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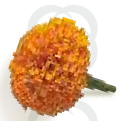
Indian Securities Market A Review



May prosperity always bloom

A Review

Indian Securities Market

Volume XVII 2014

This publication reviews the developments in the securities market in India

Online: www.nseindia.com

NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Indian Securities Market
A Review

Orders for this issue may be sent to:

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CONTENTS

ABBREVIATIONS

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

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

EUR-INR	Euro-Indian Rupee
FIA	Futures Industry Association
F&O	Futures and Options
FCCBs	Foreign Currency Convertible Bonds
FCDs	Fully Convertible Debentures
FDI	Foreign Direct Investment
FDRs	Foreign Deposit Receipts
FDs	Fixed Deposits
FEMA	Foreign Exchange Management Act
FII	Foreign Institutional Investment
FIIs	Foreign Institutional Investors
FIMMDA	Fixed Income Money Markets and Derivatives Association
FIs	Financial Institutions
FMCG	Fast Moving Consumer Goods
FMPs	Fixed Maturity Plans
FoFs	Fund of Funds
FPOs	Further Public Offerings
FRAs	Forward Rate Agreements
FVCIs	Foreign Venture Capital Investors
GBP-INR	Great Britain Pound-Indian Rupee
GDP	Gross Domestic Product
GDRs	Global Deposit Receipts
GDS	Gross Domestic Savings
GETF	Gold Exchange Traded Funds
GIC	General Insurance Corporation of India
GNP	Gross National Product
GOI	Government of India
G-Sec	Government Securities
GSO	Green Shoe Option
i-BEX	ICICI Securities Bond Index
ICAI	Institute of Chartered Accountants of India
ICICI	Industrial Credit and Investment Corporation of India Limited.
ICSE	Inter-Connected Stock Exchange of India Limited
IBRD	International Bank for Reconstruction and Development
ICCL	Indian Clearing Corporation Limited
IDBI	Industrial Development Bank of India
IDRs	Indian Depository Receipts

IEPF	Investors Education and Protection Fund
IFC	International Finance Corporation
IFSD	Interest Free Security Deposit
IIM	Indian Institute of Management
IISL	India Index Services and Products Limited
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commission
IDFC	Infrastructure Development Finance Corporation
IDRs	Indian Depository Receipts
IIP	Index of Industrial Production
IPP	Institutional Placement Programme
IP	Internet Protocol
IFCs	Infrastructure Finance Company
IPF	Investor Protection Fund
IPOs	Initial Public Offers
IRDA	Insurance Regulatory and Development Authority
IRS	Interest Rate Swap
ISIN	International Securities Identification Number
ISSA	International Securities Services Association
IT	Information Technology
ITM	In-The-Money
ICDR	Initial Capital Disclosure Requirement
JPC	Joint Parliamentary Committee
JPY-INR	Japanese Yen- Indian Rupee
LA	Listing Agreement
LAF	Liquidity Adjustment Facility
LEC	Liquidity Enhancement Scheme
LIC	Life Insurance Corporation of India Limited
LLC	Limited Liability Company
LLP	Limited Liability Partnership
M	Month
MCA	Ministry of Company Affairs
MCFS	Modified Carry Forward System
MFs	Mutual Funds
MFSS	Mutual Fund Service System
MIBID	Mumbai Inter-bank Bid Rate
MIBOR	Mumbai Inter-bank Offer Rate

MMMF	Money Market Mutual Fund
MNCs	Multi National Companies
MOU	Memorandum of Understanding
MoF	Ministry of Finance
MTM	Mark-To-Market
NASDAQ	National Association of Securities Dealers Automated Quotation System
NAV	Net Asset Value
NBFCs	Non-Banking Financial Companies
NCDs	Non-convertible Debentures
NCDS	Non-convertible Debt Securities
NCFM	NSE's Certification in Financial Markets
NDS	Negotiated 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

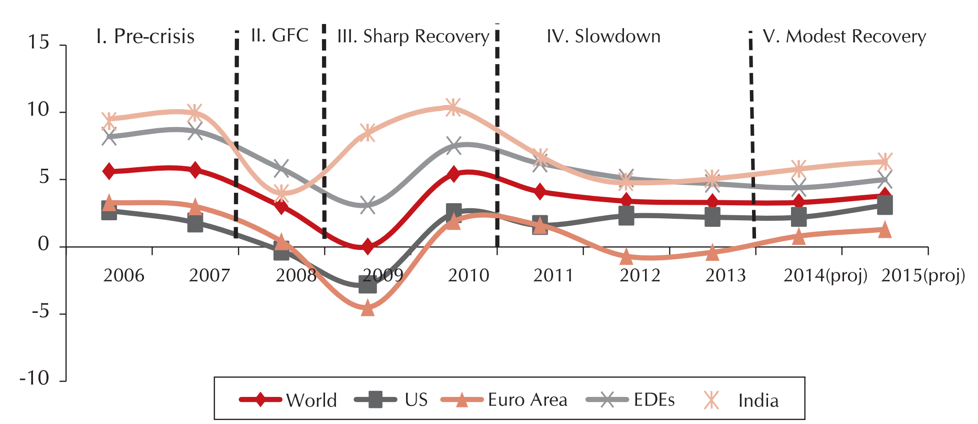
Section – I: Macroeconomic Developments

Global Economic Environment

In the year 2014, the global economy witnessed uneven economic growth and was prone to downside risks in the form of rise in geopolitical tensions, unexpected tightening of financial conditions due to increase in U.S. interest rates and contraction of demand in advanced economies. During the year, while advanced economies exhibited a slow recovery, the emerging economies' growth rates remained below the pre-crisis levels. According to the latest available World Economic Outlook (October 2014) published by the International Monetary fund (IMF), growth in world output is expected to remain unchanged at 3.3 percent in 2014 as it was in 2013; it is, however, projected to strengthen to 3.8 percent in 2015.

In particular, growth in advanced economies is expected to rise to 1.8 percent in 2014 and 2.3 percent in 2015 from 1.4 percent in 2013. This improvement in growth prospects has been mainly driven by the rebound in the U.S. economy, growing at 4.6 percent in Q2 2014 after shrinking by 2.1 percent in Q1 2014. This revival is apparently becoming sustainable due to the improved housing activity and consistent increase in payroll employment. IMF expects a modest recovery in the Euro area economy, provided there is continuous improvement in lending conditions of the banks and strong external demand. In fact, after contracting by 0.4 percent in 2013, the Euro area is projected to grow by 0.8 percent in 2014 and 1.3 percent in 2015. The U.K. is likely to grow rapidly by 3.2 percent in 2014 as compared to 1.7 percent in the previous year, contributed by uptick in domestic demand and investment and rapid employment growth. Turning to emerging and developing economies, their growth is expected to decline to 4.4 percent in 2014 from 4.7 percent in 2013, before rising to 5 percent in 2015. This decline has been triggered by slower growth in countries like China, Brazil and Russia. (Refer to Chart 1.1 and Table 1.1)

Chart-1.1: Global growth Projections for 2014 and 2015 by IMF



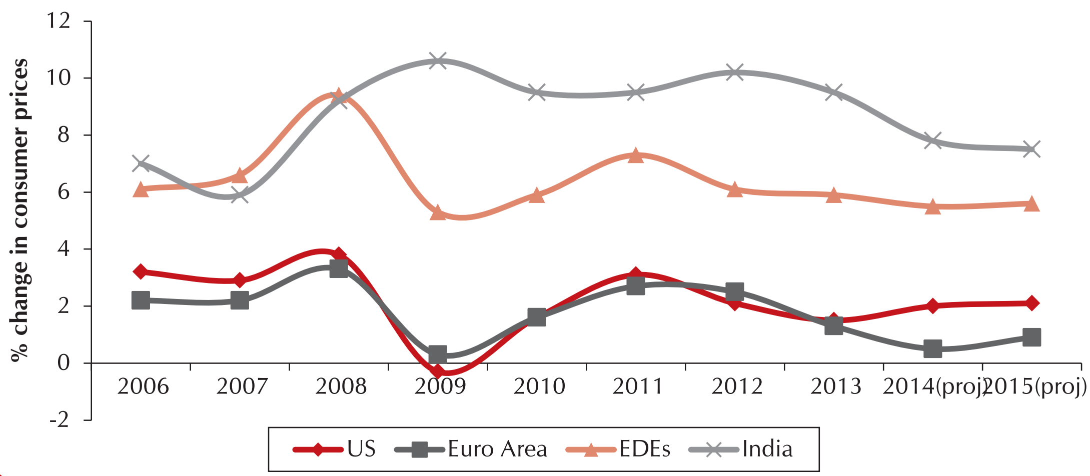
Source: WEO database, IMF

Table 1.1: Revision in IMF forecasts (in percent)

	Actuals in		Forecast for 2014 in	Forecast for 2014 in
	2012	2013	Jul-14	Oct-14
World	3.4	3.3	3.4	3.3
Advanced economies	1.2	1.4	1.8	1.8
United States	2.3	2.2	1.7	2.2
Euro Area	-0.7	-0.4	1.1	0.8
United Kingdom	0.3	1.7	3.2	3.2
Japan	1.5	1.5	1.6	0.9
Emerging Economies	5.1	4.7	4.6	4.4
Brazil	1	2.5	1.3	0.3
Russia	3.4	1.3	0.2	0.2
India	4.7	5	5.4	5.6
China	7.7	7.7	7.4	7.4

Source: World Economic Outlook 2014, IMF

Chart 1.2: Global Inflation Projections for 2014 and 2015 by IMF



Source: WEO database, IMF

In 2014, there has been a boost to private spending in the U.S. on account of strong increase in employment, favorable financial conditions, supportive monetary policy and weak fiscal consolidation. With the expansion of domestic economic activity (including household spending) and improved labor market conditions, the Federal Reserve decided to end the large scale asset purchase program in October 2014, which it had begun to unwind in a staggered manner since January 2014. [1] Despite the pickup in economic growth, price pressures in U.S. remain subdued (refer to chart 1.2), with the consumer price index inflation recording a 1.7 (m-o-m) percent rise (as of end September 2014) over the last one year. However, it is worthwhile to note that there are some downside risks to the positive outlook on U.S. economic growth. These include among others an unexpected rise in inflation due to lower than expected slack in the economy, thereby leading to a surge in interest rates. In the Euro area, growth prospects are fragile and uneven across the member countries. The legacy of the financial crisis continues to loom large over the overall output and investment as Euro area GDP rose by 0.8 percent (y-o-y) in Q3 of 2014. Much of this growth has been driven by Romania, U.K. and Greece while Italy has continued to post negative growth rates for the last few quarters. Weak domestic demand has contributed to annual inflation rates in the Euro area remaining in the range of 0.3-0.7 percent over the last one year, which is much below the European Central Bank's target (close to 2 percent). This has forced ECB to cut its key policy

[1] U.S. Federal Reserve commenced its third round of Quantitative Easing in September 2012 through a monthly bond purchase program of USD 85 billion which included purchases of mortgage backed securities. This unconventional and easy monetary policy measure was intended to boost growth and employment in the U.S. which had reached record lows post the global financial crisis of 2008.

rate (main refinancing rate) by 10 bps to 0.05 percent. Along with this rate cut, ECB has announced purchase of asset backed securities and covered bonds starting from Q4 2014, as part of its 'Quantitative Easing' program to stimulate the faltering economy.

In Japan, the pattern of growth in the first half of 2014 exhibited two contrasting features. On account of the April 2014 consumption tax hike, Japan's economy suffered from a 1.7 percent (q-o-q) contraction during Q2 2014, wiping out growth of 1.5 percent seen in Q1 2014. This contraction reflected a decline in private consumption, capital expenditure and exports. With a view to revive the economy from the jolt of Q2 2014, Bank of Japan has decided to expand the monetary base (by 80 trillion yen per year) by increasing its asset purchases. This move is expected to ease borrowing by both corporates and individuals, supported by lower interest rates.

In emerging and developing economies, the moderation of growth has been driven by a combination of structural and cyclical factors. However, growth in India is expected to rise in FY 2015 due to uptick in exports and investment and decline in inflation. In particular, adequate structural reforms to strengthen investors' confidence as well as maintaining a stable external position can help to boost manufacturing sector growth. Unlike India, Brazil is likely to experience a contraction in output and high inflation in 2014 on the back of low business confidence, weak competitiveness and limited employment and credit growth. Similarly, Russia is expected to grow modestly in 2014 and 2015 due to mild increase in investment and non-energy exports. In China, growth is expected to benefit in the near future, led by higher infrastructure spending, support given to small and medium enterprises and improved trade balance.

Going forward, the global economic activity is forecasted to expand moderately, driven by both advanced economies as well as developing economies. Emerging economies' growth rates should probably be contributed by subsiding temporary setbacks to domestic demand and production, strong demand from advanced countries and minimization of structural impediments to their growth. Further, global trade growth is likely to be higher than GDP growth and global current account imbalances are expected to come down, with sustained global recovery in the future. In fact, world exports and imports are likely to grow at a faster pace in 2015 as compared to 2014 for both advanced and emerging market economies. (WEO, 2014)

One of the key risks to global economic growth can arise from the increased volatility in emerging markets (as observed in exchange rates and capital flows) on account of complete withdrawal of accommodative monetary policy in the U.S. As a consequence, emerging markets can face currency depreciations, decline in equity prices and capital flow reversals. However, on a positive note, India has been one of the very few developing countries to be characterized by lower vulnerability to monetary tightening in the U.S. This is because India has been successful in strengthening its macroeconomic fundamentals through appropriate policy actions.

Another risk can emerge from low potential output growth in advanced countries due to fall in investment and decline in labor supply as a result of historically high unemployment rates. Moreover, persistently low inflation in some advanced economies can pose risks to the global growth outlook.

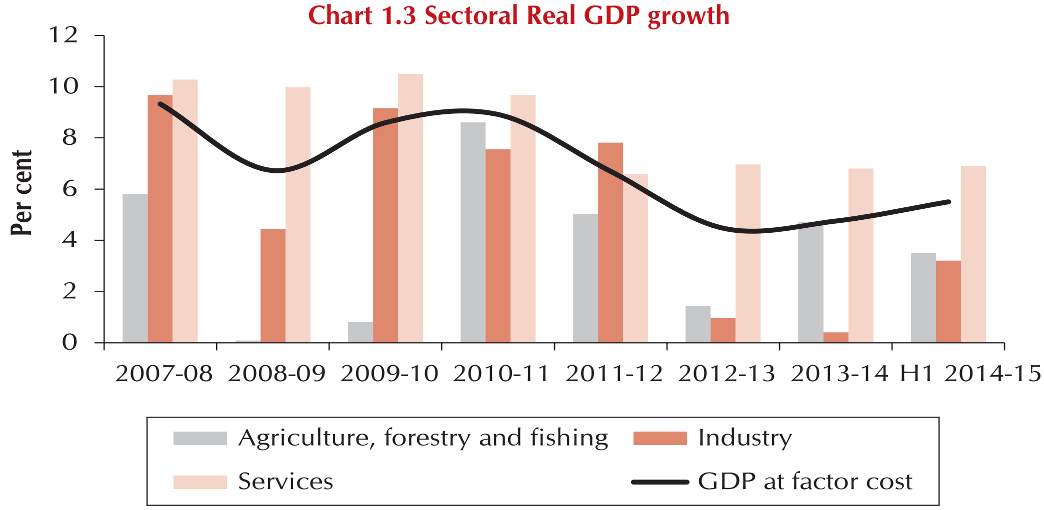
Macroeconomic Developments in India

In the year 2013-14, the Indian economy faced risks arising from both domestic and external factors, such as persistent slow growth, high inflation, exchange rate instability on account of capital outflows, fiscal and current account imbalances and lower investment.

Even though the Indian economy witnessed robust growth for two successive years post the financial crisis, GDP growth has decelerated since then, reaching 4.5 percent in FY 2013. However, GDP growth improved marginally to 4.7 percent in FY 2014 on the back of a rebound in growth in the agricultural sector and a pickup in net exports due to rupee depreciation and policies to curb gold imports. Nonetheless, the overall pace of growth was sluggish, reflecting decline in investment and weak private consumption expenditures.

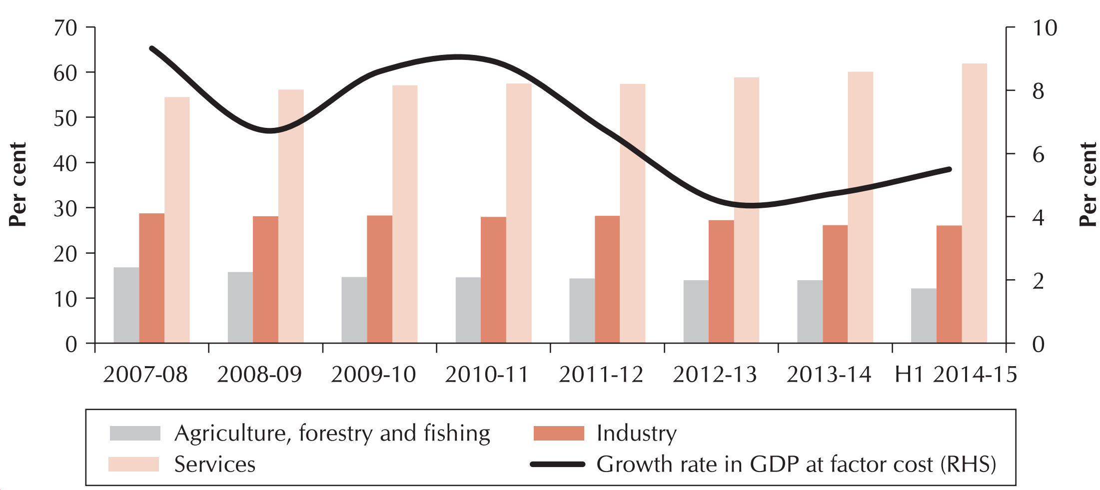
Encouragingly, the economy exhibited a significant turnaround with a 5.7 percent real GDP growth (the highest growth in ten quarters) in Q1 FY 2015. This revival in growth was primarily driven by improvement in investment demand and exports as well as rise in manufacturing and mining sector's output. The government's ongoing efforts in reducing the uncertainty in the legal and regulatory framework (including steps to improve the ease of doing business) and its resolve to achieve the fiscal deficit target have aided to reinstate and boost investors' confidence in the economy. In Q2 FY 2015, India's real GDP growth (5.3 percent) recorded a mild slowdown as compared to the first quarter. (refer to chart 1.3) The second quarter GDP growth was driven by the services sector, being primarily aided by strong growth in Community, Social and Personal services.(refer to chart 1.4) However, the strong growth in the social services sector is unlikely to sustain in the second half of FY 2015 since there is limited scope for the government to spend (fiscal deficit has already touched 90% of Budget estimates in the first 7 months of FY15). On the other hand, the "trade, hotels, transport and communication" sector (contributes to nearly 11 percent of total employment in India) has exhibited a slow but steady revival and has the potential of improving the economy's employment prospects. Meanwhile, industrial sector underperformed in the second quarter driven by sluggish manufacturing activity. Interestingly, despite improved business confidence, fresh investments are not taking place at a desirable pace given highly leveraged infrastructure companies, excess capacities and sluggish sales in some industrial sectors. (Crisil Research Report, November 2014 Unless the economy witnesses significant pick up in consumption and investment demand in the rest of the fiscal, growth numbers are unlikely to bring much cheer.

Chart 1.3 Sectoral Real GDP growth



Source: Central Statistical Organisation

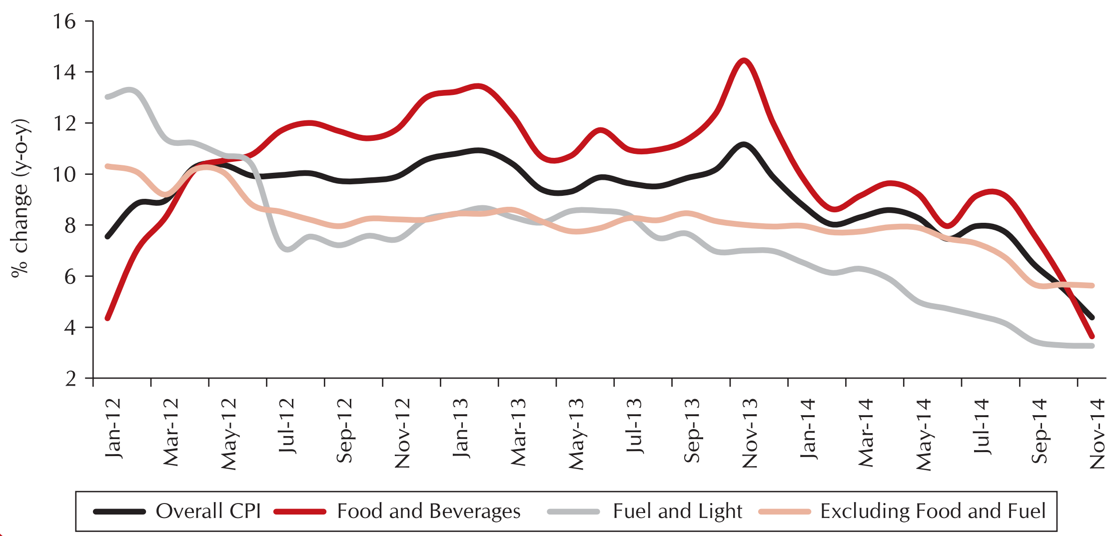
Chart 1-4 Relative Contribution to Real GDP Growth



Source: Central Statistical Organisation

The sluggish growth of the economy in FY 2014 has been accompanied by mild decline in inflation, albeit not in a consistent manner. Consumer price index (CPI) inflation generally increased during June-November 2013, peaking at 11.16 percent in November 2013 following which it started easing till March 2014. These inflation rates were well above the disinflationary glide path (8 percent by January 2015 and 6 percent by January 2016) set out by the Urjit Patel Committee. Since June 2014, CPI inflation has dropped to levels consistent with the 8 percent glide path as mentioned above. According to the latest data available, the CPI inflation declined for the fourth consecutive month in November 2014 (4.38%), its lowest level since the inception of the new CPI index in January, 2011. The current fall in inflation can be attributed to lower food prices, led by vegetables and a softening of petroleum product prices. (refer to chart 1.5)

Chart 1.5: CPI Inflation in India



Source: Office of the Economic Adviser, Ministry of Commerce & Industry

On the fiscal front, the Central government, recognizing that high fiscal deficit can lead to widening of current account deficit (CAD) and also rise in inflation, continued with its fiscal consolidation program in 2013-14 (refer to chart 1.6). It has restricted its gross fiscal deficit to 4.5 percent of GDP, less than the set target of 4.6 percent of GDP. The containment in fiscal deficit was achieved mainly by a cut in capital expenditure and planned revenue expenditure which can impede growth in the medium term. Further, reduction in expenditures through unpaid subsidies also aided to achieve the fiscal deficit targets in 2013-14.

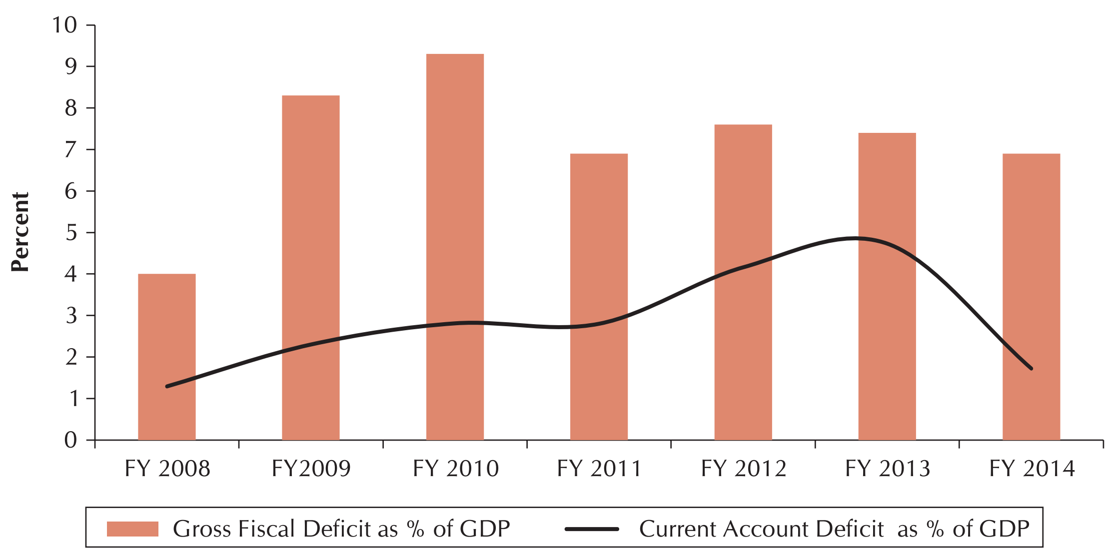
During FY 2015, government has budgeted for a fiscal deficit of 4.1 percent of GDP. However, the prospects of curbing the fiscal deficit below the budgeted level appear somewhat bleak. The fiscal deficit of the government has already reached 90 percent of the Budget Estimates in the first seven months itself of FY 2015, due to lower indirect tax collections and less than projected disinvestment proceeds. Hence, in order to boost revenue and curb fiscal deficit, government has taken a number of steps including announcement of hike in excise duty on petrol and diesel and resuming the divestment program with the dilution of a part of its stake in the state-run Steel Authority of India Ltd. (SAIL). (A non-exhaustive list of the main economic reforms initiated in FY 2015 is presented at the end of the chapter).

Going forward, even though progress has been made in reducing subsidy expenditures over the last two years, there is more scope in the near future for shifting expenditures away from subsidies to public investment and on human and physical capital which will bring about growth inducing impact on the economy.

On the external front, India's Current Account Deficit (CAD) declined sharply to 1.7 percent of GDP in FY 2014 after touching a historical high of 4.7 percent of GDP in FY 2013(refer to chart 1.6). The sharp decline in CAD to GDP ratio was due to lower trade deficit, strong growth in services exports and stable flows of remittances. In FY 2014, the economy witnessed modest recovery in exports on account of higher demand from its trading partners (especially from US, China, Japan). On the contrary, imports - particularly that of gold - declined significantly due to various policy measures adopted by RBI and fall in international gold prices. The latest available data indicates a widening of CAD to USD 10.1 billion (2.1% of GDP) in Q2 FY15 from USD 7.8 billion (1.7% of GDP) in the previous quarter, contributed by a surge in gold imports following an easing of restrictions on the imports.

Turning to the capital account, there was an uneven trend of net capital inflows into the economy in FY 2014. In fact, there was a net capital outflow during Q2 FY2014 and forex reserves had to be depleted to finance the CAD. In view of the above scenario, government and RBI had announced some policy measures in the second quarter to boost capital inflows. These included a) liberalization of FDI norms in telecom, petroleum and natural gas, courier services, asset reconstruction companies b) offering a window for the banks to swap the fresh FCNR(B) dollar funds with RBI c) increase in the overseas borrowing limit from 50 percent to 100 per cent of the unimpaired Tier I capital of banks d) permission to avail ECB under the approval route from their foreign equity holder company. With improvement in CAD and growing confidence of foreign investors in the economy, there were strong FII inflows into the country during Q3 and Q4 of FY 2014 which continued in the first half of FY 2015. In contrast to the situation of Q2 FY 2014, financial flows to India were more than sufficient to finance the CAD during Q2 FY 2015, resulting in a net addition to foreign exchange reserves during the quarter.

Chart 1.6: India's Gross Fiscal Deficit and Current Account Deficit



Source: RBI

India's external debt rose to USD 440.6 billion during FY 2014 from USD 409.4 billion in the previous fiscal. The increase in external debt was driven by rise in NRI deposits due to the special swap scheme introduced by RBI for mobilization of FCNR(B) deposits by commercial banks. Key external sector vulnerability indicators like ratio of short term debt to total external debt and ratio of foreign exchange reserves to total debt deteriorated during the year (see Table 1.2). Encouragingly, however, reserves cover of imports increased while debt service ratio remained steady during FY 2014.

Table 1.2: 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)
FY2006	139.1	16.8	10.1	109%	13%	14%	11.6
FY2007	172.4	17.5	4.7	116%	14%	16%	12.5
FY2008	224.4	18.0	4.8	138%	15%	20%	14.4
FY2009	224.5	20.3	4.4	112%	17%	19%	9.8
FY2010	260.9	18.2	5.8	107%	19%	20%	11.1
FY2011	305.9	17.5	4.4	96%	21%	21%	9.6
FY2012	360.8	20.5	6.0	82%	27%	22%	7.1
FY2013	409.4	22	5.9	71%	33%	24%	7
FY2014	442.2	23.4	5.9	69%	29%	20%	7.8
June FY2015P	450.1	23.2	8.1	70%	28%	20%	7.8

P: Provisional

Source: Ministry of Finance, Govt. of India

India's financial markets – particularly the secondary securities markets – were positively impacted by the modest recovery in global and domestic growth as reflected in some of the following indicators:

- While the market cap to GDP ratio increased to 64.1 percent by end-March 2014 from 62.2 percent a year ago, the average daily turnover in the cash segment of NSE has surged to ₹ 112 billion in 2013-14 and further to ₹ 179 billion during the first half of 2014-15 from ₹ 108 billion in 2012-13.
- Moreover, volatility in the equity market has also declined as reflected in a fall in volatility of the benchmark index CNX Nifty from 1.90 in September 2013 to 0.76 in September 2014.
- Further, with improvement in growth prospects, resource mobilization through public and rights issues in the primary market expanded from ₹ 325 billion in 2012-13 to ₹ 557 billion in 2013-14.
- However, in the first half of 2014-15, primary market resource mobilization fell to ₹ 82 billion from ₹ 90 billion in the corresponding period of last fiscal despite a rise in the number of public and rights issues.

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Box: Reform Initiatives

The main economic reforms initiated in FY 2015 include "Make in India" initiative and the passage of a number of legislations, including amendments to the Insurance Bill.

i) ***"Make in India"* initiative**: The Central government has launched the 'Make in India' plan to boost the manufacturing sector, attract foreign investors and create jobs. Through this initiative, the government has stressed on the importance of improving the skills of the economy's workforce, need for effective governance, improvement of infrastructural prospects that can help encourage business opportunities abroad, creation of more employment opportunities for the poor in order to enhance their purchasing power.

ii) **Amendments to the Insurance Bill, 2008**: The key amendment to this Bill comprises raising the composite cap in the insurance sector (implying that foreign capital can flow into the sector as direct investment (FDI), portfolio investment or a combination of both) from 26% to 49%. However, investment beyond 26% would require approval from FIPB. It is believed that the hike in FDI limit could result in foreign inflows of ₹ 400-600 billion over time, with immediate inflows of ₹ 200 billion.

iii) **Easing of the norms relating to FDI in construction sector:** With a view to encourage foreign investments in the real estate sector, government has eased certain norms in the sector which include easy exit norms, reduced built-up area and capital needs. These measures would support the creation of large scale low cost affordable housing in the country as well as the development of smart cities, apart from boosting employment opportunities in the service sector and helping the growth of raw material supplying industries like cement, steel etc.

iv) **Amendment to the Companies Act, 2013:** In order to further improve the business environment, the Union Cabinet has made some changes to the Companies Act, 2013 which was introduced with the objective of strengthening the regulatory framework on corporate governance. These modifications include doing away with the requirement of minimum paid-up share capital, provision for writing off past losses before declaring dividend for the year, provision of deciding the thresholds beyond which reporting of frauds will take place, among others.

v) Deregulation of diesel prices thereby creating opportunities for new investments in this sector.

vi) Increasing the FDI cap in defense to 49 percent from 26 percent, increasing the possibilities for state- of –the- art technology production in this sector through overseas investments.

vii) Formation of the Expenditure Management Commission that will lay out a plan for rationalizing expenditures.

viii) Reforming the coal sector via auctions of coal mines and greater entry of private players.

ix) Launch of a major program for financial inclusion – the Pradhan Mantri Jan Dhan Yojana – under which over 9 crore new accounts have been opened till December 11, 2014.

x) Removal of restrictions on gold imports by scrapping the 80:20 rule which mandated the traders to export 20% of the gold imported while retaining 80% for domestic use. This step has been taken in view of the CAD remaining under control in FY 2014 as compared to the previous fiscal.

Five Year Trend

Sector/ Indicator	Y-o-Y growth rate (%)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Real Sector					
GDP at constant prices	8.6	8.9	6.7	4.5	4.7
Agriculture	0.8	8.6	5.0	1.4	4.7
Industry	9.2	7.5	7.8	1.0	0.3
Services	10.5	9.7	6.6	7.0	6.8
Consumer Price Index (average)	-	-	-	10.2	9.5
Financial Sector					
Money Supply (outstanding at end of period)	18.9	16.4	13.0	13.6	13.5
Bank credit to commercial sector (outstanding at end of period)	14.2	21.4	16.9	13.9	13.7
Securities Market Indicators					
Turnover (Daily average)					
Cash	49.7	-17.3	-19.6	-4.0	3.3
Equity F&O	59.8	59.1	9.3	0.8	20.2
Currency F&O*	536.2	86.5	31.7	11.3	-24.2
Fiscal Sector					
Central Govt. Total Receipts	9.9	36.9	-4.2	16.7	14.7
Central Govt. Total Expenditure	16.2	17.0	8.4	8.1	10.9
Central Govt. Fiscal Deficit	26.8	-11.8	36.4	-5.1	3.7
External Sector					
FDI (Inward)	-5.5	-24.8	88.0	-38.6	8.4
FII (Net)	407.5	6.5	-41.3	64.1	-71.4
Export	-2.2	40.6	21.9	-1.8	4.3
Import	-3.9	28.5	32.4	0.2	-8.5

Memo Items					
Current Account Balance (% of GDP)	-2.8	-2.6	-4.2	-4.7	-1.7
Capital Account Balance (% of GDP)	3.9	3.6	3.6	4.7	1.7
91-day T-bill rates (end of period; %)	4.3	7.3	9.0	8.2	8.8
Central Government Debt (end of period; % of GDP)	53.7	49.9	46.7	47.5	47.6
Forex Reserves (end of period; $ bn)	279.1	305.5	294.4	292.7	303.7

*: 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 2014

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 2013-14 have been outlined.

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

Table 1-3: Market Participants in Securities Market

Market Participants	FY 2012	FY 2013	FY 2014	As on Sep 30, 2014
Securities Appellate Tribunal (SAT)	1	1	1	1
Regulators*	4	4	4	4
Depositories	2	2	2	2
Stock Exchanges				
With Equities Trading	19	20	20	20
With Debt Market Segment	2	2	2	2
With Derivatives Trading	2	2	3	3
With Currency Derivatives	4	3	4	4
Brokers (Cash Segment)**	10,268	10,128	9,411	9,060
Corporate Brokeers (Cash Segment)	4,877	5,113	4,917	4,773
Brokers (Equity Derivatives)	2,337	2,957	3,051	3,020
Brokers (Currency Derivatives)	2,173	2,330	2,395	2,404
Sub-brokers (Cash Segment)	77,141	70,242	51,885	45,795
Foreign Portfolio Investors	-	-	-	8,174

Contd.

Contd.

Market Participants	FY 2012	FY 2013	FY 2014	As on Sep 30, 2014
Portfolio Managers	250	241	212	198
Custodians	19	19	19	19
Registrars to an issue & Share Transfer Agents	74	72	71	71
Merchant Bankers	200	198	197	199
Bankers to an Issue	57	57	59	60
Debenture Trustees	31	31	31	31
Underwriters	3	3	3	2
Venture Capital Funds	212	211	207	201
Foreign Venture Capital Investors	174	182	192	197
Mutual Funds	49	52	50	49
Collective Investment Schemes	1	1	1	1
KYC Registration Agency (KYC)	--	5	5	5

**DCA,DEA,RBI &SEBI.*

***Including brokers on Mangalore SE (58), HSE (303), Magadh SE (197), SKSE (399).*

With the commencement of FPI Regime from June1, 2014, the erstwhile FIIs, Sub Accounts and QFIs have been merged into a new investor class termed as "Foreign Portfolio Investors (FPIs)".

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).

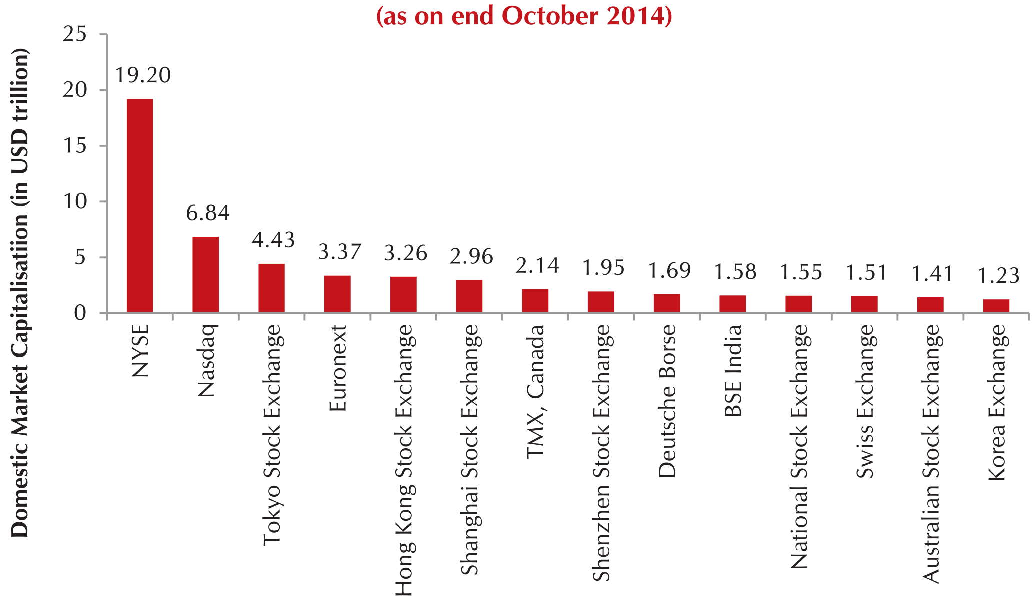
The secondary market enables participants who hold securities to adjust their holdings in response to changes in their assessment of risks and returns. Once new securities are issued in the primary market, they are traded in the stock (secondary) market. The secondary market operates through two mediums, 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 can be observed from Chart 1.7, NSE ranks 11th among the world's stock exchanges as measured by market capitalization of listed corporates at the end of October 2014. According to WFE, the market value of companies listed on Indian stock exchanges has risen by more than 40% during the last one year, as investors think that Indian companies will benefit from a host of reforms expected from the new government that came to power in May.

Chart 1-7 World's Largest Stock Exchanges by Domestic Market Capitalisation (as on end October 2014)



Source: WFE

Household investments in India

According to the RBI data, investments in fixed income instruments accounted for 88 percent of the household financial savings during 2013–2014, which has increased in comparison to 85 percent in 2012-13.

In the fiscal year 2013-2014, the household sector invested 59 percent of financial savings in deposits, 29 percent in insurance/provident funds and 3 percent in the securities market including government securities, units of mutual funds, and other securities (Table 1-4). Therefore, fixed-income bearing instruments continue to be the preferred assets of the household sector.

Table 1-4 Savings of Household Sector in Financial Assets

Financial Assets	2010-11 R	2011-12 R	2012-13 R	2013-14 P
Currency	**13**	**11.5**	**10.7**	**8.7**
Fixed income investments	**86.7**	**88.3**	**84.9**	**88**
Deposits	49.9	59.1	56.6	58.8
Insurance/Provident & Pension Funds	33.4	31.6	29	28.6
Small Savings	3.4	-2.4	-0.7	0.6
Securities Market	**-0.3**	**-0.7**	**3.9**	**2.9**
Mutual Funds	-1.1	-1.2	3.4	1.8
Government Securities	0	0.1	0	0
Other Securities	0.8	0.4	0.5	1.1
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 2013-14

Primary Market

An aggregate of ₹ 13,004 billion was raised by the government and the corporate sector in 2013–2014, compared to ₹ 12, 109 billion in 2012-13 (an increase of 7.4 percent). Private placement accounted for 96.7 percent of the domestic total resource mobilization by the corporate sector. Resource mobilization through Euro Issues dropped significantly by 89 percent to ₹ 1 billion in 2013–2014. (More details are provided in Chapter 2.)

