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Indian Securities Market A Review

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A Review

Indian Securities Market

Volume XVIII 2015

This publication reviews the developments in the securities market in India

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Indian Securities Market
A Review

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ABBREVIATIONS

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

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

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

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

MMMF	Money Market Mutual Fund
MNCs	Multi National Companies
MOU	Memorandum of Understanding
MoF	Ministry of Finance
MTM	Mark-To-Market
NASDAQ	National Association of Securities Dealers Automated Quotation System
NAV	Net Asset Value
NBFCs	Non-Banking Financial Companies
NCDs	Non-convertible Debentures
NCDS	Non-convertible Debt Securities
NCFM	NSE's Certification in Financial Markets
NDS	Negotiatied Dealing System
NEAT	National Exchange for Automated Trading
NGOs	Non-Government Organisations
NIBIS	NSE's Internet-based Information System
NPAs	Non Performing Assets
NRIs	Non Resident Indians
NSCs	National Saving Certificates
NSCCL	National Securities Clearing Corporation of India Limited
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
NDS-OM	Negotiated Dealing System-Order Matching
OCBs	Overseas Corporate Bodies
ODIs	Offshore Derivative Instruments
OECLOB	Open Electronic Consolidated Limit Order Book
OFS	Offer for Sales
OLTL	On-line Trade Loading
OPMS	On-line Position Monitoring System
ORS	Order Routing System
OSL	Open Strata Link
OTC	Over the Counter
OTCEI	Over the Counter Exchange of India Limited
OTM	Out-of the-Money
P/E	Price Earning Ratio
PAN	Permanent Account Number
PCDs	Partly Convertible Debentures
PCM	Professional Clearing Member

PDAI	Primary Dealers Association of India
PNs	Participatory Notes
PDO	Public Debt Office
PDs	Primary Dealers
PE	Private Equity
PFI	Public Finance Institution
PFRDA	Pension Fund Regulatory Development Authority
PIPE	Private Investment in Public equity
PIS	Portfolio Investment Scheme
PRI	Principal Return Index
PRISM	Parallel Risk Management System
PSUs	Public Sector Undertakings
PV	Present Value
QIBs	Qualified Institutional Buyers
QIP	Qualified Institutional Placement
QFIs	Qualified Foreign Investors
RBI	Reserve Bank of India
ROCs	Registrar of Companies
RTA	Registrar Transfer Agent
RTGS	Real Time Gross Settlement
SA	Stabilising Agent
SAST	Substantial Acquisition of Shares & Takeover
SAT	Securities Appellate Tribunal
SBTS	Screen Based Trading System
SCMRD	Society for Capital Market Research and Development
S&P	Standard and Poor's
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SAT	Securities Appellate Tribunal
SC(R)A	Securities Contracts (Regulation) Act, 1956
SC(R)R	Securities Contracts (Regulation) Rules, 1957
SCBs	Scheduled Commercial Banks
SDs	Satellite Dealers
SEBI	Securities and Exchange Board of India
SEC	Securities Exchange Commission
SECC	Stock Exchanges and Clearing Corporations
SGF	Settlement Guarantee Fund
SGL	Subsidiary General Ledger

SGX-DT	The Singapore Exchange Derivatives Trading Limited
SID	Scheme Information Document
SIPC	Securities Investor Protection Corporation
SLB	Securities Lending and Borrowing
SLR	Statutory Liquidity Ratio
SPAN	Standard Portfolio Analysis of Risks
SDL	State Development Loans
SOQ	Special Opening Quotation
SPICE	Sensex Prudential ICICI Exchange Traded Fund
SPV	Special Purpose Vehicle
SROs	Self Regulatory Organisations
SSS	Securities Settlement System
STA	Share Transfer Agent
STP	Straight Through Processing
STRIPS	Separate Trading of Registered Interest and Principal of Securities
SUS 99	Special Unit Scheme 99
T-Bills	Treasury Bills
TDS	Tax Deducted at Source
TFT	Trade for Trade
TM	Trading Member
TM-CM	Trading and Clearing Member
TM-SCM	Trading and Self Clearing Member
TRI	Total Return Index
UIN	Unique Identification Number
USD-INR	United States Dollar – Indian Rupee
UTI	Unit Trust of India
VaR	Value at Risk
VCFs	Venture Capital Funds
VCUs	Venture Capital Undertakings
VSAT	Very Small Aperture Terminal
WAN	Wide Area Network
WAP	Wireless Application Protocol
WDM	Wholesale Debt Market Segment of NSE
WFE	World Federation of Exchanges
WTO	World Trade Organization
YTM	Yield to Maturity
ZCYC	Zero Coupon Yield Curve

