the recognized stock exchange(s) where the units are proposed to be listed.
Custodians	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 percent or more of the voting rights of the share capital of the custodian or where 50 percent or more of the directors of the custodian represent 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 unitholders account. A fund may choose to hire an independent party registered with 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 unitholder 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.
Registration of Mutual Funds	In order to register with SEBI as an MF, the sponsor has to make an application to SEBI. The sponsor should fulfill the eligibility criteria as prescribed by SEBI.
Types of MFs/Schemes	A wide variety of MFs/schemes cater to different preferences of the investors based on their financial position, risk tolerance and return expectations. The MF schemes can be broadly categorized under three headings, viz., funds by structure e.g. open ended and close ended schemes; funds by investment objective e.g. growth schemes, income schemes, balanced schemes, money market schemes and lastly other schemes e.g. tax saving schemes, index schemes and sector specific schemes.
Open-ended and Close-ended Scheme	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 such conditions as specified by SEBI.
Listing of Close-ended Schemes	Other than equity linked saving schemes, all close-ended schemes are required to be listed on a recognized stock exchange within such time period, and are subject to such conditions as specified by 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 unitholders with restrictions, if any, on the extent of such repurchase; or if the said scheme provides for monthly income or caters to special classes of persons like senior citizens, women, children, widows, or physically handicapped or provides any special class of persons 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 amount of sale or redemption of the units and the periodicity of such sale or redemption 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 unitholders are provided with an option to redeem their units in full and the initial issue expenses of the scheme have been amortized fully in accordance with the tenth schedule of the SEBI Mutual Fund Regulations, 1996.
Regulation of Funds	The MFs are regulated under the SEBI (MF) Regulations, 1996. All the 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 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. The MFs, being public trusts, 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 which 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 which may detract the investors should be avoided. The details of advertisement code are mentioned in the sixth schedule of MF Regulation 1996.
Investment Restrictions	– A mutual fund scheme should not invest more than 15 percent of its NAV in debt instruments issued by a single issuer, which are rated not below investment grade by a credit rating agency authorized to carry out such activity under the Act. This investment limit may be extended to 20 percent of the NAV of the scheme with the prior approval of the board of trustees and the board of asset management company, provided that: • Such limit is not be applicable for investments in government securities.

Investment Restrictions	• No mutual fund is allowed to invest more that 30 percent of its net assets in money market instruments of an issuer; however, this is not applicable for investments in g-secs, t-bills, collateralized borrowing and lending obligations. Further, that investment within such limit can be made in mortgage-backed securitized debts that are rated not below investment grade by a credit rating agency registered with SEBI. – A mutual fund scheme should not invest more than 10 percent of its NAV in unrated debt instruments issued by a single issuer, and the total investment in such instruments should not exceed 25 percent 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 percent of any company's paid up capital carrying voting rights. – Transfers 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 restriction on investment are mentioned in SEBI (Mutual Fund) Regulations, 1996.
Valuation of Investments	Every mutual fund is required to ensure that the asset management company computes and carries out valuation of investment 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 (NAV)	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 daily basis and published in at least two daily newspapers having circulation all over India.

Mutual Fund Service System for Investors

Mutual Fund Service System (MFSS) is an online order collection system provided by 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 payment instrument where applicable to the distributor or directly to mutual fund/AMC/RTA. The subscription/redemption request would thereafter get processed and investor would know about status of the request only in the form of direct communication from Mutual Fund/AMC/RTA. In the MFSS, investor deals with SEBI registered NSE member who is eligible to participate in MFSS for subscription/redemption of units. Members enter the order into MFSS. By end of the day investor gets to know about the validity of his order and the value at which the units would gets credited/redeemed to his account through the trading members.

Index Funds

Index funds replicate the portfolio of a particular index such as the S&P CNX Nifty. This is done by investing in all the stocks that comprise 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. At times, they may hold their stocks for the full year, even if there are changes in the composition of the index; this reduces transaction costs. 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 provides returns at par with the index.

Exchange Traded Funds (ETFs)

An 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, but the ETFs can invest in either all of the securities or a representative sample of the securities included in the index. 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.

Collective Investment Schemes

A collective investment scheme (CIS) is any scheme or arrangement made or offered by any company, which 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 a 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 SEBI. The regulations governing CIS are called the SEBI Collective Investment Schemes Regulations 1999.

Alternative Investment Funds

Alternative Investment Fund (AIF)	AIF means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which,- (i) is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and (ii) is not covered under the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, Securities and Exchange Board of India (Collective Investment Schemes) Regulations, 1999 or any other regulations of SEBI which regulate fund management activities.
Registration of AIF	An AIF has to obtain a certificate of registration from SEBI. The funds registered as venture capital fund under Securities and Exchange Board of India (Venture Capital Funds) Regulations, 1996 shall continue to be regulated by the said regulations till the existing fund or scheme managed by the fund is wound up and such funds shall not launch any new scheme after notification of AIF regulation.
Registration Categories of AIFs	– *Category I AIF* invests in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable and shall include venture capital funds, SME Funds, social venture funds, infrastructure funds and such other AIF as may be specified. AIFs which are generally perceived to have positive spillover effects on economy and for which the SEBI or Government of India or other regulators in India might consider providing incentives or concessions shall be included and such funds which are formed as trusts or companies shall be construed as – venture capital company or –venture capital fund as specified under sub-section (23FB) of Section 10 of the Income Tax Act, 1961. *Category II AIF* does not fall in Category I and III and which does not undertake leverage or borrowing other than to meet day-to-day operational requirements and as permitted in these regulations. 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 AIF employs diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives. AIFs such as hedge funds or funds which trade with a view to make short term returns or such other funds which 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 AIF is laid down by the SEBI (Alternative investment funds) Regulations, 2012
Investment Conditions	- AIF may raise funds from any investor whether Indian, foreign or non-resident Indians by way of issue of units. - each scheme of the AIF shall have corpus of atleast ₹ 25 crore - AIF shall not accept from an investor, an investment of value less than ₹ 1 crore. In case of investors who are employees or directors of the AIF or employees or directors of the manager, the minimum value of investment shall be ₹ 25 lakhs. - the manager or sponsor shall have a continuing interest in the AIF of not less than two and half percent of the corpus or ₹ 5 crore, whichever is lower, in the form of investment in the AIF and such interest shall not be through the waiver of management fees. However, for Category III AIF, the continuing interest shall be not less than 5 percent of the corpus or ₹ 10 crore, whichever is lower. - the manager or sponsor shall disclose their investment in the AIF to the investors of the AIF. - no scheme of the alternative investment fund shall have more than one thousand investors. - the fund shall not solicit or collect funds except by way of private placement.
Tenure of AIFs	- Category I AIF and Category II AIF shall be close ended and the tenure of fund or scheme shall be determined at the time of application subject to the relevant regulation. - Category I and II AIF or schemes launched by such funds shall have a minimum tenure of three years. - Category III AIF may be open ended or close ended. - Extension of the tenure of the close ended AIF may be permitted up to two years subject to approval of two-thirds of the unit holders by value of their investment in the alternative investment fund. - In the absence of consent of unit holders, the AIF shall fully liquidate within one year following expiration of the fund tenure or extended tenure
Listing of AIF	- Units of close ended AIF may be listed on stock exchange subject to a minimum tradable lot of ₹ 1 crore. - Listing of alternative investment fund units shall be permitted only after final close of the fund or scheme
Valuation	- The AIF shall provide to its investors, a description of its valuation procedure and of the methodology for valuing assets. - Category I and Category II AIF shall undertake valuation of their investments, atleast once in every six months, by an independent valuer appointed by the alternative investment fund. Such period may be enhanced to one year on approval of atleast 75 percent of the investors by value of their investment in the AIF. - Category III AIF shall ensure that calculation of the net asset value (NAV) is independent from the fund management function of the alternative investment fund 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.

3. Equity Market[2]

Stock Exchanges

The stock exchanges need to be recognized under the Securities Contracts (Regulation) Act, 1956. Since its inception, the NSE has adopted a demutualized structure, and its model of demutualization compares well with the international models of demutualized 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. The 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 concerned exchange. No stock broker 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 of membership on different segments of NSE is provided below.

Eligibility Criteria for Membership -- Corporates (Amount in ₹ lakh)

Particulars/ Segments	CM	CM and F&O	WDM	CM and WDM	CM,WDM and F&O
Minimum Paid-up capital	*30*	*30*	*30*	*30*	*30*
Net Worth	*100*	*100 (Membership in CM segment and trading/trading and self clearing membership in F&O segment)* *300 (Membership in CM segment and trading and clearing membership in F&O segment)*	*200*	*200*	*200(Membership in WDM segment, CM segment and trading/trading and self clearing membership in F&O segment)* *300(Membership in WDM segment, CM segment and trading and clearing membership in F&O segment)*
Interest Free Security Deposit (IFSD) with NSEIL	85	110	50	135	160
Collateral Security Deposit (CSD) with NSEIL	NIL	NIL	NIL	NIL	NIL
Interest Free Security Deposit (IFSD) with NSCCL	15	15 *	NIL	15	15 *
Collateral Security Deposit (CSD) with NSCCL	25	25**	NIL	25	25**

Contd...

