ISMR

Indian Securities Market A Review

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A Review

Indian Securities Market

Volume XVI 2013

This publication reviews the developments in the securities market in India

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A Review

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ABBREVIATIONS

ADB	Asian Development Bank
ADRs	American Depository Receipts
AI	Anchor Investor
AIF	Alternative Investment Fund
AIFIs	All India Financial Institutions
AMC	Asset Management Company
AMFI	Association of Mutual Funds in India
ARN	AMFI Registration Number
ASBA	Application Supported by Blocked Amount
ASC	Accounting Standards Committee
ASE	Ahmedabad Stock Exchange
AUM	Assets Under Management
ATM	At-The-Money
ATSs	Alternative Trading 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

Macroeconomic Developments and Securities Markets

Section-I: Macroeconomic Developments

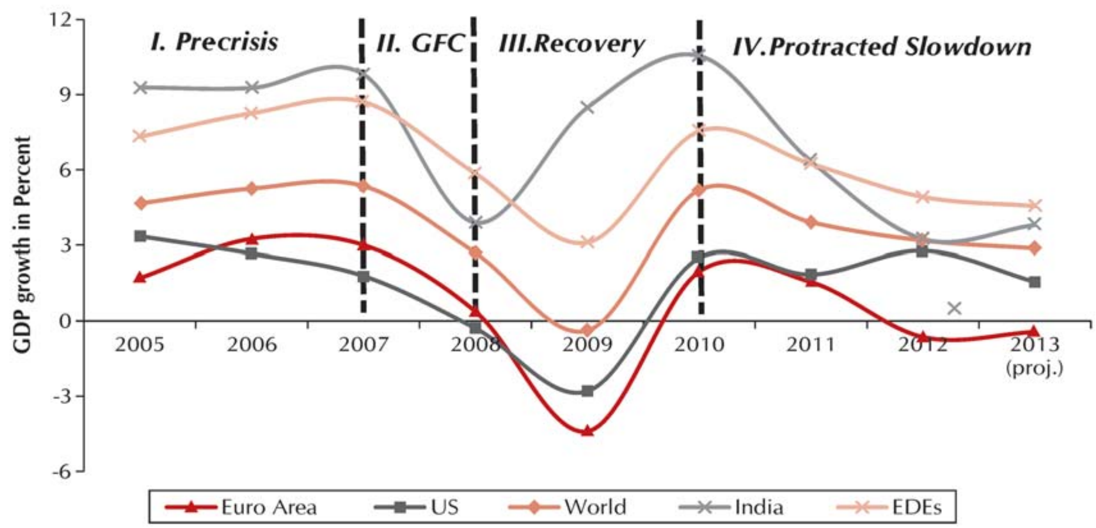
Global Economic Environment

The year 2013 was widely expected to be a breakout year for the global economy; however, it disappointed many with modest and uneven economic growth. During the year, while advanced economies gained some momentum, the emerging economies continued to falter. According to the World Economic Outlook (October 2013) brought out by the International Monetary Fund (IMF), the growth in world output is expected to slow down to 2.9 percent in 2013, compared to 3.2 percent in 2012 and 3.9 percent in 2011.

The decline in growth has been precipitated by slower growth in large emerging economies like India and Brazil. In fact, the growth in the emerging economies as a whole is expected to slow down to 4.5 percent in 2013, from 4.9 percent in 2012. In contrast, the advanced economies are showing embryonic signs of recovery—albeit weak; IMF expects the economy in the Euro area to contract in 2013 as well, albeit at a slower pace (0.4 percent compared to 0.6 percent in 2012). UK is likely to witness robust expansion (1.4 percent, compared to 0.2 percent in the previous year). The US economy however has been impacted by severe fiscal consolidation and the 16-day government shutdown, which likely shaved off almost 0.6 percentage points (estimates by S&P) from what otherwise would have been US GDP growth in 2013. As a result, the US economy is expected to expand by only 1.6 percent, compared to 2.8 percent recorded in 2012 (See Chart 1-1).

Encouragingly for the US economy, despite the strong fiscal consolidation, the private demand remains strong, thus propelling the rate of economic growth. In fact the US economy expanded by 4.1 percent for the quarter ending September 2013, after growing by 2.5 percent in Q2 2013. This rate of economic growth was helped by a 2 percent expansion in private demand and a 4.8 percent growth in private investment. On the other hand, the government expenditure declined by 1.5 percent. The increase in private investment also had a positive impact on the unemployment levels, which have been on a downtrend. The unemployment rate in US fell to 7.3 percent in October 2013, compared to 7.9 percent during the same month in 2012. Falling unemployment levels, coupled with rising growth had led the market to believe that in September itself, the US Federal Reserve would begin unwinding of the extraordinary monetary policy stimulus that it had been providing for about a year. But the US Fed surprised most analysts by deciding in September to stay put with the current level of assets purchases — US $ 85 billion per month. It was only in its meeting in mid-December 2013, the Fed decided to begin the tapering process in January 2014 by reducing the pace of asset purchases to US $ 75 billion per month.

Chart 1–1: Global Growth Projections for 2013 by IMF



Source: World Economic Outlook database, IMF

The recovery process in the Eurozone has been both fragile and highly uneven. The Q2 2013 economic growth figures (0.3 percent) bought some cheer; in fact, the economy registered positive growth for the first time since the autumn of 2011. This harbingered hopes of an early end to the longest running recession, since the inception of Eurozone. The optimism was however somewhat tempered by the slower growth rate (0.2 percent) in the third quarter, which is the last quarter for which data are available. Furthermore, much of the growth is being driven by core economies of France and Germany, many economies, notably Spain and Italy continue to witness negative growth rates. This has raised doubts over the sustainability of the economic growth in the region. Also, the fears of deflation do not appear unrealistic; inflation in Euro zone fell to 0.7 percent in October 2013, far above the comfort level (of minimum 2 percent) of the European Central Bank (ECB). This has forced the ECB to cut its key policy rate (main refinancing rate) by 25 bps to a record low of 0.25 percent. With this rate cut, ECB has joined central banks in other advanced countries, including US and Japan, in setting interest rates close to zero.

Table 1-1: Revision in IMF forecasts (in percent)

(In percent)

	Actuals in		Forecast for 2013 in	
	2011	**2012**	**Jul-13**	**Oct-13**
World	**3.9**	**3.2**	**3.2**	↓ **2.9**
Advanced Economies	**1.7**	**1.5**	**1.2**	↔ **1.2**
United States	1.8	2.8	1.7	↓ 1.6
Euro Area	1.5	-0.6	-0.5	↑ -0.4
United Kingdom	1.1	0.2	0.9	↑ 1.4
Japan	-0.6	2.0	2.1	↓ 2.0
Emerging Economies	**6.2**	**4.9**	**5.0**	↓ **4.5**
Brazil	2.7	0.9	2.5	↔ 2.5
Russia	4.3	3.4	2.5	↓ 1.5
India	6.3	3.2	5.6	↓ 3.8
China	9.3	7.7	7.8	↓ 7.6

Source: World Economic Outlook 2013, IMF

In Japan, the Abenomics (economic policies of Prime Minister Shinzo Abe) seems to be working quite well; the real economic growth during H1 2013 has been strong (3.8 percent in Q1 and 4.1 percent in Q2). The growth is being driven by rising private sector investments, which have been helped by loose monetary policy, together with higher corporate profitability and improved business confidence. In addition, the unlimited asset purchases programme by the Bank of Japan has boosted liquidity, which has propped up consumer demand and also raised exports (by reducing the value of Yen). Thus far, the Abenomics has had a noticeable impact on the Japanese economy; however whether it can help sustain Japanese economic growth, remains to be seen.

In Emerging and developing economies, the slowdown in growth is being driven by a combination of cyclical and structural factors. In India, economic growth continues to decline, even as inflation remains stubbornly high. Also, many experts believe that the prospects of fiscal discipline may erode in the months ahead because of the upcoming general elections. The poor business confidence currently obtaining in the country is perhaps also because of the policy reforms have fallen short of expectations. Like India, Brazil also appears to be suffering from stagflation with slowing growth and rising prices. In Russia, economic performance remains feeble with weakening investment and slowing exports. On the other hand, in China, the economic indicators — strong industrial production, rising exports and an increase in credit off-take — suggest that the economic recovery may have begun.

Going forward, the global economic activity is likely to strengthen moderately, supported primarily by the advanced economies. IMF expects the advanced economies to expand by about 2 percent in 2014, led by a strong performance of the US economy. In the Euro zone, the performance of peripheral economies (such as Italy and Spain) will be something to watch out for. In the emerging economies, the pickup in exports (driven by stronger growth in advanced economies) is likely to continue, while the domestic demand is expected to get stronger. The IMF expects emerging economies to expand by about 5 percent in 2014 (as compared to 4.5 percent in 2013).

One of the key risks to the global economic growth emanates from the impact of disorderly exit from the extraordinary monetary policy in the US on the emerging economies. The signs of this were already visible during mid-2013, when emerging markets stocks, bonds and currencies came under huge selling pressures. This was triggered by a statement by Dr. Ben Bernanke, Chairman, US Federal Reserve in mid-May that the Federal Reserve would begin to "taper" its purchases of securities should the U.S. economy continue to recover. This “tapering talk” by the US Federal Reserve had a sharp negative impact on economic and financial conditions in emerging markets, which came under huge selling pressure as investors rushed to the safety of US Dollar. Consequently, the currencies of Brazil, India, South Africa and Turkey depreciated by 12.5 percent, 9.9 percent, 8.9 percent and 7.6 percent, respectively between April and July 2013.

Another risk stems from the possibility of a new deadlock in US over the issue of debt ceiling. The first deadlock, which resulted in the shutdown of the US Federal Government because of its inability to spend in the face of a constraining debt ceiling, got temporarily resolved through a deal reached in October, which only pushed the debt ceiling deadline to February 7, 2014. If the stalemate in the US Congress continues and legislators fail to resolve their differences, there may be another round of US government shutdown, giving rise to a fear of US government default. A debt default can have catastrophic consequences for several economies of the world, which have invested significantly in US securities, as they are considered safest assets.

The slowdown in economic growth also impacted the global capital flows. After having surged to unprecedented levels in 2007 and H1 2008, the net private capital flows to emerging markets and developing countries slowed down from US $ 572 billion in 2010 to US $ 499.3 billion in 2011 and further to US $ 237.1 billion in 2012. Encouragingly, in 2013, the private flows are projected to have increased to US $ 398.4 billion. (Table 1-2)

Surprisingly, despite some improvement seen in growth of advanced economies, the prospects of world trade are not likely to show much improvement. In fact, as per IMF's World Economic Outlook (WEO) update of October 2013, growth in world trade is likely to slow down to 4.3 percent in 2013 compared to 4.9 percent growth recorded in 2012. This may be explained by a marginal slowdown in growth of emerging economies imports to 5 percent from 5.5 percent in previous year. Encouragingly the imports of advanced economies are likely to pick up in 2013 to 2.7 percent from 2 percent in 2012, reflecting improvement in economic health. (Table-1-2)

Table 1-2: Global Economic Prospects (in terms of Capital Flows and International Trade)

	Item	2010	2011	2012	2013
I	**Net Capital Flows to Emerging Market and Developing Countries (US$ billion)**				
i	Net Private Capital Flows (a + b +c)	572.0	499.3	237.1	398.4
	a) Net Private Direct Investment	409.1	526.7	465.5	423.0
	b) Net Private Portfolio Investment	184.5	79.0	229.9	154.3
	c) Net Other Private Capital Flows	-21.6	-106.4	-458.3	-179.0
ii	Net Official Flows	100.5	-12.4	0.2	-65.6
II	**World Trade in Goods and Services @ (%)**				
i	Trade Volume (exports and imports)	14.3	7.8	4.9	4.3
ii	Export Volume				
	a) Advanced Economies	12.4	5.7	2.0	2.7
	b) Emerging Market and developing Countries	14.0	6.8	4.2	3.5

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

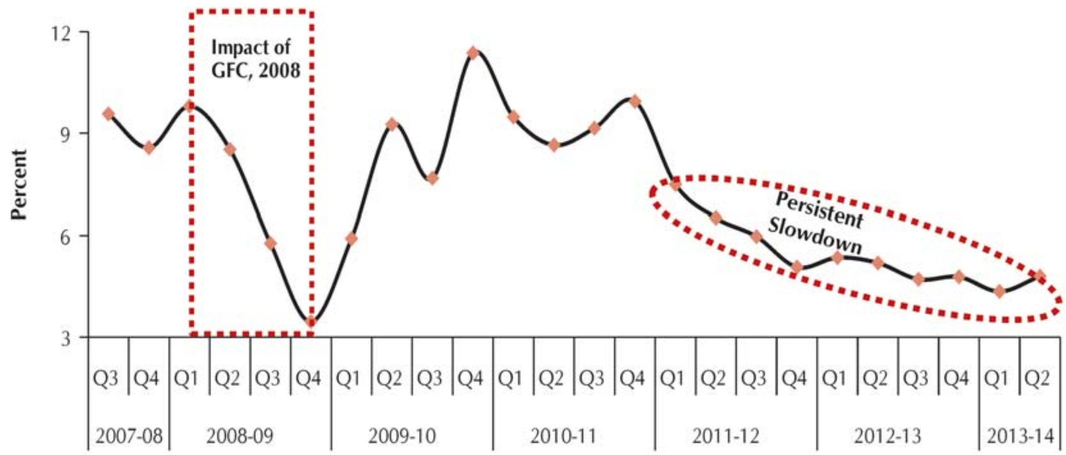
Macroeconomic Developments in India

As stated earlier, the year 2013 exposed India's vulnerability to external shocks. But the slowdown of the Indian economy was also due to domestic factors. The year also revealed that the country cannot take even a 5 percent rate of economic growth for granted and it is possible for the country to dip even below that level.

After a recovery from the global financial crisis with two successive years — FY 2010 and FY 2011—of robust growth of 8.6 percent and 9.3 percent, respectively, the GDP growth decelerated sharply to 6.2 percent in FY 2012. The conditions deteriorated even further in FY 2013, when the growth fell to a decadal low of 5 percent. The deceleration in the Indian economy in FY 2013 was on account of a slowdown in domestic demand, but more due to a hiatus in investments by Indian companies, in the face of high borrowing costs. Delays in mandatory government approvals also hurt company cash flows, resulting in stalled projects.

The slowdown has continued in H1 FY 2014. During Q1 FY 2014, economic growth stood at 4.4 percent (the slowest pace since Q4 FY 2009). The poor growth performance is attributable to a broad-based slowdown in domestic demand and private sector investments. Encouragingly, the trend appeared to be reversing in Q2 FY 2014, which is the most recent data on GDP growth available at present. During the period, economy showed some signs of recovery with a growth rate of 4.8 percent. Although significantly below the previous year's peaks, it was driven by a robust growth in agricultural activity and a pickup in private sector demand and investments. During Q2 FY 2014, the growth in private sector demand increased to 2.2 percent (higher than 1.6 percent growth witnessed in Q1). While the increase in private investments, which had turned negative in Q1 FY 2014, picked up to grow at 2.6 percent in Q2. The pickup in private investments highlights the key role played by Cabinet Committee on Investment (CCI), which was instituted by the Government in early 2013 to fast-track the key investment projects by reducing the bottlenecks. On a positive note, the growth in government expenditure turned negative during Q2 (after expanding 10.5 percent in Q1) raising hopes of a return to fiscal discipline by the government. However, the continued weakness in industrial activity and possibility of higher government expenditure in the last quarter of the year ahead of the elections, suggests risks to fiscal consolidation.

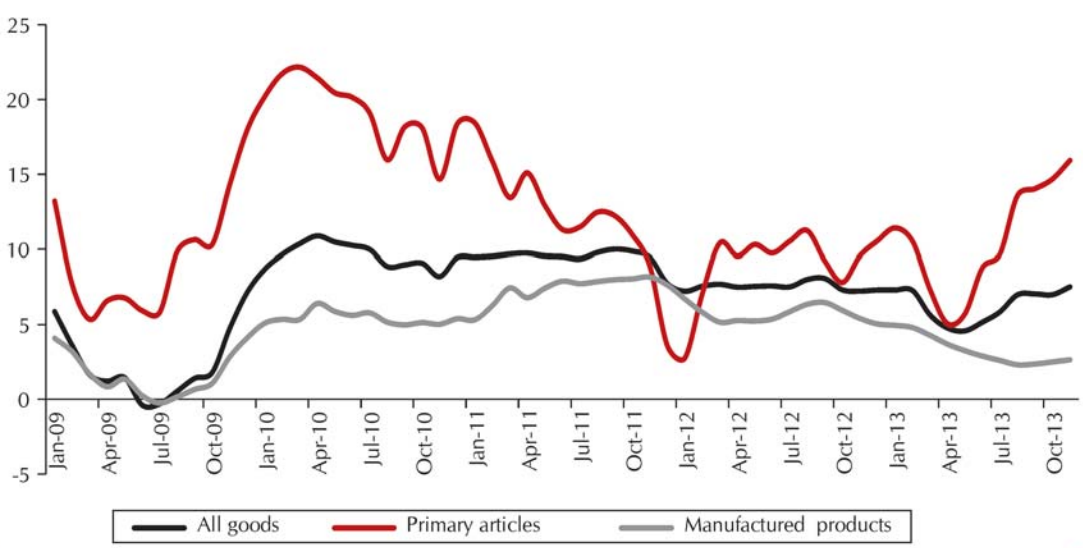
Chart 1-2: Quarterly GDP Growth



Source: Central Statistical Organisation (CSO), MoSPI

The sluggish growth of the economy has been accompanied by rising inflation, especially since Q2 FY 2014. The high inflation phase that started in Q4 of FY 2010 and persisted throughout FY 2012, showed signs of moderation towards end- FY 2013, after remaining sticky in the range of 7 and 8 percent in the first 11 months of FY 2013, which is much higher than the RBI's comfort level of 5.5-6.0 percent.But, this moderation was short-lived—inflation started rising again since Q2 FY 2014. The latest figure available (for November 2013) shows inflation level of 7.5 percent. The current bout of inflation is primarily being driven by high food prices, especially vegetables. In fact food inflation more than doubled to 19.9 percent in November 2013 from 8.8 percent a year ago. The reasons behind the high food inflation in recent months are (a) high input costs (b) rising wages, among others. The persistence of high inflation, even as growth is slowing, has emerged as a major challenge for monetary policy.

Chart 1-3: Headline Inflation in India (in percent)



Source: RBI

On the fiscal front, after a considerable slippage in FY 2012, the Central Government restricted its gross fiscal deficit to 4.9 percent of GDP in FY 2013, less than the budget estimate of 5.1 percent. However, the containment in fiscal deficit was achieved mainly through a cut back in plan expenditure, which is growth-inducing. The non-plan expenditure, on the other hand, was higher due to a sharp increase in expenditure on the revenue account.Subsidies on food, fertilizers and petroleum accounted for 2.5 per cent of GDP as against 1.8 per cent of GDP budgeted for the year.

During FY 2014, government has budgeted for a fiscal deficit of 4.8 percent of GDP. However, the prospects of containing the fiscal deficit below the budgeted level appear weak. The revenue deficit of the government, a major component of fiscal deficit, reached 92.9 percent of the budget estimates in the first seven months itself of FY 2014, due to low growth in tax revenue and a significant increase in revenue expenditure. The widening of revenue deficit coupled with higher capital expenditure resulted in a gross fiscal deficit of 84.4 percent of budget estimates during the April - October 2013 period, compared to 71.6 percent, during the same period in 2012.

On the external front, the risks of high current account deficit (CAD) came to the fore in FY 2013, when the CAD reached an all-time high of 6.5 percent of GDP in Q3 FY 2013, led by high oil imports and a surge in gold imports. In fact net imports of petroleum, oil and lubricant (POL) and gold accounted for nearly 82 percent of India's trade deficit in FY 2013. This prompted the government to take corrective measures such as curbing oil consumption by raising diesel prices and restricting gold imports by progressively raising the gold import duty and imposing restrictions on import of gold bars and medallions.This had its desired impact. Further, the depreciation of the rupee in the previous months boosted exports and made imports more expensive. The CAD has since moderated and has fallen to 1.2 percent of GDP in Q2 of FY 2014 (latest available). This moderation, however, was not smooth; there was a spike in CAD in Q 1 of FY 2014, when it reached a level of 4.9 percent of GDP from the 3.8 percent in the previous quarter. This exposed India's continued vulnerability on the external front and called for need to find sustainable means of funding CAD, such as liberalization of FDI regime.

The large twin deficits (CAD and fiscal deficit) pose significant risks to macroeconomic stability and growth sustainability in India. These two deficits are also interlinked. Financing the huge fiscal deficit--which reflects primarily the government's high consumption expenditure rather than investment--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 CAD which has been affected by global slowdown and over which India has only a limited control. As India is structurally a current account deficit country, high and sustainable net capital inflows are essential to finance the CAD and build up the foreign exchange reserves, which have been stagnating for nearly 5 years. The upshot is that even though India's current account deficit has fallen to a manageable level, renewed efforts are necessary to control fiscal deficit and boost net foreign capital inflow.

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 FY 2013. 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 (See Table 1-3).

Table 1-3: India's key External Debt Indicators

	External Debt (US $ billion)	External Debt to GDP ratio	Debt Service Ratio	Foreign Exchange Reserves (as % of total debt)	Short-term debt (as % of foreign exchange reserves)	Short-term debt (as % of total external debt)	Reserves Cover of Imports (in months)
FY 2006	139.1	16.8	10.1	109.0	12.9	14.0	11.6
FY 2007	172.4	17.5	4.7	115.6	14.1	16.4	12.5
FY 2008	224.4	18.0	4.8	138.0	14.8	20.4	14.4
FY 2009	224.5	20.3	4.4	112.2	17.2	19.3	9.8
FY 2010	260.9	18.2	5.8	106.9	18.8	20.1	11.1
FY 2011	305.9	17.5	4.4	99.7	21.3	21.2	9.6
FY 2012	345.5	19.7	6.0	85.2	26.6	22.6	7.6
FY 2013	390.0	21.2	5.9	74.9	33.1	24.8	7.2

Source: Ministry of Finance, Govt. of India

India's financial markets–particularly the secondary securities markets--were also affected by the global slowdown as reflected in some of the following indicators. While the market-cap to GDP ratio has fallen to 62.2 percent in end-March 2013 from 67.9 percent a year ago, the average daily market turnover in the cash segment of NSE in FY 2013 has fallen by 4 percent from the level prevailing in FY 2012. In H1 FY 2014, the average daily turnover increased by a marginal 1.4 percent from the level prevailing in H1 FY 2013. Net FII investment outflows was US $ 5 billion in H1 FY 2014 compared to the net inflows of US $ 1.1 billion in the corresponding period of the previous year. Volatility in the equity market has also risen as reflected in an increase in the volatility of the benchmark index CNX Nifty 50, from 0.9 in September 2012 to 1.9 in September 2013. Further, with sharp deterioration in growth prospects, resource mobilization through public and rights issues in the primary market continue to contract. The resource mobilized has fallen from about ₹ 485 billion in FY 2012 to ₹ 325 billion during FY 2013. Encouragingly, in H1FY 2014, has witnessed a significant surge, increasing to ₹ 8,987 billion from ₹ 91 billion in the corresponding period of last fiscal.

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Box: Reform initiatives

The main economic reforms initiated in FY 2014 include liberalization of the FDI regime and the passage of a number of legislations.

(i) *Amendments to the FDI regime* have been introduced since August 2013 paving the way for larger overseas investments in sectors such as multi-brand retail and telecom. As per the revised FDI guidelines, the government has relaxed norms for multi-brand retail trading and eased the mandatory 30 per cent local sourcing norms for companies. The cap in telecom has been increased to 100 per cent from 74 per cent; out of this FDI of up to 49 per cent can come through the automatic route. The investment cap in defence production has been retained at 26 per cent, although a higher level may be considered in state-of-the-art technology production by the Cabinet Committee on Security on a case-to-case basis. FDI up to 49 per cent has been allowed in petroleum refining under the automatic route, as against the earlier norm requiring approval. The government also raised the FDI limit in asset reconstruction firms to 100 per cent from 74 per cent earlier. In courier services, FDI of up to 100 per cent has been allowed under the automatic route. Earlier, the same level of investment could be made through the FIPB route. The government allowed 74 per cent FDI in credit information firms under the automatic route.

(ii) *The Land Acquisitions, Rehabilitation and Resettlement Act, 2013* which has replaced the Land Acquisition Act of 1894, aims to establish the law on land acquisition, as well as rehabilitation and resettlement of those directly affected by the land acquisition by the Government in India. The Act has provisions to provide fair compensation to those whose land is taken away for public purpose, brings transparency to the process of acquisition of land to set up infrastructural projects and assures rehabilitation of those affected. The Government of India introduced this Bill against the backdrop of heightened public concern surrounding the land acquisition issues in India.

(iii) *The Pension Fund Regulatory and Development Authority Bill 2011*, has been passed by the Parliament, which paves the way for pure pension products to come into the market. Currently most of the pension products are linked with insurance coverage. It also provides statutory powers to PFRDA (which was established in August 2003) as a regulator for the pension sector.

(iv) The Banking Laws Amendment Bill, which seeks to further develop the banking sector in India by strengthening the regulatory powers of RBI. The Bill also paves the way for new bank licenses by RBI resulting in opening of new banks and branches.

(v) The Companies Act, 2013 has replaced the Companies Act 1956, which had occupied a significant place in the Corporate Governance (CG) architecture in India for a very long time. The main objectives of the new Act are to revise and modify the over-five-decades old Companies Act, 1956 (which was amended several times in the past decade) in consonance with the changes in the national and international economy. In the wake of both existing and emerging challenges to CG in India, the new Companies Act, 2013 envisage to strengthen the existing regulatory framework on CG.

Table 1-4: Indian Economy - Five Year Trend

Sector/ Indicator	Y-o-Y growth rate (%)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Real Sector					
GDP at constant prices	6.7	8.6	9.3	6.2	5.0
Agriculture	0.1	0.8	7.9	3.6	1.9
Industry	4.4	9.2	9.2	3.5	2.1
Services	10.0	10.5	9.7	8.2	7.1
Saving (% of GDP)	32.0	33.7	34.0	30.8	30.2
Investment (% of GDP)	34.3	36.5	36.8	35.0	35.0
WPI	8.1	3.8	9.6	8.8	7.4
CPI - IW	9.1	12.2	10.5	8.4	10.4
Financial Sector					
Money Supply (outstanding at end of period)	20.3	18.9	16.4	13.0	13.6
Bank credit to commercial sector (outstanding at end of period)	23.8	14.2	21.4	16.9	13.9
Securities Market Indicators					
Turnover (Daily average)					
Cash	-19.9	49.7	-17.3	-19.6	-4.0
Equity F&O	-13.1	59.8	59.1	9.3	0.8
Currency F&O*	-	536.2	86.5	31.7	11.3
Fiscal Sector					
Central Govt. Total Receipts	-5.9	9.9	36.9	-4.2	16.7
Central Govt. Total Expenditure	23.7	16.2	17.0	8.4	8.1
Central Govt. Fiscal Deficit	160.1	26.8	-11.8	36.4	-5.1
Central Govt. Revenue Deficit	4.5	5.2	3.3	4.4	3.9
External Sector					
FDI (Inward)	11.2	-5.5	-24.8	88.0	-38.6
FII (Net)	-161.3	407.5	6.5	-41.3	64.1
Export	12.2	-2.2	40.6	21.9	-1.8
Import	19.8	-3.9	28.4	32.4	0.2

Memo Items					
Current Account Balance (% of GDP)	-2.3	-2.8	-2.6	-4.2	-4.8
Capital Account Balance (% of GDP)	0.7	3.9	3.6	3.6	4.7
91-day T-bill rates (end of period; %)	4.7	4.3	7.3	9.0	8.2
Central Government Debt (end of period; % of GDP)	56.6	53.7	49.9	46.7	47.5
Forex Reserves (end of period; US $ bn)	251.9	279.1	305.5	294.4	292.7

**: Currency derivative trading started on August 29, 2008.*

Source : RBI, Ministry of Finance, DIPP, CSO and NSE.

Section-II: Structure and Trends of the Indian Securities Markets in FY 2013

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 FY 2013 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 1-7). 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 1-5: Market Participants in Securities Market

Market Participants	FY 2011	FY 2012	FY 2013	As on Sep 30, 2013
Securities Appellate Tribunal (SAT)	1	1	1	1
Regulators*	4	4	4	4
Depositories	2	2	2	2
Stock Exchanges				
With Equities Trading	19	19	20	20
With Debt Market Segment	2	2	2	2
With Derivative Trading	2	2	2	3
With Currency Derivatives	4	4	4	3
Brokers (Cash Segment) **	10,203	10,268	10,128	9,606
Corporate Brokers (Cash Segment)	4,774	4,877	5,113	5,026
Brokers (Equity Derivatives)	2,111	2,337	2,957	3,069
Brokers (Currency Derivatives)	2,008	2,173	2,330	2,371
Sub-brokers	83,808	77,141	70,242	57,387
FIIs	1,722	1,765	1,757	1,746
Portfolio Managers	267	250	241	223
Custodians	17	19	19	19

Contd.

Contd.

Market Participants	FY 2011	FY 2012	FY 2013	As on Sep 30, 2013
Registrars to an issue & Share Transfer Agents	73	74	72	73
Merchant Bankers	192	200	198	198
Bankers to an Issue	55	57	57	57
Debenture Trustees	29	31	31	32
Underwriters	3	3	3	3
Venture Capital Funds	184	212	211	210
Foreign Venture Capital Investors	153	176	182	191
Mutual Funds	51	49	52	52
Collective Investment Schemes	1	1	1	1
KYC Registration Agency (KYC)	–	–	5	5

** 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.

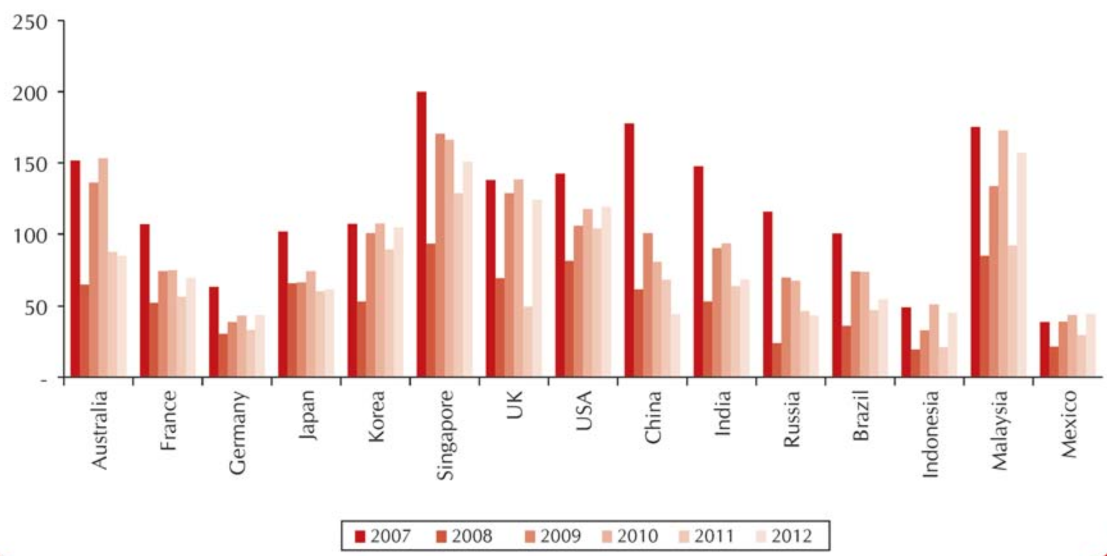
International Scenario

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 2013, India ranked 9th in terms of market capitalization, 17th in terms of total value traded in stock exchanges, and 26th in terms of turnover ratio, as of December 2012.

The year 2012 was a challenging year for the securities market across the globe. This can be seen from a 25.1 percent decline in the turnover of all the markets taken together to US $ 49.7 trillion in 2012. Significantly, despite the slowdown in turnover, US maintained its numero uno position and alone accounted for about 43 percent of the worldwide turnover in 2012. However, India despite having a large number of companies listed on its exchanges, accounted for a meager 1.3 percent of the total world turnover in 2012.

As can be observed from Table 1-2, the market capitalization of all the listed companies taken together across all the markets stood at US $ 53.2 trillion in 2012 (US $ 46.5 trillion in 2011). The share of the US in worldwide market capitalization increased from 33.6 percent at the end of 2011 to 35.1 percent at the end of 2012, while the Indian listed companies accounted for 2.4 percent of the total market capitalization at the end of 2012. The stock market capitalization for some developed and emerging countries is shown in Chart 1-4.

Chart 1-4: Stock Market Capitalization (as percentage of GDP)



According to the World Development Indicators 2013, World Bank, there has been a significant increase in the market capitalization as a percentage of Gross Domestic Product (GDP) in the high income countries, while it has increased marginally for middle income and low & middle income countries, as is evident from Table 1-7. The market capitalization as a percentage of GDP was 88.7 percent for the high-income countries at the end of 2012 while for middle income countries it was 49.3 percent and for low and middle income countries it was 49.0 percent. The market capitalization as a percentage of GDP in India increased from 54.2 percent at the end of 2011 to 68.6 percent in 2012. The turnover ratio, which is a measure of liquidity, was 102 percent for the high-income countries and 90.4 percent for the low and middle-income countries in 2012. The total number of listed companies stood at 30,123 for the high-income countries, 16,760 for the middle-income countries, and 17,397 for the low and middle-income countries at the end of 2012.

Household investments in India

According to the RBI data, investments in fixed income instruments accounted for 86.3 percent of the household financial savings during FY 2013, a marginal decline in comparison to 89.3 percent in FY 2012.

During FY 2013, the household sector invested 56.2 percent of financial savings in deposits, 31 percent in insurance/ provident funds, -0.9 percent in small savings, and 3.5 percent in the securities market including government securities, units of mutual funds, and other securities (Table 1-8). To sum up, fixed-income-bearing instruments were the preferred assets of the household sector.

Table 1-6: International Comparison of Global Stock Markets

International Comparison	Market Capitalisation (US $ mn)			Turnover (US $ mn)			Turnover Ratio (in %)			Market Capitalisation Ratio (in %)			No. of listed Companies		
Markets	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Developed Market	**39,371,955**	**34,942,888**	**40,016,418**	**51,375,912**	**52,898,575**	**38,937,733**	**130.49**	**151.39**	**97.30**				**27,107**	**27,497**	**26,839**
Australia	1,454,547	1,198,164	1,286,438	1,221,900	1,246,414	1,051,646	84.01	104.03	81.75	157.28	87.34	84.60	1,913	1,922	1,959
France	1,926,488	1,568,730	1,823,339	1,467,074	1,474,235	1,126,611	76.15	93.98	61.79	72.71	56.57	69.78	901	893	862
Germany	1,429,707	1,184,459	1,486,315	1,405,037	1,758,185	1,225,530	98.27	148.44	82.45	42.72	33.17	43.72	571	670	665
Japan	4,099,591	3,540,685	3,680,982	4,280,423	4,160,543	3,605,393	104.41	117.51	97.95	80.90	60.35	61.76	3,553	3,961	3,470
Korea	1,089,217	994,302	1,180,473	1,626,604	2,032,862	1,513,840	149.34	204.45	128.24	130.83	89.08	104.50	1,781	1,792	1,767
Singapore	370,091	308,320	414,126	282,142	253,771	156,445	76.24	82.31	37.78	203.09	128.63	150.75	461	462	472
UK	3,107,038	2,903,178	3,019,467	3,006,680	2,971,840	2,488,566	96.77	102.37	82.42	142.88	119.39	123.99	2,056	2,001	2,179
USA	17,138,978	15,640,707	18,668,333	30,454,798	30,750,596	21,375,280	177.69	196.61	114.50	120.22	103.62	119.02	4,279	4,171	4,102
Emerging Markets	**14,792,839**	**11,556,234**	**13,147,476**	**13,656,061**	**13,510,498**	**10,770,189**	**92.32**	**116.91**	**81.92**				**21,673**	**21,924**	**20,681**
China	4,762,837	3,389,098	3,697,376	8,029,969	7,671,365	5,826,506	168.60	226.35	157.58	95.55	68.42	44.24	2,063	2,342	2,494
India	1,615,860	1,015,370	1,263,335	1,056,808	740,177	622,479	65.40	72.90	49.27	123.33	63.81	68.60	4,987	5,112	5,191
Russia	1,004,525	796,376	874,659	799,688	1,146,422	732,242	79.61	143.95	83.72	81.62	46.37	43.41	345	327	276
Brazil	1,545,566	1,228,969	1,229,850	901,105	961,306	834,535	58.30	78.22	67.86	98.32	47.13	54.60	373	366	353
Indonesia	360,388	390,107	396,772	129,546	139,618	91,685	35.95	35.79	23.11	66.70	21.04	45.18	420	440	459
Malaysia	410,534	395,083	476,340	90,198	128,908	124,498	21.97	32.63	26.14	214.27	91.85	156.94	957	941	921
Mexico	454,345	408,691	525,057	108,530	111,985	118,162	23.89	27.40	22.50	51.93	29.48	44.57	130	128	131
World Total	**54,164,794**	**46,499,122**	**53,163,894**	**65,031,973**	**66,409,072**	**49,707,922**				--	--	–	**48,780**	**49,421**	**47,520**
USA as % of World	31.6	33.6	35.1	46.8	46.3	43.0				--	--	–	8.77	8.44	8.63
India as % of World	3.0	2.2	2.4	1.6	1.1	1.3				--	--	–	10.22	10.34	10.92

Note
Listed companies in India pertain to BSE
Market Capitalisation ratio is computed as a percentage of GDP.
Note:Korea has been classified as developed markets from 2010 onwards
Source:S&P Global Stock Market Factbook, 2013 and World Development Indicators, World Bank

Table 1-7 : Select Stock Market Indicators

Markets	Market Capitalisation as % of GDP					Turnover Ratio (%)					Listed Domestic Companies			
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2009	2010	2011	2012
High Income	**62.9**	**89.9**	**95.9**	**78.6**	**88.7**	**180.5**	**187.1**	**128.5**	**143.0**	**102.0**	**31,198**	**29,574**	**30,214**	**30,123**
Middle Income	**49.5**	**73.2**	**72.6**	**47.7**	**49.3**	**78.2**	**213.8**	**101.1**	**103.0**	**90.8**	**9,819**	**16,778**	**18,737**	**16,760**
Low & Middle Income	**48.9**	**72.6**	**72.1**	**47.4**	**49.0**	**77.8**	**213.8**	**100.8**	**102.8**	**90.4**	**16,120**	**17,497**	**19,339**	**17,397**
East Asia & Pacific	58	91.0	79.9	50.6	68.2	112.0	229.5	146.0	154.3	112.1	3962	4,758	5,181	5,311
Europe & Central Asia	44.4	50.8	51.8	32.9	51.0	68.8	68.0	91.2	121.1	80.5	3610	2,963	4,368	2,506
Latin America & Caribbean	31.9	52.9	57.6	42.0	46.7	47.0	46.1	46.1	46.4	42.7	1417	1,457	1,446	1,513
Middle East & N. Africa	55.9	38.0	34.6	40.5	44.8	28.7	28.7	27.7	19.4	61.8	717	1,007	1,012	--
South Asia	47	73.3	81.9	48.2	59.4	89.3	88.9	73.5	55.4	53.2	6123	6,364	6,400	6,496
Sub-Saharan Africa	148.5	154.1	149.5	--	--	29.1	76.5	37.1	37.2	47.2	820	948	932	--
India	**55.7**	**85.6**	**93.6**	**54.2**	**68.6**	**85.2**	**116.3**	**75.6**	**56.3**	**54.6**	**4,946**	**4,987**	**5,112**	**5,191**
World	**59.2**	**85.2**	**88.7**	**67.7**	**76.8**	**--**	**--**	**122.0**	**133.4**	**99.8**	**--**	**47,071**	**49,553**	**47,520**

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

Table 1-8: Savings of Household Sector in Financial Assets

Financial Assets	2009-10 R	2010-11 R	2011-12 R	2012-13 P
Currency	**9.8**	**13.8**	**11.4**	**10.2**
Fixed income investments	**85.5**	**85.9**	**89.3**	**86.3**
Deposits	41.9	45.6	57.4	56.2
Insurance/Provident & Pension Funds	39.3	36.3	34.2	31.0
Small Savings	4.3	4.0	-2.3	-0.9
Securities Market	**4.2**	**-0.3**	**-1.0**	**3.5**
Mutual Funds	3.3	-1.2	-1.1	2.5
Government Securities	0.0	0.0	-0.2	0.0
Other Securities	0.9	0.9	0.3	1.0
Total	**100**	**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 2012-13

Primary Market

An aggregate of ₹ 12,060 billion was raised by the government and the corporate sector in FY 2013, compared to ₹ 9, 926 billion in FY 2012 (an increase of 21.5 percent). Private placement accounted for 95.9 percent of the domestic total resource mobilization by the corporate sector. Resource mobilization through Euro Issues dropped significantly by 63 percent to ₹ 10 billion in FY 2013. (More details are provided in Chapter 2.)

Secondary Market

The exchanges in the country offer screen-based trading system. There were 10,128 trading members registered with SEBI at the end of March 2013 (Table 1-9). The market capitalization has grown over the period, indicating that more companies are using the trading platform of the stock exchange. The market capitalization on BSE (taken as a proxy for India) was around ₹ 63,878 billion (US $ 1,174 billion) at the end of March 2013. 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[1] market capitalization ratio decreased to 63.7 percent in FY 2013 from 69.3 percent in FY 2012.

The trading volumes on the stock exchanges had picked up from FY 2003 onwards. It stood at ₹ 9,689 billion (US $ 203 billion) in FY 2003, and witnessed a year-on-year increase of 67.3 percent in FY 2004, standing at ₹ 16,209 billion (US $ 374 billion). The upsurge continued for the next few years, and in FY 2007, the turnover showed an increase of 21.4 percent, reaching ₹ 29,015 billion (US $ 666 billion) from ₹23,901 billion (US $ 536 billion) in FY 2006. Significant increase of 76.8 percent was witnessed in trading volumes in FY 2008 followed by a fall of 24.9 percent in FY 2009. Trading volume, again peaked at ₹ 55,168 billion (US $ 1,222 billion) in FY 2010. Since last three years, the turnover in all India cash market has plunged continuously. In FY 2011, the cash market witnessed a fall of 15.1 percent to ₹ 46,850 billion (US $ 1,049 billion) in FY 2011, while in FY 2012, it dropped by 25.6 percent to ₹ 34,844 billion. The downward trend continued in FY 2013 and fell 6.5 percent to ₹ 32,571 billion.

1 BSE market capitalization has been taken as a proxy for all-India market capitalization.

Table 1-9: Secondary Market - Selected Indicators

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	54.9	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	95.3	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	87.8	46,850,341	1,049,280	68.46	4,035,492	7,083,067	90,381	158,635	292,483,750	6,550,588
2011-12	10,268	5295.6	17,404.2	62,191,859	1,215,718	69.3	34,843,820	681,122	56.03	4,643,860	7,802,466	90,778	152,521	321,582,080	6,286,241
2012-13#	10,128	5682.6	18,835.8	63,878,869	1,174,998	63.7	32,570,860	599,113	50.99	5,971,278	11,418,222	109,837	210,029	386,965,230	7,117,898
Apr-Sep'13#	9,606	5735.3	19,379.8	63,861,340	1,001,310	63.7	16,587,800	260,087	25.97	3,451,676	8,386,430	54,120	131,494	244,684,970	3,836,511

Note

#: Data for Market capitalisation is only on BSE

SGL turnover excludes turnover on NDS-OM

Source: SEBI, BSE, and NSE

Government Securities

The aggregate trading volumes in central and state government dated securities on SGL increased from ₹ 4,644 billion in FY 2012 to ₹ 5,971 billion in FY 2013.

Derivatives Market

The equity derivative market turnover on the Indian exchanges increased by 20.3 percent to ₹ 386,965 billion in FY 2013 from ₹ 321,582 billion in FY 2012. 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 turnover in India increased by 12.8 percent to ₹ 52,745 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 Corporate 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, 2013, 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, 2013: 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.

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 emerged as the market leader, with 78 percent of total turnover (volumes in cash market, equity derivatives, and currency derivatives) in FY 2013. NSE proved itself the market leader, contributing a share of 83.2 percent in equity trading and nearly 81.5 percent share in the equity derivatives segment in FY 2013 (Table 1-10).

Table 1-10: Market Segments on NSE for 2012-13 (Select Indicators)

Segments	Market Capitalisation as of March 2013		Trading Value for 2012-13		Market Share (in percent)
	₹ mn	US $ mn	₹ mn	US$ mn	
CM	62,390,350	1,147,618	27,082,791	498,165	83.2
Equity F&O	-		315,330,040	5,800,229	81.5
Currency F&O	-		52,744,647	970,193	60.6
Total	**62,390,350**	**1,147,618**	**395,157,477**	**7,268,587**	**78.0**

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 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 is an important part of capital market, which deals with issuance of new securities. It enables corporates, public sector institutions as well as the government to raise resources (through issuance of debt or equity based securities), to meet their capital requirements. In addition, the primary market also provides an exit opportunity to private equity and venture capitalists by allowing them to off-load their stake to the public.

Initial Public Offer (IPO) is the most common way for firms to raise capital in the primary market. In an IPO, a company or a group floats new securities for subscription by the public. In return, the issuing conglomerate receives cash proceeds from the sale, which are then used to fund operations or expand the business. It is only after an IPO that a security becomes available for trading in the secondary market of the stock exchange platform. The price at which the securities are issued is decided through 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 a company, as opposed to the general public, it is known as the Rights Issue. Another mechanism whereby a listed company can issue equity shares (as well as fully and partially convertible debentures, which can later be converted into equity shares), to a Qualified Institutional Buyer (QIB) is termed as Qualified Institutional Placement. In addition to domestic market, companies can also raise capital in the international market through the issuance of American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and also by way of External Commercial Borrowings (ECBs).

The securities can be issued and capital raised either through public issues or through private placement (which involves issuance of securities to a relatively small number of select investors). Table 2-1 provides statistics on the resources mobilized by corporates and the government from domestic as well as international markets. As can be seen in the table, total resources mobilized through issuance of securities by corporates and the government in 2012–13 increased by 21.5 percent to ₹ 12,060 billion (US $ 222 billion).