Part I
Securities Market Developments

A. Market Review / Analysis

1. Introduction to Securities Market in India

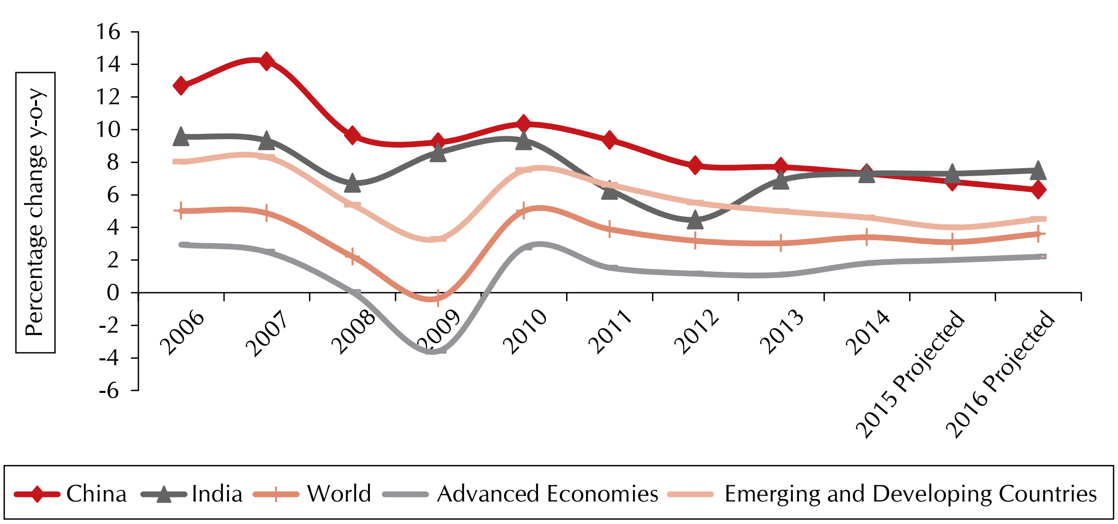
Section I: Macroeconomic Developments and Securities Markets

I. Global Macroeconomic Environment

I.1 Growth

Global economic recovery was slow in 2015, with vast majority of countries registering modest economic growth. Among the developed economies, the U.S. and Euro region economies performed well, but inter-country differences in macroeconomic conditions persisted in the latter. The Japanese economy, however, continued to suffer due to weak consumption demand and falling investment. The emerging market economies, barring India, also suffered on account of deteriorating structural bottlenecks, weak external demand, and shortage of external financing. Notably, China was severely impacted. The Chinese GDP growth has fallen from double digit rates in the last decade (2000-2010) to below 7% now.

Chart 1.1 IMF's Global GDP Growth Projections for 2015 and 2016



Source: WEO October 2015

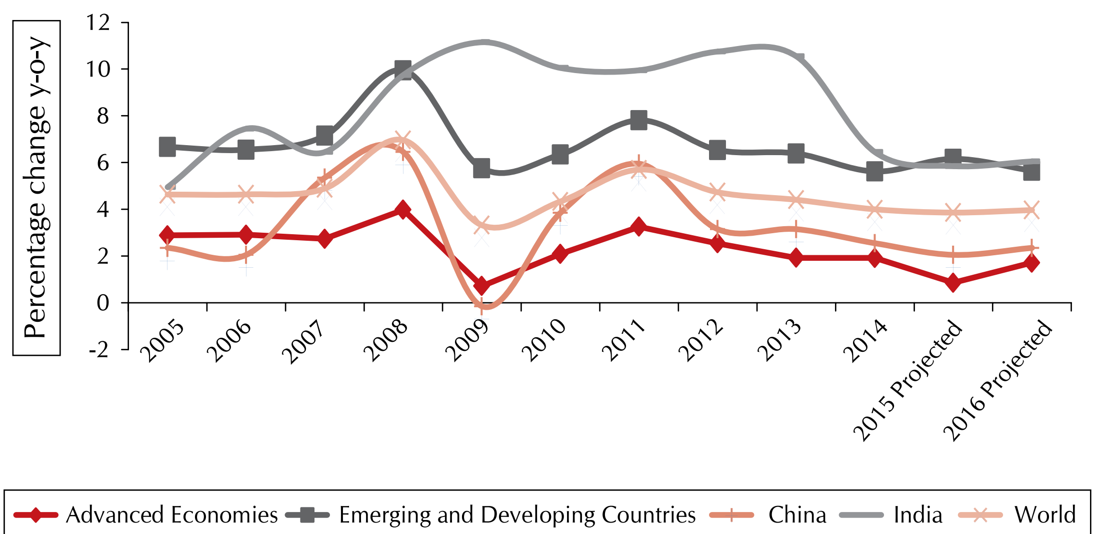
Going forward, the global economic recovery in 2016 is expected to continue to be weak, albeit a bit faster than in 2015. As per the IMF's most recent projections (October 2015), the world economy is expected to grow at modest rates of 3.1% in 2015 and 3.6% in 2016 (Chart 1.1). There may, however, be some bright spots. Advanced economies such as the U.S, and the Euro region have begun to show positive and sustained signs of recovery in terms of falling unemployment rates and rising investments. Such trends are likely to continue. Japan is expected to bounce back into positive territory of economic growth; however, the high fiscal deficit of the Japanese economy (6.9% as of April 2015) will continue to act as a drag on Japan's economic growth.