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

Particulars/ Segments	CM	CM and F&O	WDM	CM and WDM	CM,WDM and F&O
Annual Subscription***	1	1	NIL	1	1
Advance Minimum Transaction Charges for Futures Segment	NIL	1	NIL	NIL	1
Education	Two directors should be HSC. Dealers should also have passed SEBI approved certification test for Capital Market Module of NCFM.	Two directors should be HSC. Dealers should also have passed SEBI approved certification test for Derivatives and Capital Market Module of NCFM.	Two directors should be HSC. Dealers should also have passed FIMMDA-NSE Debt Market (Basic Module) of NCFM.	Two directors should be HSC. Dealers should also have passed FIMMDA-NSE Debt Market (Basic Module) of NCFM & Capital Market Module of NCFM.	Two directors should be HSC. Dealers should also have passed FIMMDA-NSE Debt Market (Basic Module) of NCFM, Capital Market Module of NCFM.& SEBI approved certification test for Derivatives
Experience	--------------Two year's experience in securities market----------------------				
Track Record	The Directors should not be defaulters on any stock exchange. They must not be debarred by SEBI for being associated with capital market as intermediaries. They must be engaged solely in the business of securities and must not be engaged in any fund-based activity.				
Net worth requirement for professional clearing members in F&O segment is ₹ 300 lakhs. Further, a professional clearing member needs to bring IFSD of ₹ 25 lakhs with NSCCL and collateral security deposit (CSD) of ₹ 25 lakhs with NSCCL as deposits.					
**Additional IFSD of ₹ 25 lakhs with NSCCL is required for trading and clearing (TM-CM) and for trading and self clearing member (TM-SCM). ** Additional collateral security deposit (CSD) of ₹ 25 lakhs with NSCCL is required for trading and clearing (TM-CM) and for trading and self clearing member (TM-SCM). ***Annual subscription charges will be adjusted towards advance minimum transaction charges and balance will be carried forwarded for next year.*					

In addition, a member clearing for others is required to bring in IFSD of ₹ 2 lakh and CSD of ₹ 8 lakh per trading member he undertakes to clear in the F&O segment.

Eligibility Criteria for Membership- Individuals/ Partnership Firms **(Amount in ₹ lakh)**

Particulars	CM	CM and F&O	WDM	CM and WDM	CM, WDM and F&O
Net Worth	75	75 (Membership in CM segment and trading membership in F&O segment) 100 (Membership in CM segment and trading and self clearing membership in the F&O segment) 300 (Membership in CM segment and trading and clearing membership in F&O segment)	200	200	200 (Membership in WDM segment, CM segment and trading/ trading and self clearing membership in F&O segment) 300 (Membership in WDM segment,CM segment and trading and clearing membership on F&O segment)
Interest Free Security Deposit (IFSD) with NSEIL	26.5	51.5	50	76.5	101.5

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Particulars	CM	CM and F&O	WDM	CM and WDM	CM, WDM and F&O
Collateral Security Deposit (CSD) with NSEIL	NIL	NIL	NIL	NIL	NIL
Interest Free Security Deposit (IFSD) with NSCCL	6	6 *	NIL	6	6*
Collateral Security Deposit (CSD) with NSCCL	17.5	17.5 **	NIL	17.5	17.5 **
Annual Subscription***	0.5	0.5	NIL	0.5	0.5
Advance Minimum Transaction Charges for Futures Segment	NIL	1	NIL	NIL	1

**Additional IFSD of ₹ 25 lakhs with NSCCL is required for trading and clearing (TM-CM) and for trading and self clearing member (TM-SCM).*

*** Additional collateral security deposit (CSD) of 25 lakh with NSCCL is required for trading and clearing (TM-CM) and for trading and self clearing member (TM-SCM).*

****Annual subscription charges will be adjusted towards advance minimum transaction charges and balance will be carried forward for next year.*

Currency Derivatives- Corporates, Individuals and Firms

(Amount in ₹ lakh)

Particulars	NSE Members			New Applicants			
	Trading Membership	Trading cum Self Clearing Membership	Trading cum Clearing Membership	Trading Membership	Trading cum Self Clearing Membership	Trading cum Clearing Membership	Professional Clearing Membership
Networth	100	500	1000	100	500	1000	1000
Cash to NSEIL	2	2	2	2	2	2	NIL
Non Cash to NSEIL	8	8	8	13	18	18	NIL
Cash to NSCCL	NIL	25	25	NIL	25	25	25
Non cash to NSCCL	NIL	25	25	NIL	25	25	25
Education	Two directors should be HSC. Dealers should also have passed SEBI approved National Institute of Securities	Two directors should be HSC. Dealers should also have passed SEBI approved National Institute of Securities	Two directors should be HSC. Dealers should also have passed SEBI approved National Institute of Securities	Two directors should be HSC. Dealers should also have passed SEBI approved National Institute of Securities	Two directors should be HSC. Dealers should also have passed SEBI approved National Institute of Securities	Two directors should be HSC. Dealers should also have passed SEBI approved National Institute of Securities	Two directors should be HSC. Dealers should also have passed SEBI approved National Institute of Securities

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Particulars	NSE Members			New Applicants			
	Trading Membership	**Trading cum Self Clearing Membership**	**Trading cum Clearing Membership**	**Trading Membership**	**Trading cum Self Clearing Membership**	**Trading cum Clearing Membership**	**Professional Clearing Membership**
	Markets (NISM) Series I – Currency Derivatives Certification Examination	Markets (NISM) Series I – Currency Derivatives Certification Examination	Markets (NISM) Series I – Currency Derivatives Certification Examination	Markets (NISM) Series I – Currency Derivatives Certification Examination	Markets (NISM) Series I – Currency Derivatives Certification Examination	Markets (NISM) Series I – Currency Derivatives Certification Examination	Markets (NISM) Series I – Currency Derivatives Certification Examination
Advance Minimum Transaction Charges for Currency Derivatives Segment	0.5	0.5	0.5	0.5	0.5	0.5	–
Experience	--------------Two year's experience in securities market----------------------						
Track Record	The Directors should not be defaulters on any stock exchange. They must not be debarred by SEBI for being associated with capital market as intermediaries. They must be engaged solely in the business of securities and must not be engaged in any fund-based activity.						

Note:

In case the member is opting for membership of any other segment(s) in combination with the membership of currency derivatives segment, the applicable net worth will be the minimum net worth required for the other segment(s) or the minimum net worth required for currency derivatives segment, whichever is higher.

The eligibility condition for applicants planning to apply for new membership of the Exchange is that either the proprietor/one designated director/partner or the compliance officer of the applicant entity should be successfully certified either in Securities Market (Basic) Module or Compliance Officers (Brokers) Module or the relevant module pertaining to the segments wherein membership of the Exchange had been sought.

Requirements for Professional Clearing Memberhip

(Amount in ₹ lakh)

Particulars	CM Segment	F&O Segment	CM and F&O Segment	CD Segment
Eligibility	Trading Member of NSE/SEBI Registered Custodians/ Recognised Banks			
Net Worth	300	300	300	1000
Interest Free Security Deposit (IFSD) *	25	25	34	25
Collateral Security Deposit (CSD)	25	25	50	25
Annual Subscription	2.5	Nil	2.5	Nil

** The professional clearing member (PCM) is required to bring in IFSD of ₹ 2 lakh and CSD of ₹ 8 lakh per trading member whose trades he undertakes to clear in the F&O segment and IFSD of ₹ 6 lakh and CSD of ₹ 17.5 lakh (₹ 9 lakh and ₹ 25 lakh respectively for corporate members) per trading member in the CM segment.*

Fees/Eligibility Criteria	The stock exchanges, however, 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 like capital adequacy, track record, education, and experience. (as discussed above)

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

Listing of Securities

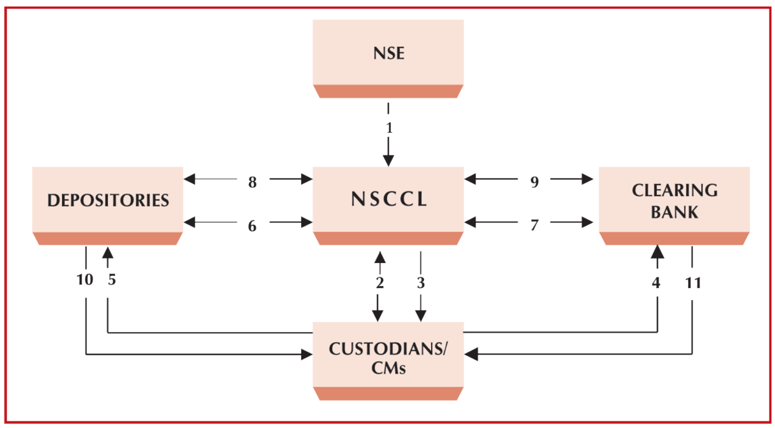
Listing means the formal admission of a security to the trading platform of a stock exchange. The listing of securities on the domestic stock exchanges is governed by the provisions in the Companies Act, 1956, the Securities Contracts (Regulation) Act, 1956 (SC(R)A), the Securities Contracts (Regulation) 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 its 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 withdrawn/delisted, and a penalty would be imposed as prescribed in the SC(R)A.