Secondary Market

The exchanges in the country offer screen-based trading system. There were 9,411 trading members registered with SEBI at the end of March 2014 (See Table 1-3). The market capitalization has grown over the period, indicating that more companies are using the trading platform of the stock exchange. The market capitalization across India was around ₹ 74,152,960 million (US $1,237,169 million) at the end of March 2014. 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 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 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 turnover 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 by 6.5 percent to ₹ 32,571 billion. Encouragingly, the trend reversed in FY 2014 wherein the cash market turnover recorded an increase of 2.6 percent to ₹ 33,413.4 billion.

Government Securities

The aggregate trading volumes in central and state government dated securities on SGL increased from ₹ 5978 Billion in FY 2013 to ₹ 6321 billion in FY 2014.

Derivatives Market

The equity derivative market turnover on the Indian exchanges increased from ₹ 387,045.7 billion in FY 2013 to ₹ 475,755.7 billion in FY 2014. NSE has created a niche for itself in terms of derivatives trading in various instruments (this is discussed in detail 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 future trading in currency pairs such as GBP-INR, EURO-INR and JPY INR. Later in October 2010, currency options trading was allowed on USD-INR. The currency derivatives trading turnover in India declined by 12 percent to ₹ 69,808.6 billion.

Regulators

The absence of conditions for perfect competition in the securities market makes the role of the regulator extremely important. The regulator ensures that the market participants behave in a certain manner so that the securities markets continue to be a major source of finance for the corporate sector and the government while protecting the interests of investors.

In India, the responsibility for regulating the securities market is shared by the Department of Economic Affairs (DEA), the Ministry of Company Affairs (MCA), the Reserve Bank of India (RBI), and SEBI. The orders of SEBI under the securities laws are appealable before a Securities Appellate Tribunal (SAT).

Most of the powers under the Securities Contracts (Regulation) Act, 1956 (SCRA) can be exercised by the DEA while a few others can be exercised by SEBI. The powers of the DEA under the SCRA are also concurrently exercised by SEBI. The powers in respect of the contracts for sale and purchase of securities, gold-related securities, money market securities and securities derived from these securities, and ready forward contracts in debt securities are exercised concurrently by the RBI. The SEBI Act and the Depositories Act are mostly administered by SEBI. The rules under the securities laws are framed by the government and the regulations by SEBI. All these rules are administered by SEBI. The powers under the Companies Act relating to the issue and transfer of securities and the non-payment of dividend are administered by SEBI in the case of listed public companies and public companies proposing to get their securities listed. The SROs ensure compliance with their own rules as well as with the rules relevant to them under the securities laws.

Role of NSE in Indian Securities Market

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

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

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

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

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

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

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

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

The NSE launched the cash – settled Interest Rate Futures on 21 January 2014. During the first day, contract worth more than INR 3,000 crore were traded in the new product. The contracts are based on the most liquid 10-year bonds.

IRFs allow bond holders to hedge their interest rate risk by buying contracts for a future date by paying a price now. Cash settlement enables the investors to just trade in such contracts, and as the name suggests, settle the profit or loss in cash, without having the physical bond. This makes the IRF an independent derivative product which can be traded, apart from being used for genuine hedging purposes, something that was not allowed earlier.

The NSE has also launched its futures contracts on India Volatility Index (VIX) called 'NVIX' to help investors hedge near-term volatility risks in their equity portfolio. This is the first time that a product has been launched in India on a volatility index through which investors can hedge the volatility risk. NSE has been disseminating the India VIX since 2009. On the first day of trading, NVIX witnessed trading volumes of INR 325 crore and 227 members participated in trading in NVIX.

NVIX futures will help market participants to hedge volatility risk, balance portfolios and express views on expected volatility. NVIX futures is traded in the F&O segment of NSE. All market participants are currently permitted to participate in the F&O segment. There will be 3 weekly futures contracts expiring on every Tuesday of the week. The lot size of NVIX contracts is 750 and tick size is Rs. 0.25. The India VIX is calculated up to 4 decimals with a tick of 0.0025.

Once again, the NSE registered as the market leader, with 77.8 percent of total turnover (volumes in cash market, equity derivatives, and currency derivatives) in 2013–2014. NSE proved itself the market leader, contributing a share of 84.1 percent in equity trading and nearly 80.3 percent share in the equity derivatives segment in 2013–2014 (Table 1-5).

Table 1-5: Market segments on NSE for 2013-14 (Select indicators)

Segments	Market Capitalisation as of March 2014		Trading Value for 2013-14		Market share (in percent)
	₹ mn	US $ mn	₹ mn	US $ mn	
CM	72,777,200	1,214,216	28,084,878	468,569	84.1
Equity F&O	-	-	382,114,081	6,375,198	80.3
Currency F&O	-	-	40,125,135	669,448	57.5
Total	**72,777,200**	**1,214,216**	**450,324,093**	**7,513,215**	**77.8**

Source: NSE

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. It can be noted from the table that, total resources mobilized through issuance of securities by corporates and the government in 2013–14 increased by 7.4 percent to ₹ 13,004 billion (USD 217 billion).

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

Issues	2011-12 (₹ bn)	2012-13 (₹ bn)	2013-14 (₹ bn)	2011-12 (US $ bn)	2012-13 (US $ bn)	2013-14 (US $ bn)
Corporate Securities	**2,336**	**3,451**	**4,033**	**46**	**63**	**67**
Domestic Issues	2,308	3,441	4,032	45	63	67
Public Issues*	129	139	133	3	3	2
Non-Govt. Public Companies	-	-	-	-	-	-
PSU Bonds	-	-	-	-	-	-
Govt. Companies	-	-	-	-	-	-
Banks & FIs	-	-	-	-	-	-
Private Placement	2,180	3,302	3,899	43	61	65
Euro Issues	27	10	1	0.5	0.1	0.02
Government Securities*[1]	**7,590**	**8,658**	**8,971**	**148**	**159**	**150**
Central Government #	6,004	6,885	7,005	117	126.7	117
State Governments	1,586	1,773	1,967	31	33	33
Total	**9,926**	**12,109**	**13,004**	**194**	**223**	**217**

** This is equity public issue only.*
**[1] These are gross market borrowings of Central and State Governments.*
 # only includes amount raised through dated securities.
Source: RBI

Corporate Securities

The resource mobilization by corporates in the primary market, rose by 16.9 percent in 2013-14 to ₹ 4,033 billion (US $ 67 billion). This expansion was driven by an increase in resources mobilized through private placement route; capital raised through private placement went up by 18.1 percent to ₹ 3,899 billion (US $ 65 billion). However, resources mobilized through public issues witnessed a drop of 4.4 percent to ₹ 133 billion (US $ 2 billion), accounting for a mere 1 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 by 88 percent in 2013–14, on the back of 63 percent fall in 2012-13), reflecting weak sentiment for the Indian economy. Indian corporates, raised ₹ 1 billion (US $ 0.02 billion) from international capital markets in 2013-14, as against ₹ 10 billion (US $ 0.19 billion) in the previous year. This accounted for an insignificant proportion of the total resources mobilized by the government and the corporate sector in 2013-14 (Table 2-1).

Public and Rights Issues

In 2013-14, resources mobilized from public and rights issue increased unlike that of the previous year. In particular, capital raised from public and rights issue surged by 71.4 percent (on the back of 33 percent decline in 2012-13) to ₹ 557 billion (US $ 9.3 billion). (Table 2.2)

Total number of public issues (equity and debt) also rose in 2013-14 as opposed to the preceding year; public issues increased from 53 issues in 2012-13 to 75 in 2013-14. In the equities, a total of 38 IPOs were launched during 2013-14, as compared to 33 in 2012-13. However, the total capital raised by way of IPOs declined (despite the increase in number of IPOs) to ₹ 12 billion in 2013–14 from ₹ 65 billion in 2012–13. (Table 2.2)

In the debt segment, the number of public issues increased to 35 during 2013-14 as compared to 20 in the previous year. This was accompanied by a massive increase in their amount of mobilized resources (from ₹ 170 billion in 2012-13 to ₹ 424 billion in 2013-14).

The mobilization of resources through right issues recorded a drop of 48.3 percent in 2013–2014, following a 276 percent surge witnessed in 2012-13. Resource mobilization through rights issue recorded a decline from ₹ 89 billion in 2012–13 to ₹ 46 billion in 2013–14. In 2013-14, the no. of companies using the rights route to raise capital stood at 15 (as against 16 in the previous year).

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

Public and Rights Issues	2012-13			2013-14			Apr - Sep'14		
	Number	Amount (₹ bn)	Amount (US $ bn)	Number	Amount (₹ bn)	Amount (US $ bn)	Number	Amount (₹ bn)	Amount (US $ bn)
1. Public Issues (i) + (ii)	**53**	**235**	**4.3**	**75**	**511**	**8.5**	**37**	**54**	**0.9**
i. Public Issues	33	65	1.2	40	87	1.5	25	10	0.2
Public Issues (IPO)	33	65	1.2	38	12	0.2	25	10	0.2
Public Issues (FPO)	0	0	0	2	75	1.2	0	0	0
ii. Public Issues (Bond/NCD)	20	170	3.1	35	424	7.1	12	44	0.7
2. Rights Issues	**16**	**89**	**1.6**	**15**	**46**	**0.8**	**10**	**28**	**0.5**
Total (1+2)	**69**	**325**	**6.0**	**90**	**557**	**9.3**	**47**	**82**	**1.3**

Source: SEBI

During 2013-14, the private issuers raised ₹ 11.7 billion — a fall of 34 percent over the previous year. Further, the public issuers, witnessed a significant increase (197.8 percent) in the amount of resources mobilized (₹ 440 billion) in 2013-14. (Table 2-3).

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

Sector	2012-13		2013-14		Apr - Sep'14	
	Number	Amount (₹ mn)	Number	Amount (₹ mn)	Number	Amount (₹ mn)
Private	55	176,900	70	116,810	37	43,350
Public	14	147,650	20	439,700	10	39,090
Total	**69**	**324,550**	**90**	**556,520**	**47**	**82,440**

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

Resource Mobilisation - Industry-wise and Size-wise Distribution

The banking sector contributed the maximum share (53.3 percent) of the total resources mobilized during 2013–14, with 14 issues mobilizing ₹ 297 billion. However, in the first six months of FY 2015, the finance sector occupied the leading position in the league with ₹ 44.4 billion, accounting for 53.8 percent of the total resources mobilized in the (Table 2-4).

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

Industry	2012-13			2013-14			Apr - Sep'14		
	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share
Banking/FIs	7	24,750	7.6	14	297,000	53.4	4	4,270	5.2
Cement & Construction	1	90	0.0	4	7,310	1.3	1	5,990	7.3
Chemical	1	90	0.0	0	0	0.0	1	80	0.1
Electronics	0	0	0.0	0	0	0.0	1	330	0.4
Engineering	2	740	0.2	5	5,910	1.1	1	5,250	6.4
Entertainment	1	120	0.0	2	6,020	1.1	3	3,060	3.7
Finance	16	165,360	51.0	26	60,580	10.9	13	44,360	53.8
Food Processing	2	190	0.1	0	-	0.0	1	150	0.2
Healthcare	2	2,100	0.6	0	-	0.0	0	0	0.0
Information Technology	1	40	0.0	1	190	0.0	3	1,370	1.7
Paper & Pulp	0	0	0.0	1	280	0.1	0	0	0.0
Power	0	0	0.0	4	117,020	21.0	0	0	0.0
Telecom	1	41,730	12.9	1	50	0.0	0	0	0.0
Textile	4	5,820	1.8	3	140	0.0	1	300	0.0
Others	31	83,520	25.7	29	62,020	11.1	18	17,300	21.0
Total	**69**	**324,550**	**100.0**	**90**	**556,520**	**100.0**	**47**	**82,460**	**100.0**

Source: SEBI

Table 2-5 exhibits the size-wise distribution of public and rights issues in 2013-14. About 99 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 46 issues out of 90 that were above ₹ 100 crore.

Table 2-5 :- Size wise distribution of Resources Mobilised

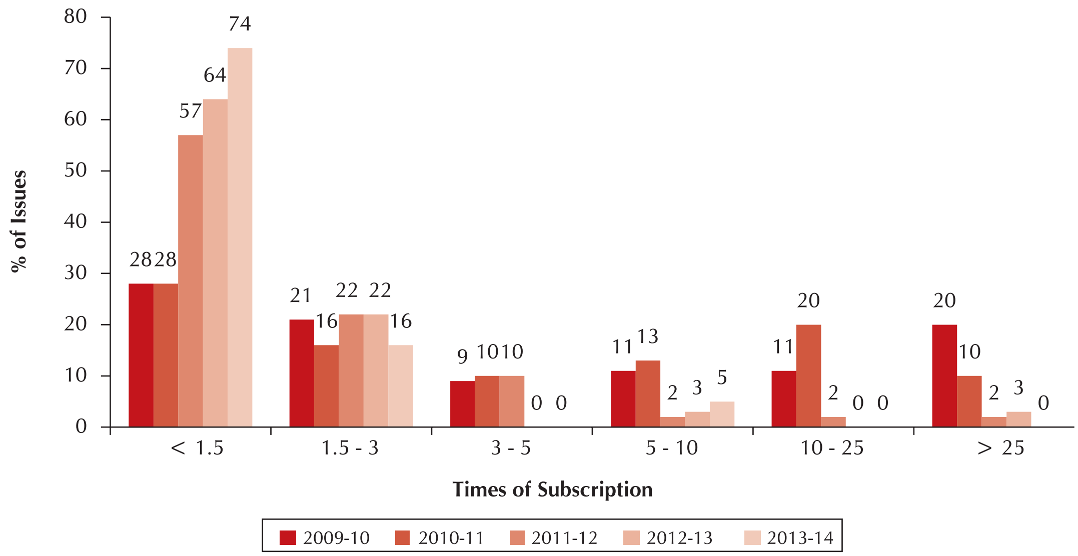
Issue Size	2012-13			2013-14			Apr - Sep'14		
	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share
< ₹ 5 crore	2	70	0.02	14	410	0.07	10	350	0.42
≥ ₹ 5 crore & < ₹ 10 crore	13	790	0.24	17	1,220	0.22	7	540	0.66
≥ ₹ 10 crore & < ₹ 50 crore	15	2,970	0.92	10	1,740	0.31	9	1,960	2.38
≥ ₹ 50 crore & < ₹ 100 crore	6	4,400	1.36	3	2,210	0.40	1	590	0.72
≥ ₹ 100 crore	33	316,320	97.46	46	550,930	99.00	20	79,000	95.83
Total	**69**	**324,550**	**100.00**	**90**	**556,510**	**100.00**	**47**	**82,440**	**100.00**

Source: SEBI

There were 30 mega issues (₹ 3,000 million and above) during 2013-14, the largest being the equity FPO issue of Power Grid Corporation of India Ltd (₹ 69.6 billion), followed by the debt issue of Indian Railways Finance Corporation Ltd (₹ 40.8 billion). The 30 mega issues mobilized 93.6 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 the primary market in 2013-14 couldn't manage to generate enough euphoria among the investors, which can be seen from the fact that 74 percent of the issues were subscribed less than one and half times as a result of lack of investors' interests, compared to 64 percent in 2012-13 and 57 percent in 2011–12.

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



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

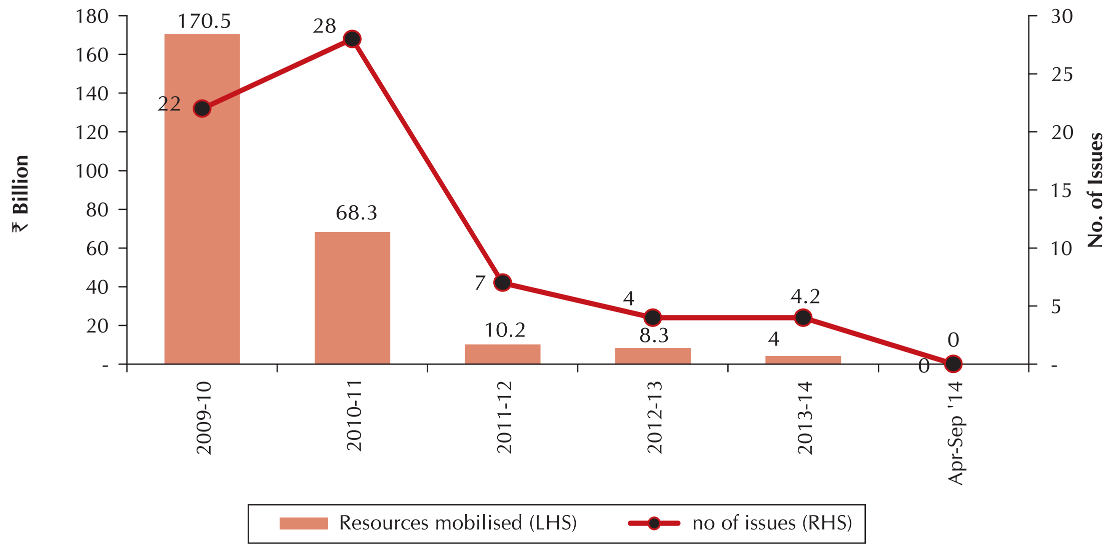
Euro Issues

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 2013–14, as a result of the turbulent global financial market, there was a sharp decline in the resources mobilized through Euro issues, which decreased to ₹ 1 billion (US $ 0.02 billion) as compared to ₹ 10 billion (US $ 0.19 billion) raised in 2012–13. (Table 2-1)

The resources mobilized by the companies listed on NSE through GDRs, ADRs, GDSs, and ADSs also witnessed a decline from ₹ 8.3 billion in 2012–13 to ₹ 4.2 billion in 2013–14. This decline continued in the first six months of the current fiscal year wherein no resources were raised by the companies through the aforementioned issues. (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 2013–14, ₹ 11.9 billion was raised through the 2 IPOs listed on the NSE. The major issue of IPOs was carried out by Just Dial which mobilized ₹ 9.2 billion. Further, the IPO of Just Dial marked its performance with listing gains of 11.3 percent on its first trading day as well as rewarded its shareholders with a whopping 192.3 percent increase in price over the issue price at the end of March 2014. (Table 2-6)

In April–September 2014, 7.3 billion was raised through the three IPOs listed on the NSE. All these three IPOs had reported listing gains by the end of September 2014. While the IPO of Sharda Cropchem Limited recorded the maximum listing gains of 66.7 percent, the IPO of Wonderla Holidays Limited rewarded its shareholders with a significantly large price appreciation of 130.4 percent over the issue price, as of September 2014. (Table 2-7)

Table: 2-6 Performance of IPOs(EQ) Listed on NSE in April 2013 - March 2014

Sr. No.	Company Name	Issue size (₹ mn)	Date of Listing	Issue Price (₹)	Listing price (₹)	Close Price at end of Mar' 14 (₹)	Listing gains/loss (in percent)	Price Appreciation/ Depreciation at end March 2014 with the issue price (in percent)
1	Repco Home Finance Limited	2,701	1-Apr-2013	172	159.95	333.70	-7.0	94.0
2	Just Dial Limited	9,191	5-Jun-2013	530	590.00	1,549.40	11.3	192.3

Source: NSE

Table: 2-7 Performance of IPOs listed on NSE during April 2014 to September 2014

Sr. No.	Company Name	Issue size (₹ mn)	Date of Listing	Issue Price (₹)	Listing price (₹)	Close Price at end of Sep' 2014	Listing gains (in percent)	Price Appreciation/ Depreciation at end Sep' 14 with the issue price (in percent)
1	Wonderla Holidays Limited	1,812	9-May-2014	125	160	288.0	28.0	130.4
2	Sharda Cropchem Limited	3,519	23-Sep-2014	156	260	260.8	66.7	67.2
3	Snowman Logistics Limited	1,974	12-Sep-2014	47	76	88.2	61.7	87.5

Source: NSE

Debt Issues

The government and the corporate sector collectively raised a total of ₹ 12,106 billion (US $ 202 billion) from the primary market in 2013–14. Corporates continued their preference to raise capital through private placement as compared to public issues, albeit at a slower pace than the previous year. Resources mobilized through private placement accounted for 22.4 percent of the total capital raised and witnessed a decline of 23 percent over the previous year (Table 2-8).

Table 2-8 Resources Raised from Debt Markets

Issuer	(₹ bn)		(US $ bn)	
	2012-13	2013-14	2012-13	2013-14
Corporate	**3,691**	**3,135**	**68**	**52**
Public Issues	170	424	3.1	7
Private Placement*	3,521	2,711	65	45
Government	**8,658**	**8,971**	**159**	**150**
Central	6,885	7,005	127	117
State	1,773	1,967	33	33
Total	**12,349**	**12,106**	**227**	**202**

** 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 247 issuers (institutional and corporate) raised ₹ 2,711billion (US $ 46 billion) through 1,475 privately placed issues in 2013–14. The response to most of the issues was good, as 253 out of 1,475 issues—i.e., around 17.2 percent of the total issues—were made by the government sector units, which mobilized 67 percent of the total amount (Table 2-9). During the period April-September 2014, there were 166 issuers who placed 633 issues amounting to ₹ 1,524 billion (US $ 25 billion). The amount raised through the private placement of debt issues has been on an increasing trend over the past few years barring the year 2013-14 .(Chart

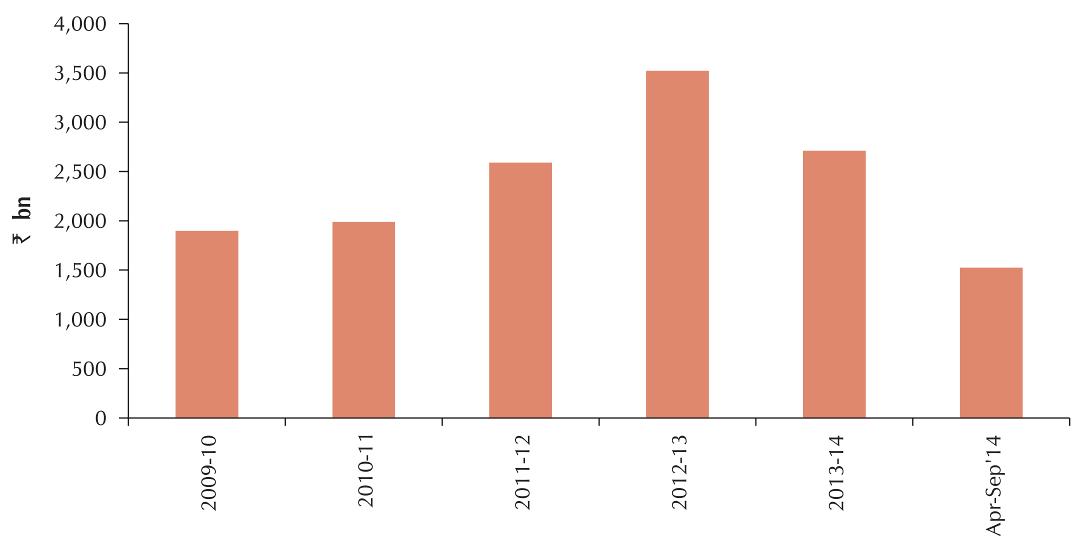
2-3).

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)
2009-10	193	810	1,897	40
2010-11	186	858	1,990	44
2011-12	170	1,424	2,590	54
2012-13	267	1,833	3,521	65
2013-14	**247**	**1,475**	**2,711**	**46**
Apr-Sep' 2014	**166**	**633**	**1,524**	**25**

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 308 NSE listed private placement issues were made during April 2013 to September 2014 (Annexure 2-1)

The issuer wise distribution indicates that during 2013-14, all India financial institutions occupied the top position in issuing debt private placements with a 53.5 percent share, followed by the private sector with 33.1 percent share.

Table 2-10 Issuer wise distribution of private placement of debt

Issuer	Issue Amount (₹ mn)			Issue Amount (US $ mn)			% of Issue Amount		
	2012-13	2013-14	Apr-Sep' 14 *	2012-13	2013-14	Apr-Sep' 14 *	2012-13	2013-14	Apr-Sep' 14*
All India Financial Institutions/Banks	1,845,855	1,449,263	749,551	33,924	24,273	12,408	52.4	53.5	49.2
State Financial Institutions	53,940	14,821	5,477	988	269	91	1.5	0.5	0.4
Public Sector Undertakings	395,509	312,479	87,620	7,305	5,286	1,445	11.2	11.5	5.7
State Level Undertakings	85,840	36,864	15,016	1,579	617	250	2.4	1.4	1.0
Private Sector	1,140,156	897,824	666,712	20,945	15,182	11,049	32.4	33.1	43.7
Total	**3,521,300**	**2,711,251**	**1,524,377**	**64,741**	**45,626**	**25,242**	**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 71.4 percent in 2013–14, (Table 2-11)

Table 2-11: Sectoral Distribution of Resources Mobilized Private Placement (in percent)

Sector	2011-12	2012-13	2013-14	Apr-Sep' 14
Banking	50.2	39.5	36.3	39.6
Financial Services	27.1	30.1	35.1	31.9
Power	9.2	6.1	7.7	10.2
Housing/ Civil Construction/ Real Estate	1.0	2.8	2.7	3.9
Travel/Transportation	2.7	3.0	0.3	2.3
Others	9.7	18.6	17.8	12.1
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 600 months in 2013–14. The highest number of placements was for 36 months (1,788 placements) followed by 60 months (229 placements). A total of 58 offers had a put option, while 85 offers had a call option. Rating was, however, required for listing. Of the 1,475 debt private placements deals in 2013–14, 1,471 issues went for credit rating, while 2 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 2013–14, the total resources raised by the corporate sector fell by 14.9 percent to ₹ 3267.8 billion, compared to the gross mobilization of ₹ 3845.9 billion in 2012–13. The equity route was used to raise 2.7 percent of the total resources through public equity shares in 2013-14, up from 1.7 percent used in 2012-13. The share of rights issues was 1.4 percent. The resources raised through the debt issues (debt public issues and debt private placements) accounted for 95 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 Issue	Debt Public Issues	Debt Private Placements
2009-10	467,366	83,186	25,000	1,897,299	2,472,851	54,782	18.9	3.4	1.0	76.7
2010-11	486,540	95,030	94,510	1,989,549	2,665,629	59,701	18.3	3.6	3.5	74.6
2011-12	104,820	23,750	356,110	2,589,690	3,074,370	60,097	3.4	0.8	11.6	84.2
2012-13	65,280	89,450	169,820	3,521,300	3,845,850	70,741	1.7	2.3	4.4	91.6
2013-14	**86,920**	**45,760**	**423,830**	**2,711,251**	**3,267,761**	**54,519**	**2.7**	**1.4**	**13.0**	**83.0**
Apr-Sep'14	**10,310**	**27,950**	**44,180**	**1,524,377**	**1,606,817**	**26,101**	**0.6**	**1.7**	**2.7**	**94.9**

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)

Going forward, in 2014-15, the primary equity market may improve fueled by strong investment activity and lower volatility in the secondary market. With a view to revive the primary market, SEBI has issued some guidelines related to IPOs and offer-for-sale mechanism, including 25 percent public shareholding norms for public sector undertakings as well as prescribed some rules for Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts.

Annexure 2-1-: List of Private Placement issues listed at NSE during the Period April 01, 2013 till September 30, 2014

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
1	Uttam Galva Steels Limited	20,000,000	1600	10.00	80.00
2	Dhanlaxmi Bank Limited	15,023,300	699	10.00	46.50
3	Den Networks Limited	12,466,321	2711	10.00	217.50
4	ING Vysya Bank Limited	14,394,475	8809	10.00	612.00
5	Dhanlaxmi Bank Limited	17,575,000	672	10.00	38.25
6	Hinduja Foundries Limited	26,105,417	809	10.00	31.00
7	State Bank Of India	51,320,436	80316	10.00	1565.00
8	SKS Microfinance Limited	17,670,534	3976	10.00	225.00
9	Indiabulls Housing Finance Limited	20,000	5	2.00	225.00
10	Yes Bank Limited	53,492,272	29420	10.00	550.00
11	KSK Energy Ventures Limited	40,404,040	4000	10.00	99.00
12	Idea Cellular Limited	223,880,597	30000	10.00	134.00
13	Reliance Communications Limited	338,286,197	48084	5.00	142.14
14	Ashok Leyland Limited	185,200,000	6667	1.00	36.00
15	Aban Offshore Limited	10,783,608	7500	2.00	695.50
16	GMR Infrastructure Limited	468,817,097	14768	1.00	31.50
17	Jaiprakash Associates Limited	213,373,416	14994	2.00	70.27
18	City Union Bank Limited	46,635,576	3500	1.00	75.05
19	J.Kumar Infraprojects Limited	4,425,000	1372	10.00	309.98
20	Corporation Bank	4,785,137	2040	10.00	426.32
21	Central Bank of India	308,461,538	24060	10.00	78.00
22	State Bank of India	12,988,697	30040	10.00	2312.78
23	IDBI Bank Limited	54,321,230	5550	10.00	102.17
24	Punjab National Bank	14,294,713	12480	10.00	873.05
25	United Bank of India	13,708,019	1000	10.00	72.95
26	Bank of Baroda	10,132,920	8500	10.00	838.85
27	Ramkrishna Forgings Limited	2,929,400	375	10.00	128.00
28	Flexituff International Limited	1,227,273	270	10.00	220.00
29	Indian Overseas Bank	127,097,102	10000	10.00	78.68
30	Union Bank of India	46,245,174	11140	10.00	240.89
31	FCS Software Solutions Limited	230,000,000	230	1.00	1.00
32	R. S. Software (India) Limited	565,000	29	10.00	51.86
33	Autolite (India) Limited	400,000	19	10.00	47.50
34	Astec LifeSciences Limited	1,115,000	38	10.00	34.00
35	Aditya Birla Nuvo Limited	6,680,000	6085	10.00	910.86
36	Orient Green Power Company Limited	100,000,000	1500	10.00	15.00
37	Jayaswal Neco Industries Limited	67,500,000	2700	10.00	40.00
38	Bank of Maharashtra	71,883,852	4060	10.00	56.48
39	ANG Industries Limited	1,350,000	28	10.00	21.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
40	MSP Steel & Power Limited	20,000,000	1200	10.00	60.00
41	Shrenuj & Company Limited	19,861,321	1351	2.00	68.00
42	Jindal Stainless Limited	13,550,000	1003	2.00	74.00
43	IFB Agro Industries Limited	998,000	182	10.00	182.00
44	The Sirpur Paper Mills Limited	555,100	24	10.00	43.00
45	Suzlon Energy Limited	314,246,974	5817	2.00	18.51
46	Pioneer Embroideries Limited	1,657,981	35	10.00	21.11
47	Pioneer Embroideries Limited	3,125,948	62	10.00	19.77
48	Kotak Mahindra Bank Limited	20,000,000	12960	5.00	648.00
49	SHREE GANESH JEWELLERY HOUSE (I) LIMITED	4,144,000	622	10.00	150.00
50	Uttam Value Steels Limited	150,000,000	2270	10.00	15.13
51	Dhanlaxmi Bank Limited	5,900,000	354	10.00	60.00
52	20 Microns Limited	3,000,000	135	5.00	45.00
53	Murudeshwar Ceramics Limited	1,935,000	33	10.00	17.00
54	Helios And Matheson Information Technology Limited	1,250,000	37	10.00	29.24
55	Godawari Power And Ispat limited	1,000,000	130	10.00	130.00
56	JVL Agro Industries Limited	27,500,000	523	1.00	19.00
57	Emmbi Polyarns Limited	1,200,000	20	10.00	17.00
58	Shriram City Union Finance Limited	2,850,000	1625	10.00	570.00
59	DCW Limited	1,531,152	17	2.00	11.00
60	Rainbow Papers Limited	1,500,000	122	2.00	81.00
61	Deep Industries Limited	1,375,000	105	10.00	76.00
62	Aurionpro Solutions Limited	875,000	158	10.00	180.00
63	Kesar Enterprises Limited	855,000	38	10.00	45.00
64	Capital First Limited	3,086,420	500	10.00	162.00
65	Kwality Dairy (India) Limited	50,000,000	50	1.00	1.00
66	GTL Infrastructure Limited	735,930	7	10.00	10.00
67	GTL Limited	339,088	9	10.00	27.42
68	United Spirits Limited	14,532,775	20927	10.00	1440.00
69	3i Infotech Limited	8,930,813	176	10.00	19.74
70	Next Mediaworks Limited	6,000,000	60	10.00	10.00
71	Adani Power Limited	478,650,000	25421	10.00	53.11
72	Paramount Communications Limited	32,206,500	74	2.00	2.30
73	Fortis Healthcare	18,833,700	1866	10.00	99.09
74	Spentex Industries Limited	1,400,000	14	10.00	10.00
75	Bharti Airtel Limited	199,870,006	67956	5.00	340.00
76	Metkore Alloys & Industries Limited	9,000,000	180	2.00	20.00
77	APL Apollo Tubes Limited	385,000	56	10.00	145.00
78	Gujarat NRE Coke Limited	5,000,000	105	10.00	21.08

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
79	Shasun Pharmaceuticals Limited	1,500,000	113	2.00	75.00
80	Kesar Enterprises Limited	975,000	44	10.00	45.00
81	Wanbury Limited	2,690,000	101	10.00	37.50
82	Aurionpro Solutions Limited	257,771	46	10.00	180.00
83	ING Vysya Bank Limited	15,605,525	9551	10.00	612.00
84	Duncans Industries Limited	34,220,000	342	10.00	10.00
85	Shree Ganesh Jewellery House (I) Limited	5,800,000	870	10.00	150.00
86	3i Infotech Limited	384,498	8	10.00	19.74
87	Moser-Baer (I) Limited	20,000,000	200	10.00	10.00
88	Venus Remedies Limited	800,000	170	10.00	212.20
89	Bharati Shipyard Limited	6,764,576	535	10.00	79.12
90	Sree Rayalaseema Hi-Strength Hypo Limited	243,324	13	10.00	54.62
91	Vardhman Polytex Limited	1,600,000	105	10.00	65.67
92	Gallantt Ispat Limited	2,500,000	400	10.00	160.00
93	Vaswani Industries Limited	1,299,500	13	10.00	10.00
94	Pipavav Defence and Offshore Engineering Company Limited	24,507,881	2010	10.00	82.00
95	KEI Industries Limited	3,500,000	49	2.00	14.00
96	Suzlon Energy Limited	70,525,613	1305	2.00	18.51
97	Pipavav Defence and Offshore Engineering Company Limited	10,500,000	819	10.00	78.00
98	Kaushalya Infrastructure Development Corporation Limited	15,025,000	165	10.00	11.00
99	Southern Petrochemicals Industries Corporation Limited	29,821,350	522	10.00	17.50
100	Murudeshwar Ceramics Limited	2,035,000	35	10.00	17.00
101	Helios And Matheson Information Technology Limited	1,250,000	37	10.00	29.24
102	Indiabulls Housing Finance Limited	17,150,000	3739	2.00	218.00
103	CEAT Limited	1,712,176	146	10.00	85.03
104	Hathway Cable & Datacom Limited	5,275,000	1498	10.00	284.00
105	AI Champdany Industries Limited	2,683,045	55	5.00	20.50
106	Fortis Healthcare Limited	3,737,449	370	10.00	99.09
107	TTK Prestige Limited	300,000	1065	10.00	3550.00
108	Kalindee Rail Nirman (Engineers) Limited	4,110,400	268	10.00	65.13
109	Religare Enterprises Limited	195,936	61	10.00	313.15
110	SHREE GANESH JEWELLERY HOUSE (I) LIMITED	1,280,000	160	10.00	125.00
111	TVS Electronics Limited	350,000	8	10.00	22.75
112	Pricol Limited	4,500,000	81	1.00	18.00
113	Shriram City Union Finance Limited	3,050,000	1739	10.00	570.00
114	Sree Rayalaseema Hi-Strength Hypo Limited	492,506	27	10.00	54.62
115	Venus Remedies Limited	900,000	191	10.00	212.20
116	Nakoda Limited	48,600,000	486	5.00	10.00
117	APL Apollo Tubes Limited	1,115,000	162	10.00	145.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
118	Aurionpro Solutions Limited	400,000	72	10.00	180.00
119	Den Networks Limited	31,709,384	6897	10.00	217.50
120	Ramkrishna Forgings Limited	3,724,500	494	10.00	132.75
121	Credit Analysis And Research Limited	446,310	250	10.00	560.15
122	Dhanlaxmi Bank Limited	2,300,000	115	10.00	50.00
123	Peacock Industries Limited	23,250,000	93	4.00	4.00
124	Hindalco Industries Limited	150,000,000	21653	1.00	144.35
125	Lakshmi Energy and Foods Limited	3,300,000	73	2.00	22.00
126	Ramkrishna Forgings Limited	289,000	38	10.00	130.00
127	Ramkrishna Forgings Limited	18,000	2	10.00	130.00
128	Astec LifeSciences Limited	485,000	16	10.00	34.00
129	Industrial Investment Trust Limited	1,000,000	350	10.00	350.00
130	Jindal Drilling And Industries Limited	3,300,000	630	5.00	191.00
131	Aster Silicates Limited	8,665,511	100	10.00	11.54
132	Nicco Corporation Limited	11,000,000	22	2.00	2.00
133	Swan Energy Limited	15,590,000	2339	1.00	150.00
134	Hotel Leela Venture Limited	32,961,460	650	2.00	19.72
135	Suzlon Energy Limited	70,199,351	1299	2.00	18.51
136	Wanbury Limited	2,590,000	97	10.00	37.50
137	R. S. Software (India) Limited	595,000	31	10.00	51.86
138	Indiabulls Housing Finance Limited	3,000,000	654	2.00	218.00
139	Diamond Power Infra Limited	2,000,000	420	10.00	210.00
140	Celebrity Fashions Limited	7,469,100	75	10.00	10.00
141	Kajaria Ceramics Limited	2,000,000	500	2.00	250.00
142	IOL Chemicals and Pharmaceuticals Limited	2,664,000	208	10.00	78.00
143	Jet Airways (India) Limited	27,263,372	20577	10.00	754.74
144	Hathway Cable & Datacom Limited	3,521,000	1000	10.00	284.00
145	Impex Ferro Tech Limited	14,125,000	283	10.00	20.00
146	Ankit Metal & Power Limited	26,700,000	801	10.00	30.00
147	Bank of India	46,360,686	10000	10.00	215.70
148	Central Bank of India	305,862,361	18000	10.00	58.85
149	Banswara Syntex Limited	600,000	25	10.00	41.50
150	Natco Pharma Limited	1,700,000	1085	10.00	638.40
151	Oriental Bank Of Commerce	8,087,561	1500	10.00	185.47
152	Aditya Birla Nuvo Limited	9,820,000	8945	10.00	910.86
153	Jai Balaji Industries Limited	3,495,000	175	10.00	50.00
154	Asian Granito India Limited	421,250	21	10.00	50.00
155	Rainbow Papers Limited	252,000	20	2.00	81.00
156	Indiabulls Housing Finance Limited	550,000	120	2.00	218.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
157	Suzlon Energy Limited	184,713,354	2030	2.00	10.99
158	Corporation Bank	14,627,486	4500	10.00	307.64
159	Jyothy Laboratories Limited	15,000,000	2627	1.00	175.15
160	Punjab & Sind Bank	21,263,023	1000	10.00	47.03
161	Kohinoor Foods Limited	7,048,306	1128	10.00	160.00
162	Canara Bank	18,258,837	5000	10.00	273.84
163	Aurionpro Solutions Limited	100,000	18	10.00	180.00
164	Supreme Infrastructure India Limited	3,350,000	620	10.00	185.00
165	United Bank of India	180,041,152	7000	10.00	38.88
166	Nitco Limited	22,099,206	557	10.00	25.20
167	Punjab National Bank	8,596,530	5000	10.00	581.63
168	State Bank of India	11,218,685	20000	10.00	1782.74
169	Vaswani Industries Limited	1,364,500	14	10.00	10.00
170	Flexituff International Limited	1,902,173	438	10.00	230.00
171	Allahabad Bank	44,583,147	4000	10.00	89.72
172	Indian Overseas Bank	229,753,015	12000	10.00	52.23
173	Union Bank of India	33,512,064	5000	10.00	149.20
174	Vijaya Bank	58,934,464	2500	10.00	42.42
175	Moser-Baer (I) Limited	10,000,000	100	10.00	10.00
176	Dena Bank	118,583,770	7000	10.00	59.03
177	Electrosteel Castings Limited	17,064,617	236	1.00	13.85
178	Bank of Maharashtra	177,619,893	8000	10.00	45.04
179	IDBI Bank Limited	271,166,013	18000	10.00	66.38
180	Andhra Bank	30,034,539	2000	10.00	66.59
181	Syndicate Bank	22,634,676	2000	10.00	88.36
182	Bank of Baroda	8,158,784	5500	10.00	674.12
183	Vivimed Labs Limited	1,490,000	224	10.00	150.00
184	Nakoda Limited	53,000,000	530	5.00	10.00
185	Tree House Education & Accessories Limited	750,000	167	10.00	222.60
186	Zicom Electronic Security Systems Limited	600,000	28	10.00	46.00
187	20 Microns Limited	923,077	30	5.00	32.50
188	Vivimed Labs Limited	2,126,984	670	10.00	315.00
189	Industrial Investment Trust Limited	1,050,000	368	10.00	350.00
190	20 Microns Limited	1,230,769	40	5.00	32.50
191	Hinduja Foundries Limited	17,818,448	608	10.00	34.15
192	Accel Frontline Limited	5,500,000	248	10.00	45.00
193	Vimal Oil & Foods Limited	3,600,000	378	10.00	105.00
194	Indian Bank	35,078,488	4000	10.00	114.03
195	Tree House Education & Accessories	403,900	90	10.00	222.60