Emerging market economies will continue to face challenges. IMF has projected negative growth rates for Brazil and near-zero growth rate for Russia. China is expected to grow at sub 7% in the coming years, as it transforms into a consumer driven economy from an investment driven economy. The Indian economy, assisted by strong macroeconomic fundamentals such as low current account deficit and rising forex reserves and low inflation, will overtake China to become the fastest growing major economy in the world.

I.2 Inflation

Inflation in the advanced economies has declined mainly because of fall in crude oil prices, weakening of commodity prices, and weak consumption demand from a number of countries that are facing lower than expected inflation. As regards the emerging markets, the lower prices of oil and other commodities have also contributed to a reduction in inflation; the notable exception being countries whose currency faced sizeable depreciation, such as Russia. Moving forward, as indicated in Chart 1.2, inflation in the world economy is expected to moderate further —albeit marginally— from 3.3 % (projected) in 2015 to 3.4 % (projected) in 2016.

Chart 1.2 IMF's Global Inflation Projections for 2015 and 2016



Source: WEO October 2015

I.3 Major global developments of 2015

The major global events that shaped the global economy in 2015 can be summarised as follows:

Major slump in crude oil prices: Crude oil prices have fallen dramatically by about 60% since October 2014. The rise in the global excess supply can be seen from Chart 1.3, which plots the global crude oil supply against demand. The main reasons for the sharp fall in crude oil price include:

a. Lifting of economic sanctions against Iran in June 2015, which is expected to increase the world crude oil output by 3 million barrels per day;

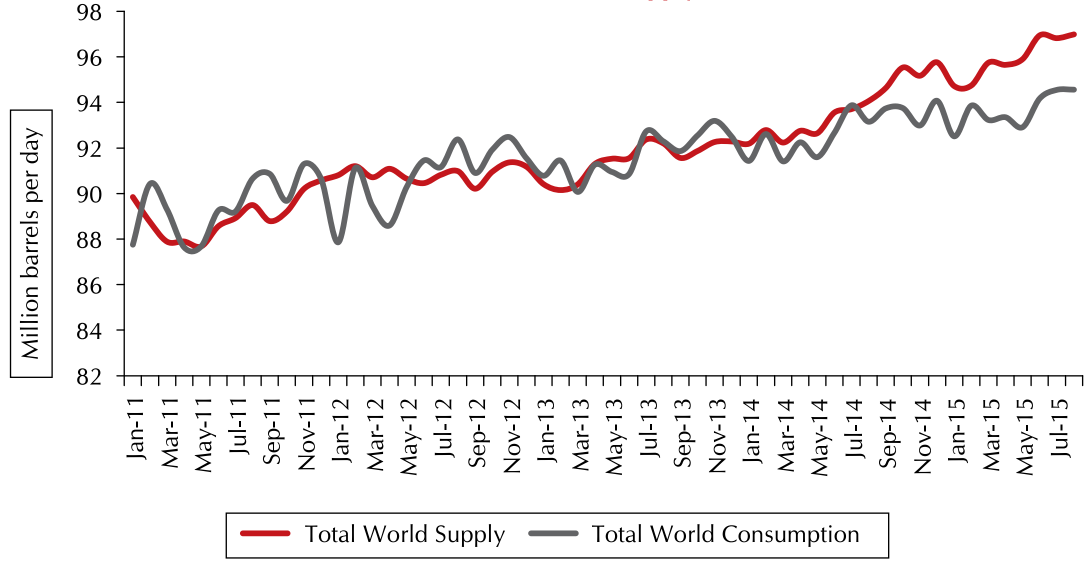
b. Organization of the Petroleum Exporting Countries' (OPEC) decision in December 2014 to maintain the current production level despite a sharp fall in prices;

c. Steady rise in oil production from non-OPEC countries, especially the US;

d. Stiff competition among oil producers;

e. Continuing sluggish growth in the world economy.