Listing Fees in the CM Segment of NSE

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. While the initial fee is a fixed amount, the annual fee varies, depending on the size of the company, as shown in the below table. Companies that have a paid up share, bond, and/ or debenture, and/or debt capital of more than ₹ 500 crore would have to pay a minimum fee of ₹ 500,000, and an additional listing fee of ₹ 3,400 for every increase of ₹ 5 crore or part thereof in the paid up share, bond, and/ or debenture, and/or debt capital, etc. Companies that have a paid up share, bond, and/ or debenture, and/or debt capital of more than ₹ 1,000 crore would have to pay a minimum fee of ₹ 850,000, and an additional listing fee of ₹ 3,700 for every increase of ₹ 5 crore or part thereof in the paid up share, bond, and/ or debenture, and/or debt capital, etc. The detailed structure of the listing fees is indicated below:

Sr. No.	Listing Fees	Amount (₹)
1	Initial Listing Fees	50,000
2	Annual Listing Fees (based on paid up share, bond, and/ or debenture, and/or debt capital, etc.)	
a	Up to ₹ 5 crore	18,000
b	Above ₹ 5 crore and up to ₹ 10 crore	31,500
c	Above ₹ 10 crore and up to ₹ 20 crore	57,500
d	Above ₹ 20 crore and up to ₹ 30 crore	90,000
e	Above ₹ 30 crore and up to ₹ 40 crore	100,000
f	Above ₹ 40 crore and up to ₹ 50 crore	105,000
h	Above ₹ 50 crore and up to ₹ 100 crore	175,000
i	Above ₹ 100 crore and up to ₹ 150 crore	200,000
j	Above ₹ 150 crore and up to ₹ 200 crore	240,000
k	Above ₹ 200 crore and up to ₹ 250 crore	275,000
l	Above ₹ 250 crore and up to ₹ 300 crore	310,000
m	Above ₹ 300 crore and up to ₹ 350 crore	340,000
n	Above ₹ 350 crore and up to ₹ 400 crore	375,000
o	Above ₹ 400 crore and up to ₹ 450 crore	435,000
p	Above ₹ 450 crore and up to ₹ 500 crore	500,000

Trading Mechanism	The National Exchange for Automated Trading (NEAT) is the trading system of the NSE. The NEAT facilitates an online, fully automated, nationwide, 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 explain the clearing and settlement process at NSE.  1. Trade details are sent from Exchange to NSCCL (real-time and end of day trade file). 2. NSCCL notifies the consummated trade details to clearing members/custodians who affirm back. Based on the affirmation, NSCCL 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 (NSCCL advises depository to debit pool account of custodians/CMs and credit its account and depository does it). 7. Pay-in of funds(NSCCL advises clearing banks to debit account of custodians/CMs and credit its account and clearing bank does it). 8. Pay-out of securities (NSCCL advises depository to credit pool account of custodians/ CMs and debit its account and depository does it). 9. Pay-out of funds (NSCCL advises clearing banks to credit account of custodians/CMs and debit its account and clearing bank does it). 10. Depository informs custodians/CMs through DPs. 11. Clearing Banks inform custodians/CMs.

Settlement Cycle in the Cash Market Segment

The NSCCL 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

Note: T+1 means one working day after the trade day. Other T+ terms have similar meanings.
Source: NSE

Trading Regulations

Insider Trading

Insider trading is considered an offence and is prohibited as per the SEBI (Prohibition of Insider Trading) Regulations, 1992. The same was amended in 2003. The Act 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 has also prohibited any insider from communicating, counseling, or providing (directly or indirectly) any unpublished price sensitive information to any person who, while in possession of such unpublished price sensitive information, should not deal in securities. 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 and final), the issue of securities or the buy-back of securities, any major expansion plans or execution of new projects, amalgamation, mergers, or takeovers, the disposal of the whole or 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 the investors, intermediaries, or any other individuals on any matter having a bearing on allegations of insider trading.

Unfair Trade Practices

The SEBI (Prohibition Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003, enabled the SEBI to investigate into cases of market manipulation as well as fraudulent and unfair trade practices. The regulations specifically prohibit fraudulent dealings, market manipulations, misleading statements to induce 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: initial threshold at 25 percent for the trigger of the mandatory open offer against 15 percent as existed earlier; minimum offer size of 26 percent against 20 percent as existed earlier; introduction of voluntary offers subject to certain conditions; introduction of mandatory recommendation on the open offer by the committee of independent directors of the target company, modification of the parameters for determining the open offer price; reduced timelines for various activities related to open offer process.

Buy Back

Buy back is done by the company with the purpose to improve liquidity in its shares and enhance 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 cases of purchases through tender offers, an offer for buy back should not remain open for less than 15 days and more than 30 days. The company should complete the verification of the offers received within 15 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 of concern for both policy makers and investors. To curb excessive volatility, the SEBI has prescribed a system of circuit breakers. The circuit breakers bring about a nationwide 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 percent, 15 percent, and 20 percent. The breakers are triggered by movement of either the Nifty 50 or the Sensex, whichever is breached earlier. Further, the NSE views the entries of non-genuine orders with utmost seriousness, as this has market-wide repercussions. It may suo moto cancel the orders in the absence of any immediate confirmation from the members that these orders are genuine, or for any other reason as it may deem fit. As an additional measure of safety, individual scrip-wise price bands have been fixed as presented below: • Daily price bands of 5 percent (either way) on a set of specified securities • Daily price bands of 10 percent (either way) on a set of specified securities No price bands are applicable on 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 operating range of 20 percent. Price bands of 20 percent (either way) on all remaining scrips (including debentures, preference shares etc).
Depository and Demat Trading	A depository holds securities in a dematerialized 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.

<table>
<tr>
<td>NSE Capital Market Transaction Charges</td>
<td>
<table>
<tr><th>Total Traded Value in a month</th><th>Revised Transaction Charges (₹ per lakh of Traded Value)</th></tr>
<tr><td>Up to the first ₹ 1250 core</td><td>₹ 3.25 each side</td></tr>
<tr><td>More than ₹ 1250 crore up to ₹ 2500 crore (on incremental volume)</td><td>₹ 3.20 each side</td></tr>
<tr><td>More than ₹ 2500 crore up to ₹ 5000 crore (on incremental volume)</td><td>₹ 3.15 each side</td></tr>
<tr><td>More than ₹ 5000 crore up to ₹ 10000 crore (on incremental volume)</td><td>₹ 3.10 each side</td></tr>
<tr><td>More than ₹ 10000 crore up to ₹ 15000 crore (on incremental volume)</td><td>₹ 3.05 each side</td></tr>
<tr><td>Exceeding ₹15000 crore (on incremental volume)</td><td>₹ 3.00 each side</td></tr>
</table>
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<tr>
<td>Securities Transaction Tax (STT)</td>
<td>
<table>
<tr><th>Sr. No</th><th>Taxable securities transaction</th><th>Rate (percent)</th><th>Payable by</th></tr>
<tr><td>1</td><td>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.</td><td>0.1</td><td>Purchaser</td></tr>
<tr><td>2</td><td>Sale of an equity share in a company or a unit of an equity oriented fund, where –
(a) the transaction of such 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.</td><td>0.1</td><td>Seller</td></tr>
<tr><td>3</td><td>Sale of an equity share in a company or a unit of an equity oriented fund, where –
(a) the transaction of such 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.</td><td>0.025</td><td>Seller</td></tr>
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4. Government Securities

Government Security	A government security 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, and are issued in three tenors—91 days, 182 days, and 364 days. The 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)[3] have the generic characteristics of t-bills but are issued for a maturity period less than 91 days. Like the 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, payable at fixed time periods (usually half-yearly). The tenor of dated securities can be up 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 treasury bill auctions preceding the coupon re-set date, and 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 to the face value. The Government of India issued such securities in the 90s; 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, fertilizer 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):** The STRIPS are instruments in which each cash flow of the fixed coupon security is converted into a separate tradable zero coupon bond and traded.[4] 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 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.
Issuers of Securites	In India, the central government issues t-bills and bonds or dated securities, while the State Governments issue only bonds or dated securities, which 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, fertilizer bonds, power bonds, and so on).