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
196	Alphageo (India) Limited	250,000	15	10.00	60.00
197	Suzlon Energy Limited	71,095,242	1316	2.00	18.51
198	Dynacons Technologies Limited	19,000,000	19	1.00	1.00
199	Kamat Hotels (I) Limited	1,629,629	220	10.00	135.00
200	The Sirpur Paper Mills Limited	550,000	24	10.00	43.00
201	Shilpi Cable Technologies Limited	6,759,000	203	10.00	30.00
202	Indian Overseas Bank	81,500,000	3981	10.00	48.84
203	Siyaram Silk Mills Limited	1,968	1	10.00	259.76
204	Bal Pharma Limited	537,764	11	10.00	21.00
205	Arvind Remedies Limited	19,896,000	497	10.00	25.00
206	Vardhman Polytex Limited	1,975,000	114	10.00	57.52
207	Burnpur Cement Limited	2,135,000	21	10.00	10.00
208	Vijaya Bank	304,645,849	12000	10.00	39.39
209	Supreme Tex Mart Limited	12,533,330	376	5.00	30.00
210	Somany Ceramics Limited	4,347,826	500	2.00	115.00
211	UCO Bank	25,910,091	2000	10.00	77.19
212	Capital First Limited	11,607,145	1785	10.00	153.80
213	FCS Software Solutions Limited	400,000,000	400	1.00	1.00
214	Dena Bank	69,174,068	3660	10.00	52.91
215	Ind-Swift Laboratories Limited	1,692,725	93	10.00	55.00
216	Jindal Stainless Limited	10,750,000	405	2.00	37.65
217	Orbit Exports Limited	400,000	31	10.00	76.57
218	Bharati Shipyard Limited	11,846,602	937	10.00	79.12
219	Sanghvi Forging and Engineering Limited	600,000	23	10.00	37.50
220	Banswara Syntex Limited	170,000	7	10.00	41.50
221	UCO Bank	236,170,488	18230	10.00	77.19
222	Delta Magnets Limited	397,351	13	10.00	32.43
223	Moser-Baer (I) Limited	10,000,000	100	10.00	10.00
224	Celebrity Fashions Limited	5,850,000	59	10.00	10.00
225	Sakthi Sugars Limited	59,405,940	1800	10.00	30.30
226	Shilpi Cable Technologies Limited	5,041,000	151	10.00	30.00
227	Suzlon Energy Limited	69,170,785	1280	2.00	18.51
228	Dhanlaxmi Bank Limited	7,600,000	296	10.00	39.00
229	Everonn Education Limited	1,091,303	43	10.00	39.69
230	IFB Agro Industries Limited	362,000	68	10.00	188.00
231	Uniply Industries Limited	2,950,000	30	10.00	10.00
232	Diamond Power Infra Limited	4,392,000	527	10.00	120.00
233	Aurionpro Solutions Limited	130,000	23	10.00	180.00
234	Siti Cable Network Limited	68,500,000	1370	1.00	20.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
235	Filatex India Limited	4,240,000	106	10.00	25.00
236	Jain Irrigation Systems Limited	7,500,000	647	2.00	86.30
237	Indiabulls Securities Limited	14,144,904	184	2.00	13.00
238	Orbit Exports Limited	150,000	12	10.00	76.57
239	Sri Adhikari Brothers Television Network Limited	2,820,000	212	10.00	75.10
240	Ashapura Minechem Limited	4,000,000	147	2.00	36.83
241	Deep Industries Limited	2,950,000	100	10.00	34.00
242	Hindustan Construction Company Limited	39,215,686	640	1.00	16.32
243	Bal Pharma Limited	1,760,984	37	10.00	21.00
244	Sri Adhikari Brothers Television Network Limited	2,539,000	191	10.00	75.10
245	Store One Retail India Limited	4,400,000	134	10.00	30.50
246	Industrial Investment Trust Limited	720,000	252	10.00	350.00
247	Patel Engineering Limited	6,979,131	401	1.00	57.50
248	Jayaswal Neco Industries Limited	68,800,000	1720	10.00	25.00
249	State Bank Of Travancore	9,253,473	3850	10.00	416.06
250	Suzlon Energy Limited	110,809,586	1161	2.00	10.48
251	Shilpa Medicare Limited	1,764,705	750	2.00	425.00
252	Celestial Biolabs Limited	1,500,000	30	10.00	20.00
253	Nicco Corporation Limited	6,000,000	12	2.00	2.00
254	Shree Renuka Sugars Limited	257,491,592	5170	1.00	20.08
255	Shriram City Union Finance Limited	6,579,840	7896	10.00	1200.00
256	Electrosteel Castings Limited	13,138,000	250	1.00	19.03
257	Peacock Industries Limited	13,750,000	55	4.00	4.00
258	Siti Cable Network Limited	93,500,000	1870	1.00	20.00
259	Indiabulls Securities Limited	13,125,095	171	2.00	13.00
260	Ramkrishna Forgings Limited	330,000	43	10.00	130.00
261	Sri Adhikari Brothers Television Network Limited	1,465,000	110	10.00	75.10
262	Bhartiya International Limited	90,000	8	10.00	87.00
263	Sintex Industries Limited	16,400,000	1132	1.00	69.01
264	Arshiya Limited	10,550,000	1530	2.00	145.00
265	Dynamatic Technologies Limited	125,347	100	10.00	797.78
266	Ramkrishna Forgings Limited	660,000	86	10.00	130.00
267	Nahar Industrial Enterprises Limited	4,575,000	301	10.00	65.78
268	Sri Adhikari Brothers Television Network Limited	1,544,000	116	10.00	75.10
269	Bhartiya International Limited	10,000	1	10.00	87.00
270	Religare Enterprises Limited	12,817,331	4048	10.00	315.85
271	Igarashi Motors India Limited	9,232,362	600	10.00	65.00
272	Suzlon Energy Limited	34,840,583	470	2.00	13.49
273	Kesar Enterprises Limited	1,379,000	29	10.00	21.00

Contd.

Contd.

Sr. No.	Company Name	No. of Securities issued	Issue Size (₹ mn)	Par Value	Issue Price (₹)
274	Bank of Maharashtra	90,723,520	4000	10.00	44.09
275	Central Bank of India	71,075,753	5816	10.00	81.83
276	United Bank of India	84,507,042	3000	10.00	35.5
277	IOL Chemicals and Pharmaceuticals Limited	3,350,000	94	10.00	28
278	Suzlon Energy Limited	71,632,902	1326	2.00	18.51
279	Dynamatic Technologies Limited	217,269	173	10.00	797.78
280	Sri Adhikari Brothers Television Network Limited	557,000	42	10.00	75.1
281	Orbit Exports Limited	450,000	34	10.00	76.57
282	Rainbow Papers Limited	6,984,700	566	2.00	81
283	Jai Balaji Industries Limited	6,505,000	325	10.00	50
284	Bank of Maharashtra	133,363,574	5880	10.00	44.09
285	IOL Chemicals and Pharmaceuticals Limited	7,146,427	200	10.00	28
286	Duncans Industries Limited	5,250,000	53	10.00	10
287	Prestige Estates Projects Limited	25,000,000	6125	10.00	245.00
288	Karur Vysya Bank Limited	13,412,015	6250	10.00	466.00
289	Indiabulls Housing Finance Limited	20,000	5	2.00	225.00
290	Indiabulls Housing Finance Limited	3,940,000	887	2.00	225.00
291	ITD Cementation India Limited	4,000,000	1440	10.00	360.00
292	Gammon Infrastructure Projects Limited	204,174,286	2589	2.00	12.68
293	Info Edge (India) Limited	10,135,135	7500	10.00	740.00
294	IDFC Limited	73,000,000	10001	10.00	137.00
295	Indiabulls Housing Finance Limited	20,000	5	2.00	225.00
296	Indiabulls Housing Finance Limited	40,000	9	2.00	225.00
297	Celebrity Fashions Limited	2,650,000	27	10.00	10
298	Supreme Tex Mart Limited	3,655,272	219	5.00	60
299	Dhanlaxmi Bank Limited	43,907,000	2000	10.00	45.55
300	La Opala RG Limited	502,468	553	2.00	1100
301	Hitech Plast Limited	2,000,000	114	10.00	57
302	Radha Madhav Corporation Limited	22,500,000	281	10.00	12.5
303	Arshiya Limited	45,000,000	657	2.00	14.6
304	ANG Industries Limited	650,000	14	10.00	21
305	Apollo Tyres Limited	5,000,000	431	1.00	86.2
306	Aban Offshore Limited	1,125,000	440	2.00	391
307	Aban Offshore Limited	1,375,000	538	2.00	391
308	Gujarat Sidhee Cement Limited	5,000,000	50	10.00	10

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 MFs in India have primarily been sponsored by government, banks, and FIs. Thus, the MF schemes of the commercial banks and the insurance companies that entered the market in 1987 were well received. The boom continued into the 90s with liberalization evoking positive responses from the investors. The net resource mobilizations by MFs remained steady during 1992–1995, with the annual net resource mobilization of nearly ₹ 437 billion per annum during the period. However, the MFs were hit severely by the bearish sentiments in the secondary market since October 1994.

The years 1995–96 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.

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 ₹ 749 billion. The year 2013-14 continued to record positive net resource mobilization (₹ 546 billion) by the mutual fund industry, albeit at a slower pace as compared to the preceding year.

Table 3-1 Net Resource Mobilised by Mutual Funds

Year	UTI	Bank Sponsored Mutual Funds	FI-sponsored mutual funds	Private Sector mutal funds	Total	Total
	₹ bn					(US $ bn)
2009-10	157	99	49	482	785	17
2010-11	-166	13	-170	-165	-488	-11
2011-12	-32	11	-31	-385	-437	-9
2012-13	39	72	13	625	749	14
2013-14P	**4**	**48**	**26**	**468**	**546**	**9**

P: Provisional
Source: RBI

Number of Mutual Funds and New Fund Offers

As on March 31, 2014, the number of MFs registered with the SEBI was 50; it declined to 49 till the end of September 2014. As against the 1,294 schemes in 2012–13, there were 1,638 mutual fund schemes as on March 31, 2014, of which 1,077 were income/debt oriented schemes, 311 were growth/equity-oriented schemes, 30 were balanced schemes. In addition, there were 14 gold exchange-traded funds, 26 other ETFs and 27 schemes operating as fund of funds. The number of schemes as on September 30, 2014 stood at 1,843. During 2013-14, the aggregate sales of all the schemes amounted to ₹ 97,684 billion, and the redemptions during the year equaled ₹ 97,143 billion.(Table 3-2)

Table 3-2 Accretion of Funds with Mutual Funds (2013-14)

Category		2012-13				2013-14				Assets Under Management			
		Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $. mn)	Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $. mn)	March-13# (₹mn)	March-13# (US $ mn)	March-14# (₹mn)	March-14# (US $ mn)
A	**Bank Sponsored**	**14,655,650**	**14,527,500**	**128,150**	**2,357**	**18,810,650**	**18,758,210**	**52,440**	**875**	**1,509,800**	**27,771**	**1,651,040**	**27,546**
i.	Joint Ventures - Predominantly Indian	5,657,310	5,597,070	60,240	1,108	7,627,650	7,570,210	57,440	958	679,780	12,504	768,360	12,819
ii.	Joint Ventures- Foreign	1,256,260	1,242,490	13,770	253	1,623,620	1,620,620	3,000	50	73,030	1,343	81,060	1,352
iii.	Others	7,742,080	7,687,940	54,140	996	9,559,380	9,567,380	-8,000	-133	756,990	13,924	801,620	13,374
B	**Institutions**	**355,910**	**342,790**	**13,120**	**241**	**792,840**	**767,120**	**25,720**	**429**	**71,850**	**1,322**	**107,520**	**1,794**
C	**Private Sector (i+ii+iii+iv)**	**57,667,290**	**57,043,170**	**624,120**	**11,480**	**78,080,520**	**77,617,850**	**462,670**	**7,719**	**6,584,920**	**121,124**	**7,292,640**	**121,671**
i.	Indian	24,913,650	24,732,540	181,110	3,331	28,418,700	28,312,880	105,820	1,766	2,296,490	42,242	2,292,550	38,249
ii.	Joint Ventures- Predominantly Indian	28,110,080	27,778,560	331,520	6,098	44,980,190	44,668,570	311,620	5,199	3,439,430	63,265	4,124,660	68,816
iii.	Joint Ventures - Predominantly Foreign	2,275,240	2,200,710	74,530	1,371	2,527,250	2,538,060	-10,810	-180	276,530	5,087	286,050	4,772
iv	Foreign	2,368,320	2,331,360	36,960	680	2,154,380	2,098,340	56,040	935	572,470	10,530	589,380	9,833
Grand Total (A+B+C)		**72,678,850**	**71,913,460**	**765,390**	**14,079**	**97,684,010**	**97,143,180**	**540,830**	**9,023**	**8,166,570**	**150,217**	**9,051,200**	**151,010**

 # Average assets under management for the quarter Jan-Mar.

Source: AMFI Updates

Table 3-3 Accretion of Funds with Mutual Funds (April14- June 14)

Category		April 14 - June 14				Assets Under Management at the end of	
		Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $. mn)	June - 14 (₹ mn)	June - 14 (US $ mn)
A	**Bank Sponsored**	**4,708,180**	**4,617,690**	**90,490**	**1,506**	**1,759,620**	**29,281**
i.	Joint Ventures - Predominantly Indian	1,979,750	1,959,650	20,100	334	816,030	13,579
ii.	Joint Ventures- Predominantly Foreign	444,120	437,300	6,820	113	81,760	1,361
ii.	Others	2,284,310	2,220,740	63,570	1,058	861,830	14,342
B	**Institutions**	**119,230**	**140,450**	**-21,220**	**-353**	**97,960**	**1,630**
C	**Private Sector (i+ii+iii+iv)**	**21,155,010**	**20,360,590**	**794,420**	**13,220**	**8,014,820**	**133,373**
i.	Indian	7,858,860	7,564,010	294,850	4,907	2,490,840	41,450
ii.	Joint Ventures- Predominantly Indian	11,984,230	11,528,840	455,390	7,578	4,598,650	76,525
iii.	Joint Ventures - Predominantly Foreign	824,430	804,840	19,590	326	282,240	4,697
iv	Foreign	487,490	462,900	24,590	409	643,090	10,702
Grand Total (A+B+C)		**25,982,420**	**25,118,730**	**863,690**	**14,372**	**9,872,400**	**164,285**

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 79.9 percent of the resource mobilization (sales) by the MF industry in 2013–14. These private sector MFs witnessed a net inflow of ₹ 463 billion (US $ 7.7 billion) in 2013–14, down from the net inflow of ₹ 624.1 billion (US $11.5 billion) in 2012–13.

In 2013-14, bank-sponsored MFs mobilized resources worth ₹ 18,811 billion, which was 28.35 percent higher than the resource mobilization in 2012-13 (₹ 14,656 billion). The bank-sponsored schemes accounted for 19.3 percent of the gross resource mobilization in 2013–14. In net terms, the bank-sponsored MFs witnessed an inflow of ₹ 52 billion (US $ 0.8 billion) in 2013–14.

Resource Mobilization as per Maturity Period/Tenor

The share of open-ended schemes in the total sales of mutual funds in 2013–14 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 98.4 percent in 2013–14, compared to 98.9 percent last year. Close-ended schemes saw a year-on-year increase in sales of 100.8 percent in 2013–14 over the previous fiscal year. The details of the sales and redemptions of the mutual funds based on their tenor for 2012–13 and 2013–14 are presented in Table 3-4.

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

Scheme	2012-13				2013-14			
	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase
	(₹ mn)		(US $ mn)		(₹ mn)		(US $ mn)	
Open-ended	71,879,290	70,842,060	1,322,159	1,303,080	96,075,260	96,179,790	1,602,921	1,604,665
Close-ended	720,460	985,850	13,252	18,134	1,446,680	846,260	24,136	14,119
Interval fund	79,100	85,550	1,455	1,574	162,070	117,130	2,704	1,954
Total	**72,678,850**	**71,913,460**	**1,336,866**	**1,322,787**	**97,684,010**	**97,143,180**	**1,629,762**	**1,620,739**

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 93.1 percent of the gross resource mobilization in 2013–14. During the current fiscal year, the sale was the highest in the case of these schemes while the purchase was the lowest, resulting in a net inflow of ₹ 241 billion (US $ 4.02 billion).

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 6.1 percent of the total sales of all the schemes in 2013–2014 which was less than last year. These schemes witnessed the highest net inflow of ₹ 405.46 billion (US $ 6.77 billion).

The scheme-wise resource mobilization by MFs for 2012–13, and 2013–14 is depicted in Table 3-5.

Table 3-5 Scheme Wise Resource mobilization by Mutual Funds

Scheme	2012-13				2013-14			
	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)
	(₹ mn)			(US $ mn)	(₹ mn)			(US $ mn)
Income	8,352,720	7,522,910	829,810	15264	6,007,360	5,601,900	405,460	6,765
Growth	407,380	536,690	-129,310	-2379	434,320	510,590	-76,270	-1,272
Balanced	52,050	49,890	2,160	40	34,350	54,210	-19,860	-331
Liquid/ Money Market	63,654,200	63,621,940	32,260	593	90,985,470	90,744,480	240,990	4,021
Gilt	128,860	89,100	39,760	731	99,170	117,850	-18,680	-312
ELSS-Equity	26,260	42,820	-16,560	-305	26,610	43,020	-16,410	-274
GOLD ETFs	27,670	13,530	14,140	260	4,030	26,970	-22,940	-383
Other ETFs *	22,850	24,980	-2,130	-39	73,290	35,760	37,530	626
Funds of Funds Investing Overseas **	6,860	11,600	-4,740	-87	19,410	8,400	11,010	184
Total	**72,678,850**	**71,913,460**	**765,390**	**14,079**	**97,684,010**	**97,143,180**	**540,830**	**9,023**

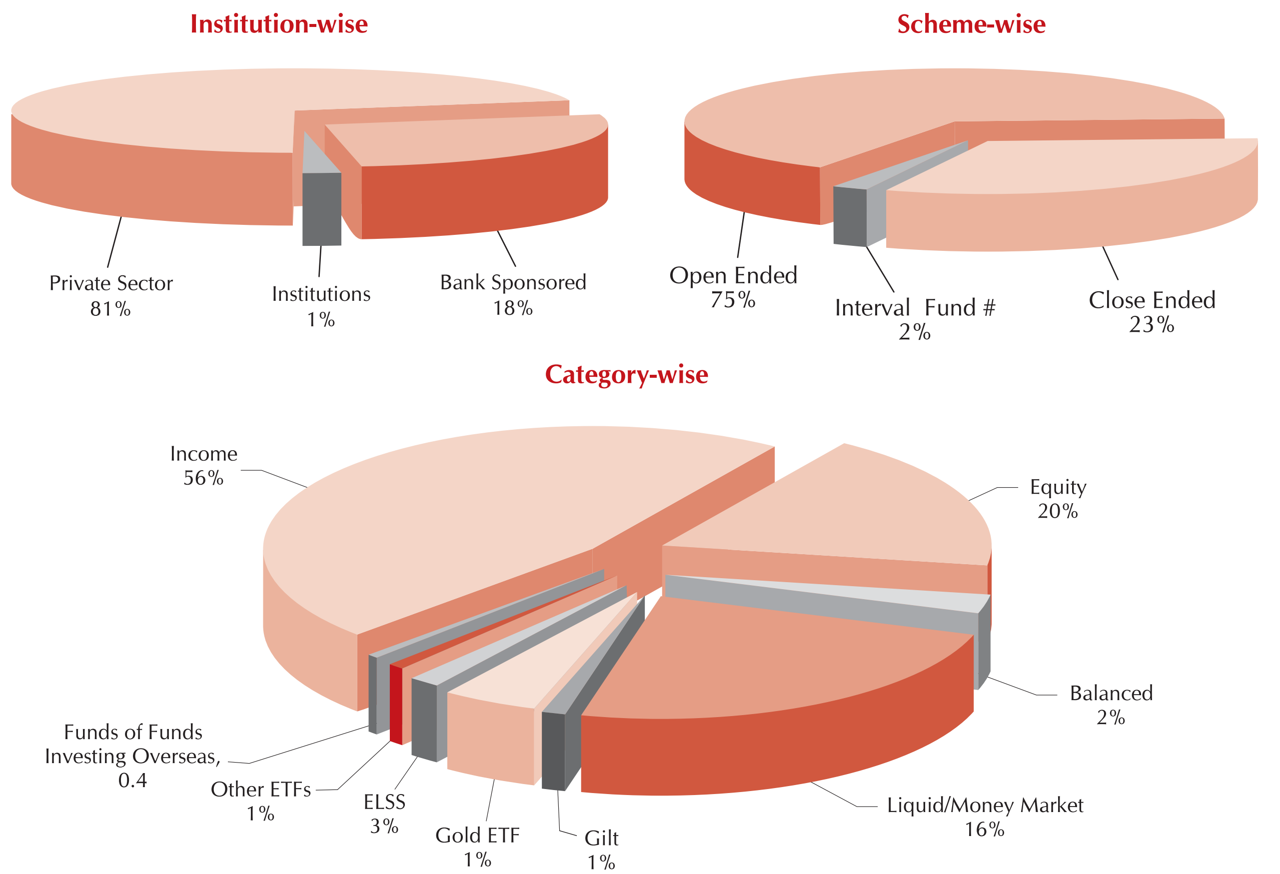
**This scheme was earlier classified as growth Funds and included in that category.*
Source: AMFI Updates
Note: Other ETFs include Infrastructure Debt Fund in 2013-14 but there were no purchase/redemptions for infrastructure debt fund.

Assets under Management

As on March 31, 2014, the MFs have managed assets totaling ₹ 8,244 billion (US $ 137.5 billion) (Table 3-6). The open-ended schemes and the close-ended schemes accounted for 75.1 percent and 23.3 percent, respectively, of the total assets under management of MFs (Chart 3-1) as on March 31, 2014.

The income schemes accounted for 55.9 percent of the total assets under management at the end of March 2014, followed by the equity schemes with 20.1 percent. The liquid/money market schemes accounted for 16.2 percent of the assets under management of MFs (Chart 3-1).

Chart 3-1 Assets under management of Mutual funds as of March 2014 (in percent)



Source: NSE

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 33 fund houses have joined the NSE MFSS platform as on March 31, 2014, and there were 5,652 sub schemes available for trading. During April 2013 to March 2014, there were 200,221 orders placed for subscriptions worth ₹ 15,004 million and 34,714 orders worth ₹ 11,972 million were redeemed. The trend moved northwards in the April–September period of 2014–15, when 125,642 orders were placed for subscriptions worth ₹ 10,504 million, and 23,861 orders worth ₹ 7,915 million were redeemed (Table 3-7).

Table 3-6 Assets under Management

Scheme	As on March 31, 2013						As on March 31, 2014					
	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	2,702,360	1,181,590	75,900	3,959,850	72838	56.5	2,623,700	1,862,770	120,240	4,606,710	76,858	55.9
Equity	1,495,360	2,410	-	1,497,770	27550	21.4	1,621,800	33,800	-	1,655,600	27,622	20.1
Balanced	162,950	120	-	163,070	3000	2.3	167,780	150	-	167,930	2,802	2.0
Liquid/Money Market	933,920	-	-	933,920	17179	13.3	1,332,800	-	-	1,332,800	22,236	16.2
Gilt	80,740	-	-	80,740	1485	1.2	61,150	-	-	61,150	1,020	0.7
ELSS	204,910	22,400	-	227,310	4181	3.2	231,990	23,480	-	255,470	4,262	3.1
Gold ETF	116,480	-	-	116,480	2143	1.7	86,760	-	-	86,760	1,448	1.1
Other ETFs *	14,760	-	-	14,760	271	0.2	45,280	-	-	45,280	755	0.5
Funds of Funds Investing Overseas	20,530	-	-	20,530	378	0.3	31,910	-	-	31,910	532	0.4
Total	**5,732,010**	**1,206,520**	**75,900**	**7,014,430**	**129,025**	**100.0**	**6,203,170**	**1,920,200**	**120,240**	**8,243,610**	**137,536.54**	**100.0**

** 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)	
2011-12	109,814	4,891	10,662	3,353	120,476
2012-13	179,630	8,050	26,959	7,036	206,589
2013-14	200,221	15,004	34,714	11,972	234,935
April - Sep'14	**125,642**	**10,504**	**23,861**	**7,915**	**149,503**

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 97.4 percent of the total number of investor accounts at the end of March 2014. They were followed by Non Resident Indian and corporate/institution, who constituted a meager 1.7 percent and 0.9 percent of the total number of investor accounts, respectively. The individuals accounted for 45.1 percent of the net assets of the MF industry in 2013–14, followed by corporate/institution, who accounted for 50.2 percent. The corporate/institution saw the highest increase in net assets among the four categories, with a year-on-year improvement of 1.6 percentage points in 2013–14. On the other hand, individuals saw a decline of 0.6 percentage points.

Table 3-8 Unit Holding Pattern of Mutual Funds

Category	Percentage to total investors folios		Percentage to total net assets	
	2012-13	2013-14	2012-13	2013-14
Individuals	96.9	97.4	45.73	45.1
NRIs	1.8	1.7	4.7	3.8
FIIs	0.0	0.0	0.96	0.9
Corporate/Institutions/Others	1.2	0.9	48.61	50.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: SEBI

Exchange Traded Funds

At the end of September 2014, there were 38 exchange traded funds in India (listed on the NSE and 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 3-9.

Contd.

Table 3-9 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	5.5	19.3	39.4
2	GS Bank BeES	CNX Bank	Goldman Sachs Asset Management (India) Private Limited	NSE	27-May-04	0.9	-38.7	61.0
3	GS Hang Seng BeES	Hang Seng	Goldman Sachs Asset Management (India) Private Limited	NSE	9-Mar-10	2.2	9.3	1.6
4	GS Infra BeES	CNX Infrastructure	Goldman Sachs Asset Management (India) Private Limited	NSE	29-Sep-10	-9.9	15.9	41.7
5	GS Junior BeES	CNX Nifty Junior	Goldman Sachs Asset Management (India) Private Limited	NSE	21-Feb-03	3.5	26.6	52.1
6	GS Liquid BeES	Crisil Liquid Fund	Goldman Sachs Asset Management (India) Private Limited	NSE	8-Jul-03	1.5	3.0	6.1
7	GS Nifty BeES	CNX Nifty	Goldman Sachs Asset Management (India) Private Limited	NSE	28-Dec-01	5.1	19.8	40.2
8	GS PSU Bank BeES	CNX PSU Bank	Goldman Sachs Asset Management (India) Private Limited	NSE	25-Oct-07	-13.0	23.5	60.1
9	GS Shariah BeES	CNX Nifty	Goldman Sachs Asset Management (India) Private Limited	NSE	18-Mar-09	8.4	20.7	34.8
10	ICICI Prudential CNX 100 ETF	CNX 100	ICICI Prudential Mutual Fund	NSE	20-Aug-13	4.9	20.6	41.6
11	ICICI Prudential Nifty ETF	CNX Nifty	ICICI Prudential Mutual Fund	NSE	20-Mar-13	5.0	19.6	39.9
12	ICICI SENSEX Prudential ETF	Sensex	ICICI Prudential Mutual Fund	BSE	10-Jan-03	5.2	19.8	38.2
13	IIFL Nifty ETF	CNX Nifty	India Infoline Asset Management Company	NSE	Oct-11	5.1	19.8	40.4
14	Kotak Nifty ETF	CNX Nifty	Kotak Mutual Fund	NSE	2-Feb-10	5.1	19.87	40.3
15	Kotak PSU Bank ETF	CNX PSU Bank	Kotak Mutual Fund	NSE	8-Nov-07	-13.0	23.4	60.1
16	Kotak Sensex ETF	Sensex	Kotak Mutual Fund	BSE	6-Jun-08	5.2	20.0	38.8
17	MOSt Shares M100	CNX 100	Motilal Oswal Asset Management Company Limited	NSE	31-Jan-11	3.5	33.2	63.8
18	MOSt Shares M50	CNX Nifty	Motilal Oswal Asset Management Company Limited	NSE	28-Jul-10	-0.3	17.0	44.2

Contd.

Contd.

	Name of ETFs	Underlying Index	Launched by AMC	Listed at	Launch Date	3 M	6 M	12 M
19	MOSt Shares NASDAQ 100	NASDAQ	Motilal Oswal Asset Management Company Limited	NSE	29-Mar-11	7.9	16.3	23.3
20	Quantum Index Fund - Growth	CNX Nifty	Quantum Asset Management Co. Private Ltd	NSE	10-Jul-08	5.2	19.9	40.3
21	R* Shares Banking ETF	CNX Bank	Reliance Capital Asset Management Limited	NSE	24-Jun-08	1.0	21.8	61.3
22	R*Shares CNX 100 Fund	CNX 100	Reliance Capital Asset Management Limited	NSE	25-Mar-13	5.0	20.8	41.4
23	Religare Invesco Nifty ETF	CNX Nifty	Religare Invesco Mutual Fund	NSE	13-Jun-11	5.0	19.6	39.6
24	SBI Sensex ETF	Sensex	SBI Mutual Fund	BSE	15-Mar-13	5.3	20.0	38.6
GOLD ETFs								
25	Axis Gold ETF	-	Axis Asset Management Company Limited	NSE	10-Nov-10	-5.4	-4.9	-12.0
26	Birla Sun Life Gold ETF	-	Birla Sun Life Asset Management Company Limited	NSE	13-May-11	-6.2	-8.6	-11.6
27	Canara Robeco Gold ETF	-	Canara Robeco Asset Management Company Limited	NSE	22-Mar-12	-4.9	-8.3	-12.6
28	GS Gold BeES	-	Goldman Sachs Asset Management (India) Private Limited	NSE	8-Mar-07	-5.3	-4.8	-12.0
29	HDFC Gold ETF	-	HDFC Asset Management Company Limited	NSE	13-Aug-10	-5.4	-4.8	-12.0
30	ICICI Prudential Gold ETF	-	ICICI Prudential Mutual Fund	BSE	24-Aug-10	-5.3	-4.8	-12.0
31	IDBI Gold ETF	-	IDBI Asset Management Limited	NSE	9-Nov-11	-5.4	-5.5	-12.1
32	Kotak Gold ETF	-	Kotak Mutual Fund	NSE	27-Jul-07	-5.4	-4.9	-12.2
33	MOSt Shares Gold	-	Motilal Oswal Asset Management Company Limited	NSE	22-Mar-12	-5.3	-2.7	-10.2
34	Quantum Gold Fund - Growth	-	Quantum Asset Management Co. Private Ltd	NSE	22-Feb-08	55.6	-4.9	-12.1
35	R* Shares Gold ETF - Dividend	-	Reliance Capital Asset Management Limited	NSE	21-Nov-07	-4.7	-6.4	-10.8
36	Religare Invesco Gold ETF	-	Religare Invesco Mutual Fund	NSE	12-Mar-10	-7.5	-7.7	-11.9
37	SBI Gold ETS	-	SBI Mutual Fund	NSE	18-May-09	-5.3	-4.8	-11.9
38	UTI Gold ETF	-	UTI Asset Management Co. Ltd.	NSE	10-Apr-07	-5.7	-5.2	-12.2

Table 3-10 Turnover of ETFs listed at NSE

Sr. No.		Name of ETF	ETF Symbol on NSE	2013-14		(April-September 2014)	
				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	804.66	13	623.12	10
2		Birla Sun Life Mutual Fund - Birla Sun Life Nifty ETF - Growth	BSLNIFTY	4.62	0	4.20	0
3		Goldman Sachs Hang Seng Exchange Traded Scheme	HNGSNGBEES	75.04	1	15.86	0
4		ICICIPRAMC - ICCNX100	ICCNX100	2.57	0	2.35	0
5		IIFL Mutual Fund - IIFL NIFTY ETF	IIFLNIFTY	235.62	4	24.59	0
6		Goldman Sachs Infrastructure Exchange Traded Scheme	INFRABEES	18.40	0	120.59	2
7		Goldman Sachs Nifty Junior Exchange Traded Scheme	JUNIORBEES	746.28	12	726.55	12
8		Kotak Mahindra Mutual Fund-Kotak Nifty ETF	KOTAKNIFTY	245.98	4	1,023.19	17
9		Kotak Mahindra Mutual Fund	KOTAKPSUBK	89.08	1	413.61	7
10		Goldman Sachs Liquid Exchange Traded Scheme	LIQUIDBEES	52,336.60	873	40,653.86	660
11		Motilal Oswal Mutual Fund - Motilal Oswal MOSt Shares M100 ETF GO	M100	163.62	3	132.50	2
12		Motilal Oswal Mutual Fund - Motilal Oswal MOSt Shares M50 ETF	M50	327.99	5	139.23	2
13		Motilal Oswal Mutual Fund-Motilal Oswal MOSt Shares NASDAQ 100 ETF -GO	N100	223.80	4	168.61	3
14		ICICIPRAMC NIFETF	INIFTY	31.01	1	6.21	0
15		Goldman Sachs Nifty Exchange Traded Scheme	NIFTYBEES	6,469.50	108	5,542.04	90
16		Goldman Sachs PSU Bank Exchange Traded Scheme	PSUBNKBEES	80.29	1	160.63	3
17		Quantum Index Fund -Exchange Traded Fund (ETF)	QNIFTY	9.98	0	14.52	0
18		R* Shares Banking ETF	RELBANK	45.58	1	49.30	1
19		Reliance Mutual Fund - R* Shares CNX 100 Fund	RELCNX100	38.86	1	18.81	0
20		Religare Mutual Fund - Religare Nifty Exchange Traded Fund	RELGRNIFTY	9.59	0	2.96	0
21		Goldman Sachs S&P CNX Nifty Shariah Index Exchange Traded Scheme	SHARIABEES	4.57	0	5.96	0
22		RELCAPAMC - RELNIFTY	RELNIFTY	45.28	1	44.14	1
		Total Turnover of Index Based ETFs		**62,009**	**1,035**	**49,893**	**810**

Contd.

Contd.

22	GOLD BASED ETFs	Axis Gold	AXISGOLD	351.91	6	121.95	2
23		Birla Sun Life Gold	BSLGOLDETF	115.23	2	45.83	1
24		GS - Gold BeES	CRMFGETF	499.29	8	118.66	2
25		Canara Robeco Gold	GOLDBEES	37,249.15	621	8,212.17	133
26		HDFC Gold	GOLDSHARE	2,971.92	50	1,113.90	18
27		ICICI Prudential Gold	HDFCMFGETF	2,410.51	40	716.42	12
28		IDBI Gold	IDBIGOLD	320.05	5	139.16	2
29		Kotak Gold	IGOLD	470.30	8	187.37	3
30		MOSt Gold	KOTAKGOLD	5,748.78	96	1,216.08	20
31		Quantum Gold	MGOLD	486.87	8	96.66	2
32		Reliance Gold	QGOLDHALF	325.08	5	147.99	2
33		Religare Gold	RELGOLD	4,316.26	72	1,136.13	18
34		SBI Gold	RELIGAREGO	216.75	4	38.59	1
35		UTI Gold Share	SBIGETS	4,899.11	82	1,781.83	29
		Total Turnover of Gold Based ETFs		**60,381**	**1,007**	**15,073**	**245**
		Total Turnover of all ETFs		**122,390**	**2,042**	**64,966**	**1,055**
		Percentage of Index Funds Turnover to total ETF Turnover		50.7		76.8	
		Percentage of Gold based ETF Turnover to total ETF turnover		49.3		23.2	

Notes: UTI Master Index Fund and S&P CNX NIFTY UTI Notional Depository Receipts Scheme (SUNDER) merged with UTI Nifty Fund on 15th March 2014.

Source: ICRA Online and NSE

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 year 2013-14 witnessed a remarkable performance of the Indian equity markets supported by improved conditions in global financial markets and some decisive actions on the domestic policy front. During the year, there has been a rise in inflows of foreign capital , increased trading activity in equity markets and moreover, new highs have been attained by benchmark indices and market capitalisation.

The NSE and the BSE were the only two stock exchanges that reported significant trading volumes. No other stock exchange in India reported any significantly large trading volumes during 2013–14. The NSE consolidated its position as the market leader by contributing 84.1 percent of the total turnover in India in 2013–14 and 83.7 percent in first half of 2014–15. Since its inception in 1994, the NSE has emerged as the favored 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 2011–12 to the first half of 2014–15 (Table 4-1) one finds that decline in turnover on the exchanges continued with the exception of the year 2013-14, mainly on account of the crisis and the uncertainties in global financial markets whose impact was mitigated in 2013-14 due to strengthening of the global financial markets and domestic macroeconomic fundamentals. The turnover on the NSE increased by 3.7 percent in 2013–14 as compared to the turnover in 2012–13, and the turnover on the BSE dipped by 4.94 percent over the same period. The average daily turnover on the NSE stood at ₹ 111.9 billion in 2013–14 compared to ₹ 108.3 billion in 2012–13. On the other hand, the average daily turnover on the BSE declined to ₹ 20.78 billion in 2013–14, but increased in the first half of 2014-15 to ₹ 35.53 billion.