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

Issues	2010-11 (₹ bn)	2011-12 (₹ bn)	2012-13 (₹ bn)	2010-11 (US $ bn)	2011-12 (US $ bn)	2012-13 (US $ bn)
Corporate Securities	**2,855**	**2,336**	**3,403**	**64**	**46**	**63**
Domestic Issues	2,760	2,308	3,392	62	45	62
Public Issues	376	129	139	8	3	2.55
Private Placement	2,384	2,180	3,254	53	43	59.85
Euro Issues	94	27	10	2	0.5	0.19
Government Securities	**5,835**	**7,590**	**8,658**	**131**	**148**	**159**
Central Government #	4,795	6,004	6,885	107	117	126.64
State Governments	1,040	1,586	1,773	23	31	32.61
Total	**8,690**	**9,926**	**12,060**	**195**	**194**	**222**

Source: RBI; # only includes amount raised through dated securities

Corporate Securities

The resource mobilization by corporates in the primary market, surged by 45.7 percent in 2012-13 to ₹ 3,403 billion (US $ 63 billion). This expansion was led by a significant increase in resources mobilized through private placement route; capital raised through private placement swelled by 49.3 percent to ₹ 3,254 billion (US $ 60 billion). On the other hand, the resources mobilized through public issues increased by 7.9 percent to ₹ 139 billion (US $ 3 billion), accounting for a mere 1.2 percent of the total resources mobilized domestically.

However, the resources raised by Indian corporates from the international capital market through the issuance of FCCBs, GDRs, and ADRs continued on a downward trajectory (declining 61.8 percent in 2012–13, on the back of 71.2 percent fall in 2011-12), reflecting weak sentiment for the Indian economy. Indian corporates, raised ₹ 10 billion (US $ 0.2 billion) from international capital markets in 2012-13, as against ₹ 27 billion (US $ 0.5 billion) in the previous year. This accounted for a mere 0.1 percent of the total resources mobilized by the government and the corporate sector in 2012-13 (Table 2-1).

Public and Rights Issues

As in the previous year, resources mobilized from public and rights issue continued to decline. In 2012-13, capital raised from public and rights issue declined by 33 percent (on the back of 28.3 percent decline in 2011-12) to ₹ 325 billion (US $ 6 billion). (Table 2.2)

Total number of public issues (equity and debt) also continued to decline in 2012-13; public issues fell from 55 issues in 2011-12 to 53 in 2012-13. In the equities, a total of 33 IPOs were launched during 2012-13, compared to 34 in 2011-12. Interestingly, the total capital raised by way of IPOs increased (despite the fall in number of IPOs) to ₹ 65 billion in 2012–13 from ₹ 59 billion in 2011–12. (Table 2.2)

In the debt segment, the number of public issues remained unchanged at 20 during 2012-13. However, the amount of resource mobilization declined drastically from ₹ 356 billion in 2011-12 to ₹ 170 billion in 2012-13.

Encouragingly, the mobilization of resources through right issues recorded a massive increase of 276 percent in 2012–2013, after a 75 percent drop witnessed in 2011-12. Resource mobilization through rights issue witnessed an increase from ₹ 24 billion in 2011–12 to ₹ 89 billion in 2012–13. The number of rights issue, however, remained unchanged over the last year at 16.

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

Public and Rights Issues	2011-12			2012-13			Apr-Sep'13		
	Number	Amount (₹ bn)	Amount (US $ bn)	Number	Amount (₹ bn)	Amount (US $ bn)	Number	Amount (₹ bn)	Amount (US $ bn)
1. Public Issues (i) + (ii)	**55**	**461**	**9**	**53**	**235**	**4.3**	**22**	**68**	**1.1**
i. Public Issues	35	105	2	33	65	1.2	16	11	0.2
Public Issues (IPO)	34	59	1	33	65	1.2	16	11	0.2
Public Issues (FPO)	1	46	1	-	-	-	-	-	-
ii. Public Issues (Bond/NCD)	20	356	7	20	170	3.1	6	58	0.9
2. Rights Issues	**16**	**24**	**0.5**	**16**	**89**	**1.6**	**8**	**22**	**0.3**
Total (1+2)	**71**	**485**	**9**	**69**	**325**	**6.0**	**30**	**90**	**1.4**

Source: SEBI

During 2012-13, the private issuers raised ₹ 176.9 billion — an increase of 23.8 percent over the previous year. The public issuers, on the other hand, witnessed a significant drop (56.8 percent) in the amount of resources mobilized (₹ 147.7 billion) in 2012-13. (Table 2-3).

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

Sector	2011-12		2012-13		Apr-Sep'13	
	Number	Amount (₹ mn)	Number	Amount (₹ mn)	Number	Amount (₹ mn)
Private	60	142,930	55	176,900	26	40,940
Public	11	341,750	14	147,650	4	48,930
Total	**71**	**484,680**	**69**	**324,550**	**30**	**89,870**

Note:This table includes public issues and rights issues

Source: SEBI

Resource Mobilisation - Industry-wise and Size-wise Distribution

The finance sector contributed the maximum share (51 percent) of the total resources mobilized during 2012–13, with 16 issues mobilizing ₹ 165.4 billion. The banking sector was at the leading position in the league with ₹ 57.6 billion, accounting for 64.1 percent of the total resources mobilized in the first six months of FY 2014. In 2012–13, the banking sector contributed only 7.6 percent to the total resources compared to its contribution of 42.3 percent to the total resources mobilized in 2011-12. 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	2011-12			2012-13			Apr-Sep'13		
	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share
Banking/FIs	11	205,030	42.3	7	24,750	7.6	6	57,630	64.1
Cement & Construction	2	1,870	0.4	1	90	0.03	3	7,250	8.1
Chemical	0	0	0.0	1	90	0.03	0	-	0.0
Electronics	1	1,210	0.2	0	-	0.0	0	0	-
Engineering	1	2,170	0.4	2	740	0.2	0	-	-
Entertainment	1	890	0.2	1	120	0.04	2	6,020	6.7
Finance	18	128,160	26.4	16	165,360	51.0	5	380	0.4
Food Processing	0	0	0.0	2	190	0.1	0	0	-
Healthcare	1	650	0.1	2	2,100	0.6	0	-	-
Information Technology	2	1,380	0.3	1	40	0.01	0	-	-
Paper & Pulp	2	3,060	0.6	0	-	0.0	1	280	0.3
Power	0	0	0.0	0	-	0.0	0	0	-
Telecom	0	0	0.0	1	41,730	12.9	0	0	-
Textile	0	0	0.0	4	5,820	1.8	1	35	0.04
Others	32	140,250	28.9	31	83,520	25.7	12	18,280	20.3
Total	**71**	**484,670**	**100.0**	**69**	**324,550**	**100.0**	**30**	**89,875**	**100.0**

Source: SEBI

Table 2-5 exhibits the size-wise distribution of public and rights issues in 2012-13. About 97.5 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 33 issues out of 69 that were above ₹ 100 crore.

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

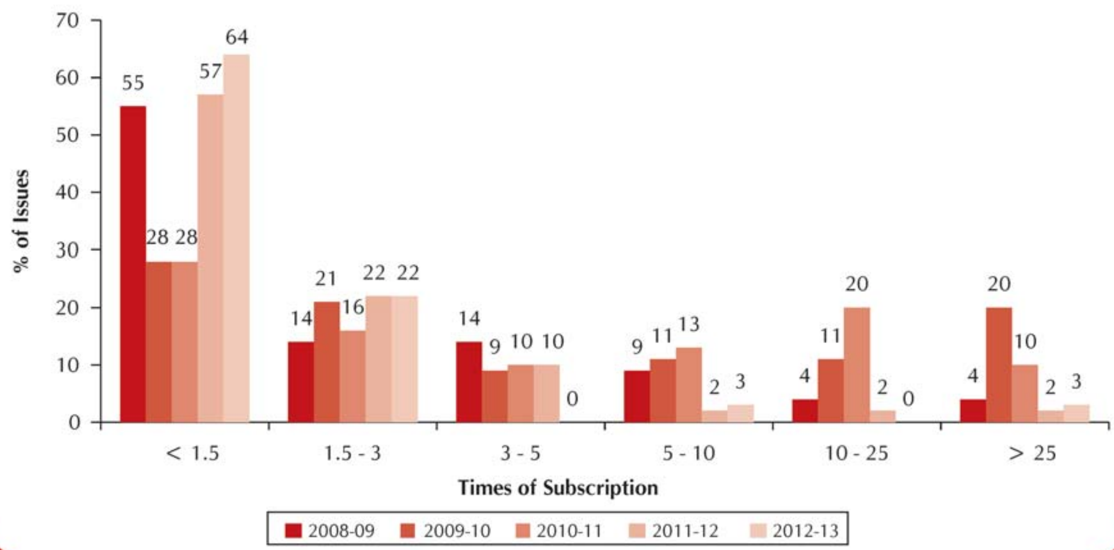
Issue Size	2011-12			2012-13			Apr-Sep'13		
	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share
< ₹ 5 crore	2	90	0.02	2	70	0.02	4	110	0.12
≥ ₹ 5 crore & < ₹ 10 crore	2	140	0.03	13	860	0.24	7	490	0.55
≥ ₹ 10 crore & < ₹ 50 crore	19	5,350	1.10	15	2,900	0.92	6	940	1.05
≥ ₹ 50 crore & < ₹ 100 crore	14	10,180	2.10	6	4,400	1.36	1	750	0.83
≥ ₹ 100 crore	34	468,910	96.80	33	316,320	97.46	12	87,570	97.44
Total	**71**	**484,680**	**100.00**	**69**	**324,550**	**100.00**	**30**	**89,870**	**100.00**

Source: SEBI

There were 19 mega issues (₹ 3,000 million and above) during April 2012–March 2013, the largest being the bond issue by Indian Railways Finance Corporation Ltd (₹ 53.7 billion), followed by the IPO issue (IPO + OFS) of Bharti Infratel Ltd (₹ 41.7 billion). The 19 mega issues mobilized 89.1 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. As in the previous year, the public issues which hit primary market in 2012-13 couldn't manage to generate enough euphoria among the investors, which can be seen from the fact that 64 percent of the issues were subscribed less than one and half times as a result of lack of investors' interests, compared to 57 percent in 2011-12 and 28 percent in 2010–11.

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



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

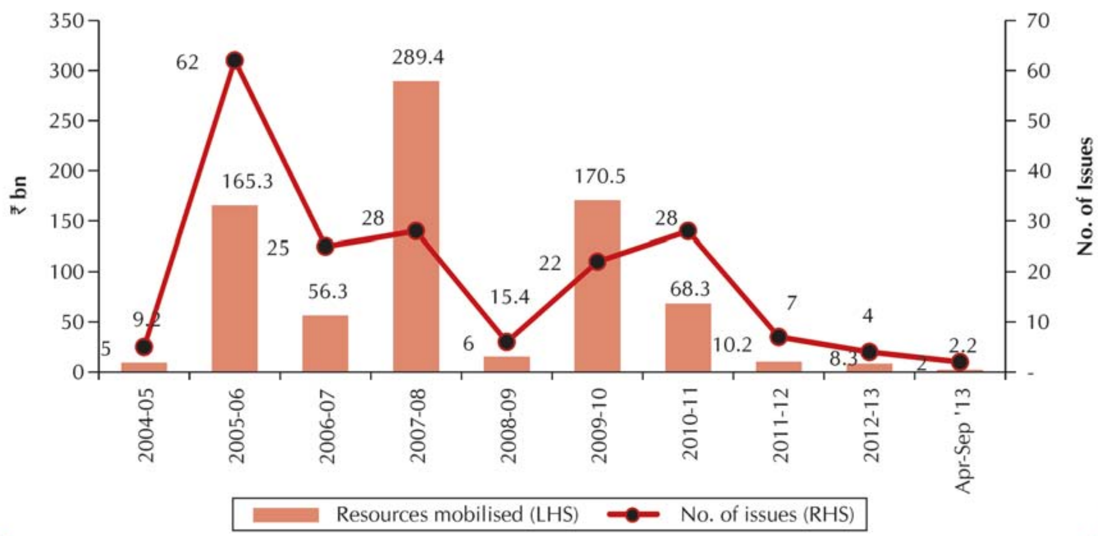
Euro Issues

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 2012–13, as a result of the turbulent global financial market, there was a steep decline in the resources mobilized through Euro issues, which decreased to ₹ 10 billion (US $ 0.2 billion) compared to ₹ 27 billion (US $ 0.5 billion) raised in 2011–12. (Table 2-1)

The resources mobilized by the companies listed on NSE through GDRs, ADRs, GDSs, and ADSs also witnessed a decline from ₹ 10.2 billion in 2011–12 to ₹ 8.3 billion in 2012–13. In the first six months of current fiscal year, two companies mopped up ₹ 2.2 billion collectively, with an average issue size of ₹ 1.1 billion (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 2012–13, ₹ 62.9 billion was raised through the 12 IPOs listed on the NSE. They were from various sectors, including finance, telecommunication, construction, engineering. Bharti Infratel Limited came out with an IPO of equity shares, mobilizing ₹ 41.7 billion. Of the 12 IPOs (excluding the NCDs), nine issues had reported listing gains, but only six had managed to close in green by the end of 2012–13. The IPO of Credit Analysis and Research Limited marked its outperformance with listing gains of 25.3 percent on its first day of trading, and the IPO of Tribhovandas Bhimji Zaveri Limited rewarded its shareholders with a whopping 90.5 percent increase in price over the issue price at the end of March 2013. (Table 2-6)

Table: 2-6 Performance of IPOs(EQ) Listed on NSE in April 2012 - March 2013

Sr. No.	Company Name	Issue size (₹ mn)	Date of Listing	Issue Price (₹)	Listing price (₹)	Close Price at end of Mar'13 (₹)	Listing gains (in percent)	Price Appreciation/ Depreciation at end March 2013 with the issue price (in percent)
1	MT Educare Limited	990	12-Apr-12	80	86.05	80.70	7.6	0.9
2	National Buildings Construction Corporation Limited	1,272	12-Apr-12	106	101.00	121.80	-4.7	14.9
3	Tribhovandas Bhimji Zaveri Limited	2,000	9-May-12	120	115.05	228.55	-4.1	90.5
4	Speciality Restaurants Limited	1,761	30-May-12	150	152.00	167.50	1.3	11.7
5	VKS Projects Limited	550	18-Jul-12	55	56.35	18.25	2.5	-66.8
6	Thejo Engineering Limited (SME)	190	18-Sep-12	402	403.00	378.70	0.2	-5.8
7	Tara Jewels Limited	1,795	6-Dec-12	230	242.00	184.85	5.2	-19.6
8	Veto Switchgears And Cables Limited (SME)	250	13-Dec-12	50	58.00	50.30	16.0	0.6
9	Credit Analysis And Research Limited	5,400	26-Dec-12	750	940.00	810.50	25.3	8.1
10	PC Jeweller Limited	6,013	27-Dec-12	135	137.00	114.35	1.5	-15.3
11	Bharti Infratel Limited	41,723	28-Dec-12	220	200.00	178.95	-9.1	-18.7
12	V-Mart Retail Limited	944	20-Feb-13	210	214.00	169.20	1.9	-19.4

Source: NSE

During April-September 2013, ₹ 12 billion was raised through the three IPOs listed on the NSE. Out of those three IPOs, one issue had reported listing gains and two had managed to close in green by the end of September 2013. The IPO of Just Dial Limited got listed with a listing gain of 11.3 percent and rewarded its shareholders with a price appreciation of 59.3 percent over the issue price, as of September 2013. (Table 2-7)

Table 2-7: Performance of IPOs listed on NSE in April 2013–September 2013

Sr. No.	Company Name	Issue size (₹ mn)	Date of Listing	Issue Price (₹)	Listing price (₹)	Close Price at end of Sep' 2013	Listing gains (in percent)	Price Appreciation/ Depreciation at end Sep' 13 with the issue price (in percent)
1	Repco Home Finance Limited	2,702	1-Apr-13	172	160	251.4	-7.0	46.1
2	Opal Luxury Time Products Limited (SME)	130	12-Apr-13	130	130	118.0	0.0	-9.2
3	Just Dial Limited	9,191	5-Jun-13	530	590	844.2	11.3	59.3

Source: NSE

Debt Issues

The government and the corporate sector collectively raised a total of ₹ 12,346 billion (US $ 227 billion) from the primary market in 2012–13. Corporates continued their preference to raise capital through private placement which accounted for 28 percent of the total capital raised and witnessed growth of 39 percent over the previous year (Table 2-8).

Table 2-8: Resources Raised from Debt Markets

Issuer	2011-12 (₹ bn)	2012-13 (₹ bn)	Apr - Sep '13 (₹ bn)	2011-12 (US $ bn)	2012-13 (US $ bn)	Apr-Sep '13 (US $ bn)
Corporate	**2,882**	**3,688**	**1,276**	**56**	**68**	20.0
Public Issues	356	170	58	7	3.1	0.9
Private Placement*	2,526	3,518	1,218	49	65	19.1
Government	**7,590**	**8,658**	**9,250**	**148**	**159**	145.0
Central	6,004	6,885	7,095	117	127	111.2
State	1,586	1,773	2,155	31	33	33.8
Total	**10,472**	**12,346**	**10,526**	**204**	**227**	**165**

** 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

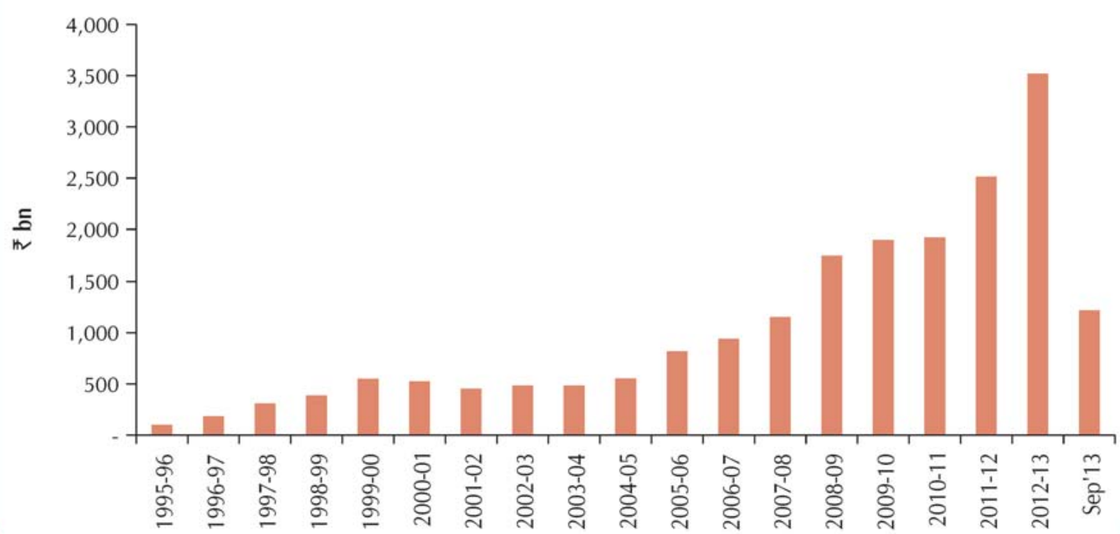
According to the Prime Database, a total of 267 issuers (institutional and corporate) raised ₹ 3,518 billion (US $ 65 billion) through 1,828 privately placed issues in 2012–13. The response to most of the issues was good, as 423 out of 1,828 issues—i.e., around 23 percent of the total issues—were made by the government sector units, which mobilized 68 percent of the total (Table 2-9). During the period April-September 2013, there were 146 issuers who placed 704 issues amounting to ₹ 1,218 billion (US $ 19 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	2,526	49
2012-13	**267**	**1,828**	**3,518**	**65**
Apr-Sep'13	**146**	**704**	**1,218**	**19**

Source: Prime Database

Chart 2-3: Growth of Private Placement of Debt



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 336 private placements were made during April 2012 to September 2013 (Annexure 2-1)

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

Issuer	Issue Amount (₹ mn)			Issue Amount (US $ mn)			% of Issue Amount		
	2011-12	2012-13	Apr-Sep'13*	2011-12	2012-13	Apr-Sep'13*	2011-12	2012-13	Apr-Sep'13*
All India Financial Institutions/Banks	1,603,688	1,845,818	584,741	31,349	33,952	9,168	63.8	52.5	48.0
State Financial Institutions	15,747	53,940	12,510	308	992	196	0.6	1.5	1.0
Public Sector Undertakings	271,755	395,508	96,920	5,312	7,275	1,520	10.8	11.2	8.0
State Level Undertakings	41,835	85,840	11,334	818	1,579	178	1.7	2.4	0.9
Private Sector	581,341	1,137,373	512,880	11,364	20,921	8,042	23.1	32.3	42.1
Total	**2,514,367**	**3,518,480**	**1,218,385**	**49,150**	**64,719**	**19,104**	**100.0**	**100.0**	**100.0**

* *Tentative*
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 70 percent in 2012–13, followed by the power sector, which accounted for 6 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	2012-13	Apr-Sep'13
Banking	47.9	51.4	40.0	32.1
Financial Services	23.1	25.7	30.0	37.4
Power	9.9	9.4	6.0	9.9
Oil exploration	2.0	1.1	4.0	1.8
Travel/Transportation	0.4	2.8	3.0	0.5
Others	16.7	9.6	17.0	18.3
Total	**100.0**	**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 720 months in 2012–13. The highest number of placements was for 36 months (437 placements) and 120 months (348 placements). A total of 127 offers had a put option, while 149 offers had a call option. Rating was, however, required for listing. Of the 1,828 debt private placements deals in 2012–13, 1,800 issues went for credit rating, while 28 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 2012–13, the total resources raised by the corporate sector increased by 28.1 percent to ₹ 3,843 billion, compared to the gross mobilization of ₹ 2,999 billion in 2011–12. The equity route was used to raise 1.7 percent of the total resources through public equity shares in 2012-13, down from 3.5 percent used in 2011-12. The share of rights issues was 2.3 percent. The resources raised through the debt issues (debt public issues and debt private placements) accounted for 96 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
2007-08	522,190	325,180	10,000	1,152,661	2,010,031	50,288	26.0	16.2	0.5	57.4
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	1,894,902	2,470,454	54,729	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	2,526,000	2,999,047	58,625	3.5	0.8	11.9	83.9
2012-13	**65,280**	**89,450**	**169,820**	**3,518,480**	**3,843,030**	**70,689**	**1.7**	**2.3**	**4.4**	**91.6**
Apr-Sep'13	**10,580**	**21,660**	**57,630**	**1,218,385**	**1,308,255**	**20,512**	**0.8**	**1.7**	**4.4**	**93.1**

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 listed at NSE during the Period April 01, 2012 till September 30, 2013

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
1	Himachal Futuristic Communications Limited	3,000,000	300	1.00	100.00
2	Himachal Futuristic Communications Limited	3,000,000	300	1.00	100.00
3	Punjab & Sind Bank	19,813,189	1,400	10.00	70.66
4	Nakoda Limited	48,600,000	486	5.00	10.00
5	Kwality Limited	50,000,000	50	1.00	1.00
6	FCS Software Solutions Limited	230,000,000	230	1.00	1.00
7	Pricol Limited	4,500,000	81	1.00	18.00
8	Birla Cotsyn (India) Limited	56,372,750	64	1.00	1.13
9	The Indian Hotels Company Limited	48,000,000	4,975	1.00	103.64
10	Marksans Pharma Limited	17,500,000	45	1.00	2.56
11	Orient Paper & Industries Limited	12,000,000	687	1.00	57.25
12	Prime Focus Limited	10,000,000	555	1.00	55.47
13	Sintex Industries Limited	13,600,000	939	1.00	69.01
14	Farmax India Limited	150,000,000	216	1.00	1.44
15	Marico Limited	29,411,764	5,000	1.00	170.00
16	Motilal Oswal Financial Services Limited	112,907	12	1.00	103.48
17	Prime Focus Limited	36,549,990	1,891	1.00	51.75
18	Responsive Industries Limited	5,267,700	585	1.00	111.00
19	Vaswani Industries Limited	1,299,500	13	10.00	10.00
20	JVL Agro Industries Limited	12,000,000	228	1.00	19.00
21	JVL Agro Industries Limited	27,500,000	523	1.00	19.00
22	Kesar Enterprises Limited	855,000	38	10.00	45.00
23	IDBI Bank Limited	54,321,230	5,550	10.00	102.17
24	IFB Agro Industries Limited	998,000	182	10.00	182.00
25	Punjab National Bank	14,294,713	12,480	10.00	873.05
26	SHREE GANESH JEWELLERY HOUSE (I) LIMITED	4,144,000	622	10.00	150.00
27	SHREE GANESH JEWELLERY HOUSE (I) LIMITED	5,800,000	870	10.00	150.00
28	Union Bank of India	46,245,174	11,140	10.00	240.89
29	Kalindee Rail Nirman (Engineers) Limited	4,110,400	268	10.00	65.13
30	Kinetic Motor Company Limited	871,795	34	10.00	39.00
31	Kesar Enterprises Limited	975,000	44	10.00	45.00
32	APL Apollo Tubes Limited	385,000	56	10.00	145.00
33	Autolite (India) Limited	400,000	19	10.00	47.50
34	Burnpur Cement Limited	2,900,000	35	10.00	12.00
35	Dhampur Sugar Mills Limited	3,000,000	189	10.00	63.00
36	Dhampur Sugar Mills Limited	1,000,000	63	10.00	63.00
37	Godawari Power And Ispat limited	1,000,000	130	10.00	130.00
38	Gujarat NRE Coke Limited	5,000,000	105	10.00	21.08
39	ADF Foods Limited	1,800,000	117	10.00	65.00
40	Venus Remedies Limited	900,000	191	10.00	212.20

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
41	APL Apollo Tubes Limited	1,115,000	162	10.00	145.00
42	Gallantt Ispat Limited	2,500,000	400	10.00	160.00
43	United Spirits Limited	14,532,775	20,927	10.00	1,440.00
44	Adani Power Limited	478,650,000	25,421	10.00	53.11
45	ADF Foods Limited	200,000	13	1.00	65.00
46	Andhra Cements Limited	147,500,000	1,770	10.00	12.00
47	Blue Star Infotech Limited	385,000	40	10.00	104.20
48	Cholamandalam Investment and Finance Company Limited	13,255,454	2,121	10.00	160.00
49	Development Credit Bank Limited	20,641,388	987	10.00	47.84
50	Dena Bank	16,669,453	1,512	10.00	90.73
51	Impex Ferro Tech Limited	17,500,000	350	10.00	20.00
52	Mawana Sugars Limited	4,160,053	63	10.00	15.12
53	Murudeshwar Ceramics Limited	1,840,000	31	10.00	17.00
54	Pitti Laminations Limited	4,050,000	159	10.00	39.15
55	Punjab National Bank	15,840,607	15,899	10.00	1,003.69
56	Punjab National Bank	6,525,919	6,550	10.00	1,003.69
57	Precot Meridian Limited	525,000	51	10.00	98.00
58	Punjab & Sind Bank	11,152,000	953	10.00	85.46
59	Religare Enterprises Limited	9,597,156	4,050	10.00	422.00
60	Uniply Industries Limited	1,898,793	20	10.00	10.77
61	Uttam Value Steels Limited	244,261,802	2,846	10.00	11.65
62	CEAT Limited	1,712,176	146	10.00	85.03
63	Vardhman Polytex Limited	1,600,000	105	10.00	65.67
64	TVS Electronics Limited	350,000	8	10.00	22.75
65	Fortis Healthcare Limited	3,737,449	370	10.00	99.09
66	Spentex Industries Limited	1,400,000	14	10.00	10.00
67	Fortis Healthcare Limited	18,833,700	1,866	10.00	99.09
68	Moser-Baer (I) Limited	20,000,000	200	10.00	10.00
69	Aurionpro Solutions Limited	257,771	46	10.00	180.00
70	Dhanlaxmi Bank Limited	5,900,000	354	10.00	60.00
71	Hathway Cable & Datacom Limited	5,275,000	1,498	10.00	284.00
72	Helios And Matheson Information Technology Limited	1,250,000	37	10.00	29.24
73	KEI Industries Limited	3,500,000	49	2.00	14.00
74	Rainbow Papers Limited	1,500,000	122	2.00	81.00
75	Shasun Pharmaceuticals Limited	1,500,000	113	2.00	75.00
76	Indiabulls Housing Finance Limited	17,150,000	3,739	2.00	218.00
77	Hotel Leela Venture Limited	30,826,140	1,000	2.00	32.44
78	Morepen Laboratories Limited	9,000,000	99	2.00	11.00
79	Suzlon Energy Limited	70,525,613	1,305	2.00	18.51
80	KEI Industries Limited	3,300,000	59	2.00	18.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
81	AI Champdany Industries Limited	2,683,045	55	5.00	20.50
82	GTL Limited	339,088	9	10.00	27.42
83	Orient Green Power Company Limited	100,000,000	1,500	10.00	15.00
84	Next Mediaworks Limited	6,000,000	60	10.00	10.00
85	Trent Limited	526,000	515	10.00	980.00
86	Jayaswal Neco Industries Limited	67,500,000	2,700	10.00	40.00
87	State Bank Of India	12,988,697	30,040	10.00	2,312.78
88	Capital First Limited	3,086,420	438	10.00	141.90
89	Dhampur Sugar Mills Limited	1,200,000	80	10.00	67.00
90	Kingfisher Airlines Limited	35,642,361	842	10.00	23.63
91	Kingfisher Airlines Limited	133,272,991	2,811	10.00	21.09
92	GTL Limited	8,426,842	383	10.00	45.45
93	GTL Limited	51,263,018	2,330	10.00	45.45
94	GTL Infrastructure Limited	869,839,670	10,995	10.00	12.64
95	GTL Infrastructure Limited	35,530,063	449	10.00	12.64
96	GTL Infrastructure Limited	45,832,582	467	10.00	10.18
97	Micro Technologies (India) Limited	1,224,439	200	10.00	163.34
98	IFCI Limited	400,000,000	4,000	10.00	10.00
99	GEI Industrial Systems Limited	2,554,668	639	10.00	250.00
100	GEI Industrial Systems Limited	500,000	125	10.00	250.00
101	Kinetic Motor Company Limited	1,800,000	26	10.00	14.20
102	Kinetic Motor Company Limited	3,800,000	54	10.00	14.20
103	IL&FS Engineering and Construction Company Limited	12,417,218	750	10.00	60.40
104	IFCI Limited	523,000,000	5,230	10.00	10.00
105	McDowell Holdings Limited	607,977	30	10.00	49.00
106	IDBI Bank Limited	188,556,509	21,305	10.00	112.99
107	Gujarat NRE Coke Limited	45,000,000	949	10.00	21.08
108	Aditya Birla Nuvo Limited	6,680,000	6,085	10.00	910.86
109	Alchemist Limited	675,000	145	10.00	215.00
110	Alok Industries Limited	16,000,000	816	10.00	51.00
111	APL Apollo Tubes Limited	1,000,000	176	10.00	176.00
112	APL Apollo Tubes Limited	641,953	113	10.00	176.00
113	Bafna Pharmaceuticals Limited	125,000	6	10.00	47.30
114	Bafna Pharmaceuticals Limited	150,000	7	10.00	47.30
115	Bajaj Finance Limited	4,690,000	3,053	10.00	651.00
116	Bajaj Finance Limited	1,310,000	853	10.00	651.00
117	Bhartiya International Limited	400,000	24	10.00	60.00
118	Bhartiya International Limited	600,000	36	10.00	60.00
119	DCW Limited	3,923,393	43	2.00	11.00
120	DCW Limited	1,236,363	14	2.00	11.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
121	Deep Industries Limited	1,375,000	105	10.00	76.00
122	Deep Industries Limited	1,375,000	105	10.00	76.00
123	Edserv Softsystems Limited	93,458	20	10.00	214.00
124	Emmbi Industries Limited	1,200,000	20	10.00	17.00
125	Gitanjali Gems Limited	943,396	400	10.00	424.00
126	Global Offshore Services Limited	160,700	19	10.00	121.00
127	Global Offshore Services Limited	62,300	8	10.00	121.00
128	Global Offshore Services Limited	18,700	2	10.00	121.00
129	Ind-Swift Laboratories Limited	1,561,000	129	10.00	82.50
130	Ind-Swift Laboratories Limited	1,315,000	108	10.00	82.50
131	Micro Technologies (India) Limited	575,000	80	10.00	139.00
132	Micro Technologies (India) Limited	925,000	129	10.00	139.00
133	Murudeshwar Ceramics Limited	1,935,000	33	10.00	17.00
134	Pipavav Defence and Offshore Engineering Company Limited	10,000,000	780	10.00	78.00
135	Raj Rayon Industries Limited	5,478,500	93	10.00	17.00
136	R. S. Software (India) Limited	390,000	20	10.00	51.86
137	R. S. Software (India) Limited	565,000	29	10.00	51.86
138	Sathavahana Ispat Limited	1,970,000	118	10.00	60.00
139	Shri Lakshmi Cotsyn Limited	1,570,000	245	10.00	156.00
140	Shri Lakshmi Cotsyn Limited	3,930,000	613	10.00	156.00
141	Shri Lakshmi Cotsyn Limited	1,500,000	234	10.00	156.00
142	Simbhaoli Sugars Limited	657,500	30	10.00	46.00
143	Spanco Limited	1,500,000	233	10.00	155.00
144	Suryalakshmi Cotton Mills Limited	1,160,000	157	10.00	135.00
145	Tantia Constructions Limited	850,000	72	10.00	84.25
146	Tantia Constructions Limited	1,600,000	135	10.00	84.25
147	Tilaknagar Industries Limited	4,284,236	313	10.00	73.00
148	Trident Limited	30,000,000	512	10.00	17.05
149	Trident Limited	5,000,000	85	10.00	17.05
150	Titagarh Wagons Limited	1,250,000	484	10.00	387.00
151	Venus Remedies Limited	600,000	168	10.00	279.72
152	Venus Remedies Limited	800,000	170	10.00	212.20
153	Visesh Infotecnics Limited	220,000,000	2,310	10.00	10.50
154	Winsome Diamonds and Jewellery Limited	400,000	28	10.00	70.00
155	Winsome Diamonds and Jewellery Limited	36,363,636	2,000	10.00	55.00
156	Everonn Education Limited	52,136	23	10.00	437.31
157	3i Infotech Limited	216,732,584	4,278	10.00	19.74
158	3i Infotech Limited	21,470,504	424	10.00	19.74
159	3i Infotech Limited	21,583,884	426	10.00	19.74
160	3i Infotech Limited	13,738,639	271	10.00	19.74

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
161	3i Infotech Limited	8,930,813	176	10.00	19.74
162	3i Infotech Limited	384,498	8	10.00	19.74
163	Allahabad Bank	23,810,771	4,594	10.00	192.94
164	Alchemist Limited	640,000	138	10.00	215.00
165	Alphageo (India) Limited	250,000	15	10.00	60.00
166	ANG Industries Limited	1,350,000	28	10.00	21.00
167	Ashapura Minechem Limited	4,000,000	147	2.00	36.83
168	Asian Granito India Limited	1,100,000	55	10.00	50.00
169	Axis Bank Limited	5,837,945	8,115	10.00	1,390.00
170	Bank Of Baroda	19,577,304	16,447	10.00	840.10
171	Bank Of Baroda	10,132,920	8,500	10.00	838.85
172	Bank Of India	27,300,000	10,375	10.00	380.02
173	Bank Of India	22,121,957	8,090	10.00	365.70
174	Oswal Chemicals & Fertilizers Limited	29,400,000	882	10.00	30.00
175	Capital First Limited	3,086,420	500	10.00	162.00
176	Central Bank of India	89,509,090	9,453	10.00	105.61
177	Central Bank of India	308,461,538	24,060	10.00	78.00
178	Cheslind Textiles Limited	22,229,400	222	10.00	10.00
179	Corporation Bank	4,785,137	2,040	10.00	426.32
180	Development Credit Bank Limited	9,300,000	406	10.00	43.68
181	Delta Magnets Limited	1,212,800	34	10.00	28.10
182	Dr. Datson's Labs Limited	1,310,484	650	10.00	496.00
183	Duncans Industries Limited	34,220,000	342	10.00	10.00
184	Electrosteel Steels Limited	152,000,000	1,520	10.00	10.00
185	Euro Ceramics Limited	2,149,878	53	10.00	24.42
186	Flexituff International Limited	1,227,273	270	10.00	220.00
187	Firstsource Solutions Limited	226,897,444	2,745	10.00	12.10
188	Gujarat Pipavav Port Limited	25,751,571	1,505	10.00	58.45
189	IDBI Bank Limited	105,187,760	11,885	10.00	112.99
190	IFB Industries Limited	5,000,000	420	10.00	84.00
191	India Glycols Limited	3,079,000	427	10.00	138.56
192	Indian Overseas Bank	30,937,467	3,026	10.00	97.82
193	Indian Overseas Bank	147,311,388	14,410	10.00	97.82
194	Indian Overseas Bank	127,097,102	10,000	10.00	78.68
195	Jayaswal Neco Industries Limited	38,863,000	1,555	10.00	40.00
196	Jayaswal Neco Industries Limited	70,000,000	2,800	10.00	40.00
197	JHS Svendgaard Laboratories Limited	500,000	49	10.00	97.75
198	JSW ISPAT Steel Limited	130,031,371	1,917	10.00	14.74
199	Bank of Maharashtra	107,879,529	6,051	10.00	56.09
200	Bank of Maharashtra	71,883,852	4,060	10.00	56.48

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
201	MSP Steel & Power Limited	10,000,000	600	10.00	60.00
202	MSP Steel & Power Limited	20,000,000	1,200	10.00	60.00
203	Pioneer Embroideries Limited	1,657,981	35	10.00	21.11
204	Pioneer Embroideries Limited	3,125,948	62	10.00	19.77
205	Pipavav Defence and Offshore Engineering Company Limited	24,507,881	2,010	10.00	82.00
206	Precot Meridian Limited	525,000	51	10.00	98.00
207	Punjab Chemicals & Crop Protection Limited	2,000,000	200	10.00	100.00
208	PVR Limited	2,885,000	577	10.00	200.00
209	PVR Limited	10,625,205	2,603	10.00	245.00
210	Raj Rayon Industries Limited	1,332,200	23	10.00	17.00
211	Religare Enterprises Limited	1,000	0	10.00	315.85
212	Religare Enterprises Limited	195,936	61	10.00	313.15
213	Ramkrishna Forgings Limited	2,929,400	375	10.00	128.00
214	State Bank Of India	36,045,243	79,000	10.00	2,191.69
215	SHREE GANESH JEWELLERY HOUSE (I) LIMITED	1,280,000	160	10.00	125.00
216	Sharyans Resources Limited	2,500,000	188	10.00	75.00
217	Shriram City Union Finance Limited	2,300,000	1,311	10.00	570.00
218	SKS Microfinance Limited	4,450,000	336	10.00	75.40
219	Solar Industries India Limited	774,195	720	10.00	930.00
220	Southern Petrochemicals Industries Corporation Limited	12,631	0	10.00	19.00
221	Southern Petrochemicals Industries Corporation Limited	72,631	1	10.00	19.00
222	Steel Strips Wheels Limited	365,000	110	10.00	300.00
223	Store One Retail India Limited	3,200,000	98	10.00	30.50
224	Sudar Industries Limited	3,954,377	260	10.00	65.75
225	Surana Industries Limited	7,700,000	3,850	10.00	500.00
226	Syndicate Bank	28,664,284	3,272	10.00	114.15
227	Tree House Education & Accessories Limited	1,850,000	412	10.00	222.60
228	Trent Limited	204,081	200	10.00	980.00
229	Trent Limited	800,530	785	10.00	980.00
230	TTK Prestige Limited	300,000	1,065	10.00	3,550.00
231	UCO Bank	37,194,761	3,068	10.00	82.49
232	UCO Bank	87,916,343	6,810	10.00	77.46
233	Union Bank of India	26,216,620	6,503	10.00	248.05
234	United Bank of India	16,578,299	1,322	10.00	79.74
235	United Bank of India	13,708,019	1,000	10.00	72.95
236	Uttam Value Steels Limited	380,000,000	3,800	10.00	10.00
237	Uttam Value Steels Limited	150,000,000	2,270	10.00	15.13
238	Vijaya Bank	22,872,258	1,470	10.00	64.27
239	Wanbury Limited	2,690,000	101	10.00	37.50
240	The Sirpur Paper Mills Limited	555,100	24	10.00	43.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
241	Rohit Ferro-Tech Limited	33,500,000	2,010	10.00	60.00
242	Spentex Industries Limited	5,100,000	51	10.00	10.00
243	ING Vysya Bank Limited	15,605,525	9,551	10.00	612.00
244	Zicom Electronic Security Systems Limited	3,300,000	152	10.00	46.00
245	Zicom Electronic Security Systems Limited	1,000,000	46	10.00	46.00
246	Sathavahana Ispat Limited	1,830,000	110	10.00	60.00
247	Kingfisher Airlines Limited	62,160,364	1,443	10.00	23.21
248	GTL Infrastructure Limited	735,930	7	10.00	10.00
249	Astec LifeSciences Limited	1,115,000	38	10.00	34.00
250	Aurionpro Solutions Limited	375,000	68	10.00	180.00
251	Aurionpro Solutions Limited	250,000	45	10.00	180.00
252	Aurionpro Solutions Limited	40,000	7	10.00	180.00
253	Aurionpro Solutions Limited	210,000	38	10.00	180.00
254	Aurionpro Solutions Limited	400,000	72	10.00	180.00
255	Bharati Shipyard Limited	6,764,576	535	10.00	79.12
256	Helios And Matheson Information Technology Limited	1,250,000	37	10.00	29.24
257	Kaushalya Infrastructure Development Corporation Limited	15,025,000	165	10.00	11.00
258	Kamdhenu Ispat Limited	2,800,000	45	10.00	16.00
259	Murudeshwar Ceramics Limited	2,035,000	35	10.00	17.00
260	Omnitech Infosolutions Limited	118,225	16	10.00	139.20
261	Pipavav Defence and Offshore Engineering Company Limited	10,500,000	819	10.00	78.00
262	Shriram City Union Finance Limited	2,850,000	1,625	10.00	570.00
263	Shriram City Union Finance Limited	3,050,000	1,739	10.00	570.00
264	Sree Rayalaseema Hi-Strength Hypo Limited	243,324	13	10.00	54.62
265	Sree Rayalaseema Hi-Strength Hypo Limited	492,506	27	10.00	54.62
266	Suryajyoti Spinning Mills Limited	1,170,000	36	10.00	31.00
267	Winsome Diamonds and Jewellery Limited	3,000,000	210	10.00	70.00
268	Southern Petrochemicals Industries Corporation Limited	7,455,350	130	10.00	17.50
269	Southern Petrochemicals Industries Corporation Limited	29,821,350	522	10.00	17.50
270	Punjab Chemicals & Crop Protection Limited	3,000,000	300	10.00	100.00
271	Autolite (India) Limited	2,000,000	20	10.00	10.00
272	Autolite (India) Limited	1,000,000	48	10.00	47.50
273	Dhampur Sugar Mills Limited	1,000,000	67	10.00	67.00
274	Celebrity Fashions Limited	3,500,000	35	10.00	10.00
275	Autolite (India) Limited	780,000	20	10.00	25.00
276	ANG Industries Limited	1,050,000	50	10.00	48.00
277	Jindal Stainless Limited	13,550,000	1,003	2.00	74.00
278	Paramount Communications Limited	32,206,500	74	2.00	2.30
279	Suzlon Energy Limited	314,246,974	5,817	2.00	18.51
280	Pratibha Industries Limited	1,630,435	150	2.00	92.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
281	Arshiya International Limited	3,050,000	442	2.00	145.00
282	B.A.G Films and Media Limited	5,000,000	89	2.00	17.70
283	Bodal Chemicals Limited	9,595,860	121	2.00	12.60
284	DCW Limited	6,945,455	76	2.00	11.00
285	DCW Limited	1,531,152	17	2.00	11.00
286	Educomp Solutions Limited	2,979,939	577	2.00	193.74
287	Ind-Swift Limited	4,000,000	160	2.00	40.00
288	Metkore Alloys & Industries Limited	9,000,000	180	2.00	20.00
289	Rainbow Papers Limited	6,000,000	366	2.00	61.00
290	Shilpa Medicare Limited	500,000	175	2.00	350.00
291	Tricom India Limited	5,000,000	68	2.00	13.50
292	Educomp Solutions Limited	2,580,778	500	2.00	193.74
293	Educomp Solutions Limited	1,723,883	334	2.00	193.74
294	Educomp Solutions Limited	18,503,419	2,760	2.00	149.16
295	Future Retail Limited	8,163,265	2,000	2.00	245.00
296	KPIT Technologies Limited	12,960,000	1,620	2.00	125.00
297	LIC Housing Finance Limited	30,000,000	8,100	2.00	270.00
298	Nicco Corporation Limited	2,985,074	16	2.00	5.36
299	Shasun Pharmaceuticals Limited	6,578,947	500	2.00	76.00
300	Shrenuj & Company Limited	19,861,321	1,351	2.00	68.00
301	Tricom India Limited	8,510,000	115	2.00	13.50
302	West Coast Paper Mills Limited	3,300,000	179	2.00	54.30
303	Supreme Tex Mart Limited	7,000,000	148	5.00	21.20
304	20 Microns Limited	3,000,000	135	5.00	45.00
305	Aarti Industries Limited	2,400,000	139	5.00	58.00
306	Hindustan Motors Limited	11,800,000	145	5.00	12.25
307	Rasoya Proteins Limited	13,600,000	245	5.00	18.00
308	Rasoya Proteins Limited	6,400,000	115	5.00	18.00
309	Apollo Hospitals Enterprise Limited	3,276,922	1,548	5.00	472.46
310	AI Champdany Industries Limited	2,204,786	45	5.00	20.50
311	Bharti Airtel Limited	199,870,006	67,956	5.00	340.00
312	Hindustan Motors Limited	11,800,000	145	5.00	12.25
313	Jindal Drilling And Industries Limited	2,750,000	770	5.00	280.00
314	Man Industries (India) Limited	1,818,181	300	5.00	165.00
315	Supreme Tex Mart Limited	5,062,690	127	5.00	25.00
316	Welspun Corp Limited	35,038,889	7,884	5.00	225.00
317	Kotak Mahindra Bank Limited	20,000,000	12,960	5.00	648.00
318	Jain Irrigation Systems Limited	49,733,893	39,887	2.00	802.00
319	Axis Bank Limited	34,000,000	47,260	10.00	1,390.00
320	Cholamandalam Investment and Finance Company Limited	10,526,315	3,000	10.00	285.00

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
321	Den Networks Limited	12,466,321	2,711	10.00	217.50
322	Dhanlaxmi Bank Limited	15,023,300	699	10.00	46.50
323	Gayatri Projects Limited	6,258,752	752	10.00	120.18
324	Gujarat Pipavav Port Limited	34,128,668	1,995	10.00	58.45
325	Indusind Bank Limited	52,100,000	20,006	10.00	384.00
326	ING Vysya Bank Limited	14,394,475	8,809	10.00	612.00
327	Jaiprakash Associates Limited	64,204,810	5,329	2.00	83.00
328	Jaiprakash Power Ventures Limited	313,245,961	9,501	10.00	30.33
329	K S Oils Limited	33,767,282	245	1.00	7.25
330	Mahindra & Mahindra Financial Services Limited	9,750,257	8,668	10.00	889.00
331	PI Industries Limited	1,924,656	1,173	5.00	609.60
332	Sintex Industries Limited	26,519,114	1,748	1.00	65.90
333	SKS Microfinance Limited	30,498,069	2,300	10.00	75.40
334	The South Indian Bank Limited	200,000,000	4,426	1.00	22.13
335	Talwalkars Better Value Fitness Limited	2,065,216	424	10.00	205.18
336	Uttam Galva Steels Limited	20,000,000	1,600	10.00	80.00

Notes:
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 1992–95, 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 1995–96 and 1996–97 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 1999–00 and the emergence of bullish trends in the secondary market fuelled the recovery. The year 2000–01 witnessed a slowdown once again, with the net resource 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 2002–03, 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 2003–04 witnessed a sharp rise in the net resources mobilized compared to the previous year, aggregating ₹ 479 billion; however the net resources mobilized reduced to ₹ 28 billion in 2004-05. The uptrend was seen in the fiscal year 2005–06—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 2007–08, which saw net resources mobilization worth ₹ 1,485 billion from mutual fund industry, compared to ₹ 941 billion attracted by the industry in 2006–07. Due to the global crisis, the resources mobilized by the industry have been quite volatile for the last couple of years. The fiscal year 2008–09 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 2009–10; the net resources mobilized were ₹ 785 billion. The year 2010–11 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. Encouragingly, the trend reversed once again in 2012-13, with the net resource mobilization by all the MFs taken together aggregating ₹ 825 billion

Table 3-1: Net Resources 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
2011-12	-32	11	-31	-385	-437	-9
2012-13P	**46**	**58**	**13**	**708**	**825**	**15**

P: Provisional
Source: RBI

Number of Mutual Funds and New Fund Offers

As on March 31, 2013, the number of MFs registered with the SEBI was 52; it remained 52 till the end of September 2013. As against the 1,309 schemes in 2011–12, there were 1,294 mutual fund schemes as on March 28, 2013, of which 760 were income/debt oriented schemes, 298 were growth/equity-oriented schemes, 32 were balanced schemes. In addition, there were 14 gold exchange-traded funds, 23 other ETFs and 21 schemes operating as fund of funds. The number of schemes as on September 30, 2013 stood at 1,325. During 2012-13, the aggregate sales of all the schemes amounted to ₹ 72,679 billion, and the redemptions during the year equaled ₹ 71,913 billion (Table 3-2)

Table 3-2: Accretion of Funds with Mutual Funds

Category		2011-12				2012-13				Assets Under Management		
		Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $ mn)	Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $ mn)	March-12 # (₹ mn)	March-13 # (₹ mn)	March-13 (US $ mn)
A	**Bank Sponsored**	**11,798,420**	**11,819,250**	**-20,830**	**-407**	**14,655,650**	**14,527,500**	**128,150**	**2,357**	**1,196,770**	**1,509,800**	**27,771**
i.	Joint Ventures - Predominantly Indian	4,660,910	4,649,640	11,270	220	5,657,310	5,597,070	60,240	1,108	510,820	679,780	12,504
ii.	Joint Ventures-Foreign	678,810	675,500	3,310	65	1,256,260	1,242,490	13,770	253	41,910	73,030	1,343
iii.	Others	6,458,700	6,494,110	-35,410	-692	7,742,080	7,687,940	54,140	996	644,040	756,990	13,924
B	**Institutions**	**344,900**	**375,880**	**-30,980**	**-606**	**355,910**	**342,790**	**13,120**	**241**	**57,990**	**71,850**	**1,322**
C	**Private Sector (i+ii+iii+iv)**	**56,053,470**	**56,221,890**	**-168,420**	**-3,292**	**57,667,290**	**57,043,170**	**624,120**	**11,480**	**5,393,160**	**6,584,920**	**121,124**
i.	Indian	24,990,930	25,216,020	-225,090	-4,400	24,913,650	24,732,540	181,110	3,331	1,905,840	2,296,490	42,242
ii.	Joint Ventures-Predominantly Indian	26,612,620	26,547,960	64,660	1,264	28,110,080	27,778,560	331,520	6,098	2,744,870	3,439,430	63,265
iii.	Joint Ventures - Predominantly Foreign	1,815,740	1,809,470	6,270	123	2,275,240	2,200,710	74,530	1,371	165,520	276,530	5,087
iv.	Foreign	2,634,180	2,648,440	-14,260	-279	2,368,320	2,331,360	36,960	680	576,930	572,470	10,530
Grand Total (A+B+C)		**68,196,790**	**68,417,020**	**-220,230**	**-4,305**	**72,678,850**	**71,913,460**	**765,390**	**14,079**	**6,647,920**	**8,166,570**	**150,217**

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

Table 3-3: Accretion of Funds with Mutual Funds

Category			April 13 - June 13				Assets Under Management at the end of	
			Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $ mn)	June - 13 (₹ mn)	June - 13 (US $ mn)
A	**Bank Sponsored**		**3,914,730**	**3,717,600**	**197,130**	**3,388**	**1,570,350**	**26,989**
	i.	Joint Ventures - Predominantly Indian	1,408,300	1,332,060	76,240	1,310	696,990	11,979
	ii.	Joint Ventures- Predominantly Foreign	324,760	312,680	12,080	208	71,400	1,227
	ii.	Others	2,181,670	2,072,860	108,810	1,870	801,960	13,783
B	**Institutions**		**58,000**	**60,760**	**-2,760**	**-47**	**68,180**	**1,172**
C	**Private Sector (i+ii+iii+iv)**		**16,826,760**	**16,065,070**	**761,690**	**13,091**	**6,828,220**	**117,354**
	i.	Indian	7,219,370	6,880,710	338,660	5,820	2,383,090	40,957
	ii.	Joint Ventures- Predominantly Indian	8,555,670	8,219,280	336,390	5,781	3,607,010	61,993
	iii.	Joint Ventures - Predominantly Foreign	587,100	563,370	23,730	408	265,130	4,557
	iv.	Foreign	464,620	401,710	62,910	1,081	572,990	9,848
Grand Total (A+B+C)			**20,799,490**	**19,843,430**	**956,060**	**16,431**	**8,466,750**	**145,515**

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 79.3 percent of the resource mobilization (sales) by the MF industry in 2012–13. These private sector MFs witnessed a net inflow of ₹ 624.1billion (US $ 11.5 billion) in 2012–13, compared to a net outflow of ₹ 168.4 billion (US $ 3.3 billion) in 2011–12.