[3] 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: Press Release of RBI, dated August 10, 2009)

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

Issuance of Government Securities	Government securities are issued through auctions conducted by the RBI. The auctions are conducted on an electronic platform called the NDS–Auction platform. Commercial banks, scheduled urban co-operative banks, primary dealers, insurance companies, and provident funds, who 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 can place their bids in the auction through this electronic platform. All non-NDS 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 dematerialized 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, which contains information about the amount of borrowing, the tenor of security, and the likely period during which auctions will be held. A notification and a press communique 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 auction. The RBI places the notification and a 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 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 percent, 8.20 percent, and so on). The bids are arranged in ascending order, and the cut-off yield is arrived at the yield 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 issued earlier. The bidders quote in terms of price per ₹ 100 of the face value of the security (e.g., ₹ 102.00, ₹ 101.00, ₹ 100.00, ₹ 99.00, etc. per ₹ 100). The bids are arranged in descending order, and the 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, auction could be classified as uniform price based and multiple price based. 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. The securities can be bought/sold in the secondary market (i) over the counter (OTC), (ii) through the negotiated dealing system (NDS), or (iii) through the negotiated dealing system-order matching (NDS-OM). **(i) 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 either directly or through a broker registered with

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 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 authorized 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 OTC market are reported on the secondary market module of the negotiated dealing system (NDS).

(ii) Negotiated Dealing System

The negotiated dealing system (NDS) for electronic dealing and reporting of transactions in government securities was introduced in February 2002. It allows the members to electronically submit bids or applications for the primary issuance of government securities when auctions are conducted. The NDS also provides an interface to the Securities Settlement System (SSS) of the PDO of the RBI, Mumbai, thereby facilitating the settlement of transactions in government securities (both outright and repos) conducted in the secondary market. Membership to the NDS is restricted to members holding SGL and/or current accounts with the RBI, Mumbai.

(iii) Negotiated Dealing System-Order Matching

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, like the 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.

Stock Exchanges

Facilities trading in government securities is also available on the stock exchanges (NSE, BSE), which cater to the needs of retail investors. The NSE's wholesale debt market (WDM) segment offers a fully automated screen-based trading platform through the National Exchange for Automated Trading (NEAT) system. The WDM segment, as the name suggests, permits only high value transactions in debt securities.

The trades on the WDM 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 into a trade. This future order, which 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.

Brokerage Rates

The NSE has specified the maximum rates of brokerage chargeable by trading members in relation to trades done in securities available on the WDM segment of the exchange.

	Government Of India Securities and T-Bills	
	Order Value up to ₹ 10 million	25 ps. per ₹ 100
	More than ₹ 10 million, up to 50 million	15 ps. per ₹ 100
	More than ₹ 50 million, up to 100 million	10 ps. per ₹ 100
	More than ₹ 100 million	05 ps. per ₹ 100
	State Govt. Securities, Institutional Bonds & Supra Institutional Bonds	
	Order Value up to ₹ 2.5 million	50 ps. per ₹ 100
	More than ₹ 2.5 million, up to 5 million	30 ps. per ₹ 100
	More than ₹ 5 million, up to 10 million	25 ps. per ₹ 100
	More than ₹ 10 million, up to 50 million	15 ps. per ₹ 100
	More than ₹ 50 million, up to 100 million	10 ps. per ₹ 100
	More than ₹ 100 million	5 ps. per ₹ 100
	PSU & Floating Rate Bonds	
	Order Value up to ₹ 10 million	50 ps. per ₹ 100
	More than ₹ 10 million, up to 50 million	25 ps. per ₹ 100
	More than ₹ 50 million, up to 100 million	15 ps. per ₹ 100
	More than ₹ 100 million	10 ps. per ₹ 100
	Commercial Paper and Debentures	1 percent of the order value
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 the government securities to manage their overall portfolio risk.	
Settlement of Government Securities	**Primary Market** Once the allotment process in the primary auction is finalized, 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+1[5]. 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. 'Shut period' means the period for which the securities cannot be delivered. During the period under shut, no settlements/delivery of the security that is under shut is allowed. The main purpose of having a shut period is to facilitate the servicing of the securities, i.e., finalizing the payment	

[5] Effective from November 21, 2012.

	of the coupon and the redemption proceeds, and to avoid any change in ownership of securities during this process. Currently, the shut period for the securities held in SGL accounts is one day. Delivery versus payment (DvP) is the mode of settlement of securities, wherein the transfer of securities and funds happens simultaneously. This ensures that unless the funds are paid, the securities are not delivered, and vice versa. The DvP settlement eliminates settlement risk in transactions. There are three types of DvP settlements, namely, DvP I, DvP II, and DvP III, which are explained below. i. DvP I: The securities and funds legs of the transactions are settled on a gross basis, i.e., the settlements occur transaction by transaction without netting the payables and receivables of the participant. ii. DvP II: In this method, the securities are settled on a gross basis whereas the funds are settled on a net basis, i.e., the funds payable and receivable of all transactions of a party are netted to arrive at the final payable or receivable position, which is then settled. iii. DvP III: In this method, both the securities and the funds legs are settled on a net basis, and only the final net position of all the transactions undertaken by a participant is settled. The liquidity requirement in a gross mode is higher than that of a net mode since the payables and receivables are set off against each other in the net mode. **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 and the funds legs.

5. Corporate Bond Market

Issuers of Corporate Bonds	Public sector units including public financial institutions and bonds issued by the private corporate sector.
General Conditions for Issuance of Corporate Bonds	No issuer can make any public issue of debt securities if (as on the date of filing of the draft offer document and the final offer document) the issuer, or the person in control of the issuer, or its promoter, has been restrained or prohibited or debarred by SEBI from accessing the securities market or dealing in securities, and such direction or order is in force. 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): (a) The issuer has to apply to one or more recognized stock exchanges for the listing of such securities. If the application is made to more than one recognized stock exchange, the issuer should choose one of them as the designated stock exchange (having nationwide 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. (b) The issuer has to obtain in-principle approval for the listing of its debt securities on the recognized stock exchanges where the application for listing has been made. (c) Credit rating has to be obtained from at least one credit rating agency registered with SEBI, and has to be disclosed in the offer document.[6]

[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.

	(d) It has entered into an arrangement with a depository registered with SEBI for the dematerialization of the debt securities that are proposed to be issued to the public, in accordance with the Depositories Act, 1996 and other relevant regulations. (e) The issuer is required to appoint one or more merchant bankers registered with SEBI, at least one of whom has to be a lead merchant banker. (f) The issuer is required to appoint one or more debenture trustees in accordance with the provisions of Section 117B of the Companies Act, 1956 (1 of 1956) and the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993. (g) The issuer is not allowed to issue debt securities for providing loans to or the acquisition of shares of any person who is part of the same group or who is under the same management.
Price Discovery through Book Building	The issuer may determine the price of the debt securities in consultation with the lead merchant banker, and 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 SEBI.
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, 1956 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 recognized stock exchanges according to the terms of the Companies Act, 1956 (1 of 1956).[7] 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 recognized stock exchange subject to the following conditions: (a) The issuer has issued such debt securities in compliance with the provisions of the Companies Act, 1956, 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 SEBI; (c) The debt securities proposed to be listed are in a dematerialized form; (d) The prescribed disclosures have been made. 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 recognized stock exchanges are traded, cleared, and settled in recognized 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 recognized stock exchange having a nationwide trading terminal or another such platform as may be specified by the SEBI.

[7] Sub-section 1 of Section 73 of the Companies Act, 1956.

Clearing and Settlement	The corporate bonds are cleared and settled by the clearing corporations of stock exchanges, i.e., the ICCL and the NSCCL. All trades in corporate bonds available in demat form that are reported on any of the specified platforms (including the FIMMDA, the NSE-WDM, and the NSE website) are eligible for settlement through the NSCCL. In order to facilitate the settlement of corporate bond trades through the NSCCL, both buy as well as sell participants are required to explicitly express their intention to settle the corporate bond trades through the NSCCL. 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 NSCCL, and to transfer the funds to the bank account specified by the NSCCL within the stipulated cut-off time. On successful completion of pay-in of securities and funds, the securities/funds shall be transferred by the NSCCL to the depository/bank account of the counterparty.