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

	Stock Exchanges	Capital Market Turnover											
		2011-12		2012-13		2013-14		Apr-Sep' 14		Share in Turnover (percent)			
		(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)	2011-12	2012-13	2013-14	Apr-Sep' 14
1	NSE	28,108,930	549,469	27,082,790	498,165	28,084,880	468,569	18,165,990	295,092	80.7	83.0	84.1	83.7
2	BSE	6,674,980	130,482	5,487,740	100,942	5,216,640	87,035	3,547,460	57,626	19.2	16.8	15.6	16.3
3	Calcutta	59,910	1,171	46,140	849	790	13	-	0	0.2	0.1	0.0	0.0
4	Uttar Pradesh	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
5	Ahmedabad	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
6	Delhi	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
7	Pune	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
8	Ludhiana	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
9	Bangalore	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
10	ICSE	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
11	Madras	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
12	Madhya Pradesh	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
13	Vadodara	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
14	OTCEI	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
15	Gauhati	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
16	Cochin	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
17	Bhubaneshwar	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
18	Coimbatore	-	-	-	-	-	-	-	0	0.0	0.0	0.0	0.0
19	MCX-SX	-	-	330	6	111,850	1,866	3	0	0.0	0.0	0.3	0.0
	Total	**34,843,820**	**681,122**	**32,617,000**	**599,962**	**33,414,160**	**557,482**	**21,713,453**	**352,717**	**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	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
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	7,662	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	8,151	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	8,789	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	9,266	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	10,422	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**	**5,487,750**	**100,943**	**108,331**	**1,993**	**21,950**	**404**	**62,390,345**	**1,147,618**	**63,878,870**	**1,174,998**
Apr-13	2,107,985	35,170	409,800	6,837	105,399	1,758	20,490	342	64,903,730	1,082,855	66,457,850	1,108,784
May-13	2,443,916	40,774	499,960	8,341	106,257	1,773	21,740	363	65,182,274	1,087,502	66,787,370	1,114,282
Jun-13	2,079,436	34,693	363,770	6,069	103,972	1,735	18,190	303	62,484,420	1,042,491	64,051,180	1,068,631
Jul-13	2,433,903	40,607	415,350	6,930	105,822	1,766	18,060	301	60,987,791	1,017,521	62,631,060	1,044,938
Aug-13	2,507,583	41,837	408,760	6,820	125,379	2,092	20,440	341	58,466,270	975,452	60,300,780	1,006,059
Sep-13	2,435,765	40,638	398,980	6,657	121,788	2,032	19,950	333	61,916,255	1,033,012	63,861,344	1,065,464
Oct-13	2,379,080	39,693	410,180	6,843	113,290	1,890	19,530	326	66,915,310	1,116,416	68,442,330	1,141,893
Nov-13	2,177,820	36,335	407,680	6,802	108,890	1,817	20,380	340	66,448,440	1,108,627	68,104,750	1,136,261
Dec-13	2,308,170	38,510	435,660	7,269	109,910	1,834	20,750	346	68,841,670	1,148,556	70,442,580	1,175,265
Jan-14	2,556,300	42,649	496,730	8,287	111,140	1,854	21,600	360	65,907,850	1,099,608	67,443,980	1,125,237
Feb-14	1,887,510	31,491	348,520	5,815	99,340	1,657	18,340	306	67,259,340	1,122,156	68,930,830	1,150,043
Mar-14	2,767,410	46,172	621,250	10,365	131,780	2,199	29,580	494	72,777,200	1,214,216	74,152,960	1,237,169
2013-14	**28,084,878**	**468,569**	**5,216,640**	**87,035**	**111,890**	**1,867**	**20,780**	**347**	**72,777,200**	**1,214,216**	**74,152,960**	**1,237,169**
Apr-14	2,727,030	44,298	497,160	8,076	151,500	2,461	27,620	449	73,467,370	1,193,417	74,947,910	1,217,468
May-14	4,360,220	70,828	921,220	14,964	207,630	3,373	43,870	713	82,513,460	1,340,364	84,078,340	1,365,784
Jun-14	4,216,880	68,500	841,410	13,668	200,800	3,262	40,070	651	88,547,020	1,438,374	90,200,000	1,465,225
Jul-14	3,914,280	63,584	751,190	12,202	177,920	2,890	34,150	555	88,311,390	1,434,546	90,102,700	1,463,645
Aug-14	2,947,580	47,881	536,480	8,715	155,140	2,520	28,240	459	90,609,600	1,471,879	92,594,810	1,504,127
Sep-14	3,832,610	62,258	823,110	13,371	174,210	2,830	37,410	608	91,728,380	1,490,053	93,822,490	1,524,070
Apr-Sep'14	**21,998,600**	**357,349**	**4,370,570**	**70,996**	**178,850**	**2,905**	**35,530**	**577**	**91,728,380**	**1,490,053**	**93,822,490**	**1,524,070**

Source: BSE, NSE, SEBI

According to the WFE statistics, in terms of the number of trades in equity shares, the NSE ranks numero uno with 1,449,227 thousand trades at the end of December 2013. NSE retained its top position in the first half of 2014 as well, with 1,298,294 thousand trades in January–September 2014. The trade details of the top-ranked stock exchanges are presented in Table 4-3.

Table 4-3: Total Numbers of Trades in Equity Shares* (in Thousands)

Exchange	End December 2012	End December 2013	End September 2014
NYSE Euronext (US)	1,374,539	1,187,800	1,091,855
Shanghai Stock Exchange	925,550	1,153,367	876,613
NSE	1,406,498	1,449,227	1,298,294
Shenzhen SE	935,565	1,289,435	1,135,297
Korea Exchange	1,218,992	1,031,553	812,411

** Year to date.*

Source : WFE Reports

Turnover of NSE exhibited an increase while that of BSE showed a decline in 2013–14 as compared to 2012–13, 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 2013 amounted to ₹ 62,390.35 billion (US $ 1,147.62 billion), increased to ₹ 72,777.2 billion (US $ 1,214.2 billion) at the end of March 2014 and further to ₹ 91,728.4 billion (US $ 1,490.1 billion) as at the end September of 2014.

Market Movements

The movement of a few of the selected indices presented in Table 4-4 brings out the trends witnessed in the Indian and foreign markets during 2012–13 and 2013–14. A global comparison of these selected indices indicates that in 2012–13, these indices depicted varied kinds of performance, with most of the indices (except Kospi) closing in green and showing returns in the range of 5-12 percent (except Nikkei) which gave returns of 23 percent. However, in 2013-14, in addition to Kospi, Hang Seng also closed in red. Most of the indices recorded returns in the range of 2.5-20 percent, barring Nasdaq which witnessed maximum returns of 28.5 percent. Encouragingly, all the select indices managed to close in green during the period April-September 2014. The CNX Nifty gained 18.8 percent, posting the second highest returns during the aforementioned period.

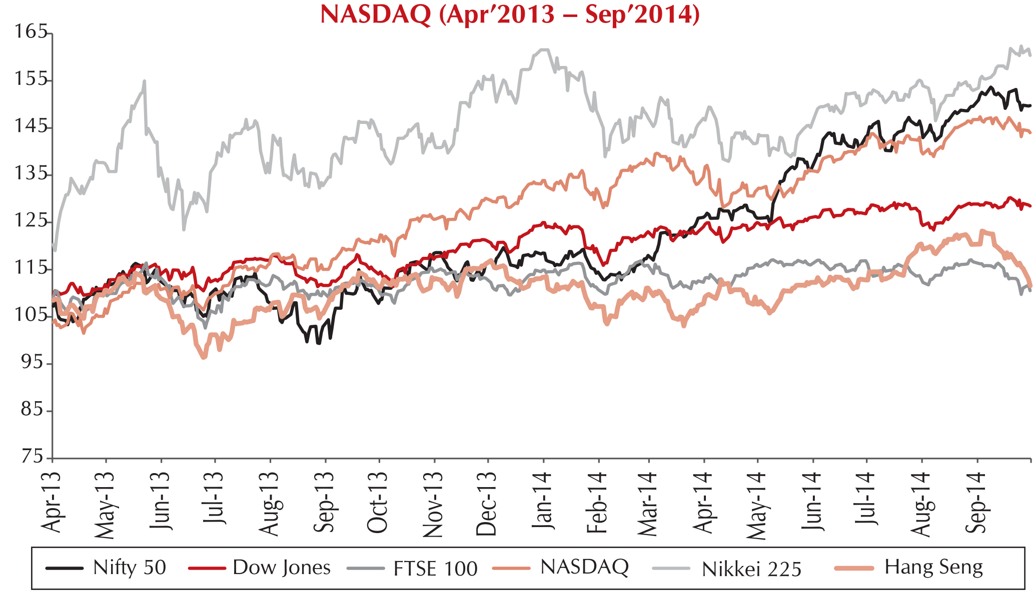
Table 4-4: Movement of Select Indices on Indian and International Markets

Region	Index - Country	End March 2012	End March 2013	End March 2014	End Sep 2014	Change during 2012-13 (Percent)	Change during 2013-14 (Percent)	Change during Apr-Sep'14 (Percent)
Americas	Dow Jones	13212.04	14578.54	16457.66	17042.90	10.3%	12.9%	3.6%
	Nasdaq	3091.57	3267.52	4198.99	4493.39	5.7%	28.5%	7.0%
Europe	FTSE 100- UK	5768.45	6411.70	6598.40	6622.70	11.2%	2.9%	0.4%
	CAC 40 - France	3423.81	3731.42	4391.50	4416.24	9.0%	17.7%	0.6%
Asia Pacific	Nifty 50 (S&P CNX Nifty)- India	5295.55	5682.55	6704.20	7964.80	7.3%	18.0%	18.8%
	BSE Sensex- India	17404.20	18835.77	22386.27	26630.51	8.2%	18.8%	19.0%
	Hang Seng- Hong Kong (China)	20555.58	22299.63	22151.06	22932.98	8.5%	-0.7%	3.5%
	Nikkei- Japan	10083.56	12397.91	14827.83	16173.52	23.0%	19.6%	9.1%
	Kospi - South Korea	2014.04	2004.89	1985.61	2020.09	-0.5%	-1.0%	1.7%

Source: Yahoo Finance and NSE

Comparing the movement of the Nifty, with other major global indices over April 2013 to September 2014 (as depicted in Chart 4-1), indicates that CNX Nifty 50 was among the best performers globally during April 2014- September 2014.

Chart 4-1: Movement of Nifty, Dow Jones, FTSE 100, Nikkei 225, Hang Seng, and NASDAQ (Apr'2013 – Sep'2014)



Source : NSE

The stock market index, volatility and P/E ratio's for the blue chip indices of Indian stock exchanges is shown in table 4-5.

Table 4-5: Stock Market Index, Volatility, and P/E Ratio (April '13 to Sep '14)

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-13	5930.2	1.0	17.9	19504.2	1	16.9	11522.5	0.9	19.2
May-13	5986.0	1.2	18.0	19760.3	1.1	17.4	11731.9	1.0	19.6
Jun-13	5842.2	1.2	17.8	19345.7	1.2	17.0	11494.4	1.2	19.2
Jul-13	5742.0	1.0	17.1	19395.8	1.0	17.5	11505.5	0.9	18.8
Aug-13	5471.8	1.7	15.8	18619.7	1.7	16.8	10938.5	1.7	17.2
Sep-13	5735.3	1.9	16.8	19379.8	1.8	17.3	11566.7	1.8	18.2
Oct-13	6299.15	0.9	18.2	21164.5	0.8	17.8	12545.1	0.8	19.1
Nov-13	6176.1	1.1	18.4	20791.9	1.1	17.5	12344.5	1.0	19.4
Dec-13	6304	1.2	18.7	21170.7	0.8	17.8	12582.7	0.7	20.5
Jan-14	6089.5	0.8	17.7	20513.9	0.8	17.8	12264.6	0.7	19.3
Feb-14	6276.95	0.7	17.7	21120.1	0.7	16.8	12650.7	0.5	19.3
Mar-14	6704.2	0.7	18.9	22386.3	0.7	17.9	13298.3	0.6	20.3
Apr-14	6696.4	0.7	18.8	22417.8	0.7	18.3	13255.4	0.6	19.7
May-14	7229.95	1.0	19.8	24217.3	0.9	17.9	14224.0	0.9	20.8
Jun-14	7611.35	0.8	20.7	25413.8	0.9	18.6	14941.0	0.8	21.6
Jul-14	7721.3	0.8	20.6	25895.0	0.8	18.5	15204.7	0.8	21.3
Aug-14	7954.35	0.6	20.8	26638.1	0.8	18.2	15691.7	0.7	22.0
Sep-14	7964.8	0.8	20.8	26630.5	0.8	18.5	15774.1	-	22.7

* As on the last trading day of the month.

* * Volatility is calculated as standard deviation of the Natural Log of returns of indices for the respective period

Source: BSE, NSE 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 2014 and September 2014) is presented in Table 4-6. Over a 1-year horizon for the period ending March 2014, all the indices showed positive returns in the range of 6 percent to 20 percent, with the largest gain recorded by the CNX Nifty Junior index. Further, 6-month; 3-month and 1-month returns were also positive for all the indices as at the end of March 2014 which was not the case in the previous year. As at the end of September 2014, the 1-year returns indicate that all the indices were in green. In particular, CNX Midcap index clocked the maximum returns (63.2 percent) for the 1 year period.

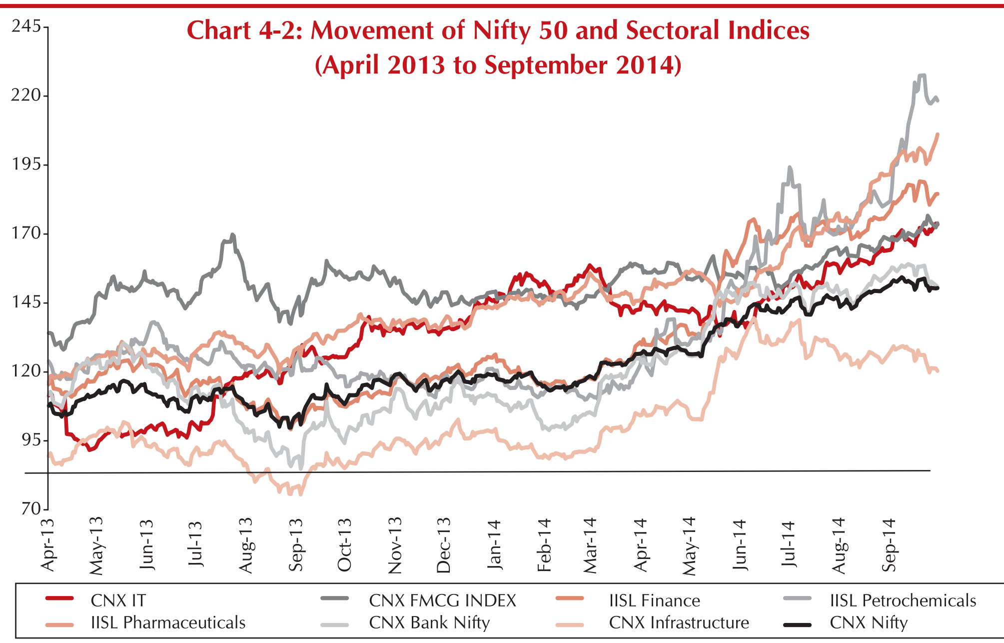
Table 4-6: Performance of Select NSE Indices

As at end March 2014- in percent				
	1 month	**3 month**	**6 month**	**1 year**
S&P CNX Nifty	6.81	6.35	16.89	17.98
S&P CNX 500	7.74	6.31	18.96	17.72
S&P CNX Defty	10.31	9.53	22.1	6.64
CNX Nifty Junior	10.58	4.14	20.17	20.02
CNX Midcap	10.34	6.7	23.07	16.36
As at end Sep 2014 - in percent				
	1 month	**3 month**	**6 month**	**1 year**
S&P CNX Nifty	0.13	4.64	18.8	38.87
S&P CNX 500	0.86	3.91	22.79	46.08
S&P CNX Defty	-1.72	2.06	15.88	41.5
CNX Nifty Junior	1.43	3.14	26.24	51.71
CNX Midcap	2.74	2.9	32.58	63.17

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 2013 to September 2014 is presented in Chart 4-2. During the period, indices such as CNX FMCG Index and IISL Pharmaceuticals outperformed the other sectoral indices by generating higher returns.

Chart 4-2: Movement of Nifty 50 and Sectoral Indices (April 2013 to September 2014)



Source: NSE

The monthly closing prices of these sectoral indices are presented in Table 4-7.

Table 4-7: Performance of Sectoral Indices

Month/ Year	Monthly Index Value*						Average Daily Volatility (Percent)					
	S&P CNX Nifty	CNX FMCG	CNX IT	IISL Finance	IISLPharmaceuticals	IISL Petrochemicals	CNX Nifty	CNX FMCG	CNX IT	IISL Finance	IISL pharmaceuticals	IISL Petrochemicals
Apr-13	5,930	16,816	6,048	4,604	10,297	11,884	1.0	1.4	3	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	1.2	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
Oct-13	6,299	17,617	8,853	4,532	11,336	11,071	0.9	1.0	1.4	0.9	0.9	1.2
Nov-13	6,176	17,004	8,821	4,655	11,349	11,070	1.1	1.3	0.8	1.0	0.7	1.1
Dec-13	6,304	17,024	9,518	4,928	11,848	11,366	0.8	0.7	0.9	0.9	0.8	0.8
Jan-14	6,090	16,861	9,957	4,540	12,025	10,615	0.8	0.7	1.3	1.0	0.7	1.0
Feb-14	6,277	16,846	10,339	4,608	12,870	10,544	0.7	0.8	1.0	0.5	0.9	0.8
Mar-14	**6,704**	**18,085**	**9,298**	**5,115**	**12,044**	**11,553**	**0.7**	**0.6**	**1.3**	**1.0**	**0.9**	**1.9**
Apr-14	6,696	17,573	9,228	5,220	12,864	12,275	0.7	0.8	1.1	1.1	0.9	3.2
May-14	7,230	17,832	8,970	6,320	12,386	14,007	1.0	1.3	1.8	1.9	1.2	1.8
Jun-14	7,611	17,434	9,912	6,720	13,729	17,738	0.9	1.1	1.1	1.2	0.9	2.8
Jul-14	7,721	18,779	10,305	6,669	14,662	16,292	0.8	0.5	1.1	1.3	0.9	2.4
Aug-14	7,954	19,309	10,680	6,864	15,794	17,011	0.8	0.9	0.9	0.8	0.9	1.3
Sep-14	**7,965**	**19,876**	**11,303**	**7,217**	**17,021**	**20,608**	**0.8**	**0.9**	**1.0**	**1.2**	**1.1**	**2.1**

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

Source:NSE

The volatility across the different sectoral indices for the period April 2013 to September 2014 varied widely, as shown in Table 4-7. The IISL petrochemicals index was the most volatile index with the highest volatility among the sectoral indices during 7 of the 18 months considered. April 2014 saw the highest volatility of 3.2 percent in this index.

Liquidity

During March 2014, the percentage of companies traded to companies listed on NSE was 91.2 percent while at BSE it was 53.2 percent. During September 2014, 54.5 percent of the companies traded on the BSE, while 91.5 percent of the companies traded on the NSE (Table 4-8).

Table 4-8: Trading Frequency on NSE and BSE

Month/Year	NSE			BSE		
	No. of companies listed	Companies Traded	Percent of Traded to Listed	No. of companies listed	Companies Traded	Percent of Traded to Listed
Apr-13	1,671	1,536	91.9	5,224	2,447	46.8
May-13	1,673	1,521	90.9	5,230	2,464	47.1
Jun-13	1,633	1,509	92.4	5,241	2,478	47.3
Jul-13	1,672	1,516	90.7	5,249	2,339	44.6
Aug-13	1,672	1,519	90.8	5,257	2,372	45.1
Sep-13	1,672	1,511	90.4	5,267	2,389	45.4
Oct-13	1,674	1,521	90.9	5,277	2,621	49.7
Nov-13	1,679	1,525	90.8	5,286	2,636	49.9
Dec-13	1,679	1,535	91.4	5,294	2,682	50.7
Jan-14	1,683	1,536	91.3	5,305	2,691	50.7
Feb-14	1,684	1,528	90.7	5,318	2,791	52.5
Mar-14	1,688	1,540	91.2	5,336	2,841	53.2
Apr-14	1,690	1,551	91.8	5,355	2,877	53.7
May-14	1,692	1,551	91.7	5,379	3,086	57.4
Jun-14	1,695	1,556	91.8	5,406	3,135	58.0
Jul-14	1,696	1,555	91.7	5,433	3,022	55.6
Aug-14	1,696	1,554	91.6	5,458	3,032	55.6
Sep-14	1,699	1,555	91.5	5,476	2,984	54.5

** 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 2013–14 has come down to 66.8 percent from 78 percent recorded in 2012–13; on the NSE, it has declined to 89.1 percent from 95.40 percent in 2012–13 (Table 4-9). During the year 2013–14, out of 4,333 shares that were traded on the BSE, 11 percent witnessed trading for less than 11 days whereas in NSE, among 1,648 traded shares, the corresponding figure was 2.1 percent.

Table 4-9: Trading Frequency of Listed Stocks

Trading Frequency (Range of Days)	2012-13				2013-14			
	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	3232	78	1561	95.4	2893	66.8	1469	89.1
91-100	48	1.2	3	0.2	93	2.2	17	1.0
81-90	46	1.1	6	0.4	77	1.8	15	0.9
71-80	67	1.6	5	0.3	89	2.1	15	0.9
61-70	72	1.7	5	0.3	108	2.5	25	1.5
51-60	55	1.3	9	0.5	98	2.3	15	0.9
41-50	73	1.8	3	0.2	97	2.2	17	1.0
31-40	65	1.6	3	0.2	113	2.6	13	0.8
21-30	58	1.4	6	0.4	126	2.9	14	0.8
11-20	70	1.7	4	0.2	162	3.7	13	0.8
1-10	360	8.7	32	2	477	11	35	2.1
Total	**4,146**	**100.0**	**1,637**	**100.0**	**4,333**	**100**	**1,648**	**100**

Source: BSE, NSE

Takeovers

In 2013–14, there were 75 takeovers under the open category involving ₹ 454.11 billion (US$ 7.6 billion) as against 79 takeovers involving ₹ 121.6 billion (US $ 2.2 billion) in the preceding year (Table 4-10).

Table 4-10: Substantial Acquisition of Shares and Takeovers

Year	Open Offers								
	Objectives						Total		
	Change in Control of Management		Consolidation of Holdings		Substantial Acquisition				
	Number	Value (₹ mn)	Number	Value (₹ mn)	Number	Value (₹ mn)	Number	Value (₹ mn)	Value (US $ mn)
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
2013-14	**59**	**77,210**	**10**	**376,440**	**6**	**460**	**75**	**454,110**	**7,576**
Apr-Sep 2014	**21**	**12,180**	**1**	**114,490**	**7**	**3,330**	**29**	**130,000**	**2,112**

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) *
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**
2012-13	**250**	**1,542**	**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
Oct-13	21	1,521	119	13,135	113,290	2,379,080	66,915,310
Nov-13	20	1,525	112	12,233	108,890	2,177,820	66,448,440
Dec-13	21	1,535	116	13,396	109,910	2,308,170	68,841,670
Jan-14	23	1,536	129	14,071	111,140	2,556,300	65,907,850
Feb-14	19	1,528	98	9,637	99,340	1,887,510	67,259,340
Mar-14	21	1,540	131	14,468	131,780	2,767,410	72,777,200
2013-14	**251**	**1,586**	**1,443**	**153,372**	**111,892**	**28,084,884**	**72,777,200**
Apr-14	18	1,551	125	16,276	151,500	2,727,030	73,467,370
May-14	21	1,551	181	26,790	207,630	4,360,220	82,513,460
Jun-14	21	1,553	179	26,561	200,800	4,216,880	88,547,020
Jul-14	22	1,555	164	21,558	177,920	3,914,280	88,311,390
Aug-14	19	1,554	127	15,465	155,140	2,947,580	90,609,600
Sep-14	22	1,555	167	22,651	174,210	3,832,610	91,728,380
Apr-Sep 14	**123**	**1,566**	**944**	**129,301**	**178,850**	**21,998,601**	**91,728,380**

**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-sec 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 2013-14, the government and the corporate sector collectively mobilized ₹ 12,104 billion (US $ 202 billion) from the primary debt market, a decline of 2 percent compared to the preceding year's numbers (Table 5-1). About 74 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 2013-14 aggregated ₹ 164, 971 billion (US $ 2,752 billion), 35 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 form Primary Market		Turnover in Secondary Market	
	(₹ bn)		(₹ bn)		(US $ bn)		(US $ bn)	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
Government	8,658	8,971	120,116	162,739	159	150	2,209	2,715
Corporate/Non Government	3,688	3,133	1,994	2,232	68	52	37	37
Total	**12,346**	**12,104**	**122,110**	**164,971**	**227**	**202**	**2,246**	**2,752**

** Amount Raised from primary market for corporate sector includes public issues and private placement issues.*

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 2013-14, the central government and the state governments borrowed ₹ 7,005 billion (US $ 117 billion) and ₹ 1,967 billion (US $ 33 billion), respectively. The gross borrowings of the central and the state governments taken together were budgeted 3.6 percent higher, from ₹ 8,658 billion (US $ 160 billion) in 2012-13 to ₹ 8,971 billion (US $ 150 billion) in 2013-14 (Table 5-2). However, their net borrowings fell by 2.2 percent, from ₹ 6,541 billion in 2012-13 to ₹ 6,396 billion in 2013–14.

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

Type of Government	Gross Borrowings				Net Borrowings			
	2012-13 (₹ bn)	2012-13 (US $ bn)	2013-14 (₹ bn)	2013-14 (US $ bn)	2012-13 (₹ bn)	2012-13 (US $ bn)	2013-14 (₹ bn)	2013-14 (US $ bn)
Central	6,885	127	7,005	117	5,075	93	4,750	79
State	1,773	33	1,967	33	1,467	27	1,646	27
Total	**8,658**	**160**	**8,971**	**150**	**6,541**	**120**	**6,396**	**107**

Source : RBI

The net market borrowing of the central government amounted to ₹ 4,750 billion in 2013–14, compared to the net borrowings of ₹ 5,075 billion in 2012-13.

With a modest decline in inflation during 2013-14 and persistence of upside risks to inflation, RBI increased the key policy rate by 50 basis points in a calibrated manner. Liquidity conditions remained tight in the economy until the extraordinary monetary policy measures of RBI (to stem the exchange rate volatility since May 2013) were gradually withdrawn. During this period, there was an increase in gross government borrowing. The market borrowing programme was conducted by the RBI 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 2014-15, despite the sharp drop in inflation rates, the RBI chose to keep its key policy rate on hold, thereby continuing the tightened monetary policy stance.

The state governments collectively raised ₹ 1,967 billion (US $ 32.8 billion) in 2013–14 as against ₹ 1,773 billion (US $ 32.6 billion) in the preceding year. The net borrowings of the state governments in 2013–14 were higher by 12 percent, and amounted to ₹ 1,646 billion (US $ 27 billion) (Table 5-2). The increase in net market borrowings by the State governments was necessitated by the shortfall in financing from other sources (such as small savings, disinvestment proceeds etc.)

Secondary Market

Turnover

The aggregate secondary market transactions in debt securities (including government and non-government securities) increased by 35 percent to ₹ 164,971 billion (US $ 2,752 billion) in 2013-14 from ₹ 122,110 billion (US $ 2,246 billion) in 2012-13. Non-government securities accounted for a meager 1 percent of the total turnover in the debt market. The NSE accounted for about 5 percent of the total turnover in debt securities (in both g-sec and non-g-sec securities) in 2013–14 (Table 5-3).

Table 5-3: Turnover of Debt Securities

Securities	2012-13	2013-14	2012-13	2013-14
	(₹ bn)		(US $ bn)	
Government Securities*	**120,116**	**162,739**	**2,209**	**2,715**
WDM Segment of NSE	5,978	6,321	110	105
Rest of SGL	114,138	156,419	2,099	2,610
Non Government Securities	**1,994**	**2,232**	**37**	**37**
CM Segment of NSE	19	17	0.3	0.28
WDM Segment of NSE	1,944	2,194	37	37
'F' Category of BSE	31	21	1	0.35
Total	**122,110**	**164,971**	**2,246**	**2,752**

** 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 ₹ 2,194 billion (US $ 37 billion) in 2013–14, which was higher by 13 percent than that during the preceding year. The BSE reported a turnover of ₹ 21 billion (US $ 0.35 billion) in 2013–14. (Table 5-3).

The aggregate turnover in central and state government dated securities and t-bills through non-repo SGL transactions touched ₹ 15,958 billion (US $ 266 billion) in 2013–14, recording an increase of 40 percent from ₹ 11,418 billion (US $ 210 billion) in the previous year. The monthly turnover in non-repo transactions for the year 2013-14 ranged between ₹ 1,077 billion (US $ 18 billion) and ₹ 1,912 billion (US $ 32 billion) (Table 5-4).

Table 5-4: Secondary Market Transactions in Government Securities

Month/ Year	SGL Non-Repo Transactions				Share in Non-Repo Turnover (in percent)	
	GOI Securities	Treasury Bills	Total	Total	GOI Securities	T-Bills
	(₹ mn)			(US $ mn)		
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
2012-13	8,464,821	2,953,401	11,418,222	210,029	74.1	26
Apr-13	1,113,419	357,395	1,470,814	24,539	75.7	24
May-13	1,706,271	205,545	1,911,816	31,897	89.2	11
Jun-13	1,000,994	274,487	1,275,481	21,280	78.5	22
Jul-13	701,619	449,400	1,151,019	19,204	61.0	39
Aug-13	540,753	726,908	1,267,661	21,150	42.7	57
Sep-13	726,113	583,525	1,309,638	21,850	55.4	45
Oct-13	650,169	448,407	1,098,576	18,329	59.2	41

Contd.

Contd.

Month/ Year	SGL Non-Repo Transactions				Share in Non-Repo Turnover (in percent)	
	GOI Securities	Treasury Bills	Total	Total	GOI Securities	T-Bills
	(₹ mn)			(US $ mn)		
Nov-13	1,185,671	325,768	1,511,439	25,217	78.4	22
Dec-13	649,701	517,185	1,166,887	19,468	55.7	44
Jan-14	1,022,701	520,521	1,543,221	25,747	66.3	34
Feb-14	743,908	430,025	1,173,933	19,586	63.4	37
Mar-14	722,822	354,475	1,077,296	17,974	67.1	33
2013-14	**10,764,141**	**5,193,641**	**15,957,782**	**266,240**	**67.5**	**33**
Apr-14	678,962	496,668	1,175,630	19,097	57.8	42
May-14	1,036,637	564,593	1,601,230	26,011	64.7	35
Jun-14	1,574,236	464,743	2,038,979	33,122	77.2	23
Jul-14	840,464	457,034	1,297,498	21,077	64.8	35
Aug-14	543,609	418,942	962,551	15,636	56.5	44
Sep-14	751,093	411,804	1,162,897	18,890	64.6	35
Apr-Sep '14	**5,425,001**	**2,813,784**	**8,238,785**	**133,832**	**65.8**	**34**

Source : NSE

The share of the WDM segment of the NSE in the total turnover of non-repo SGL transactions fell in 2013–14 to 40 percent from 52 percent in 2012-13 (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 49 percent in 2012-13 to 33 percent in 2013–14. The share of the WDM in the turnover of non-repo t-bills also decreased to 54 percent in 2013–14 as compared to 61 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)
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**
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

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)
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
Oct-13	1,098,576	511,117	46.5	650,169	291,914	44.9	448,407	219,203	48.9
Nov-13	1,511,439	374,990	24.8	1,185,671	226,277	19.1	325,768	148,714	45.7
Dec-13	1,166,887	538,430	46.1	649,701	229,438	35.3	517,185	308,993	59.7
Jan-14	1,543,221	599,510	38.8	1,022,701	285,325	27.9	520,521	314,184	60.4
Feb-14	1,173,933	510,921	43.5	743,908	250,144	33.6	430,025	260,777	60.6
Mar-14	1,077,296	332,219	30.8	722,822	161,976	22.4	354,475	170,244	48.0
2013-14	**15,957,782**	**6,318,864**	**39.6**	**10,764,141**	**3,530,719**	**32.8**	**5,193,641**	**2,788,145**	**53.7**
Apr-14	1,175,630	359,852	30.6	678,962	205,734	30.3	496,668	154,118	31.0
May-14	1,601,230	688,183	43.0	1,036,637	484,346	46.7	564,593	203,837	36.1
Jun-14	2,038,979	657,389	32.2	1,574,236	496,787	31.6	464,743	160,603	34.6
Jul-14	1,297,498	412,675	31.8	840,464	280,470	33.4	457,034	132,205	28.9
Aug-14	962,551	475,784	49.4	543,609	332,808	61.2	418,942	142,976	34.1
Sep-14	1,162,897	382,639	32.9	751,093	249,674	33.2	411,804	132,965	32.3
Apr-Sep '14	**8,238,785**	**2,976,523**	**36.1**	**5,425,001**	**2,049,819**	**37.8**	**2,813,784**	**926,704**	**32.9**

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

Settlement of Trades in Government Securities

In 2013-14, 913,125 trades in government securities amounting to ₹ 234,107 billion (US $ 3,906 billion) were settled by the CCIL. Of the total trades, 90 percent of the trades were outright transactions, and the rest were repo. (Table 5-6)

Table 5-6: Settlement of Trades in Government Securities

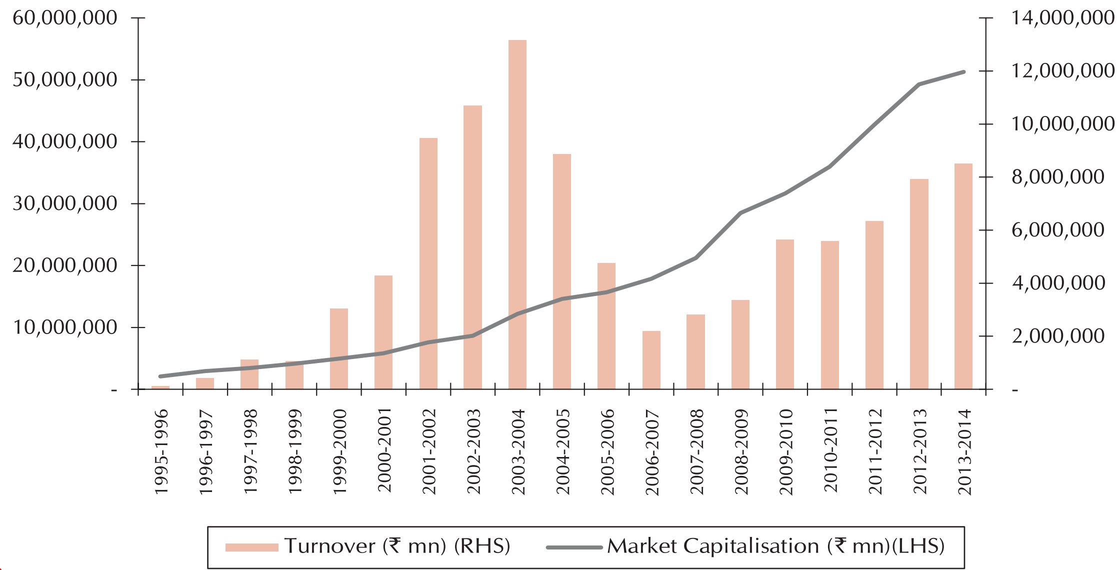
Month	Outright Transactions		Repo (First + Second Leg)		Total		
	No. of Trades	Amount (Face Value in ₹ mn)	No. of Trades	Amount (Face Value in ₹ mn)	No. of Trades	Amount (Face Value in ₹ mn)	Amount (Face Value in US $ mn)
2009-10	316,956	29,138,900	57,289	121,424,090	374,245	150,562,990	3,335,467
2010-11	332,540	28,709,520	54,842	82,075,080	387,382	110,784,600	2,481,178
2011-12	412,266	34,882,030	59,573	75,248,160	471,839	110,130,190	2,152,452
2012-13	658,055	65,920,320	83,141	108,041,880	741,196	173,962,200	3,199,887
2013-14	**820,330**	**89,566,990**	**92,795**	**144,540,460**	**913,125**	**234,107,450**	**3,905,853**
Apr-Sep'14	**457,762**	**46,784,040**	**55,123**	**78,425,710**	**512,885**	**125,209,750**	**2,033,930**

Source: CCIL

Turnover in WDM Segment of NSE

In 2013-14, the turnover in the WDM segment of the NSE (of g-secs, t-bills, PSU bonds, and others) registered an increase of 7 percent to ₹ 8,514 billion from ₹ 7,922 billion in 2012-13. The average daily turnover also increased from ₹ 33 billion (US $ 600 million) to ₹ 35 billion (US $ 585 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 ₹ 980 billion (US $ 16 billion) was witnessed in May 2013 during the fiscal year 2013-14. The average daily turnover ranged between ₹ 24,238 million (US $ 404 million) and ₹ 51,887 million (US $ 866 million) in 2013-14.

Securities Profile

The turnover in government securities declined by 15 percent in 2013–14 as compared to the previous year, and accounted for a turnover of ₹ 3,533 billion. Its share in the total turnover was 42 percent in 2013–14 (Table 5-7). The share of T-Bills in the WDM turnover accounted for a 33 percent share in 2013–14 (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
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**
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

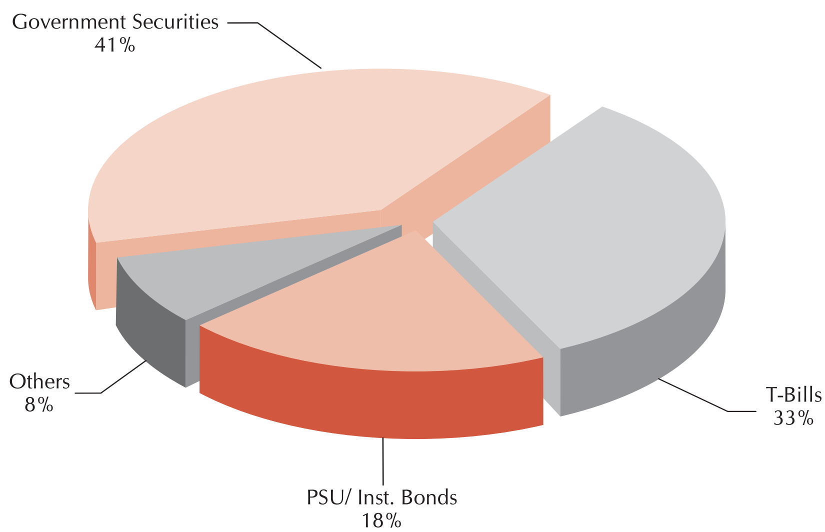
Contd.

Contd.