In 2012-13, bank-sponsored MFs mobilized resources worth ₹ 14,656 billion, which was 24.2 percent higher than the resource mobilization in 2011-12 (₹ 11,798 billion). The bank-sponsored schemes accounted for 20.2 percent of the gross resource mobilization in 2012–13. In net terms, the bank-sponsored MFs witnessed an inflow of ₹ 128 billion (US $ 2.36 billion) in 2012–13.

Resource Mobilization as per Maturity Period/Tenor

The share of open-ended schemes in the total sales of mutual funds in 2012–13 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 98.9 percent in 2012–13, compared to 97.8 last year. Close-ended schemes saw a year-on-year decrease in sales of 46.8 percent in 2012–13 over the previous fiscal year. The details of the sales and redemptions of the mutual funds based on their tenor for 2011–12 and 2012–13, are presented in Table 3-4.

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

Scheme	2011-12				2012-13			
	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase
	(₹ mn)		(US $ mn)		(₹ mn)		(US $ mn)	
Open-ended	66,705,260	66,855,230	1,303,945	1,306,877	71,879,290	70,842,060	1,322,159	1,303,080
Close-ended	1,355,140	1,320,720	26,490	25,817	720,460	985,850	13,252	18,134
Interval fund	136,390	241,070	2,666	4,712	79,100	85,550	1,455	1,574
Total	**68,196,790**	**68,417,020**	**1,333,101**	**1,337,406**	**72,678,850**	**71,913,460**	**1,336,866**	**1,322,787**

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 87.6 percent of the gross resource mobilization in 2012–13. During the current fiscal year, the sale as well as repurchase was the highest in the case of these schemes, resulting in a net inflow of ₹ 32.3 billion (US $ 593 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 11.5 percent of the total sales of all the schemes in 2012-13 which was less than last year. These schemes witnessed the highest net inflow of ₹ 829,810 million (US $ 15,264 million).

The scheme-wise resource mobilization by MFs for 2011–12, and 2012–13 is depicted in Table 3-5.

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

Scheme	2011-12				2012-13			
	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)
	(₹ mn)			(US $ mn)	(₹ mn)			(US $ mn)
Income	8,035,650	8,220,930	-185,280	-3,622	8,352,720	7,522,910	829,810	15,264
Growth	479,210	476,570	2,640	52	407,380	536,690	-129,310	-2,379
Balanced	50,270	46,450	3,820	75	52,050	49,890	2,160	40
Liquid/ Money Market	59,464,990	59,536,030	-71,040	-1,389	63,654,200	63,621,940	32,260	593
Gilt	40,500	40,700	-200	-4	128,860	89,100	39,760	731
ELSS-Equity	26,980	28,400	-1,420	-28	26,260	42,820	-16,560	-305
GOLD ETFs	52,650	16,190	36,460	713	27,670	13,530	14,140	260
Other ETFs *	32,980	39,210	-6,230	-122	22,850	24,980	-2,130	-39
Funds of Funds Investing Overseas **	13,560	12,540	1,020	20	6,860	11,600	-4,740	-87
Total	**68,196,790**	**68,417,020**	**-220,230**	**-4,305**	**72,678,850**	**71,913,460**	**765,390**	**14,079**

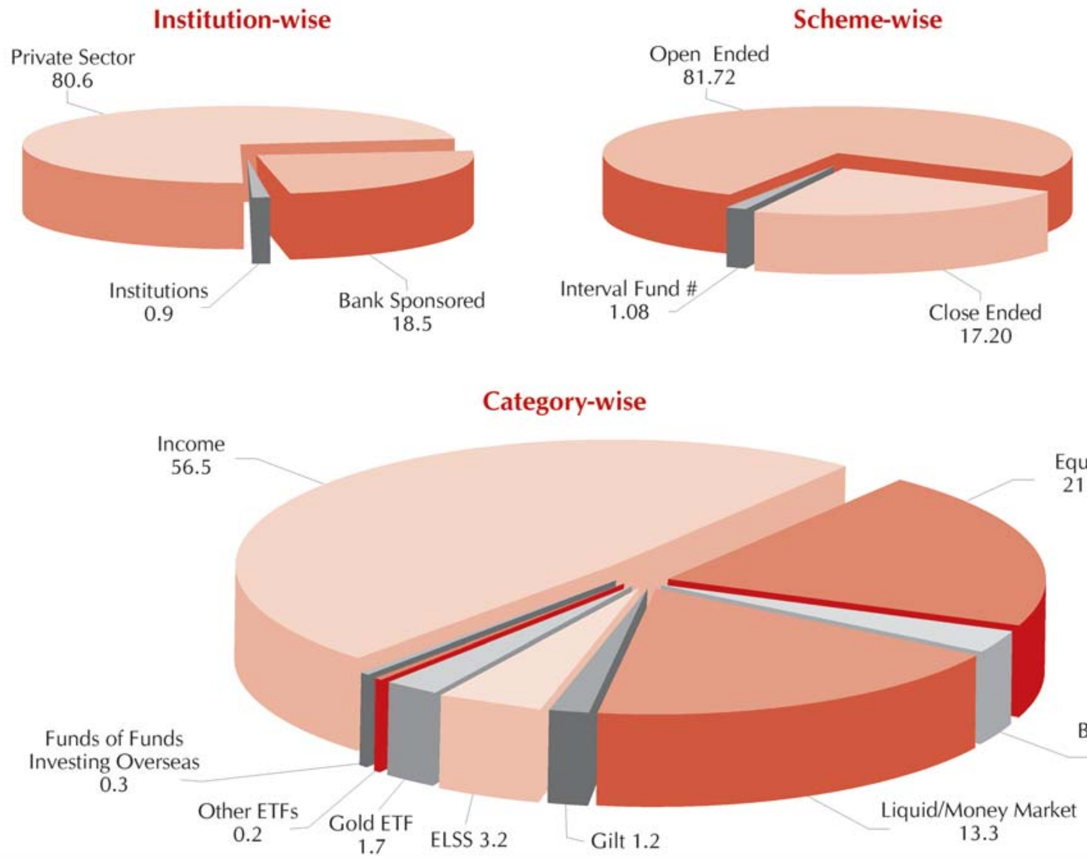
**This scheme was earlier classified as growth Funds and included in that category.*
Source: AMFI Updates

Assets under Management

As on March 31, 2013, the MFs have managed assets totaling ₹ 7,014 billion (US $ 129.1 billion) (Table 3-6). The open-ended schemes and the close-ended schemes accounted for 81.7 percent and 17.2 percent, respectively, of the total assets under management of MFs (Chart 3-1) as on March 31, 2013.

The income schemes accounted for 56.5 percent of the total assets under management at the end of March 2013, followed by the equity schemes with 21.4 percent. The liquid/money market schemes accounted for 13.3 percent of the assets under management of MFs (Chart 3-1).

Chart 3-1: Assets under Management of Mutual Funds as of March 2013 (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 32 fund houses have joined the NSE MFSS platform as on March 28, 2013, and there were 2,879 sub schemes available for trading. During April 2012 to March 2013, there were 179,630 orders placed for subscriptions worth ₹ 8,050 million and 26,959 orders worth ₹ 7,036 million were redeemed. The trend moved northwards in the April–September period of 2013–14, when 98,559 orders were placed for subscriptions worth ₹ 6,966 million, and 14,691 orders worth ₹ 4,989 million were redeemed (Table 3-7).

Table 3-6: Assets under Management

Scheme	As on March 31, 2012						As on March 31, 2013					
	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	1,477,720	1,350,990	79,730	2,908,440	56,854	49.5	2,702,360	1,181,590	75,900	3,959,850	72,838	56.5
Equity	1,584,030	290	-	1,584,320	30,970	27.0	1,495,360	2,410	-	1,497,770	27,550	21.4
Balanced	162,500	110	-	162,610	3,179	2.8	162,950	120	-	163,070	3,000	2.3
Liquid/Money Market	803,540	-	-	803,540	15,707	13.7	933,920	-	-	933,920	17,179	13.3
Gilt	36,590	-	-	36,590	715	0.6	80,740	-	-	80,740	1,485	1.2
ELSS	211,490	24,950	-	236,440	4,622	4.0	204,910	22,400	-	227,310	4,181	3.2
Gold ETF	98,860	-	-	98,860	1,933	1.7	116,480	-	-	116,480	2,143	1.7
Other ETFs *	16,070	-	-	16,070	314	0.3	14,760	-	-	14,760	271	0.2
Funds of Funds Investing Overseas	25,300	-	-	25,300	495	0.4	20,530	-	-	20,530	378	0.3
Total	**4,416,100**	**1,376,340**	**79,730**	**5,872,170**	**114,788**	**100**	**5,732,010**	**1,206,520**	**75,900**	**7,014,430**	**129,025**	**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
2012-13	179,630	8,050	26,959	7,036	206,589
April - Sep'13	**98,559**	**6,966**	**14,691**	**4,989**	**113,250**

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 96.9 percent of the total number of investor accounts at the end of March 2013. They were followed by Non Resident Indian and corporate/institution, who constituted a meager 1.8 percent and 1.2 percent of the total number of investor accounts, respectively. The individuals accounted for 45.7 percent of the net assets of the MF industry in 2012–13, followed by corporate/institution, who accounted for 48.6 percent. The corporate/institution saw the highest increase in net assets among the four categories, with a year-on-year improvement of 3.7 percentage points in 2012–13. On the other hand, individuals saw a decline of 2.5 percentage points.

Table 3-8: Unit Holding Pattern of Mutual Funds

Category	Percentage to total investors folios		Percentage to total net assets	
	2011-12	2012-13	2011-12	2012-13
Individuals	94.5	96.9	48.2	45.7
NRIs/OCBs	1.9	1.8	6.0	4.7
FIIs	0.0	0.0	0.9	0.9
Corporate/Institutions/Others	3.6	1.2	44.9	48.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: SEBI

Index Funds

At the end of September 2013, there were 101 index funds in the mutual fund industry. The performance of these index funds (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 - Dir - Dividend	1-Jan-13	CNX Nifty	-1.3	-2.3	-11.7
2	Birla Sun Life Index Fund - Dir - Growth	1-Jan-13	CNX Nifty	-1.3	-2.3	-3.1
3	Birla Sun Life Index Fund - Dividend	18-Sep-02	CNX Nifty	-1.3	-2.4	-8.3
4	Birla Sun Life Index Fund - Growth	18-Sep-02	CNX Nifty	-1.3	-2.4	0.6
5	Canara Robeco Nifty Index - Dir - Dividend	2-Jan-13	CNX Nifty	-6.6	-7.5	-8.9
6	Canara Robeco Nifty Index - Dir - Growth	2-Jan-13	CNX Nifty	-1.7	-2.7	-4.6
7	Canara Robeco Nifty Index - Dividend	8-Oct-04	CNX Nifty	-6.6	-7.5	-4.5
8	Canara Robeco Nifty Index - Growth	8-Oct-04	CNX Nifty	-1.7	-2.7	0.4
9	Franklin India Index Fund - BSE Sensex Plan - Dir - Dividend	1-Jan-13	S&P Sensex	0.0	0.1	-0.5

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	Index Funds - Schemewise	Launch Date	Benchmark Index	Returns (in percent)		
				3M	6M	12M
10	Franklin India Index Fund - BSE Sensex Plan - Dir - Growth	1-Jan-13	S&P Sensex	0.0	0.1	-0.5
11	Franklin India Index Fund - BSE Sensex Plan - Dividend	26-Mar-04	S&P Sensex	-0.05	-0.01	3.4
12	Franklin India Index Fund - BSE Sensex Plan - Growth	26-Mar-04	S&P Sensex	-0.05	-0.01	3.4
13	Franklin India Index Fund - NSE Nifty Plan - Dir - Dividend	1-Jan-13	CNX Nifty	-1.5	-2.3	-3.1
14	Franklin India Index Fund - NSE Nifty Plan - Dir - Growth	1-Jan-13	CNX Nifty	-1.5	-2.3	-3.1
15	Franklin India Index Fund - NSE Nifty Plan - Dividend	4-Aug-00	CNX Nifty	-1.6	-2.4	0.7
16	Franklin India Index Fund - NSE Nifty Plan - Growth	26-Mar-04	CNX Nifty	-1.6	-2.4	0.7
17	Goldman Sachs CNX 500 Fund - Dir - Dividend	2-Jan-13	CNX 500	-2.4	-4.7	-8.5
18	Goldman Sachs CNX 500 Fund - Dir - Growth	2-Jan-13	CNX 500	-2.4	-4.7	-8.5
19	Goldman Sachs CNX 500 Fund - Dividend	6-Jan-09	CNX 500	-2.5	-4.9	-2.7
20	Goldman Sachs CNX 500 Fund - Growth	6-Jan-09	CNX 500	-2.5	-4.9	-2.7
21	HDFC Index Fund - Nifty Plan	17-Jul-02	CNX Nifty	-1.5	-2.4	1.1
22	HDFC Index Fund - Nifty Plan - Dir	31-Dec-12	CNX Nifty	-1.5	-2.3	-2.8
23	HDFC Index Fund - Sensex Plan	17-Jul-02	S&P Sensex	0.4	0.5	4.3
24	HDFC Index Fund - Sensex Plan - Dir	31-Dec-12	S&P Sensex	0.6	0.7	0.3
25	HDFC Index Fund - Sensex Plus Plan	17-Jul-02	S&P Sensex	-2.7	-3.1	0.2
26	HDFC Index Fund - Sensex Plus Plan - Dir	31-Dec-12	S&P Sensex	-2.6	-3.0	-4.1
27	ICICI Prudential Index Fund	26-Feb-02	CNX Nifty	-0.9	-1.8	1.5
28	ICICI Prudential Index Fund -Dir	1-Jan-13	CNX Nifty	-0.8	-1.6	-2.0
29	ICICI Prudential Nifty Junior Index Fund - Dir - Dividend	7-Jan-13	CNX Nifty Junior	-2.8	-5.9	-10.1
30	ICICI Prudential Nifty Junior Index Fund - Dir - Growth	1-Jan-13	CNX Nifty Junior	-2.8	-5.8	-9.1
31	ICICI Prudential Nifty Junior Index Fund - Dividend	25-Jun-10	CNX Nifty Junior	-2.9	-6.1	1.6
32	ICICI Prudential Nifty Junior Index Fund - Growth	25-Jun-10	CNX Nifty Junior	-2.9	-6.1	1.6
33	IDBI Nifty Index Fund - Dir - Dividend	1-Jan-13	CNX Nifty	-1.4	-2.3	-2.7
34	IDBI Nifty Index Fund - Dir - Growth	1-Jan-13	CNX Nifty	-1.4	-2.3	-2.7
35	IDBI Nifty Index Fund - Dividend	25-Jun-10	CNX Nifty	-1.4	-2.5	1.0
36	IDBI Nifty Index Fund - Growth	25-Jun-10	CNX Nifty	-1.5	-2.5	1.0
37	IDBI Nifty Junior Index Fund - Dir - Dividend	1-Jan-13	CNX Nifty Junior	-2.9	-6.1	-9.5
38	IDBI Nifty Junior Index Fund - Dir - Growth	1-Jan-13	CNX Nifty Junior	-2.9	-6.1	-9.5
39	IDBI Nifty Junior Index Fund - Dividend	20-Sep-10	CNX Nifty Junior	-3.0	-6.3	1.6
40	IDBI Nifty Junior Index Fund - Growth	20-Sep-10	CNX Nifty Junior	-3.0	-6.3	1.6
41	IDFC Nifty Fund - Dir - Dividend	1-Jan-13	CNX Nifty	-1.5	-2.4	-2.7
42	IDFC Nifty Fund - Dir - Growth	1-Jan-13	CNX Nifty	-1.5	-2.4	-2.7
43	IDFC Nifty Fund - Reg - Dividend	30-Apr-10	CNX Nifty	-1.5	-2.4	1.6
44	IDFC Nifty Fund - Reg - Growth	30-Apr-10	CNX Nifty	-1.5	-2.4	1.6
45	IIFL Dividend Opportunities Index Fund - Dir - Dividend	1-Jan-13	CNX Dividend Opportunities	-5.8	-9.8	-12.8
46	IIFL Dividend Opportunities Index Fund - Dir - Growth	1-Jan-13	CNX Dividend Opportunities	-5.8	-9.8	-12.8
47	IIFL Dividend Opportunities Index Fund - Dividend	29-Jun-12	CNX Dividend Opportunities	-5.9	-10.1	-6.9
48	IIFL Dividend Opportunities Index Fund - Growth	29-Jun-12	CNX Dividend Opportunities	-5.9	-10.1	-6.9
49	LIC Nomura MF Index Fund - Nifty - Dir - Dividend	1-Jan-13	CNX Nifty	-1.7	-2.6	-3.1
50	LIC Nomura MF Index Fund - Nifty - Dir - Growth	1-Jan-13	CNX Nifty	-1.7	-2.6	-3.1
51	LIC Nomura MF Index Fund - Nifty - Dividend	6-Dec-02	CNX Nifty	-1.8	-2.8	0.5
52	LIC Nomura MF Index Fund - Nifty - Growth	6-Dec-02	CNX Nifty	-1.8	-2.8	0.5
53	LIC Nomura MF Index Fund - Sensex - Dir - Dividend	1-Jan-13	S&P Sensex	0.1	0.2	-2.0
54	LIC Nomura MF Index Fund - Sensex - Dir - Growth	1-Jan-13	S&P Sensex	0.1	0.1	-0.1
55	LIC Nomura MF Index Fund - Sensex - Dividend	6-Dec-02	S&P Sensex	-0.04	-0.05	3.6

Contd.

Contd.

	Index Funds - Schemewise	Launch Date	Benchmark Index	Returns (in percent)		
				3M	6M	12M
56	LIC Nomura MF Index Fund - Sensex - Growth	6-Dec-02	S&P Sensex	-0.03	-0.04	3.6
57	LIC Nomura MF Index Fund - Sensex Advantage - Dir - Dividend	1-Jan-13	S&P Sensex	0.5	0.3	0.1
58	LIC Nomura MF Index Fund - Sensex Advantage - Dir - Growth	1-Jan-13	S&P Sensex	0.5	0.4	-0.1
59	LIC Nomura MF Index Fund - Sensex Advantage - Dividend	6-Dec-02	S&P Sensex	0.4	0.1	3.9
60	LIC Nomura MF Index Fund - Sensex Advantage - Growth	6-Dec-02	S&P Sensex	0.4	0.1	3.9
61	Principal Index Fund - Dir - Dividend	1-Jan-13	CNX Nifty	-1.5	-2.2	-2.3
62	Principal Index Fund - Dir - Growth	1-Jan-13	CNX Nifty	-1.5	-2.2	-2.3
63	Principal Index Fund - Dividend	27-Jul-99	CNX Nifty	-1.6	-2.4	1.8
64	Principal Index Fund - Growth	27-Jul-99	CNX Nifty	-1.6	-2.4	1.8
65	Reliance Index Fund - Nifty Plan - Ann Dividend	28-Sep-10	CNX Nifty	-1.8	-2.8	1.1
66	Reliance Index Fund - Nifty Plan - Bonus	28-Sep-10	CNX Nifty	-1.8	-2.8	1.1
67	Reliance Index Fund - Nifty Plan - Dir - Ann Dividend	1-Jan-13	CNX Nifty	-1.7	-2.6	-2.9
68	Reliance Index Fund - Nifty Plan - Dir - Bonus	1-Jan-13	CNX Nifty	-1.7	-2.6	-2.9
69	Reliance Index Fund - Nifty Plan - Dir - Growth	1-Jan-13	CNX Nifty	-1.7	-2.6	-2.9
70	Reliance Index Fund - Nifty Plan - Dir - Half Yly Dividend	1-Jan-13	CNX Nifty	-1.7	-2.6	-2.9
71	Reliance Index Fund - Nifty Plan - Dir - Qtly Dividend	1-Jan-13	CNX Nifty	-1.7	-2.6	-2.9
72	Reliance Index Fund - Nifty Plan - Growth	28-Sep-10	CNX Nifty	-1.8	-2.8	1.1
73	Reliance Index Fund - Nifty Plan - Half Yly Dividend	28-Sep-10	CNX Nifty	-1.8	-2.8	1.1
74	Reliance Index Fund - Nifty Plan - Qtly Dividend	28-Sep-10	CNX Nifty	-1.8	-2.8	1.1
75	Reliance Index Fund - Sensex Plan - Ann Dividend	28-Sep-10	S&P Sensex	-0.04	0.1	4.1
76	Reliance Index Fund - Sensex Plan - Bonus	28-Sep-10	S&P Sensex	-0.04	0.1	4.1
77	Reliance Index Fund - Sensex Plan - Dir - Ann Dividend	1-Jan-13	S&P Sensex	0.1		0.0
78	Reliance Index Fund - Sensex Plan - Dir - Bonus	1-Jan-13	S&P Sensex	0.1	0.2	0.0
79	Reliance Index Fund - Sensex Plan - Dir - Growth	1-Jan-13	S&P Sensex	0.1	0.2	0.0
80	Reliance Index Fund - Sensex Plan - Dir - Half Yly Dividend	1-Jan-13	S&P Sensex	0.1	0.2	0.0
81	Reliance Index Fund - Sensex Plan - Dir - Qtly Dividend	1-Jan-13	S&P Sensex	0.1	0.2	0.0
82	Reliance Index Fund - Sensex Plan - Growth	28-Sep-10	S&P Sensex	-0.04	0.1	4.1
83	Reliance Index Fund - Sensex Plan - Half Yly Dividend	28-Sep-10	S&P Sensex	-0.04	0.1	4.1
84	Reliance Index Fund - Sensex Plan - Qtly Dividend	28-Sep-10	S&P Sensex	-0.04	0.1	4.1
85	SBI Nifty Index Fund - Dir - Dividend	7-Jan-13	CNX Nifty	-1.8	-2.9	-5.2
86	SBI Nifty Index Fund - Dir - Growth	1-Jan-13	CNX Nifty	-1.8	-2.8	-3.6
87	SBI Nifty Index Fund - Dividend	17-Jan-02	CNX Nifty	-1.9	-3.0	0.4
88	SBI Nifty Index Fund - Growth	17-Jan-02	CNX Nifty	-1.9	-2.9	0.4
89	Tata Index Fund - Nifty Plan - Plan A	25-Feb-03	CNX Nifty	-1.9	-3.0	0.4
90	Tata Index Fund - Nifty Plan - Plan A - Dir	1-Jan-13	CNX Nifty	-1.8	-2.8	-0.7
91	Tata Index Fund - Sensex Plan - Option B	25-Feb-03	S&P Sensex	0.2	0.4	4.5
92	Tata Index Fund - Sensex Plan - Option B - Dir	1-Jan-13	S&P Sensex	-0.1	-0.1	3.1
93	Tata Index Fund - Sensex Plan - Plan A - Dir	1-Jan-13	S&P Sensex	0.1	0.1	-0.6
94	Taurus Nifty Index Fund - Dir - Dividend	1-Jan-13	CNX Nifty	-1.7	-2.6	-3.3
95	Taurus Nifty Index Fund - Dir - Growth	1-Jan-13	CNX Nifty	-1.7	-2.6	-3.3
96	Taurus Nifty Index Fund - Dividend	19-Jun-10	CNX Nifty	-1.8	-2.8	0.2
97	Taurus Nifty Index Fund - Growth	19-Jun-10	CNX Nifty	-1.8	-2.8	0.2
98	UTI Nifty Fund - Dir - Dividend	1-Jan-13	CNX Nifty	-1.9	-2.9	-3.5
99	UTI Nifty Fund - Dir - Growth	1-Jan-13	CNX Nifty	-1.9	-2.9	-3.5
100	UTI Nifty Fund - Dividend	14-Feb-00	CNX Nifty	-1.9	-3.0	0.4
101	UTI Nifty Fund - Growth	14-Feb-00	CNX Nifty	-1.9	-3.0	0.4

Note: Returns are calculated as at end of September 2013. M : Month
Source: NSE and ICRA Online

Exchange-Traded Funds

At the end of September 2013, there were 38 exchange-traded funds in India (listed on the NSE and the BSE), of which 24 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	Birla Sun Life Nifty ETF	CNX Nifty	Birla Sun Life Asset Management Company Limited	NSE	21-Jul-11	-1.5	-2.2	1.7
2	GS Bank BeES	CNX Bank	Goldman Sachs Asset Management (India) Private Limited	NSE	27-May-04	-17.1	-22.4	-16.4
3	GS Hang Seng BeES	Hang Seng	Goldman Sachs Asset Management (India) Private Limited	NSE	9-Mar-10	16.0	-19.6	32.9
4	GS Infra BeES	CNX Infrastructure	Goldman Sachs Asset Management (India) Private Limited	NSE	29-Sep-10	-4.5	-11.4	-15.0
5	GS Junior BeES	CNX Nifty Junior	Goldman Sachs Asset Management (India) Private Limited	NSE	21-Feb-03	-2.5	-6.4	1.8
6	GS Liquid BeES	Crisil Liquid Fund	Goldman Sachs Asset Management (India) Private Limited	NSE	8-Jul-03	1.6	2.4	5.9
7	GS Nifty BeES	CNX Nifty	Goldman Sachs Asset Management (India) Private Limited	NSE	28-Dec-01	-1.4	-2.2	0.5
8	GS PSU Bank BeES	CNX PSU Bank	Goldman Sachs Asset Management (India) Private Limited	NSE	25-Oct-07	-21.8	-33.0	-34.9
9	GS Shariah BeES	CNX Nifty	Goldman Sachs Asset Management (India) Private Limited	NSE	18-Mar-09	5.9	8.9	10.3
10	ICICI Prudential CNX 100 ETF	CNX 100	ICICI Prudential Mutual Fund	NSE	20-Aug-13	10.0	NA	NA
11	ICICI Prudential Nifty ETF	CNX Nifty	ICICI Prudential Mutual Fund	NSE	20-Mar-13	-1.4	-2.2	NA
12	ICICI SENSEX Prudential ETF	Sensex	ICICI Prudential Mutual Fund	BSE	10-Jan-03	0.4	0.6	4.8
13	IIFL Nifty ETF	CNX Nifty	India Infoline Asset Management Company	NSE	Oct-11	-1.4	-2.2	1.9
14	Kotak Nifty ETF	CNX Nifty	Kotak Mutual Fund	NSE	2-Feb-10	-1.5	-4.0	-0.1
15	Kotak PSU Bank ETF	CNX PSU Bank	Kotak Mutual Fund	NSE	8-Nov-07	-21.9	-33.2	-38.7
16	Kotak Sensex ETF	Sensex	Kotak Mutual Fund	BSE	6-Jun-08	0.2	-3.1	1.0
17	MOSt Shares M100	CNX 100	Motilal Oswal Asset Management Company Limited	NSE	31-Jan-11	-3.5	-9.0	-9.5

Contd.

Contd.

	Name of ETFs	Underlying Index	Launched by AMC	Listed at	Launch Date	3 M	6 M	12 M
18	MOSt Shares M50	CNX Nifty	Motilal Oswal Asset Management Company Limited	NSE	28-Jul-10	-0.1	-3.3	-3.1
19	MOSt Shares NASDAQ 100	NASDAQ	Motilal Oswal Asset Management Company Limited	NSE	29-Mar-11	15.5	30.1	35.4
20	Quantum Index Fund - Growth	CNX Nifty	Quantum Asset Management Co. Private Ltd	NSE	10-Jul-08	-1.5	-2.3	1.6
21	R* Shares Banking ETF	CNX Bank	Reliance Capital Asset Management Limited	NSE	24-Jun-08	-16.8	-21.9	-14.7
22	R*Shares CNX 100 Fund	CNX 100	Reliance Capital Asset Management Limited	NSE	25-Mar-13	-1.6	-2.9	NA
23	Religare Invesco Nifty ETF	CNX Nifty	Religare Invesco Mutual Fund	NSE	13-Jun-11	-1.6	-2.5	0.4
24	SBI Sensex ETF	Sensex	SBI Mutual Fund	BSE	15-Mar-13	0.2	0.4	NA
GOLD ETFs								
25	Axis Gold ETF	-	Axis Asset Management Company Limited	NSE	10-Nov-10	18.0	8.8	-6.1
26	Birla Sun Life Gold ETF	-	Birla Sun Life Asset Management Company Limited	NSE	13-May-11	17.9	8.7	-6.2
27	Canara Robeco Gold ETF	-	Canara Robeco Asset Management Company Limited	NSE	22-Mar-12	18.4	9.1	-5.9
28	GS Gold BeES	-	Goldman Sachs Asset Management (India) Private Limited	NSE	8-Mar-07	18.0	8.8	-6.1
29	HDFC Gold ETF	-	HDFC Asset Management Company Limited	NSE	13-Aug-10	18.1	8.8	-6.2
30	ICICI Prudential Gold ETF	-	ICICI Prudential Mutual Fund	BSE	24-Aug-10	18.1	9.2	-5.6
31	IDBI Gold ETF	-	IDBI Asset Management Limited	NSE	9-Nov-11	18.1	8.8	-6.2
32	Kotak Gold ETF	-	Kotak Mutual Fund	NSE	27-Jul-07	18.2	8.8	-6.1
33	MOSt Shares Gold	-	Motilal Oswal Asset Management Company Limited	NSE	22-Mar-12	17.7	8.5	-6.5
34	Quantum Gold Fund - Growth	-	Quantum Asset Management Co. Private Ltd	NSE	22-Feb-08	18.1	8.9	-6.0
35	R* Shares Gold ETF - Dividend	-	Reliance Capital Asset Management Limited	NSE	21-Nov-07	18.1	9.0	-6.0
36	Religare Invesco Gold ETF	-	Religare Invesco Mutual Fund	NSE	12-Mar-10	18.1	9.0	-5.9
37	SBI Gold ETS	-	SBI Mutual Fund	NSE	18-May-09	18.3	9.0	-6.0
38	UTI Gold ETF	-	UTI Asset Management Co. Ltd.	NSE	10-Apr-07	18.1	8.8	-6.1

Source: BSE, NSE, ICRA Online

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

Sr. No.		Name of ETF	ETF Symbol on NSE	2012-13		(April-September 2013)	
				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 ETFs	Goldman Sachs Banking Index Exchange Traded Scheme	BANKBEES	572.0	10.5	349.1	5.5
2		Birla Sun Life Mutual Fund - Birla Sun Life Nifty ETF - Growth	BSLNIFTY	10.8	0.2	2.5	0.04
3		Goldman Sachs Hang Seng Exchange Traded Scheme	HNGSNGBEES	189.5	3.5	13.8	0.2
4		ICICI Prudential MF- ICICI Prud CNX 100 ETF - GRW*	ICCNX100	-	-	2.3	0.04
5		IIFL Mutual Fund - IIFL NIFTY ETF	IIFLNIFTY	956.3	17.6	199.7	3.1
6		Goldman Sachs Infrastructure Exchange Traded Scheme	INFRABEES	57.6	1.1	9.3	0.1
7		Goldman Sachs Nifty Junior Exchange Traded Scheme	JUNIORBEES	644.5	11.9	324.9	5.1
8		Kotak Mahindra Mutual Fund-Kotak Nifty ETF	KOTAKNIFTY	1,566.1	28.8	126.1	2.0
9		Kotak Mahindra Mutual Fund	KOTAKPSUBK	46.7	0.9	46.0	0.7
10		Goldman Sachs Liquid Exchange Traded Scheme	LIQUIDBEES	76,689.5	1,410.6	28,824.6	452.0
11		Motilal Oswal Mutual Fund - Motilal Oswal MOSt Shares M100 ETF GO	M100	261.1	4.8	95.3	1.5
12		Motilal Oswal Mutual Fund - Motilal Oswal MOSt Shares M50 ETF	M50	282.5	5.2	173.6	2.7
13		Motilal Oswal Mutual Fund-Motilal Oswal MOSt Shares NASDAQ 100 ETF -GO	N100	223.7	4.1	152.9	2.4
14		ICICI PMF - Nifty ETF - GROWTH	NIFETF	-	-	26.7	0.4
15		Goldman Sachs Nifty Exchange Traded Scheme	NIFTYBEES	8,580.4	157.8	3,874.6	60.8
16		Goldman Sachs PSU Bank Exchange Traded Scheme	PSUBNKBEES	113.6	2.1	34.0	0.5
17		Quantum Index Fund -Exchange Traded Fund (ETF)	QNIFTY	10.3	0.2	4.7	0.1
18		R* Shares Banking ETF	RELBANK	46.2	0.8	27.5	0.4
19		Reliance Mutual Fund - R* Shares CNX 100 Fund	RELCNX100	0.2	0.003	21.0	0.3
20		Religare Mutual Fund - Religare Nifty Exchange Traded Fund	RELGRNIFTY	14.7	0.3	4.8	0.1
21		Goldman Sachs S&P CNX Nifty Shariah Index Exchange Traded Scheme	SHARIABEES	7.5	0.1	2.3	0.04
		Total Turnover of Index Based Funds		**90,273**	**1,660**	**34,316**	**538**

Contd.

Contd.

Sr. No.		Name of ETF	ETF Symbol on NSE	2012-13		(April-September 2013)	
				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	580.9	10.7	309.8	4.9
23		Birla Sun Life Gold	BSLGOLDETF	133.5	2.5	105.3	1.7
24		GS - Gold BeES	CRMFGETF	56,232.9	1,034.4	32,998.7	517.4
25		Canara Robeco Gold	GOLDBEES	620.9	11.4	441.7	6.9
26		HDFC Gold	GOLDSHARE	3,074.4	56.6	1,897.6	29.8
27		ICICI Prudential Gold	HDFCMFGETF	290.9	5.4	313.3	4.9
28		IDBI Gold	IDBIGOLD	488.3	9.0	305.5	4.8
29		Kotak Gold	IPGETF	9,816.9	180.6	5,342.4	83.8
30		MOSt Gold	KOTAKGOLD	962.6	17.7	397.0	6.2
31		Quantum Gold	MGOLD	485.4	8.9	262.6	4.1
32		Reliance Gold	QGOLDHALF	12,981.3	238.8	11,291.4	177.0
33		Religare Gold	RELGOLD	960.2	17.7	160.0	2.5
34		SBI Gold	RELIGAREGO	5,739.5	105.6	3,987.5	62.5
35		UTI Gold Share	SBIGETS	3,458.7	63.6	2,617.1	41.0
		Total Turnover of Gold Based ETFs		**95,826**	**1,763**	**60,430**	**948**
		Total Turnover of all ETFs		**186,100**	**3,423**	**94,746**	**1,486**
		Percentage of Index Funds Turnover to total ETF Turnover		48.5		36.2	
		Percentage of Gold based ETF Turnover to total ETF turnover		51.5		63.8	

** Not listed during 2012-13.*
Source: BSE, ICRA Online and NSE

The total traded value of the ETFs listed on the NSE and the BSE during the fiscal year 2012–13 was ₹ 186,100 million (US $ 3,423 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 12.5 percent over the period 2001–02 to 2012–13.

The NSE and the BSE were the only two stock exchange that reported significant trading volumes. No other stock exchange in India reported any trading volumes during 2012–13. The NSE consolidated its position as the market leader by contributing 83 percent of the total turnover in India in 2012–13, and 84.5 percent in first half of 2013–14. 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 2010–11 to the first half of 2013–14 (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 3.7 percent in 2012–13 compared to the turnover in 2011–12, and the turnover on the BSE dipped by 17.8 percent over the same period. The average daily turnover on the NSE stood at US $ 1.9 billion in 2012–13 compared to US $ 2.2 billion in 2011–12. The average daily turnover on the BSE decreased by 18.1 percent to US $ 404 million in 2012–13, and decreased even further in the first half of 2013–14 to US $ 311 million.

According to the WFE statistics, in terms of the number of trades in equity shares, the NSE ranks numero uno with 1,406,498 thousand trades at the end of December 2012. NSE retained its top position in the first half of 2013 as well, with 1, 102,896 thousand trades in January–September 2013. The trade details of the top-ranked stock exchanges are presented in Table 4-3.

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

	Stock Exchanges	Capital Market Turnover								Share in Turnover (percent)			
		2010-11		2011-12		2012-13		Apr-Sep '13					
		(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)	2010-11	2011-12	2012-13	Apr-Sep '13
1	NSE	35,774,100	801,212	28,108,930	549,469	27,082,790	498,165	14,008,590	219,647	76.4	80.7	83.0	84.5
2	BSE	11,050,270	247,486	6,674,980	130,482	5,487,740	100,942	2,496,630	39,146	23.6	19.2	16.8	15.1
3	Calcutta	25,970	582	59,910	1,171	46,140	849	0	0	0.1	0.2	0.1	0.0
4	Uttar Pradesh	1	0	0	0	0	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	0.0	0.0
6	Delhi	0	0	0	0	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	0.0	0.0
8	Ludhiana	0	0	0	0	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	0.0	0.0
10	ICSE	0	0	0	0	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	0.0	0.0
12	Madhya Pradesh	0	0	0	0	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	0.0	0.0
14	OTCEI	0	0	0	0	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	0.0	0.0
16	Cochin	0	0	0	0	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	0.0	0.0
18	Coimbatore	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
19	MCX-SX	0	0	0	0	330	6	82,580	1,295	0.0	0.0	0.001	0.5
	Total	**46,850,341**	**1,049,280**	**34,843,820**	**681,122**	**32,617,010**	**599,962**	**16,587,800**	**260,087**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BSE, NSE, SEBI

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	36,480	423,050	7,782	99,162	1,824	21,150	389	60,592,580	1,114,549	61,753,770	1,135,908
May-12	2,167,549	39,870	416,550	7,663	98,525	1,812	18,930	348	56,955,472	1,047,648	58,174,220	1,070,066
Jun-12	2,021,036	37,175	443,150	8,152	96,240	1,770	21,100	388	60,267,655	1,108,573	61,523,090	1,131,665
Jul-12	2,103,254	38,688	444,750	8,181	95,602	1,759	20,220	372	59,515,398	1,094,735	60,765,410	1,117,728
Aug-12	2,048,738	37,685	427,890	7,871	97,559	1,795	20,380	375	59,425,096	1,093,074	60,807,980	1,118,511
Sep-12	2,401,892	44,181	455,010	8,370	120,095	2,209	22,750	418	64,316,550	1,183,049	65,590,500	1,206,482
Oct-12	2,397,951	44,108	510,300	9,387	114,188	2,100	24,300	447	63,376,759	1,165,762	64,710,510	1,190,295
Nov-12	2,209,329	40,639	477,830	8,790	105,206	1,935	22,750	418	66,030,048	1,214,567	67,387,130	1,239,529
Dec-12	2,403,248	44,206	503,770	9,267	120,162	2,210	25,190	463	67,637,814	1,244,140	69,218,150	1,273,209
Jan-13	2,954,152	54,339	566,620	10,423	128,441	2,363	24,640	453	68,586,529	1,261,591	70,245,770	1,292,111
Feb-13	2,266,417	41,689	421,380	7,751	113,321	2,084	21,070	388	63,852,908	1,174,520	65,380,380	1,202,617
Mar-13	2,125,980	39,106	397,450	7,311	111,894	2,058	20,920	385	62,390,345	1,147,618	63,878,870	1,174,998
2012-2013	**27,082,791**	**498,165**	**5,487,740**	**100,948**	**108,331**	**1,993**	**21,950**	**404**	**62,390,345**	**1,147,618**	**63,878,870**	**1,174,998**
Apr-13	2,107,985	33,052	409,800	6,425	105,399	1,653	20,490	321	64,903,730	1,017,654	66,457,850	1,042,022
May-13	2,443,916	38,319	499,960	7,839	106,257	1,666	21,740	341	65,182,274	1,022,021	66,787,370	1,047,188
Jun-13	2,079,436	32,604	363,770	5,704	103,972	1,630	18,190	285	62,484,420	979,721	64,051,180	1,004,286
Jul-13	2,433,903	38,162	415,350	6,512	105,822	1,659	18,060	283	60,987,791	956,254	62,631,060	982,020
Aug-13	2,507,583	39,317	408,760	6,409	125,379	1,966	20,440	320	58,466,270	916,718	60,300,780	945,482
Sep-13	2,435,765	38,191	398,980	6,256	121,788	1,910	19,950	313	61,916,255	970,812	63,861,344	1,001,310
Apr-Sep'13	**14,008,588**	**219,639**	**2,496,620**	**39,144**	**111,179**	**1,743**	**19,810**	**311**	**61,916,255**	**970,812**	**63,861,344**	**1,001,310**

Source: BSE, NSE, SEBI

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

Exchange	End December 2011	End December 2012	End September 2013
NSE	1,384,112	1,406,498	1,102,896
NYSE Euronext (US)	1,994,898	1,374,539	894,235
Korea Exchange	1,191,124	1,218,992	800,713
Shanghai Stock Exchange	1,273,277	925,550	860,876
Shenzhen SE	1,030,324	935,565	949,662

** Year to date.*
Source : WFE Reports

Turnover showed a decline in 2012–13 compared to 2011–12, however, the market capitalization for securities available for trading on the equity segment of the NSE and the BSE improved (Table 4-2). The market capitalization of the NSE, which at the end of March 2012 amounted to ₹ 60,965.2 billion (US $1,191.7 billion), increased to ₹ 62,390.3 billion (US $ 1,147.6 billion) at the end of March 2013. As at the end September of 2013, however, the market capitalization witnessed a decline ₹ 61,916.3 billion (US $ 970 billion) for the NSE.