6. Securitized Debt Instruments

Meaning of Securitized Debt	The Securities Contracts (Regulation) Act, 1956 was amended in 2007 to include 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.[8] Securitization involves the pooling of financial assets and the issuance of securities that are re-paid from the cash flows generated by these assets. Common assets for securitization include credit cards, mortgages, auto and consumer loans, student loans, corporate debt, export receivable, and offshore remittances.
Regulatory Framework	The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 The SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations, 2008 for listing on stock exchanges The Securitization Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003
Eligibility Criteria for Trustees[8]	According to the SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations, 2008, no person can make a public offer of securitized debt instruments or seek listing for such securitized 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 (Public Offer and Listing of Securitized 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 for the following persons, who may act as trustees of special purpose distinct entities: (a) any person registered as a debenture trustee with SEBI; (b) any person registered as a securitization company or a reconstruction company with the RBI under the Securitization 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). 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 (Public Offer and Listing of Securitized Debt Instruments) regulations, 2008. However, these Regulations are not applicable for 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.

8 For the trustees of a special purpose distinct entity.

Launching of Schemes	(1) A special purpose distinct entity may raise funds by making an offer of securitized debt instruments by formulating schemes in accordance with the SEBI (Public Offer and Listing of Securitized 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, and should not combine the asset pools or the realizations of a scheme with those of other schemes. (3) A special purpose distinct entity and the trustees should ensure that the realizations of debts and receivables are held and correctly applied towards the redemption of securitized 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. (4) The terms of issue of the securitized 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, and any such expenditure, if incurred, should be borne by the trustees.
Mandatory Listing	A special purpose distinct entity desirous of making an offer of securitized debt instruments to the public shall make an application for listing to one or more recognized 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	For the public offers of securitized debt instruments, the special purpose distinct entity or trustee should satisfy the recognized stock exchange(s) (to which a listing application is made) that each scheme of securitized 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. In the case of a private placement of securitized debt instruments, the special purpose distinct entity should ensure that it has obtained credit rating from a registered credit rating agency for its securitized debt instruments. In the case of a private placement of securitized debt instruments, the special purpose distinct entity should file the listing particulars with the recognized 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 securitized debt instruments. All the credit ratings obtained, including the unaccepted ratings, if any, should be disclosed in the listing particulars filed with the recognized 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 Securitized Debt Instruments	The securitized debt instruments issued to the public or on a private placement basis that are listed in recognized stock exchanges shall be traded, and such trades shall be cleared and settled in the recognized stock exchanges, subject to the conditions specified by the SEBI.

7. Derivatives Market[9]

Derivatives trading in India began in 2000 when both the NSE and the BSE commenced trading in equity derivatives. In June 2000, index futures became the first type of derivative instrument 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 market have come a long way.

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

Equity Derivatives

Trading Mechanism	The futures & options trading system of NSE, called NEAT-F&O trading system, provides a fully automated screen-based trading for index futures & options and stock futures & options on a nationwide 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 ₹ 2 per lakh of turnover (0.002 percent), subject to a minimum of ₹ 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 ₹ 50 per lakh of premium value.

Total Traded Value in a Month	Revised Transaction Charges (₹ per lakh of Traded Value)
Up to first ₹ 2500 crore	₹ 1.90 each side
More than ₹ 2500 crore and up to ₹ 7500 crore (on incremental volume)	₹ 1.85 each side
More than ₹ 7500 crore and up to ₹ 15000 crore (on incremental volume)	₹ 1.80 each side
Exceeding ₹ 15000 crore (on incremental volume)	₹ 1.75 each side

Securities Transaction Tax

Taxable Securities Transaction	Rate (percent)	Taxable Value	Payable by
Sale of an option in securities	0.017	Option premium	Seller
Sale of an option in securities, where option is exercised	0.125	Settlement Price	Purchaser
Sale of a futures in securities	0.017	Price at which such futures are traded	Seller

Clearing and Settlement	The National Securities Clearing Corporation Limited (NSCCL) 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 and Indices for F&O Trading	
Eligibility Criteria for Stocks	- 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 ₹ 10 lakhs. 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 ₹ 300 crores. 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 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 percent of the number of shares held by non-promoters in the relevant underlying security i.e. free-float holding. - For an existing F&O stock, the continued eligibility criteria is that market wide position limit in the stock shall not be less than ₹ 200 crores and stock's median quarter-sigma order size over the last six months shall be not less than ₹ 5 lakh. Additionally the stocks average monthly turnover in derivative segment over last three months should not be less than ₹ 100 crore. If an existing security fails to meet the eligibility criteria for three months consecutively, then no fresh month contract will be issued on that security. However, the existing unexpired contracts can be permitted to trade till expiry and new strikes can also be introduced in the existing contract months. Futures and options contracts may be introduced by new securities which meets the above mentioned eligibility criteria, subject to approval by SEBI.
Eligibility Criteria for Indices	The exchange may consider introducing derivative contracts on an index if the stocks contributing to 80 percent 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 percent 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 will be permitted to trade till expiry and new strikes can also be introduced in the existing contracts.
Risk Management Framework	The NSCCL has developed a comprehensive risk containment mechanism for the F&O segment. The salient features of the risk containment mechanism on the F&O segment are: - The financial soundness of the members is the 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 NSCCL 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 a T+1 basis. - The NSCCL'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 percent, 80 percent, and 90 percent, and a disablement message at 100 percent of the limit. The NSCCL 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 TM clearing and settling through him/her. The NSCCL assists the CM in monitoring the intra-day limits set up by a CM, and 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 out of the deposit made by the members. 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). The PRISM uses SPAN®[10] (Standard Portfolio Analysis of Risk). The SPAN system is for the computation of online margins, based on the parameters defined by the SEBI.
Margining System	- Initial margin: Margin in the equity F&O segment is computed by NSCCL upto client level for open positions of CMs/TMs. These are required to be paid up-front on gross basis at individual client level for client positions and on net basis for proprietary positions. NSCCL 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 collection of adequate initial margin from his TMs and his respective clients. The TM is required to collect adequate initial margins up-front from his clients. - Premium margin: In addition to initial margin, premium margin is charged at client level. This margin is required to be paid by a buyer of an option till the premium settlement is complete. - Assignment margin: Assignment margin is levied in addition to initial margin and premium margin. It is required to be paid on assigned positions of CMs towards exercise settlement obligations for option contracts, till such obligations are fulfilled. The margin is charged on the net exercise settlement value payable by a CM. NSCCL 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 (Parallel Risk Management System) which is the realtime 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 Specification for Equity Derivatives[11]

Equity Derivatives							
Parameter	**Index Futures**	**Index Options**	**Futures on Individual Securities**	**Options on Individual Securities**	**Mini Index Futures**	**Mini Index Options**	**Long Term Index Options**
Underlying	S&P CNX Nifty CNX IT Bank Nifty Nifty Midcap 50 CNX PSE CNX Infra		152 securities		S&P CNX Nifty	S&P CNX Nifty	S&P CNX Nifty
Security Descriptor							
Instrument	FUTIDX	OPTIDX	FUTSTK	OPTSTK	FUTIDX	OPTIDX	OPTIDX
Option Type	-	Call European / Put European	-	Call European / Put European	-	Call European / Put European	Call European / Put European

Contd...

[10] SPAN® is a registered trademark of the Chicago Mercantile Exchange (CME) used here under license.
[11] As of October 2012

Equity Derivatives							
Parameter	**Index Futures**	**Index Options**	**Futures on Individual Securities**	**Options on Individual Securities**	**Mini Index Futures**	**Mini Index Options**	**Long Term Index Options**
Trading Cycle	3 month trading cycle - the near month (one), the next month (two) and the far month (three)						Three quarterly expiries (March, June, Sept & Dec cycle) and next 8half yearly expiries (Jun, Dec 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						
Permitted Lot Size	Underlying specific	Underlying specific	Underlying specific	Underlying specific	20	20	Underlying specific
Price Steps	₹ 0.05	₹ 0.05	₹ 0.05	₹ 0.05	₹ 0.05	₹ 0.05	₹ 0.05
Price Bands	Operating range of 10 percent 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 20 percent 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 percent 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

Derivatives on Global Indices

NSE has introduced derivatives on global indices such as S&P 500, Dow Jones Industrial Average (DIJA) and FTSE 100. The future contracts for trading on DIJA and futures and options contract on S& P 500 were introduced on August 29, 2011. The future and option contracts on FTSE100 were introduced on May 3, 2012.

Contract Specification for S&P®500 Futures and Options

	Futures	**Options**
Ticker Symbol	S&P500	
Contract Size	250 units	
Notional Value	Contract size multiplied by the index level (For example: if the current index value is 1000 then the notional value would be 1000 x 250 = ₹ 2,50,000)	--
Tick Size	0.25	0.05
Trading Hours	as in equity derivative segment	
Expiry Date	3rd friday of the respective contract month. In case third friday is a holiday in USA or in India the contract shall expire on the preceding business day	
Contract Months	3 serial monthly contracts and 3 quarterly expiry contracts in the Mar-Jun-Sep-Dec cycle	

Contd...