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
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	41.1	13.7	5.2
Oct-13	291,914	219,203	118,788	43,478	673,383	43.4	32.6	17.6	6.5
Nov-13	226,277	148,714	92,812	51,464	519,266	43.6	28.6	17.9	9.9
Dec-13	229,438	308,993	64,192	22,268	624,890	36.7	49.4	10.3	3.6
Jan-14	285,325	314,184	119,990	70,850	790,349	36.1	39.8	15.2	9.0
Feb-14	251,994	260,777	56,750	28,960	598,480	42.1	43.6	9.5	4.8
Mar-14	161,976	170,244	93,017	35,293	460,529	35.2	37.0	20.2	7.7
2013-14	**3,532,569**	**2,788,145**	**1,546,461**	**647,161**	**8,514,336**	**41.5**	**32.7**	**18.2**	**7.6**
Apr-14	205,734	154,118	91,797	34,078	485,728	42.4	31.7	18.9	7.0
May-14	484,346	203,837	146,276	75,899	910,358	53.2	22.4	16.1	8.3
Jun-14	496,787	160,603	71,427	32,217	761,034	65.3	21.1	9.4	4.2
Jul-14	280,470	132,205	78,790	69,654	561,119	50.0	23.6	14.0	12.4
Aug-14	332,758	142,936	91,433	31,956	599,083	55.5	23.9	15.3	5.3
Sep-14	249,674	132,965	151,990	57,899	592,528	42.1	22.4	25.7	9.8
Apr-Sep'14	**2,049,769**	**926,664**	**631,713**	**301,704**	**3,909,849**	**52.4**	**23.7**	**16.2**	**7.7**

Source : NSE

Chart 5-2 Security-wise distribution of turnover (2013-14)



Source: NSE

Participant Profile

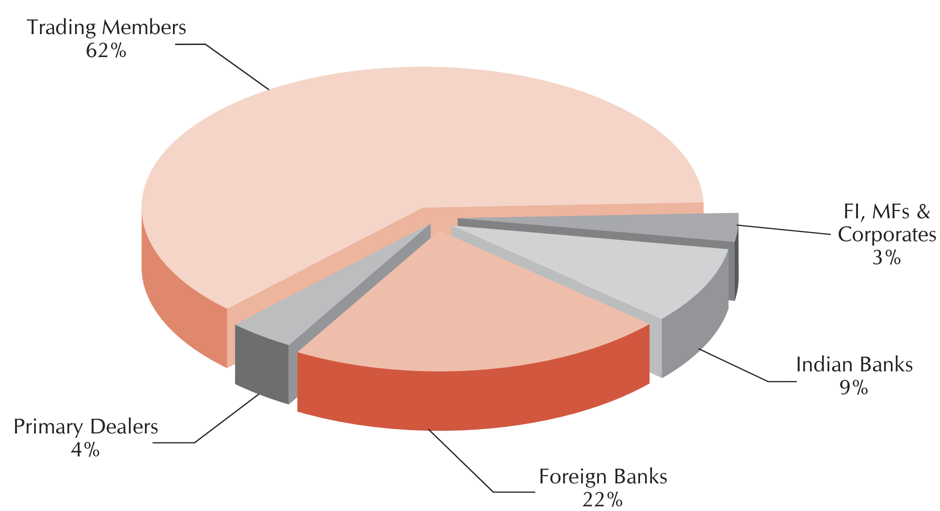
Indian banks, foreign banks, and PDs together accounted for 34 percent of the WDM turnover in 2013–14, and 36 percent of the WDM turnover during April–September 2014. The share of the Indian banks declined to 9 percent in 2013–14 from 17 percent in 2012-13. The trading members' contribution was the highest at 62 percent in 2013–14 (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 Turn-over	Trading Mem-bers	FIs/ MFs/ Corpo-rates	Pri-mary Dealers	Indian Banks	Foreign Banks
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
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
Oct-13	443,685	32,350	8,111	26,562	162,676	673,383	64.3	5.0	3.4	5.8	21.6
Nov-13	330,201	10,437	13,968	41,230	123,429	519,266	63.6	2.0	2.7	7.9	23.8
Dec-13	381,308	12,623	22,746	43,680	164,534	624,890	61.0	2.0	3.6	7.0	26.3
Jan-14	535,304	19,047	26,635	56,352	153,012	790,349	67.7	2.4	3.4	7.1	19.4
Feb-14	390,030	21,904	12,089	39,859	134,598	598,480	65.2	3.7	2.0	6.7	22.5
Mar-14	295,752	18,053	18,513	22,750	105,461	460,529	64.2	3.9	4.0	4.9	22.9
2013-14	**5,300,174**	**282,676**	**321,842**	**751,816**	**1,857,828**	**8,514,336**	**62.3**	**3.3**	**3.8**	**8.8**	**21.8**
Apr-14	309,554	24,238	16,806	32,738	102,391	485,728	63.7	5.0	3.5	6.7	21.1
May-14	507,160	42,605	24,216	108,150	228,227	910,358	55.7	4.7	2.7	11.9	25.1
Jun-14	417,960	53,196	28,082	102,435	159,360	761,034	54.9	7.0	3.7	13.5	20.9
Jul-14	305,193	52,577	14,365	66,380	122,605	561,119	54.4	9.4	2.6	11.8	21.9
Aug-14	390,722	21,986	28,097	35,705	122,572	599,083	65.2	3.7	4.7	6.0	20.5
Sep-14	326,602	43,432	14,102	72,288	136,104	592,528	55.1	7.3	2.4	12.2	23.0
Apr-Sep'14	**2,257,156**	**238,110**	**125,897**	**417,572**	**871,114**	**3,909,849**	**57.7**	**6.1**	**3.2**	**10.7**	**22.3**

Source : NSE

Chart 5-3: Participant-wise Distribution of Turnover (2013–2014)



Source: NSE

The share of the top 10 securities declined to 29 percent in 2013–14, compared to 44 percent in 2012–13 (Table 5-9). The share of the top 100 securities also dropped to 68 percent in 2013–14, as against 73 percent in 2012–13. The top 50 securities accounted for 54 percent of the turnover in 2013–14.

The top 50 trading members accounted for 100 percent of the total turnover of the WDM in 2013–14, 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					
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
2012-13	**34.0**	**44.4**	**53.0**	**62.3**	**73.3**
2013-14	**17.8**	**29.2**	**41.8**	**53.8**	**67.8**
Apr-Sep'14	**28.8**	**39.3**	**53.6**	**66.9**	**79.1**
Trading Members					
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	--
2012-13	**81.8**	**91.2**	**99.5**	**100.0**	**--**
2013-14	**82.1**	**92.1**	**99.8**	**100.0**	
Apr-Sep'14	**81.3**	**93.1**	**99.97**	**100.0**	--
Participants					
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
2012-13	**21.7**	**34.5**	**45.6**	**46.7**	**46.7**
2013-14	**21.1**	**29.9**	**37.2**	**37.7**	**37.7**
Apr-Sep'14	**23.2**	**33.2**	**41.9**	**42.3**	**42.3**

Source: NSE

Table 5-10: Market Capitalization of WDM Securities

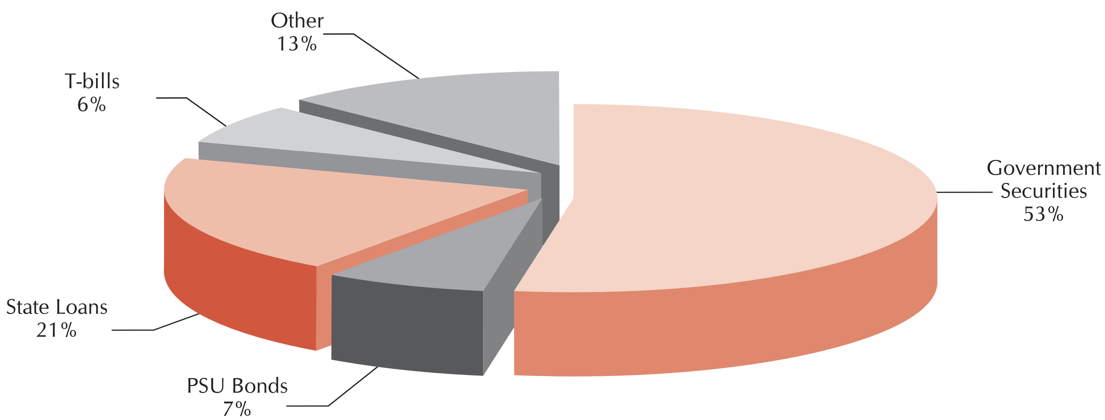
Month/ Year (end of period)	Market Capitalisation (₹ mn)						Total (US $ mn)	(percent)				
	Govt. Securities	PSU bonds	State loans	T-Bills	Others	Total		Govt. Securities	PSU Bonds	State Loans	T-Bills	Others
Mar-10	19,504,360	1,629,786	5,369,956	1,356,961	3,798,232	31,659,295	661,360	61.6	5.1	17.0	4.3	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
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	830,911	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	846,821	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	852,954	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	850,297	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	851,490	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	839,586	53.9	6.7	18.9	7.4	13.1
Oct-13	27,256,031	3,445,355	9,703,783	3,291,412	6,672,251	50,368,833	840,355	54.1	6.8	19.3	6.5	13.2
Nov-13	27,361,119	3,448,582	9,848,651	3,313,604	6,670,089	50,642,046	844,913	54.0	6.8	19.4	6.5	13.2
Dec-13	27,424,591	3,470,211	10,069,427	3,489,228	6,689,733	51,143,190	853,274	53.6	6.8	19.7	6.8	13.1
Jan-14	27,475,079	3,497,841	10,346,773	3,341,006	6,696,297	51,356,997	856,841	53.5	6.8	20.1	6.5	13.0
Feb-14	27,166,192	3,575,810	10,533,055	3,333,383	6,668,945	51,277,384	855,513	53.0	7.0	20.5	6.5	13.0
Mar-14	**26,975,395**	**3,709,916**	**10,681,145**	**3,284,074**	**6,636,803**	**51,287,333**	**855,679**	**52.6**	**7.2**	**20.8**	**6.4**	**12.9**
Apr-14	26,486,747	3,708,513	10,752,111	3,724,570	6,650,460	51,322,400	833,690	51.6	7.2	21.0	7.3	13.0
May-14	26,650,825	3,714,195	10,864,030	3,627,410	6,626,750	51,483,209	836,303	51.8	7.2	21.1	7.0	12.9
Jun-14	26,948,568	3,716,473	10,976,579	3,772,051	6,638,699	52,052,370	845,548	51.8	7.1	21.1	7.2	12.8
Jul-14	27,713,661	3,750,346	11,137,494	4,031,916	6,676,401	53,309,818	865,974	52.0	7.0	20.9	7.6	12.5
Aug-14	28,152,409	3,814,237	11,258,824	3,971,594	6,766,154	53,963,218	876,588	52.2	7.1	20.9	7.4	12.5
Sep-14	**28,177,297**	**3,954,181**	**11,433,491**	**3,812,018**	**6,963,695**	**54,340,682**	**882,720**	**51.9**	**7.3**	**21.0**	**7.0**	**12.8**

Source: NSE

Market Capitalization

The market capitalization of the WDM segment witnessed a more or less consistent increase. The total market capitalization of the securities available for trading in the WDM segment stood at ₹ 51,287 billion (US $ 856 billion) at the end of March 2014, registering a growth of 4 percent over the figures at the end of March 2013. The market capitalization at the end of September 2014 was ₹ 54,341 billion (US $ 883 billion). The relative shares of the different securities in market capitalization at the end of March 2014 is shown in Chart 5-4. The growth of the market capitalization of the WDM segment is presented in Table 5-10.

Chart 5-4: Market Capitalization of WDM Segment at the end of September 2014



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 value of the trades on the NSE increased by 14 percent to ₹ 2,757 billion (US $ 46 billion) in 2013–14 from ₹ 2,421 billion (US $ 45 billion) in the previous fiscal year. The BSE turnover in 2013-14 was ₹ 1,030 billion (US $ 17 billion), while the FIMMDA turnover was ₹ 5,921 billion (US $ 99 billion). As per RBI circular dated February 24, 2014, reporting of secondary market transactions in corporate bonds have been discontinued at FIMMDA with effect from April 1, 2014.

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

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)
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
2012-13	8,639	516,224	9,496	21,141	2,421,050	44,533	36,603	4,449,040	81,836
2013-14	**10,187**	**1,030,270**	**17,189**	**20,809**	**2,757,010**	**45,998**	**39,891**	**5,920,710**	**98,781**
Apr-Sep 14$	**8,346**	**939,300**	**15,258**	**26,245**	**4,126,760**	**67,036**	-	-	-

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

$ indicates as on September 30, 2014.

Source: SEBI

Settlement of Trades in Corporate Bonds

In 2013-14, there were 47,135 trades in corporate bonds amounting to ₹ 6,189 billion (US $ 103 billion) were settled by the NSCCL and the ICCL (Table 5-12). During April –September 2014, 25,482 trades amounting to ₹ 3,295 billion (US $ 54 billion) were settled by the NSCCL and the ICCL.

Table 5-12: Settlement Statistics of Corporate Bonds

Month	NSE			BSE			MCX-SX*			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)	Total No. of Trades Settled	Settled Value (₹ mn)	Settled Value US ($ mn)
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**
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	10,841	621	69,709	1,163	-	-	-	5,134	719,511	12,004
May-13	4,807	726,469	12,120	772	78,642	1,312	-	-	-	5,579	805,111	13,432
Jun-13	3,306	513,614	8,569	573	41,340	690	-	-	-	3,879	554,954	9,259
Jul-13	4,067	617,714	10,306	686	63,488	1,059	15	6,600	110	4,768	687,802	11,475
Aug-13	2,741	369,980	6,173	715	59,090	986	140	23,410	391	3,596	452,480	7,549
Sep-13	2,696	341,990	5,706	556	57,410	958	80	19,590	327	3,332	418,990	6,990
Oct-13	3,008	432,860	7,222	470	44,940	750	71	20,140	336	3,549	497,940	8,308
Nov-13	2,520	331,010	5,523	501	36,180	604	47	23,240	388	3,068	390,430	6,514
Dec-13	2,838	341,840	5,703	489	39,380	657	127	43,280	722	3,454	424,500	7,082
Jan-14	3,609	500,730	8,354	583	44,670	745	62	36,730	613	4,254	582,130	9,712
Feb-14	2,189	257,240	4,292	527	26,070	435	81	27,540	459	2,797	310,850	5,186
Mar-14	3,401	463,570	7,734	947	81,260	1,356	113	73,360	1,224	4,461	618,190	10,314
2013-14	**39,695**	**5,546,818**	**92,543**	**7,440**	**642,179**	**10,714**	**736**	**273,890**	**4,570**	**47,871**	**6,462,887**	**107,827**
Apr-14	3,034	464,077	7,539	510	24,918	405	1	1	0	3,545	488,995	7,943
May-14	3,544	546,514	8,878	568	10,718	174	0	0	-	4,112	557,232	9,052
Jun-14	3,525	441,774	7,176	602	26,382	429	2	2	0	4,129	468,158	7,605
Jul-14	3,533	494,781	8,037	636	44,167	717	0	0	-	4,169	538,948	8,755
Aug-14	3,313	452,021	7,343	625	23,044	374	1	1	0	3,939	475,066	7,717
Sep-14	4,706	705,601	11,462	886	60,990	991	0	0	-	5,592	766,591	12,453
Apr-Sep'14	**21,655**	**3,104,767**	**50,434**	**3,827**	**190,219**	**3,090**	**4**	**4**	**0**	**25,486**	**3,294,990**	**53,524**

*** At MCX-SX, trading in corporate bonds started in July 2013.**

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 2013–Sep 2014)

(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-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	10.8	9.43	8.99	9.01	12.1	10.28	9.67	9.75
Sep-13	9.89	8.92	8.86	9.06	11.65	9.92	9.65	9.72
Oct-13	8.84	8.56	8.70	9.06	9.75	9.42	9.53	9.34
Nov-13	8.82	8.75	8.98	9.15	9.89	9.92	9.67	9.53
Dec-13	8.72	8.81	9.04	9.30	10.31	9.62	9.70	9.62
Jan-14	8.54	8.70	8.84	9.06	9.72	9.50	9.62	9.43
Feb-14	8.77	8.88	8.90	9.25	9.79	9.70	9.73	9.44
Mar-14	9.03	8.82	8.99	9.19	9.93	9.54	9.72	9.43
Apr-14	8.75	8.77	9.10	9.26	9.18	9.47	9.79	9.64
May-14	8.66	8.55	8.79	8.98	9.23	9.23	9.52	9.03
Jun-14	8.55	8.29	8.65	8.66	8.96	9.11	9.23	8.91
Jul-14	8.54	8.52	8.71	8.66	9.02	9.26	9.32	9.14
Aug-14	8.61	8.58	8.72	8.77	9.16	9.22	9.41	0.00
Sep-14	8.53	8.54	8.61	8.70	9.31	9.01	9.18	9.16

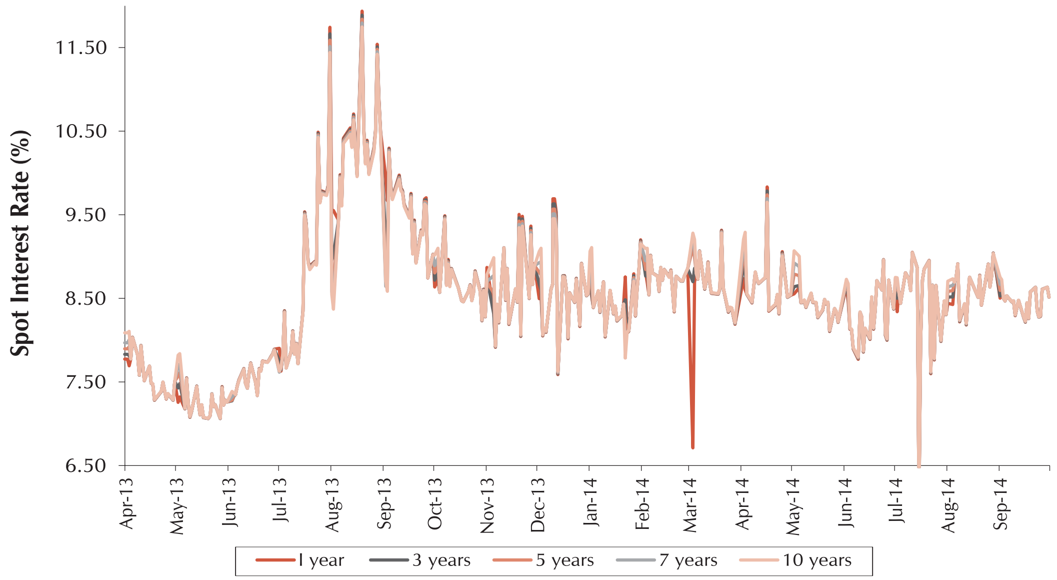
Source: NSE

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 2013 to September 2014.

Chart 5-5: Zero Coupon Yield Curve (April 2013–September 2014)



Source: NSE

FIMMDA-NSE MIBID/MIBOR[2]

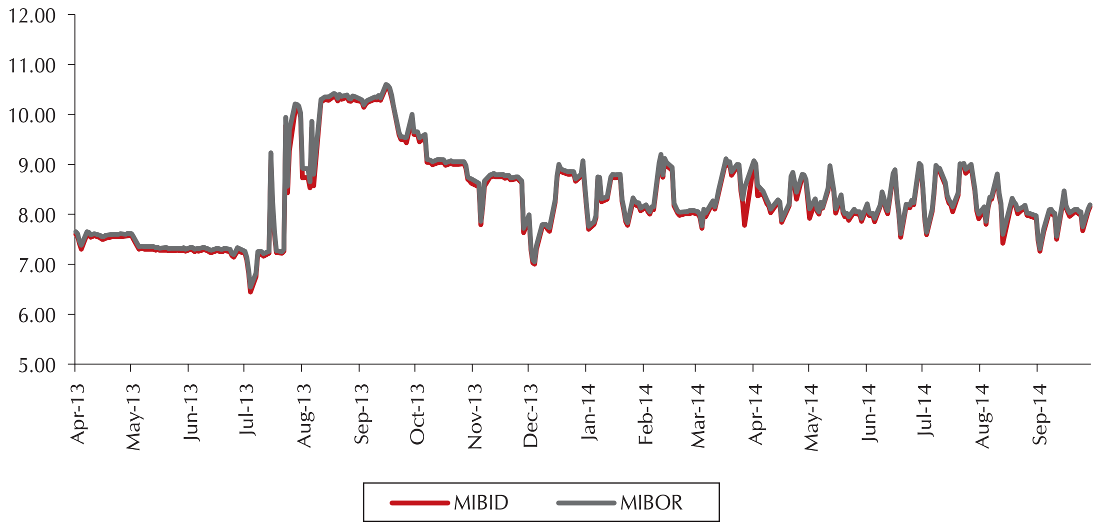
The NSE has been computing and disseminating the NSE Mumbai Inter-bank Bid Rate (MIBID) and the NSE Mumbai Inter-bank Offer Rate (MIBOR) for the overnight money market from June 15, 1998, the 14-day MIBID/MIBOR from November 10, 1998, the 1-month and 3-month MIBID/MIBOR from December 1, 1998, and the 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 2013 to September 2014. 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 2013–September 2014)



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, 2014 is depicted in Table 5-14.The VaRs for the other GOI securities are available at www.nseindia.com.

Contd.

Table 5-14: 1-day VaR (99 percent) for GoI Securities Traded on NSE-WDM as of September 2014

Security Type	Security Name	Issue Name	VaR (in percent)					Clean Price (off NSE-ZCYC)
			Normal	Weighted Normal	Historical Simulation	Weighted Historical Simulation	EVT	
GS	CG2019	7.28%	1.114	0.644	1.264	0.835	1.017	94.377
GS	CG2020	7.80%	1.153	0.598	1.264	0.446	0.994	95.743
GS	CG2020	8.12%	1.181	0.587	1.309	0.675	0.994	96.866
GS	CG2023	8.83%	1.415	0.661	1.499	0.773	1.13	100.132
GS	CG2024	8.40%	1.517	0.698	1.642	0.508	1.229	97.319
GS	CG2028	8.60%	2.145	0.874	2.459	0.656	1.86	98.178
GS	CG2030	9.20%	2.557	1.058	3.047	0.923	2.257	103.078
GS	CG2032	8.32%	3.067	1.346	3.814	1.664	2.813	95.325
GS	CG2042	8.30%	5.095	3.149	6.883	2.012	5.075	94.178
GS	CG2043	9.23%	5.057	3.165	6.919	1.992	5.047	103.821
TB	182D	10115	0.291	0.256	0.373	0.213	0.315	97.853
TB	182D	181214	0.255	0.222	0.326	0.342	0.274	98.173
TB	364D	20415	0.488	0.445	0.631	0.538	0.539	95.794
TB	364D	90715	0.641	0.592	0.801	0.544	0.689	93.624
TB	364D	160415	0.513	0.469	0.654	0.414	0.568	95.481
TB	364D	220115	0.343	0.305	0.442	0.488	0.374	97.374
TB	364D	230715	0.659	0.609	0.828	0.785	0.711	93.317
TB	91D	131114	0.153	0.13	0.196	0.105	0.164	98.979

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 2013–14, the PRI of the i-BEX and the NSE G-Sec Index declined by 6 percent and 4.5 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 2013–14 , the TRI registered a rise of 2.2 percent and 0.8 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-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
Oct-13	6818.7	1260.0	350.4	350.4	352.0	107.2
Nov-13	6771.7	1242.2	352.1	352.1	346.5	105.2
Dec-13	6773.4	1233.5	354.8	354.8	348.4	105.3
Jan-14	6835.7	1236.2	356.9	356.9	349.5	105.0
Feb-14	6842.5	1229.1	359.2	359.2	352.6	105.9
Mar-14	6963.4	1241.8	363.4	363.4	354.8	105.9
Apr-14	7029.4	1244.9	364.7	364.7	357.8	106.2
May-14	7213.8	1269.5	367.6	367.6	363.0	107.5
Jun-14	7279.0	1272.2	370.0	370.0	363.0	107.1
Jul-14	7354.4	1276.7	372.5	372.5	369.7	108.4
Aug-14	7372.3	1270.9	374.8	374.8	371.4	108.9
Sep-14	7464.8	1278.1	377.7	377.7	372.1	108.5

Source: ICICI Securities and NSE

Annexure 5-1: Business Growth of WDM Segment

Month/Year	All Trades							Retail Trades			
	No. of Active Securities	Number of Trades	Turnover (₹ mn)	Average Daily Turnover (₹ mn)	Average Trade Size (₹ mn)	Turnover (US $ mn)	Average Daily Turnover (US $ mn)	Number of Trades	Turnover (₹ mn)	Turnover (US $ mn)	Share in Total Turnover (percent)
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
2012-13	**1,421**	**26,974**	**7,922,139**	**32,601**	**294**	**145,721**	**600**	**1,103**	**202**	**3.72**	**0.03**
Apr-13	503	2,355	933,967	51,887	397	15,582	866	7	19	0.32	0.00
May-13	524	2,632	979,761	44,535	372	16,346	743	20	53	0.88	0.01
Jun-13	448	2,004	835,647	41,782	417	13,942	697	97	203	3.39	0.02
Jul-13	449	1,908	661,878	28,777	347	11,043	480	88	174	2.90	0.03
Aug-13	376	1,646	665,605	33,280	404	11,105	555	99	181	3.02	0.03
Sep-13	367	1,675	770,579	38,529	460	12,856	643	47	115	1.92	0.01
Oct-13	369	1,848	673,383	32,066	364	11,235	535	235	417	6.96	0.06
Nov-13	324	1,353	519,266	27,330	384	8,663	456	51	131	2.19	0.03
Dec-13	311	1,439	624,890	29,757	434	10,426	496	60	146	2.44	0.02
Jan-14	406	1,689	790,349	35,925	468	13,186	599	64	126	2.10	0.02
Feb-14	269	1,248	598,480	33,249	480	9,985	555	91	149	2.49	0.02
Mar-14	322	1,346	460,530	24,238	342	7,683	404	145	240	4.00	0.05
2013-14	**1,585**	**21,143**	**8,514,336**	**35,038**	**403**	**142,053**	**585**	**1,004**	**1,953**	**32.58**	**0.02**
Apr-14	287	1,208	485,728	28,572	402	7,890	464	120	238	3.87	0.05
May-14	363	1,931	910,358	45,518	471	14,788	739	94	187	3.04	0.02
Jun-14	311	1,620	761,034	36,240	470	12,362	589	42	108	1.75	0.01
Jul-14	339	1,356	561,119	25,505	414	9,115	414	13	27	0.44	0.00
Aug-14	263	1,169	599,083	33,282	513	9,732	541	47	141	2.29	0.02
Sep-14	368	1,723	592,528	26,933	344	9,625	438	155	229	3.72	0.04
Apr-Sep'14	**919**	**9,007**	**3,909,849**	**32,582**	**434**	**63,512**	**529**	**471**	**930**	**15.11**	**0.02**

Source: NSE

Annexure 5-2: FIMMDA-NSE MIBID/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
30-Apr-12	8.32	8.37	8.32	8.38	8.89	9.06	9.11	9.33	9.32	9.64
31-May-12	8.08	8.14	8.16	8.22	8.84	9.11	9.08	9.33	9.42	9.78
29-Jun-12	8.23	8.28	8.30	8.36	8.95	9.15	9.08	9.30	9.21	9.41
31-Jul-12	8.01	8.06	7.98	8.03	8.32	8.55	8.61	8.88	8.93	9.24
31-Aug-12	7.99	8.04	8.00	8.04	8.25	8.43	8.47	8.66	8.71	8.95
28-Sep-12	-	-	8.05	8.10	8.28	8.45	8.46	8.67	8.59	8.81
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
31-Oct-13	8.67	8.72	9.00	9.05	8.86	8.93	8.91	8.98	9.07	9.12
29-Nov-13	7.63	7.72	7.67	7.75	8.81	8.95	8.87	9.03	9.07	9.21
31-Dec-13	8.98	9.07	8.75	8.80	8.77	8.91	8.90	9.02	8.98	9.06
31-Jan-14	8.07	8.12	8.09	8.14	8.59	8.68	8.87	8.93	9.23	9.40
28-Feb-14	8.03	8.08	8.05	8.10	8.60	8.67	8.72	8.82	9.46	9.68
28-Mar-14	7.78	8.53	12.25	13.24	9.81	9.99	9.65	9.89	9.58	9.77
30-Apr-14	8.65	8.70	8.64	8.70	8.61	8.77	8.76	8.98	9.03	9.23
30-May-14	7.86	7.92	8.00	8.04	8.33	8.44	8.52	8.65	8.89	9.01
30-Jun-14	8.97	9.02	8.36	8.45	8.33	8.44	8.54	8.66	8.68	8.79
31-Jul-14	8.07	8.12	8.96	9.02	8.44	8.56	8.57	8.69	8.76	8.87
28-Aug-14	7.97	8.02	8.02	8.07	8.22	8.36	8.53	8.67	8.77	8.91
30-Sep-14	8.15	8.19	8.00	8.05	8.32	8.50	8.57	8.77	8.73	8.90

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 ₹ 313,497 billion in 2011–2012 and further to ₹ 315,330 billion in 2012-13. In 2013-14, the figure reached ₹ 382114.1 billion. The average daily turnover in the equity derivatives segment of NSE was ₹ 1,522.37 billion in 2013–14 as compared to ₹ 1,266.4 billion in 2012-13.

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 and Volume in Futures and Options Segment of NSE for the Fiscal Year 2013–2014 and the first-half of 2014–2015

Indices	No of Contracts Traded	Traded Value (₹ mn)	Traded Value (Us $ mn)	Percent-age of Contracts to total contracts	No of Con-tracts Traded	Traded Value (₹ mn)	Traded Value (US $ mn)	Percent-age of Contracts to total contracts
	2013-2014				Apr-Sep '14			
Index Futures								
BANKNIFTY	28,871,553	7,950,429	132,645	2.79	15,919,619	5,941,547	96,516	3.13
CNXINFRA	128	30	0	0.00	37	11	0	0.00
CNXIT	85,062	36,779	614	0.01	88,414	23,464	381	0.02
CNXPSE	96	20	0	0.00	24	5	0	0.00
DJIA	174,060	66,895	1,116	0.02	57,180	23,942	389	0.01
FTSE100	10,150	3,261	54	0.00	1,264	429	7	0.00
NFTYMCAP50	26,351	8,338	139	0.00	26	11	0	0.00
NIFTY	76,007,830	22,732,366	379,267	7.35	35,225,301	13,263,236	215,450	6.94
S&P500	77,753	32,916	549	0.01	27,981	13,522	220	0.01
Index Options								
BANKNIFTY	62,656,511.00	177,858.69	2,967	6.06	36,169,235	101,116	1,643	7.12
CNXINFRA	5.00	0.01	0	0.00	0	0	0	0.00
CNXIT	411.00	3.78	0	0.00	42	0	0	0.00
CNXPSE	0.00	0.00	0	0.00	0	0	0	0.00
FTSE100	40.00	0.37	0	0.00	0	0	0	0.00
NFTYMCAP50	2.00	0.03	0	0.00	0	0	0	0.00
NIFTY	865,907,783.00	2,263,041.52	37,757	83.76	420,326,026	1,115,635	18,123	82.77
S&P500	423.00	2.94	0	0.00	23	0	0	0.00
Total of all Indices	**1,033,818,158**	**33,271,940**	**555,110**	**100.00**	**507,815,172**	**20,482,918**	**332,728**	**100.00**
Total of Nifty Index Futures and Options	**941,915,613**	**24,995,407**	**417,024**	**91.11**	**455,551,327**	**14,378,871**	**233,573**	**89.71**

**:- With effect from 29th August 2011 two new indices i.e. DJIA and S&P 500 have been included.*

*** :- With effect from 03rd May 2012 new index i.e. FTSE 100 have been included.*

Source: NSE

Global Derivatives Markets

As per the FIA Annual Volume Survey, during the year 2013, trading activity in the global derivatives markets recovered slightly following the maximum broad based decline in volume in 2012. The survey noted that the number of futures and options traded on exchanges around the world rose by 2.1 percent to a total of 21.64 billion contracts. This is the lowest level since 2009 despite the rise in trade numbers.

Looking at the global trends in derivatives volume by category, we find that the trading in commodity derivatives bucked the downward trend; most (with the exception of agricultural commodities) were up year–over–year. In the financial category, volume of equity derivatives went down(on account of a significant drop in the trading volume of Kospi 200 index options) while that of currency and interest rate derivatives rose in 2013 as compared to the previous year digits. (Table 6-2)

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

GLOBAL	Jan-Dec 2012 (in mn)	Jan-Dec 2013 (in mn)	Change (in percent)
Equity Index	6,048	5,371	-11.2
Individual Equity	6,470	6,402	-1.1
Interest Rate	2,932	3,331	13.6
Agricultural	1,254	1,213	-3.3
Energy	926	1,266	36.7
Currency	2,434	2,491	2.3
Precious Metal	319	431	34.9
Non-precious metal	554	646	16.6
Other	253	493	95.2
Total Volume	**21,190**	**21,643**	**2.1**

Source: Futures Industry Annual Volume Survey, March 2014

The modest rise in worldwide derivatives trading in 2013 was driven by North America which witnessed a 9.9% increase in trading volume due to increased trading of interest rate futures and options at CME Group and the futurisation of energy swaps at Intercontinental Exchange. On the other hand, trading volumes in Asia, Europe and Latin America fell as compared to the preceding year.

Table 6-3: Top 5 Exchanges in various Derivative Contracts (in millions)

Top 5 exchanges by number of single stock future contracts traded in 2013 (in million)			
	Exchange	**2013**	**2013/2012 growth rate (in percent)**
1	Moscow Exchange	303	25
2	Eurex	179	-9
3	**National Stock Exchange India**	166	9
4	NYSE Euronext (Europe)	130	-47
5	Korea Exchange	96	-5
Top 5 exchanges by number of single stock option contracts traded in 2013 (in million)			
	Exchange	**2013**	**2013/2012 growth rate (in percent)**
1	BM&FBOVESPA	909	-2
2	NASDAQ OMX	689	8
3	International Securities Exchange	638	40
4	NYSE Euronext (US)	584	-2
5	Chicago Board Options Exchange	434	-12
Top 5 exchanges by number of stock index options contracts traded in 2013 (in million)			
	Exchange	**2013**	**2013/2012 growth rate (in percent)**
1	**National Stock Exchange of India**	930	13
2	Korea Exchange	580	-63
3	Chicago Board Options Exchange	373	22
4	Eurex	317	-17
5	BSE India	250	7
Top 5 exchanges by number of stock index futures contracts traded in 2013 (in million)			
	Exchange	**2013**	**2013/2012 growth rate (in percent)**
1	CME Group	573	-3
2	Eurex	327	-15
3	Moscow Exchange	268	-17
4	Japan Exchange Group-Osaka	265	77
5	China Financial Futures Exchange	193	107

Source: WFE Market Highlights 2013

In terms of the number of single stock futures contracts traded in 2013, the NSE held the third position. It occupied the first position in terms of the number of stock index options contracts traded in 2013. These rankings are based on the World Federation of Exchanges (WFE) Market Highlights 2013. (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 2013. The NSE maintained its ranking in 2013 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 and fourth in 2012. In 2013, NSE stood at fourth position worldwide with the traded volumes in the derivatives segment of the NSE witnessing a rise of 6.3 percent.

Table 6-4: Global Futures and Options Volume

Rank		Exchange	Volume (in million)	
2013	**2012**		**Jan-Dec 2013**	**Jan-Dec 2012**
1	1	CME Group (includes CBOT and Nymex)	3,161	2,890
2	-	IntercontinentalExchange * #	2,808	2,425
3	**2**	Eurex (includes ISE)	2,191	2,291
4	3	**National Stock Exchange of India**	**2,136**	**2,010**
5	6	BM&F Bovespa	1,604	1,636
6	7	Chicago Board Options Exchange group	1,188	1,134
7	8	Nasdaq OMX Group	1,143	1,116
8	9	Moscow Interbank Currency Exchange	1,134	1,062
9	5	Korea Exchange	821	1,836
10	10	Multi Commodity Exchange of India (includes MCX-SX)	794	960

Source: Futures Industry Annual Volume Survey, March 2013
Note: Ranked by number of contracts traded and/or cleared
** Open interest for these exchanges does not include options traded in the U.S. and cleared by OCC*
 # Includes NYSE Euronext in 2012 & 2013

Trade details of Equity Derivatives Segment

The total turnover in equity derivatives at NSE and BSE increased from ₹ 386,965.2 billion in 2012-13 to ₹ 474,308.4 billion (US $ 7,913 billion) in 2013-14. In 2013-14, at NSE, 1,284 million contracts with a turnover of ₹ 382,114.1 billion (US $ 6,375.2 billion) were traded while at BSE 286 million contracts were traded with trading value of ₹ 92,194.3 billion (US $ 1,538.2 billion).

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)
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**
2012-13	**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	502,216	11,025,210	3,139,500	52,379	114,873,993	33,241,129	554,596
May-13	115,522,180	35,038,012	584,575	20,357,869	6,262,165	104,478	135,880,049	41,300,177	689,053
Jun-13	110,713,211	31,908,865	532,368	23,118,783	6,732,250	112,321	133,831,994	38,641,115	644,689
Jul-13	108,155,866	31,803,927	530,617	48,234,613	14,395,351	240,172	156,390,479	46,199,278	770,790
Aug-13	142,223,874	38,139,207	636,315	29,886,385	8,351,888	139,343	172,110,259	46,491,095	775,658
Sep-13	118,912,167	33,815,577	564,180	13,449,268	4,035,913	67,335	132,361,435	37,851,490	631,515
Oct-13	106,510,406	32,060,660	534,901	22,026,770	6,846,600	114,229	128,537,176	38,907,260	649,129
Nov-13	96,699,791	28,985,040	483,587	20,732,245	6,386,870	106,559	117,432,036	35,371,910	590,146
Dec-13	90,090,785	27,879,620	465,144	1,868,718	5,694,390	95,005	91,959,503	33,574,010	560,149
Jan-14	105,713,940	33,243,740	554,639	35,906,428	11,470,500	191,374	141,620,368	44,714,240	746,013
Feb-14	84,736,822	25,863,980	431,515	25,027,627	7,683,780	128,196	109,764,449	33,547,760	559,711
Mar-14	101,296,496	33,273,820	555,141	34,006,301	11,195,140	186,780	135,302,797	44,468,960	741,921
2013-14	**1,284,424,321**	**382,114,077**	**6,375,198**	**285,640,217**	**92,194,346**	**1,538,172**	**1,570,064,538**	**474,308,423**	**7,913,370**
Apr-14	78,206,460	27,110,840	440,393	15,167,910	5,124,930	83,250	93,374,370	32,235,770	523,644
May-14	112,240,141	40,724,520	661,537	8,333,109	2,980,170	48,410	120,573,250	43,704,690	709,947
Jun-14	114,456,691	43,681,870	709,576	52,111,005	19,652,850	319,244	166,567,696	63,334,720	1,028,821
Jul-14	125,792,830	48,639,750	790,113	57,769,967	22,543,890	366,207	183,562,797	71,183,640	1,156,320
Aug-14	106,453,011	41,548,490	674,921	49,929,918	19,714,190	320,241	156,382,929	61,262,680	995,162
Sep-14	126,940,417	51,022,854	828,825	61,014,080	24,747,090	401,996	187,954,497	75,769,944	1,230,821
Apr - Sep' 14	**664,089,550**	**252,728,324**	**4,105,365**	**244,325,989**	**94,763,120**	**1,539,349**	**908,415,539**	**347,491,444**	**5,644,714**

Source: BSE, NSE

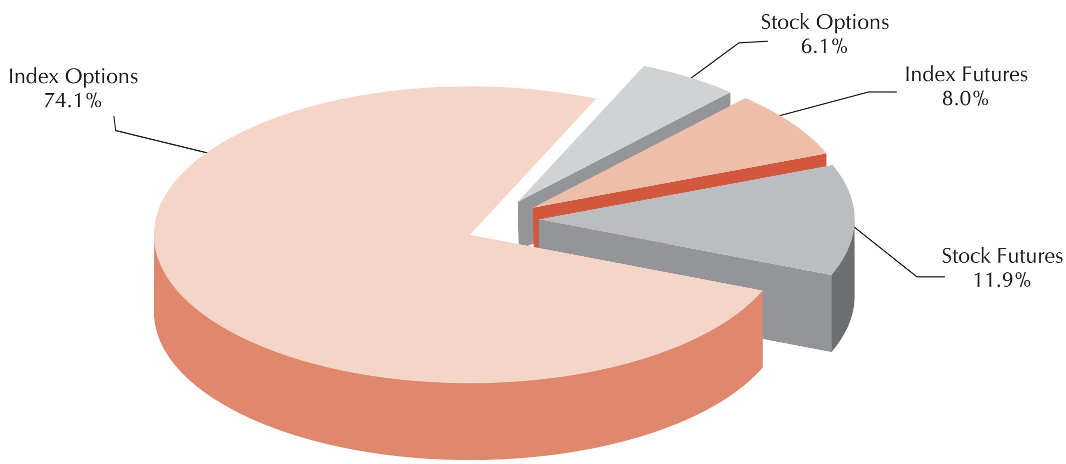
The index options segment was the clear leader in the product-wise turnover of the futures and options segment in the NSE in 2013–14 (Table 6-6). In 2013-14, the turnover in the index options category was 72.7 percent of the total turnover in the F&O segment of the NSE. During the first half of 2014–15, Index options constituted around 68.7 percent of the total turnover in this segment. The Index Futures witnessed a year-on-year decline in turnover of 21 percent. Turnover of Stock options also recorded a drop of 20.4 percent over the previous year.