World Traded Value and Market Capitalization

In 2012, the United States ranked first in terms of traded value (US $ 21,375 billion) and also in terms of market capitalization (US $ 18,668 billion). China ranked second with traded value of US $ 5,827 and also in terms of market capitalization (US $ 3,697 billion) followed by Japan and the United Kingdom. India ranked seventeen in terms of traded value (US $ 622 billion) and ranked ninth in market capitalization (US $ 1,286 billion) for 2012 (Table 4-4).

Table: 4-4 Top 20 Countries by Value Traded and Market Capitalisation, 2012

Rank	Country	Total Value Traded (US $ mn)	Country	Total Market Capitalisation (US $ mn)
1	United States	21,375,280	United States	18,668,333
2	China	5,826,506	China	3,697,376
3	Japan	3,605,393	Japan	3,680,982
4	United Kingdom	2,488,566	United Kingdom	3,019,467
5	Korea	1,513,840	Canada	2,016,117
6	Hongkong	1,229,423	France	1,823,339
7	Germany	1,225,530	Germany	1,486,315
8	Canada	1,207,894	Australia	1,286,438
9	France	1,126,611	India	1,263,335
10	Spain	1,077,029	Brazil	1,229,850
11	Australia	1,051,646	Korea	1,180,473
12	Brazil	834,535	Hong kong	1,108,127
13	Italy	759,673	Switzerland	1,079,022
14	Russia	732,242	Spain	995,095
15	Taiwan	659,811	Russia	874,659
16	Switzerland	641,001	Taiwan	711,906
17	India	622,479	Netherlands	651,004
18	Saudi Arabia	514,423	South Africa	612,308
19	Netherlands	441,300	Sweden	560,526
20	Sweden	376,175	Mexico	525,057

Source:S&P Global Stock Markets Factbook 2013

The BRIC (Brazil, Russia, India and China) economies posted a year-on-year drop of 23.8 percent in the trading value from US $ 10,519 billion in 2011 to US $ 8,016 billion in 2012 (Table 4-5). India recorded a year-on-year dip of 15.9 percent in turnover. Regarding the market capitalization of the BRIC economies, there was an increase of 9.9 percent at the end of December 2012 compared to the figures at the end of December 2011, as against a drop of 28 percent at the end of December 2011 compared to the figures at the end of December, 2010. The share of the BRIC economies in the total traded value of emerging economies substantially decreased to 74.4 percent in 2012 compared to 77.9 percent in 2011. The share of the BRIC economies in the total world market capitalization decreased from 13.8 percent in 2011 to 13.3 percent in 2011.

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

Country	Traded Value (US $ mn)			Market Capitalisation (US $ mn)		
	Dec-11	Dec-12	YoY Percentage Change	Dec-11	Dec-12	YoY Percentage Change
Brazil	961,306	834,535	-13.2	1,228,969	1,229,850	0.1%
Russia	1,146,422	732,242	-36.1	796,376	874,659	9.8%
India	740,177	622,479	-15.9	1,015,370	1,263,335	24.4%
China	7,671,365	5,826,506	-24.0	3,389,098	3,697,376	9.1%
BRIC Economies	**10,519,270**	**8,015,762**	**-23.8**	**6,429,813**	**7,065,220**	**9.9%**
Emerging Market Economies	**13,510,498**	**10,770,189**	**-20.3**	**11,556,234**	**13,147,476**	**13.8%**
World Total	**66,409,072**	**49,707,922**	**-25.1**	**46,499,122**	**53,163,894**	**14.3%**
Percentage share of BRIC Economies to						
1) Total turnover/ market capitalisation of Emerging Economies	77.9	74.4		55.6	53.7	
2) Total turnover/ market capitalisation of World	15.8	16.1		13.8	13.3	

Source:S&P Global Stock Markets Factbook 2013

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 2011–12 and 2012–13. A global comparison of these selected indices indicates that in 2011–12, these indices depicted varied kinds of performance, with US indices and Nikkei 225 managing to close in green and rest all indices closed in red. However, in 2012-13, most of the indices (except Kospi) closed in green and showed returns in the range of 5-12 percent (except Nikkei) which gave returns of 23 percent. The CNX Nifty gained 0.9 percent, while the Nikkei 225 Index gained the most with a return of 16.6 percent.

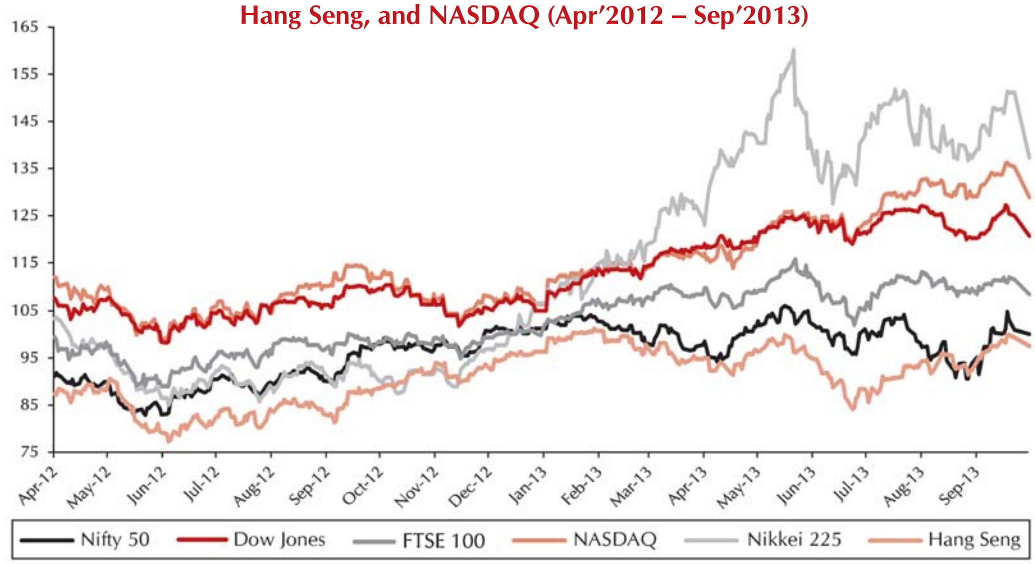
Table 4-6: Movement of Select Indices on Indian & Foreign Markets

Region	Index - Country	End March 2011	End March 2012	End March 2013	End Sep 2013	Change during 2011-12 (Percent)	Change during 2012-13 (Percent)	Change during Apr -Sep'13 (Percent)
Americas	Dow Jones	12319.73	13212.04	14578.50	15129.70	7.2%	10.3%	3.8%
	Nasdaq	2781.07	3091.57	3267.52	3771.48	11.2%	5.7%	15.4%
Europe	FTSE 100- UK	5908.80	5768.45	6411.70	6462.20	-2.4%	11.2%	0.8%
	CAC 40 - France	3989.18	3423.81	3731.42	4143.44	-14.2%	9.0%	11.0%
Asia Pacific	CNX Nifty- India	5833.75	5295.55	5682.55	5735.30	-9.2%	7.3%	0.9%
	BSE Sensex- India	19445.22	17404.20	18835.77	19379.77	-10.5%	8.2%	2.9%
	Hang Seng- Hong Kong (China)	23527.52	20555.58	22299.63	22859.86	-12.6%	8.5%	2.5%
	Nikkei- Japan	9755.10	10083.56	12397.91	14455.80	3.4%	23.0%	16.6%
	Kospi - South Korea	2106.70	2014.04	2004.89	1996.96	-4.4%	-0.5%	-0.4%

Source: Yahoo Finance and NSE

Comparing the movement of the Nifty, with other major global indices over April 2012 to September 2013 (as depicted in Chart 4-1), indicates that the CNX Nifty 50 was among the worst performers globally.

Chart 4-1: Movement of Nifty, Dow Jones, FTSE 100, Nikkie 225, Hang Seng, and NASDAQ (Apr'2012 – Sep'2013)



Source: NSE, Yahoo Finance

The stock market index, volatility and P/E ratio's for the blue chip indices of Indian stock exchanges is shown in table 4-7

Table 4-7: Stock Market Index, Volatility and P/E Ratio: April '12 to Sep '13

Month/ Year	Nifty 50			Sensex			SX-40		
	Index	Volatility (Percent)**	P/E Ratio*	Index	Volatility (Percent)**	P/E Ratio*	Index	Volatility (Percent)**	P/E Ratio*
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	-	-	-
Oct-12	5619.7	0.7	18.4	18505.4	0.7	16.8	-	-	-
Nov-12	5879.9	0.7	18.6	19339.9	0.7	17.5	-	-	-
Dec-12	5905.1	0.5	18.7	19426.7	1.1	17.5	-	-	-
Jan-13	6034.8	0.5	18.5	19895.0	0.5	17.7	-	-	-
Feb-13	5693.1	0.7	17.7	18861.5	0.7	17.0	-	-	-
Mar-13	5682.6	1.1	17.6	18835.8	0.8	16.9	-	-	-
Apr-13	5,930.2	1.0	17.9	19504.2	1.0	17.5	11,523	0.9	19.2
May-13	5,986.0	1.2	18.0	19760.3	1.1	17.6	11,732	1.0	19.6
Jun-13	5,842.2	1.2	17.8	19345.7	1.2	17.0	11,494	1.2	19.2
Jul-13	5,742.0	1.0	17.1	19395.8	1.0	17.5	11,494	0.9	18.8
Aug-13	5,471.8	1.7	15.8	18619.7	1.7	17.0	10,938	1.7	17.2
Sep-13	5,735.3	1.9	16.8	19379.8	1.8	17.3	11,567	1.8	18.2

* *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 and SEBI

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 2013 and September 2013) is presented in Table 4-8. Over a 1-year horizon for the period ending March 2013, all the indices (except CNX Midcap index) showed positive returns in the range of 2 percent to 12 percent, with the largest gain recorded by the CNX Nifty Junior index. Whereas 6-month (except for CNX Nifty Junior); 3-month and 1-month returns were negative for all the indices as at the end of March 2013. As at the end of September 2013, the 1-year returns indicate that all the indices (except CNX Nifty and CNX Nifty Junior) were in red. The CNX Nifty index was almost flat, with a gain of 0.56 percent, while CNX Nifty Junior was up by 1.5 percent at the end of September 2013, compared to the figures in September2012.

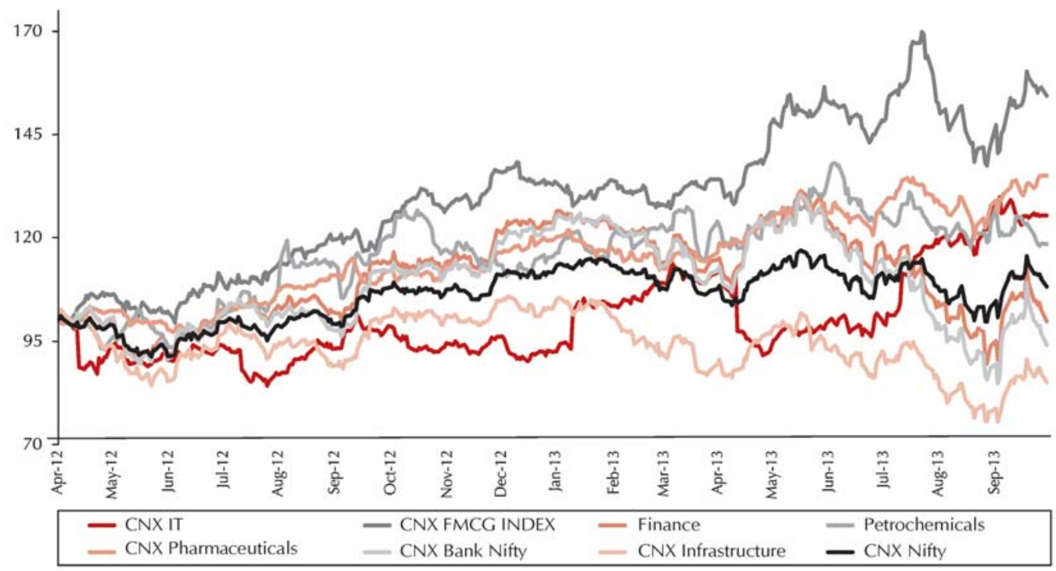
Table 4-8: Performance of Select Indices - NSE

As at end March 2013 - in percent				
	1 month	3 month	6 month	1 year
CNX Nifty	-0.18	-3.82	-0.36	9.39
CNX 500	-0.87	-6.33	-1.47	7.49
CNX Defty	-0.08	-2.88	-3.48	2.34
CNX Nifty Junior	-2.05	-8.6	1.63	11.12
CNX Midcap	-1.84	-12.6	-5.6	-1.29
As at end Sep 2013 - in percent				
	1 month	3 month	6 month	1 year
CNX Nifty	4.82	-1.83	0.93	0.56
CNX 500	5.18	-2.63	-1.04	-2.49
CNX Defty	11.16	-6.64	-12.66	-15.7
CNX Nifty Junior	6.8	-2.93	-0.13	1.5
CNX Midcap	6.19	-4.69	-5.45	-10.75

Source: NSE

The comparative performance of the seven major sectoral indices—the Petrochemicals Index, the Finance Index, the CNX FMCG Index, the CNX Pharma Index, the CNX Infrastructure Index, the CNX Bank Nifty and the CNX IT Index—with the CNX Nifty 50 Index for the period April 2012 to September 2013 is presented in Chart 4-2. During the period, indices such as CNX FMCG Index and CNX Petrochemicals outperformed the other sectoral indices by generating higher returns. However, during the period, the CNX Infrastructure and CNX Bank Nifty grossly underperformed the benchmark CNX Nifty and the other sectoral indices to trade at a year-end low.

Chart 4-2: Movement of Nifty 50 and Sectoral Indices (April 2012 to September 2013)



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)					
	CNX Nifty	CNX FMCG	CNX IT	IISL Finance	IISL Pharmaceuticals	IISL Petrochemicals	CNX Nifty	CNX FMCG	CNX IT	IISL Finance	IISL Pharmaceuticals	IISL Petrochemicals
Apr-12	5,248	12,140	6,085	3,948	8,458	8,973	0.9	0.8	2.6	0.9	1	0
May-12	4,924	11,646	6,009	3,659	8,195	8,965	1.0	1.2	1.0	1.1	1	1
Jun-12	5,279	12,729	6,145	3,809	8,460	9,915	1.1	1.2	0.8	0.9	1	1
Jul-12	5,229	12,893	5,695	3,833	8,779	10,057	0.9	1.1	1.5	0.9	1	1
Aug-12	5,259	13,642	6,072	3,847	9,153	10,749	0.6	0.8	0.9	0.7	2	0
Sep-12	5,703	14,136	6,314	4,290	9,208	11,266	1.0	1.3	1.1	0.7	2	1
Oct-12	5,620	14,524	6,088	4,388	9,222	10,986	0.7	0.7	1.0	0.9	1	1
Nov-12	5,880	15,552	6,263	4,778	9,603	10,704	0.7	0.9	0.8	0.8	1	1
Dec-12	5,905	15,175	6,025	5,157	9,857	10,880	0.5	0.7	0.8	0.8	1	1
Jan-13	6,035	15,265	6,778	5,112	9,652	11,054	0.5	0.9	2.0	1.2	1	1
Feb-13	5,693	14,594	7,107	4,601	9,262	11,544	0.7	0.7	0.8	1.2	1	1
Mar-13	**5,683**	**15,322**	**7,219**	**4,434**	**9,513**	**11,448**	**0.8**	**0.7**	**0.8**	**1.0**	**1**	**2**
Apr-13	5,930	16,816	6,048	4,604	10,297	11,884	1.0	1.4	3.0	1.2	1	2
May-13	5,986	17,509	6,472	4,765	10,410	12,467	1.2	1.3	0.9	1.0	1	1
Jun-13	5,842	16,688	6,634	4,524	10,398	11,888	1.3	0.9	1.4	1.4	1	2
Jul-13	5,742	17,481	7,787	4,214	10,662	11,390	1.0	1.7	1.6	1.3	1	1
Aug-13	5,472	16,283	8,382	3,991	10,553	11,632	1.8	1.8	1.3	1.6	2	2
Sep-13	**5,735**	**17,637**	**8,168**	**4,202**	**11,148**	**11,170**	**1.9**	**2.2**	**1.3**	**1.5**	**1**	**2**

** Closing index value as of last day of month.*
Source:NSE

The volatility across the different sectoral indices for the period April 2012 to September 2013 varied widely, as shown in Table 4-9. The IISL Finance index was the most volatile index with the highest volatility among the sectoral indices during most of the months. September 2013 saw the highest volatility of 3.1 percent in this index.

Liquidity

During March 2013, the percentage of companies traded to companies listed on NSE was 92.6 percent while at BSE it was 55 percent. During period March 2013, 45.4 percent of the companies traded on the BSE, while 90.4 percent of the companies traded on the NSE (Table 4-10).

Table 4-10: Trading Frequency on NSE & BSE

Month/ Year	NSE			BSE			MCX - SX		
	No. of Companies Listed	Companies Traded	Percent of Traded to Listed	No. Companies Listed	Companies Traded	Percent of Traded to Listed	No. of Companies Listed	Companies Traded	Percent of Traded to Listed
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	-	-	-
Oct-12	1,660	1,541	92.8	5,171	2,903	56.1	-	-	-
Nov-12	1,661	1,541	92.8	5180	3058	59.0	-	-	-
Dec-12	1,665	1,546	92.9	5,191	2,986	57.5	-	-	-
Jan-13	1,664	1,545	92.8	5,195	2,918	56.2	-	-	-
Feb-13	1,665	1,542	92.6	5,197	2,895	55.7	1,118	71	6.4
Mar-13	1,666	1,542	92.6	5,211	2,867	55.0	1,116	53	4.7
Apr-13	1,671	1,536	91.9	5,224	2,447	46.8	1,089	59	5.4
May-13	1,673	1,521	90.9	5,230	2,464	47.1	1,084	54	5.0
Jun-13	1,633	1,509	92.4	5,241	2,478	47.3	1,081	52	4.8
Jul-13	1,672	1,516	90.7	5,249	2,339	44.6	1,011	63	6.2
Aug-13	1,672	1,519	90.8	5,257	2,372	45.1	1,010	53	5.2
Sep-13	1,672	1,511	90.4	5,267	2,389	45.4	1,008	51	5.1

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

The share of companies that traded on the BSE for more than 100 days in 2012–13 has come down to 78 percent from 81.3 percent recorded in 2011–12; on the NSE, it has increased to 95. 4 percent from 94.0 percent in 2011–12 (Table 4-11). During the year 2012–13, out of 4,146 companies that were listed on the BSE, 8.7 percent witnessed trading for less than 11 days compared to 2.0 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)	2011-12				2012-13			
	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	3,190	81.3	1,530	94.0	3,232	78.0	1,561	95.4
91-100	37	0.9	5	0.3	48	1.2	3	0.2
81-90	43	1.1	8	0.5	46	1.1	6	0.4
71-80	39	1.0	7	0.4	67	1.6	5	0.3
61-70	35	0.9	5	0.3	72	1.7	5	0.3
51-60	45	1.1	6	0.4	55	1.3	9	0.5
41-50	56	1.4	3	0.2	73	1.8	3	0.2
31-40	53	1.4	3	0.2	65	1.6	3	0.2
21-30	53	1.4	8	0.5	58	1.4	6	0.4
11-20	50	1.3	8	0.5	70	1.7	4	0.2
1-10	322	8.2	44	2.7	360	8.7	32	2.0
Total	**3,923**	**100.0**	**1,627**	**100.0**	**4,146**	**100.0**	**1,637**	**100.0**

Source: BSE, NSE

Takeovers

In 2012–13, there were 79 takeovers under the open category involving ₹ 121.6 billion (US$ 2.2 billion) as against 71 takeovers involving ₹ 193.1 billion (US $ 3.8 billion) in the preceding year (Table 4-12).

Table 4-12: Substantial Acquisition of Shares and Takeovers

Year	Open Offers								
	Objectives						Total		
	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)
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	
1998-99	29	997	24	4,163	12	3,271	65	8,430	199
1999-00	42	2,588	9	711	23	1,300	74	4,599	105
2000-01	70	11,404	5	1,890	2	425	77	13,719	294
2001-02	54	17,562	26	18,152	1	390	81	36,104	740
2002-03	46	38,144	40	25,733	2	14	88	63,891	1,345
2003-04	38	3,952	16	1,966	11	10,030	65	15,948	368
2004-05	35	35,030	12	1,650	14	9,640	61	46,320	1,059
2005-06	78	32,520	9	1,190	15	7,090	102	40,800	915
2006-07	66	67,710	15	44,980	6	830	87	113,520	2,604
2007-08	78	116,570	28	132,540	8	37,960	114	287,070	7,182
2008-09	80	37,130	13	5,980	6	4,000	99	47,110	925
2009-10	56	36,490	14	17,610	6	4,480	76	58,580	1,298
2010-11	71	102,510	17	89,020	14	1,450	102	192,980	4,322
2011-12	57	187,260	8	2,860	6	2,940	71	193,060	3,774
2012-13	**14**	**8,360**	**38**	**84,190**	**27**	**29,040**	**79**	**121,590**	**2,237**
Apr-Sep* 2013	**1**	**260**	**44**	**94,620**	**1**	**292,410**	**46**	**387,290**	**6,072**

Source: SEBI

Annexure 4-1: Business Growth of CM Segment of NSE

Month/Year	No. of Trading Days	No. of Companies Traded	No. of Trades (mn)	Traded Quantity (mn)	Average Daily Turnover (₹ mn)	Demat Turnover (₹ mn)	Market Capitalisation (₹ mn) *
2001-02	**247**	**1,019**	**175**	**27,841**	**20,776**	**5,128,661**	**6,368,610**
2002-03	**251**	**899**	**240**	**36,407**	**24,621**	**6,179,845**	**5,371,332**
2003-04	**254**	**804**	**379**	**71,330**	**43,289**	**10,995,339**	**11,209,760**
2004-05	**253**	**856**	**451**	**79,769**	**45,062**	**11,400,720**	**15,855,853**
2005-06	**251**	**928**	**609**	**84,449**	**62,532**	**15,695,579**	**28,132,007**
2006-07	**249**	**1,114**	**785**	**85,546**	**78,124**	**19,452,865**	**33,673,500**
2007-08	**251**	**1,244**	**1,173**	**149,847**	**141,476**	**35,510,382**	**48,581,217**
2008-09	**243**	**1277**	**1,365**	**142,635**	**113,252**	**27,520,230**	**28,961,942**
2009-10	**244**	**1,359**	**1,682**	**221,553**	**169,591**	**41,380,234**	**60,091,732**
2010-11	**255**	**1,483**	**1,551**	**182,451**	**140,291**	**35,774,098**	**67,026,156**
2011-12	**249**	**1,551**	**1,438**	**161,698**	**112,890**	**28,108,930**	**60,965,180**
Apr-12	20	1,529	100	11,676	99,162	1,983,244	60,592,580
May-12	22	1,530	114	13,000	98,525	2,167,549	56,955,472
Jun-12	21	1,532	106	12,502	96,240	2,021,036	60,267,655
Jul-12	22	1,532	110	13,820	95,602	2,103,254	59,515,398
Aug-12	21	1,535	106	12,185	97,559	2,048,738	59,425,096
Sep-12	20	1,538	117	14,380	120,095	2,401,892	64,316,550
Oct-12	21	1,541	117	14,725	114,188	2,397,951	63,376,759
Nov-12	21	1,541	108	13,479	105,206	2,209,329	66,030,048
Dec-12	20	1,546	117	15,344	120,162	2,403,248	67,637,814
Jan-13	23	1,545	139	17,940	128,441	2,954,152	68,586,529
Feb-13	20	1,542	117	13,927	113,321	2,266,417	63,852,908
Mar-13	19	1,542	111	12,939	111,894	2,125,980	62,390,345
2012-13	**250**	**1,577**	**1,361**	**165,916**	**108,330**	**27,082,790**	**62,390,350**
Apr-13	20	1,536	110	11,805	105,399	2,107,985	64,903,730
May-13	23	1,521	125	12,879	106,257	2,443,916	65,182,274
Jun-13	20	1,509	112	11,563	103,972	2,079,436	62,484,420
Jul-13	23	1,516	129	13,275	105,822	2,433,903	60,987,791
Aug-13	20	1,519	138	13,845	125,379	2,507,583	58,466,270
Sep-13	20	1,511	126	13,065	121,788	2,435,765	61,916,255
Apr-Sep '13	**126**	**1,559**	**739**	**76,432**	**111,189**	**14,008,588**	**61,916,255**

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

5. Debt Market

Introduction[1]

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- g-sec 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.

Trends

In 2012-13, the government and the corporate sector collectively mobilized ₹ 12,346 billion (US $ 227 billion) from the primary debt market, an increase of 17.9 percent compared to the preceding year's numbers (Table 5-1). About 70.1 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 2012-13 aggregated ₹ 122,110 billion (US $ 2,246 billion), 62.4 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)	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
Government	7,590	8,658	73,431	120,116	148	159	1,435	2,209
Corporate/Non Government	2,882	3,688	1,761	1,994	56	68	34	37
Total	**10,472**	**12,346**	**75,191**	**122,110**	**205**	**227**	**1,470**	**2,246**

Source : BSE, Primedatabase, RBI and NSE.

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

Primary Market

In 2012-13, the central government and the state governments borrowed ₹ 6,885 billion (US $ 127 billion) and ₹ 1,773 billion (US $ 33 billion), respectively. The gross borrowings of the central and the state governments taken together were budgeted 14.1 percent higher, from ₹ 7,590 billion (US $ 148 billion) in 2011-12 to ₹ 8,658 billion (US $ 159 billion) in 2012-13 (Table 5-2). Their net borrowings also increased by 5.3 percent, from ₹ 6,210 billion in 2011-12 to ₹ 6,541 billion in 2012–13.

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

Type of Government	Gross Borrowings				Net Borrowings			
	2011-12 (₹ bn)	2011-12 (US $ bn)	2012-13 (₹ bn)	2012-13 (US $ bn)	2011-12 (₹ bn)	2011-12 (US $ bn)	2012-13 (₹ bn)	2012-13 (US $ bn)
Central	6,004	117	6,885	127	4,843	95	5,075	93
State	1,586	31	1,773	33	1,366	27	1,467	27
Total	**7,590**	**148**	**8,658**	**160**	**6,210**	**121**	**6,541**	**120**

Source: RBI

The net market borrowing of the central government amounted to ₹ 5,075 billion in 2012–13, compared to the net borrowings of ₹ 4,843 billion in 2011-12. 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 a modest decline in inflation during 2012-13, RBI decreased the key policy rates by 100 basis points in three stages. Liquidity conditions remained tight with a worsening in the last four months of 2012-13 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. During the first half of 2013-14, the increase in inflationary pressures forced RBI to increase the policy rates. Moreover, the pressure on rupee during the second quarter of 2013-14, RBI had to resort to some extraordinary monetary tightening measures, which had a significant impact on the rupee.

The state governments collectively raised ₹ 1,773 billion (US $ 33 billion) in 2012–13 as against ₹ 1,586 billion (US $ 31 billion) in the preceding year. The net borrowings of the state governments in 2012–13 were higher by 7.3 percent, and amounted to ₹ 1,467 billion (US $ 27 billion) (Table 5-2)).

Secondary Market

Turnover

The aggregate secondary market transactions in debt securities (including government and non-government securities) increased by 62.4 percent to ₹ 122,110 billion (US $ 2,246 billion) in 2012-13 from ₹ 75,192 billion (US $ 1,470 billion) in 2011-12. Non-government securities accounted for a meager 1.6 percent of the total turnover in the debt market. The NSE accounted for about 1.6 percent of the total turnover in debt securities (in both g-sec and non-g-sec securities) in 2012–13 (Table 5-3).

Table 5-3: Turnover of Debt Securities

Securities	2011-12	2012-13	2011-12	2012-13
	(₹ bn)		(US $ bn)	
Government Securities*	**73,431**	**120,116**	**1,435**	**2,209**
WDM Segment of NSE	4,644	5,978	91	110
Rest of SGL	68,787	114,138	1,356	2,099
Non Government Securities	**1,761**	**1,994**	**34**	**37**
CM Segment of NSE	36	19	0.7	0.3
WDM Segment of NSE	1,688	1,944	33	36
'F' Category of BSE	36	31	0.7	1
Total	**75,192**	**122,110**	**1,470**	**2,246**

** 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 ₹ 1,944 billion (US $ 33 billion) in 2012–13, which was higher by 15.2 percent than that during the preceding year. The BSE reported a turnover of ₹ 31 billion (US $ 1 billion) in 2012–13. Both exchanges accounted for 1.6 percent of the total turnover in non-government securities during the year (Table 5-3).

The aggregate turnover in central and state government dated securities and t-bills through non-repo SGL transactions touched ₹ 11,418.2 billion (US $ 210.1 billion) in 2012–13, recording an increase of 46.3 percent from ₹ 7,802.5 billion (US $ 152.5 billion) in the previous year. The monthly turnover in non-repo transactions for the year 2012-13 ranged between ₹ 633.9 billion (US $ 11.6 billion) and ₹ 1,627.5 billion (US $ 29.9 billion) (Table 5-4).

Table5-4: 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
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	13,294	62.1	37.9
May-12	584,586	263,514	848,100	15,600	68.9	31.1
Jun-12	899,763	287,861	1,187,624	21,845	75.8	24.2

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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-12	680,849	244,449	925,298	17,020	73.6	26.4
Aug-12	571,901	285,822	857,723	15,777	66.7	33.3
Sep-12	665,591	191,663	857,255	15,768	77.6	22.4
Oct-12	522,212	111,780	633,992	11,662	82.4	17.6
Nov-12	465,267	196,677	661,944	12,176	70.3	29.7
Dec-12	674,776	287,833	962,609	17,706	70.1	29.9
Jan-13	1,307,202	320,354	1,627,556	29,938	80.3	19.7
Feb-13	857,932	167,667	1,025,599	18,865	83.7	16.3
Mar-13	785,904	321,865	1,107,768	20,376	70.9	29.1
2012-13	**8,464,821**	**2,953,401**	**11,418,222**	**210,029**	**74.1**	**25.9**
Apr-13	1,113,419	357,395	1,470,814	23,062	75.7	24.3
May-13	1,706,271	205,545	1,911,816	29,976	89.2	10.8
Jun-13	1,000,994	274,487	1,275,481	19,999	78.5	21.5
Jul-13	701,619	449,400	1,151,019	18,047	61.0	39.0
Aug-13	540,753	726,908	1,267,661	19,876	42.7	57.3
Sep-13	726,113	583,525	1,309,638	20,534	55.4	44.6
Apr-Sep '13	**5,789,170**	**2,597,260**	**8,386,430**	**131,494**	**69.0**	**31.0**

Source : NSE

The share of the WDM segment of the NSE in the total turnover of non-repo SGL transactions fell in 2012–13 to 52.3 percent from 59.5 percent in 2011-12 (Table 5-5). The share of the WDM in the turnover of non-repo dated securities (central and state government securities) also witnessed a decline from 60.6 percent in 2011-12 to 49.3 percent in 2012–13. The share of the WDM in the turnover of non-repo t-bills increased to 60.9 percent in 2012–13 as compared to 57.2 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**
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**

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)
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**
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
Oct-12	633,992	447,420	70.6	522,212	348,871	66.8	111,780	98,548	88.2
Nov-12	661,944	365,643	55.2	465,267	214,165	46.0	196,677	151,479	77.0
Dec-12	962,609	566,652	58.9	674,776	402,516	59.7	287,833	164,135	57.0
Jan-13	1,627,556	775,776	47.7	1,307,202	618,204	47.3	320,354	157,572	49.2
Feb-13	1,025,599	504,573	49.2	857,932	403,547	47.0	167,667	101,027	60.3
Mar-13	1,107,768	602,327	54.4	785,904	422,260	53.7	321,865	180,067	55.9
2012-13	**11,418,222**	**5,971,278**	**52.3**	**8,464,821**	**4,172,109**	**49.3**	**2,953,401**	**1,799,168**	**60.9**
Apr-13	1,470,814	693,227	47.1	1,113,419	473,880	42.6	357,395	219,346	61.4
May-13	1,911,816	668,590	35.0	1,706,271	566,653	33.2	205,545	101,937	49.6
Jun-13	1,275,481	581,292	45.6	1,000,994	402,533	40.2	274,487	178,759	65.1
Jul-13	1,151,019	385,087	33.5	701,619	188,960	26.9	449,400	196,127	43.6
Aug-13	1,267,661	498,841	39.4	540,753	146,060	27.0	726,908	352,782	48.5
Sep-13	1,309,638	624,639	47.7	726,113	307,559	42.4	583,525	317,080	54.3
Apr-Sep '13	**8,386,430**	**3,451,676**	**41.2**	**5,789,170**	**2,085,646**	**36.0**	**2,597,260**	**1,366,031**	**52.6**

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

Settlement of Trades in Government Securities

In 2012-13, 699,621 trades in government securities amounting to ₹ 119,948 billion (US $ 2,206 billion) were settled by the CCIL. Of the total trades, 94.1 percent of the trades were outright transactions, and the rest were repo. (Table 5-6)

Table 5-6: Settlement of Trades in Government Securities

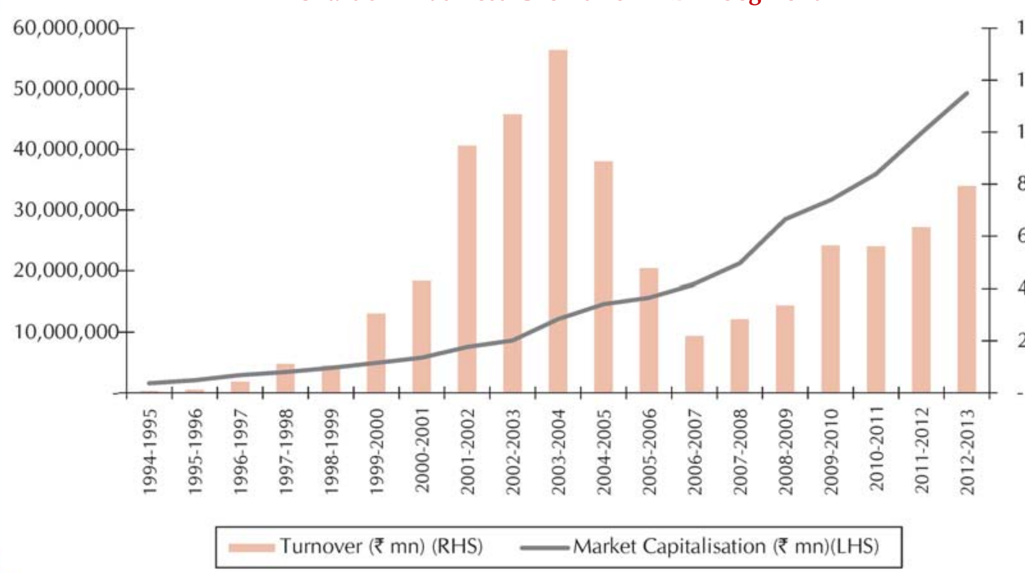
Month	Outright Transactions		Repo Transactions		Total		
	No. of Trades	Amount (Face Value in ₹ mn)	No. of Trades	Amount (Face Value in ₹ mn)	No. of Trades	Amount (Face Value in ₹ mn)	Amount (Face Value in US $ mn)
2001-02	7,131	389,190	524	159,300	7,655	548,480	11,239
2002-03	191,843	10,761,470	11,672	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
2012-13	**658,055**	**65,920,320**	**41,566**	**54,027,650**	**699,621**	**119,947,970**	**2,206,341**
Apr-Sep'13	**477,520**	**55,594,510**	**24,568**	**38,329,180**	**502,088**	**93,923,690**	**1,472,671**

Source: CCIL

Turnover in WDM Segment of NSE

In 2012-13, the turnover in the WDM segment of the NSE (of g-secs, t-bills, PSU bonds, and others) registered an increase of 25.1 percent to ₹ 7,922.1 billion from ₹ 6,331.8 billion in 2011-12. The average daily turnover also increased from ₹ 26.5 billion (US $ 518 million) to ₹ 32.6 billion (US $ 600 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 ₹ 1,034.3 billion (US $ 19 billion) was witnessed in January 2013 during the fiscal year 2012-13.

Securities Profile

The turnover in government securities increased by 28.6 percent in 2012–13 compared to the previous year, and accounted for a turnover of ₹ 4,179.3 billion. Its share in the total turnover was 52.8 percent in 2012–13 (Table 5-7). The share of T-Bills in the WDM turnover accounted for a 22.7 percent share in 2012–13 **(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**
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
Oct-12	356,033	98,398	139,794	75,630	669,856	53.2	14.7	20.9	11.3
Nov-12	214,165	151,479	99,742	48,225	513,611	41.7	29.5	19.4	9.4
Dec-12	402,516	164,135	95,406	57,745	719,803	55.9	22.8	13.3	8.0
Jan-13	618,204	157,572	153,299	105,183	1,034,257	59.8	15.2	14.8	10.2
Feb-13	403,547	101,027	97,594	49,372	651,539	61.9	15.5	15.0	7.6
Mar-13	422,260	180,067	101,306	57,730	761,362	55.5	23.7	13.3	7.6
2012-13	**4,179,271**	**1,799,018**	**1,278,700**	**665,148**	**7,922,138**	**52.8**	**22.7**	**16.1**	**8.4**
Apr-13	473,880	219,346	168,208	72,532	933,967	50.7	23.5	18.0	7.8
May-13	566,653	101,937	218,900	92,271	979,761	57.8	10.4	22.3	9.4
Jun-13	402,533	178,759	181,871	72,484	835,647	48.2	21.4	21.8	8.7
Jul-13	188,960	196,127	204,882	71,910	661,878	28.5	29.6	31.0	10.9
Aug-13	146,060	352,782	120,625	46,139	665,605	21.9	53.0	18.1	6.9
Sep-13	307,559	317,080	105,677	40,264	770,579	39.9	41.2	13.7	5.2
Apr- Sep '13	**2,085,645**	**1,366,031**	**1,000,163**	**395,600**	**4,847,438**	**43.0**	**28.2**	**20.6**	**8.2**

Source : NSE

Participant Profile

Indian banks, foreign banks, and PDs together accounted for over 42.3 percent of the WDM turnover in 2012–13, and 36 percent of the WDM turnover during April–September 2013. The share of the Indian banks though on a declining trend increased to 16.5 percent in 2012–13 from 15.3 percent in 2011-12. The trading members' contribution was the highest at 53.4 percent in 2012–13 (Table 5-8 and Chart 5-3).

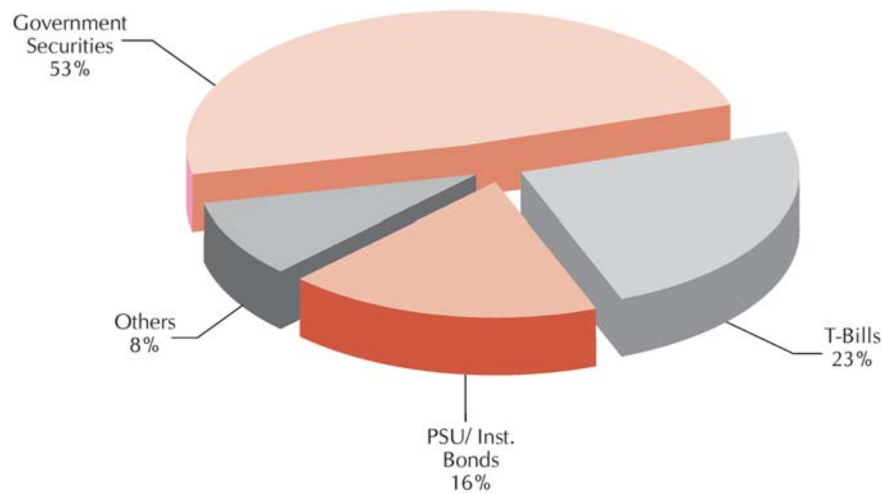
Table 5-8: Participant wise Distribution of WDM Turnover

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
2011-12	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
Oct-12	360,583	30,210	25,120	87,617	166,325	669,856	53.8	4.5	3.8	13.1	24.8
Nov-12	264,047	22,907	19,620	81,510	125,526	513,611	51.4	4.5	3.8	15.9	24.4
Dec-12	395,891	29,728	28,072	108,330	157,781	719,803	55.0	4.1	3.9	15.1	21.9
Jan-13	545,364	73,949	41,887	184,408	188,649	1,034,257	52.7	7.2	4.1	17.8	18.2
Feb-13	320,557	49,908	17,592	139,690	123,792	651,539	49.2	7.7	2.7	21.4	19.0
Mar-13	427,429	20,709	26,115	137,274	149,836	761,362	56.1	2.7	3.4	18.0	19.7
2012-13	**4,227,684**	**344,381**	**293,085**	**1,306,211**	**1,750,777**	**7,922,138**	**53.4**	**4.3**	**3.7**	**16.5**	**22.1**
Apr-13	488,603	35,117	34,614	188,578	187,060	933,967	52.3	3.8	3.7	20.2	20.0
May-13	549,996	39,075	42,115	151,582	196,992	979,761	56.1	4.0	4.3	15.5	20.1
Jun-13	529,492	19,866	42,789	72,946	170,554	835,647	63.4	2.4	5.1	8.7	20.4
Jul-13	431,510	32,314	12,225	54,180	131,650	661,878	65.2	4.9	1.8	8.2	19.9
Aug-13	458,881	26,671	29,424	10,040	140,591	665,605	68.9	4.0	4.4	1.5	21.1
Sep-13	476,515	13,906	43,958	31,916	204,283	770,579	61.8	1.8	5.7	4.1	26.5
Apr-Sep '13	**2,934,997**	**166,945**	**205,126**	**509,242**	**1,031,129**	**4,847,438**	**60.5**	**3.4**	**4.2**	**10.5**	**21.3**

Source : NSE

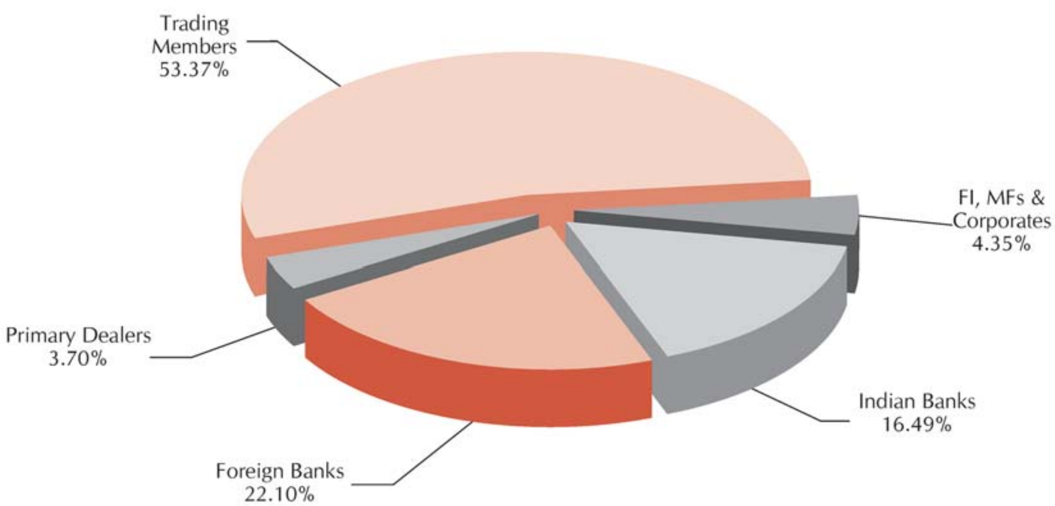
The share of the top 10 securities increased to 44.4 percent in 2012–13, compared to 44.2 percent in 2011–12 (Table 5-9). The share of the top 100 securities also increased to 73.3 percent in 2012–13, as against 72.1 percent in 2011–12. The top 50 securities accounted for 62.3 percent of the turnover in 2012–13.