Chart 1.3: Global Demand and Supply of Crude Oil



Source: U.S. Energy Information Agency

Slowdown of the Chinese economy: China's growth rate decelerated from 7.8% in 2013 to 7.4% in 2014; the slowdown is expected to continue in 2015 and 2016. The growth deceleration of China has resulted from the slowing of domestic demand, loss in the competitiveness of Chinese exports and a weakening of investor sentiment. Government interventions such as continuous policy rate cuts (5 rate cuts from November 2014 to August 2015) and infusion of liquidity in the Chinese economy could hardly boost the investor sentiment. Instead, these measures have resulted in excessive volatility of the Chinese stock market in 2015. A high debt burden–with the total debt to GDP stood ratio of 250% at the end of 2014– also does not bode well for the country's economic fortunes.

Divergent monetary policy stance by central banks across developed nations: Ever since the onset of the global financial crisis in mid-2008, the central banks of developed countries have maintained an accommodative monetary policy stance. This has provided support to the real economy, and also improved liquidity in the system. Central banks such as the ECB and the Bank of Japan are continuing with this stance[1], while the US has begun its policy reversal. The US Fed, which raised its policy rate (Fed Fund rate) from 0 - 0.25 % to 0.25 – 0.50 % in December 2015, has indicated that it would raise the policy rate gradually in coming months; the expectation is that the Fed Fund rate will reach 1.4 % by the end 2016 as against 0.25% now.

Stagnation in the Euro area: The Eurozone economic growth, estimated at 1% in 2014, is expected to accelerate to 1.5% and 1.6% in 2015 and 2016, respectively, according to the IMF estimates. The (high) unemployment rates and (low) inflation scenarios continue to pose threats to the future growth of the Eurozone.

Large exchange rate movements: Exchange rate movements in 2015 certainly reflected the change in the expectations of the growth and monetary policies of the major developed economies. The US dollar saw a real effective appreciation of around 11% from October 2014 to September 2015. The Chinese Yuan saw many policy interventions during the year aimed at improving the competitiveness of the currency. The Euro as well as the Yen depreciated by around 7% in 2015. The currencies of major oil exporters such as Russia also depreciated during the year, driven mainly by falling

[1] European Central Bank (ECB) has promised to further its quantitative easing (QE) programme and similar action is expected from the Bank of Japan (BoJ)

crude oil prices. There is a possibility of a currency war among the emerging markets--resulting from their individual attempts to gain market share in a scenario of weak global demand; this may hurt the global economy. It may however be noted that exchange rate movements redistribute demand across countries, thereby primarily affecting the relative economic prospects rather than the global growth.

Box 1.1: Commodity Market Developments

Commodity prices have declined significantly after experiencing large swings in 2014–2015 and Q1 of 2015–2016. Crude oil and metals were the key drivers of the significant fall in commodity prices. Overall, between February 2015 and September 2015, commodity prices fell by 14%, as measured by the IMF's commodity price index.

Global excess supply in oil (the difference between global production and global consumption) continued to increase in 2015 primarily on account of strong supply. The OPEC countries particularly have been increasing production despite falling oil prices. On the demand side, although the overall demand continues to remain firm at present, concerns about the future continue to haunt the oil sector.

Metal prices have declined by 13% since February 2015. Prices of metals initially rebounded on account of supply concerns, but subsequently they faced downward pressure owing to China's currency decline and stock market corrections. China accounts for roughly half of the global demand for major base metals.

The prices of agricultural commodities have also declined by 8% between February 2015 and September 2015. Annual food prices are projected to decline by 17% in 2015 as supply growth, together with high stockpiles, outpaces slower increases in demand.

II. Macroeconomic Environment in India

In 2015, India experienced a reversal in the slowdown experienced in the previous years, registering a growth rate of 7.3% (WEO October 2015). India currently enjoys a relatively high degree of stability on the macroeconomic front. It is widely recognized that such stability is a prerequisite for remaining on a sustained high growth trajectory. However, it is not a sufficient condition. Sustaining high growth rates, especially in a global environment that is looking somewhat fragile, will require a series of policy reforms, which may be challenging.