	Futures	Options
Option Type	--	The options contracts is european styled which can be exercised only on the expiration date.
Daily Settlement Price	Last half hour's weighted average price	Daily premium settlement
Final Settlement Price	All open positions at close of last day of trading shall be settled to the special opening quotation (SOQ) of the S&P 500 Index on the date of expiry. (http://www.cmegroup.com/trading /equity-index/files/SOQ.pdf)	
Final Settlement Procedure	Final settlement will be cash settled in INR based on final settlement price	Final settlement will be cash settled in INR based on final settlement price. Long positions of in-the money contracts shall be assigned to open short positions in option contracts.
Final Settlement Day	All open positions on expiry date shall be settled on the next working day of the expiry date (T+1)	
Position Limits	The trading member/mutual funds position limits as well as the disclosure requirement for clients is same as applicable in case of domestic stock index derivatives.	

Contract Specification for FTSE 100 Futures and Option Contracts Trading at NSE

	Future Contracts	Option Contracts
Ticker Symbol	FTSE100	
Contract Size	50 units	
Notional Value	Contract size multiplied by the index level (For example: if the current index value is 5900 then the notional value would be 5900 x 50 = ₹ 2,95,000)	–
Tick Size	1	0.05
Trading Hours	As in equity derivative segment. Expiry Day: 2:45 pm or 3:30 pm	
Expiry Date	3rd friday of the respective contract month. In case third friday is a holiday in UK or in India the contract shall expire on the preceding business day	
Contract Months	3 serial monthly contracts and 3 quarterly expiry contracts in the Mar-Jun-Sep-Dec cycle	
Option Type	--	The option contract shall be european styled which can be exercised on the expiration date.
Daily Settlement Price	Last half hour's weighted average price	Daily premium settlement
Final Settlement Price	Based on Exchange delivery settlement price(computed based on the intra-day auction prices conducted at London Stock Exchange.	
Final Settlement Procedure	Final settlement will be cash settled in INR based on final settlement price	Final settlement will be cash settled in INR based on final settlement price. long positions of in-the money contracts shall be assigned to open short positions in option contracts.
Final Settlement Day	All open positions on expiry date shall be settled on the next working day of the expiry date (T+1)	
Position Limits	The trading member/mutual funds position limits as well as the disclosure requirement for clients is same as applicable in case of domestic stock index derivatives	

Contract Specification for DJIA Futures Contracts Trading at NSE

Ticker Symbol	DJIA
Contract Size	25 units
Notional Value	Contract size multiplied by the index level (For example: if the current index value is 10000 then the notional value would be 10000 x 25 = ₹ 2,50,000)
Tick Size	2.50
Trading Hours	as in equity derivative segment
Expiry Date	3rd friday of the respective contract month. In case third friday is a holiday in USA or in India the contract shall expire on the preceding business day
Contract Months	3 serial monthly contracts and 3 quarterly expiry contracts in the Mar-Jun-Sep-Dec cycle
Daily Settlement Price	Last half hour's weighted average price
Final Settlement Price	All open positions at close of last day of trading shall be settled to the special opening quotation (SOQ) of the DJIA Index on the date of expiry. (http://www.cmegroup.com/ trading /equity-index/files/SOQ.pdf)
Final Settlement Procedure	Final settlement will be cash settled in INR based on final settlement price
Final Settlement Day	All open positions on expiry date shall be settled on the next working day of the expiry date (T+1)
Position Limits	The trading member/mutual funds position limits as well as the disclosure requirement for clients is same as applicable in case of domestic stock index derivatives

Currency Derivatives

The currency derivatives segment at NSE commenced operations on August 29, 2008 with the launch of currency futures trading in US Dollar-Indian Rupee (US $ – INR). Trading in other currency pairs like Euro-INR, Pound Sterling-INR and Japanese Yen-INR was further made available for trading even February 1, 2010. On the same segment, interest rate futures were introduced for trading on August 31, 2009. Currency option trading on US $ – INR was started on October 29, 2010. The contract specifications of currency futures, currency option and interest rate futures are discussed below:

Contract Specification for Currency Futures

Symbol	USD – INR	EUR – INR	GBP – INR	JPY – INR
Market Type	Normal	Normal	Normal	Normal
Instrument Type	FUTCUR	FUTCUR	FUTCUR	FUTCUR
Unit of Trading	1-1 unit denotes 1000 US $	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 ₹ 0.0025			
Trading Hours	Monday to Friday 9:00 am to 5:00 pm			
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 noon			

Contd...

<table>
<tr><th colspan="2">Symbol</th><th>USD – INR</th><th>EUR – INR</th><th>GBP – INR</th><th>JPY – INR</th></tr>
<tr><td colspan="2">Final Settlement Day</td><td colspan="4">Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for Interbank Settlements in Mumbai.</td></tr>
<tr><td colspan="2">Quantity Freeze</td><td colspan="4">10,001 or greater</td></tr>
<tr><td colspan="2">Base Price</td><td>Theoretical price on the 1st day of the contract;
on all other days, daily settlement price (DSP) of the contract</td><td>Theoretical price on the 1st day of the contract;
on all other days, DSP of the contract</td><td>Theoretical price on the 1st day of the contract; on all other days, DSP of the contract</td><td>Theoretical price on the 1st day of the contract;
on all other days, DSP of the contract</td></tr>
<tr><td rowspan="2">Price Operating Range</td><td>Tenure up to 6 months</td><td colspan="4">+/-3 percent of base price</td></tr>
<tr><td>Tenure greater than 6 months</td><td colspan="4">+/- 5 percent of base price</td></tr>
<tr><td rowspan="3">Position Limits</td><td>Clients</td><td>Higher of 6 percent of the total open interest or US $ 10 million</td><td>Higher of 6 percent of the total open interest or Euro 5 million</td><td>Higher of 6 percent of the total open interest or GBP 5 million</td><td>Higher of 6 percent of the total open interest or JPY 200 million</td></tr>
<tr><td>Trading Members</td><td>Higher of 15 percent of the total open interest or US $ 50 million</td><td>higher of 15 percent of the total open interest or Euro 25 million</td><td>Higher of 15 percent of the total open interest or GBP 25 million</td><td>Higher of 15 percent of the total open interest or JPY 1000 million</td></tr>
<tr><td>Banks</td><td>Higher of 15 percent of the total open interest or US $ 100 million</td><td>Higher of 15 percent of the total open interest or Euro 50 million</td><td>Higher of 15 percent of the total open interest or GBP 50 million</td><td>Higher of 15 percent of the total open interest or JPY 2000 million</td></tr>
<tr><td colspan="2">Initial Margin</td><td colspan="4">SPAN-based margin</td></tr>
<tr><td colspan="2">Extreme Loss Margin</td><td>1 percent of the value of the gross open position</td><td>0.3 percent of the value of the gross open position</td><td>0.5 percent of the value of the gross open position</td><td>0.7 percent of the value of the gross open position</td></tr>
<tr><td colspan="2" rowspan="4">Calendar Spreads</td><td>₹ 400 for spread of 1 month</td><td>₹ 700 for spread of 1 month</td><td>₹ 1500 for spread of 1 month</td><td>₹ 600 for spread of 1 month</td></tr>
<tr><td>₹ 500 for spread of 2 months</td><td>₹ 1000 for spread of 2 months</td><td>₹ 1800 for spread of 2 months</td><td>₹ 1000 for spread of 2 months</td></tr>
<tr><td>₹ 800 for spread of 3 months</td><td>₹ 1500 for spread of 3 months and more</td><td>₹ 2000 for spread of 3 months and more</td><td>₹ 1500 for spread of 3 months and more</td></tr>
<tr><td>₹ 1000 for spread of 4 months and more</td><td></td><td></td><td></td></tr>
<tr><td colspan="2" rowspan="2">Settlement</td><td colspan="4">Daily settlement: T + 1</td></tr>
<tr><td colspan="4">Final settlement: T + 2</td></tr>
<tr><td colspan="2">Mode of Settlement</td><td colspan="4">Cash settled in Indian Rupees</td></tr>
</table>

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Symbol	USD – INR	EUR – INR	GBP – INR	JPY – INR
Daily Settlement Price (DSP)	Calculated on the basis of the last half an hour weighted average price			
Final Settlement Price (FSP)	RBI reference rate			

Transaction Charges in Currency Futures

Total Traded Value in a Calendar Month Per Member	Transaction Charges (₹ per lakh of traded value)
Up to ₹ 2,500 crores	₹ 1.15 each side
More than ₹ 2,500 crores up to ₹ 7,500 crores (on incremental volume above ₹ 2,500 crores)	₹ 1.10 each side
More than ₹ 7,500 crores up to ₹ 15,000 crores (on incremental volume above ₹ 7,500 crores)	₹ 1.05 each side
More than ₹ 15,000 crores (on incremental volume above ₹ 15,000 crores)	₹ 1.00 each side

Currency Futures
The contribution towards the NSE Investor Protection Fund Trust shall be payable by the trading members @ 0.00005 percent (₹ 0.05 per lakh of turnover) on each side.