Chart 5-2 : Security-wise Distribution of Turnover, 2012-2013



Source: NSE

Chart 5-3: Participant-wise Distribution of Turnover, 2012-2013



Source: NSE

The top 50 trading members accounted for the total turnover of the WDM in 2012–13, 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
2012-2013	**34.0**	**44.4**	**53.0**	**62.3**	**73.3**
Apr-Sep'13	**25.3**	**32.5**	**46.7**	**59.0**	**72.1**
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	--
2012-2013	**81.8**	**91.2**	**99.5**	**100.0**	--
Apr-Sep'13	**81.9**	**92.0**	**99.8**	**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**
2012-2013	**21.7**	**34.5**	**45.6**	**46.7**	**46.7**
Apr-Sep'13	**21.2**	**30.9**	**38.9**	**39.5**	**39.5**

Source: NSE

Table 5-10: Market Capitalisation of WDM Securities

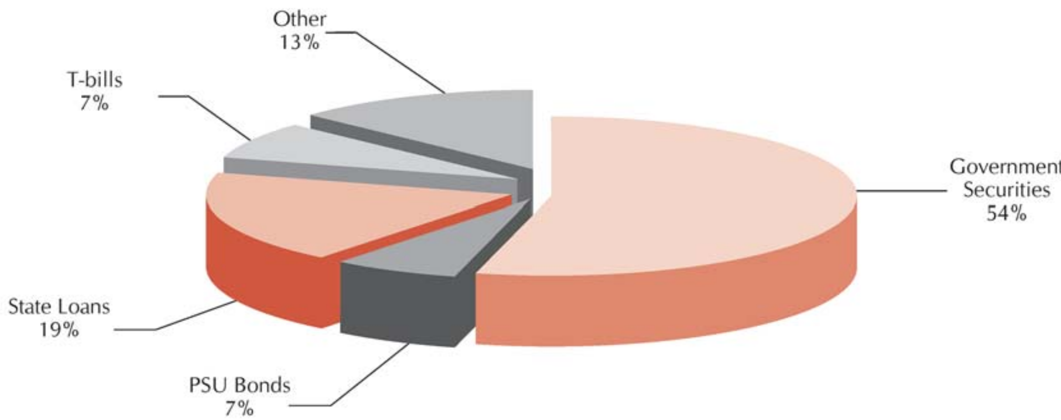
Month/ Year (end of period)	Market Capitalisation (₹ mn)						Total (US $ mn)	(percent)				
	Govt. Securities	PSU Bonds	State Loans	T-Bills	Others	Total		Govt. Securities	PSU Bonds	State Loans	T-Bills	Others
Mar-00	3,198,650	393,570	394,770	153,450	799,890	4,940,330	113,257	64.7	8.0	8.0	3.1	16.2
Mar-01	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
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	792,936	57.4	5.8	17.7	6.4	12.8
May-12	25,079,878	2,536,736	7,733,660	3,157,082	5,526,074	44,033,430	809,958	57.0	5.8	17.6	7.2	12.5
Jun-12	25,753,902	2,579,543	7,812,570	3,208,665	5,658,199	45,012,877	827,974	57.2	5.7	17.4	7.1	12.6
Jul-12	26,319,102	2,641,717	7,954,693	3,248,427	5,785,789	45,949,727	845,206	57.3	5.7	17.3	7.1	12.6
Aug-12	26,770,787	2,689,080	8,050,466	3,171,957	5,950,988	46,633,278	857,780	57.4	5.8	17.3	6.8	12.8
Sep-12	27,032,153	2,661,767	8,219,790	3,210,855	6,029,373	47,153,939	867,357	57.3	5.6	17.4	6.8	12.8
Oct-12	27,228,819	2,763,336	8,419,053	3,121,552	6,130,404	47,663,164	876,724	57.1	5.8	17.7	6.5	12.9
Nov-12	27,165,590	2,814,354	8,558,268	3,063,957	6,158,521	47,760,690	878,517	56.9	5.9	17.9	6.4	12.9
Dec-12	27,412,552	2,887,396	8,659,223	3,022,987	6,172,493	48,154,652	885,764	56.9	6.0	18.0	6.3	12.8
Jan-13	27,632,999	2,925,630	8,830,996	3,182,512	6,362,499	48,934,635	900,111	56.5	6.0	18.0	6.5	13.0
Feb-13	27,762,046	2,974,846	8,888,733	2,980,979	6,417,872	49,024,476	901,764	56.6	6.1	18.1	6.1	13.1
Mar-13	27,690,015	3,056,063	9,041,430	2,984,876	6,510,935	49,283,318	906,525	56.2	6.2	18.3	6.1	13.2
Apr-13	27,916,025	3,240,010	9,134,477	2,983,992	6,528,281	49,802,785	780,880	56.1	6.5	18.3	6.0	13.1
May-13	28,423,350	3,328,992	9,201,575	3,134,598	6,667,892	50,756,407	795,832	56.0	6.6	18.1	6.2	13.1
Jun-13	28,402,326	3,377,133	9,253,725	3,306,776	6,784,063	51,124,023	801,596	55.6	6.6	18.1	6.5	13.3
Jul-13	28,124,490	3,408,509	9,201,760	3,526,110	6,703,910	50,964,779	799,099	55.2	6.7	18.1	6.9	13.2
Aug-13	27,726,919	3,367,748	9,357,284	3,978,522	6,605,792	51,036,265	800,220	54.3	6.6	18.3	7.8	12.9
Sep-13	27,132,976	3,369,616	9,500,189	3,729,422	6,590,540	50,322,743	789,032	53.9	6.7	18.9	7.4	13.1

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 ₹ 49,283.3 billion (US $ 906.5 billion) at the end of March 2013, registering a growth of 15.3 percent over the figures at the end of March 2012. The market capitalization at the end of September 2013 was ₹ 50,322.7 billion (US $ 789 billion). The relative shares of the different securities in market capitalization at the end of March 2013 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 Capitalisation of WDM Segment at the end of September 2013



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 25.2 percent to ₹ 2,421 billion (US $ 44.5 billion) in 2012–13 from ₹ 1,934.3 billion (US $ 37.8 billion) in the previous fiscal year. The BSE volumes in 2012-13 were at ₹ 516.2 billion (US $ 9.4 billion), while the FIMMDA volumes were ₹ 4,449 billion (US $ 81.8 billion).

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)
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
2012-2013	**8,639**	**516,224**	**9,496**	**21,141**	**2,421,050**	**44,533**	**36,603**	**4,449,040**	**81,836**
Apr-Sep'13	**4,440**	**515,614**	**8,085**	**11,850**	**1,697,447**	**26,615**	**22,081**	**3,411,090**	**53,484**

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

Settlement of Trades in Corporate Bonds

In 2012-13, there were 44,317 trades in corporate bonds amounting to ₹ 4,780.9 billion (US $ 87.9 billion) were settled by the NSCCL and the ICCL (Table 5-12). During April –September 2013, 26,053 trades amounting to ₹ 3,589.3 billion (US $ 56.3 billion) 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
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	4,010	351	10,356	190	2,507	228,358	4,200
May-12	2,292	228,182	4,197	458	10,185	187	2,750	238,367	4,385
Jun-12	3,315	398,002	7,321	452	10,873	200	3,767	408,876	7,521
Jul-12	3,676	381,404	7,016	432	20,533	378	4,108	401,937	7,393
Aug-12	2,972	344,633	6,339	554	30,808	567	3,526	375,441	6,906
Sep-12	3,124	380,900	7,006	709	44,314	815	3,833	425,214	7,821
Oct-12	3,708	471,438	8,672	891	42,498	782	4,599	513,937	9,453
Nov-12	2,468	263,495	4,847	656	28,455	523	3,124	291,950	5,370
Dec-12	2,638	321,631	5,916	696	40,502	745	3,334	362,132	6,661
Jan-13	4,387	548,069	10,081	826	59,714	1,098	5,213	607,783	11,180
Feb-13	2,558	317,833	5,846	536	36,344	669	3,094	354,177	6,515
Mar-13	3,608	477,549	8,784	854	95,184	1,751	4,462	572,733	10,535
2012-13	**36,902**	**4,351,138**	**80,035**	**7,415**	**429,766**	**7,905**	**44,317**	**4,780,904**	**87,941**
Apr-13	4,513	649,801	10,189	621	69,709	1,093	5,134	719,511	11,282
May-13	4,807	726,469	11,391	722	78,642	1,233	5,579	805,111	12,624
Jun-13	3,306	513,614	8,053	573	41,340	648	3,879	554,954	8,701
Jul-13	4,067	617,714	9,685	686	63,488	995	4,753	681,202	10,681
Aug-13	2,741	369,979	5,801	715	59,091	927	3,456	429,071	6,728
Sep-13	2,696	341,994	5,362	556	57,415	900	3,252	399,408	6,262
Apr-Sep'13	**22,130**	**3,219,571**	**50,481**	**3,923**	**369,685**	**5,796**	**26,053**	**3,589,256**	**56,278**

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 2012-Sep 2013)

(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-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
Oct-12	7.99	8.09	8.27	8.34	8.96	8.97	9.21	9.85
Nov-12	8.15	8.12	8.24	8.38	9.41	9.06	9.18	9.02
Dec-12	8.13	8.08	8.21	8.32	9.16	9.08	9.22	8.76
Jan-13	7.97	7.85	7.97	8.04	9.68	8.95	8.99	8.79
Feb-13	7.95	7.86	7.91	8.01	9.79	9.02	8.95	8.71
Mar-13	8.00	7.82	7.96	8.09	9.73	9.13	8.96	8.88
Apr-13	7.71	7.66	7.80	7.98	8.94	9.00	8.76	8.65
May-13	7.39	7.34	7.59	7.58	8.69	8.53	8.31	8.20
Jun-13	7.43	7.53	7.55	7.63	8.72	8.79	8.39	8.41
Jul-13	8.38	8.21	8.13	7.81	9.09	9.39	9.12	8.75
Aug-13	10.82	9.43	8.99	9.01	12.10	10.28	9.67	9.75
Sep-13	9.89	8.92	8.86	9.06	11.65	9.92	9.65	9.72

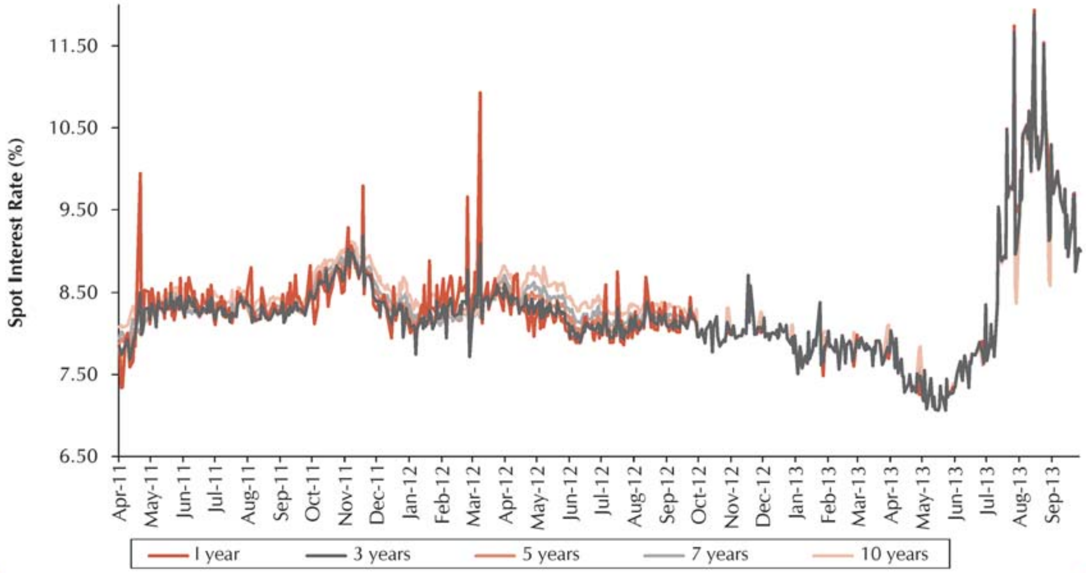
Source: NSE

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 2013.

Chart 5-5: Zero Coupon Yield Curve, April 2011 to September 2013



Source: NSE

FIMMDA-NSE MIBID/MIBOR[2]

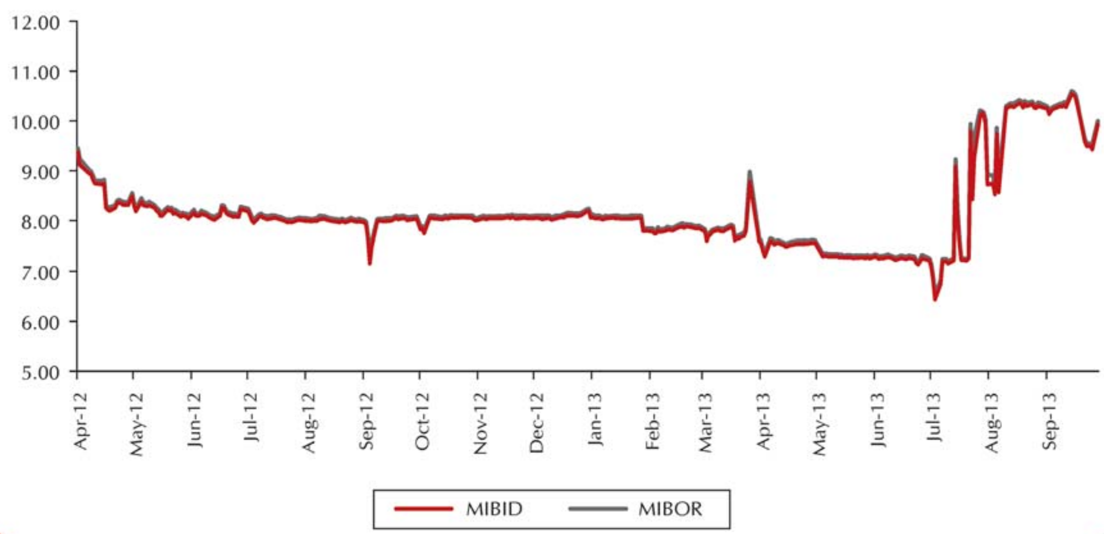
The NSE has been computing and disseminating the NSE Mumbai Inter-bank Bid Rate (MIBID) and the NSE Mumbai Inter-bank Offer Rate (MIBOR) for the overnight money market from June 15, 1998, the 14-day MIBID/MIBOR from November 10, 1998, the 1-month and 3-month MIBID/MIBOR from December 1, 1998, and the 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 2012 to September 2013. These rates touched a peak of 10.54 percent and 10.60 percent, respectively, on September 16, 2013 and a low of 6.44 and 6.54 percent, respectively, on July 5, 2013.

2 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 FIMMDA-NSE MIBID/MIBOR Rates (April 2012–September 2013)



Source: NSE

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, 2013 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 (99percent) for GoI Securities Traded on NSE-WDM as of Sep 2013

Security Type	Security Name	Issue Name	VaR (in percent)					Clean Price (off NSE-ZCYC)
			Normal	Weighted Normal	Historical Simulation	Weighted Historical Simulation	EVT	
GS	CG2014	6.07%	0.561	0.392	0.702	0.602	0.618	98.14
GS	CG2015	7.17%	0.909	0.709	1.143	1.062	0.958	96.925
GS	CG2019	7.28%	1.189	1.961	1.309	1.739	1.019	91.947
GS	CG2020	8.12%	1.274	2.35	1.371	4.537	1.033	94.627
GS	CG2022	8.20%	1.381	2.637	1.486	3.002	1.088	94.356
GS	CG2023	7.16%	1.588	3.001	1.722	2.965	1.262	87.071

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	CG2027	8.28%	2.284	3.624	2.672	2.468	1.999	92.035
GS	CG2032	8.32%	3.359	4.426	4.309	3.448	3.055	90.524
GS	CG2042	8.30%	5.324	6.12	7.275	7.143	5.287	88.147
TB	182D	130314	0.449	0.322	0.576	0.298	0.499	96.037
TB	364D	121213	0.239	0.18	0.302	0.153	0.257	98.213
TB	364D	210814	0.695	0.479	0.874	0.706	0.747	92.32
TB	364D	230114	0.345	0.254	0.446	0.225	0.379	97.201
TB	364D	261213	0.276	0.207	0.35	0.18	0.298	97.874
TB	91D	281113	0.199	0.151	0.253	0.127	0.213	98.553

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 2012–13, the PRI of the i-BEX and the NSE G-Sec Index increased by 4.1 percent and 4.9 percent, respectively.

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 2012–13, the TRI registered a rise of 12.7 percent and 11.2 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.

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	5650.4	1276.2	287.3	287.3	303.6	106.6
May-11	5636.6	1264.6	289.5	289.5	303.8	106.1
Jun-11	5698.2	1270.3	291.8	291.8	306.7	106.5
Jul-11	5706.7	1263.8	293.3	293.3	305.4	105.7
Aug-11	5789.3	1273.9	295.5	295.5	306.3	105.8
Sep-11	5825.8	1273.5	295.7	295.7	310.9	107.1
Oct-11	5720.2	1241.4	297.5	297.5	301.8	103.5
Nov-11	5767.0	1242.9	299.5	299.5	304.5	103.8
Dec-11	5916.8	1267.2	301.9	301.9	313.8	106.3
Jan-12	6027.1	1282.6	303.8	303.8	316.3	106.6
Feb-12	6076.8	1285.0	305.7	305.7	320.8	107.6
Mar-12	6045.7	1269.1	308.2	308.2	316.7	105.7
Apr-12	6072.9	1266.1	310.2	310.2	316.4	105.0
May-12	6184.5	1281.0	312.6	312.6	322.5	106.3
Jun-12	6267.1	1289.5	314.7	314.7	327.0	107.2
Jul-12	6325.1	1292.6	316.8	316.8	331.3	108.0
Aug-12	6352.2	1289.3	318.9	318.9	331.0	107.6
Sep-12	6433.0	1297.1	321.1	321.1	336.5	108.8
Oct-12	6488.2	1299.6	323.2	323.2	335.6	107.7
Nov-12	6535.3	1300.3	325.3	325.3	338.0	108.3
Dec-12	6628.3	1310.3	327.6	327.6	341.4	108.8
Jan-13	6763.7	1328.7	330.3	330.3	348.0	110.3
Feb-13	6817.2	1331.1	332.3	332.3	351.5	111.2
Mar-13	6814.9	1321.1	334.5	334.5	352.1	110.9
Apr-13	6979.2	1344.7	336.7	336.7	357.8	112.2
May-13	7205.3	1380.0	339.0	339.0	368.0	114.7
Jun-13	7091.4	1349.2	340.9	340.9	366.9	113.8
Jul-13	6738.3	1271.8	340.6	340.6	346.4	106.6
Aug-13	6594.6	1235.3	343.9	343.9	344.4	105.8
Sep-13	6656.6	1238.2	347.6	347.6	347.6	106.3

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 (per-cent)
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
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	8,782	488	11	37	0.68	0.01
May-12	288	2,078	509,408	23,155	245	9,370	426	90	173	3.18	0.03
Jun-12	341	2,576	723,476	34,451	281	13,308	634	73	142	2.61	0.02
Jul-12	326	2,416	661,872	30,085	274	12,175	553	69	112	2.06	0.02
Aug-12	343	1,930	486,255	23,155	252	8,944	426	198	372	6.84	0.08
Sep-12	358	2,648	713,266	37,540	269	13,120	691	184	325	5.98	0.05
Oct-12	396	2,376	669,856	33,493	282	12,321	616	70	137	2.52	0.02
Nov-12	341	1,721	513,611	27,032	298	9,447	497	90	178	3.27	0.03
Dec-12	402	2,208	719,803	35,990	326	13,240	662	94	141	2.59	0.02
Jan-13	490	3,584	1,034,257	47,012	289	19,024	865	106	186	3.42	0.02
Feb-13	316	1,819	651,539	34,292	358	11,985	631	101	186	3.42	0.03
Mar-13	443	1,918	761,362	40,072	397	14,005	737	17	35	0.64	0.00
2012-13	**1,421**	**26,974**	**7,922,139**	**32,601**	**294**	**145,721**	**600**	**1,103**	**2,023**	**37.20**	**0.03**
Apr-13	503	2,355	933,967	51,887	397	14,644	814	7	19	0.30	0.00
May-13	524	2,632	979,761	44,535	372	15,362	698	20	53	0.83	0.01
Jun-13	448	2,004	835,647	41,782	417	13,102	655	97	203	3.18	0.02
Jul-13	449	1,908	661,878	28,777	347	10,378	451	88	174	2.73	0.03
Aug-13	376	1,646	665,605	33,280	404	10,436	522	99	181	2.84	0.03
Sep-13	367	1,675	770,579	38,529	460	12,082	604	47	115	1.80	0.01
Apr-Sep'13	**1,108**	**12,220**	**4,847,438**	**39,798**	**400**	**76,005**	**624**	**358**	**745**	**11.67**	**0.02**

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	9.30	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	9.50	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	8.02	8.07	8.05	8.10	8.28	8.45	8.46	8.67	8.59	8.81
31-Oct-12	8.05	8.10	8.06	8.10	8.12	8.28	8.26	8.45	8.44	8.66
30-Nov-12	8.05	8.09	8.05	8.10	8.06	8.27	8.23	8.46	8.45	8.73
31-Dec-12	8.19	8.23	8.13	8.18	8.35	8.50	8.52	8.70	8.70	8.92
31-Jan-13	7.80	7.85	8.05	8.09	8.06	8.20	8.22	8.36	8.64	8.81
28-Feb-13	7.85	7.90	7.89	7.95	8.16	8.27	8.61	8.74	9.39	9.63
28-Mar-13	8.78	8.98	13.49	14.44	9.49	9.90	9.30	9.63	9.47	9.78
30-Apr-13	7.57	7.62	7.55	7.60	8.02	8.18	8.21	8.34	8.53	8.65
31-May-13	7.26	7.30	7.25	7.29	7.74	7.92	7.94	8.11	8.24	8.42
28-Jun-13	7.26	7.33	7.28	7.34	7.83	7.99	8.05	8.22	8.36	8.52
31-Jul-13	10.11	10.17	10.00	10.11	9.90	10.27	10.22	10.61	10.25	10.75
30-Aug-13	10.29	10.36	10.30	10.36	10.63	10.77	10.94	11.14	11.18	11.41
30-Sep-13	9.93	10.00	9.51	9.56	9.74	9.86	9.83	9.94	9.96	10.08

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 derivatives 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 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. In 2012-13, the figure reached ₹ 315,330 billion. The average daily turnover in this segment of the markets on the NSE was ₹ 1,266 billion in 2012–13 compared to ₹ 1,259 billion in 2011–12.

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 2012-13 and first-half of 2013-14

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
	2012-13				Apr-Sep '13			
Index Futures								
NIFTY	68,223,052	18,674,894	343,509	7.4	41,797,888	12,062,266	189,130	7.3
MINIFTY	6,428,522	687,640	12,649	0.7			0	0.0
BANKNIFTY	20,821,316	5,716,996	105,159	2.3	14,136,878	3,853,743	60,425	2.5
CNXIT	38,111	11,976	220	0.0	32,365	11,752	184	0.0
NFTYMCAP50	2,669	929	17	0.0	9,251	2,656	42	0.0
CNXINFRA	139	35	1	0.0	74	17	0	0.0
CNXPSE	287	64	1	0.0	61	13	0	0.0
DJIA	206,680	68,266	1,256	0.0	106,404	40,018	627	0.0
S&P500	63,624	22,577	415	0.0	47,553	19,354	303	0.0
FTSE 100	315,985	87,930	1,617	-	8,613	2,753	43	0.0
Index Options								
NIFTY	794,296,550	220,225,321	4,050,858	86.6	486,578,397	141,363,430	2,216,499	85.2
MINIFTY	814,528	89,270	1,642	0.1			0	0.0
BANKNIFTY	25,636,899	7,464,666	137,306	2.8	28,150,412	7,928,266	124,311	4.9
CNXINFRA	7	2	0	0.0	5	1	0	0.0
CNXPSE	4	1	0	0.0	0	0	0	0.0
CNXIT	485	174	3	0.0	224	82	1	0.0
NFTYMCAP50	13	4	0	0.0	2	1	0	0.0
FTSE100	126,775	35,653	656	-	40	14	0	0.0
S&P500	1,888	650	12	0.0	280	116	2	0.0
Total of all Indices	**916,977,534**	**253,087,049**	**4,655,322**	**100**	**570,868,447**	**165,284,482**	**2,591,568**	**100**
Total of Nifty Index Futures and Options	**862,519,602**	**238,900,215**	**4,394,367**	**94.1**	**528,376,285**	**153,425,697**	**2,405,629**	**92.6**

**:- 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 have been included.*
Source: NSE

Global Derivatives Markets

As per the FIA Annual Volume Survey, during the year 2012, global listed derivatives witnessed the biggest and the broadest decline in atleast a decade. The survey noted that the number of futures and options traded on exchanges around the world fell 15.3 percent to a total of 21.2 billion contracts. This is the lowest level since 2009.

Looking at the global trends in derivatives volume by category, we find that the trading in commodity derivatives bucked the downward trend; most were up year–over–year. All the financial categories – interest rates, equities and currencies – were down in double digits. (Table 6-2)

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

Category	Jan-Dec 2011 (in mn)	Jan-Dec 2012 (in mn)	Change (in percent)
Equity Index	8,462	6,048	-28.5
Individual Equity	7,063	6,468	-8.4
Interest Rate	3,491	2,933	-16.0
Agricultural	997	1,271	27.5
Energy	815	906	11.2
Currency	3,147	2,434	-22.7
Precious Metal	342	319	-6.7
Non-precious metal	435	554	27.4
Other	230	237	3.1
Total Volume	**24,982**	**21,170**	**-15.3**

Source: Futures Industry Annual Volume Survey, March 2013

The derivatives trading on exchanges in Asia Pacific fell the most, with a decline of 23.4 percent, followed by Europe (-12.5 percent) and North America (-11.9 percent) which accounted 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 primary reason for the decline, especially in Asia Pacific region was a steep decline in trading of Kospi 200 options; Kospi options are the most actively traded derivatives contract in the world (in 2011 total volume in Kospi options was 3.67 billion contracts). In 2012, the volume in Kospi options dropped by more than half, following the decision by Korean authorities to increase the index multiplier, thus making it five times more expensive to trade in Kospi contracts.

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

Top 5 Exchanges by number of single stock future contracts traded in 2012 (in million)			
	Exchange	**2012**	**2012/2011 growth rate (in percent)**
1	NYSE Liffe Europe	247	-1.6
2	MICEX/RTS	241	-33.4
3	Eurex	196	12.6
4	**National Stock Exchange of India**	153	-4.8
5	Korea Exchange	100	67.6
Top 5 Exchanges by number of single stock option contracts traded in 2012 (in million)			
	Exchange	**2012**	**2012/2011 growth rate (in percent)**
1	BM&FBOVESPA	929	10.9
2	NASDAQ OMX PHLX	639	-8.8
3	NYSE Euronext US	595	-6.2
4	Chicago Board Options Exchange (CBOE)	494	-4.2
5	International Securities Exchange (ISE)	457	6.0

Contd.

Contd.

Top 5 Exchanges by number of stock index options contracts traded in 2012 (in million)			
	Exchange	**2012**	**2012/2011 growth rate (in percent)**
1	Korea Exchange	1,575	-57.1
2	**National Stock Exchange India**	820	-5.9
3	Eurex	383	-18.3
4	Chicago Board Options Exchange (CBOE)	304	-5.0
5	BOMBAY SE	235	NA
Top 5 Exchanges by number of stock index futures contracts traded in 2012 (in million)			
	Exchange	**2012**	**2012/2011 growth rate (in percent)**
1	CME Group	588	-20.0
2	Eurex	384	-21.1
3	MICEX/RTS	323	-15.4
4	Osaka Securities Exchange	150	9.3
5	**National Stock Exchange of India**	112	-27.9

Source: WFE Market Highlights 2012

In terms of the number of single stock futures contracts traded in 2012, the NSE held the fourth position. It was second in terms of the number of stock index options contracts traded and fifth in terms of the number of stock index futures contracts traded in 2012. These rankings are based on the World Federation of Exchanges (WFE) Market Highlights 2012. (Table 6-3)

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 2012. The NSE improved its ranking in 2012 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. In 2012, NSE stood at third position worldwide, even though the traded volumes in the derivatives segment of the NSE declined by 8.6 percent.

Table 6-4: Global Futures and Options Volume

Rank		Exchange	Volume (in million)	
2012	**2011**		**Jan-Dec 2012**	**Jan-Dec 2011**
1	2	CME Group (includes CBOT and Nymex)	2,890	3,387
2	3	Eurex (includes ISE)	2,291	2,822
3	**5**	**National Stock Exchange of India**	**2,010**	**2,200**
4	4	NYSE Euronext (includes all EU and US markets)	1,951	2,283
5	1	Korea Exchange	1,836	3,928
6	6	BM&F Bovespa	1,636	1,500
7	8	Chicago Board Options Exchange group	1,134	1,217
8	7	Nasdaq OMX Group	1,116	1,296
9	-	Moscow Interbank Currency Exchange	1,062	-
10	9	Multi Commodity Exchange of India (includes MCX-SX)	960	1,196

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 ₹ 321,582 billion in 2011-12 to ₹ 386,965 billion (US $ 7,118 billion) in 2012-13. At NSE, 11.31 million contracts with a turnover of ₹ 315,330 billion (US $ 5,800 billion) were traded while at BSE 262 million contracts traded with trading volumes of ₹ 7,164 billion (US $ 132 billion) were traded.

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**
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	406,017	14,115,666	3,697,170	68,006	96,927,850	25,770,339	474,024
May-12	110,152,708	27,198,431	500,292	25,119,550	6,242,960	114,834	135,272,258	33,441,391	615,126
Jun-12	105,012,433	26,407,065	485,736	28,986,767	7,324,830	134,734	133,999,200	33,731,895	620,470
Jul-12	93,181,580	24,530,832	451,224	37,912,818	9,781,430	179,921	131,094,398	34,312,262	631,145
Aug-12	90,991,925	24,321,686	447,377	32,826,346	8,743,550	160,830	123,818,271	33,065,236	608,207
Sep-12	93,363,996	25,919,485	476,767	11,109,685	3,053,190	56,161	104,473,681	28,972,675	532,928
Oct-12	93,797,175	27,142,095	499,256	14,404,176	4,108,450	75,571	108,201,351	31,250,545	574,827
Nov-12	86,573,274	24,798,167	456,141	19,375,154	5,465,820	100,539	105,948,428	30,263,987	556,680
Dec-12	88,379,684	26,403,928	485,678	30,747,136	8,998,530	165,520	119,126,820	35,402,458	651,198
Jan-13	94,654,356	29,509,751	542,807	30,526,334	9,234,410	169,859	125,180,690	38,744,161	712,666
Feb-13	85,485,498	25,750,974	473,667	7,861,330	2,294,700	42,209	93,346,828	28,045,674	515,876
Mar-13	107,062,605	31,274,458	575,267	9,458,404	2,690,140	49,483	116,521,009	33,964,598	624,750
2012-2013	**1,131,467,418**	**315,330,040**	**5,800,229**	**262,443,366**	**71,635,180**	**1,317,669**	**1,393,910,784**	**386,965,220**	**7,117,898**
Apr-13	103,848,783	30,101,629	471,977	11,025,210	3,139,500	49,226	114,873,993	33,241,129	521,202
May-13	115,522,180	35,038,012	549,376	20,357,869	6,262,165	98,187	135,880,049	41,300,177	647,564
Jun-13	110,713,211	31,908,865	500,313	23,118,783	6,732,250	105,558	133,831,994	38,641,115	605,871
Jul-13	108,155,866	31,803,927	498,668	48,234,613	14,395,351	225,711	156,390,479	46,199,278	724,379
Aug-13	142,223,874	38,139,207	598,001	29,886,385	8,351,888	130,953	172,110,259	46,491,095	728,954
Sep-13	118,912,167	33,815,577	530,209	13,449,268	4,035,913	63,281	132,361,435	37,851,490	593,490
Apr - Sep '13	**699,376,081**	**200,807,217**	**3,148,544**	**146,072,128**	**42,917,066**	**672,915**	**845,448,209**	**243,724,283**	**3,821,460**

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 2012–13 (Table 6-6). In 2012-13, the turnover in the index options category was 72.2 percent of the total turnover in the F&O segment of the NSE, whereas the Index Futures witnessed a year-on-year decline of 29.4 percent. Turnover on Stock options, on the other hand, more than doubled over the previous year. During the first half of 2013–14, Index options constituted around 74.3 percent of the total turnover in this segment.

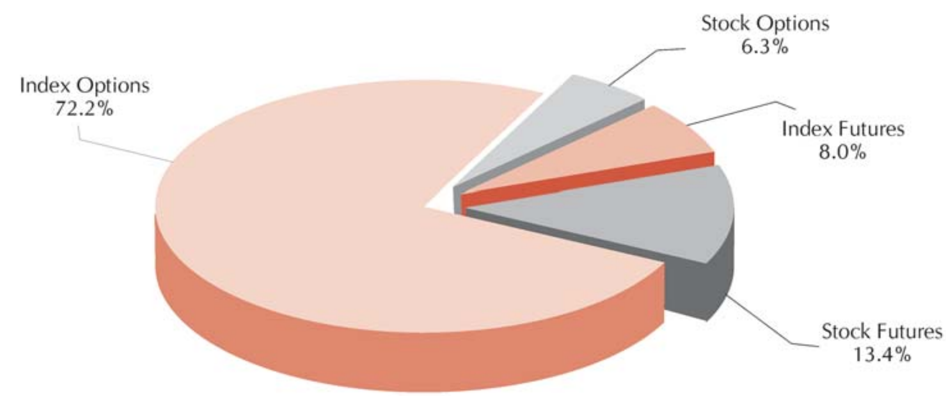
In fact, according to the Future Industry Association (FIA) Survey 2012, NSE's CNX Nifty Index options were the second most traded options after Kospi 200.

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

Period	Index Futures			Stock Futures			Index Options			Stock Options			Total		Average Daily Turnover (₹ mn)
	No. of contracts	Turnover (₹ mn)	Percentage-share in total turnover	No. of contracts	Turnover (₹ mn)	Percentage share in total turnover	No. of contracts	Notional Turnover (₹ mn)	Percentage-share in total turnover	No. of contracts	Notional Turnover (₹ mn)	Percentage share in total turnover	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**
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
Oct-12	7,925,535	2,160,040	8.0	12,992,449	3,881,033	14.3	66,495,200	19,075,956	70.3	6,383,991	2,025,065	7.5	93,797,175	27,142,095	1,292,481
Nov-12	6,169,741	1,697,568	6.8	12,203,483	3,494,305	14.1	62,225,955	17,810,589	71.8	5,974,095	1,795,705	7.2	86,573,274	24,798,167	1,239,908
Dec-12	6,081,895	1,764,923	6.7	12,874,846	3,923,272	14.9	63,683,543	18,939,730	71.7	5,739,400	1,776,003	6.7	88,379,684	26,403,928	1,320,196
Jan-13	6,337,412	1,900,944	6.4	14,648,279	4,953,656	16.8	64,766,416	19,669,183	66.7	8,902,249	2,985,969	10.1	94,654,356	29,509,751	1,283,033
Feb-13	6,051,654	1,796,825	7.0	11,500,825	3,612,943	14.0	61,801,321	18,393,455	71.4	6,131,698	1,947,752	7.6	85,485,498	25,750,974	1,287,549
Mar-13	7,056,967	2,047,632	6.5	10,967,220	3,243,317	10.4	82,993,878	24,166,273	77.3	6,044,540	1,817,237	5.8	107,062,605	31,274,458	1,646,024
2012-2013	**96,100,385**	**25,271,307**	**8.0**	**147,711,691**	**42,238,719**	**13.4**	**820,877,149**	**227,815,742**	**72.2**	**66,778,193**	**20,004,273**	**6.3**	**1,131,467,418**	**315,330,040**	**1,266,386**
Apr-13	7,222,107	2,085,901	6.9	12,251,753	3,650,644	12.1	76,321,333	21,924,697	72.8	8,053,590	2,440,388	8.1	103,848,783	30,101,629	150,508
May-13	7,991,561	2,457,826	7.0	14,019,161	4,098,509	11.7	85,926,564	26,216,469	74.8	7,584,894	2,265,209	6.5	115,522,180	35,038,012	152,339
Jun-13	8,501,380	2,463,512	7.7	12,719,906	3,434,931	10.8	83,678,819	24,379,372	76.4	5,813,106	1,631,050	5.1	110,713,211	31,908,865	159,544
Jul-13	8,704,083	2,536,445	8.0	15,223,466	4,285,043	13.5	75,950,920	22,514,138	70.8	8,277,397	2,468,301	7.8	108,155,866	31,803,927	138,278
Aug-13	12,433,264	3,277,345	8.6	16,977,082	4,100,885	10.8	105,800,393	29,009,778	76.1	7,013,135	1,751,199	4.6	142,223,874	38,139,207	190,696
Sep-13	11,286,692	3,171,544	9.4	14,861,402	3,877,986	11.5	87,051,331	25,247,456	74.7	5,712,742	1,518,591	4.5	118,912,167	33,815,577	169,078
Apr-Sep 13	**56,139,087**	**15,992,571**	**8.0**	**86,052,770**	**23,447,997**	**11.7**	**514,729,360**	**149,291,910**	**74.3**	**42,454,864**	**12,074,738**	**6.0**	**699,376,081**	**200,807,217**	**1,593,708**

Source: NSE

Chart 6-1: Product-wise Distribution of Turnover on the Derivatives Segment of NSE in 2012-13 (in percent)

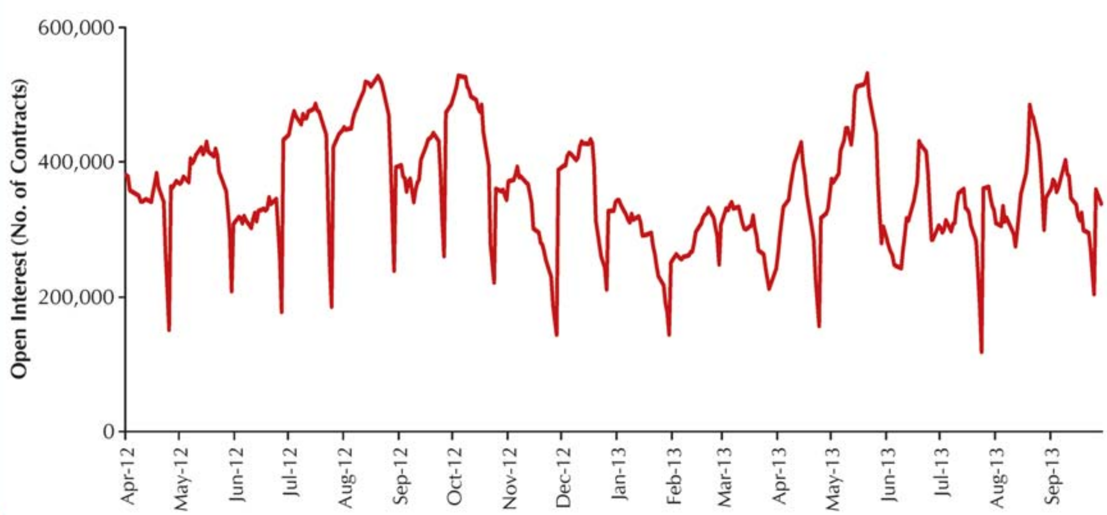


Source: NSE

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 flowing into the market, while declining open interest means that the market is liquidating. The daily open interest for near month index futures at NSE is presented in (Chart 6-2).

Chart 6-2: Daily Open Interest for Near Month Nifty Futures (April 2012 to September 2013)



Source: NSE

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 futures close prices for the near month contracts, and the spot Nifty close values from April 2012 to September 2013. 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 futures from April 2012 to September 2013 is presented in Chart 6-4. The implied interest rate for near month Nifty futures as on last trading of the month is presented in Table 6-7.

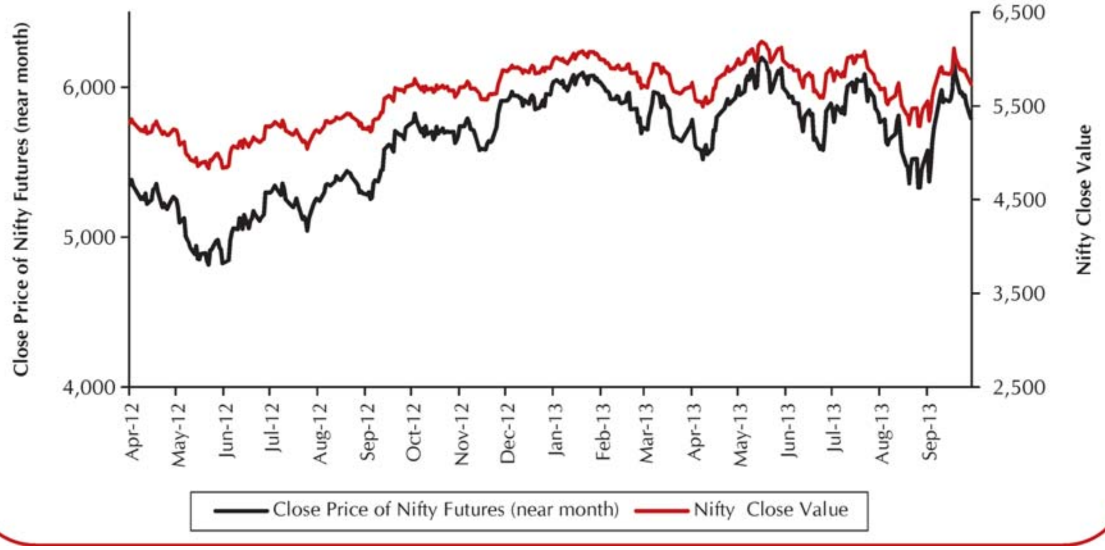
Table 6-7: Implied Interest Rate for Near Month Nifty Futures (April 2012 - September 2013)

Month	Expiry Date of Near Month Contract	Closing Future Price (₹)	Closing Spot Price (₹)	Implied Interest Rate (in percent)
Apr-12	26-Apr-2012	5267.85	5248.15	4.41
May-12	31-May-2012	4916.25	4924.25	-4.77
Jun-12	28-Jun-2012	5297.35	5278.90	4.72
Jul-12	26-Jul-2012	5240.55	5229.00	2.68
Aug-12	30-Aug-2012	5291.65	5258.50	8.50
Sep-12	27-Sep-2012	5729.55	5703.30	6.21
Oct-12	25-Oct-2012	5646.10	5619.70	5.90
Nov-12	29-Nov-2012	5909.05	5879.85	6.70
Dec-12	27-Dec-2012	5951.75	5905.10	9.27
Jan-13	31-Jan-2013	6037.25	6034.75	0.00
Feb-13	28-Feb-2013	5692.45	5693.05	0.00
Mar-13	28-Mar-2013	5676.50	5682.55	0.00
Apr-13	25-Apr-2013	5929.00	5930.20	-0.25
May-13	30-May-2013	6000.05	5985.95	3.18
Jun-13	27-Jun-2013	5841.45	5842.20	-0.17
Jul-13	25-Jul-2013	5781.05	5742.00	22.42
Aug-13	29-Aug-2013	5456.75	5471.80	3.18
Sep-13	26-Sep-2013	5791.45	5735.30	11.47

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

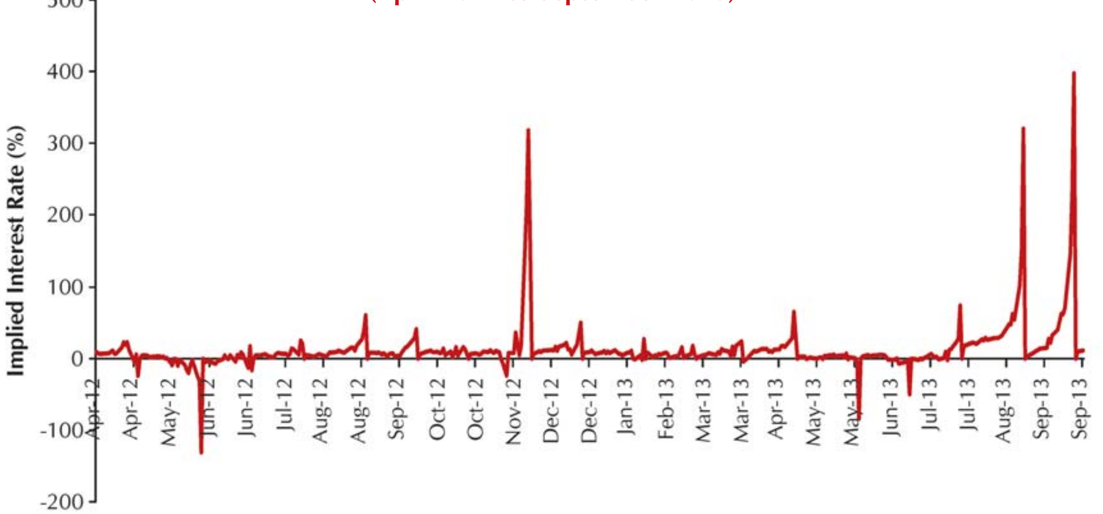
Source: NSE

Chart 6-3: Nifty Futures and Spot Price (April 2012 to September 2013)



Source: NSE

Chart 6-4: Implied Interest Rate for Near Month Nifty Futures (April 2012 to September 2013)



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 option 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 2012–13, the cash settlement amounted to ₹ 568 billion, compared to ₹ 723 billion in 2011–12. During the first half of 2013–14, the cash settlement amounted to ₹ 340 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 Settlement (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**
2011-12	**566,629**	**12,735**	**127,983**	**15,615**	**722,962**	**14,132**
Apr-12	28,842	334	8,990	564	38,730	712
May-12	42,796	518	10,412	931	54,657	1,005
Jun-12	33,995	287	10,925	1,244	46,450	854
Jul-12	34,579	1,631	14,022	745	50,976	938
Aug-12	23,747	596	10,244	637	35,224	648
Sep-12	32,727	656	10,624	1,459	45,467	836
Oct-12	32,461	448	8,606	472	41,986	772
Nov-12	33,617	1,328	8,258	1,342	44,545	819
Dec-12	31,289	778	9,060	3,421	44,548	819
Jan-13	46,613	476	8,579	1,149	56,816	1,045
Feb-13	42,046	3,824	8,399	2,012	56,280	1,035
Mar-13	36,541	1,319	11,015	3,036	51,910	955
2012-2013	**419,252**	**12,193**	**119,133**	**17,010**	**567,588**	**10,440**
Apr-13	29,943	1,385	11,540	1,570	44,437	697
May-13	38,030	926	10,945	1,530	51,431	806
Jun-13	37,038	2,337	10,343	4,869	54,586	856
Jul-13	43,590	1,253	10,821	1,339	57,002	894
Aug-13	52,743	3,587	14,398	3,292	74,020	1,161
Sep-13	42,734	304	13,524	1,770	58,332	915
Apr-Sep 13	**244,077**	**9,792**	**71,570**	**14,369**	**339,808**	**5,328**

Source:NSE

Business Growth in Currency Futures & Options Segment

The currency futures and options turnover on the NSE increased by 12.8 percent from ₹ 46,750 billion in 2011-12 to ₹ 52,745 billion in 2012-13. The turnover for the period April 2013 to September 2013 was ₹ 2,850 billion. 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, JPY-INR and GBP-INR.