II.1 Economic Growth

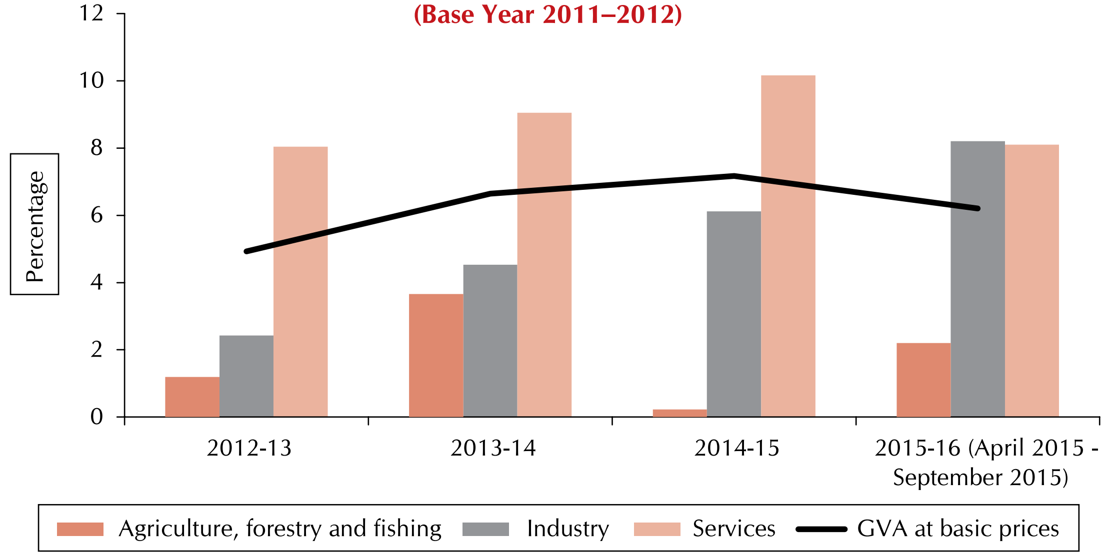
In India, economic recovery has taken place in 2014-15 and the outlook for the current fiscal (2015-16) is optimistic. As has been the trend in the past couple of decades, the service sector continues to be the chief contributor to growth. The manufacturing sector also has showed improvement over time, whereas the contribution of the agricultural sector has remained weak and volatile (See Chart 1.3).

The Indian economy is expected to grow at 7.5% in FY16 compared to 7.2% in FY15, primarily led by the services and industry sectors. Growth in the agricultural sector is expected to remain subdued in line with the trend of the past decade. Some of the major factors supportive of India's high growth projection are: (i) continued thrust on structural reforms, (ii) increasing capital expenditure by government and (iii) subdued global crude oil and commodity prices. Further, as growth momentum picks up in major global economies, the external demand for the manufacturing and services sectors' goods is expected to grow.

Notwithstanding these supportive factors, there are credible risks to India's growth story, particularly: (i) stalled projects remain a concern as they hurt investor sentiment, raise bank NPAs and also crowd out additional private investments in the country; the passage of the pending Land Acquisition Bill will be crucial in this respect; (ii) any sudden and sharp spike in global crude oil prices, possibly due to geopolitical reasons; and (iii) prolonged stagnation in the developed countries thwarting the demand for Indian exports.

The Central Statistical Organisation (CSO) has revised the mechanism for calculating the gross domestic product (GDP) and has also changed the base year for calculating GDP from 2004-05 to 2011-12. For calculating growth, the new mechanism takes into account the gross value added at market prices, thus incorporating an improved methodology as per international best practices.

Chart 1.4: Growth (%) in Gross Value Added at Basic Prices (Base Year 2011–2012)