Table 6-6: Product wise turnover on the derivatives segment of NSE

Year	Index Futures			Stock Futures			Index Options			Stock Options			Total		Average Daily Turnover (₹ mn)
	No. of contracts	Turnover (₹ mn)	Per-centage share in total turn-over	No. of contracts	Turnover (₹ mn)	Per-centage share in total turn-over	No. of contracts	Notional Turnover (₹ mn)	Per-centage share in total turn-over	No. of contracts	Notional Turnover (₹ mn)	Per-centage share in total turn-over	No. of contracts	Turnover (₹ mn)	
2009-10	**178,306,889**	**39,343,887**	**22.3**	**145,591,240**	**51,952,466**	**29.4**	**341,379,523**	**80,279,642**	**45.4**	**14,016,270**	**5,060,652**	**2.9**	**679,293,922**	**176,636,647**	**723,921**
2010-11	**165,023,653**	**43,567,545**	**14.9**	**186,041,459**	**54,957,567**	**18.8**	**650,638,557**	**183,653,657**	**62.8**	**32,508,393**	**10,303,441**	**3.5**	**1,034,212,062**	**292,482,211**	**1,151,505**
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**
2012-13	**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	1,505,082
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	1,523,392
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	1,595,443
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	1,382,779
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	1,906,960
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	1,690,779
Oct-13	10,051,520	2,970,261	9.3	14,628,837	4,164,316	13.0	74,972,417	22,818,087	71.2	6,857,632	2,107,994	6.6	106,510,406	32,060,659	1,526,698
Nov-13	8,491,211	2,540,558	8.8	14,428,865	3,976,762	13.7	67,836,722	20,799,380	71.8	5,942,993	1,668,344	5.8	96,699,791	28,985,043	1,449,252
Dec-13	7,621,855	2,339,726	8.4	14,144,654	4,241,281	15.2	62,953,644	19,686,218	70.6	5,370,632	1,612,395	5.8	90,090,785	27,879,620	1,327,601
Jan-14	8,786,901	2,636,909	7.9	14,731,248	4,852,333	14.6	74,843,717	23,206,925	69.8	7,352,074	2,547,570	7.7	105,713,940	33,243,737	1,445,380
Feb-14	6,205,265	1,817,243	7.0	11,347,588	3,599,095	13.9	62,038,894	18,800,933	72.7	5,145,075	1,646,714	6.4	84,736,822	25,863,984	1,361,262
Mar-14	7,974,690	2,555,696	7.7	15,080,224	5,211,034	15.7	71,190,421	23,069,960	69.3	7,051,161	2,437,132	7.3	101,296,496	33,273,822	1,584,468
2013-14	**105,270,529**	**30,852,965**	**8.1**	**170,414,186**	**49,492,817**	**13.0**	**928,565,175**	**277,673,413**	**72.7**	**80,174,431**	**24,094,886**	**6.3**	**1,284,424,321**	**382,114,081**	**1,522,367**
Apr-14	6,561,718	2,202,821	8.1	14,684,079	5,413,029	20.0	51,236,051	17,315,841	63.9	5,724,612	2,179,144	8.0	78,206,460	27,110,835	1,506,158
May-14	10,606,833	3,835,865	9.4	22,571,501	8,088,822	19.9	71,491,525	26,039,636	63.9	7,570,282	2,760,195	6.8	112,240,141	40,724,519	1,939,263
Jun-14	8,961,673	3,396,658	7.8	21,479,352	8,347,230	19.1	76,549,167	28,978,122	66.3	7,466,499	2,959,859	6.8	114,456,691	43,681,869	2,080,089
Jul-14	9,554,373	3,663,220	7.5	20,623,544	8,045,724	16.5	88,120,449	33,965,499	69.8	7,494,464	2,965,311	6.1	125,792,830	48,639,754	2,210,898
Aug-14	7,370,447	2,862,610	6.9	15,750,587	6,091,617	14.7	76,922,511	30,083,859	72.4	6,409,466	2,510,402	6.0	106,453,011	41,548,488	2,186,763
Sep-14	8,275,270	3,326,624	6.5	18,598,889	7,342,034	14.4	92,175,623	37,248,321	73.0	7,890,635	3,105,877	6.1	126,940,417	51,022,855	2,319,221
Apr-Sep' 14	**51,330,314**	**19,287,798**	**7.6**	**113,707,952**	**43,328,455**	**17.1**	**456,495,326**	**173,631,277**	**68.7**	**42,555,958**	**16,480,789**	**6.5**	**664,089,550**	**252,728,319**	**2,040,398**

Source: NSE

Chart 6-1: Product-wise Distribution of Turnover on the Derivatives Segment of NSE in 2013-14

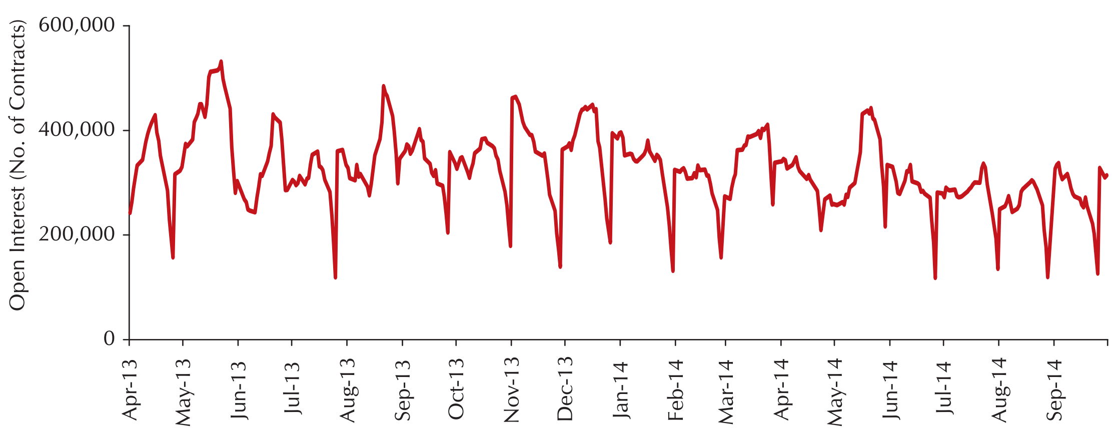


Source: NSE

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 in the market, while declining open interest means that the market is liquidating. The highest open interest in index futures at NSE was recorded at 8,84,082 contracts on April 15, 2009. The daily open interest for near month index futures at NSE is presented in Chart 6-2.

Chart 6-2: : Daily Open Interest for Near Month Nifty Futures for (April 2013 - September 2014)



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 50 futures close prices for the near month contracts, and the spot Nifty 50 close values from April 2013 to September 2014. The difference between the future and the spot price is called basis. As the time to expiration approaches, the basis reduces. Daily implied interest rate for Nifty 50 futures from April 2013 to September 2014 is presented in Chart 6-4.

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

Table 6-7: Implied Interest Rate for Near Month Nifty Futures (April 2013–September 2014)

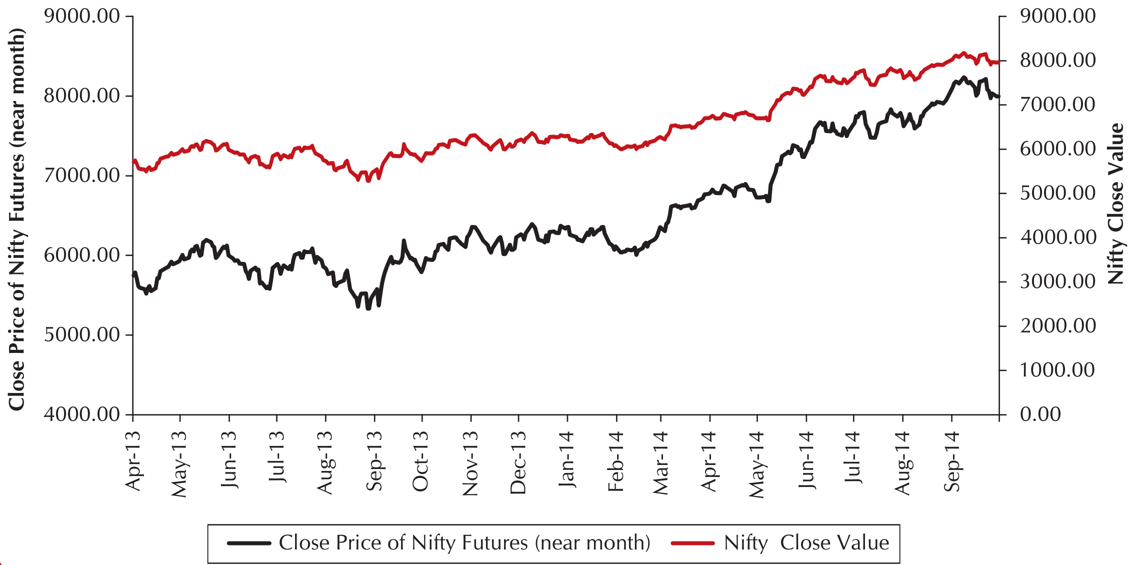
Month	Expiry Date of near month Contract	Closing Future Price (₹)	Closing Spot Price (₹)	Implied Interest Rate (in percent)
Apr-13	25-Apr-2013	5929.00	5930.20	-0.25
May-13	30-May-2013	6000.05	5985.95	3.18
Jun-13	27-Jun-2013	5841.45	5842.20	-0.17
Jul-13	25-Jul-2013	5781.05	5742.00	8.53
Aug-13	29-Aug-2013	5456.75	5471.80	-3.72
Sep-13	26-Sep-2013	5791.45	5735.30	11.47
Oct-13	31-Oct-2013	6294.90	6299.15	0.00
Nov-13	28-Nov-2013	6225.50	6176.10	10.77
Dec-13	26-Dec-2013	6354.70	6304.00	9.75
Jan-14	30-Jan-2014	6112.00	6089.50	5.18
Feb-14	26-Feb-2014	6289.25	6276.95	2.65
Mar-14	27-Mar-2014	6739.65	6704.20	8.02
Apr-14	24-Apr-2014	6726.45	6696.40	5.64
May-14	29-May-2014	7233.65	7229.95	0.69
Jun-14	26-Jun-2014	7634.35	7611.35	3.55
Jul-14	31-Jul-2014	7723.75	7721.30	0.00
Aug-14	28-Aug-2014	7952.75	7954.35	0.00
Sep-14	25-Sep-2014	7999.15	7964.80	5.24

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

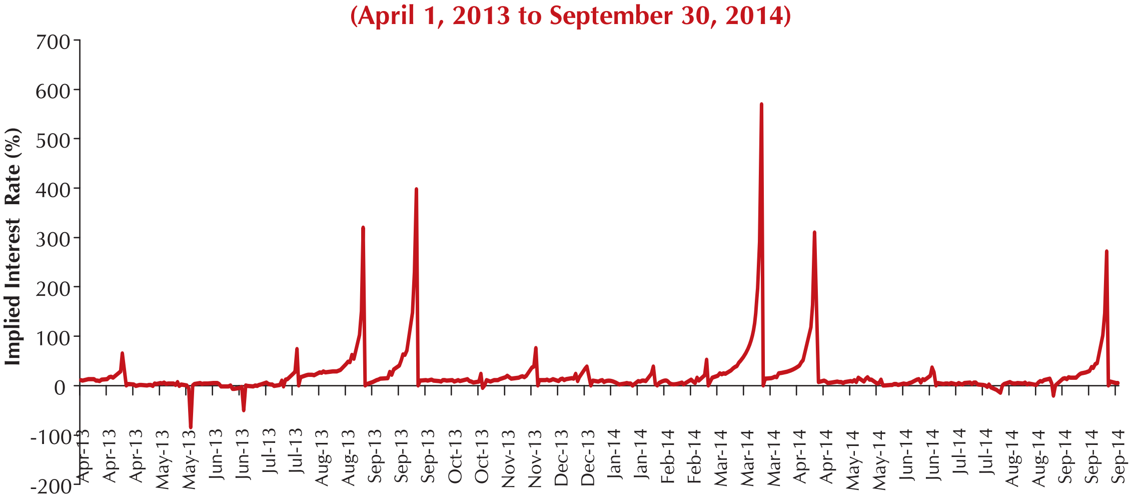
Source: NSE.

Chart 6-3: Nifty Futures and Spot Price (April 2013-September 2014)



Source: NSE

Chart 6-4: Implied Interest Rate for Near Month Nifty Futures (April 1, 2013 to September 30, 2014)



Source: NSE

Implied Volatility

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

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

Settlement

All derivative contracts are currently cash settled. In 2013–14, the cash settlement increased to ₹ 591.3 billion, as compared to ₹ 567.6 billion in 2012–13. During the first half of 2014–15, the cash settlement amounted to ₹ 495.2 billion. The details 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)					
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**
2012-13	**419,252**	**12,193**	**119,133**	**17,010**	**567,588**	**10,440**
Apr-13	29,943	1,385	11,540	1,570	44,437	741
May-13	38,030	926	10,945	1,530	51,431	858
Jun-13	37,038	2,337	10,343	4,869	54,586	911
Jul-13	43,590	1,253	10,821	1,339	57,002	951
Aug-13	52,743	3,587	14,398	3,292	74,020	1,235
Sep-13	42,734	304	13,524	1,770	58,332	973
Oct-13	26,691	745	11,353	1,313	40,102	669
Nov-13	32,230	470	9,494	671	42,865	715
Dec-13	27,328	238	11,434	1,451	40,450	675
Jan-14	40,544	1,519	9,195	1,028	52,285	872
Feb-14	20,615	530	7,700	635	29,480	492
Mar-14	31,424	960	11,826	2,109	46,319	773
2013-14	**422,910**	**14,253**	**132,573**	**21,575**	**591,310**	**9,865**
Apr-14	33,821	529	11,060	936	46,347	753
May-14	69,980	2,115	19,856	3,358	95,309	1,548
Jun-14	84,593	1,299	13,216	2,708	101,816	1,654
Jul-14	84,928	955	12,225	1,030	99,139	1,610
Aug-14	55,872	576	8,386	1,164	65,998	1,072
Sep-14	68,933	3,164	12,910	1,592	86,598	1,407
Apr-Sep' 14	**398,127**	**8,639**	**77,652**	**10,788**	**495,206**	**8,044**

Source: NSE

Business Growth in Currency Futures & Options Segment

The currency futures and options turnover on the NSE declined by 23.9 percent from ₹ 52,744.6 billion in 2012-13 to ₹ 40,125.1 billion in 2013-14. The trading value for the period April 2014 to September 2014 was ₹ 13,745.5 billion. Table 6-9 presents the business growth in the currency derivatives segment (currency futures and options volumes) on the NSE while table 6-10 presents the number of contracts and turnover for USD-INR futures and option contracts; and future contracts on Euro-INR, Japanese Yen-INR and GBP-INR.

Currency option contracts based on the currency pair US $ -INR were launched by NSE on (October 29, 2010). From April 2013 to March 2014, number of US $ -INR currency option contracts traded stood at 181.9 million with a traded value of ₹ 10,716.3 billion.

Table 6-9: Business Growth in Currency Futures and options

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)	
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**
2012-13	**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	71,748
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	93,966
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	125,943
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	66,559
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	55,361
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	49,323
Oct-13	28,668,321	1,830,843	3,316,101	208,696	2,820,145	174,175	3,48,04,567	2,213,714	35,960
Nov-13	24,072,611	1,568,672	3,214,292	204,562	3,283,270	205,854	3,05,70,173	1,979,088	32,149
Dec-13	23,006,032	1,496,389	3,208,847	202,255	2,606,510	162,000	2,88,21,389	1,860,645	30,225
Jan-14	25,727,638	1,684,420	3,637,473	229,297	2,757,588	171,922	3,21,22,699	2,085,639	33,879
Feb-14	20,283,992	1,328,713	2,711,752	170,894	1,885,171	117,652	2,48,80,915	1,617,260	26,271
Mar-14	22,625,264	1,451,125	3,888,930	240,879	2,940,847.00	180,444	2,94,55,041	1,872,448	30,416
2013-14	**478,301,579**	**29,408,859**	**91,956,807**	**5,459,462**	**89,934,144**	**5,256,813**	**660,192,530**	**40,125,134**	**651,800**
Apr-14	19,809,116	1,250,869	2,478,822	152,180	2,448,133	147,776	2,47,36,071	1,550,825	25,192
May-14	28,154,887	1,743,324	3,613,548	217,687	3,115,320	184,830	3,48,83,755	2,145,841	34,857
Jun-14	27,035,383	1,697,127	3,311,493	200,378	3,119,529	186,252	3,34,66,405	2,083,757	33,849
Jul-14	32,315,728	2,016,436	4,215,255	256,192	3,721,324	223,695	4,02,52,307	2,496,323	40,551
Aug-14	31,372,063	1,967,519	6,035,731	372,286	4,530,728	276,558	4,19,38,522	2,616,362	42,501
Sep-14	33,302,985	2,093,704	6,949,381	428,736	5,401,731	329,921	4,56,54,097	2,852,361	46,334
Apr-Sep' 14	**171,990,162**	**10,768,979**	**26,604,230**	**1,627,458**	**22,336,765**	**1,349,032**	**220,931,157**	**13,745,468**	**223,284**

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

Source: NSE

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

Month/Year	USD INR Options		USD INR 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) in ₹ mn	No. of Contracts	Traded Value (Notional) (₹ mn)
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**
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	57,569.4	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
Oct-13	6,136,246	382,871	26,203,726	1,620,962	1,160,649	98,003	496,268	31,392	807,678	80,486	34,804,567	2,213,714
Nov-13	6,497,562	410,416	21,803,855	1,372,105	1,066,893	90,598	410,182	25,770	791,681	80,199	30,570,173	1,979,088
Dec-13	5,815,357	364,255	20,342,177	1,264,265	1,171,695	99,726	466,561	28,033	1,025,599	104,364	28,821,389	1,860,645
Jan-14	6,395,061	401,219	22,698,718	1,416,855	1,241,193	105,550	510,326	30,656	1,277,401	131,359	32,122,699	2,085,639
Feb-14	4,596,923	288,547	17,905,111	1,117,780	996,025	84,930	401,567	24,587	981,289	101,416	24,880,915	1,617,260
Mar-14	6,829,777	421,324	20,191,790	1,237,067	1,073,269	90,830	367,721	22,044	992,484	101,183	29,455,041	1,872,448
2013-14	**181,890,951**	**10,716,276**	**441,717,870**	**26,405,596**	**16,162,016**	**1,320,595**	**8,413,475**	**504,252**	**12,008,218**	**1,178,416**	**660,192,530**	**40,125,135**
Apr-14	4,926,955	299,956	17,832,969	1,081,325	908,777	76,110	352,466	20,832	714,904	72,602	24,736,071	1,550,825
May-14	6,728,868	402,517	25,361,770	1,504,998	1,260,376	102,611	420,466	24,532	1,112,275	111,183	34,883,755	2,145,841
Jun-14	6,431,022	386,629	24,282,350	1,458,736	1,314,965	107,214	346,904	20,359	1,091,164	110,819	33,466,405	2,083,757
Jul-14	7,936,579	479,887	29,875,938	1,801,851	1,072,705	87,597	312,779	18,523	1,054,306	108,465	40,252,307	2,496,323
Aug-14	10,566,459	648,843	29,618,885	1,812,712	704,382	57,329	230,136	13,665	818,660	83,813	41,938,522	2,616,362
Sep-14	12,351,112	758,657	31,050,216	1,901,632	888,829	70,100	326,526	18,566	1,037,414	103,406	45,654,097	2,852,361
Apr-Sep '14	**48,940,995**	**2,976,489**	**158,022,128**	**9,561,254**	**6,150,034**	**500,960**	**1,989,277**	**116,477**	**5,828,723**	**590,288**	**220,931,157**	**13,745,468**

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

Source: NSE

During April 2013- March 2014, cash settlement for currency derivatives amounted to₹ 64.8 billion (US $ 1.1billion). 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)
2011-12	**58,290**	**1,561**	**14,210**	**8,843**	**82,904**	**1,621**
2012-13	**63,716**	**917**	**16,917**	**4,929**	**86,479**	**1,591**
Apr-13	3,215	61	1,444	422	5,142	86
May-13	4,187	165	1,905	988	7,244	121
Jun-13	11,904	44	3,055	1,728	16,731	279
Jul-13	6,748	70	1,655	268	8,742	146
Aug-13	7,412	320	943	558	9,232	154
Sep-13	4,836	44	754	270	5,904	99
Oct-13	1,591	11	397	69	2,068	35
Nov-13	2,125	16	383	76	2,601	43
Dec-13	1,539	8	377	76	2,001	33
Jan-14	1,474	60	344	52	1,931	32
Feb-14	954	13	218	56	1,241	21
Mar-14	1,482	41	312	143	1,977	33
2013-14	**47,467**	**852**	**11,787**	**4,707**	**64,814**	**1,081**
Apr-14	1,055	23	280	44	1,402	23
May-14	1,902	16	432	73	2,423	39
Jun-14	2,051	11	354	75	2,491	40
Jul-14	4,187	6	447	64	4,704	76
Aug-14	4,937	36	477	140	5,591	91
Sep-14	5,253	66	513	156	5,988	97
Apr-Sep 14	**19,385**	**159**	**2,503**	**552**	**22,599**	**367**

Source: NSE

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

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)
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	69	37	15	0	1,600	503	8	8	3	0	24,947	91,317	1,524
May-13	11,966	4,901	82	23	10	0	530	176	3	32	11	0	21,803	82,415	1,375
Jun-13	8,300	3,350	56	180	75	1	2,603	814	14	0	0	-	23,439	87,932	1,467
Jul-13	6,905	2,874	48	16	7	0	957	311	5	0	0	-	13,013	49,890	832
Aug-13	6,127	2,545	42	10	4	0	2,080	673	11	0	0	-	12,102	45,979	767
Sep-13	3,675	1,549	26	14	6	0	843	277	5	0	0	-	11,100	42,644	711
Oct-13	4,841	2,068	35	12	5	0	201	65	1	0	0	-	13,075	4,943	82
Nov-13	4,651	2,065	34	32	14	0	94	31	1	0	0	-	9,574	3,787	63
Dec-13	4,999	2,246	37	20	9	0	208	68	1	0	0	-	11,558	4,633	77
Jan-14	4,569	2,079	35	18	8	0	276	91	2	0	0	-	11,833	4,816	80
Feb-14	6,237	2,821	47	42	19	0	479	160	3	0	0	-	10,706	4,257	71
Mar-14	4,903	2,283	38	19	9	0	279	92	2	0	0	-	10,910	4,442	74
2013-14	**77,753**	**32,916**	**549**	**423**	**182**	**3**	**10,150**	**3,261**	**54**	**40**	**14**	**0**	**174,060**	**427,054**	**7,125**
Apr-14	4,525	2,102	34	17	8	0	134	45	1	0	0	-	8,808	3,600	58
May-14	4,504	2,119	34	6	3	0	363	124	2	0	0	-	8,268	3,416	55
Jun-14	3,635	1,768	29	-	-	-	258	88	1	0	0	-	7,359	3,100	50
Jul-14	4,612	2,269	37	-	-	-	105	35	1	0	0	-	12,543	5,322	86
Aug-14	5,396	2,620	43	-	-	-	93	31	1	0	0	-	11,369	4,721	77
Sep-14	5,309	2,645	43	-	-	-	311	106	2	0	0	-	8,833	3,782	61
Apr-Sep' 14	**27,981**	**13,522**	**220**	**23**	**11**	**0**	**1,264**	**429**	**7**	**-**	**-**	**-**	**57,180**	**23,942**	**389**

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

Source: NSE

7. Foreign Investments in India

Introduction

From 1992, Foreign Institutional Investors (FIIs) have been allowed to invest in all securities traded on the primary and secondary markets, including shares, debentures and warrants issued by companies which were listed or were to be listed on the Stock Exchanges in in India and in schemes floated by domestic mutual funds. Foreign Institutional Investors (FIIs) registered with SEBI are eligible to purchase shares and convertible debentures issued by Indian companies under the Portfolio Investment Scheme (PIS). In the Budget 2011-I2, the Government of India, for the first time, permitted Qualified Foreign investors (QFIs), who meet the KYC norms, to directly invest in Indian equity mutual fund (MF) schemes and in MF debt schemes that invest in infrastructure. It was for the first time that this new class of investors was allowed to directly participate in the Indian capital market. In January 2012, the Government expanded this scheme to allow QFIs to directly invest in Indian equity markets. In the budget 2012-13, Government announced its intention to permit QFIs to invest in corporate bonds in India. The Securities and Exchange Board of India has introduced a new class of foreign investors in India known as the Foreign Portfolio Investors ("FPIs") effective from June 2014. This class has been formed by merging the following existing classes of investors - Foreign Institutional Investors ("FIIs"), Qualified Foreign Investors ("QFIs") and sub-accounts of the FIIs. This chapter discusses the investments and purchases of FIIs.

Foreign Institutional Investors (FIIs)

The monthly trend in FII investments in 2013–14 (depicted in Table 7-1) shows that the net FII investments were positive for most of the months (except June, July and August 2013. In March 2014, the net investment of ₹ 316,630 million (US $ 5,175 million) by FIIs was the highest monthly net investment in 2013-14. The total net investment by FIIs in 2013-14 stood at US $ 8,876 million. In the first half of 2014-15, the corresponding figure touched US $ 55,220 million on the back of regained investor confidence during the new government's regime.

Table 7-1: Trends in FII Investment

Period	Purchases (₹ mn)	Sales (₹ mn)	Net Investment (₹ mn)	Net Investment (US $ mn)	Cumulative Net Investment (US $ mn)
2009-10	**8,464,400**	**7,037,810**	**1,426,580**	**30,253**	**89,333**
2010-11	**9,925,990**	**8,461,610**	**1,464,380**	**32,226**	**121,561**
2011-12	**9,212,850**	**8,275,620**	**937,250**	**18,923**	**140,482**
2012-13	**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

Contd.

Contd.

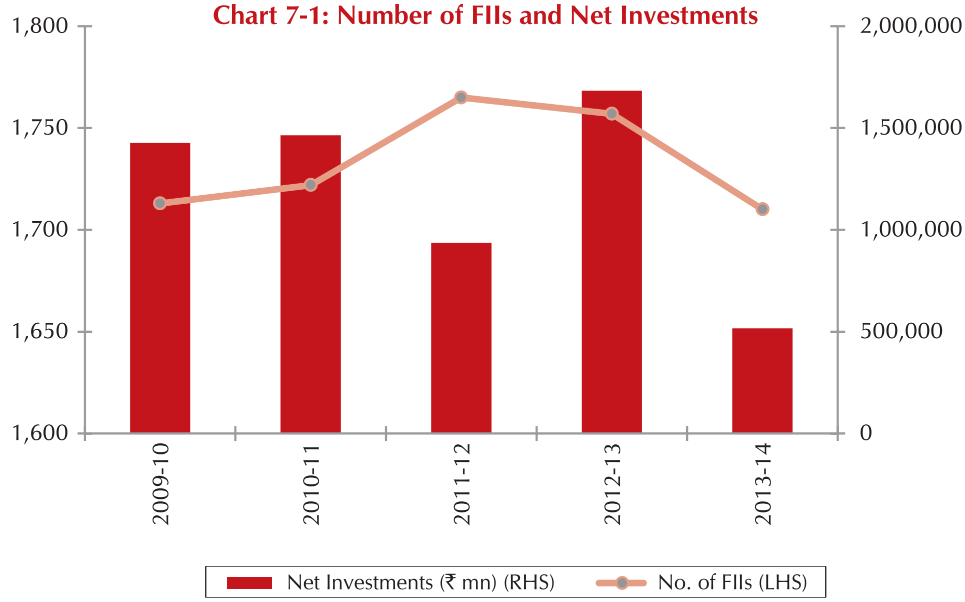
Period	Purchases (₹ mn)	Sales (₹ mn)	Net Investment (₹ mn)	Net Investment (US $ mn)	Cumulative Net Investment (US $ mn)
Aug-13	867,760	1,024,720	-156,950	-2,457	165,679
Sep-13	935,750	861,960	7,380	1,151	166,830
Oct-13	718,220	696,940	21,280	357	167,186
Nov-13	657,670	636,350	21,330	343	167,530
Dec-13	801,330	587,560	213,760	3,460	170,989
Jan-14	985,530	852,300	133,230	2,187	173,176
Feb-14	760,860	633,440	127,410	2,054	175,230
Mar-14	1,180,760	864,120	316,630	5,175	180,405
2013-14	**9,029,350**	**9,693,620**	**450,080**	**8,876**	**180,405**
Apr-14	908,530	904,360	4,180	76	180,480
May-14	1,555,250	1,217,470	337,780	5,701	186,181
Jun-14	1,525,480	1,218,420	307,050	5,188	191,377
Jul-14	1,309,020	948,560	360,460	6,009	197,386
Aug-14	1,114,810	893,480	221,340	3,646	201,032
Sep-14	1,318,050	1,108,330	209,720	34,600	204,493
Apr-Sep' 14	**5,307,310**	**6,290,620**	**1,440,530**	**55,220**	**204,493**

Source: SEBI.

Number of Foreign Institutional Investors (FIIs)

The number of SEBI-registered FIIs declined in 2013-14 to 1,710 from 1,757 in the previous year. Number of FIIs registered with SEBI have 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. During 2013-14, 106 fresh FII registrations were granted and 529 registrations were renewed. FIIs from 51 different countries, led by USA, have been registered with SEBI in 2013-14 (Chart 7-1).

Chart 7-1: Number of FIIs and Net Investments



Source: SEBI

Foreign Institutional Investments—Equity and Debt

In 2013-14; the net FII investment in equity plunged by 42.8 percent to ₹ 797,080 million (US $ 13,298 million). This drop came after a 157 percent increase in FII investments in 2012-13. (Table 7-2)

However, net investments by FIIs in the debt segment fell sharply by 192.2 percent in 2013-14. In fact, in 2013-14, there was a net outflow of FII investments worth ₹ 280,610 million in debt. Encouragingly, this trend reversed during April-September 2014 which witnessed net inflows amounting to ₹ 828,100 million. In equities, FIIs made net investments of ₹ 612,420 million in the first half of 2014-15.

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)
2009-10	**1,102,200**	**324,380**	**24,417**	**7,186**
2010-11	**1,101,207**	**363,190**	**24,663**	**8,134**
2011-12	**437,380**	**499,880**	**8,550**	**9,772**
2012-13	**1,394,073**	**304,429**	**25,643**	**5,600**
Apr-13	54,140	53,340	903	890
May-13	221,690	59,690	3,699	996
Jun-13	-110,270	-331,350	-1,840	-5,528
Jul-13	-60,860	-120,380	-1,015	-2,008
Aug-13	-59,230	-97,730	-988	-1,631
Sep-13	130,580	-56,780	2,179	-947
Oct-13	157,060	-135,780	2,620	-2,265
Nov-13	81,160	-59,840	1,354	-998
Dec-13	160,860	52,900	2,684	883
Jan-14	7,140	126,090	119	2,104
Feb-14	14,040	113,370	234	1,891
Mar-14	200,770	115,860	3,350	1,933
2013-14	**797,080**	**-280,610**	**13,298**	**-4,682**
Apr-14	96,020	-91,850	1,560	-1,492
May-14	140,060	197,720	2,275	3,212
Jun-14	139,910	167,150	2,273	2,715
Jul-14	131,100	229,350	2,130	3,726
Aug-14	54,300	167,040	882	2,713
Sep-14	51,030	158,690	829	2,578
Apr-Sep '14	**612,420**	**828,100**	**9,948**	**13,452**

Source: SEBI

FIIs Turnover - Equity and Derivatives

Equity Market

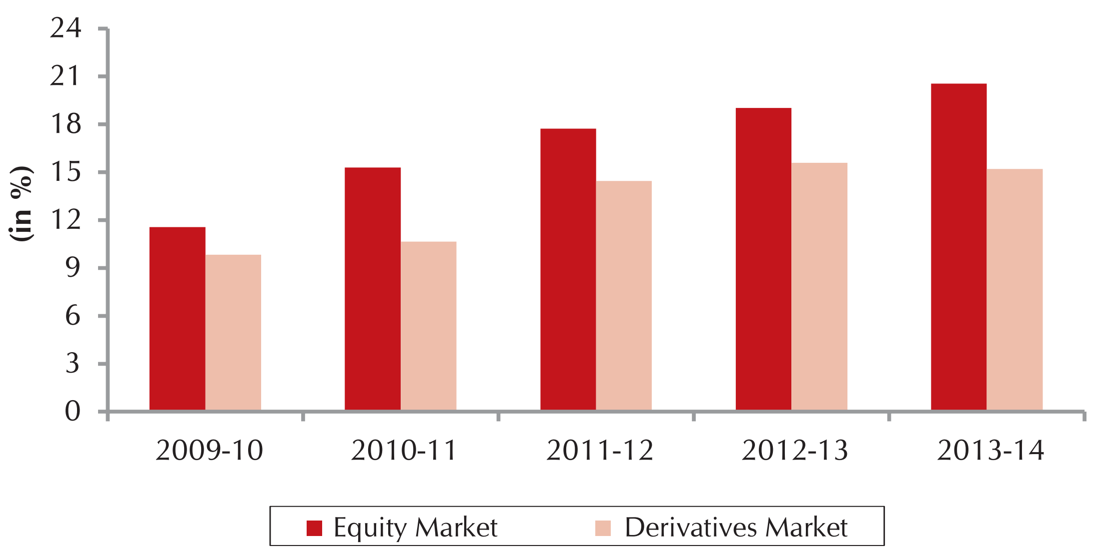
The gross turnover of FIIs in the equity market segment on the Indian stock exchanges (the NSE and the BSE) accounted for ₹ 13,687,624 million in 2013–14, which marked a year-on-year increase of 10.4 percent. The total turnover of the FIIs in the equity market constituted 20.55 percent of the total turnover on the BSE and the NSE in 2013–14, an increase from 19.03 percent recorded in 2012–13 (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
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
2013-14	**7,167,444**	**119,582**	**6,520,180**	**108,783**	**13,687,624**	**228,365**	**66,603,044**	**1,111,206**	**20.6**
Apr-Sep '14	**5,454,806**	**88,609**	**5,060,384**	**82,202**	**10,515,189**	**170,811**	**53,830,012**	**874,425**	**19.5**

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 2013–14 was ₹ 116,212,596 million, which was 15.2 percent of the total turnover in the F&O segment (₹ 764,228,161 million) at the NSE. The share of the FIIs' gross turnover fell to 11.9 percent of the derivatives turnover on the NSE during the first half of 2014–15 (Table 7-4 and Chart 7-2).

Table 7-4: FII Turnover in F&O Market 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)	No. of contracts	Amount (₹ mn)	Amount (US $ mn)	Amount (₹ mn)	
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
2013-14	**198,487,183**	**58,410,315**	**974,519**	**196,383,435**	**57,802,281**	**964,374**	**394,870,618**	**116,212,596**	**1,938,893**	**764,228,161**	**15.2**
Apr-Sep'14	**80,342,109**	**30,134,581**	**489,512**	**79,780,521**	**29,912,130**	**485,898**	**160,122,630**	**60,046,712**	**975,410**	**505,456,638**	**11.9**

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

Source:NSE

Offshore Derivative Instruments (ODIs)

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

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 2014, the total value of PNs with underlying Indian securities as a percentage of assets under custody of FIIs has improved to 13 percent from 11.1 percent in March 2013 but has deteriorated as compared to 15 percent in March 2012. (Table 7-5)

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

Month	*Total Value of PNotes on Equity and Debt with Underlying Indian securities (A) (₹ mn)	*Total Value of PNotes with Underlying Indian securities (US $ mn)	#Assets Under Custody of FIIs (B) (₹ mn)	#Assets Under Custody of FIIs (US $ mn)	A as percent of B
Mar-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
Mar-13	**1,479,050**	**27,206**	**13,365,570**	**245,848**	**11.1**
Apr-13	1,575,780	26,290	13,916,190	232,178	11.3
May-13	1,682,630	28,073	14,389,800	240,080	11.7
Jun-13	1,474,980	24,609	13,491,840	225,098	10.9
Jul-13	1,481,180	24,712	12,936,870	215,839	11.5
Aug-13	1,648,170	27,498	12,421,540	207,241	13.3
Sep-13	1,711,540	28,555	13,101,940	218,593	13.1
Oct-13	1,838,620	30,676	14,165,600	236,339	13.0
Nov-13	1,832,370	30,571	14,064,620	234,654	13.0
Dec-13	1,675,660	27,957	14,643,550	244,313	11.4
Jan-14	1,633,480	27,253	14,268,750	238,060	11.4
Feb-14	1,727,380	28,820	14,738,020	245,889	11.7
Mar-14	**2,076,390**	**34,643**	**15,938,690**	**265,921**	**13.0**
Apr-14	1,874,860	30,456	16,065,960	260,978	11.7
May-14	2,117,400	34,395	17,707,810	287,649	12.0
Jun-14	2,242,480	36,427	19,094,000	310,166	11.7
Jul-14	2,082,840	33,834	19,718,220	320,306	10.6
Aug-14	2,114,990	34,356	20,471,750	332,547	10.3
Sep-14	2,223,940	36,126	20,841,610	338,555	10.7

**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 2014, FIIs held the highest stake of 20.77 percent in the finance sector, followed by FMCG and banks (18.29 percent and 18.07 percent, respectively). The total percentage of shares held by FIIs across different sectors was 11.77 percent of the total shares of the companies listed on the NSE as at the end of March 2014.

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

Sectors	Mar-14
Banks	18.07
FMCG	18.29
Finance	20.77
Information Technology	9.18
Pharmaceuticals	15.32
Infrastructure	8.65
Media & Entertainment	15.18
Miscellaneous	13.25
Telecommunication	11.09
Services	10.04
Petrochemicals	9.24
Engineering	10.13
Manufacturing	10.18
Total stake of FIIs in all the Sectors	**11.77**

Source : NSE

NRI Investments

The NRI turnover data at the NSE is depicted in Table 7-7. The NRI turnover at the cash market of the NSE registered a year-on-year rise of 30.8 percent in 2013-14, and stood at ₹ 103,707 million. In the derivatives market of the NSE, the total NRI turnover stood at ₹ 331,192 million in 2013-14, a year-on-year growth of 52.7 percent over 2012-13.