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

Month/Year	Currency Futures		Currency Options				Total		Total Turnover (US $ mn)
			Call		Put				
	No. of Contracts	Turnover (₹ mn)	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**
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**	**913,860**
Apr-12	37,256,978	1,953,855	6,661,632	351,016	5,765,959	299,638	49,684,569	2,604,510	47,908
May-12	61,319,344	3,377,763	10,529,545	583,599	10,641,630	578,097	82,490,519	4,539,459	83,499
Jun-12	52,671,206	2,977,691	8,862,587	505,336	8,090,560	453,162	69,624,353	3,936,189	72,403
Jul-12	60,118,966	3,358,298	12,346,594	696,308	11,146,429	618,133	83,611,989	4,672,739	85,951
Aug-12	43,248,100	2,422,669	8,815,001	495,812	6,652,073	370,587	58,715,174	3,289,068	60,500
Sep-12	51,589,559	2,825,082	11,946,477	658,107	9,015,497	492,729	72,551,533	3,975,918	73,134
Oct-12	67,774,606	3,625,005	14,236,384	766,760	12,849,756	682,493	94,860,746	5,074,259	93,337
Nov-12	58,350,327	3,235,177	13,411,866	744,176	12,753,397	699,398	84,515,590	4,678,751	86,062
Dec-12	58,135,350	3,218,925	12,217,935	676,810	10,811,630	591,794	81,164,915	4,487,530	82,544
Jan-13	73,027,819	4,016,319	19,002,754	1,043,910	14,675,318	800,019	106,705,891	5,860,248	107,794
Feb-13	63,317,459	3,468,591	15,354,701	837,216	12,345,688	666,965	91,017,848	4,972,772	91,470
Mar-13	57,349,549	3,171,678	14,762,879	814,570	12,187,893	666,957	84,300,321	4,653,204	85,592
2012-2013	**684,159,263**	**37,651,053**	**148,148,355**	**8,173,620**	**126,935,830**	**6,919,974**	**959,243,448**	**52,744,647**	**970,193**
Apr-13	53,216,306	2,935,091	15,482,994	851,438	11,573,819	630,291	8,02,73,119	4,416,820	69,253
May-13	68,624,957	3,839,361	17,205,721	959,755	17,911,332	985,486	10,37,42,010	5,784,602	90,699
Jun-13	82,868,291	4,921,599	22,100,698	1,311,494	26,121,236	1,520,035	13,10,90,225	7,753,128	121,565
Jul-13	47,765,700	2,931,759	9,871,427	603,579	9,393,232	562,056	6,70,30,359	4,097,394	64,245
Aug-13	42,873,698	2,845,026	3,578,142	230,699	5,303,230	332,350	5,17,55,070	3,408,075	53,437
Sep-13	38,568,769	2,575,860	3,740,430	245,914	3,337,764	214,547	4,56,46,963	3,036,321	47,608
Apr-Sep 13	**333,917,721**	**20,048,696**	**71,979,412**	**4,202,879**	**73,640,613**	**4,244,765**	**479,537,746**	**28,496,340**	**446,807**

Note: Currency Futures trading statred at NSE on August 29, 2008.
Currency Options were introducded 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 Future		EUR-INR Future		JPY-INR Future		GBP-INR Future		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**
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
Oct-12	27,086,140	1,449,254	66,655,968	3,544,105	617,930	42,689	254,420	17,136	246,288	21,076	94,860,746	5,074,259
Nov-12	26,165,263	1,443,574	57,184,776	3,148,768	614,128	43,575	280,822	19,028	270,601	23,806	84,515,590	4,678,751
Dec-12	23,029,565	1,268,604	56,438,771	3,094,181	955,997	68,839	416,859	27,237	323,723	28,669	81,164,915	4,487,530
Jan-13	33,678,072	1,843,929	70,349,775	3,826,558	1,450,711	104,942	843,077	51,444	384,256	33,375	106,705,891	5,860,248
Feb-13	27,700,389	1,504,181	60,321,569	3,259,078	1,504,355	108,429	922,982	53,665	568,553	47,419	91,017,848	4,972,772
Mar-13	26,950,772	1,481,527	54,806,341	2,996,018	1,178,398	83,510	815,129	46,892	549,681	45,258	84,300,321	4,653,204
2012-13	**275,084,185**	**15,093,593**	**667,275,855**	**36,438,256**	**8,632,609**	**612,752**	**4,731,070**	**298,296**	**3,519,729**	**301,749**	**959,243,448**	**52,744,647**
Apr-13	27,056,813	1,481,729	50,237,232	2,737,474	1,084,204	76,981	1,361,278	76,100	533,592	44,535	80,273,119	4,416,820
May-13	35,117,053	1,945,242	65,312,442	3,613,329	1,379,059	98,874	1,212,628	66,406	720,828	60,751	103,742,010	5,784,602
Jun-13	48,221,934	2,831,529	79,784,093	4,688,554	1,318,439	102,194	961,310	57,569	804,449	73,282	131,090,225	7,753,128
Jul-13	19,264,659	1,165,635	44,529,905	2,677,119	1,646,899	129,412	632,012	38,064	956,884	87,164	67,030,359	4,097,394
Aug-13	8,881,372	563,049	38,223,522	2,444,130	2,261,718	192,450	844,848	55,006	1,543,610	153,439	51,755,070	3,408,075
Sep-13	7,078,194	460,461	34,485,299	2,215,955	1,761,973	151,046	748,774	48,623	1,572,723	160,237	45,646,963	3,036,321
Apr-Sep '13	**145,620,025**	**8,447,645**	**312,572,493**	**18,376,561**	**9,452,292**	**750,957**	**5,760,850**	**341,769**	**6,132,086**	**579,408**	**479,537,746**	**28,496,340**

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

Currency option contracts based on the currency pair USD-INR were launched by NSE on October 29, 2010. From April 2012 to March 2013, number of USD-INR currency option contracts traded stood at 275 million with a traded value of ₹ 15,094 billion.

During April 2012- March 2013, cash settlement for currency derivatives amounted to ₹ 86.5 billion (US $ 1.6 billion). 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	87
May-12	9,478	225	1,721	754	12,178	224
Jun-12	6,205	93	1,155	420	7,872	145
Jul-12	6,675	65	1,682	259	8,682	160
Aug-12	3,212	17	1,033	248	4,510	83
Sep-12	4,872	62	1,382	356	6,672	123
Oct-12	5,831	56	1,604	321	7,812	144
Nov-12	5,932	18	1,538	486	7,975	147
Dec-12	4,352	38	1,237	237	5,865	108
Jan-13	5,681	108	1,782	477	8,048	148
Feb-13	4,901	73	1,397	426	6,797	125
Mar-13	3,074	138	1,579	521	5,312	98
2012-13	**63,716**	**917**	**16,917**	**4,929**	**86,479**	**1,591**
Apr-13	3,215	61	1,444	422	5,142	81
May-13	4,187	165	1,905	988	7,244	114
Jun-13	11,904	44	3,055	1,728	16,731	262
Jul-13	6,748	70	1,655	268	8,742	137
Aug-13	7,412	320	943	558	9,232	145
Sep-13	4,836	44	754	270	5,904	93
Apr-Sep 13	**38,302**	**704**	**9,756**	**4,234**	**52,995**	**831**

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 (₹ mn)	Turnover (US $ mn)
2011-12	**348,718**	**111,610**	**2,182**	**42,085**	**13,108**	**256**	**-**	**-**	**-**	**-**	**-**	**-**	**487,787**	**1,486,466**	**29,057**
Apr-12	7,267	2,509	46	305	107	2	-	-	-	-	-	-	15,105	48,890	899
May-12	6,443	2,146	39	875	296	5	135,205	36,813	677	19,247	5,204	96	20,553	65,042	1,196
Jun-12	7,321	2,419	44	336	111	2	77,487	20,976	386	15,628	4,285	79	20,251	63,365	1,166
Jul-12	5,336	1,811	33	70	24	0	23,098	6,497	120	25,774	7,186	132	16,637	53,114	977
Aug-12	5,427	1,900	35	24	9	0	18,032	5,234	96	24,384	6,925	127	18,448	60,491	1,113
Sep-12	3,109	1,122	21	131	46	1	17,902	5,230	96	21,300	6,136	113	12,306	41,319	760
Oct-12	2,620	943	17	2	1	0	21,850	6,338	117	18,375	5,318	98	16,341	54,390	1,000
Nov-12	3,743	1,297	24	0	-	-	5,344	1,543	28	2,023	587	11	22,084	70,844	1,303
Dec-12	2,432	863	16	10	4	0	3,244	959	18	32	8	0	10,314	33,809	622
Jan-13	4,148	1,522	28	28	10	0	4,415	1,345	25	2	1	0	15,022	50,593	931
Feb-13	6,380	2,409	44	25	9	0	4,888	1,537	28	3	1	0	13,706	47,715	878
Mar-13	9,398	3,635	67	82	32	1	4,520	1,457	27	7	2	0	25,913	93,085	1,712
2012-13	**63,624**	**22,577**	**415**	**1,888**	**650**	**12**	**315,985**	**87,930**	**1,617**	**126,775**	**35,653**	**656**	**206,680**	**452,246**	**8,319**
Apr-13	10,580	4,134	65	37	15	0	1,600	503	8	8	3	0	24,947	91,317	1,432
May-13	11,966	4,901	77	23	10	0	530	176	3	32	11	0	21,803	82,415	1,292
Jun-13	8,300	3,350	53	180	75	1	2,603	814	13	0	0	-	23,439	87,932	1,379
Jul-13	6,905	2,874	45	16	7	0	957	311	5	0	0	-	13,013	49,890	782
Aug-13	6,127	2,545	40	10	4	0	2,080	673	11	0	0	-	12,102	45,979	721
Sep-13	3,675	1,549	24	14	6	0	843	277	4	0	0	-	11,100	42,644	669
April Sep'13	**47,553**	**19,354**	**303**	**280**	**116**	**2**	**8,613**	**2,753**	**43**	**40**	**14**	**0**	**106,404**	**400,177**	**6,275**

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 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-l2, 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 2012–13 (depicted in Table 7-1) shows that the net FII investments were positive for all months (except April 2012). In February 2013, the net investment of ₹ 284,410 million (US $ 5,318 million) by FIIs was the highest monthly net investment in 2012-13. The total net investment by FIIs in 2012-13 stood at US $ 31,047 million. However, it dried up in the first half of 2013-14; in fact during this period there was a net outflow of US $ 4,700 million.

Table 7-1: Trends in FII Investment

Period	Purchases (₹ mn)	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

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Contd.

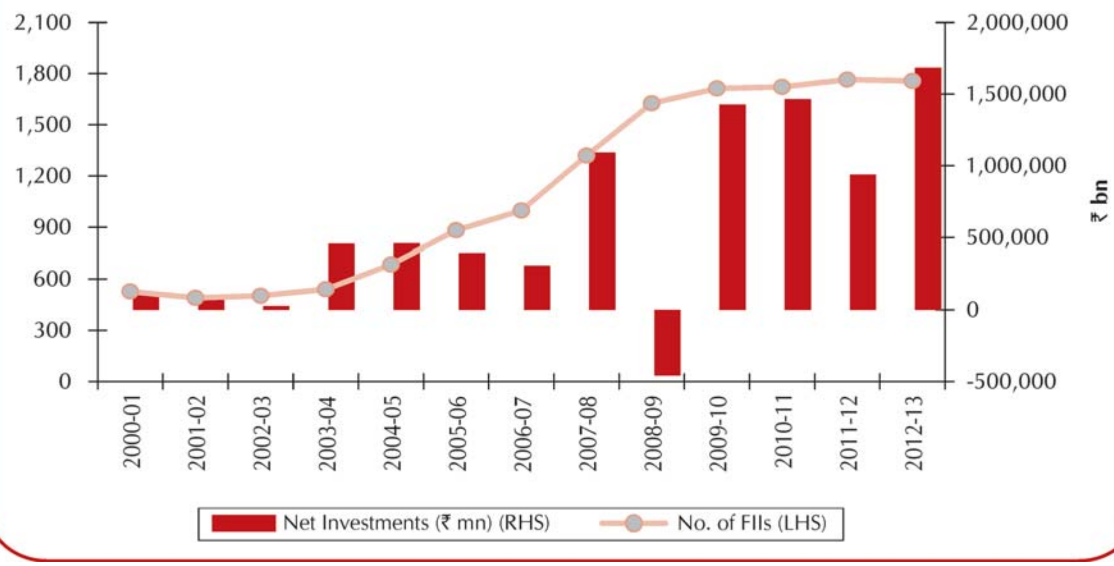
Period	Purchases (₹ mn)	Sales (₹ mn)	Net Investment (₹ mn)	Net Investment (US $ mn)	Cumulative Net Investment (US $ mn)
2008-09	**6,145,810**	**6,603,920**	**-458,110**	**-11,356**	**56,650**
2009-10	**8,464,400**	**7,037,810**	**1,426,580**	**30,253**	**89,333**
2010-11	**9,925,990**	**8,461,610**	**1,464,380**	**32,226**	**121,561**
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	829,690	630,860	198,840	3,682	148,502
Oct-12	757,370	565,210	192,160	3,646	152,148
Nov-12	668,150	569,460	98,690	1,805	153,954
Dec-12	928,620	660,700	267,920	4,905	158,859
Jan-13	957,770	707,710	250,060	4,610	163,469
Feb-13	977,290	692,890	284,410	5,318	168,787
Mar-13	917,860	768,670	149,190	2,741	171,529
2012-2013	**9,048,450**	**7,364,810**	**1,683,670**	**31,047**	**171,529**
Apr-13	862,030	754550	107,490	1,992	173,521
May-13	1,016,740	735,360	281,380	5,176	178,697
Jun-13	669,980	1,111,600	-441,620	-7,536	171,161
Jul-13	753,480	934,720	-181,240	-3,026	168,135
Aug-13	867,760	1,024,720	-156,950	-2,457	165,679
Sep-13	935,750	861,960	7,380	1,151	1,66,830
Apr-Sep 2013	**5,105,740**	**5,422,910**	**-383,560**	**-4,700**	**1,66,830**

Source: SEBI

Number of Foreign Institutional Investors (FIIs)

The number of SEBI-registered FIIs declined for the first time in 2012-13 to 1,757 from 1,765 in the previous year. Number of FIIs registered with SEBI has been increasing at a lower rate in the past few years; there was a net addition of 43 SEBI-registered FIIs in 2011–12, compared to more than 300 in 2007-08 and 2008-09 (Chart 7-1).

Chart 7-1: Number of FIIs and Net Investments



Source: SEBI

Foreign Institutional Investments—Equity and Debt

In 2012-13; the net FII investment in equity increased by a robust 157 percent to ₹ 1,123,907 million (US $ 20,673 million). This increase came after a 60 percent decline in FII investments in 2011-12. (Table 7-2)

However, net investments by FIIs in the debt segment fell by 39.1 percent in 2012-13 to ₹ 304,429 million. During April–September, 2013, there was a net outflow of FII investments worth ₹ 493,210 million in debt. In equities, FIIs made net investments of ₹ 176,050 million in the first half of 2013-14.

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**
2011-12	**437,380**	**499,880**	**8,550**	**9,772**
Apr-12	-11,091	-37,875	-204	-697
May-12	-3,471	35,691	-64	657
Jun-12	-5,013	16,818	-92	309
Jul-12	102,727	33,917	1,890	624
Aug-12	108,039	2,652	1,987	49
Sep-12	192,615	6,225	3,543	115
Oct-12	113,640	78,517	2,090	1,444
Nov-12	95,772	2,921	1,762	54
Dec-12	244,635	17,044	4,500	314
Jan-13	220,590	29,470	4,058	542
Feb-13	244,390	40,010	4,495	736
Mar-13	91,240	57,950	1,678	1,066
2012-2013	**1,394,073**	**304,429**	**25,643**	**5,600**
Apr-13	54,140	53,340	849	836
May-13	221,690	59,690	3,476	936
Jun-13	-110,270	-331,350	-1,729	-5,195
Jul-13	-60,860	-120,380	-954	-1,887
Aug-13	-59,230	-97,730	-929	-1,532
Sep-13	130,580	-56,780	2,047	-890
Apr-Sep '13	**176,050**	**-493,210**	**2,760**	**-7,733**

Source: SEBI

FIIs Turnover - Equity and Derivatives

Equity Market

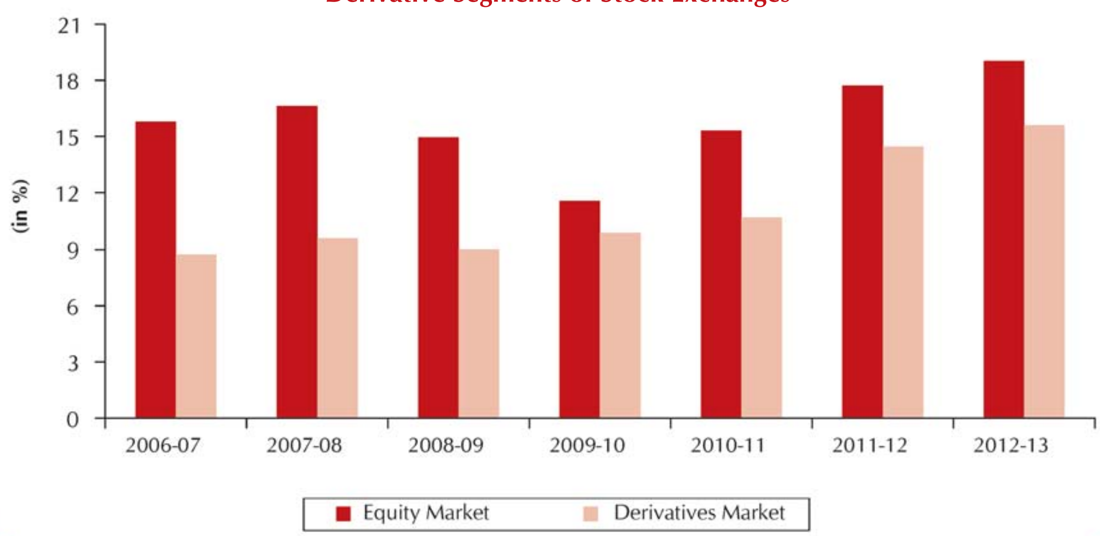
The gross turnover of FIIs in the equity market segment on the Indian stock exchanges (the NSE and the BSE) accounted for ₹ 12,396,042 million in 2012–13, which marked a year-on-year increase of a marginal 0.6 percent. The total turnover of the FIIs in the equity market constituted 19.0 percent of the total turnover on the BSE and the NSE in 2012–13, an increase from 17.7 percent recorded in 2011–12 (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
2012-13	**6,711,504**	**123,452**	**5,684,538**	**104,562**	**12,396,042**	**228,015**	**65,141,069**	**1,198,215**	**19.0**
Apr-Sep '13	**3,837,162**	**60,165**	**3,731,632**	**58,510**	**7,568,794**	**118,674**	**33,010,436**	**517,585**	**22.9**

Source: NSE

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



Source: NSE

Derivative Market

The FII gross turnover in the F&O Segment of the NSE in 2012–13 was ₹ 98,332,985 million, which was 15.6 percent of the total turnover in the F&O segment (₹ 630,660,079 million) at the NSE. The share of the FIIs' gross turnover fell to 13.5 percent of the derivatives turnover on the NSE during the first half of 2013–14 (Table 7-4 and Chart 7-2).

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, which 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
2012-13	**180,546,403**	**49,558,023**	**911,578**	**177,371,790**	**48,774,962**	**897,174**	**357,918,193**	**98,332,985**	**1,808,752**	**630,660,079**	**15.6**
Apr-Sep'13	**112,597,765**	**31,904,496**	**500,245**	**111,125,422**	**31,502,203**	**493,937**	**223,723,187**	**63,406,699**	**994,181**	**469,671,724**	**13.5**

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

Participatory Notes (PNs)

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 2013, the total value of PNs with underlying Indian securities as a percentage of assets under custody of FIIs has further deteriorated to 11.1 percent from 15.0 percent in March 2012 and 15.8 percent in March 2011. (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 (₹ 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**
Mar-12	**1,658,320**	**37,784**	**11,073,990**	**216,473**	**15.0**
Apr-12	1,300,120	23,915	10,939,550	201,224	11.9
May-12	1,288,950	23,709	10,405,470	191,400	12.4
Jun-12	1,298,510	23,885	10,903,590	200,562	11.9
Jul-12	1,295,860	23,836	10,964,920	201,690	11.8
Aug-12	1,417,100	26,066	11,138,940	204,891	12.7
Sep-12	1,466,000	26,966	12,191,630	224,255	12.0
Oct-12	1,758,290	32,342	12,219,000	224,758	14.4
Nov-12	1,771,640	32,588	12,896,120	237,213	13.7
Dec-12	1,510,840	27,791	13,351,890	245,597	11.3
Jan-13	1,621,390	29,824	13,708,660	252,159	11.8
Feb-13	1,642,710	30,216	13,324,960	245,101	12.3
Mar-13	**1,479,050**	**27,206**	**13,365,570**	**245,848**	**11.1**
Apr-13	1,575,780	17,480	13,916,190	218,198	11.3
May-13	1,682,630	17,389	14,389,800	225,624	11.7
Jun-13	1,474,980	15,642	13,491,840	211,544	10.9
Jul-13	1,481,180	14,866	12,936,870	202,843	11.5
Aug-13	1,648,170	16,028	12,421,540	194,763	13.3
Sep-13	1,711,540	16,703	13,101,940	205,431	13.1

** 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 2013, FIIs held the highest stake of 16.9 percent in the banking sector, followed by FMCG and finance (9.2 percent and 8.8 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 2013.

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

(in percent)

Sectors	Mar-13
Banks	16.9
Engineering	4.6
Finance	8.8
FMCG	9.2
Information Technology	7.2
Infrastructure	6.3
Manufacturing	4.6
Media & Entertainment	6.1
Petrochemicals	5.1
Pharmaceuticals	6.8
Services	5.2
Telecommunication	5.6
Miscellaneous	5.8
Total stake of FIIs in all the Sectors	**6.0**

Source : NSE

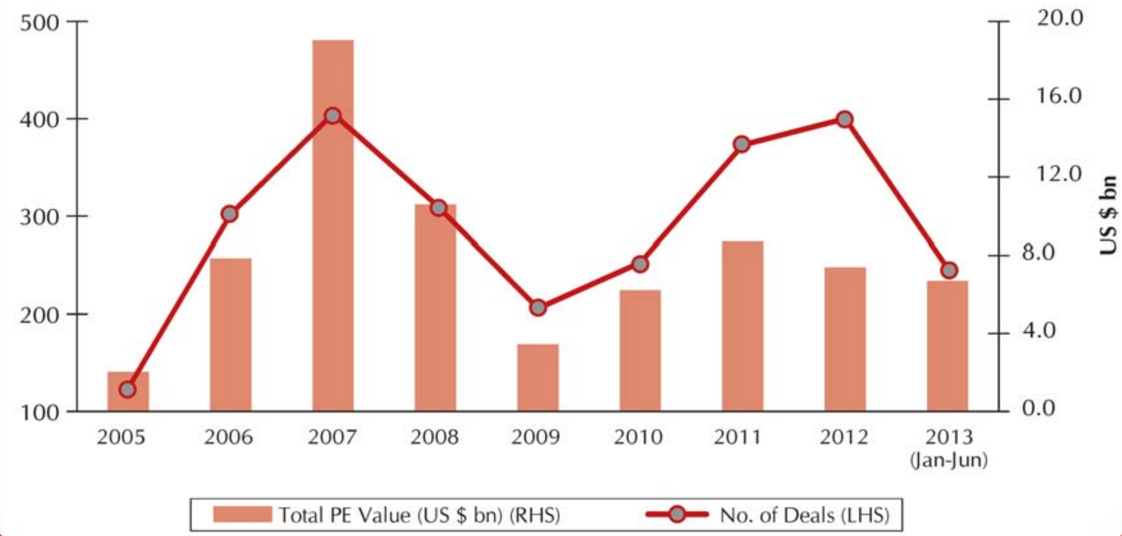
Private Equity (PE) Investments in India

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, 2012, there were 400 PE deals worth US $ 7.4 billion (Chart 7-3) in 2012. However, in value terms, the PE deals showed a year-on-year decline of 14.9 percent. During the first half of 2013, the PE deals in India stood at 247 with investments worth US $ 6.7 billion.

Chart 7-3: Private Equity Deals in India



Source : Grant Thornton, Report 2012

PE Fundraising/ Investments in BRIC countries

According to the data reported by the Emerging Markets Private Equity Association (EMPEA), among the BRIC economies, China was by far the most preferred destination for private equity players in 2012 as well as in H1 2013, followed by Brazil and India. In 2012, fundraising by private equity in China and Brazil was US $ 10,825 million and US $ 2,617 million, respectively. In India, fund raising by private equity was US $ 2,084 million in 2012. (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	**2,617**	**357**	**2,084**	**10,825**
2013 (Jan-Jun)	**758**	**126**	**477**	**2,579**

Source: Emerging Market Private Equity Association (EMPEA), August 2013

In 2012, PE investments declined in all the BRIC countries, except Brazil (where private equity investments increased by 78.1 percent). India saw the worst decline (56.6 percent) in PE investments, followed by China (32.5 percent) and Russia (21.5 percent). (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	**4,384**	**1,239**	**2,676**	**7,104**
2013 (Jan-Jun)	**689**	**65**	**1,739**	**3,278**

Source: Emerging Markets Private Equity Association (EMPEA), August 2013

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 18.6 percent in 2012-13, and stood at ₹ 79,282 million. In the derivatives market of the NSE, the total NRI turnover stood at ₹ 216,904 million in 2012-13, a year-on-year growth of 36.4 percent over 2011–12.

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
2012-13	**79,282**	**1,458**	**216,904**	**3,990**

Source: NSE

B. Policy Developments

Policy Developments

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 in the Indian securities market were made by the regulators in India—the Ministry of Finance, the Securities and Exchange Board of India (SEBI), and the Reserve Bank of India (RBI).

The policies and programmes initiated by the regulators for the period April 2012–September 2013 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. 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 market participants on some of the provisions highlighted in the SEBI Circulars (dated February 1, 2012, February 23, 2012, and February 27, 2012) related to the offer for sale of shares by promoters through the stock exchange mechanism. 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.

Eligibility	**(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.
Size of offer for sale of shares	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.
Floor price	(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.
Order placement	(i) A separate window for 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 the 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	(i) 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 other bidders. (ii) 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.

	(iii)	No allocation would be made if the order/bid is below the floor price.
	(iv)	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.
	(v)	The allocation details should be shared by the DSE with the other exchanges after the allocation is finalised.
Settlement	(i)	The allocation and the resulting obligations should be intimated to the brokers on T day.
	(ii)	The settlement should take place on trade-for-trade basis and should be completed on T+1 day. There should be no netting of settlement at the broker's end.
	(iii)	The funds collected from bidders who have not been allocated shares should be released after the download of the obligation.
	(iv)	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 dematerialised (demat) account of the successful bidder, provided this manner of credit is indicated/approved by the broker/bidder.

II. Public issues in electronic form and the use of nation-wide broker network of stock exchanges for submitting application forms (SEBI Circular dated October 4, 2012)

The SEBI introduced the e-IPO concept into the Indian primary market. During the Union Budget speech of financial year 2012–13, the Finance Minister announced that he would like to simplify the process of issuing IPOs, lower their costs, and increase their level of permeation among retail investors. Accordingly, the SEBI released this Circular, thereby introducing a new channel through which investors can submit their IPO applications—they can now use the stockbroker network of the stock exchanges. Apart from the present mechanism of approaching syndicate brokers (i.e., the chosen brokers to whom the IPO bid has to be submitted), investors can now also approach registered non-syndicate brokers (both ASBA as well as non-ASBA applications are included). Further, the application forms can be downloaded from the websites of the stock exchanges. Additionally, stock exchanges will guarantee that the information relating to price band is pre-filled in such forms. It is worth noting that this Circular applies only to IPO applications of ₹ 10 crore and above.

III. Inventory management for market makers of SME exchange/platform (SEBI Circular dated November 27, 2012)

A "market maker" is a firm that stands ready to buy and sell a particular stock on a regular and continuous basis at a publicly quoted price. Market makers play a starring role in the secondary market for facilitating liquidity and thus, for promoting long-term growth. This SEBI Circular prescribes the threshold limits to be followed by market makers for inventory during the market-making process based on the issue size. The market maker will give two-way quotes till he reaches the upper limit threshold; thereafter he/she has the option to give only sell quotes. Two-way quotes are to be resumed the moment the inventory reaches the prescribed re-entry threshold. There is no exemption on the downside.

Issue Size	Buy quote exemption threshold	Re-entry threshold for buy quotes
Upto ₹ 20 crores	25%	24%
₹ 20–50 crores	20%	19%
₹ 50–80 crores	15%	14%
Above ₹ 80 crores	12%	11%

The main purpose of this rule is to infuse liquidity. Usually, larger issues are more liquid than smaller issues. For this reason, the market makers of small issue sizes are required to provide bid/ask quotes until a substantial amount of the issue size is attained. In comparison, market makers of large issue sizes are required to provide bid/ask quotes until a smaller amount of the issue size is attained.

The exemption from threshold will not be applicable for the first three months of market making, i.e., the market maker must necessarily provide two-way quotes during this period. As per an earlier SEBI Circular, there is a mandatory inventory of 5 percent of the issue size at the time of issue allotment. The threshold for market making as prescribed above will be inclusive of this. Apart from this, only those shares that have been acquired at the exchange during the market-making process will be counted towards the market maker's threshold. The threshold limit takes into consideration the inventory level across the market.

IV. Requirement of base minimum capital for stockbroker and trading member (SEBI Circular dated December 19, 2012)

The base minimum capital (BMC) is the deposit maintained by members of the stock exchange against which no exposure for trades is allowed. As a practice, the BMC requirement is set according to the level of risk that the member's profile brings into the system. In light of the recent developments that have occurred in the Indian securities market (with respect to better technology, faster speed of transacting, and so on), the SEBI decided to hike the BMC requirements for stockbrokers in the cash segment as well as trading members in the derivatives segment according to their contribution to risk. It is interesting to note that the BMC requirements were last hiked by the SEBI in 1996. The revised numbers are listed below:

Category	BMC Requirement
Proprietary trading without algorithmic trading (hereinafter “algo”)	₹ 10 lakhs
Trading only on behalf of client without proprietary trading and without algo	₹ 15 lakhs
Proprietary trading and trading on behalf of client without algo	₹ 25 lakhs
All trading members/brokers with algo	₹ 50 lakhs

Proprietary trading is done by a financial institution on its own account rather than on behalf of a client. Algorithmic trading is the use of electronic platforms for entering trading orders with a mathematical algorithm that executes pre-programmed instructions. The instructions usually include the timing, price, and/or quantity of the trading order. These orders are executed at super-fast speed and do not require human intervention.

V. Rationalisation process for obtaining Permanent Account Number (PAN) by Investors (SEBI Circular dated January 04, 2013)

The SEBI introduced the facility for intermediaries to be able to verify the Permanent Account Number (PAN) of their clients online on the Income Tax website without insisting on the original PAN card, provided the client has presented a document other than the PAN card for proof of identity.

With a view to bringing about operational flexibility and in order to ease the PAN verification process, this Circular was issued by the SEBI to protect the interests of investors in securities as well as to promote the development of and to regulate the securities market.

Intermediaries—including stockbrokers, depository participants, portfolio managers, mutual funds, and so on—can now verify the PAN of their clients online. This rationalisation process for obtaining PAN by investors will definitely be of great convenience to qualified foreign investors (QFIs) who are unable to present their original PAN cards. QFIs are eligible to purchase or sell equity shares through registered stockbrokers on recognised stock exchange. In India, the PAN is a mandatory requirement for all tax payers and accordingly, QFIs have to acquire a PAN for investing directly in capital markets.

VI. Application Supported by Blocked Amount (ASBA) facility (SEBI Circular dated January 23, 2013)

The SEBI enabled the syndicate/sub-syndicate members to procure Application Supported by Blocked Amount (ASBA) forms from the investors, upload the relevant details in the bidding platform, and forward the forms to the Self Certified Syndicate Banks (SCSBs) for signature verification, blocking of funds. The syndicate / sub syndicate member have also been allowed to thereafter forwarding the forms to the registrar to the issue. Pursuant to the above, the SEBI (vide Circular No. CIR/CFD/DIL/1/2011 dated April 29, 2011) enabled the ASBA facility through syndicate/sub syndicate members from 12 bidding centres and advised all the SCSBs that are providing ASBA facility in any of these 12 centres to name at least one branch where syndicate/sub-syndicate members could submit the ASBA forms. Further, the SEBI (vide Circular No. CIR/CFD/14/2012 dated October 04, 2012) introduced an additional mechanism for investors to submit application forms in public issues using the stockbroker network of stock exchanges that may not be syndicate members in an issue. This Circular envisages enabling the facility for submitting the application forms in more than 1,000 locations that are part of the nation-wide broker network of the stock exchanges by March 1, 2013.

The ASBA facility will allow the application money to remain blocked in the applicant's bank account until the shares are actually allotted in the public offers. It will eliminate any delays related to refunds for unallotted shares. Under the ASBA mechanism, investors can bid for shares while the money remains in his/her bank account and gets debited only after the allotment of the shares. Initially, the facility was offered only to retail investors; it was extended to other investors in 2009.

VII. Comprehensive guidelines on offer for sale (OFS) of shares by promoters through the stock exchange mechanism (SEBI Circular dated January 25, 2013)

The purpose of this Circular was to modify the offer for sale (OFS) framework laid down in an earlier Circular dated July 8, 2012 by making it more economical, efficient, and transparent. This was done to encourage minimum public shareholding of 25 percent for listed private sector companies. In fact, the SEBI put a deadline of June 3, 2013 to achieve this goal. For public sector companies, the same rule was relaxed to 10 percent, with a deadline of August 8, 2013. The main amendments made to this policy are as follows:

1. With respect to the eligible sellers, the SEBI has now included promoters of the top 100 companies by average market capitalisation in any of the last four completed quarters.
2. The definition of "indicative price" has been changed to the volume-weighted average price of all the valid bids.
3. The operational requirement is that orders need to be made during trading hours.
4. Earlier, cancellation of bids was not permitted during the last 60 minutes of the duration for OFS. This has now been changed and cancellation can be done any time during trading (for investors who have paid 100 percent of the margin upfront). In case the margin is not paid, the order cannot be cancelled. However, its price and/or quantity can be revised upwards.

There are other finer amendments to order placement, risk management, and settlement procedures that can be referred to in the Circular.

2. Collective Investment Vehicles

I. SEBI notifies the SEBI (Alternative Investment Funds) Regulations, 2012 (SEBI Circular 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 regulations 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—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 the SEBI AIF 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.

Categories of funds

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

1. **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, the Government of India, or the other regulators in India. This category would include venture capital funds (VCFs), small and medium enterprise (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.
2. **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.
3. **Category III AIFs:** This category would include hedge funds that trade with a view to making 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 the 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 1,000 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 the 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 be either close-ended or open-ended.
- Schemes may be launched under an AIF subject to the filing of the information memorandum with the SEBI and the payment of 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 qualified institutional buyer (QIB) status as per the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.
- The Regulations provide for transparency and disclosure as well as a mechanism to avoid conflicts of interest.

II. 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 interests 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 steps with effect from October 1, 2012.

A. Total expense ratio

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 Association of Mutual Funds in India (AMFI) data in "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/asset management companies (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.

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

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

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 provisions 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 Advertising 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 certificates of deposit (CDs) issued by banks, collateralised borrowing and lending obligations (CBLOs), government securities (G-secs), treasury bills (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 the 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; the consolidated data in this regard would be disclosed on the AMFI website.

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

Vide the SEBI Circular dated September 26, 2012, the 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 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 stock 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.

IV. Participation of mutual funds in credit default swaps (CDS) market as users ("Protection Buyers") and in repo in corporate debt securities (SEBI Circular dated November 15, 2012)

The Reserve Bank of India (RBI) issued guidelines on credit default swaps (CDS) for corporate bonds for the participation of mutual funds in the CDS market. A CDS is a financial agreement that ensures that the buyer of the CDS will be compensated by the seller of the CDS if credit event occurs. However, the buyer will have to make regular payments to the seller to avail this security. The guidelines related to this given below:

- Mutual funds can participate in the CDS market only as buyers and not as sellers in order to hedge risks on their investments in corporate bonds. Hence, they are not permitted to enter into short positions in the CDS contracts.
- Mutual funds can avail such securities only within the portfolio of fixed maturity plans/schemes having tenure not less than one year.
- Mutual funds can buy CDS only from RBI-approved counterparties following the RBI guidelines. Exposure to a single counterparty in CDS position transactions should not exceed 10 percent of the net assets of the scheme.
- The overall exposure through CDS in all positions (including corporate bonds) should not exceed 100 percent of the net assets of the scheme.
- To maintain transparency, the mutual funds should disclose all CDS transactions of the scheme in corporate debt securities in the monthly portfolio statements as well as in the half-yearly trustee report and in the notes to the accounts of the annual reports of the mutual funds.

V. Participation of mutual funds in repo in corporate debt securities (SEBI Circular dated Nov 15, 2012)

The SEBI allowed mutual funds to participate in repo in corporate debt securities. The Circular further mentioned that such positions could be taken only in AAA-rated corporate debt securities. However, this Circular was modified. Mutual funds are now allowed to participate in repo transactions only in AA and above rated corporate debt securities. Both these policies are placed with the view to encourage investments in the corporate bond market as well as to maintain the security and wellbeing of the investors.

VI. Rajiv Gandhi Equity Savings Scheme, 2012 (SEBI Circular dated December 06, 2012)

This is a new tax benefit scheme introduced for equity investment in select stocks, mutual funds, and ETFs as declared by the Ministry of Finance. The scheme is aimed at encouraging the flow of savings of small investors into the domestic capital market and presents investors with tax benefits. As per the scheme, all new retail investors are allowed to invest up to ₹ 50,000 directly in equities, with an income tax deduction on 50 percent of the invested amount. As proposed, this scheme will allow small investors to purchase shares only in the top 100 stocks traded on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

VII. SEBI increases timeframe for initial offering under RGESS (SEBI Circular dated February 06, 2013)

The SEBI has allowed mutual funds to accept investor funds under the newly introduced Rajiv Gandhi Equity Savings Scheme (RGESS) for 30 days, as against a 15-day subscription period in other schemes. This means that the maximum period for which the initial offering of mutual fund schemes eligible under RGESS shall be open for subscription is extended from the existing stipulation of 15 days to 30 days. Additionally, the timeframe for the allocation of the refund money and the issuance of statements by the mutual fund houses would be 15 days from the closure of the initial subscription. The deadline remains five days for other mutual fund schemes. The relaxation has been made only for mutual fund schemes under the RGESS, a government initiative aimed at attracting small investors into the capital market.

VIII. Gold exchange-traded funds (Gold ETFs) scheme: Investment in gold deposit schemes (GDS) of banks (SEBI Circular dated February 15, 2013)

The SEBI has allowed gold ETFs to invest in the gold deposit schemes (GDS) of banks, as the Reserve Bank of India (RBI) changed the maturity period of gold deposits from six months to seven years instead of three to seven years, making the product more attractive for investors. Gold ETFs are allowed to invest in GDS subject to certain conditions, including that the total investment of GDS will not exceed 20 percent of the total AUM of such schemes. Further, the gold certificate issued by the banks in respect of the investments made by the gold ETFs in GDS shall be held by the mutual funds only in dematerialised (demat) or physical form. The aim is to channelize India's idle gold for productive purposes and also to check the demand for imports. As per the SEBI guidelines, before investing in GDS, mutual funds would have to put in place a written policy related to the investment with due approval from the board of the AMC and the trustees. Further, the policy has to be reviewed by the mutual funds at least once a year.

IX. Amendments to SEBI (Mutual Funds) Regulations, 1996 (SEBI Circular dated November 19, 2012)

1. **Prudential limits and disclosures on portfolio concentration risk in debt-oriented mutual fund schemes:** According to the prevailing guidelines, the prudential limit for sectoral exposures in debt-oriented mutual fund schemes had a limit of 30 percent at the sector level. However, this limit was modified; accordingly, mutual funds were allowed to take further exposure in financial services sector not more than 10 percent of the net assets of the scheme. Recent times have shown the importance of housing finance companies (HFCs) in the housing sector. Given the ever rising demand and insufficient supply backed by rising real estate values, it was decided that this additional exposure would only be allowed through increasing the exposure in HCFs with a rating above AA and those who are registered with the National Housing Bank (NHB). It was also mentioned that the total investment/exposure in HFCs cannot be more than 30 percent of the net assets of the scheme.

2. **Brokerage and transaction Cost:** This Circular clarified that the brokerage and transaction cost incurred for the purpose of the execution of trade must be to the extent of 12bps and 5bps for cash market transactions and derivatives transactions, respectively. Any further charges would be charged to the scheme within the maximum limit of the total expense ratio (TER) in accordance with the SEBI Regulations, 1996. Any other expenditure must be taken care of by the AMCs.

X. Mutual funds to get a colour code from July 1, 2013 (SEBI Circular dated March 18, 2013)

In a move that will help investors assess the risks associated with investing in various mutual fund schemes, the SEBI has asked mutual fund companies to label their schemes based on parameters such as the level of risk and suitability to investors. The level of risk will have to be depicted in colour-coded boxes, with blue indicating low-risk, yellow indicating medium-risk, and brown indicating high-risk schemes. In addition, mutual funds will have to state the nature of their schemes—short-term, medium-term, or long-term—the investment objective, and whether the funds will invest in equity or debt. The labelling had to start from July 1, 2013.

XI. Facilitating transactions in MF schemes via stock exchange infrastructure (SEBI Circular dated October 04, 2013)

The SEBI has allowed mutual fund (MF) distributors to use the infrastructure of the stock exchanges for the purchase and the redemption of mutual fund units directly from AMCs on behalf of their clients. Prior to this, the facility was available only for stockbrokers and clearing members. Only an MF distributor who is registered with the AMFI and who has been permitted by the stock exchange would be eligible for this purpose. Further, a request has to be made by an AMFI-registered MF distributor, which would be permitted by the stock exchanges on the basis of various criteria (including fee and code of conduct) as laid down by them. The MF distributor will handle the pay-out and the pay-in of funds as well as the units on behalf of their clients. This move is aimed at leveraging the stock exchange platform, which will in turn enable the MF distributors to improve their reach.

XII. Change in category of the alternative investment fund (SEBI Circular dated August 07, 2013)

The SEBI has issued norms for alternative investment funds (AIFs), a new class of investors planning to change their registration categories based on risk exposure. Only AIFs that have not made any investments under their existing category would be allowed to apply for changing their classification. Alternative investment funds are a newly created class of pooled-in investment vehicles for real estate, private equity, and hedge funds that would like to change in their categories. Any AIF proposing to change its category is required to make an application to the SEBI for the same along with the application fees of ₹ 1 lakh. Additionally, they need to intimate the rationale for the proposed change. In case the AIF has raised funds prior to the application for change in category, the AIF would be required to inform all its investors providing them the option to withdraw their funds garnered without any penalties. Any fees collected from investors seeking to withdraw commitments/funds shall be returned to them. Partial withdrawal may be allowed subject to compliance with the minimum investment amount required under the AIF Regulations. The AIF would not make any investments other than in liquid funds/banks deposits until approval for the change in category is granted by the SEBI.

3. Capital Markets

I. 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 had been 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 the 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 the open offer is not beneficial to the shareholders (in the opinion of the SEBI), and/or if 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 defaults, where the actions of the AMC/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 the 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 could materially affect the rights of the investors (in the opinion of the SEBI).
- 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 (ongoing 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.

II. Notification of SECC Regulations on review of ownership and governance of market infrastructure institutions (SEBI Circular 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, depository, banking company, insurance company, or 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 foreign institutional investors (FIIs) should not exceed 23 percent of the total paid-up equity share capital at any time. (c) An FII should acquire the shares of a recognised stock exchange only 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, banking company, insurance company, or 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) An FII should acquire shares of a recognised clearing corporation only 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 the 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-thirds 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; 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	Recognised stock exchanges and recognised clearing corporations 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 and 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 be composed of its trading members; the advisory committee of a recognised clearing corporation should be composed of its clearing members. • The chairperson of the governing board should be the head of the advisory committee; 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; 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 the 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.

III. 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 ₹ 1000 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.

IV. 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:

- 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., it should be located 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.

V. Procedural norms on recognitions, ownership, and governance for stock exchanges and clearing corporations (SEBI Circular dated December 13, 2012)

The market regulator (SEBI) notified new norms for ownership and governance of stock exchanges and other market infrastructure institutions a move that could pave the way for the setting up of new bourses and could also permit the exchanges to get listed on other bourses. As per the new norms, every recognised stock exchange should have a minimum net worth of ₹ 100 crore at all times and at least 51 percent of its stake has to be held by the public. Further, no Indian entity, either individually or together with persons acting in concert, would be allowed to acquire or hold more than 5 percent stake directly or indirectly in a stock exchange. However, stock exchanges, depositories, banks, insurance companies, and public financial institutions from India can acquire or hold up to 15 percent stake. Currently, there are two national level bourses in the country (the BSE and the NSE). Recently, MCX Stock Exchange Limited (MCX-SX) has also received the permission from SEBI to offer trading in equity and derivatives segment. For a stock exchange that is not listed, an FII may acquire shares through transactions outside of a recognised stock exchange, provided it is not an initial allotment of shares. For listed bourses, the FIIs can transact through the exchange where the shares are listed. Additionally, the shares of a recognised stock exchange and a recognised clearing corporation would have to be in demat form, while clearing corporations cannot hold any rights, stakes, or interests in an exchange. Further, only those entities would be consider “fit and proper” to set up or become shareholders or directors of stock exchanges who have "a general reputation and record of fairness and integrity". Additionally, such entities should not have incurred any disqualifications such as a conviction by a court for any offence involving moral turpitude or any economic offence or any offence against the securities laws, among other conditions.

VI. Liquidity enhancement scheme for illiquid securities in equity cash market (SEBI Circular dated February 08, 2013)

After the success of the liquidity enhancement scheme (LES) in the equity derivatives segment, the SEBI has introduced a similar scheme for illiquid securities in the equity cash segment. As per the scheme, an LES may be introduced on securities that have a mean impact cost greater than 2 percent for an order size of ₹ 1 lakh (calculated over the past 60 trading days). Similarly, an LES can also be introduced for securities that are in the “permitted to trade” category of the stock exchange.

From April 1, 2013, trading in illiquid securities in the equity segment will be conducted only through periodic call auctions. These sessions will be of 1-hour duration and shall be conducted throughout the trading hours, with the first session starting at 9.30 a.m. Additionally, the SEBI has notified the extension of pre-open sessions to all other securities in the equity market.