Source: CSO, November 2015

II.2 Inflation

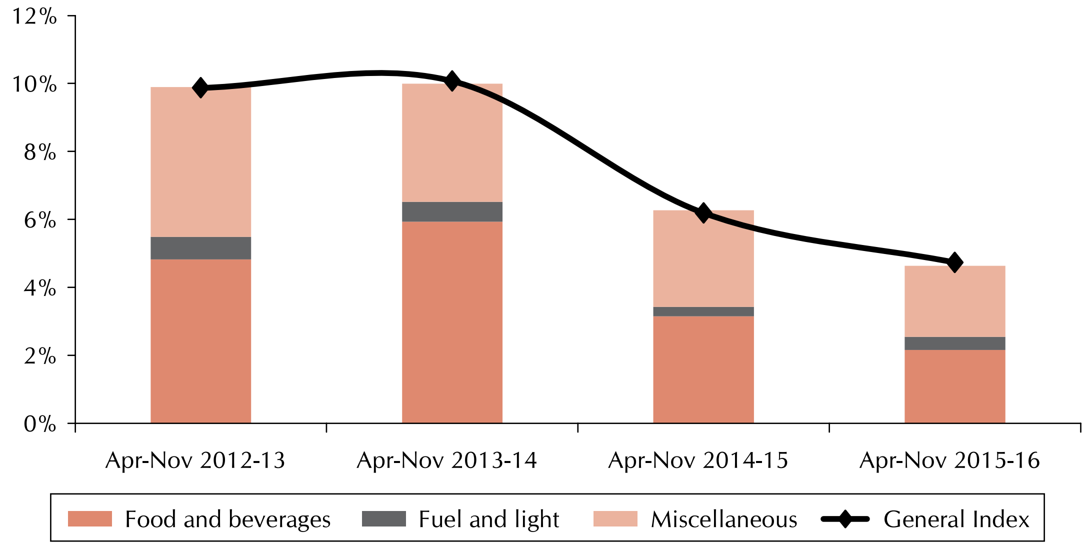
India's inflation, as measured by the Consumer Price Index (CPI), since October 2014 has remained well below the RBI's target rate of 6%. According to the Annual Report of the Reserve Bank of India (RBI) (August 2015), the average CPI inflation in 2014–2015 was 5.9%, significantly lower than 9.5% reported in 2013–2014. In FY16, the average CPI inflation is projected to be contained below 6% in the backdrop of lower oil prices (due to the global supply glut), subdued international prices of commodities (such as minerals) and proactive food supply management by the government. Several factors, however, may push inflation higher such as below-normal monsoon rainfall, sticky prices of some food items (pulses and oilseeds) and the waning base effect from September 2015 onwards. Monsoon in particular will play an important role in the inflationary outlook, since food accounts for 45 percent weight in the CPI basket. Overall, it is widely believed that consumer price inflation will remain within the target range of 2-6 percent in 2016. A stricter control over inflation in the wake of the 'inflation targeting regime [2]' would be a positive for the securities market.

Following the declining trend of CPI inflation in the year 2015, the RBI reduced the repo rate by 125 bps during the period January 2015 to December 2015, maintaining an accommodative stance. Commercial banks, in turn, have responded by reducing the lending rates by only 70 bps during the same time, possibly because of the high NPA levels in the system. Nevertheless, the persistence of lower actual inflation than the targeted level of 6 percent may encourage the RBI to continue its current accommodative monetary policy stance and opt for more rate cuts in 2016.

Of the three major constituent groups of CPI, namely (a) food, (b) fuel, and (c) categories excluding food and fuel, the food component had the maximum contribution to the decline of inflation, with fuel contributing only marginally because of its relatively lower weight (Chart 1.5).

[2] In 2015, the central government and the RBI agreed on flexible inflation targeting regime, according to which inflation targets have been set at 6% CPI inflation by January 2016, and 4% for 2016–2017, with a band of +/- 2%.

Chart 1.5: Contribution to CPI Inflation (Base Year 2011–2012)