Table 7-7 : 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)
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**
2013-14	**103,707**	**1,730**	**331,192**	**5,526**

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 2013–September 2014 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. Compliance with the provisions of Equity listing Agreement by listed companies – Monitoring by stock exchanges (SEBI Circular dated November 18, 2013)

It is felt that the current monitoring mechanism of Stock Exchanges to ascertain the adequacy and accuracy of disclosures made in compliance with the Listing Agreement needs to be made more effective. Accordingly, SEBI has advised stock exchanges to:

1) Put in place appropriate framework to effectively monitor the adequacy and accuracy of the disclosures made by listed companies.
2) Devise the framework in such a way that it detects any non-compliance of the provisions of Securities Contracts (Regulation) Act 1956, Securities and Exchange Board of India Act 1992, the rules and regulations framed there under, Listing Agreement, and any other applicable laws.
3) Put in place an appropriate mechanism for handling complaints related to such inadequate and inaccurate disclosures and non-compliances as mentioned above.
4) Submit to SEBI an "Exception Report" in addition to the existing reporting requirements containing the details of companies which do not respond to the clarifications sought by them and/or where the response submitted by the company is not satisfactory in the opinion of the stock exchange.

II. Expanding the framework for Offer for Sale (OFS) of shares through stock exchange mechanism (SEBI Circular dated August 8, 2014)

SEBI has modified the OFS (Offer for Sale) of shares on the basis of market feedback which had indicated the need to take measures to encourage retail participation in OFS, enable other large shareholders to use the OFS mechanism and also allow more companies to use this framework. SEBI has announced the following modifications to the existing OFS framework:

a) OFS mechanism shall be available to top 200 companies by market capitalization in any of the last four completed quarters.

b) Any non-promoter shareholder of eligible companies possessing a minimum of 10 percent of share capital may also offer shares through the OFS mechanism.

c) A minimum of 10 percent of the offer size is required to be reserved for retail investors.

The seller may offer discount to the retail investors irrespective of whether the OFS occurs through Multiple Clearing Price or Single Clearing Price mechanism.

III. Increasing the investment bucket for anchor investor and regulations concerning the preferential issue norms (SEBI Circular dated September 11, 2014)

SEBI had reviewed the extant regulatory framework in the primary market in its meeting held in June and approved certain reforms with a view to revitalize the market. Accordingly, SEBI ICDR Regulations 2009 have been amended vide SEBI ICDR (Second Amendment) Regulations, 2014 with effect from August 25, 2014.

In this regard, SEBI has clarified that the revised regulation on anchor investor allocation i.e. In an issue made through the book building process, the issuer may allocate upto 60 percent of the portion available for allocation to qualified institutional buyers to an anchor investor, should be applicable to issuers filing offer documents with the RoC on or after the date of notification of SEBI ICDR (Second Amendment) Regulations, 2014. Further, it is clarified that the new regulation on Frequently Traded Shares in Chapter VII (where "frequently traded shares" mean shares of an issuer, in which the traded value on a stock exchange during the past one calendar year from the relevant date, is at least 10 percent of the total number of shares of such class of shares of the issuer) should be applicable for the preferential issuances where notice for the general meeting for passing of special resolution by the shareholders is issued on or after the date of notification of the aforementioned regulation.

2. Collective Investment Vehicles

I. 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.

II. 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.

III. Gold Exchange Traded Fund Scheme and Gold Deposit Scheme of banks (SEBI Circular dated October 18, 2013)

SEBI has modified its circular dated February 15, 2013, prescribing that gold certificates issued by banks in respect of investments made by gold ETFs in Gold Deposit Schemes can be held by mutual funds in dematerialized or physical form.

IV. Circular on Mutual Funds (SEBI Circular dated May 22, 2014)

SEBI has decided to increase the limit of cash transactions in mutual funds from the existing limit of ₹ 20,000/- per investor, per mutual fund, per financial year to ₹ 50,000/- per investor, per mutual fund, per financial year, subject to compliance with Prevention of Money Laundering Act, 2002 and any associated rules.

In reference to the SEBI circulars dated May 08, 2001 and July 11, 2003 on guidelines for investment or trading in securities by employees of Asset Management Companies (AMCs) and Trustees of Mutual Funds, it has been decided that along with Money Market Mutual Fund (MMMF) schemes, Liquid schemes should be added in the list of securities to which the aforementioned guidelines are not applicable. Further, along with MMMF schemes, transaction in Liquid schemes should be exempted from being reported by employees to compliance officer within 7 calendar days from the date of transaction.

V. Guidelines on disclosures, reporting and clarifications under AIF Regulations (SEBI Circular dated June 19, 2014)

SEBI has decided to provide certain clarifications on the AIF Regulations in order to increase transparency to the investors.

While modifying certain guidelines regarding reporting by Category III AIFs, SEBI has prescribed that such AIFs should report to the custodian the amount of leverage at the end of the day (based on closing prices) by the end of next working day.

SEBI has further clarified that AIFs should include in the placement memorandum detailed disclosures of the fees and charges as applicable to the investors and disciplinary history of the AIFs, sponsors, managers, their Directors/partners/ promoters and associates etc.

In case of changes to the placement memorandum which significantly influences the decision of the investor to continue to be invested in the AIF, the following process should be followed by the AIF:

1) Existing unit holders who do not wish to continue after the change should be provided an exit option.
2) If the scheme of the AIF is open ended, the exit option can be provided by either of the following:
   – Buying out of units of the dissenting investors by the manger/ someone else arranged by the manager, valuation of which should be based on market price of underlying assets.
   – Redemption of units of the investors through sale of underlying assets.
3) If the scheme of the AIF is close ended, the exit option can be provided as follows : buying out of units of the dissenting investors by the manger/ someone else arranged by the manager. Prior to buying out of such units, valuation of those units should be undertaken by 2 independent valuers and exit should be at a value at least as large as average of the two valuations.

   The trustee of AIF (in case AIF is a trust) or sponsor (in case of any other AIF) should be responsible for overseeing the process.

Moreover, all guidelines that are issued by SEBI with respect to KYC requirements, Anti-Money Laundering and Outsourcing of activities should be applicable to AIFs and the manager of the AIF should be responsible for complying with such guidelines.

VI. Circular on Minimum Assets Under Management of Debt Oriented Schemes (SEBI Circular dated June 20, 2014)

Concerned over debt-oriented mutual fund schemes having low asset base, SEBI has said that such schemes should collect at least ₹ 20 crore at the time of new fund offer. Moreover, the mutual funds are required to maintain an average asset under management (AUM) of ₹ 20 crore on half yearly rolling basis for open ended debt oriented schemes. The requirement of having at least ₹ 20 crore AUM on half yearly rolling basis has to be complied within one year by all existing open ended debt oriented schemes.

In case of non-compliance, the asset management company (AMC) would have to scale up the AUM of such scheme within a period of six months, failing which the board may ask the scheme to be wound up.

VII. Position Limits for Mutual Funds in 10 year Interest Rate Futures (SEBI Circular dated September 15, 2014)

SEBI has clarified that the following position limits in IRF should be applicable for Mutual Fund level and scheme level:

1) Mutual Funds should have position limits which are currently applicable to trading members of stock exchanges. (i.e. The gross open positions of the trading member across all contracts should not exceed 10 percent of the total open interest or ₹ 600 crore, whichever is higher)

2) Schemes of Mutual Funds should have position limits which are presently applicable to clients. (i.e. The gross open positions of the client across all contracts should not exceed 3 percent of the total open interest or ₹ 200 crore, whichever is higher)

3. Capital Markets

I. 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.

II. 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.

III. 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.

IV. 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.

V. 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.

VI. 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.

VII. 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.

VIII. 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).

IX. 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.

X. 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.

XI. Listing of specified securities of small and medium enterprises on the Institutional Trading Platform in a SME exchange without making an initial public offer (SEBI Circular dated October 24, 2013)

SEBI has notified new norms for listing of small and medium enterprises (SMEs) including the start-up companies on Institutional Trading Platform (ITP) on stock exchanges without an initial public offering. This will allow SMEs to list themselves on stock exchanges without raising funds from the public, which in turn will help both the investor and the small companies.

In the modified rules to permit listing of start-ups and SMEs in ITP without having to make an IPO, a minimum amount for trading or investment on the ITP would be ₹ 10 lakh. This move will provide easier exit options for entities such as Angel Investors, Venture Capital Funds and Private Equities. Besides, the move would provide better visibility, wider investor base and greater fund raising capabilities to such companies. The SEBI notified that the company would not make an IPO while its specified securities are listed on ITP, but can raise capital through private placement or rights issue without an option for renunciation of rights. An SME will be eligible to list on the ITP, in case the company, its promoter, director, group company does not appear in the defaulters list of Reserve Bank and there is no winding up petition against the firm.

XII. System audit of stock brokers/trading members (SEBI Circular dated November 6, 2013)

SEBI has prescribed that the stock exchanges should ensure that system audit of stock brokers / trading members are conducted in accordance with the following guidelines:

1) System Audit of stock brokers should be conducted with the following periodicity .

   a) Annual system audit has been prescribed for stock brokers who satisfy any of the following criteria.

      - Stock Brokers who use Computer-to-Computer Link (CTCL) or Intermediate Messaging Layer (IML)] or Internet Based Trading (IBT) or Direct Market Access (DMA) or Securities Trading using Wireless Technology (STWT) or Smart Order Routing (SOR) and have presence in more than 10 locations or number of terminals are more than 50.

      - Stock Brokers who are depository participants or are involved in offering any other financial services.

   b) Half yearly system audit has been prescribed for stock brokers who use Algorithmic Trading or provide their clients with the facility of Algorithmic Trading as per the SEBI Circular dated May 21, 2013.

   c) For all other stock brokers, system audit should be conducted once in two years.

2) Such audit should be conducted according to the Norms, Terms of Reference (ToR) and Guidelines issued by SEBI and / or by stock exchanges. Separate ToRs are specified for the following categories of brokers:

   - **Type I Broker**: Brokers who trade through exchange provided terminals such as NSE's NEAT, BSE's BOLT, MCX-SX's TWS etc.

   - **Type II Broker**: Brokers who trade through API based trading terminals like CTCL or IML or IBT or DMA or STWT or SOR facility and who may also be TYPE I Brokers.

   - **Type III Broker**: Brokers who use Algorithmic Trading facility to trade and who may also be TYPE II Brokers.

3) Stock brokers should select auditors as per the selection norms provided in the guidelines issued by stock exchanges and SEBI from time to time. The Auditor can perform a maximum of 3 successive audits of the stock broker.

4) The stock exchanges should periodically review ToR of such system audit and, if required, should suitably revise the ToR after taking into consideration developments that have taken place in the securities market since the last review of ToR and directions issued by SEBI from time to time in this regard.

The stock exchanges should keep track of findings of system audits of all brokers on quarterly basis and ensure that all major audit findings, specifically in critical areas, are complied in a time bound manner.

XIII Simplification of demat account opening process (SEBI Circular dated December 4, 2013)

The Securities and Exchange Board (SEBI) of India has made it simpler for investors to enter the capital market by simplifying the account opening process for trading and demat accounts. Besides reducing the number of investor signatures required on forms, the SEBI has also called for replacement of the existing Beneficial Owner-Depository Participant Agreements with a simpler and a common document titled 'Rights and Obligations of the Beneficial Owner and Depository Participant.

According to SEBI, this will harmonise the account opening process for trading as well as demat account and also rationalise the number of signatures by the investor, which an investor is required to affix at present on a number of pages. The decision to simplify the account opening forms was taken by SEBI in consultation with associations of stock brokers and both the depositories -- CDSL and NSDL -- and depository participants.

XIV. 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. 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.

XV. Testing of software used in or related to Trading and Risk Management (SEBI Circular dated February 7, 2014)

Recently, some technology mishaps have taken place in various capital markets worldwide which has enhanced the importance of testing of software before using hem for production purposes. In order to streamline and strengthen the software testing process, SEBI has prescribed the following policy decisions:

1) The process of testing would include – Testing in a simulated test environment provided by the stock exchange, Mock testing in a close- to- real trading environment, User Acceptance Test by the stock broker, Submission of System audit Report to the stock exchange.

2) Stock exchange should approve usage of the software after ensuring that the necessary requirements as specified by SEBI/ stock exchanges have been satisfied. A speedy approval can be obtained for certain cases like changes on account of change in stock exchange trading system etc.

3) In order to enforce high standards of technology risk management among stock brokers, stock exchanges should severely penalize a stock broker whose system malfunctioned.

XVI. Revised guidelines for Liquidity Enhancement Scheme in the Equity Cash and Equity Derivatives segment (SEBI Circular dated April 23, 2014)

SEBI has decided to revise the framework for providing liquidity enhancement schemes as given below:

1) Introduction of liquidity enhancement schemes - The stock exchange can introduce liquidity enhancement schemes in equity cash and equity derivatives segments subject to the following:

   The scheme should specify the incentives available to the market makers / liquidity providers and such incentives can include discount in fees, adjustment in fees in other segments, cash payment or issue of shares, including options and warrants.

   The effectiveness of the scheme should be reviewed by the stock exchange every six months and the stock exchange should submit half-yearly reports to SEBI.

   Any modification or discontinuation of the scheme should be disclosed to the market at least 15 days in advance.

   Outcome of the scheme (incentives granted and volume achieved – market maker wise and security wise) should be disseminated on a monthly basis.

2) Securities eligible for liquidity enhancement schemes - The stock exchanges can introduce liquidity enhancement schemes on any security for a maximum period of three years. Once the scheme is discontinued, the scheme can be re-introduced on the same security provided it is less than the three year period since the introduction of scheme on that security. Further, a stock exchange can introduce liquidity enhancement schemes in securities where liquidity enhancement scheme has been introduced in another stock exchange. Such schemes cannot be continued beyond the period of liquidity enhancement schemes of the initiating stock exchange.

Note that, this guidelines are applicable to securities listed on SME Platform or SME Exchange.

XVII. Companies exclusively listed on de-recognized or non-operational stock exchanges (SEBI Circular dated May 22, 2014)

This circular is applicable for all those stock exchanges which have not achieved the prescribed turnover of ₹ 1000 Crore on continuous basis on or before May 30, 2014.

The following are the directions given to stock exchanges to deal with companies exclusively listed on non-operational stock exchanges :

1) The exclusively listed companies of such non-compliant stock exchanges can opt for listing in nation-wide exchanges after complying with listing norms of main board or the diluted listing norms, if any, on or before the exit of the exchange, either on voluntary or compulsory basis. For this purpose, these nation-wide stock exchanges should immediately create a separate dedicated cell to expedite processing the listing requests from such companies.

2) Such exclusively listed companies can also opt for voluntary delisting before the de-recognition of the stock exchanges by following the existing delisting norms of SEBI stated in SEBI (Delisting of Equity Shares) Regulations, 2009. Nation-wide stock exchanges should provide a platform to these companies to facilitate reverse book building for voluntary delisting using their platform.

3) In order to facilitate voluntary delisting, the requirements of ‘Minimum Public Shareholding’ prescribed in the Securities Contracts (Regulation) Rules, 1957 and Clause 40A of the Listing Agreement, will not be applicable for the aforementioned companies.

4) In case of companies exclusively listed in the non-operational stock exchanges that are not traceable or where the data available is more than three years old, the process of inclusion in list of companies identified as 'Vanishing' , which is maintained by Ministry of Corporate Affairs, can be initiated by the respective stock exchanges.

XVIII. Review of the Securities Lending and Borrowing (SLB) Framework (SEBI Circular dated June 3, 2014)

With a view to extend the benefits of SLB, the eligibility criteria of the scrips for introduction of SLB contracts was increased to include the following scrips :

a) Scrip classified as ‘Group 1 security’.

b) Market wide position limit of the scrip is at least ₹ 100 crore.

c) Average monthly trading turnover in the scrip in the cash market is at least ₹ 100 crore in the previous six months.

It was further prescribed that no SLB transactions in the scrip would be permitted from the next trading day in case a scrip fails to meet the eligibility criteria.

Further, in order to facilitate efficient use of margin collateral, the category of eligible collateral to meet margin obligations for SLB transactions was brought at par with the cash market.

4. Debt Market

I. 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.

II. Centralised database for corporate bonds/debentures (SEBI Circular dated October 22, 2013)

The "High Level Expert Committee on Corporate Bonds and Securitization" ("Dr. R.H. Patil Committee") has recognized that historical database on all corporate bonds issued is very important for an investor to take a valued decision. While currently the information in respect of various bonds/debentures issued by issuers is available in a fragmented manner and at multiple sources, it is felt that there is a need for having a comprehensive database on corporate bonds in a consolidated manner.

Accordingly, it has been decided to create a centralized database regarding corporate bonds which are available in demat form for public dissemination. Subsequently, the database will also consider corporate bonds/debentures which are unlisted and in physical form.

Both the depositories i.e. NSDL and CDSL, jointly, should be the repository of information pertaining to the corporate bonds/debentures.

The depositories should obtain requisite information regarding the bonds/debentures from Issuers, Stock Exchanges, Credit Rating Agencies and Debenture Trustees.

III. Issues pertaining to primary issuance of debt securities – Amendment to simplified debt listing agreement (SEBI Circular dated October 29, 2013)

SEBI has relaxed norms for primary issuance of debt securities by companies, in a bid to develop the country's corporate bond market. As per the new norms, cash flows emanating from the debt securities would have to be disclosed in the prospectus or the disclosure document by way of an illustration. It has been also decided that if the coupon payment date of the debt securities falls on a Sunday or a holiday, the payment would be made on the next working day. Also, in the case, the maturity date of the debt securities, falls on a Sunday or a holiday, the redemption proceeds would be paid on the previous working day.

Further, the allotment in the public issue of debt securities should be made on the basis of date of upload of each application into the electronic book of the stock exchange. However, on the date of over-subscription, the allotments should be made to the applicants on proportionate basis. Moreover, the companies, which have listed their debt securities, have to disclose the name of the debenture trustees with contact details in their annual report and on their websites in order to enable the investors to forward their grievances to the debenture trustees. These measures have been taken after discussions with issuers and various other market participants.

IV. Circular on Infrastructure Debt fund (SEBI Circular dated November 29, 2013)

Vide SEBI Circular dated April 23, 2013, SEBI had designated some of the FII categories such as Foreign Central Banks, Government Agencies, Sovereign Wealth Funds, International Multilateral Organizations / Agencies, Insurance Funds and Pension Funds as long term investors for the purpose of Infrastructure Debt Fund (IDF). It has been decided that the regulated foreign feeder funds, having at all times, at least 20 percent of their assets under management held by investors belonging to one or more of the above categories of FIIs to be categorized as FIIs which are long term investors, for the purpose of IDF.

V. Deposit requirements for members of the debt segment (SEBI Circular dated December 19, 2013)

SEBI has prescribed the following deposit requirements for members of the debt segment:

1) Stock Broker / Proprietary Trading Member: SEBI circular dated December 19, 2012 on Base Minimum Capital should also be applicable to Stock Broker or Proprietary Trading Member of the debt segment.

2) Clearing Member (CM) / Self Clearing Member (SCM): The deposit should be ₹ 10 lakhs. No exposure should be granted against such deposit requirement of the Clearing Member/ Self Clearing Member. It is required that no deposit should be payable by the entity desirous of being CM /SCM in debt segment, in case it is already a CM or SCM or stock broker of any other segment of the stock exchange / clearing corporation. It is further required that no deposit should be payable in case a CM / SCM clears and settles trades only on gross basis for both securities and funds and where no settlement guarantee is provided by the clearing corporation.

VI. Reporting of trades in securitized debt instruments in trade reporting platforms and clearing and settlement of trades in securitized debt instruments through clearing corporations (SEBI Circular dated January 7, 2014)

In order to develop the Securitised Debt Instrument market, SEBI has decided that all trades in Securitised Debt Instruments (listed or unlisted) by Mutual Funds, Foreign Institutional Investors/sub-accounts/Qualified Foreign Investors/ Foreign Portfolio Investors, Alternative Investment Funds, Foreign Venture Capital Investors and Portfolio Managers should be reported on the trade reporting platform of either NSE, BSE or MCX-SX within fifteen minutes of the trade. The reporting for a trade must be done by the buyer and the seller on the same platform to ensure matching of both sides of the trades.

Further, it has been decided that all trades in Securitised Debt Instruments (listed or unlisted) done between specified entities like Mutual Funds, Foreign Institutional Investors/sub-accounts/Qualified Foreign Investors/Foreign Portfolio Investors, Alternative Investment Funds, Foreign Venture Capital Investors and Portfolio Managers and RBI regulated entities, should necessarily be cleared and settled through NSCCL or ICCL or MCX-SX CCL.

VII. Change in Government Debt Investment Limits for FIIs (SEBI Circular dated January 29, 2014)

Government of India has decided to increase the sub-limit from US $ 5 billion to US $ 10 billion within the overall government debt limit of US $ 30 billion, for FIIs which are registered with SEBI under the categories of Sovereign Wealth Funds (SWFs), Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign central banks.

VIII. Circular on reporting of OTC trades in corporate bond on trade reporting platform of stock exchange (SEBI Circular dated March 21, 2014)

SEBI has prescribed that all OTC trades in Corporate Bonds should be reported only on any one of the reporting platforms provided in the debt segment of stock exchanges, mainly NSE, BSE and MCX-SX within 15 minutes of the trade. These trades can be cleared and settled through any of the clearing corporations (NSCCL, ICCL, MCX-SX CCL). This circular is supposed to come into effect from April 1, 2014.

IX. Change in Government Debt Investment Limits (SEBI Circular dated July 23, 2014)

The current debt investment limits available for FPI investments in G-Secs (Government Securities) comprise of a US $ 20 billion limit for all FPIs and another US $ 10 billion limit for Long Term FPIs. While the US $ 20 billion limit has been completely utilized, the US $ 10 billion limit has been used only up to 22.9 percent. Hence, SEBI has decided to raise the investment limit in government securities for all FPIs by US $ 5 billion by correspondingly lowering the amount available to long term FPIs from US $ 10 billion to US $ 5 billion within the overall limit of US $ 30 billion.

The incremental investment limit of US $ 5 billion should be invested in government bonds with a minimum residual maturity of three years. Further, all future investment against the limit vacated when the current investment by an FPI runs off either through sale or redemption should also be made in government bonds with a minimum residual maturity of three years. Moreover, FPIs will be free to sell the securities (including those that are currently held with less than three years of residual maturity) to the domestic investors.

5. Derivatives Market

I. 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.

II. Individual scrip wise price bands on non F&O eligible scrips in Index Derivatives (SEBI Circular dated February 6, 2014)

In order to protect those scrips on which no derivatives products are available but which are part of Index Derivatives from excessive price movements, SEBI has decided to implement appropriate individual scrip wise price bands upto 20 percent on such scrips.

III. Margins for USD-INR contracts (SEBI Circular dated April 7, 2014)

SEBI in consultation with RBI had increased the initial margins and extreme loss margins by 100 percent for USD-INR contracts in the currency derivatives segment, through its circular dated July 08, 2013. However, SEBI has modified the above circular and has restored the margins for USD-INR contracts to pre July 08, 2013 rates.

IV. Clarification on position limits of domestic institutional investors for currency derivatives contracts (SEBI Circular dated July 24, 2014)

SEBI has clarified that domestic institutional investors will have the following position limits, provided they are permitted by their respective sectoral regulators to participate in the currency derivatives segment.

Currency Pair	Position Limits
USD-INR	Gross open position across all contracts should not exceed 15 percent of the total open interest or US $ 100 million, whichever is higher.
EUR-INR	Gross open position across all contracts should not exceed 15 percent of the total open interest or EUR 50 million, whichever is higher.
GBP-INR	Gross open position across all contracts should not exceed 15 percent of the total open interest or GBP 50 million, whichever is higher.
JPY-INR	Gross open position across all contracts should not exceed 15 percent of the total open interest or JPY 2000 million, whichever is higher.

SEBI has further clarified that banks, whether participating in the currency derivatives segment as clients or as stock brokers, should be guided by the following provisions as mentioned in the RBI Circular no. 147 dated June 20, 2014.

1) AD Category-I banks can undertake proprietary trading in the ETCD(Exchange Traded Currency Derivatives) market within their Net Open Position Limit (NOPL) and any limit that may be imposed by the exchanges for the purpose of risk management and preserving market integrity.

2) AD Category-I banks can also net their positions in the ETCD market against the positions in the OTC derivatives markets. However, RBI can stipulate a separate sub-limit of the NOPL exclusively for the OTC market as and when required.

6. Foreign Investments in India

I. FII position limits in Exchange Traded Interest Rate Futures (SEBI Circular dated Jan 20, 2013)

SEBI, through its circular dated December 5, 2014 had prescribed the following position limits for FIIs. The gross open positions of the FII across all contracts should not exceed 10 percent of the total open interest or ₹ 600 crores, whichever is higher. Additionally, the total gross short (sold) position of each FII in IRF should not exceed its long position in the government securities and in Interest Rate Futures, at any point in time. The total gross long (bought) position in cash and IRF markets taken together for all FIIs should not exceed the aggregate permissible limit for investment in government securities for FIIs.

It has been decided that monitoring of position limits of FIIs in government securities and corporate bonds should include monitoring of gross long positions of FIIs in IRF in the following mechanism :

1) Stock exchanges should provide information regarding aggregate gross long position in IRF of all FIIs taken together at the end of the day to the depositories, NSDL and CDSL and should also publish the same on their website.
2) NSDL and CDSL should aggregate the gross long position of FIIs in IRF in each exchange and add it with investment of FIIs in government debt for monitoring compliance with the regulatory limit prescribed in SEBI circular dated December 5, 2014 and should publish it on their websites.
3) If the total of cash and IRF of all FIIs as determined in 2) above reaches 85 percent of the permissible limit, NSDL and CDSL should inform RBI , SEBI and stock exchanges.
4) Once 90 percent of the limit is utilized, stock exchanges should notify it to the market and thereafter FIIs should not further increase their long position in IRF till the overall long position of FIIs in cash and IRF falls below 85 percent of existing permissible limit.

II. 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.

III. 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.

IV. Investments by FIIs/QFIs in Credit Enhanced Bonds (SEBI Circular dated November 28, 2013)

Vide SEBI Circular dated November 28, 2013, RBI had permitted the FIIs and QFIs to invest in the credit enhanced bonds upto a limit of US $ 5 billion within the overall limit of US $ 51 billion earmarked for corporate debt. The depositories should monitor FII/ QFI investments in credit enhanced bonds, so as to ensure that aggregate investment by FIIs / QFIs in such bonds should not be more than 90 percent of the US $ 5 billion limit i.e. US $ 4.5 billion. When the aggregate investments of all the FIIs / QFIs reaches 90 percent of the investment limit, notice informing the same should be published by the depositories on their websites and no fresh purchases should be allowed without prior approval of the depositories. For fresh purchases by FIIs/QFIs after the investment limit reaches 90 percent, prior approval of the depositories should be obtained. In case the aggregate holding of the FIIs/QFIs exceeds overall investment limit for whatsoever reason, the FII/QFI due to whom the limit is breached should mandatorily divest excess holdings within seven working days of such breach being notified by depositories to the DP. The custodian / QDPs should obtain necessary authorization from the FII /QFI at the time of account opening for such divestment of excess holding.

V. FII/QFI investments in Commercial Papers (SEBI Circular dated February 14, 2014)

SEBI has reduced the existing sub-limit on investments by registered FII and QFIs in Commercial Paper (CP) to US $ 2 billion from US $ 3.5 billion within the corporate debt limit of US $ 51 billion.

VI. Commencement of Foreign Portfolio Investor regime (SEBI Circular dated April 2, 2014)

SEBI has decided that the FPI regime will commence with effect from June 01, 2014. Further, SEBI will continue to accept all applications for registration of FIIs and SubAccounts till May 31, 2014 . SEBI will also continue to accept all applications for acknowledgment of fee till May 31, 2014, in respect of those FIIs and Sub Accounts whose fee validity is expiring on or before September 30, 2014.

With effect from June 01, 2014, the DDPs will accept all applications for registration, acknowledgment of fees, and miscellaneous requests. Those Qualified Depository Participants (QDPs) who are considered as DDPs by the FPI Regulations, 2014 are allowed to continue to open QFI accounts till May 31, 2014.

VII. Change in investment conditions/restrictions for FII/QFI investments in government debt securities (SEBI Circular dated April 7, 2014)

SEBI has announced that FIIs/QFIs will henceforth be permitted to invest only in dated government securities having residual maturity of one year or above. Existing FII/QFI investments in T-Bills will be allowed to taper off on maturity/sale and no further purchases in T-Bills will be permitted. The investment limits vacated at the shorter end will be available at longer maturities. However, the overall government debt investment limit for FIIs/QFIs will remain unchanged at US $ 30 billion.

VIII. Risk Management Framework for Foreign Portfolio Investors under the SEBI (FPI) Regulations, 2014 (SEBI Circular dated May 15, 2014)

SEBI has come out with a risk management framework for FPIs pertaining to various aspects, including margin requirements. The FPI regime brings together all foreign investor classes such as Foreign Institutional Investors (FIIs), their sub-accounts and Qualified Foreign Investors (QFIs).

All trades undertaken by FPIs in the cash market would be margined on a 'T+1' basis, which means settlement of trades with all the required payments one day after the execution of the trade order. However, the trades of FPIs who are corporate bodies, individuals or family offices would be margined on an upfront basis as per the extant margining framework for the non-institutional trades.

With regard to equity derivatives segment and Interest Rate Futures, SEBI circular says that Category I and II FPIs would have position limits "as presently available to FIIs". Category III FPIs would have position limits as applicable to the clients.

IX. Circular on Investments by FPIs in Non-Convertible/Redeemable preference shares or debentures of Indian companies (SEBI Circular dated June 17, 2014 and RBI Circular dated June 6, 2014)

In terms of the RBI circular dated January 06, 2014, an Indian company is permitted to issue non-convertible/redeemable preference shares or debentures to non-resident shareholders, including the depositories that act as trustees for the ADR/GDR holders through distribution as bonus from its general reserves under a Scheme of Arrangement approved by a Court in India under the provisions of the Companies Act, as applicable, subject to no-objection from the Income Tax Authorities.

It has been decided to allow registered Foreign Portfolio Investors (FPIs), long term investors registered with SEBI – Sovereign Wealth Funds (SWFs), Multilateral Agencies, Pension/ Insurance/ Endowment Funds and foreign central banks to invest on a repatriation basis in non-convertible/redeemable preference shares or debentures issued by an Indian company within the overall limit of US $ 51 billion earmarked for corporate debt.

X. Know Your Client (KYC) requirements for Foreign Portfolio Investors (SEBI Circular dated June 16, 2014)

SEBI has asked designated depository participants (DDPs) to share information about foreign portfolio investors (FPIs) with banks, as part of efforts to harmonise KYC norms with that of the RBI. KYC documents of FPIs can be shared only after getting authorisation from them.

Accordingly, a set of hard copies of the KYC documents furnished by the FPIs to DDPs may be transferred to the concerned bank through their authorised representative. While transferring such documents, DDPs will have to certify that the documents have been duly verified with the original. In this regard, a proper record of transfer of documents, both at the level of the DDP as well as at the bank, under signatures of the officials of the transferor and transferee entities, may be kept.

XI. Participation of FPIs in the Currency Derivatives segment and position limits for currency derivatives contracts (SEBI Circular dated June 20, 2014)

SEBI has allowed eligible Foreign Portfolio Investors (FPIs) to trade in the currency derivatives segment of stock exchanges to facilitate hedging their currency risk emanating from their exposure to the Indian debt and equity markets. Such participation, however, will be subject to the following conditions:

a) FPIs may take long as well as short positions in the permitted currency pairs up to US $ 10 million/EUR 5 million/ GBP 5 million/JPY 200 million, as applicable, per stock exchange without having to establish the existence of any underlying exposure.

b) In the event a FPI breaches the short position limit, stock exchanges shall restrict the FPI from increasing its existing short positions or creating new short positions in the currency pair till such time FPI complies with the said requirement.

c) To take long positions in the permitted currency pair in excess of the above prescribed limits, FPIs shall be required to have an underlying exposure in Indian debt or equity securities, including units of equity/debt mutual funds.

SEBI has prescribed the following position limits for various categories of FPIs.

Position Limits for Category I and II FPIs

Currency Pair	**Position Limits**
USD-INR	Gross open position across all contracts should not exceed 15 percent of the total open interest or US $ 100 million, whichever is higher.
EUR-INR	Gross open position across all contracts should not exceed 15 percent of the total open interest or EUR 50 million, whichever is higher.
GBP-INR	Gross open position across all contracts should not exceed 15 percent of the total open interest or GBP 50 million, whichever is higher.
JPY-INR	Gross open position across all contracts should not exceed 15 percent of the total open interest or JPY 2000 million, whichever is higher.

Position Limits for Category III FPIs

Currency Pair	Position Limits
USD-INR	Gross open position across all contracts should not exceed 6 percent of the total open interest or US $ 10 million, whichever is higher.
EUR-INR	Gross open position across all contracts should not exceed 6 percent of the total open interest or EUR 5 million, whichever is higher.
GBP-INR	Gross open position across all contracts should not exceed 6 percent of the total open interest or GBP 5 million, whichever is higher.
JPY-INR	Gross open position across all contracts should not exceed 6 percent of the total open interest or JPY 200 million, whichever is higher.

XII. Risk Management and Inter Bank Dealings: Hedging Facilities for Foreign Portfolio Investors (RBI Circular dated September 8, 2014)

In order to enhance the hedging facilities for the FPIs holding securities under the Portfolio Investment Scheme (PIS), RBI has permitted the FPIs to hedge the coupon receipts arising out of their investments in debt securities in India which are due in the next 12 months subject to the condition that the hedge contracts shall not be eligible for rebooking on cancellation. The contracts can however be rolled over on maturity provided the relative coupon amount is yet to be received.

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 and a half, 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 USD 2.7 billion in FY 1996 to USD 203.2 billion in FY 2014.

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 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 the "Doing Business 2015" – a World Bank study – India ranks 142 among 189 countries in 2015 on the 'ease of doing business rank', below its ranking of 140 in 2014. While India is almost at the bottom of the ranking on account of 'dealing with construction permits' and 'enforcing contracts', it ranks 7th in the world in terms of 'protecting minority investors'. (Please see table-1)

Table-1: India's rank in 'ease of doing business' and other indicators

Year	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Bolders	Enforcing Contracts	Resolving Insolvency
2014	140	156	183	134	115	30	21	154	122	186	135
2015	142	158	184	137	121	36	7	156	126	186	137

Source: Doing Business 2015, World Bank

'Protecting minority investors' is considered as an important indicator of corporate governance. India has fared better than China, Brazil and Russia (See Table-2). It may be noted that India has been outperforming other BRIC countries persistently over the past 6 years. On the 'strength of minority investor protection index', with an overall score of 7.3 out of 10, India beats the South Asia average of 5.3 and OECD average of 6.3.

Table-2: Country wise ranking in terms of protecting investors

Parameters	India	China	Brazil	Russia	USA	UK
Protecting minority investors (rank)	7	132	35	100	25	4
Extent of disclosure Index (0-10)	7	10	5	6	7.4	10
Extent of director liability index (0-10)	6	1	8	2	8.6	7
Ease of shareholder suits index (0-10)	7	4	4	7	9	8
Extent of conflict of interest regulation index (0-10)	6.7	5	5.7	5	8.3	8.3
Extent of shareholder rights index (0-10.5)	9	3	7.5	7.5	5.1	8
Strength of governance structure index (0-10.5)	6	2	5.5	3	2.9	6
Extent of corporate transparency index (0-9)	8.5	7	7.5	5	6.5	8
Extent of shareholder governance index (0-10)	7.8	4	6.8	5.2	4.8	7.3
Strength of minority investor protection index (0-10)	7.3	4.5	6.3	5.1	6.6	7.8

Source: Doing Business 2015, World Bank

Please see box-1 which explains on what each of the above indicators of 'protecting minority investors' measure.

Box-1: What 'Protecting Minority Investors' Indicators Measure

Extent of disclosure index (0–10)

Review and approval requirements for related-party transactions; Disclosure requirements for related-party transactions.

Extent of director liability index (0–10)

Ability of minority shareholders to sue and hold interested directors liable for prejudicial related-party transactions; Available legal remedies (damages, disgorgement of profits, fines, imprisonment and rescission of the transaction).

Ease of shareholder suits index (0–10)

Access to internal corporate documents; Evidence obtainable during trial and allocation of legal expenses.

Extent of conflict of interest regulation index (0–10)

Sum of the extent of disclosure, extent of director liability and ease of shareholder indices, divided by 3.

Extent of shareholder rights index (0-10.5)

Shareholders' rights and role in major corporate decisions.

Strength of governance structure index (0-10.5)

Governance safeguards protecting shareholders from undue board control and entrenchment.

Extent of corporate transparency index (0-9)

Corporate transparency on ownership stakes, compensation, audits and financial prospects.

Extent of shareholder governance index (0–10)

Sum of the extent of shareholders rights, strength of governance structure and extent of corporate transparency indices, divided by 3.

Strength of investor protection index (0–10)

Simple average of the extent of conflict of interest regulation and extent of shareholder governance indices.

Source: Doing Business 2015, World Bank

Another recent study (CG Watch 2014: Corporate governance in Asia)[1] puts India in the seventh position among the Asian countries, in terms of overall CG score. Although India's overall CG Watch market score has increased from 51 in 2012 to 54 in 2014, its overall ranking has remained the same. The sharp increase in scores of two categories such as 'CG Rules and Practices' and 'CG Culture' mainly contributed to the increase in overall market score. (See table-3)

Table-3: Corporate governance quality – market category scores in percent

Rank. Country	Total	CG Rules & Practices	Enforcement	Political & Regulatory	IGAAP	CG Culture
1. = Hong Kong	65	61	71	69	72	51
1. = Singapore	64	63	56	64	85	54
3. Japan	60	48	62	61	72	55
4. = Thailand	58	62	51	48	80	50
4. = Malaysia	58	55	47	59	85	43
6. Taiwan	56	48	47	63	75	47
7. India	54	57	46	58	57	51
8. Korea	49	46	46	45	72	34
9. China	45	42	40	44	67	34
10. = Philippines	40	40	18	42	65	33
10. = Indonesia	39	34	24	44	62	32

Source: CG Watch 2014—Corporate Governance in Asia, CLSA Asia-Pacific Markets

B. Reforms in CG framework for listed companies

During the current fiscal year up to September 2014, the changes made to the CG framework for listed companies in India were mainly driven by two circulars by SEBI. The objectives of the first circular (dated April 17, 2014) was to review the provisions of the Listing Agreement to align with the provisions of the Companies Act, 2013, adopt best practices on corporate governance and to make the corporate governance framework more effective. The second circular (dated September 15, 2014) was aimed to make certain amendments to Clause 49; this circular was issued because SEBI had received representations from market participants including companies and industry associations, highlighting certain practical difficulties in ensuring compliance, seeking clarifications on interpretation of certain provisions and suggesting various options to ease the process of implementation. Most of the provisions have been made applicable to all listed companies with effect from October 1, 2014. Some of the key provisions are given below:

I. *Board of Directors*

- The Board of Directors of the company shall have an optimum combination of executive and non-executive directors with at least one woman director (shall be applicable w.e.f. April 01, 2015) and not less than fifty percent of the Board of Directors comprising non-executive directors.
- Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise independent directors and in case the company does not have a regular non-executive Chairman, at least half of the Board should comprise independent directors.
- A person shall not serve as an independent director in more than seven listed companies. Further, any person who is serving as a whole time director in any listed company shall serve as an independent director in not more than three listed companies.
- The maximum tenure of independent directors shall be in accordance with the Companies Act, 2013 and clarifications / circulars issued by the Ministry of Corporate Affairs in this regard, from time to time.

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

[As per the Companies Act, 2013, an independent director shall hold office for a term up to five consecutive years on the Board of a company, but shall be eligible for reappointment on passing of a special resolution by the company. No independent director shall hold office for more than two consecutive terms, but such independent director shall be eligible for appointment after the expiration of three years of ceasing to become an independent director provided that during the said period of three years, the independent director shall not be associated with the company in any other capacity, either directly or indirectly.]