VII. SEBI extends pre-open call auction to all scrips (SEBI Circular dated February 14, 2013)

The SEBI has decided to extend the pre-open call auction facility to all scrips that would be available in all stock exchanges with active trading and for all scrips that are not classified as illiquid. Generally, in a call auction, the buyers set a maximum price at which the shares can be bought while the sellers keep a minimum price for selling the scrips. Generally, this facility—conducted before the start of the trading session—helps in reducing price volatility. The price bands for such sessions would be applicable in the normal market. The SEBI has also introduced periodic call auction sessions for illiquid shares in the equity market. The decision was taken following deliberations by the Secondary Market Advisory Committee (SMAC).

As per the norms for periodic call auctions for illiquid scrips, a scrip would be illiquid if its average daily trading volume in a quarter is less than 10,000, the average daily number of trades is less than 50 in a quarter, and if it is classified as illiquid at all the exchanges where it is traded. Illiquid scrips are required to be identified by the stock exchanges at the beginning of every quarter. These shares can exit from the call auction mechanism to the normal trading session, provided they have remained in session for at least two quarters and are not illiquid. Further, a notice of two trading days would have to be submitted with the market for the entry and exit of scrips.

The regulator has fixed the maximum price band of 20 percent on the scrips. However, exchanges may reduce the price bands uniformly based on surveillance-related concerns. Penalties could be imposed on trades where the "maximum of buy price entered by a client is equal to or higher than the minimum sell price entered by that client and if the same results into trades". The penalty shall be calculated and charged by the exchange and collected from the respective trading members on a daily basis. As per the provisions, trading members may recover the penalty from their clients. The penalty so collected shall be deposited to the Investor Protection Fund.

VIII. Guidelines for enabling partial two-way fungibility of Indian Depository Receipts (IDRs) (SEBI Circular dated March 1, 2013)

The intention of this Circular was to encourage foreign companies to list themselves on Indian stock markets. So far, this has been a contentious issue and only one foreign company—Standard Chartered—has come out with IDRs (as far back as 2010). Indian Depository Receipts are rupee-denominated securities created by an Indian depositary against the underlying shares of a foreign company. They are yet another route for companies to raise capital. The IDRs help foreign companies raise capital through Indian investors; similarly, American Depositary Receipts (ADRs)/Global Depositary Receipts (GDRs) help Indian companies raise capital from abroad. Fungibility refers to the conversion of Depositary Receipts into their underlying equity shares. Vide this Circular:

- IDRs would be fungible after the completion of one year from the date of listing.
- The issuer will provide two-way fungibility on a continuous basis.
- For IDRs that are already issued, the issuer is expected to provide conversion of up to 25 percent of the originally issued IDRs.
- A reservation of 20 percent of the IDRs made available for redemption will be provided to retail investors.
- Fungibility is to be provided in one of the following ways: (i) by converting IDRs into underlying shares or (ii) by converting IDRs into underlying shares, selling the underlying shares in the foreign market (where the shares of the issuer are listed), and then providing the sale proceeds to the IDR holders.
- In case option (ii) is exercised (converting IDRs into underlying equity shares, selling them, and providing the sale proceeds to IDR holders), the issuer is required to disclose the range of fixed/variable costs in percentage terms upfront and ensure that all costs together should not exceed 5 percent of the sale proceeds.

IX. SEBI issues new norms for IDFs (SEBI Circular dated April 23, 2013)

The SEBI has made amendments to the Mutual Fund Regulations with regard to the infrastructure debt funds (IDFs) schemes to be floated by mutual funds. According to the Circular, IDFs can be set up like mutual funds and can invest funds collected for their schemes in the bonds of public financial institutions and infrastructure finance companies. In addition, the SEBI has also allowed the private placement of IDFs to less than 50 investors as an alternative to the new fund offer (NFO). For private placement, mutual funds have to file a Placement Memorandum with the SEBI instead of a Scheme Information Document and a Key Information Memorandum.

X. SEBI tightens norms for algorithmic trading (SEBI Circular dated May 21, 2013)

SEBI has strengthened the norms for stockbrokers providing algorithmic trading facility. According to the revised guidelines, stockbrokers providing algorithmic trading facility are required to subject their trading systems to a system audit every six months. The SEBI has also asked the stock exchanges to double the penalty if any broker or trading member has a high order-to-trade ratio for trades placed from the algorithmic systems. If any serious deficiencies or issues of failure are found, the stock exchanges will not allow the stockbroker to use the trading software unless such issues are addressed.

XI. SEBI set to ease regulations for securities lending and borrowing (SEBI Circular dated May 30, 2013)

The SEBI is reviewing the framework for securities lending and borrowing. In the review, the SEBI is set to increase the number of stocks that are allowed to be used for borrowing and lending, thus relaxing short-selling rules. The SEBI would allow stocks that meet several criteria (including average monthly turnover of at least ₹ 100 crore) to be used under the securities lending and borrowing (SLB) programme. Until now, only a limited set of stocks that traded in the futures and options markets were allowed to be borrowed and lent. The SLB programme was launched by the SEBI in 2008 to improve its oversight of the short-sale of stocks; however, the mechanism has been criticised by investors for being too stringent.

XII. SEBI relaxes OFS norms (SEBI Circular dated May 30, 2013)

The SEBI has relaxed the offer for sale (OFS) guidelines by allowing companies to sell shares through the OFS route with just one day's notice. Companies will now be allowed to announce an OFS with less than a day's notice as opposed to the prior guidelines (which mandated that such announcements should be made at least 24 hours before the opening of the offer). According to the Circular posted on the SEBI website, "Sellers shall announce the intention of sale of shares at least on the day prior to the offer for sale". The OFS route has been widely used by promoters to increase public shareholding to the mandatory 25 percent within the SEBI stipulated deadline of June 2013.

XIII. SEBI tightens conflict of interest rules (SEBI Circular dated August 27, 2013)

To ensure fair and non-discriminatory treatment to all investors and companies, the SEBI has asked stock exchanges, rating agencies, brokers, depositories, and other market entities to put in place a strong system to manage any conflict of interests. The credit rating agencies have been specifically asked to deploy adequate systems and policies to ensure that they address any conflict of interests during investment decisions of their own funds or by their top management and employees. The rating agencies, their employees, and key executives have also been asked not to "take undue advantage of any price sensitive information that they may have about any company".

Market intermediaries, stock exchanges, clearing corporations, and depositories have also been made responsible for educating their "associated persons" for compliance with these guidelines. All these entities and associated persons (with the active involvement of senior management) would need to lay down policies and internal procedures to identify and avoid or to deal/manage actual or potential conflicts of interest. They would also need to develop an internal code of conduct governing operations, formulate standards of appropriate conduct in the performance of their activities, and communicate such policies, procedures, and code of conduct to all concerned.

XIV. SEBI revises market-wide circuit breaker system (SEBI Circular dated September 03, 2013)

The SEBI has revised the index-based circuit breaker mechanism for trading in the equity and equity derivatives markets by providing for daily revisions in circuit limits. According to the new mechanism, a stock exchange will (on a daily basis) translate the 10 percent, 15 percent, and 20 percent circuit breaker limits of market-wide index variation based on the previous day's closing level of the index. Further, the resumption of trading in the cash market (after the halt) will start with a 15 minute pre-open call auction session. These changes have been made on the basis of the recommendations of the Secondary Market Advisory Committee (SMAC).

XV. SEBI to adopt global norms for financial market infrastructures (SEBI Circular dated September 04, 2013)

To safeguard investors as well as the market from systemic risks emanating from financial market infrastructures (FMIs), the SEBI has decided to adopt 24 standard global principles for such institutions. These principles will apply to all clearing corporations and depositories present in the Indian securities market. They are aimed at enhancing safety and efficiency in the payment, clearing, and settlement arrangements, reducing the systemic risk, fostering transparency and financial stability, and protecting market participants and investors.

The 24 global Principles for Financial Market Infrastructures (PFMIs) were finalised by the International Organisation of Securities Commissions (IOSCO), a global body of securities regulators from across the world that includes the SEBI. The PFMIs replace the three existing sets of international standards currently in use. The new guidelines prescribe higher minimum requirements, provide detailed guidance, and broaden the scope of the standards to cover new risk-management areas and new types of FMIs.

XVI. Clarification providing for the "Manner of Dealing with Audit Reports filed by Listed Companies" (SEBI Circular dated June 05, 2013)

The SEBI has mandated listed companies to submit Unqualified/Matter of Emphasis Report or Qualified/Subject To/ Except For Audit Report along with their annual report to the stock exchange(s). It is also envisaged that the qualified annual reports will be scrutinised by a Qualified Audit Review Committee (QARC) and if necessary, the company will be required to restate its books of accounts to provide a true and fair view of its financial position. It also clarified that the restatement of the books of accounts shall mean that the company is required to disclose the effects of the revised financial accounts by way of revised pro-forma financial results immediately to the shareholders through the stock exchange(s). However, the financial effects of the revision may be carried out in the annual accounts of the subsequent financial year as a prior period item so that the tax impacts, if any, can be taken care of.

XVII. Amendment to bye-laws of recognised stock exchanges with respect to non-compliance with certain listing conditions and adopting standard operating procedure for suspension and revocation of trading of shares of listed entities for such non-compliances (SEBI Circular dated September 30, 2013)

The SEBI has decided to streamline the processes and procedures with regard to the actions to be taken for non-compliances with certain listing conditions that have so far been considered as grounds for suspension of trading by the recognised stock exchanges. Accordingly, it has been decided that recognised stock exchanges shall use the imposition of fines as the action of first resort in case of such non-compliances and invoke suspension of trading in case of subsequent and consecutive defaults. Further, a need is felt to put in place an appropriate system to enforce the liabilities of listed entities and their promoter(s)/promoter group. Additionally, while the relevant disclosures have not been made, such promoter(s)/promoter group should not exit from the listed entity. Accordingly, it has been decided that during the process of the suspension of the trading/revocation of trading as provided in the standard operating procedure (SOP), the recognised stock exchange concerned shall intimate the details of the non-compliant entity and its promoter(s)/promoter group to the depositories. On receipt of such intimation, the depositories shall freeze or unfreeze (as the case may be) the entire shareholding of the promoter(s) and promoter group of such an entity.

XVIII. Guidelines for dealing with conflicts of interest for investment/trading by CRAs, access persons, and other employees (SEBI Circular dated August 28, 2013)

The SEBI issued guidelines for dealing with conflicts of interest for investment/trading in securities by credit rating agencies (CRAs) and their employees who are involved in the rating of securities. According to the SEBI, the objective of the guidelines is for the CRAs to adopt best industry practices and systems in order to manage conflicts of interest in case of investment/trading in securities (except schemes of mutual funds) done by CRAs or their access persons. According to the guidelines, access persons have to now apply to the compliance officer for the prior approval of transactions involving the purchase/sale of securities of companies that have been rated or graded by the CRA or whose securities/ instruments/facilities have been rated or graded by the CRA. As per the guidelines, employees and access persons of the CRA have to disclose through a consolidated statement of holding of all securities within 30 working days from the end of the financial year. The rating firms have to disclose the details of purchase/sale transactions effected within seven working days from the date of transaction. Any person who becomes an employee of the CRA has to submit a statement of holding of all securities to the compliance officer or chief executive within seven working days of joining the CRA.

XIX. Pre-trade risk controls (SEBI Circular dated December 13, 2013)

In an effort to prevent flash crashes on stock exchanges due to erroneous orders or manipulation by brokers, the SEBI, which is India's capital market regulator, imposed pre-trade order limits on exchanges and enhanced risk-management controls for bourses. The SEBI directed the exchanges to reject orders above ₹ 10 crore for trade execution on equity, exchange-traded funds, and derivatives. This decision was taken after a broker erroneous order worth ₹ 650 crore led to a 900-point crash on the index, which in turn led to a 10-minute halt of trade. Additionally, the exchanges need to ensure that required checks for value and quantity of orders are implemented by the stockbrokers according to their clients' risk profile. At present, there is no such limit on orders. The stock exchanges have been directed to ensure that the stockbrokers put in place a mechanism to limit the cumulative value of all unexecuted orders placed from their terminals to a threshold set by them. The SEBI directed stock exchanges to ensure that the trading algorithms of the stockbrokers have a client-level and cumulative open-order value check.

XX. Arbitration mechanism through stock exchanges: Introduction of automatic process and common pool of arbitrators (SEBI Circular dated March 18, 2013)

The SEBI has directed the stock exchanges to form a panel of arbitrators from across all the stock exchanges having nation-wide trading terminals by pooling them and making them publicly available (including by display on the websites of the stock exchanges). The SEBI has advised the stock exchanges to create a "common pool" of arbitrators consisting of arbitrators listed on the panels of all the stock exchanges having nation-wide trading terminals. If the clients and members (stockbrokers, trading members, or clearing members) fail to choose the arbitrator from the common pool, the arbitrator will be chosen by an "automatic process" wherein neither the parties to arbitration (i.e., clients or members) nor the concerned stock exchanges will be directly involved. In case of any conflicts of interest in an arbitration reference being assigned to any arbitrator, the arbitrator will have to decline the arbitration reference upfront. After the arbitrator declines, the automatic process will select the name of another arbitrator. This will continue until there is no conflict of interest involving the selected arbitrator. In such cases, the time for selection may be extended up to a maximum of 30 days. However, the stock exchanges should put on record the reasons for such an extension. In case of a conflict of interest involving the selected arbitrator, the information regarding this should reach the stock exchange on which the dispute has taken place within 15 days of receipt of communication from the stock exchange. This information may be sent by any method that ensures proof of delivery.

4. Debt Market

I. 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 the abridged prospectus. This resulted in different application forms and abridged prospectuses being used in the public issues of debt securities.

In order to standardise the application form and the abridged prospectus for the public issue of debt securities, the existing forms and abridged prospectuses were discussed and deliberated upon with the 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.

II. 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, 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 payments.

III. Report of Working Group on "Enhancing Liquidity in the Government Securities and Markets" (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 Working Group made various recommendations, which were categorised into essential recommendations, desirable recommendations, and operational recommendations. Some of the important recommendations made by the Working Group are:

(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.
- Formulation of 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**

- Utilisation of the services of banks—and post offices at a later stage, if possible and in consultation with the Government of India—as a distribution channel and nodal point for interface with individual investors.
- Establishment of 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.

IV. Guidelines for providing dedicated debt segment on stock exchanges (SEBI Circular dated January 24, 2013)

As part of its efforts to boost the country's corporate debt market, the SEBI has come out with guidelines for setting up a separate debt segment on bourses where entities such as banks and pension funds can also execute trades. The debt segment would provide separate rules for trading, reporting, membership, clearing, and settlement. Institutions such as scheduled commercial banks, primary dealers, pension funds, provident funds, insurance companies, and mutual funds can trade on the debt segment, either as clients of registered trading members or directly as trading members on proprietary basis only.

The market for debt securities differs from equity markets in several ways such as risks, returns, liquidity, type of participants, and method of trading. Publicly issued debt securities are listed, traded, and settled in a manner similar to equity, while privately placed debt is usually traded between institutional investors on an over-the-counter (OTC) basis. Such OTC transactions are mandatorily reported on the reporting platforms at the Fixed Income Money Market and Derivatives Association of India (FIMMDA), the BSE, and the NSE. The settlement for such transactions is different from that in equity markets or publicly issued debt securities. The minimum capital deposit required to be maintained by a stockbroker for trading in the debt segment would be up to ₹ 50 lakh. With a view of infusing liquidity in the market, market makers shall be permitted in the debt segment. Market making may be provided by merchant bankers, issuers through brokers, or any other entity as may be specified. As per the SEBI, the trading facility for the bond market can make use of access methods such as Internet and mobile trading. Further, the segment should have separate trading platforms for retail as well as institutional players.

V. SEBI tweaks utilisation period for government debt limits (SEBI Circular dated July 31, 2013)

The SEBI has changed the norms for the utilisation of investment limits allotted to foreign institutional investors (FIIs) and qualified foreign investors (QFIs) in government bonds to ensure that the unutilised limits can be auctioned further without any delay. As per the current norms, the debt limits that are unutilised as on the 18th day of every month are auctioned by the SEBI on the 20th day of every month. The FIIs and QFIs currently need to utilise these investment limits within 30 days, which means that they generally get time until the 19th day of every month to make the investments. However, because of the one-day gap between the expiry of the utilisation period (19th day) and the cut-off date for the free limits to be auctioned (18th), the unutilised limits freed up on the 19th day of the month get auctioned in the subsequent month's auction. On account of this, the free limits remain unavailable for investment for two months until the FIIs/QFIs can purchase them in the subsequent auction. In order to ensure that the unutilised debt limits are put up for auction without delay, the SEBI has proposed that FIIs/QFIs may be permitted to utilise the debt limits until the 17th day of the succeeding month.

5. Derivatives Market

I. Revised position limits for trading member (banks) in exchange-traded USD–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.

II. 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 to ₹ 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 not be 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.

III. 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 Working 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.

IV. Mini derivatives (futures & options) contract on index (Sensex & Nifty) (SEBI Circular dated November 20, 2012)

The SEBI had permitted stock exchanges to introduce mini derivatives contracts on index (Sensex and Nifty) with a minimum contract size of ₹ 1 lakh. To ensure that small/retail investors were not attracted towards the derivatives segment, it has now been decided to discontinue mini derivatives contracts on index (Sensex and Nifty). Exchanges have been directed to take necessary action to give effect to this. No fresh mini derivatives contracts shall be issued. However, the existing unexpired contracts may be permitted to trade till expiry and new strikes may also be introduced in the existing contract months. Further, the exchanges have also been directed to give due notice to the market in this regard. This Circular was issued by the SEBI to protect the interests of investors in securities, to promote the development of the securities market, and to regulate the securities market.

The discontinuation of the mini contracts will not have much impact on the derivatives market volumes as the open interest in this product was already very low. The product was meant for a very specific category of investors who wanted to take small-sized bets on Nifty. Retail investors always have an option of trading in Nifty contracts that are highly liquid. Not much is likely to be achieved by banning these contracts as they are quite unpopular and have very low volumes. Most traders (including retail investors) prefer to trade in the regular contracts and not the mini version due to the higher transaction costs involved and the lower liquidity on mini contracts.

Although the mini derivatives accounted for only a fraction of the total volumes in the equity derivatives market, SEBI's "protect retail interests" mindset has had a larger impact on the introduction of products in the equity derivatives space. Moreover, the method in which these smaller contracts on derivatives were introduced in 2007 and then abolished five years later raises serious questions about the regulator's decision-making process. Such haste in passing trading-related decisions has proved detrimental in the past as well; the decision to allow co-location facilities at exchanges is one such instance. A prime example of the impact of this decision is the endless delay in the introduction of derivatives on volatility indexes such as NSE's India Vix and BSE's Realvol.

V. Review of securities lending and borrowing framework (SEBI Circular dated November 22, 2012)

Lenders and borrowers who wish to extend an existing lent or borrowed position shall be permitted to roll over such positions. Rollover shall be available for a period of three months (original contract plus two roll-over contracts). Liquid index ETFs have been allowed for trading in the SLB segment.

VI. SEBI tightens disclosure norms for hedge funds (SEBI Circular dated July 29, 2013)

The SEBI has tightened the disclosure norms for alternate investment funds (AIFs) such as hedge funds that use complex trading strategies and employ leverage. Such funds have been asked to have a comprehensive risk management framework and a strong compliance function according to their size, complexity, and risk profile. They have also been asked to maintain appropriate records of their trades and to provide full disclosure of their trade management practices and any conflicts of interest to the SEBI. These directions have been made by the SEBI through its "Operational, Prudential, and Reporting Norms for Alternative Investment Funds". The AIFs were introduced by the regulator last year as a separate product class.

6. Foreign Investments in India

I. 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, qualified foreign investors (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 depository participant (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 is now defined as 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 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 that 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 related to the purchase and 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.

II. 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 this US $10 billion limit would stand reduced from five years to three years.

Vide the RBI Circular dated June 25, 2012, it was decided that the conditions for the limit of US $22 billion for FII investment in the 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 non-resident investment in IDFs (which are all within the overall limit of US $25 billion for investment in infrastructure corporate bonds) have been changed as under:

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

III. 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 shares (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 was 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 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 corporate debt securities (without any lock-in or residual maturity clause) and 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 it should be monitored and allocated in the manner prescribed in the SEBI Circular dated July 18, 2012. Some of the salient points are given below:

- A QFI can invest without obtaining prior approval until the aggregate QFI investment reaches 90 percent of US $1 billion, i.e., US $0.9 billion.
- The monitoring and allocation of investment limits would be broadly along the terms laid out in the SEBI Circular dated January 13, 2012.
- The depositories should administer and monitor these investments 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.

IV. SEBI allows FIIs to use government, corporate bonds as collateral (SEBI Circular dated March 20, 2013)

The SEBI has allowed FIIs to offer government securities, corporate bonds, cash, and foreign sovereign securities with AAA ratings as collateral (to meet their margin requirements) for their transactions in cash segments as well as futures and options (F&O) segments. The decision follows a proposal in the Union Budget 2013–2014 that permitted FIIs to use their investments in corporate bonds and government securities as collateral. Earlier, FIIs were allowed to provide only cash and foreign sovereign securities with AAA rating as collateral in the F&O segment; in the cash segment, only foreign sovereign securities with AAA rating, government securities, and cash were permitted as collateral.

V. SEBI rationalises debt limits for foreign investors (SEBI Circular dated April 01, 2013)

The SEBI has rationalised the debt limit for FIIs into two broad categories—government securities of US $25 billion and corporate bonds of US $51 billion. In a Circular, the SEBI stated that government debt limits of US $10 billion and US $15 billion for long-term debts would be merged into a single category with a limit of US $25 billion. Further, according to the SEBI, eligible FIIs and QFIs can invest in T-bills only up to US $5.5 billion within the limit of US $25 billion. In the case of commercial papers, they can invest only up to US $3.5 billion within the limit of US $51 billion.

VI. SEBI allows direct investments for QFIs in to-be-listed bonds (SEBI Circular dated August 13, 2013)

The SEBI has eased the bond market investment norms for qualified foreign investors (QFIs) by allowing them to directly purchase corporate debt securities that companies intend to list on stock exchanges. So far, QFIs—a new category of foreign investors created by the market regulator last year—have been allowed to invest in corporate debt securities that are either already listed or being sold through a public offer.

A QFI is an individual, group, or association resident in a foreign country that is compliant with FATF standards. Qualified foreign investors do not include foreign institutional investors/sub-accounts. In May 2012, the SEBI had permitted QFIs to invest in corporate debt securities without any lock-in or residual maturity clause as well as mutual fund debt schemes subject to a total overall ceiling of US $1 billion.

C. Corporate Governance Developments

Corporate Governance in India: Developments and Policies

A. Importance of corporate governance in the capital market

Good corporate governance standards are essential for the integrity of corporations, financial institutions and markets and have 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. These reforms have been well received by the investors, including the foreign institutional investors (FIIs). 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 FY 1996 to US $ 166.2 billion in FY 2013.

Governance reforms and globalization of the capital markets have been mutually reinforcing. While continuing governance reforms have led to rising foreign investment, globalization of the capital markets has provided an impetus to the CG practices in the following manner. 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 2014", India ranks 34th worldwide in terms of investor protection—an important indicator of corporate governance–across all countries considered. It has fared better than China, Brazil and Russia (See Table-1). It may be noted that India has been outperforming other BRIC countries persistently over the past 5 years. At an overall score of 6.3 out of 10, India beats the South Asia average of 5.1 and is also marginally higher than the OECD average of 6.2.

Table-1: Country wise ranking in terms of protecting investors

Parameters	India	China	Brazil	Russia	UK
Protecting investors (rank)	34	98	80	115	10
Extent of disclosure Index (0-10)	7	10	5	6	10
Extent of director liability index (0-10)	4	1	8	2	7
Ease of shareholder suits index (0-10)	8	4	6	6	7
Strength of investor protection index (0-10)	6.3	5	4.9	4.7	8

Source: Doing Business 2014, World Bank

B. Reforms in CG framework for listed companies

During the period September 2012, to September 2013, the following changes have been made to the CG framework for listed companies.

a. Disclosure of price sensitive information to the stock exchanges

The listed companies in India are guided by, among others, Clause 36 of the Listing Agreement of the stock exchanges which states that — "The Issuer will intimate to the Stock Exchanges, where the company is listed immediately of events such as strikes, lock outs, closure on account of power cuts, etc. and all events which will have a bearing on the performance / operations of the company as well as price sensitive information both at the time of occurrence of the event and subsequently after the cessation of the event in order to enable the security holders and the public to appraise the position of the Issuer and to avoid the establishment of a false market in its securities. In addition, the Issuer will furnish to Exchange on request such information concerning the Issuer as the Exchange may reasonably require".

In recent times there have been instances when certain listed companies have been giving monthly disclosures of certain price sensitive information like sales/ turnover/ production to their respective industry associations, without disclosing the same to stock exchanges. To curb this practice, the Securities and Exchange Board of India (SEBI) has made it mandatory for listed companies to disclose such price sensitive information first to the Stock Exchanges.

b. Amendment to ESOP guidelines

SEBI has amended Employee Stock Options (ESOP) guidelines to prohibit companies from acquisition of own stocks in secondary markets for the purpose of issuance of ESOPs to their respective employees. The revision to the guidelines comes after it was observed by SEBI that a few companies had set up Employees Welfare Trusts (EWTs), which purchased companies' own shares in secondary market for issuance to the employees. This was generally done by companies which were averse to dilution of promoter shareholding. SEBI also apprehended that such purchase of treasury stock could constitute an unfair trade practice (since the EWTs may have some insider information) and could lead to undue fluctuation in the price of securities.

c. Tightening of conflict of interest rules for market entities

SEBI has asked market entities — stock exchanges, rating agencies, brokers, depositories, and other market agencies — to put in place a strong system to manage conflict of interest. The credit rating agencies have been specifically asked to deploy adequate systems and policies to ensure that they address any conflict of interest during investment decisions of their own funds or by their top management and employees. The key executives, such as CEOs and Managing Directors, would need to take prior approval from the Compliance Officer for sale or purchase of securities of the companies with which the credit rating agency may have rating-related dealings.

SEBI has called for market infrastructure institutions and intermediaries to maintain "high standards of integrity" in conduct of their business. They have also been asked not to use any information received from the clients, under the normal business dealings, for any personal interest and to put in place "information barriers" to block flow of confidential information from one department to another.

Market intermediaries, stock exchanges, clearing corporations and depositories have also been made responsible for educating their 'associated persons' for compliance of these guidelines.

d. Stock exchanges to have stronger redress mechanism

SEBI has asked stock exchanges to put in place a stronger and more effective system for faster resolution of investor grievances and to provide for immediate grant of monetary relief to investors after arbitration procedures. SEBI has decided to give monetary relief to investors having claims up to INR10 lakh, during the course of proceedings from the Investor Protection Funds (IPF) of stock exchanges. Further, SEBI has decided to shorten the time taken for these proceedings. All these regulations are aimed at streamlining the investor grievance redress mechanism at stock exchanges and make it more effective from the investor protection perspective.

e. SEBI asks stock exchanges to amend bye-laws to enforce listing conditions

SEBI has prescribed certain amendments to bye-laws of recognised stock exchanges regarding non-compliance of some of the listing conditions and adopting standard operating procedure for suspension and revocation of trading of shares of listed entities for such non-compliances.

Non-compliance of listing conditions has so far been considered as grounds for suspension of trading by the recognized stock exchanges. Accordingly, it has asked recognized stock exchanges to impose fines as 'action of first resort' in case of such non-compliance and invoke suspension of trading in case of subsequent and consecutive defaults.

In order to maintain consistency and uniformity of approach, SEBI has prescribed the following additions to the bye-laws of the recognized stock exchanges:

i) Uniform fine structure for non-compliance of certain clauses of the listing agreement; and

ii) Standard Operating Procedure (SOP) for suspension and revocation of suspension of trading in the shares of such listed entities.

SEBI has also asked stock exchanges to put in place a system to monitor and review compliance of respective listing conditions by the listed entities. It has asked stock exchanges to enforce compliance of respective listing conditions and disclose on their web sites the action taken against the listed entities for non-compliance of the listing conditions.

C. Corporate Governance provisions in the Companies Act, 2013

The enactment of the companies Act 2013 was major development in corporate governance in 2013. The new Act replaces the Companies Act, 1956 and aims to improve corporate governance standards, simplify regulations and enhance the interests of minority shareholders. The new Act is a major milestone in the corporate governance sphere in India and is likely to have significant impact on the governance of companies in the country. Following are the main provisions related to corporate governance that have been incorporated in the Companies Act, 2013.

i. The Companies Act, 2013 introduces new definitions relating to accounting standards, auditing standards, financial statement, independent director, interested director, key managerial personnel, voting right etc. For example, the legislation introduces a new class of companies called 'one person company' (OPC) to the existing classes of companies, namely public and private. OPC is a new vehicle for individuals for carrying on a business with limited liability.

ii. *Board of Directors (Clause 166):* The new Act provides that the company can have a maximum of 15 directors on the Board; appointing more than 15 directors, however, will require shareholder approval. Further, the new Act prescribes both academic and professional qualifications for directors. It states that the majority of members of Audit Committee including its Chairperson should have the ability to read and understand the financial statements. In addition, for the first time, duties of directors have been defined in the Act. The Act considerably enhances the roles and responsibilities of the Board of Directors and makes them more accountable. Infringement of these provisions has been made punishable with fine.

iii. *Independent Director (Clause 149):* The concept of independent directors (IDs) has been introduced for the first time in the Company Law in India. It prescribes that all listed companies must have at least one-third of the Board as IDs. IDs may be appointed for a term of up to five consecutive years. While the introduction of the concept of IDs in the new Act is a welcome move, it does not appear to sufficiently address the enduring challenges related to the effectiveness of IDs in the context of concentrated shareholding pattern in most of the listed companies in India.

iv. *Related Party Transactions (RPT) (Clause 188):* The new Act requires that no company should enter into RPT contracts pertaining to — (a) sale, purchase or supply of any goods or materials; (b) sale or dispose of or buying, property of any kind; (c) leasing of property of any kind; (d) availing or rendering of any services; (e) appointment of any agent for purchase or sale of goods, materials, services or property; (f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company. In case such a contract or arrangement is entered into with a related party, it must be referred to in the Board's Report along with the justification for entering into such contract or arrangement. Further, any RPT between a company and its Directors shall require prior approval by a resolution in general meeting. Violations of these provisions would be punishable with fine or imprisonment or both.

v. *Corporate Social Responsibility (CSR) (Clause 135):* The new Act has mandated the profit making companies to spend on CSR related activities. Every company having net worth of Rs 500 crore or more or turnover of Rs 1000 crore or more or net profit of Rs 5 crore or more during any financial year shall constitute a CSR Committee of the Board. In pursuance of its CSR policy, the Board of every such company–through these committees–shall ensure that the company spends (in every financial year) at least 2 percent of the average net profits of the company made during the three immediately preceding financial years.

vi. *Auditors (Clause 139):* A listed company cannot appoint or reappoint (a) an individual as auditor for more than one term of five consecutive years, or (b) an audit firm as auditor for more than two terms of five consecutive years. To avoid any conflict of interest, the Act has mentioned the services that an auditor cannot render, directly or indirectly, to the company, which include: accounting and book-keeping services, internal audit, investment banking services, investment advisory services, management services etc.

vii. *Disclosure and Reporting (Clause 92):* In the new Act, there is significant transformation in non-financial annual disclosures and reporting by companies as compared to the earlier format in the Companies Act, 1956.

viii. *Serious Fraud Investigation Office (SFIO) (Clause 211):* The Act has proposed statutory status to SFIO. Investigation report of SFIO filed with the Court for framing of charges shall be treated as a report filed by a Police Officer. SFIO shall have power to arrest in respect of certain offences of the Act which attract the punishment for fraud. Further, the new Act has a provision for stringent penalty for fraud related offences.

ix. *Class action suits (Clause 245):* For the first time, a provision has been made for class action under which it is provided that specified number of member(s), depositor(s) or any class of them, may file an application before the Tribunal seeking any damage or compensation or demand any other suitable action against an audit firm. The order passed by the Tribunal shall be binding on all the stakeholders including the company and all its members, depositors and auditors.

D. Ownership structure

The prevailing ownership pattern is a crucial impediment in raising corporate governance standards in India. There are two sets of issues pertaining to the ownership structure of the listed companies in India. 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 53.7 percent in March 2013. 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. Also, by making 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, this pattern of ownership gives rise to serious potential conflicts of interest between the promoter group and the minority investors. .

Partly with the aim of addressing this situation, the minimum public shareholding norms were prescribed in August 2010. Accordingly, the listed private and public sector companies existing as of the date of the circular were required to ensure a minimum public shareholding of 25 percent (by June 2013) and 10 percent (by August 2013) respectively.

As of the quarter ended in September 2013, all PSUs were in compliance with the minimum public shareholding; however, 21 non-PSUs listed on NSE were in non-compliance with the above provisions.

E. SEBI consultative paper on CG

In early 2012, SEBI released a consultative paper on "Review of Corporate Governance Norms in India". To improve the governance standards of companies in India, the report had provided a broad framework in the form of (i) overarching principles of corporate governance, and (ii) proposals. The objective of the concept paper was to attract a wider debate on the governance requirements for the listed companies so as to adopt better global practices. An attempt was made to ensure that the additional cost of compliance with the proposals did not outweigh the benefits of listing, while at the same time the need to boost the confidence of the investors on the capital market was recognized.

Establishment of the NSE Centre for Excellence in Corporate Governance

NSE has continually endeavored to organize new initiatives relating to corporate governance (CG) in recognition of the important role that stock exchanges play in enhancing the CG standards. To encourage best standards of CG among the Indian corporates and to keep them abreast of the emerging and existing issues, the NSE set up in December, 2012, a Centre for Excellence in Corporate Governance (NSE CECG). This is an independent expert advisory body comprising eminent domain experts, academics and practitioners. The Committee meets from time to time to discuss CG issues and developments. The 'Quarterly Briefing', a note that offers an analysis of one emerging or existing CG issue, is a product emerging from these discussions. Various issues of 'Quarterly Briefing' can be accessed on the following link in the NSE website:

http://www.nseindia.com/research/content/res_NSE_CECG.htm

D. EMERGE: SME PLATFORM

EMERGE: SME PLATFORM[1]

Introduction

Indian capital markets took a big leap with the launch of two platforms for new small and medium enterprises (SMEs) by the BSE and the NSE. It was a major landmark for the SME sector to have a new avenue for raising capital in an efficient manner. India has high entrepreneurial potential and the SME sector has been a key engine of economic growth, job creation, wealth distribution, and effective mobilisation of resources (capital and skills). Due to their small size and entrepreneurial spirit, SMEs are able to adapt to changes quickly, use innovation as a key competitive strategy, and have high growth prospects. This aspirational section of Micro, Small, and Medium Enterprises (MSMEs) forms the new asset class on SME platforms for investors who are looking to invest and participate in their growth.

The availability of adequate capital for growth is one of the key factors required to encourage the SMEs to exploit opportunities and grow exponentially. SMEs need risk capital for growth and expansion, working capital, innovation and intangible financing, acquisitions, R&D, marketing, and so on. The Indian capital landscape has also changed—Indian markets have matured substantially over the past decade and are now ready for a product such as an SME exchange.

SME Platform: Regulatory Framework

The SME platform is a regulated platform under the purview of the SEBI. A new chapter (XB) was added to the ICDR to define the regulations applicable to the SME platforms. According to the SEBI Regulations, companies with post-issue paid up capital (face value) up to ₹ 25 crore can raise funds and list on EMERGE, which is NSE's platform for SME listing. Companies with post-issue paid up capital (face value) between ₹ 10 crore and ₹ 25 crore have the option of migrating to the main board.

The EMERGE platform is a segment within the NSE and enjoys the benefits of a well-established exchange. The trading terminals of the main exchange, its risk management and surveillance systems, and the existing infrastructure are all available to the SME platform as well. The members and other intermediaries continue to be the same as the main board too.

The listing requirements are simpler on the SME platform. The exchange's admission and diligence process will help in addressing investor expectations. As part of the process, companies are being encouraged to get voluntary grading done by rating agencies; they will also be subject to certain additional due diligence. Research reports on a company's business fundamentals and corporate governance will be available post listing. Post-listing compliance is similar to that for the main board, with certain exemptions in the reporting requirements for SMEs.

Journey of EMERGE

The journey from the announcement of the Regulations to the actual launch of the platform followed by listings provides us with an interesting case study on the challenges involved in creating a new market ecosystem.

[1] Chief Contributor: Khyati Shah, Chief Manager, NSE. The views expressed here are strictly of the contributor and do not necessarily reflect those of NSE.

The NSE was always very clear that the SME exchange should ensure there is no compromise on credibility and risk management while ensuring product innovation. At the time of launching EMERGE, detailed deliberations were held for the positioning of the platform, which was finalised in line with NSE's philosophy. In view of the discredited small IPO market and public distrust towards small companies, it was decided that EMERGE would be credible and should be used for genuine capital raising and not merely for tax arbitrage or other such purposes. The platform should offer deserving real economy companies an opportunity to raise funds for legitimate purposes such as capex, expansion, R&D, and so on. The platform was not meant for holding companies or other structures that could bring distrust.

The NSE was also very clear that unreasonable expectations should not be raised. Since this platform is for informed investors looking for good quality equity investment opportunities, they would be very selective about the equity potential in small companies. Unreal expectations could lead to disillusionment regarding the SMEs.

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 venture capital funds, their own broking arms, and adequate capital to act as market makers. The NSE is keen to build relationships with credible merchant banks who understand NSE's positioning of the platform and bring real deserving companies to the platform.

Since EMERGE is a new concept for the SMEs as well as the intermediaries, the NSE plays a very active role in creating awareness about the ecosystem and in hand-holding companies in their path to fund raising. This includes connecting them to merchant banks, conducting credible third-party due diligence, supporting the marketing of the issues, ensuring post-issue research coverage, and so on.

First Year Experience

Since its launch in September 2012, the EMERGE platform has witnessed 4 listings with a total fund raising of ₹ 82 crore in one year. The first year witnessed a mixed bag of experiences. Although there were very high expectations from this platform, the activity was slow to pick up. On the other hand, while the primary market had a poor run with only one public issue in the financial year 2012–13, EMERGE had two IPOs. Some of the key learnings during the past one year are given below.

Poor participation by intermediaries due to high regulatory obligation

The regulations impose high onus 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 the companies, which ends with the listing of the securities. The intermediaries are highly skeptical of the new responsibilities, as huge capital commitments are required from them. This has led to very poor participation by most of the key merchant banks.

Lack of interest from institutional investors

One of the key requirements for building the credibility of the platforms is to encourage institutional investment on the platform. Participation by these investors—who take investment decisions after critical analysis of the business prospects of the issuers—will encourage a larger number of private risk investors to gain confidence about investing in SME issuers. While a handful of institutional investors have evinced interest and have participated on the EMERGE platform, a regulatory push to encourage insurance companies, banks, VC funds/AIFs, and so on to be active on this platform will significantly increase liquidity and will encourage a larger number of private risk investors to invest in SME issuers.

Need to improve liquidity

The application and trading lot is pegged at a minimum of ₹ 1 lakh for an SME issue. This means a smaller number of applicants as the issue size is also smaller. While this helps in selling the issues at a lower cost and also in ensuring that only informed investors are participating in the issue, it curtails the liquidity of the security. For a security to be liquid, it is important to have multiple investors taking interest and actively buying /selling the scrip. However, most secondary market investors prefer to trade in smaller lot sizes and the ₹ 1 lakh trading lot requirement acts as a deterrent. Breaking down the trading lots to a more appealing size can boost liquidity in the secondary market.

Conclusion

We are still in the early days of the EMERGE experiment, but the response so far has been encouraging. India has the right demographic contours for a young and energetic entrepreneurial community and there is increasing activity in the start-up space. The EMERGE platform provides a unique opportunity for all participants in the market ecosystem, whether they are small issuers, merchant bankers, wealth managers, or astute early-stage investors. With support from the regulators, the EMERGE platform has the potential to revolutionise the way in which companies get access to public equity at an early stage of their development.

Part II
Market Design

Market Design

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

1. Primary Market

The primary market is governed by the provisions of the Companies Act, 2013, which deals with the listing and allotment of securities. Additionally, the Securities and Exchange Board of India (SEBI) prescribes the eligibility and disclosure norms through the 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 the 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 the SEBI and the Registrar of Companies/designated stock exchanges:

- File a draft offer document with the 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 (RoC) 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 recognised stock exchanges in which the issuer proposes to get its specified securities listed.
- Enter into an agreement with the depository for the dematerialisation of its securities that are already issued or are proposed to be issued.

A company can make an initial public offer (IPO) if it satisfies 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.

[1] The Market Design section was compiled from the websites of the exchanges and the regulators as well as from the various regulations 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 was 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 by complying with the following guidelines:

- The issuer may make an IPO if the issue is made through the book-building process and if the issuer undertakes to allot at least 75 percent of the net offer made to the public to qualified institutional buyers (QIBs) and to refund the 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 1,000.

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 the 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 prospect (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 prospect (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, the coupon rate, and the 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, 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 the 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 prospect (in the case of a book-built issue) and determine the price at a later date before registering the prospectus with the RoC, 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 Period

- The promoters' contribution in the case of an IPO should not be less than 20 percent of the post-issue capital, provided that if 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 shareholding that is up to 20 percent of the post-issue capital (excluding the rights 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; this contribution/ amount should be released to the company along with the proceeds of the public issue.
- The minimum promoters' contribution (including contributions 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 SEBI (Merchants Bankers) Rules and Regulations, 1992, along with the draft offer document filed with the SEBI. In the case of a fast track issue, the requisite fee shall be paid along with the copy of the red herring prospect, the prospectus, or the 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 the relevant regulations.

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

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

Post-Issue Obligations

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

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

Only a corporate body other than a non-banking financial company with the necessary infrastructure and at least two experienced employees can apply for registration as a merchant banker. The capital adequacy requirement should be a net worth of ₹ 50 million. The merchant banking regulations cover the code of conduct to be followed by merchant bankers, the responsibilities of the lead managers, the payments of fees, and the disclosures to the SEBI.

Demat Issues

The SEBI has mandated that all new IPOs should be compulsorily traded in dematerialised form only. Further, Section 29 of the Companies Act, 2013 requires that every listed public company making an IPO of any security should issue the same only in dematerialised form.

Private Placement

Private placement involves the issue of securities, debt, or equity to select 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 only a few sophisticated and experienced investors, the stringent public disclosure regulations and registration requirements are relaxed. The Companies Act, 2013 states that an offer of securities to more than 50 persons is deemed to be a public issue.

2. Collective Investment Vehicles

In this section on collective investment vehicles, the market design of mutual funds, index funds, exchange-traded funds (ETFs), and alternative investment funds (AIFs) have been discussed.

Mutual Funds

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

Structure of Mutual Funds

A typical MF in India has the following constituents:

Fund Sponsor: A fund sponsor is a 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, a positive net worth in all the immediately preceding five years, and integrity in all his/her business transactions. In the case of an existing MF, for funds that are in the form of a trust and the trust deed has been approved by the SEBI, the sponsor should contribute at least 40 percent of the net worth of the asset management company (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 could mean the board of trustees or the trustee company that holds the property of the mutual fund in trust for the benefit of the unit holders. The trustees are appointed with the approval of the SEBI. Two-thirds of the trustees should be independent individuals who are not associated with the sponsors in any manner whatsoever. Since the trustees are the primary guardians of the unit holders' funds and assets, they have to be individuals of high repute and integrity. The trustees, however, do not directly manage the portfolio of an MF. It is managed by the asset management company as per the defined objectives, in accordance with the trust deed and the SEBI (MF) Regulations.

Asset Management Company: The asset management company (AMC), which is appointed by the sponsor or the trustees and is approved by the SEBI, acts as the investment manager of the trust. The AMC should have a net worth of at least ₹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 involving the fund sponsors, trustees, custodians, and the AMC. The AMC is required to obtain prior in-principle approval from the recognised stock exchange(s) where the units are proposed to be listed.

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

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

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

Registration of Mutual Funds

In order to register with the SEBI as an MF, the sponsor has to make an application to the SEBI. The sponsor should fulfill the eligibility criteria as prescribed by the SEBI.

Types of MFs/Schemes

A wide variety of MFs/schemes caters to the different preferences of the investors based on their financial position, risk tolerance, and return expectations. The MF schemes can be broadly categorised under three headings—funds by structure (e.g., open-ended and close-ended schemes); funds by investment objective (e.g., growth schemes, income schemes, balanced schemes, and money market schemes); and other schemes (e.g., tax saving schemes, index schemes, and sector-specific schemes).

Open-ended and Close-ended Schemes

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

Listing of Close-ended Schemes

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

Repurchase of Close-ended Schemes

The units of a close-ended scheme (other than equity-linked saving schemes) launched on or after the commencement of the SEBI (Mutual Funds) (Amendment) Regulations, 2009 shall not be repurchased before the end of the maturity period of the scheme. The units of a close-ended scheme may be open for sale or redemption at fixed pre-determined intervals if the maximum and minimum amounts of sale or redemption of the units and the periodicity of such sales or redemptions have been disclosed in the offer document. The units of a close-ended scheme can be converted into those of an open-ended scheme if the offer document of the scheme discloses the option and the period of such conversion, or if the unit holders are provided with an option to redeem their units in full and the initial issue expenses of the scheme have been amortised fully in accordance with the Tenth Schedule of the SEBI Mutual Fund Regulations, 1996.

Regulation of Funds

Mutual funds are regulated under the SEBI (MF) Regulations, 1996. All MFs have to be registered with the SEBI. The Regulations specify a detailed procedure for the launching of schemes, disclosures in the offer document, advertisements, listing and repurchase of close-ended schemes, offer period, transfer of units, and investments, among others.

In addition, the Reserve Bank of India (RBI) also supervises the operations of bank-owned MFs. While the SEBI regulates all the market-related and investor-related activities of the bank/FI-owned funds, any issues concerning the ownership of the AMCs by banks fall under the regulatory ambit of the RBI.

Further, as the MFs, AMCs, and corporate trustees are registered as companies under the Companies Act (1956), they have to comply with the provisions of the Companies Act.

Many close-ended schemes of MFs are listed on one or more stock exchanges. Such schemes are, therefore, subject to the regulations of the concerned stock exchange(s) through the Listing Agreement between the fund and the stock exchange.

Since MFs are public trusts, they are governed by the Indian Trust Act, 1882 and are accountable to the office of the public trustee, which in turn reports to the Charity Commissioner, which enforces the provisions of the Indian Trusts Act.