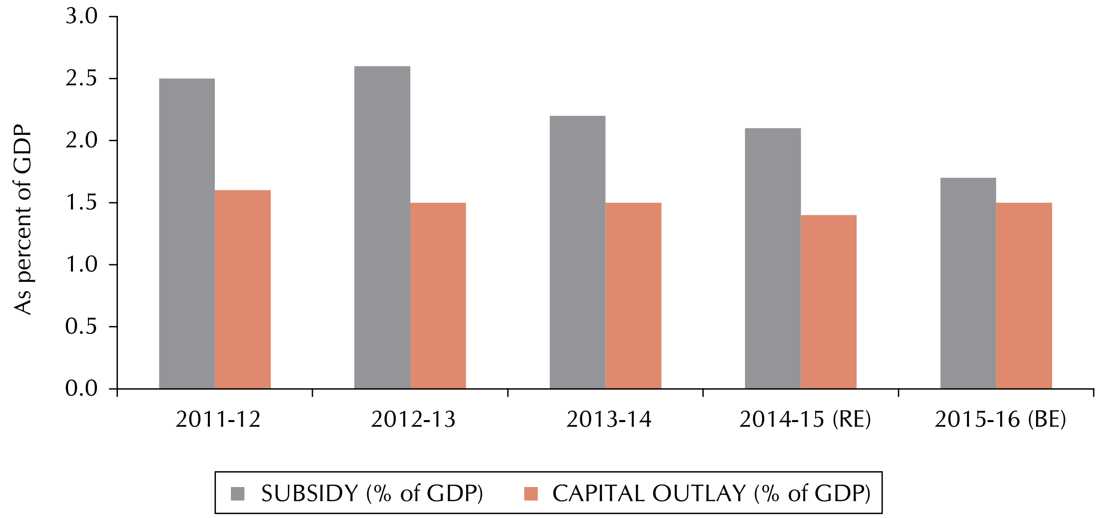
Source: CMIE

II.3 Fiscal scenario

According to the RBI's Annual Report (August 2015), the state of India's public finances have been gradually improving at both the central and state levels. The renewed goals of fiscal consolidation are aimed at re-ordering the expenditure priorities from subsidies to investment, rationalising non-developmental spending, and containing public debt at sustainable levels. As per the Union Budget 2015–2016, the fiscal deficit target of the Central Government for 2015-16 has been estimated at 3.9% of the GDP (as against 4% of the GDP in 2014–2015), and the revenue deficit has been estimated at 2.8% of the GDP (as against 2.9% of the GDP in 2014–2015). The targeted reduction in gross fiscal deficit is proposed to be attained by a compression in revenue expenditure combined with a reduction in non-debt capital receipts. The target for the gross fiscal deficit to GDP ratio of 3% under the FRBM Act has been shifted from 2016-17 to 2017–2018 to accommodate higher public investment.

The Union Budget 2015–2016 envisaged a re-orientation of government expenditure, with capital expenditure budgeted to grow at 29% at the cost of expenditure on subsidies, which is expected to decline as a percent of GDP. For this, it is important to realise the budgeted revenue on the one hand, and to adhere to the budgeted expenditure on subsidies on the other. Over the past several years, the government's subsidy expenditure has far exceeded its capital expenditure; in the last few years, however, the gap between the two is narrowing particularly because of cuts in subsidy expenditure (See Chart 1.6).

Chart 1.6: Subsidy and Capital Outlay



Source: Annual Report, RBI: August 2015

On the revenue side, the projected growth of 16% in gross tax revenue in 2015–2016 is expected to improve the ratio of gross tax revenue to GDP. However, the tax buoyancy for gross tax revenue at 1.31 % (Table 1.1) in 2015–2016 is significantly higher than what was realised in 2014–2015 (according to provisional estimates). [3] The projected buoyancy of 1.7% (Table 1.1) in the case of excise duty collections is mainly supported by the hikes in excise duty on petrol, diesel, and other products in 2014–2015. Non-tax revenue is budgeted to grow at approximately 13% in 2015–2016, while the divestment proceeds are projected to increase by around 180%.

Table 1.1: Tax Buoyancy and Growth Rate in Tax Collections

Tax Categories	Tax Buoyancy			Growth Rates (%)		
	2013–14	2014–15 (PA)	2015–16 (BE)	2013–14	2014–15 (PA)	2015–16 (BE)
Gross Tax Revenue	0.73	0.89	1.31	9.9	9.3	16.4
Corporation Tax	0.79	0.82	0.78	10.8	8.7	9.7
Income Tax	1.55	0.82	1.93	21	8.6	24.2
Customs Duty	0.3	0.88	0.86	4.1	9.3	10.8
Union Excise Duty	-0.24	1.05	1.73	-3.2	11.1	21.6
Service Tax	1.23	0.81	1.99	16.7	8.5	24.9

PA: Provisional accounts; BE: Budget estimates
Source: Annual Report, RBI (August 2015)

II.4 External sector

In 2014-15, India's external sector was positively affected by global developments such as a slump in commodity prices, particularly crude oil prices. However, the combination of weak global demand for Indian products and services, the effect of the decline in crude oil prices on India's petroleum exports, and the continued real appreciation of the rupee played a part in the export contraction in the latter part of 2014–2015. Major sectors affecting exports such as petroleum products, oil meals, electronic goods, iron ore, and gems and jewellery dragged down the overall export performance

[3] Tax buoyancy explains the relationship between the changes in government's tax revenue growth and the changes in GDP. For example, a tax buoyancy of 1.5 means that tax revenue grows by 1.5%, when the GDP grows by 1 %.

in 2014–2015. With the decline in exports exceeding the decline in imports, the merchandise trade deficit widened marginally in 2014–2015 to USD 137 billion from USD 135.8 billion in 2013- 2014.