Contract Specification for Currency Options

Symbol	USD – INR
Market Type	Normal
Option Type	Premium style European call & put options
Premium	Premium quoted in INR.
Unit of Trading	1 contract unit denotes US $ 1000
Underlying / Order Quotation	The exchange rate in Indian Rupees for US Dollars
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 1 quarterly contracts of the cycle March/June/ September/December
Strike Price	12 in-the-money, 12 out-of-the-money and 1 near-the-money. (25 CE and 25 PE)
Strike Price Intervals	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, Daily Settlement Price of the contract.
Expiry/Last Trading Day	Two working days prior to the last business day of the expiry month at 12 noon.
Exercise at Expiry	All in-the-money open long contracts shall be automatically exercised at the final settlement price and assigned on a random basis to the open short positions of the same strike and series.
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.

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Position Limits	The gross open positions across all contracts (both futures and options) shall not exceed the following. **Clients** — Higher of 6 percent of total open interest or US $ 10 million. **Trading Members** — Higher of 15 percent of the total open interest or US $ 50 million. **Banks** — Lower of 15 percent of the total open interest or US $ 100 million.		
Initial Margin	SPAN based margin		
Extreme Loss Margin	1.5 percent 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		
Mode of Settlement	Cash settled in Indian Rupees		
Final Settlement Price (FSP)	RBI reference rate on the date of the expiry of the contact		

Transaction Charges for Currency Options	
Premium Value in a Calendar Month Per Member	**Transaction Charges (₹ per lakh of Premium Value)**
Upto first ₹ 250 crores	₹ 40 each side
More than ₹ 250 upto ₹ 500 crores (on incremental volume above ₹ 250 crores)	₹ 35 each side
More than ₹ 500 crores (on incremental volume above ₹ 500 crores)	₹ 30 each side

Contract Specification for Interest Rate Futures (10 year Notional Coupon bearing GoI (7 percent annual compounding)

Symbol	10YGS7	
Market Type	Normal	
Instrument Type	FUTIRD	
Unit of Trading	One contract denotes 200 units (Face value : ₹ 2 lakh)	
Underlying	10-Year Notional Coupon bearing Government of India (GOI) security (Notional Coupon 7 percent with semi-annual compounding)	
Tick Size	₹ 0.0025	
Trading Hours	Monday to Friday 9:00 am to 5:00 pm	
Contract Trading Cycle	Two fixed quarterly contracts for the entire year, ending March, June, September, and December	
Last Trading Day	Two business days prior to the last working day of the delivery/expiry month	
Quantity Freeze	1251 lots or greater	
Base Price	Theoretical price of the 1st day of the contract; on all other days, daily settlement price of the contract	
Price Operating Range	+/- 5 percent of the base price	
Position Limits	**Clients**	**Trading Members**
	6 percent of the total open interest or ₹ 300 crore, whichever is higher	15 percent of the total open interest or ₹ 1000 crore, whichever is higher
Initial Margin	SPAN-based margin	

Contd...

Extreme Loss Margin	0.3 percent of the value of the gross open positions of the futures contract	
Settlement	**Daily settlement MTM**: T + 1 in cash	
	Delivery settlement: Last business day of the expiry month	
Daily Settlement Price	Closing price or theoretical price	
Delivery Settlement		
Mode of Settlement	Daily settlement in cash	
Deliverable Grade Securities	GOI securities	
Conversion Factor	The conversion factor would be equal to the price of the deliverable security (per Indian Rupee of principal) on the first calendar day of the delivery month, to yield 7 percent with semiannual compounding	
Invoice Price	Daily settlement price times a conversion factor + accrued interest	
Delivery Day	Last business day of the expiry month	
Intent to Deliver	Two business days prior to the delivery settlement day	

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

Symbol	91DTB	
Market Type	Normal	
Instrument Type	FUTIRT	
Unit of Trading	One contract denotes 2000 units (Face Value ₹ 2 lacs)	
Underlying	91-day Government of India (GOI) treasury bill	
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	
Last Trading Day	Last wednesday of the expiry month at 1.00 pm In case last wednesday of the month is a designated holiday, the expiry day would be the previous working day	
Price Quotation	100 minus futures discount yield e.g. for a futures discount yield of 5 percent p.a. the quote shall be 100 - 5 = ₹ 95	
Contract Value	₹ 2000 * (100 - 0.25 * y), where y is the futures discount yield e.g. for a futures discount yield of 5 percent p.a. contract value shall be 2000 * (100 - 0.25 * 5) = ₹ 197,500	
Quantity Freeze	7,001 lots or greater	
Base Price	Theoretical price of the first day of the contract On all other days, quote price corresponding to the daily settlement price of the contracts	
Price Operating Range	+/-1 percent of the base price	
Position Limits	**Clients** 6 percent of total open interest or ₹ 300 crores whichever is higher	**Trading Members** 15 percent of the total open interest or ₹ 1000 crores whichever is higher
Initial Margin	SPAN ® (Standard Portfolio Analysis of Risk) based subject to minimum of 0.1 percent of the notional value of the contract on the first day and 0.05 percent of the notional value of the contract thereafter	
Extreme Loss Margin	0.03 percent of the notional value of the contract for all gross open positions	

Contd...

Settlement	Daily settlement MTM: T + 1 in cash Delivery settlement : Last business day of the expiry month.
Daily Settlement	Mark to Mark (MTM) : T + 1 in cash
Daily Settlement Price & Value	₹ (100 - 0.25 * yw) where yw is weighted average futures yield of trades during the time limit as prescribed by NSCCL. In the absence of trading in prescribed time limit, theoretical futures yield shall be considered
Daily Contract Settlement Value	₹ 2000 * daily settlement price
Final Contract Settlement Value	₹ 2000 * (100 - 0.25 * yf) where yf is weighted average discount yield obtained from weekly auction of 91-day t-bill conducted by RBI on the day of expiry
Mode of Settlement	Settled in cash in Indian Rupees

8. Foreign Institutional Investors

Entities Eligible to Invest under FII Route	**As FII**: i. An institution established or incorporated outside India as a pension fund, mutual fund, investment trust, insurance company, or reinsurance company; ii. An international or multilateral organization or an agency thereof, or a foreign governmental agency, sovereign wealth fund, or a foreign central bank; iii. An asset management company, investment manager or advisor, bank, or institutional portfolio manager that is established or incorporated outside India and proposes to make investments in India on behalf of broad-based funds and its proprietary funds, if any; iv. A trustee of a trust established outside India who proposes to make investments in India on behalf of broad-based funds and its proprietary funds, if any; v. University funds, endowments, foundations, charitable trusts, or charitable societies. Broad-based fund means a fund that is established or incorporated outside India, which has at least 20 investors with no single individual investor holding more than 49 percent of the shares or units of the fund. If the broad-based fund has institutional investor(s), then it is not necessary for the fund to have 20 investors. Further, if the broad-based fund has an institutional investor who holds more than 49 percent of the shares or units in the fund, then the institutional investor must itself be a broad-based fund. Sub-account refers to any person who is resident outside India on whose behalf investments are proposed to be made in India by a foreign institutional investor, and who is registered as a sub-account under the SEBI (FII) Regulations, 1995. The applicant for a sub-account can fall into any of the following categories: i Broad-based fund or portfolio that is broad-based, incorporated, or established outside India. ii Proprietary fund of a registered foreign institutional investor. iii Foreign individual who has a networth of not less than US $ 50 million, holds a valid passport of a foreign country for a period of at least five years, holds a certificate of good standing from a bank, and is the client of the FII for a period of at least three years iv Foreign corporate that has its securities listed on a stock exchange outside India, having an asset base of not less than US $ 2 billion and having an average net profit of not less than US $ 50 million during the three fianancial years preceding the date of application. A non-resident Indian shall not be eligible to invest as a sub-account.
Investment Restrictions	An FII can invest only in the following: i. Securities in the primary and secondary markets including shares, debentures, and warrants of companies, unlisted, listed, or to be listed on a recognized stock exchange in India