Advertisements Code by Mutual funds

As per the MF regulations, advertisements should be truthful, fair, unambiguous, and concise. Advertisements shall not contain statements that are false, misleading, biased, or deceptive based on assumption/projections, and shall not contain any testimonials or any ranking based on any criteria. No celebrities shall form part of the advertisement. Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details that may detract the investors should be avoided. The details of the advertisement code are mentioned in the Sixth Schedule of the MF Regulations, 1996.

Investment Restrictions

A mutual fund scheme should not invest more than 15 percent of its net asset value (NAV) in debt instruments issued by a single issuer that are rated not below investment grade by a credit rating agency authorised to carry out such activity under the Act. This investment limit may be extended to 20 percent of the NAV of the scheme with the prior approval of the board of trustees and the board of the AMC, provided that:

- Such limit is not applicable to investments in government securities.
- No mutual fund is allowed to invest more than 30 percent of its net assets in the money market instruments of an issuer (this is not applicable to investments in G-secs, T-bills, collateralised borrowing, and lending obligations).
- Further, that investment within such limit can be made in mortgage-backed securitised debts that are rated not below investment grade by a credit rating agency registered with the SEBI. A mutual fund scheme should not invest more than 10 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.

The transfer of investments from one scheme to another scheme in the same mutual fund should be allowed only if:

- Such transfers are done at the prevailing market price for quoted instruments on a spot basis. "Spot basis" has the same meaning as specified by a stock exchange for spot transactions.
- The securities so transferred should be in conformity with the investment objective of the scheme to which such a transfer has been made.

Details about the restrictions on investment are mentioned in the SEBI (Mutual Fund) Regulations, 1996.

Valuation of Investments
Every mutual fund is required to ensure that the AMC computes and carries out a valuation of the investments made by its schemes in accordance with the investment valuation norms specified in the Eighth Schedule of the SEBI (Mutual Funds) Regulations, 1996.
Computation of Net Asset Value
Every mutual fund is required to compute the net asset value (NAV) of each scheme by dividing the net asset of the scheme by the number of units outstanding on the valuation date. The NAV of the scheme shall be calculated on a daily basis and published in at least two daily newspapers that have circulation all over India.
Mutual Fund Service System for Investors
The Mutual Fund Service System (MFSS) is an online order collection system provided by the NSE to its eligible members for placing subscription or redemption orders for open-ended schemes on the MFSS based on orders received from the investors. Hitherto, an investor interested in subscribing to a mutual fund had to identify a distributor of the mutual fund and submit all documents along with the payment instrument (where applicable) to the distributor or directly to MF/AMC/RTA. The subscription/redemption request would thereafter get processed and the investor would know about the status of the request only in the form of direct communication from the MF/AMC/RTA. In the MFSS, the investor deals with the SEBI-registered NSE member who is eligible to participate in the MFSS for subscription/ redemption of units. Members enter the order into the MFSS. By the end of the day, the investor gets to know about the validity of his/her order and the value at which the units would get credited/redeemed to his/her account through the trading members.

Index Funds

Index funds replicate the portfolio of a particular index such as the 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 they provide returns at par with the index.

Exchange-Traded Funds

An exchange-traded fund (ETF) refers to a diversified basket of securities that is traded in real time like an individual stock on an exchange. Unlike regular open-ended mutual funds, ETFs can be bought and sold throughout the trading day like any other stock. An ETF is similar to an index fund, but 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 that pools the contributions or payments made by the investors and deploys the same. Despite the similarity between a CIS and an MF regarding the pooling of savings and issuing of securities, they differ in their investment objectives. While an MF invests exclusively in securities, a CIS confines its investments to plantations and real estate. Any entity proposing to operate as a collective investment management company (CIMC) has to apply for registration with the SEBI. The regulations governing CIS are called the SEBI Collective Investment Schemes Regulations, 1999.

Alternative Investment Funds

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

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

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

Registration of AIFs

An AIF has to obtain a certificate of registration from the SEBI.

Funds registered as venture capital fund under the SEBI (Venture Capital Funds) Regulations, 1996 shall continue to be regulated by said Regulations until the existing fund or scheme managed by the fund is wound up and such funds shall not launch any new scheme after the notification of the AIF Regulations.

Registration Categories of AIFs

Category I AIFs invest in start-up or early-stage ventures, social ventures, small and medium enterprises (SMEs), or infrastructure or other sectors/areas that the government or the regulators consider as socially or economically desirable and shall include venture capital funds, SME funds, social venture funds, infrastructure funds, and such other AIFs as may be specified. Those AIFs that are generally perceived to have positive spillover effects on the economy and for which the SEBI, the Government of India, or the other regulators in India might consider providing incentives or concessions shall be included; such funds that are formed as trusts or companies shall be construed as venture capital companies or venture capital funds as specified under Sub-section (23FB) of Section 10 of the Income Tax Act, 1961.

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

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

Eligibility Criteria

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

Investment Conditions

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

Each scheme of the AIF shall have corpus of at least ₹ 25 crore

An AIF shall not accept from an investor any 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 fund manager, the minimum value of investment shall be ₹ 25 lakh.

The fund manager or sponsor shall have a continuing interest in the AIF of not less than 2.5 percent of the corpus or ₹ 5 crore (whichever is lower) in the form of investments in the AIF; such interest shall not be through the waiver of the management fees. However, for Category III AIFs, the continuing interest shall be not less than 5 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 AIF shall have more than 1,000 investors. The fund shall not solicit or collect funds except by way of private placement.
Tenure of AIFs Category I AIFs and Category II AIFs shall be close-ended; the tenure of the fund or scheme shall be determined at the time of application, subject to the relevant Regulations. Category I and Category II AIFs or the schemes launched by such funds shall have a minimum tenure of three years. Category III AIFs may be open-ended or close-ended. The extension of the tenure of close-ended AIFs may be permitted for upto two years, subject to the approval of two-thirds of the unit holders by value of their investment in the AIF. In the absence of the consent of unit holders, the AIF shall fully liquidate within one year following the expiration of the fund tenure or extended tenure
Listing of AIF Units of close-ended AIFs may be listed on the stock exchange(s) subject to a minimum tradable lot of ₹ 1 crore. Listing of AIF units shall be permitted only after the final close of the fund or scheme.
Valuation The AIF shall provide to its investors a description of its valuation procedure and the methodology for valuing assets. Category I and Category II AIFs shall undertake a valuation of their investments at least once every six months by an independent valuer appointed by the AIF. This period may be enhanced to one year subject to the approval of at least 75 percent of the investors by value of their investment in the AIF. Category III AIFs shall ensure that the calculation of the NAV is independent from the fund management function of the AIF and such NAV shall be disclosed to the investors at intervals not longer than a quarter for close-ended funds and at intervals not longer than a month for open-ended funds.

3. Equity Market[2]

Stock Exchanges

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

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

Membership of Stock Exchanges

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

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

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; trading/trading and self-clearing membership in F&O segment) 300 (Membership in CM segment; trading and clearing membership in F&O segment)	200	200	200 (Membership in WDM segment and CM segment; trading/trading and self-clearing membership in F&O segment) 300 (Membership in WDM segment and CM segment; 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 National Securities Clearing Corporation Ltd (NSCCL)	15	15*	NIL	15	15*
Collateral Security Deposit (CSD) with NSCCL	25	25**	NIL	25	25**
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 years' experience in securities market.				

Particulars/Segments	CM	CM and F&O	WDM	CM and WDM	CM, WDM, and F&O
Track Record	The directors should not be defaulters on any stock exchange. They must not be debarred by the 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.				

Notes:

The net worth requirement for professional clearing members in the F&O segment is ₹ 300 lakh. Further, a professional clearing member needs to bring an interest free security deposit (IFSD) of ₹ 25 lakh with the National Securities Clearing Corporation Ltd (NSCCL) and a collateral security deposit (CSD) of ₹ 25 lakh with NSCCL as deposits.

**Additional IFSD of ₹ 25 lakh with NSCCL is required for trading and clearing members (TM-CMs) and for trading and self-clearing members (TM-SCMs).*

*** Additional CSD of ₹ 25 lakh with NSCCL is required for TM-CMs and for TM-SCMs.*

****Annual subscription charges will be adjusted towards the advance minimum transaction charges and the balance will be carried forward to the next year.*

In addition, a member clearing for others is required to bring in an IFSD of ₹ 2 lakh and a CSD of ₹ 8 lakh per trading member that he/she 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; trading membership in F&O segment) 100 (Membership in CM segment; trading and self-clearing membership in F&O segment) 300 (membership in CM segment; trading and clearing membership in F&O segment)	200	200	200 (Membership in WDM segment and CM segment; trading/ trading and self-clearing membership in F&O segment) 300 (Membership in WDM segment and CM segment; trading and clearing membership in F&O segment)
Interest Free Security Deposit (IFSD) with NSEIL	26.5	51.5	50	76.5	101.5
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 lakh with NSCCL is required for trading and clearing members (TM-CMs) and for trading and self-clearing members (TM-SCM).*

*** Additional CSD of ₹ 25 lakh with NSCCL is required for TM-CMs and for TM-SCMs.*

****Annual subscription charges will be adjusted towards the advance minimum transaction charges and the balance will be carried forward to the 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 Member-ship	Trading cum Self-Clearing Membership	Trading cum Clearing Membership	Professional Clearing Membership
Net Worth	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 Markets (NISM) Series I – Currency Derivatives Certification Examination	Two directors should be HSC. Dealers should also have passed SEBI-approved NISM Series I – Currency Derivatives Certification Examination	Two directors should be HSC. Dealers should also have passed SEBI-approved NISM Series I – Currency Derivatives Certification Examination	Two directors should be HSC. Dealers should also have passed SEBI-approved NISM Series I – Currency Derivatives Certification Examination	Two directors should be HSC. Dealers should also have passed SEBI-approved NISM Series I – Currency Derivatives Certification Examination	Two directors should be HSC. Dealers should also have passed SEBI-approved NISM Series I – Currency Derivatives Certification Examination	Two directors should be HSC. Dealers should also have passed SEBI-approved 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 years' experience in securities market.						
Track Record	The directors should not be defaulters on any stock exchange. They must not be debarred by the SEBI for being associated with the capital market as intermediaries. They must be engaged solely in the business of securities and must not be engaged in any fund-based activity.						

Notes:

In case the member is opting for the membership of any other segment(s) in combination with the membership of the 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 the currency derivatives segment, whichever is higher.

The eligibility condition for applicants planning to apply for new membership of the exchange is that the proprietor or one designated director/partner or the compliance officer of the applicant entity should be successfully certified in the Securities Market (Basic) Module or the Compliance Officers (Brokers) Module or the relevant module pertaining to the segments wherein membership of the exchange is being sought.

Requirements for Professional Clearing Membership				(All values 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	**1,000**
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 an IFSD of ₹ 2 lakh and a CSD of ₹ 8 lakh per trading member whose trades he/she undertakes to clear in the F&O segment and an IFSD of ₹ 6 lakh and a 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 are free to stipulate stricter requirements than those stipulated by the SEBI. The minimum standards stipulated by the NSE are in excess of those laid down by the SEBI. The admission of trading members is based on various criteria such as capital adequacy, track record, education, and experience (as discussed above).

Corporatisation of Brokers and Sub-Brokers

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

Listing of Securities

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

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

Listing Fees in the CM Segment

The stock exchanges levy listing fees on the companies whose securities are listed with them. The listing fee has two components—an initial fee and an annual fee. While the initial fee is a fixed amount, the annual fee varies depending on the size of the company, as shown in the table below. 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, and so on. 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, and so on. The detailed structure of the listing fees is presented in the table below:

Listing Fees		Amount (₹)
Initial Listing Fees		50,000
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
	g. Above ₹ 50 crore and up to ₹ 100 crore	175,000
	h. Above ₹ 100 crore and up to ₹ 150 crore	200,000
	i. Above ₹ 150 crore and up to ₹ 200 crore	240,000
	j. Above ₹ 200 crore and up to ₹ 250 crore	275,000
	k. Above ₹ 250 crore and up to ₹ 300 crore	310,000
	l. Above ₹ 300 crore and up to ₹ 350 crore	340,000
	m. Above ₹ 350 crore and up to ₹ 400 crore	375,000
	n. Above ₹ 400 crore and up to ₹ 450 crore	435,000
	o. Above ₹ 450 crore and up to ₹ 500 crore	500,000

Trading Mechanism

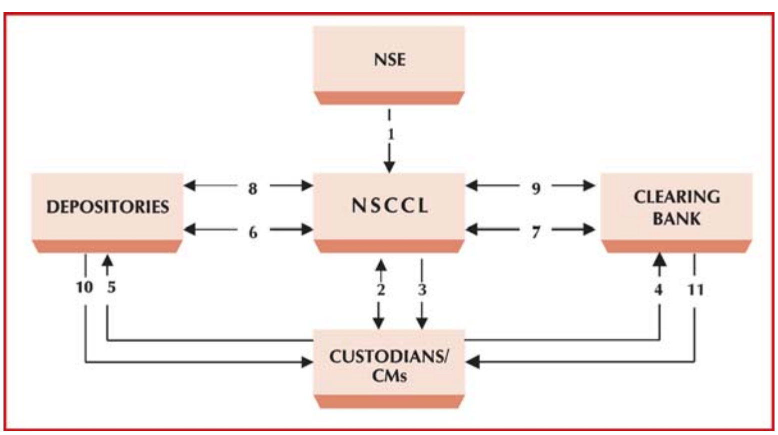
The National Exchange for Automated Trading (NEAT) is the trading system of the NSE. The NEAT facilitates an online, fully automated, nation-wide, anonymous, order-driven, screen-based trading system. In this system, a member can enter the quantities of securities and the prices at which he/she would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

Internet Trading

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

Clearing and Settlement Process

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



1. Trade details are sent from the exchange to the NSCCL (real-time and end-of-day trade file).
2. The NSCCL notifies the consummated trade details to clearing members/custodians, who affirm back. Based on the affirmation, the 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 (the NSCCL advises the depository to debit the pool account of the custodians/CMs and credit its account, and the depository does so).
7. Pay-in of funds (the NSCCL advises the clearing banks to debit the account(s) of the custodians/CMs and credit its account, and the clearing banks do so).
8. Pay-out of securities (the NSCCL advises the depository to credit the pool account of the custodians/CMs and debit its account, and the depository does so).
9. Pay-out of funds (the NSCCL advises the clearing banks to credit the account(s) of the custodians/CMs and debit its account, and the clearing banks do so).
10. Depository informs the custodians/CMs through DPs.
11. Clearing banks inform the custodians/CMs.

Settlement Cycle in the Cash Market Segment

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

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. These Regulations were amended in 2003. The Regulations prohibit 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 as well as final);

the issue of securities or the buy-back of securities; any major expansion plans or the execution of new projects, amalgamation, mergers, or takeovers; the disposal of the whole or a substantial part of the undertaking; and significant changes in the policies, plans, or operations of the company. The SEBI is empowered to investigate any complaint received from investors, intermediaries, or any other individuals on any matter having a bearing on allegations of insider trading.

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

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

Some of the salient features of these Regulations include: initial threshold at 25 percent for the trigger of the mandatory open offer as against 15 percent that existed earlier; minimum offer size of 26 percent as against 20 percent that existed earlier; introduction of voluntary offers subject to certain conditions; introduction of mandatory recommendation(s) 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 the open offer process.

Buy Back

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

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

The company has to disclose the pre- and post-buy back holding of the promoters. To ensure the speedy completion of the buyback process, the Regulations have stipulated a time limit for each step. For example, in the case of purchases through tender offers, an offer for buy back 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 for concern for both policy makers as well as investors. To curb excessive volatility, the SEBI has prescribed a system of circuit breakers. The circuit breakers bring about a nation-wide coordinated halt in trading on all the equity and equity derivatives markets. An index-based, market-wide circuit breaker system applies at three stages of the index movement either way, at 10 percent, 15 percent, and 20 percent. The breakers are triggered by the 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 to scrips on which derivative products are available or scrips included in indices on which derivative products are available (unless otherwise specified). In order to prevent members from entering orders at non-genuine prices in such securities, the exchange has fixed an operating range of 20 percent.

Price bands of 20 percent (either way) are applicable to all remaining scrips (including debentures, preference shares, and so on).

Depository and Demat Trading

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

NSE Capital Market Transaction Charges

Total Traded Value in a Month	Revised Transaction Charges (₹ per Lakh of Traded Value)
Up to the first ₹ 1250 core	₹ 3.25 each side
More than ₹ 1250 crore up to ₹ 2500 crore (on incremental volume)	₹ 3.20 each side
More than ₹ 2500 crore up to ₹ 5000 crore (on incremental volume)	₹ 3.15 each side
More than ₹ 5000 crore up to ₹ 10000 crore (on incremental volume)	₹ 3.10 each side
More than ₹ 10000 crore up to ₹ 15000 crore (on incremental volume)	₹ 3.05 each side
Exceeding ₹ 15000 crore (on incremental volume)	₹ 3.00 each side

Securities Transaction Tax (STT)

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

4. Government Securities

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. T-bills are issued in three tenors—91 days, 182 days, and 364 days. T-bills are zero coupon securities and pay no interest. They are issued at a discount and are redeemed at face value on maturity.

Cash Management Bills: Cash management bills (CMBs)[3] have the generic characteristics of T-bills but are issued for a maturity period less than 91 days. Like T-bills, they are also issued at a discount and are redeemed at face value on maturity. The tenure, notified amount, and date of issue of the CMBs depend on the temporary cash requirement of the government. The announcement of their auction is made by the RBI through a press release that is typically issued one day prior to the date of auction. The settlement of the auction is on a T+1 basis.

Dated Government Securities: Dated government securities are long-term securities that carry a fixed or floating coupon (interest rate), which is paid on the face value and is payable at fixed time periods (usually half-yearly). The tenor of dated securities can be up to 30 years.

State Development Loans: State governments also raise loans from the market. State development loans (SDLs) are dated securities issued through an auction similar to the auctions conducted for the dated securities issued by the central government. Interest is serviced at half-yearly intervals and the principal is repaid on the maturity date.

Types of Dated Government Securities

Fixed Rate Bonds: These are bonds on which the coupon rate is fixed for the entire life of the bond. Most government bonds are issued as fixed rate bonds.

Floating Rate Bonds: Floating rate bonds are securities that do not have a fixed coupon rate. The coupon is re-set at pre-announced intervals (say, every 6 months, or 1 year) by adding a spread over a base rate. In the case of most floating rate bonds issued by the Government of India so far, the base rate is the weighted average cut-off yield of the last three 364-day T-bill auctions preceding the coupon re-set date; the spread is decided through the auction. Floating rate bonds were first issued in India in September 1995.

Zero Coupon Bonds: Zero coupon bonds are bonds with no coupon payments. Like T-Bills, they are issued at a discount on the face value. The Government of India issued such securities in the 1990s; it has not issued zero coupon bonds after that.

Bonds with Call/Put Options: Bonds can also be issued with features of optionality, wherein the issuer can have the option to buy back (call option) or the investor can have the option to sell the bond (put option) to the issuer during the currency of the bond.

Special Securities: In addition to T-Bills and dated securities issued by the Government of India under the market borrowing program, the government also issues special securities from time to time, to entities such as oil marketing companies, fertiliser companies, the Food Corporation of India (FCI), and so on as compensation to these companies in lieu of cash subsidies.

Separate Trading of Registered Interest and Principal of Securities (STRIPS): STRIPS are instruments in which each cash flow of the fixed coupon security is converted into a separate tradable zero coupon bond and traded.[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 Securities

In India, the central government issues T-bills and bonds or dated securities, while the state governments issue only bonds or dated securities that are called state development loans (SDLs). Government securities carry practically no risk of default, and hence, are called risk-free gilt-edged instruments. The Government of India also issues savings instruments such as savings bonds, National Saving Certificates (NSCs), and special securities (oil bonds, Food Corporation of India bonds, fertiliser bonds, power bonds, and so on).

[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: RBI Press Release, dated August 10, 2009).

[4] For example, when ₹ 100 of the 8.24 percent GS2018 is stripped, each cash flow of the 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 that maintain a funds account (current account) and securities account (SGL account) with the RBI are members of this electronic platform. All the members of the PDO-NDS (Public Debt Offices – Negotiated Dealing System) can place their bids in the auction through this electronic platform. All non-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 dematerialised account maintained by a scheduled commercial bank or primary dealer for its constituent (e.g., a non-scheduled urban co-operative bank).

The RBI, in consultation with the Government of India, issues an indicative half-yearly auction calendar that contains information about the amount of borrowing, the tenor of the security, and the likely period during which auctions will be held. A notification and a press communiqué giving the exact details of the securities, including the name, amount, type of issue, and the procedure of auction are issued by the Government of India about a week prior to the actual date of the auction. The RBI places the notification and the Press Release on its website (www.rbi.org.in) and also issues an advertisement in leading English and Hindi newspapers.

Information about auctions is also available at select branches of public and private sector banks and the primary dealers.

Different Types of Auctions Used for the Issue of Securities

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

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

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

Price-Based Auction: A price-based auction is conducted when the Government of India re-issues securities that had been issued earlier. The bidders quote in terms of price per ₹ 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. Successful bidders are those who have bid at or above the cut-off price. Bids that are below the cut-off price are rejected.

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

Listing of G-secs on Stock Exchanges

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

Trading in Government Securities

There is an active secondary market in government securities. These securities can be bought/sold in the secondary market (i) 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 the SEBI, and negotiate for a certain amount of a particular security at a certain price. Such negotiations are usually done over the telephone and a deal may be struck if both the parties agree on the amount and the rate. In the case of a buyer such as an urban co-operative bank wishing to buy a security, the bank's dealer (who is authorised by the bank to undertake transactions in government securities) may get in touch with other market participants over the telephone and obtain quotes.

All trades undertaken in the over-the-counter (OTC) market are reported on the secondary market module of the negotiated dealing system (NDS).

(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 (such as urban co-operative banks). The advantages of the NDS-OM are price transparency and better price discovery.

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

Stock Exchanges

Facilities trading in government securities is also available on the stock exchanges (NSE, BSE), which caters 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 in a trade. This future order that results in the matching of an existing order is called the active order. In the negotiated market, deals are negotiated outside the exchange between the two counterparties and are reported on the trading system for approval.

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 government securities to manage their overall portfolio risk.

Settlement of Government Securities

Primary Market

Once the allotment process in the primary auction is finalised, the successful participants are advised of the consideration amounts that they need to pay to the government on the settlement day. The settlement cycle for dated security auctions is T+1, whereas that for T-bill auctions is T+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 will be allowed. The main purpose of having a shut period is to facilitate the servicing of the securities (i.e., finalising the payment 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.

[5] Effective from November 21, 2012.

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.

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.

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.

DvP III: In this method, both the securities as well as 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 in a net mode since the payables and receivables are set off against each other in the latter 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 as well as the funds legs.

5. Corporate Bond Market

Issuers of Corporate Bonds: Private corporate sector and public sector units including public financial institutions.

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

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

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

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

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

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

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

[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.

Price Discovery through Book Building The issuer may determine the price of the debt securities in consultation with the lead merchant banker; the issue may be at a fixed price or the price may be determined through the book-building process in accordance with the procedures specified by the SEBI.
Minimum Subscription The issuer can decide the amount of minimum subscriptions that it seeks to raise by the issue of debt securities and disclose the same in the offer document. In the event of non-receipt of the minimum subscription amount, all the application money received in the public issue has to be refunded to the applicants.
Debenture Redemption Reserve For the redemption of the debt securities issued by a company, the issuer has to create a debenture redemption reserve in accordance with the provisions of the Companies Act, 2013 and the Circulars issued by the central government in this regard. Where the issuer has defaulted in the payment of interest on debt securities, or the redemption thereof, or in the creation of security as per the terms of the issue of debt securities, any distribution of dividend would require the approval of the debenture trustees.
Listing of Debt Securities **Mandatory listing** An issuer wanting to make an offer of debt securities to the public has to apply for listing to one or more recognised stock exchanges according to the terms of the Companies Act, 2013. The issuer has to comply with the conditions of listing of debt securities as specified in the Listing Agreement with the stock exchange where such debt securities are sought to be listed. **Conditions for listing of debt securities issued on private placement basis** An issuer may list its debt securities issued on a private placement basis on a recognised stock exchange subject to the following conditions: (a) The issuer has issued such debt securities in compliance with the provisions of the Companies Act, 2013, the rules prescribed in it, and other applicable laws. (b) Credit rating has been obtained in respect of such debt securities from at least one credit rating agency registered with the SEBI. (c) The debt securities proposed to be listed are in dematerialised form. (d) The prescribed disclosures have been made. The issuer has to comply with the conditions of listing of such debt securities as specified in the Listing Agreement with the stock exchanges where such debt securities are sought to be listed. For continuous listing, various conditions have to be followed as prescribed by the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.
Trading of Debt Securities (1) The debt securities issued to the public or on a private placement basis that are listed in recognised stock exchanges are traded, cleared, and settled in recognised stock exchanges, subject to the conditions specified by the SEBI. (2) In the case of trades of debt securities that have been made over the counter, such trades are required to be reported on a recognised stock exchange having a nation-wide trading terminal or another such platform as may be specified by the SEBI.
Clearing and Settlement The corporate bonds are cleared and settled by the clearing corporations of stock exchanges, i.e., the Indian Clearing Corporation Limited (ICCL) and the 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 the pay-in of securities and funds, the securities/funds shall be transferred by the NSCCL to the depository/bank account of the counterparty.

6. Securitised Debt Instruments

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.[7]

Securitisation involves the pooling of financial assets and the issuance of securities that are repaid from the cash flows generated by these assets.

Common assets for securitisation include credit cards, mortgages, auto and consumer loans, student loans, corporate debt, export receivable, and offshore remittances.

Regulatory Framework

Securitised debt instruments are regulated by the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, the SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008 for listing on stock exchanges, and the Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003.

Eligibility Criteria for Trustees[8]

According to the SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008, no person can make a public offer of securitised debt instruments or seek listing for such securitised debt instruments unless (a) it is constituted as a special purpose distinct entity; (b) all its trustees are registered with the SEBI under the SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008; and (c) it complies with all the applicable provisions of these Regulations and the Act.

The requirement of obtaining registration is not applicable to the following persons, who may act as trustees of special purpose distinct entities:

(a) any person registered as a debenture trustee with the SEBI;

(b) any person registered as a securitisation company or a reconstruction company with the RBI under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002);

(c) the National Housing Bank established by the National Housing Bank Act, 1987 (53 of 1987);

(d) the National Bank for Agriculture and Rural Development (NABARD) established by the National Bank for Agriculture and Rural Development Act, 1981 (61 of 1981).

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 Securitised Debt Instruments) Regulations, 2008. However, these Regulations are not applicable to the National Housing Bank and the National Bank for Agriculture and Rural Development, to the extent of inconsistency with the provisions of their respective Acts.

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

[8] These are the eligibility criteria 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 securitised debt instruments by formulating schemes in accordance with the SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008.

(2) Where there are multiple schemes, the special purpose distinct entity is required to maintain separate and distinct accounts for each such scheme; it should not combine the asset pools or the realisations of a scheme with those of the other schemes.

(3) A special purpose distinct entity and the trustees should ensure that the realisations of debts and receivables are held and correctly applied towards the redemption of the securitised debt instruments issued under the respective schemes, or towards the payment of the returns on such instruments, or towards other permissible expenditures of the scheme.

(4) The terms of issue of the securitised debt instruments may provide for the exercise of a clean-up call option by the special purpose distinct entity, subject to adequate disclosures.

(5) No expenses should be charged to the scheme in excess of the allowable expenses as may be specified in the scheme; any such expenditure, if incurred, should be borne by the trustees.

Mandatory Listing

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

Minimum Public Offering for Listing

For the public offers of securitised debt instruments, the special purpose distinct entity or trustee(s) should satisfy the recognised stock exchange(s) (to which a listing application is made) that each scheme of securitised debt instruments was offered to the public for subscription through advertisements in newspapers for a period of not less than two days, and that the applications received in pursuance of the offer were allotted in accordance with these regulations and the disclosures made in the offer document.

In the case of a private placement of securitised debt instruments, the special purpose distinct entity should ensure that it has obtained credit rating from a registered credit rating agency for its securitised debt instruments.

In the case of a private placement of securitised debt instruments, the special purpose distinct entity should file the listing particulars with the recognised stock exchange(s) along with the application containing such information as may be necessary for any investor in the secondary market to make an informed investment decision related to its securitised debt instruments.

All the credit ratings obtained, including the unaccepted ratings (if any), should be disclosed in the listing particulars filed with the recognised stock exchange(s).

Continuous Listing Conditions

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

Trading of Securitised Debt Instruments

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

7. Derivatives Market

Derivatives trading in India began in 2000 when both the NSE as well as the BSE commenced trading in equity derivatives. In June 2000, index futures became the first type of derivative 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 have come a long way.[9]

Equity Derivatives

Trading Mechanism

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

Products Available

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

Charges

The transaction charges payable to the exchange by the trading member for the trades executed by him/her on the F&O segment are fixed at ₹ 2 per lakh of turnover (0.002 percent), subject to a minimum of ₹ 100,000 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 ₹ 2,500 crore	₹ 1.90 each side
More than ₹ 2,500 crore and up to ₹ 7,500 crore (on incremental volume)	₹ 1.85 each side
More than ₹ 7,500 crore and up to ₹ 15,000 crore (on incremental volume)	₹ 1.80 each side
Exceeding ₹ 15,000 crore (on incremental volume)	₹ 1.75 each side

Securities Transaction Tax

Taxable Securities Transactions	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).

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

Eligibility Criteria for Stocks for F&O Trading

- The stock is chosen from among 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 lakh. For this purpose, a stock's quarter-sigma order size should mean the order size (in value terms) required to cause a change in the stock price equal to one-quarter of a standard deviation.
- The market-wide position limit in the stock should not be less than ₹ 300 crore. The market-wide position limit (number of shares) is valued taking the closing prices of stocks in the underlying cash market on the date of expiry of the contract in the month. The market-wide position limit of open position (in terms of the number of underlying stock) on futures and option contracts on a particular underlying stock shall be 20 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 the market-wide position limit in the stock shall not be less than ₹ 200 crore and stock's median quarter-sigma order size over the last six months shall be not less than ₹ 5 lakh.
- Additionally, the stock's average monthly turnover in the derivative segment over the 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 that meet these eligibility criteria, subject to approval by the SEBI.

Eligibility Criteria for Indices for F&O Trading

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 for the F&O segment are:

- The financial soundness of the members is key to risk management. Therefore, the requirements for membership in terms of capital adequacy (net worth, security deposits, and so on) are quite stringent.
- The 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 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; it generates 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 TMs clearing and settling through him/her. The NSCCL assists the CMs in monitoring the intra-day limits set up by a CM; whenever a TM exceeds the limits, it stops that particular TM from further trading.
- A member is alerted of his/her position to enable him/her to adjust his/her exposure or to bring in additional capital. Margin violations result in the disablement of the trading facility for all TMs of a CM in the case of a violation by the CM.
- A separate settlement guarantee fund for this segment has been created 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); PRISM uses the Standard Portfolio Analysis of Risk (SPAN®).[10] The SPAN® system is used for the computation of online margins based on the parameters defined by the SEBI.

Margining System

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

The 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 the collection of adequate initial margin from his/her TMs and his/her respective clients. The TM is required to collect adequate initial margins upfront from his/her clients.

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

Assignment Margin: An assignment margin is levied in addition to the initial margin and the premium margin. It is required to be paid on the assigned positions of CMs towards the exercise settlement obligations for option contracts, till such obligations are fulfilled. The margin is charged on the net exercise settlement value payable by a CM.

The 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, which is the real-time position monitoring and risk management system. The risk of each trading and clearing member is monitored on a real-time basis and alerts/disablement messages are generated if the member crosses the set limits.

Contract Specifications for Equity Derivatives[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	CNX Nifty CNX IT Bank Nifty Nifty Midcap 50 CNX PSE CNX Infra		135 securities		CNX Nifty	CNX Nifty	CNX Nifty
Security Descriptor							

[10] SPAN® is a registered trademark of the Chicago Mercantile Exchange (CME), and is used here under license.
[11] As of November 2013.

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
Trading Cycle	3-month trading cycle—the near month (one), the next month (two), and the far month (three)						3 quarterly expiries (March, June, September, and December cycle) and next 8 half-yearly expiries (June and December cycle)
Expiry Day	Last Thursday of the expiry month. If the last Thursday is a trading holiday, then the expiry day is the previous trading day.						
Strike Price Intervals	-	Depending on underlying price	-	Depending on underlying volatility	-	Depending on underlying price	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% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	Operating range of 10% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	Operating range of 10% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	A contract specific price range based on its delta value is computed and updated on a daily basis

Derivatives on Global Indices

The NSE has introduced derivatives on global indices such as S&P 500, Dow Jones Industrial Average (DJIA), and FTSE 100. The futures contracts for trading on DJIA and the futures and options contract on S&P 500 were introduced on August 29, 2011. The futures and option contracts on FTSE 100 were introduced on May 3, 2012.

Contract Specifications 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 instance, if the current index value is 1000, then the notional value would be 1000 x 250 = ₹ 250,000)	--
Tick Size	0.25	0.05

	Futures	Options
Trading Hours	As in the equity derivative segment	
Expiry Date	Third Friday of the respective contract month. In case the third Friday is a holiday in the U.S. 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 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 and the disclosure requirements for clients are the same as those applicable in the case of domestic stock index derivatives.	

Contract Specifications 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 instance, if the current index value is 5,900, then the notional value would be 5,900 x 50 = ₹ 295,000)	--
Tick Size	1	0.05
Trading Hours	As in the equity derivative segment. Expiry day: 2:45 pm or 3:30 pm	
Expiry Date	Third Friday of the respective contract month. In case the third Friday is a holiday in the U.K. 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 the 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 and the disclosure requirements for clients are the same as those applicable in the case of domestic stock index derivatives.	

Contract Specifications for DJIA Futures Contracts Trading at NSE

Ticker Symbol	DJIA
Contract Size	25 units
Notional value	Contract size multiplied by the index level (for instance, if the current index value is 10,000, then the notional value would be 10,000 x 25 = ₹ 250,000)
Tick Size	2.50
Trading Hours	As in the equity derivative segment
Expiry Date	Third Friday of the respective contract month. In case the third Friday, is a holiday in the U.S. 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 the 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 and the disclosure requirements for clients are the same as those applicable in the case of domestic stock index derivatives.

Currency Derivatives

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

Contract Specifications 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 1,000 US Dollars	1-1 unit denotes 1,000 Euro	1-1 unit denotes 1,000 Pound Sterling	1-1 unit denotes 100,000 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 a.m. to 5:00 p.m.			
Contract Trading Cycle	12-month trading cycle			
Last Trading Day	Two working days prior to the last business day of the expiry month at 12 noon			
Final Settlement Day	Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for interbank settlements in Mumbai.			
Quantity Freeze	10,001 or greater			

Symbol		USD-INR	EUR-INR	GBP-INR	JPY-INR
Base Price		Theoretical price on the first day of the contract; on all other days, daily settlement price (DSP) of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract
Price Operating Range	**Tenure up to 6 months**	+/- 3% of base price			
	Tenure greater than 6 months	+/- 5% of base price			
Position Limits	**Clients**	Lower of 6% of the total open interest or USD 10 million	Higher of 6% of the total open interest or Euro 5 million	Higher of 6% of the total open interest or GBP 5 million	Higher of 6% of the total open interest or JPY 200 million
	Trading Members	Lower of 15% of the total open interest or USD 50 million	Higher of 15% of the total open interest or Euro 25 million	Higher of 15% of the total open interest or GBP 25 million	Higher of 15% of the total open interest or JPY 1,000 million
	Banks	Lower of 15% of the total open interest or USD 100 million	Higher of 15% of the total open interest or Euro 50 million	Higher of 15% of the total open interest or GBP 50 million	Higher of 15% of the total open interest or JPY 2,000 million
Initial Margin		SPAN-based margin			
Extreme Loss Margin		1% of MTM value of the gross open position	0.3% of MTM value of the gross open position	0.5% of MTM value of the gross open position	0.7% of MTM value of the gross open position
Calendar Spreads		₹ 400 for spread of 1 month	₹ 700 for spread of 1 month	₹ 1,500 for spread of 1 month	₹ 600 for spread of 1 month
		₹ 500 for spread of 2 months	₹ 1,000 for spread of 2 months	₹ 1,800 for spread of 2 months	₹ 1,000 for spread of 2 months
		₹ 800 for spread of 3 months	₹ 1,500 for spread of 3 months and more	₹ 2,000 for spread of 3 months and more	₹ 1,500 for spread of 3 months and more
		₹ 1,000 for spread of 4 months and more			
Settlement		**Daily settlement**: T+1 **Final settlement**: T+2			
Mode of Settlement		Cash settled in Indian Rupees			
Daily Settlement Price (DSP)		Calculated on the basis of the last half an hour weighted average price			
Final Settlement Price (FSP)		RBI reference rate	RBI reference rate	Exchange rate published by the RBI in its Press Release captioned "RBI reference Rate for US$ and Euro"	Exchange rate published by the RBI in its Press Release captioned "RBI reference Rate for US$ and Euro"

Transaction Charges for Currency Futures

Total Traded Value in a Calendar Month Per Member	Transaction Charges (₹ per lakh of traded value)
Up to ₹ 2,500 crore	₹ 1.15 each side
More than ₹ 2,500 crore up to ₹ 7,500 crore (on incremental volume above ₹ 2,500 crore)	₹ 1.10 each side
More than ₹ 7,500 crore up to ₹ 15,000 crore (on incremental volume above ₹ 7,500 crore)	₹ 1.05 each side
More than ₹ 15,000 crore (on incremental volume above ₹ 15,000 crore)	₹ 1.00 each side

The contribution towards the NSE Investor Protection Fund Trust shall be payable by the trading members at the rate of 0.00005 percent (₹ 0.05 per lakh of turnover) on each side.

Contract Specifications for Currency Options

Symbol	USD–INR	
Market Type	Normal	
Option Type	Premium-style European call & put options	
Premium	Premium quoted in Indian Rupees	
Unit of Trading	1 contract unit denotes USD 1,000	
Underlying/Order Quotation	The exchange rate in Indian Rupees for US Dollars	
Tick Size	0.25 paise (i.e. ₹ 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 contract 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	₹ 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 first day of the contract; on all other days, DSP 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.	
Position Limits	The gross open positions across all contracts (both futures and options) shall not exceed the following:	
	Clients	Lower of 6% of total open interest or USD 10 million
	Trading Members	Higher of 15% of the total open interest or USD 50 million
	Banks	Lower of 15% of the total open interest or USD 100 million
Initial Margin	SPAN-based margin	
Extreme Loss Margin	1.5% of the 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 contract	

Transaction Charges for Currency Options

Premium Value in a Calendar Month per Member	Transaction Charges (₹ per Lakh of Premium Value)
Up to first ₹ 250 crore	₹ 40 each side
More than ₹ 250 crore up to ₹ 500 crore (on incremental volume above ₹ 250 crore)	₹ 35 each side
More than ₹ 500 crore (on incremental volume above ₹ 500 crore)	₹ 30 each side

Contribution of ₹ 2 per lakh of premium value shall be payable by all participating trading members towards the NSE Investor Protector Fund.

Contract Specifications for Interest Rate Futures (10-year notional coupon-bearing GoI security, 7 percent annual compounding)

Symbol	10YGS7
Market Type	Normal
Instrument Type	FUTIRD
Unit of Trading	1 lot (1 lot is equal to notional bonds of face value ₹ 2 lakh)
Underlying	10-year notional coupon-bearing Government of India (GoI) security (notional coupon: 7% with semi-annual compounding)
Tick Size	₹ 0.0025
Trading Hours	Monday to Friday, 9:00 a.m. to 5:00 p.m.
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	1,251 lots or greater
Base Price	Theoretical price of the first day of the contract; on all other days, DSP of the contract
Price Operating Range	+/- 5% of the base price
Position Limits	**Clients**: 6% of the total open interest or ₹ 300 crore, whichever is higher **Trading Members**: 15% of the total open interest or ₹ 1,000 crore, whichever is higher
Initial Margin	SPAN®-based margin
Extreme Loss Margin	0.3% 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% 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 Specifications for Interest Rate Futures (91-day T-bill)

Symbol	91DTB	
Market Type	Normal	
Instrument Type	FUTIRT	
Unit of Trading	One contract denotes 2,000 units (face value: ₹ 2 lakh)	
Underlying	91-day Government of India (GoI) Treasury Bill	
Tick Size	0.25 paise (i.e., ₹ 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 the 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% p.a., the quote shall be 100 - 5 = ₹ 95)	
Contract Value	₹ 2,000 * (100 - 0.25 * *y*), where *y* is the futures discount yield (e.g., for a futures discount yield of 5% p.a., the contract value shall be 2,000 * (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, the quote price corresponding to the daily settlement price of the contracts	
Price Operating Range	+/- 1% of the base price	
Position Limits	**Clients**	6% of total open interest or ₹ 300 crore, whichever is higher
	Trading Members	15% of the total open interest or ₹ 1,000 crore, whichever is higher
Initial Margin	SPAN®-based, subject to a minimum of 0.1% of the notional value of the contract on the first day and 0.05% of the notional value of the contract thereafter.	
Extreme Loss Margin	0.03% of the notional value of the contract for all gross open positions	
Settlement	**Daily settlement MTM:** T+1 in cash **Delivery settlement:** Last business day of the expiry month	
Daily Settlement Price & Value	₹ (100 - 0.25 * *yw*), where *yw* is the weighted average futures yield of the trades during the time limit as prescribed by the NSCCL. In the absence of trading in the prescribed time limit, theoretical futures yield shall be considered.	
Daily Contract Settlement Value	₹ 2,000 * daily settlement price	
Final Contract Settlement Value	₹ 2,000 * (100 - 0.25 * *yf*), where *yf* is the weighted average discount yield obtained from the weekly auction of 91-day T-Bills conducted by the 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 FIIs

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 organisation, 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 and 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 (FII)

iii. Foreign individual who has a net worth of not less than USD 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 USD 2 billion, and having an average net profit of not less than USD 50 million during the three financial 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 recognised 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 recognised stock exchange, or units of schemes floated by a Collective Investment Scheme

iii. Dated government securities

iv. Derivatives traded on a recognised stock exchange

v. Commercial papers

vi. Security receipts

vii. Indian Depository Receipts

The purchase of equity shares of each company by an FII on his/her own account shall not exceed 10 percent of the total issued capital of that company. In respect of an FII investing in equity shares of a company on behalf of his/her sub-accounts, the investment on behalf of each such sub-account shall not exceed 10 percent of the total issued capital of that company. However, in case of a foreign corporate or individuals, each of such sub-accounts shall not invest more than 5 percent of the total issued capital of the company in such investment.

Investment in Listed Indian Companies

An individual FII or 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 an Indian company. The 10 percent limit would include the shares held by the SEBI-registered FII/SEBI-approved sub-accounts of the FII under the Portfolio Investment Scheme (by way of purchases made through a registered broker on a recognised stock exchange in India or by way of offer/private placement) as well as the shares acquired by the SEBI-registered FII under the FDI scheme.

The total holdings of all FIIs/SEBI-approved sub-accounts of FIIs put together shall not exceed 24 percent of the paid-up capital or the 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; the same should necessarily be intimated to the Reserve Bank of India immediately, 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, and so on 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 is 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 Form 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 Form LEC (FII).

9. Qualified Foreign Investors

Qualified foreign investors (QFIs)—defined to include non-resident investors other than SEBI-registered FIIs and SEBI-registered FVCIs, who meet the KYC requirements of the SEBI—are allowed to purchase on repatriation-basis the equity shares of Indian companies.[12] Such a person should not be resident in India and should not be registered with the SEBI as an FII or a sub-account.

[12] These are subject to the terms and conditions related to eligible instruments and eligible transactions, mode of payment/repatriation, limits, KYC, and so on.

Eligibility

Only QFIs from jurisdictions that are FATF compliant and with which the SEBI has signed MOUs under the IOSCO framework will be eligible to invest in equity shares under this scheme.

Eligible Instruments of QFIs

QFIs shall be permitted to invest through SEBI-registered depository participants (DPs) only in the equity shares of listed Indian companies through recognised brokers on recognised stock exchanges in India, as well as in the equity shares of Indian companies that are offered to the 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 Transactions 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 stockbrokers on recognised stock exchanges in India
- Sale of equity shares that are held in their demat account through SEBI-registered stockbrokers
- 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 other such corporate actions, subject to the investment limits
- Receipt of dividends
- Tender equity shares in open offers in accordance with the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
- Tender equity shares in open offers in accordance with the SEBI (Delisting of Equity Shares) Regulations, 2009
- Tender equity shares in the case of buy-back by listed companies in accordance with the 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 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 compliance with these limits shall remain jointly and severally with the respective QFIs, DPs, and the respective Indian companies (receiving such investment).

Investment Restrictions and Monitoring of Investment Limits for QFIs

- 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 a QFI shall be cleared and settled on gross basis.
- A QFI shall not issue offshore derivatives instruments/participatory notes. A declaration and undertaking to this effect shall be obtained by the DP from the QFI.

[13] SEBI Circular dated Jan 13, 2012. (http://www.sebi.gov.in/cms/sebi_data/attachdocs/1326453304731.pdf)

- The QFI and the 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 International Securities Identification Numbers (ISIN).
- The depositories shall administer and monitor so as to ensure that the aggregate shareholding of all QFIs does not exceed 10 percent of the paid-up equity capital of the company at any point of time, in respect of each class of equity shares having separate and distinct ISINs.
- 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(s) relating to that QFI, purchase quantity, time, or any other information as may be required by the depositories.

10. Foreign Venture Capital Investor

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

Investment Conditions and Restrictions

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

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

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

iii. An FVCI should make investments as enumerated below:

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

   b) Not more than 33.33 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 the SEBI AIF Regulations, 2012, whose shares are proposed to be listed.
      - Debt or debt instruments of a VCU or investee company as defined in the SEBI AIF Regulations, 2012, in which the FVCI has already made an investment by way of equity.
      - Preferential allotment of equity shares of a listed company subject to lock-in period of one year. This condition should be achieved by the FVCI by the end of the life cycle.
      - It should disclose the duration of the life cycle of the fund.

Special purpose vehicles (SPVs) are created by a venture capital fund for the purpose of facilitating or promoting investment in accordance with the SEBI (FVCI) Regulations, 2000.

General Obligations and Responsibilities

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

Risk Management

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

May prosperity always bloom

NSE

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