- The performance evaluation of independent directors shall be done by the entire Board of Directors (excluding the director being evaluated). On the basis of the report of performance evaluation, it shall be determined whether to extend or continue the term of appointment of the independent director.
- The company shall familiarise the independent directors with the company, their roles, rights, responsibilities in the company, nature of the industry in which the company operates, business model of the company, etc., through various programmes.
- The company shall establish a vigil mechanism for directors and employees to report concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy.

II. *Audit Committee*

- The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.
- The Chairman of the Audit Committee shall be an independent director.
- All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
- The Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings.
- The role of the Audit Committee shall include:
  - Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
  - Review and monitor the auditor's independence and performance, and effectiveness of audit process.

III. *Nomination and Remuneration Committee*

- The company through its Board of Directors shall constitute the nomination and remuneration committee which shall comprise at least three directors, all of whom shall be non-executive directors and at least half shall be independent. Chairman of the committee shall be an independent director.
- The chairperson of the company (whether executive or nonexecutive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such Committee.
- The role of the Nomination and Remuneration Committee shall include:
  - Formulation of the criteria for determining qualifications, positive attributes and independence of a director; and recommend to the Board a policy relating to the remuneration of the directors, key managerial personnel and other employees;
  - Formulation of criteria for evaluation of Independent Directors and the Board;
  - Devising a policy on Board diversity;

IV. *Subsidiary Companies*

- At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of a material non-listed Indian subsidiary company.
- The company shall formulate a policy for determining 'material'. A subsidiary shall be considered as 'material' if the investment of the company in the subsidiary exceeds 20% of its consolidated net worth as per the audited balance sheet of the previous financial year or if the subsidiary has generated 20% of the consolidated income of the company during the previous financial year.
- No company shall dispose of shares in its material subsidiary which would reduce its shareholding (either on its own or together with other subsidiaries) to less than 50% or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal.
- Selling, disposing and leasing of assets amounting to more than 20% of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/ Tribunal.

V. *Risk Management*

- The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company.
- The company through its Board of Directors shall constitute a Risk Management Committee. The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit.
- The majority of Committee shall consist of members of the Board of Directors. Senior executives of the company may be members of the said Committee but the Chairman of the Committee shall be a member of the Board of Directors.

VI. *Related Party Transactions*

- A Related Party Transaction (RPT) is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged.
- The company shall formulate a policy on materiality of Related Party Transactions and also on dealing with Related Party Transactions.
  - A transaction with a related party shall be considered material if the transaction/ transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual consolidated turnover of the company as per the last audited financial statements of the company.
- All Related Party Transactions shall require prior approval of the Audit Committee. However, the Audit Committee may grant 'omnibus approval' for Related Party Transactions proposed to be entered into by the company subject to the following conditions:
  - Such approval shall be applicable in respect of transactions which are repetitive in nature.
  - The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the company.
  - The Audit Committee shall review, at least on a quarterly basis, the details of RPTs entered into by the company pursuant to each of the omnibus approval given.

  - Such approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

- All material Related Party Transactions shall require approval of the shareholders through special resolution and the related parties shall abstain from voting on such resolutions.

VII. *Disclosures*

- Details of all material RPTs shall be disclosed quarterly along with the compliance report on corporate governance.
- As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders.
- In case of the appointment of a new director or re-appointment of a director, the shareholders must be provided with the following information:
  - A brief resume of the director;
  - Nature of his expertise in specific functional areas;
  - Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and
  - Shareholding of non-executive director.

VIII. *Report on Corporate Governance*

- There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements (See Box-2) have been adopted should be specifically highlighted.
- The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the prescribed format.

Box-2: Non-Mandatory Requirements

1. *The Board*

   The Board - A non-executive Chairman may be entitled to maintain a Chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties.

2. *Shareholder Rights*

   A half-yearly declaration of financial performance including summary of the significant events in last six-months, may be sent to each household of shareholders.

3. *Audit qualifications*

   Company may move towards a regime of unqualified financial statements.

4. *Separate posts of Chairman and CEO*

   The company may appoint separate persons to the post of Chairman and Managing Director/CEO.

5. *Reporting of Internal Auditor*

   The Internal auditor may report directly to the Audit Committee.

C. NSE-IGIDR International Conference on Corporate Governance

The National Stock Exchange of India Ltd. (NSE) jointly with the Indira Gandhi Institute of Development Research (IGIDR) organized an international conference on Corporate Governance (CG) during July 10-11, 2014 in Mumbai. The conference was a part of the research initiative in CG undertaken by the NSE in collaboration with the IGIDR. Shri U. K. Sinha, SEBI Chairman, delivered the Chief Guest's address. The conference featured two panel discussions on: (a) "Regulatory Approach to Corporate Governance: Comply or Explain" and (b) "Corporate Governance in Financial Institutions". Six research papers – selected through a global call for papers – were presented during the conference. Besides NSE, representatives of regulatory bodies (such as SEBI and RBI), company secretaries, some reputed Directors and academics participated in the conference.

D. Quarterly Briefings under the aegis of the NSE Centre for Excellence in Corporate Governance (NSE CECG)

In recognition of the important role that stock exchanges play in enhancing the CG standards, the NSE had established a Centre for Excellence in Corporate Governance (NSE CECG) in 2012. This is an independent expert advisory body comprising eminent domain experts, academics and practitioners. The Committee meets from time to time to discuss CG issues and developments. The 'Quarterly Briefing', a note that offers an analysis of one emerging or existing CG issue, is a product emerging from these discussions. In 2014, the Centre has brought out four issues of the 'Quarterly Briefing' on the following topics:

a) Comply or Explain: An Alternate Approach to Corporate Governance

b) Directors' Duties and Liabilities in the New Era

c) Corporate Social Responsibility under Companies Act, 2013

d) Board Evaluations

All the issues of 'Quarterly Briefing' can be accessed on the following link in the NSE website:
http://www.nseindia.com/research/content/res_NSE_CECG.htm

D. EMERGE: SME PLATFORM

EMERGE: SME PLATFORM

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.

First Year Experience

Since its launch in September 2012, the EMERGE platform has witnessed 5 listings with a total fund raising of ₹ 86.33 crore till September 2014. Table1 shows the no. of issues listed on the EMERGE platform and the amount mobilised through them.

Table 1: Issues Listed on EMERGE platform

Year/Month	Total	
	No. of issues	Amount (₹ crore)
2012-13	2	44
2013-14	3	42.33
Apr-14	0	0
May-14	0	0
Jun-14	0	0
Jul-14	0	0
Aug-14	0	0
Sep-14	0	0

Source: NSE

The no. of trades carried out on the EMERGE platform during 2013-14 declined to 0.0061 lakh from 0.0118 lakh in the previous year (Table 2). Further, turnover of the companies traded on the SME platform fell sizably by 42.9% in 2013-14. In 2013-14, the highest trading value was witnessed by Veto Switchgear Cable Ltd (Rs. 9.98 crore) while the lowest value was recorded by Opal Luxury Time Prod Ltd (Rs. 0.62 crore) (Table 3). However, the market capitalisation of the companies on the SME platform increased modestly by 16.4% in 2013-14.Tables 2, 3 and 4 show the details of the trades conducted on the EMERGE platform in 2013-14 as well as April-September 2014.

Table 2: Trading trends in EMERGE Platform of NSE

Year/ Month	No.of Trades (Lakh)	Traded Quantity (Lakh)	Turnover (₹ crore)	Average Trade Size (₹)	Market Capitalisation (₹ crore)	No.of Trading Days
2012-13	0.0118	47.78	26.89	2,286.23	6,239,034.53	249
2013-14	0.0061	30.51	15.36	2,521.54	7,277,719.97	251
Apr-14	0.0004	2.10	0.49	1,328.23	7,346,736.98	18
May-14	0.0005	1.31	0.72	1,356.03	8,251,345.78	21
Jun-14	0.0009	3.79	1.31	1,439.09	8,854,702.21	21
Jul-14	0.0009	6.67	1.68	1,906.92	8,831,138.53	22
Aug-14	0.0029	15.29	7.34	2,539.63	9,060,959.78	19
Sep-14	0.0017	5.93	3.42	1,978.20	9,172,837.85	22

Kindly note mcap is considered as of the last working day of the month

Source: NSE

Table 3: Companywise Trading Details in EMERGE Platform of NSE during April 2013-March 2014

Name of the company	Traded Quantity (Lakh)	Turnover (₹ crore)	Market Capitalisation (₹ crore)
MITCON CON & ENG SERV LTD	1.98	0.89	50.22
OPAL LUXURY TIME PROD LTD	0.52	0.62	43.06
SANCO INDUSTRIES LTD.	9.92	1.79	16.07
THEJO ENGINEERING LIMITED	0.69	2.08	70.39
VETO SWITCHGEAR CABLE LTD	17.40	9.98	98.97

Mcap is considered as on the last day (March 31, 2014)

Source: NSE

Table 4: Companywise Trading Details in SME Platform of NSE during April 2014-September 2014

Name of the company	Traded Quantity (Lakh)	Turnover (₹ crore)	Market Capitalisation (₹ crore)
MITCON CON & ENG SERV LTD	0.98	0.53	72.24
OPAL LUXURY TIME PROD LTD	0.17	0.20	38.83
SANCO INDUSTRIES LTD.	15.92	3.53	15.81
THEJO ENGINEERING LIMITED	0.08	0.17	70.39
VETO SWITCHGEAR CABLE LTD	17.94	10.51	110.88

Mcap is considered as on the last day (Sep 30, 2014)

Source: NSE

Conclusion

We are still in the early days of the EMERGE experiment, but the response so far has been quite 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 issue 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 1000.

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 prospectus (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 size 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 despatch, 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 despatch 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 minimum ₹ 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 not less than ₹ 50 crore. It functions under the supervision of its board of directors, trustees, and the SEBI. In the name of the trust, the AMC floats and manages different investment "schemes" as per the SEBI Regulations and the Investment Management Agreement signed with the trustees. The Regulations require a non-interfering relationship involving the fund sponsors, trustees, custodians, and the AMC. The AMC is required to obtain prior in-principle approval from the recognised stock exchange(s) where the units are proposed to be listed.

Custodian: A custodian is appointed for safekeeping the securities, gold-related instruments, or other assets and for participating in the clearing system through the approved depository. The custodian also records information on stock splits and other corporate actions. No custodian in which the sponsor or its associate holds 50 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 that 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 ₹ 20 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 1000 investors. The fund shall not solicit or collect funds except by way of private placement.
Tenure of AIFs Category I AIFs and Category II AIFs shall be close-ended; the tenure of the fund or scheme shall be determined at the time of application, subject to the relevant Regulations. Category I and Category II AIFs or the schemes launched by such funds shall have a minimum tenure of three years.

Category III AIFs may be open-ended or close-ended. The extension of the tenure of close-ended AIFs may be permitted for up to two years, subject to the approval of two-thirds of the unit holders by value of their investment in the AIF. In the absence of the consent of unit holders, the AIF shall fully liquidate within one year following the expiration of the fund tenure or extended tenure
Listing of AIF Units of close-ended AIFs may be listed on the stock exchange(s) subject to a minimum tradable lot of ₹ 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.

Membership: Corporates

A. Eligibility Criteria for Corporates

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

- such company is formed in compliance with the provisions of Section 12 of the said Act;
- it undertakes to comply with such other financial requirements and norms as may be specified by the Securities and Exchange Board of India for the registration of such company under sub-section (1) of section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);

The directors of such company are not disqualified for being members of a stock exchange under clause (1) of rule 8 [except sub-clauses (b) and (f) thereof] or clause (3) of rule 8 [except sub-clauses (a) and (f) thereof] of the Securities Contracts (Regulation) Rules, 1957 and the directors of the company had not held the offices of the directors in any company which had been a member of the stock exchange and had been declared defaulter or expelled by the stock exchange.

CRITERIA	
Status	Corporate registered under The Companies Act, 1956 (Indian)
Minimum Paid up Equity Capital	₹ 30 lakhs
Designated Directors	Identification of at least two directors as designated directors who would be managing the day to day trading operations
Age	Minimum age of designated director(s) : 21 years
Education	Each of the Designated Directors should be at least HSC or equivalent qualification
Designated Directors Experience	Should have a minimum of 2 years' experience in securities market.
Dominant Promoter Norms	Identify dominant group as per Exchange DPG norms
Other Eligibility Criteria	Any one designated director 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. Any one designated director or the compliance officer of the applicant entity should be successfully certified in the FIMDA certification module if applying only for Debt Segment.

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

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

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

B. Deposit & Net worth Requirement for Corporates:

Deposit & Net worth Requirement (in ₹ lakhs)								
Segment	**Type of Membership**		**Interest Free Security Deposit (IFSD) with NSEIL**	**Collateral Security Deposit (CSD) with NSEIL**	**Interest Free Security Deposit (IFSD) with National Securities Clearing Corporation Ltd (NSCCL)**	**Collateral Security Deposit (CSD) with NSCCL**	**Total**	**Net Worth**
Capital Market	Trading & Self Clearing Membership		85	-	15	25	125	100
WDM	Trading & Self Clearing Membership		50	-	-	-	50	200
Futures & Options	Trading Member		25	-	-	-	25	100
	Trading & Self Clearing Membership		25	-	25	25	75	100
	Trading & Clearing Membership		25	-	25	25	75	300
	Professional Clearing Membership		-	-	25	25	50	300
Currency Derivatives Segment	Existing member	Trading Member	2	8	-	-	10	100
		Trading & Self Clearing Membership	2	8	25	25	60	500
		Trading & Clearing Membership	2	8	25	25	60	1000
	New members	Trading Member	2	13	-	-	15	100
		Trading & Self Clearing Membership	2	18	25	25	70	500
		Trading & Clearing Membership	2	18	25	25	70	1000
	Professional Clearing Membership		-	-	25	25	50	1000
Debt segment	Existing member	Trading Member	*BMC	-	-	-	*BMC	50
		Trading & Self Clearing Membership	*BMC	-	1	-	*BMC +1	100
		Trading & Clearing Membership	*BMC	-	1	-	*BMC +1	300
	Professional Clearing Membership		*BMC	-	1	-	*BMC +1	300
	New members	Trading Member	*BMC	-	-	-	*BMC	50
		Trading & Self Clearing Membership	*BMC	-	10	-	*BMC +10	100
		Trading & Clearing Membership	*BMC	-	10	-	*BMC +10	300
	Professional Clearing Membership		-	-	10	-	*BMC +10	300

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

Notes:

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

Charges	Amount (₹)
* Annual subscription charges (Capital Market Segment) * *Annual subscription charges will be adjusted towards Advance minimum transaction charges and balance will be carried forwarded for next year.*	1,00,000/- per annum (for corporates)
* Advance minimum transaction charges (Futures & Options segment) * *Advance minimum transaction charges will be adjusted against actual transaction charges*	1,00,000/- per annum
* Advance minimum transaction charges (Currency Derivatives segment) * *Advance minimum transaction charges will be adjusted against actual transaction charges*	50,000/- per annum
* Annual Subscription charges for Professional Clearing Members in Cash segment	2,50,000/- per annum

3. *The professional clearing member (PCM) is required to bring in an IFSD of ₹ 2 lakh and a CSD of ₹ 8 lakh per trading member whose trades he/she undertakes to clear in the F&O segment .*

Membership: Individuals/Partnership Firms

A. Eligibility Criteria for Individuals

Criteria	
Status	Indian Citizen
Age	Minimum age : 21 years
Education	At least HSC or equivalent qualification
Experience	Should have a minimum of 2 years' experience in securities market.
Other Eligibility Requirement	Proprietor 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. Proprietor should be successfully certified in the FIMDA certification module if applying only for Debt Segment.

B. Eligibility Criteria for Partnership Firms

Criteria	
Status	Registered Partnership firm under Indian Partnership Act, 1932
Age	Minimum age of designated partner(s) : 21 years
Designated Partners Education	Designated Partners should be at least HSC or equivalent qualification
Designated Partners	Identify at least two partners as designated partners who would be taking care of the day to day management of the partnership firm.
Designated Partners Experience	Should have a minimum of 2 years' experience in securities market.
Dominant Promoter Norms	Identify partner's sharing interest as per Exchange DPG norms
Other Eligibility Requirement	Any one designated 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. Any one designated partner or the compliance officer of the applicant entity should be successfully certified in the FIMDA certification module if applying only for Debt Segment.

C. Deposit & Net worth Requirement:

Deposit & Net worth Requirement (in ₹ lakhs)								
Segment	Type of Membership		Interest Free Security Deposit (IFSD) with NSEIL	Collateral Security Deposit (CSD) with NSEIL	Interest Free Security Deposit (IFSD) with National Securities Clearing Corporation Ltd (NSCCL)	Collateral Security Deposit (CSD) with NSCCL	Total	Net Worth
Capital Market	Trading & Self Clearing Membership		26.5	-	6	17.5	50	75
WDM	Trading & Self Clearing Membership		50	-	-	-	50	200
Futures & Options	Trading Member		25	-	-	-	25	75
	Trading & Self Clearing Membership		25	-	25	25	75	100
	Trading & Clearing Membership		25	-	25	25	75	300
Currency Derivatives Segment	Existing member	Trading Member	2	8	-	-	10	100
		Trading & Self Clearing Membership	2	8	25	25	60	500
		Trading & Clearing Membership	2	8	25	25	60	1000
	New members	Trading Member	2	13	-	-	15	100
		Trading & Self Clearing Membership	2	18	25	25	70	500
		Trading & Clearing Membership	2	18	25	25	70	1000
Debt segment	Existing member	Trading Member	*BMC	-	-	-	*BMC	50
		Trading & Self Clearing Membership	*BMC	-	1	-	*BMC + 1	100
		Trading & Clearing Membership	*BMC	-	1	-	*BMC + 1	300
	New members	Trading Member	*BMC	-	-	-	*BMC	50
		Trading & Self Clearing Membership	*BMC	-	10	-	*BMC + 10	100
		Trading & Clearing Membership	*BMC	-	10	-	*BMC + 10	300

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

Notes:

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

Charges	Amount (₹)
* Annual subscription charges (Capital Market Segment) * *Annual subscription charges will be adjusted towards Advance minimum transaction charges and balance will be carried forwarded for next year.*	50,000/- per annum (for Individuals & Partnership Firms)
* Advance minimum transaction charges (Futures & Options segment) * Advance minimum transaction charges will be adjusted against actual transaction charges	1,00,000/- per annum
* Advance minimum transaction charges (Currency Derivatives segment) * Advance minimum transaction charges will be adjusted against actual transaction charges	50,000/- per annum

Membership: Banks

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

- Minimum net worth of ₹ 500 crores.
- Minimum CRAR of 10 per cent.
- Net NPA should not exceed 3 per cent.
- Made net profit for last 3 years.

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

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

Deposit Requirement:

Deposit Requirement (in ₹ lakhs)						
Segment	**Type of Membership**	**Interest Free Security Deposit (IFSD) with NSEIL**	**Collateral Security Deposit (CSD) with NSEIL**	**Interest Free Security Deposit (IFSD) with National Securities Clearing Corporation Ltd (NSCCL)**	**Collateral Security Deposit (CSD) with NSCCL**	**Total**
Currency Derivatives Segment	Trading Member	2	13	-	-	15
	Trading & Self Clearing Membership	2	18	25	25	70
	Trading & Clearing Membership	2	18	25	25	70
	Professional Clearing Membership	-	-	25	25	50

Notes:

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

Fees/Eligibility Criteria

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

Corporatisation of Brokers and Sub-Brokers

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

Listing of Securities

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

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

Listing Fees in the CM Segment

The stock exchanges levy listing fees on the companies whose securities are listed with them. The listing fee has two components—an initial fee and an annual fee. 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 ₹ 3400 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 ₹ 1000 crore would have to pay a minimum fee of ₹ 850,000, and an additional listing fee of ₹ 3700 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

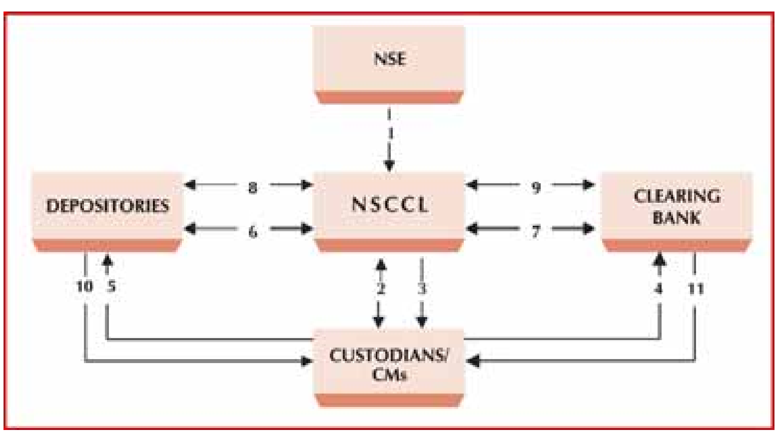
The National Exchange for Automated Trading (NEAT) is the trading system of the NSE. The NEAT facilitates an online, fully automated, nation-wide, anonymous, order-driven, screen-based trading system. In this system, a member can enter the quantities of securities and the prices at which he/she would 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: (a) the transaction of such purchase is entered into in a recognised stock exchange; and (b) the contract for the purchase of such share or unit is settled by the actual delivery or transfer of such share or unit.	**0.1**	Purchaser
Sale of an equity share in a company or a unit of an equity-oriented fund, where: (a) the transaction of such a sale is entered into in a recognised stock exchange; and (b) the contract for the sale of such share or unit is settled by the actual delivery or transfer of such share or unit.	**0.1**	Seller
Sale of an equity share in a company or a unit of an equity-oriented fund, where: (a) the transaction of such a sale is entered into in a recognised stock exchange; and (b) the contract for the sale of such share or unit is settled otherwise than by the actual delivery or transfer of such share or unit.	**0.025**	Seller

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.

[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.

Issuers of Securities

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

Issuance of Government Securities

Government securities are issued through auctions conducted by the RBI. The auctions are conducted on an electronic platform called the 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	
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+2. On the settlement date, the fund accounts of the participants are debited by their respective consideration amounts and their securities accounts (SGL accounts) are credited with the amount of securities that they were allotted.

Secondary Market

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

Clearing Corporation of India Limited (CCIL)

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

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

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.[5]

(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.

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.

[5] 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.

Listing of Debt Securities

Mandatory listing

An issuer wanting to make an offer of debt securities to the public has to apply for listing to one or more recognised stock exchanges according to the terms of the Companies Act, 2013. The issuer has to comply with the conditions of listing of debt securities as specified in the Listing Agreement with the stock exchange where such debt securities are sought to be listed.

Conditions for listing of debt securities issued on private placement basis

An issuer may list its debt securities issued on a private placement basis on a recognised stock exchange subject to the following conditions:

(a) The issuer has issued such debt securities in compliance with the provisions of the Companies Act, 2013, the rules prescribed in it, and other applicable laws.

(b) Credit rating has been obtained in respect of such debt securities from at least one credit rating agency registered with the SEBI.

(c) The debt securities proposed to be listed are in dematerialised form.

(d) The prescribed disclosures have been made.

(e) In the event of application being made to more than one recognised stock exchange, the issuer should choose one of them as the designated stock exchange.

The issuer has to comply with the conditions of listing of such debt securities as specified in the Listing Agreement with the stock exchanges where such debt securities are sought to be listed. For continuous listing, various conditions have to be followed as prescribed by the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

Trading of Debt Securities

(1) The debt securities issued to the public or on a private placement basis that are listed in recognised stock exchanges are traded, cleared, and settled in recognised stock exchanges, subject to the conditions specified by the SEBI.

(2) In the case of trades of debt securities that have been made over the counter, such trades are required to be reported on a recognised stock exchange having a nation-wide trading terminal or another such platform as may be specified by the SEBI.

Clearing and Settlement

The corporate bonds are cleared and settled by the clearing corporations of stock exchanges, i.e., the Indian Clearing Corporation Limited (ICCL) and the 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.[6]

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[7]

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.

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.

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

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

(4) The terms of issuance of the securitised debt instruments may provide for the exercise of a clean-up call option by the special purpose distinct entity, subject to adequate disclosures. (5) No expenses should be charged to the scheme in excess of the allowable expenses as may be specified in the scheme; any such expenditure, if incurred, should be borne by the trustees.
Mandatory Listing A special purpose distinct entity desirous of making an offer of securitised debt instruments to the public shall make an application for listing to one or more recognised stock exchanges in terms of Sub-section (2) of Section 17A of the Securities Contracts (Regulation) Act, 1956 (42 of 1956).
Minimum Public Offering for Listing 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 instruments to be launched in the Indian markets, followed by index options in June 2001, options in individual stocks in July 2001, and futures on single stocks derivatives in November 2001. Since then, equity derivatives have come a long way.[8]

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.

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

Products Available

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

Charges

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

Total Traded Value in a Month	Revised Transaction Charges (₹ per Lakh of Traded Value)
Up to first ₹ 2500 crore	₹ 1.90 each side
More than ₹ 2500 crore and up to ₹ 7500 crore (on incremental volume)	₹ 1.85 each side
More than ₹ 7500 crore and up to ₹ 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	0.01	Price at which such futures are traded	Seller

Clearing and Settlement

The National Securities Clearing Corporation Limited (NSCCL) undertakes the clearing and settlement of all trades executed on the futures and options (F&O) segment of the NSE. Index as well as stock options and futures are cash settled (i.e., through the exchange of cash).

Eligibility Criteria for Stocks for F&O Trading

- The stock is chosen from amongst the top 500 stocks in terms of average daily market capitalisation and average daily traded value in the previous six months on a rolling basis.
- The stock's median quarter-sigma order size over the last six months should be not less than ₹ 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 shall be issued on that security.

However, the existing unexpired contracts may 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 on new securities that meet these eligibility criteria, subject to approval by the SEBI.

Further, once the stock is excluded from the F&O list, it shall not be considered for re-inclusion for a period of one year.

Eligibility Criteria for Indices for F&O Trading

The exchange may consider introducing derivative contracts on an index if the stocks contributing to 80 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 shall be permitted to trade till expiry and new strikes may 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®).[9] The SPAN® system is used for the computation of online margins based on the parameters defined by the SEBI.

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

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 (As of September 2014)

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		139 securities		CNX Nifty	CNX Nifty	CNX Nifty
Security Descriptor							
Instrument	FUTIDX	OPTIDX	FUTSTK	OPTSTK	FUTIDX	OPTIDX	OPTIDX
Option Type	-	Call European/ Put European	-	Call European/ Put European	-	Call European/ Put European	Call European/Put European
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 percent of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	Operating range of 10 percent of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	Operating range of 10 percent of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	A contract specific price range based on its delta value is computed and updated on a daily basis

- **w.e.f April 1, 2013**

Contract Specifications for India VIX Futures

NVIX Futures Contract Specifications	
Underlying	India VIX Index
Symbol	INDIAVIX
Instrument Type	FUTIVX
Market Type	N
Lot Size	550
Quotation Price	India VIX Index X 100
Contract Value	Minimum ₹ 10 lakhs at the time of introduction
Tick Size	₹ 0.25
Quantity Freeze	15000
Trading Hours	9:15 AM to 3:30 pm
Expiry Date	Every Tuesday of the week
Contract Cycle	Weekly - 3 serial contracts
Spread Contracts	Near-Mid, Near-Far & Mid-Far
Price Range	Operating Range of 10 percent of the base price.
Base Price	Daily Settlement Price of the contract
Daily Closing Price	Volume Weighted Average Futures Price of trades in the last half an hour or theoretical price.
Final Settlement Price	Closing price of the underlying index
Final Settlement Procedure	Cash Settlement
Final Settlement day	All open positions on expiry date shall be settled on the next working day of the expiry date (T+1)

- * **Understanding Contract Price of India VIX Futures** For ease of trading the India VIX futures price shall be quoted as expected India VIX index value *100. If trader wants to buy or sell contracts of India VIX futures at 18.1475, then the price to be quoted shall be ₹ 1814.75.
- # As of September 2014

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 = ₹ 2,50,000)	–
Tick Size	0.25	0.05
Trading Hours	As in the equity derivative segment	
No. of strikes/strike intervals	12-1-12 strikes with 5 point interval and further 4-4 strikes of 10 point interval.	
Expiry Date	Third Friday of the respective contract month. In case the third Friday is a holiday in U.S.A 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 areEuropean styled, which can be exercised only on the expiration date.
Daily Settlement Price	Last half hour's weighted average price	Daily premium settlement
Final Settlement Price	All open positions at close of last day of trading shall be settled to the Special Opening Quotation (SOQ) of the S&P 500 Index on the date of expiry. (http://www.cmegroup.com/trading/equity-index/files/SOQ.pdf)	
Final Settlement Procedure	Final settlement will be cash settled in INR based on final settlement price.	Final settlement will be cash settled in INR based on final settlement price. Long positions of in-the-money contracts shall be assigned to open short positions in option contracts.
Final Settlement Day	All open positions on expiry date shall be settled on the next working day of the expiry date (T+1).	
Position Limits	The Trading member/Mutual funds position limits as well as the disclosure 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 5900, then the notional value would be 5900 x 50 = ₹ 2,95,000)	--
Tick Size	1	0.05
Trading Hours	As in the equity derivative segment. Expiry day: 2:45 pm or 3:30 pm	
No. of strikes/strike intervals	8-1-8 (100 point interval)	

	Future Contracts	Option Contracts
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 only 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 10000, then the notional value would be 10000 x 25 = ₹ 2,50,000)
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 as well as 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 1000 US Dollars	1-1 unit denotes 1000 Euro	1-1 unit denotes 1000 Pound Sterling	1-1 unit denotes 100000 Japanese Yen
Underlying/Order Quotation		The exchange rate in Indian Rupees for US Dollars	The exchange rate in Indian Rupees for Euro	The exchange rate in Indian Rupees for Pound Sterling	The exchange rate in Indian Rupees for 100 Japanese Yen
Tick size		0.25 paise or ₹ 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			
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 percent of base price			
	Tenure greater than 6 months	+/- 5 percent of base price			
Position Limits	**Clients**	Lower of 6 percent of the total open interest or US $ 10 million	Higher of 6 percent of the total open interest or Euro 5 million	Higher of 6 percent of the total open interest or GBP 5 million	Higher of 6 percent of the total open interest or JPY 200 million
	Trading Members	Lower of 15 percent of the total open interest or US $ 50 million	Higher of 15 percent of the total open interest or Euro 25 million	Higher of 15 percent of the total open interest or GBP 25 million	Higher of 15 percent of the total open interest or JPY 1000 million
	Banks	Lower of 15 percent of the total open interest or US $ 100 million	Higher of 15 percent of the total open interest or Euro 50 million	Higher of 15 percent of the total open interest or GBP 50 million	Higher of 15 percent of the total open interest or JPY 2000 million

Symbol	USD-INR	EUR-INR	GBP-INR	JPY-INR
Initial Margin	SPAN-based margin			
Extreme Loss Margin	1 percent of MTM value of the gross open position	0.3 percent of MTM value of the gross open position	0.5 percent of MTM value of the gross open position	0.7 percent of MTM value of the gross open position
Calendar Spreads	₹ 400 for spread of 1 month	₹ 700 for spread of 1 month	₹ 1500 for spread of 1 month	₹ 600 for spread of 1 month
	₹ 500 for spread of 2 months	₹ 1000 for spread of 2 months	₹ 1800 for spread of 2 months	₹ 1000 for spread of 2 months
	₹ 800 for spread of 3 months	₹ 1500 for spread of 3 months and more	₹ 2000 for spread of 3 months and more	₹ 1500 for spread of 3 months and more
	₹ 1000 for spread of 4 months and more			
Settlement	**Daily settlement**: T+1 **Final settlement**: T+2			
Mode of Settlement	Cash settled in Indian Rupees			
Daily Settlement Price (DSP)	Calculated on the basis of the last half an hour weighted average price			
Final Settlement Price (FSP)	RBI reference rate	RBI reference rate	Exchange rate published by the RBI in its Press Release captioned "RBI reference Rate for US$ and Euro"	Exchange rate published by the RBI in its Press Release captioned "RBI reference Rate for US$ and Euro"

Transaction Charges for Currency Futures

Total Traded Value in a Calendar Month Per Member	Transaction Charges (₹ per lakh of traded value)
Up to ₹ 2500 crore	₹ 1.15 each side
More than ₹ 2500 crore up to ₹ 7500 crore (on incremental volume above ₹ 2500 crore)	₹ 1.10 each side
More than ₹ 7500 crore up to ₹ 15,000 crore (on incremental volume above ₹ 7500 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 US $ 1000
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 percent of total open interest or US $ 10 million **Trading Members**: Higher of 15 percent of the total open interest or US $ 50 million **Banks**: Lower of 15 percent of the total open interest or US $ 100 million
Initial Margin	SPAN-based margin
Extreme Loss Margin	1.5 percent of 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 - NSE Bond Futures II

Instrument Type	FUTIRC	
Symbol	883GS2023	840GS2024
	The symbol shall denote coupon, type of bond and Maturity Year. For example 8.40 percent Central Government Security having maturity on July 28, 2024 shall be denoted as 840GS2024	
Underlying	Futures contracts based on 8.83 percent Central Government Security having maturity on November 25, 2023	Futures contracts based on 8.40 percent Central Government Security having maturity on July 28, 2024
Market Type	N	
Unit of trading	₹ 2 lakhs face value of GOI securities equivalent to 2000 units. Members shall place orders in terms of number of lots.	
Quotation	Similar to the quoted price of GOI security	
Contract Value	Quoted price * 2000	
Tick size	₹ 0.0025	
Trading hours	Monday to Friday 9:00 a.m. to 5:00 p.m.	
Contract trading cycle	Three serial monthly contracts	
Spread Contract	Near-Mid, Near-Far & Mid-Far All spread orders shall be placed in terms of price difference only.	
Last trading day	Last Thursday of the month. In case the last Thursday is a trading holiday, the previous trading day shall be the expiry/last trading day	
Quantity Freeze	1251 lots or greater i.e. orders having quantity up to 1250 lots shall be allowed.	
Base price	Theoretical future price of the 1st day of the contract. On all other days, daily settlement price of the contract.	
Price operating range	+/-3 percent of the base price (Whenever a trade in any contract is executed at the highest/lowest price of the band, Exchange may expand the price band for that contract by 0.5 percent in that direction after 30 minutes after taking into account market trend. Price band may be relaxed only 2 times during the day)	
Daily Settlement	Daily MTM settlement on T+1 in cash based on daily settlement price	
Final Settlement	Final settlement on T+1 day in cash based on final settlement price	
Daily Settlement Price	Volume Weighted Average Futures Price of last half an hour or Theoretical price	
Final Settlement Price	Weighted average price of the underlying bond based on the prices during the last two hours of the trading on NDS-OM. If less than 5 trades are executed in the underlying bond during the last two hours of trading, then FIMMDA price shall be used for final settlement	

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

Symbol	91DTB	
Market Type	Normal	
Instrument Type	FUTIRT	
Unit of Trading	One contract denotes 2000 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 percent p.a., the quote shall be 100 - 5 = ₹ 95)	
Contract Value	₹ 2000 * (100 - 0.25 * *y*), where *y* is the futures discount yield (e.g., for a futures discount yield of 5 percent p.a., the contract value shall be 2000 * (100 - 0.25 * 5) = ₹ 1,97,500)	
Quantity Freeze	7001 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 percent of the base price	
Position Limits	**Clients**	6 percent of total open interest or ₹ 300 crore, whichever is higher
	Trading Members	15 percent of the total open interest or ₹ 1000 crore, whichever is higher
Initial Margin	SPAN®-based, subject to a minimum of 0.1 percent of the notional value of the contract on the first day and 0.05 percent of the notional value of the contract thereafter.	
Extreme Loss Margin	0.03 percent of the notional value of the contract for all gross open positions	
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	₹ 2000 * daily settlement price	
Final Contract Settlement Value	₹ 2000 * (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 Portfolio Investors

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

Eligibility Criteria of Foreign Portfolio Investors

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

i) The applicant is not a resident of India.

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

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

iv) The applicant is not resident of a country which is identified in the public statement of Financial Action Task Force as:

   a) a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply.

   b) a jurisdiction that has either not made sufficient progress or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.

v) The applicant is not a non-resident Indian.

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

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

Categories of Foreign Portfolio Investor

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

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

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

   - Appropriately regulated broad based funds such as mutual funds, investment trusts, insurance/reinsurance companies.
   - Appropriately regulated persons such as banks, asset management companies, investment managers/advisors, portfolio managers.
   - broad based funds that are not appropriately regulated but whose investment manager is appropriately regulated, provided that the investment manager of such broad based fund is itself registered as Category II FPI.

   Broad based fund will mean a fund, established or incorporated outside India, having at least 20 investors, with no investor holding greater than 49 percent of the shares or units of the fund. If the fund has an institutional investor who holds more than 49 percent of the shares or units of the fund, then such an institutional investor must itself be a broad based fund.

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

Investment Restrictions

1) A foreign portfolio investor is allowed to invest only in the following securities, namely
   i) Securities in the primary and secondary markets including shares, debentures and warrants of companies which are listed or to be listed on a recognized Indian stock exchange.
   ii) Units of schemes floated by listed or unlisted domestic mutual funds.
   iii) Units of schemes floated by a collective investment scheme.
   iv) Derivatives traded on a recognized stock exchange.
   v) Treasury bills and dated government securities.
   vi) Commercial papers issued by an Indian company.
   vii) Rupee denominated credit enhanced bonds.
   viii) Security receipts issued by asset reconstruction companies
   ix) Perpetual debt instruments and debt capital instruments, as specified by the RBI from time to time.
   x) Listed and unlisted non-convertible debentures or bonds issued by an Indian company in the infrastructure sector.
   xi) Non-convertible debentures or bonds issued by Non-banking Financial Companies categorized as ' Infrastructure Finance Companies' (IFCs) by RBI.
   xii) Rupee denominated bonds or units issued by infrastructure debt funds
   xiii) Indian Depository Receipts.
2) Where a FII or a sub account, prior to commencement of these regulations, holds equity shares in a company whose shares are not listed on a recognized stock exchange, and continues to hold such shares after initial public offering and listing thereof, such shares will be subject to lock-in for the same period, if any, as is applicable to shares held by a FDI placed in a similar position.
3) In respect of investments in the secondary market, a FPI shall hold, deliver or cause to be delivered securities only in dematerialized form. Provided that any shares held in non-dematerialized form before the commencement of these regulations, can continue to be held in that form, if such shares cannot be dematerialized.
4) The purchase of equity shares of each company by a single FPI or an investor group shall be below 10 percent of the total issued capital of the company.
5) A FPI can lend or borrow securities according to the framework specified by SEBI in this regard.

Conditions for issuance of offshore derivative instruments

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

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

General Obligations and Responsibilities

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

Payment of fees

A FII or sub account who has been granted registration by SEBI prior to the commencement of these regulations will be required to pay conversion fees of US $ 1000 to SEBI on or before the expiry of its registration as a FII or sub account, in order to buy, sell or otherwise deal in securities. However, no fee should be payable by the applicant which is an international/multilateral agency, established outside India for providing aid, which have been granted privileges and immunities from payment of tax and duties by the Central Government. Category I FPIs will be exempted from the payment of registration fees. However, Category II and Category III FPIs should pay registration fees of US $ 3000 and US $ 300 respectively to SEBI (can be amended from time to time) for every 3 year period ,till the validity of its registration.

9. 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.

iv. An FVCI should disclose the duration of the life cycle of the fund

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

General Obligations and Responsibilities

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

Risk Management

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

May prosperity always bloom

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