	ii. Units of schemes floated by domestic mutual funds including the Unit Trust of India, whether listed or not listed on a recognized stock exchange, or units of schemes floated by a collective investment scheme iii. Dated government securities iv. Derivatives traded on a recognized stock exchange v. Commercial papers vi. Security receipts vii. Indian depository receipts The purchase of equity shares of each company by a foreign institutional investor on his own account shall not exceed 10 percent of the total issued capital of that company. In respect of a foreign institutional investor investing in equity shares of a company on behalf of his sub-accounts, the investment on behalf of each such sub-account shall not exceed ten percent of the total issued capital of that company. However, in case of a foreign corporate or individuals, each of such sub-account shall not invest more than 5 percent of the total issued capital of the company in such investment is made.
Investment in Listed Indian Companies	An Individual FII/ SEBI approved sub accounts of FIIs can invest up to a maximum of 10 percent of the total paid-up capital or 10 percent of the paid-up value of each series of convertible debentures issued by the Indian company. The 10 percent limit would include shares held by SEBI registered FII/ SEBI approved sub accounts of FII under the PIS (by way of purchases made through a registered broker on a recognized stock exchange in India or by way of offer/private placement) as well as shares acquired by SEBI registered FII under the FDI scheme. Total holdings of all FIIs / SEBI approved sub accounts of FIIs put together shall not exceed 24 percent of the paid up capital or paid up value of each series of convertible debentures. This limit of 24 percent can be increased to the sectoral cap / statutory limit, as applicable to the Indian company concerned, by passing a resolution of its board of directors followed by a special resolution to that effect by its General Body and should necessarily intimate the same to the Reserve Bank of India immediately as hitherto, along with a certificate from the Company Secretary stating that all the relevant provisions of the extant Foreign Exchange Management Act, 1999 regulations and the Foreign Direct Policy, as amended from time to time, have been complied with.
General Obligations and Responsibilities	Certain general obligations and responsibilities relating to the appointment of domestic custodians, designated bank, investment advice in publicly accessible media, etc. have been laid down on the FIIs operating in the country as part of the SEBI (FII) Regulations, 1995.
Private Placement with FIIs	The SEBI-registered FIIs have been permitted to purchase shares/convertible debentures of an Indian company through offer/private placement, subject to a ceiling of 10 percent of the paid-up capital of the Indian company for individual FIIs/sub-accounts, and 24 percent for all FIIs/sub-accounts put together. An Indian company is permitted to issue such shares provided that: In the case of a public offer, the price of shares to be issued is not less than the price at which the shares are issued to residents; and in the case of issue by private placement, the issue price should be determined as per the pricing guidelines stipulated under the FDI scheme.
Monitoring of Investment Position by RBI	The Reserve Bank of India (RBI) monitors the investment position of FIIs in listed Indian companies, as reported by the custodian/designated AD banks on a daily basis in Forms LEC (FII). **Caution List** When the total holdings of FIIs under the scheme reach the limit of 2 percent below the sectoral cap, the RBI issues a notice to all designated branches of the AD Category-I banks cautioning that any further purchases of shares of the particular Indian company will require prior approval of the RBI. The RBI gives case-by-case approvals to FIIs for the purchase of shares of companies included in the Caution List. This is done on a first-come, first-served basis. **Ban List** Once the shareholding by FIIs reaches the overall ceiling/sectoral cap/statutory limit, the RBI places the company in the ban list. Once a company is placed on the ban list, no FII or NRI can purchase the shares of the company under the portfolio investment scheme.

Reporting of FII Investments	An FII may invest in a particular share issue of an Indian company under either the FDI scheme or the portfolio investment scheme. The AD Category-I banks have to ensure that the FIIs who are purchasing the shares by debit to the Special Non-Resident Rupee Account report these details separately in the Form LEC (FII).

9. Qualified Foreign Investors(QFIs)

Qualified Foreign Investor (QFI)	Qualified Foreign Investors (QFIs as defined to mean non-resident investors, other than SEBI registered FIIs and SEBI registered FVCIs, who meet the KYC requirements of SEBI) are allowed to purchase on repatriation basis equity shares of Indian companies.[12] Such a person should not be resident in India and should not be registered with SEBI as foreign institutional investor or sub-account.
Eligibility	Only QFIs from jurisdictions which are FATF compliant and with which SEBI has signed MOUs under the IOSCO framework will be eligible to invest in equity shares under this scheme.
Eligible Instruments and Eligible Transactions	QFIs shall be permitted to invest through SEBI registered depository participants (DPs) only in equity shares of listed Indian companies through recognized brokers on recognized stock exchanges in India as well as in equity shares of Indian companies which are offered to public in India in terms of the relevant and applicable SEBI guidelines/regulations. QFIs shall also be permitted to acquire equity shares by way of rights shares, bonus shares or equity shares on account of stock split / consolidation or equity shares on account of amalgamation, demerger or such corporate actions subject to the investment limits. Eligible transaction of QFIs:[13] - Purchase of equity shares in public issues, to be listed on recognised stock exchange(s). - Purchase of listed equity shares through SEBI registered stock brokers, on recognized stock exchanges in India. - Sale of equity shares which are held in their demat account through SEBI registered stock brokers. - Purchase of equity shares against rights issues. - Receipt of bonus shares or receipt of shares on stock split/ consolidation. - Receipt of equity shares due to amalgamation, demerger or such other corporate actions, subject to the investment limits. - Receipt of dividends. - Tender equity shares in open offer in accordance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. - Tender equity shares in open offer in accordance with SEBI (Delisting of Equity Shares) Regulations, 2009. - Tender equity shares in case of buy-back by listed companies in accordance with SEBI (Buyback of Securities) Regulations, 1998
Demat Accounts	QFIs would be allowed to open a dedicated demat account with a DP in India for investment in equity shares under the scheme. The QFIs would however not be allowed to open any bank account in India.
Limits	The individual and aggregate investment limits for the QFIs shall be 5 percent and 10 percent respectively of the paid up capital of an Indian company. These limits shall be over and above the FII and NRI investment ceilings prescribed under the portfolio investment scheme for foreign investment in India. Further, wherever there are composite sectoral caps under the extant FDI policy, these limits for QFI investment in equity shares shall also be within such overall FDI sectoral caps. The onus of monitoring and compliance of these limits shall remain jointly and severally with the respective QFIs, DPs and the respective Indian companies (receiving such investment).

[12] These are subject to the terms and conditions relating to eligible instruments and eligible transaction; mode of payment / repatriation; limits, KYC etc.

[13] SEBI circular dated Jan 13, 2012.(http://www.sebi.gov.in/cms/sebi_data/attachdocs/1326453304731.pdf)

Investment Restrictions and Monitoring of Investment Limits for QFI	- The QFI shall transact in Indian equity shares only on the basis of taking and giving delivery of shares purchased or sold. - Each transaction by QFI shall be cleared and settled on gross basis. - QFI shall not issue offshore derivatives instruments/ participatory notes. A declaration and undertaking to this effect shall be obtained by DP from the QFI. - The QFI and DP shall ensure that the total shareholding held by a QFI shall not exceed 5 percent of paid up equity capital of the company at any point of time. This investment limit shall be applicable to each class of equity shares having separate and distinct ISIN. - The depositories shall administer and monitor, so as to ensure, that aggregate shareholding of all QFIs shall not exceed 10 percent of the paid up equity capital of the company at any point of time, in respect of each equity share class having separate and distinct ISIN. - In case the aggregate shareholding of the QFI exceeds the limit of 10 percent in respect of any ISIN, the depositories shall jointly notify the respective DPs regarding the breach along with the names of the QFI due to whom the limits have been breached. For this purpose, the stock exchanges shall provide the required information so as to enable the depositories to identify the transaction details of the QFI including the name of QFI, PAN and/ or other unique identification number relating to that QFI, purchase quantity and time or any other information as may be required by the depositories.

10. Foreign Venture Capital Investor (FVCI)

Foreign Venture Capital Investors	Foreign Venture Capital Investor (FVCI) refers to 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 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 percent of the investible funds should be invested in unlisted equity shares or equity linked instruments of venture capital undertakings or investee company as defined in SEBI Alternative Investment Funds (AIF) Regulations 2012. b) Not more than 33.33 percent 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 SEBI AIF Regulations 2012 whose shares are proposed to be listed. • Debt or debt instrument of a VCU or investee company as defined in 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. • It should disclose the duration of the life cycle of the fund. Special purpose vehicles (SPVs) that are created by a venture capital fund for the purpose of facilitating or promoting investment in accordance with 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, etc. 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.

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NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Exchange Plaza, Bandra Kurla Complex
Bandra (East), Mumbai - 400051 India
Tel : +91 22 2659 8100   Fax: +91 22 26598120
Email: cc_nse@nse.co.in Website: www.nseindia.com