India's current account deficit (CAD) was estimated at 1.3% of the GDP (RBI's provisional estimates) in 2014–2015 (Table 1.2) as compared to 1.7% of GDP in 2013-14. However, there is a difference in the underlying reason for the relatively comfortable CAD in 2014-15 vis-à-vis 2013-14. The low CAD-GDP ratio in 2013–2014 was driven by the decline in gold imports (46% y-o-y decline in import value), whereas in 2014–15, it was driven by a fall in crude oil imports (16.1% y-o-y decline in import value). In the first half of 2015–2016 (April 2015 – September 2015), CAD was reported at 1.4% of GDP, as compared to 1.8 % of GDP in the corresponding period in 2014–2015.

Tax buoyancy explains the relationship between the changes in government's tax revenue growth and the changes in GDP. For example, a tax buoyancy of 1.5 means that tax revenue grows by 1.5%, when the GDP grows by 1 %.

Table 1.2: India's Overall Balance of Payments

	2010-11	2011-12	2012-13	2013-14	2014-15P
As a ratio of GDP					
1 Trade Balance	-7.5	-10.3	-10.7	-7.9	-7.0
2 Net Services	2.6	3.5	3.5	3.9	3.7
3 Net Income	-1.1	-0.9	-1.2	-1.2	-1.2
4 Current Account Deficit	-2.8	-4.2	-4.8	-1.7	-1.3
5 Capital Net (Exclude changes in reserves)	4.5	3.0	5.1	3.4	7.4
6 Foreign Investment, Net	2.5	2.1	2.5	1.4	3.6

P: Provisional
Source: RBI, August 2015

At the end of 2014–2015, India's external debt was US$ 475.8 billion, up from US$ 446.3 billion a year ago (Table 1.3). The external debt to GDP ratio remained broadly unchanged, as per the estimates provided by the Ministry of Finance. By end of September, 2015 India's external debt was reported at USD 483.2 billion.

Globally, India's debt position is comparable to that of its developing country counterparts, according to the World Bank's *International Debt Statistics, 2015*, which presents the debt data for 2013. The ratio of India's external debt stock to gross national income at 23% is the sixth lowest worldwide. while China has the lowest ratio at 9.5%.

Table 1.3: Key External Debt Indicators

Year	External Debt (US$ billion)	External Debt to GDP ratio (%)	Debt Service Ratio	Foreign Exchange Reserves (As % of Total Debt)
2006-07	172.4	17.5	4.7	115.6
2007-08	224.4	18.0	4.8	138.0
2008-09	224.5	20.3	4.4	112.2
2009-10	260.9	18.2	5.8	106.9
2010-11	317.9	18.2	4.4	95.9
2011-12	360.8	20.9	6.0	81.6
2012-13	409.5	22.3	5.9	71.3
2013-14 PR	446.3	23.6	5.9	68.2
2014-15 QE	475.8	23.8	7.5	71.8
2015-16 (April 2015-September 2015)	483.2	NA	NA	72.5

PR: Partially revised; QE: Quick estimates
Source: Ministry of Finance, Government of India

References:

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Reform Initiatives and Policy Measures

Some of the important initiatives taken in the recent past are summarised below:

1. **Establishment of NITI Aayog.** The NITI (National Institution for Transforming India) Aayog was established by the Central Government in January 2015 to replace the Planning Commission. The NITI Aayog, with the Prime Minister as its Chairperson is expected to provide strategic and technical advice to the states on various issues.

2. **Fourteenth Finance Commission**. The Government of India accepted the recommendations of the Fourteenth Finance Commission to increase states' share in net proceeds of tax revenues to 42 per cent, a huge jump from the 32 per cent recommended by the 13th Finance Commission, the largest change ever in the percentage of devolution.

3. **Indian Strategic Storage Programme.** The Cabinet Committee on Economic Affairs approved the allocation of ₹ 4948 crore for gross budgetary support to the scheme for the Indian Strategic Storage Programme for the storage of crude oil by Indian Strategic Petroleum Reserves Limited.

4. **New 5-year foreign trade policy (FTP) for 2015–2020**. The new 5-year foreign trade policy (FTP) for 2015–2020 was unveiled, with a framework for increasing export as well as the generation of employment, and increasing value addition in the country, in keeping with the "Make in India" vision. It introduced two new schemes: "Merchandise Exports from India Scheme" (MEIS) for the export of specified goods to specified markets, and "Service Exports from India Scheme" (SEIS) for increasing the exports of notified services.

5. **Service tax rate at 14%.** The Central Government has notified that June 1, 2015 would be the date from which the revised service tax rate (14%) would become applicable. Subsequently, the provisions of levying education cess and secondary and higher secondary education cess would cease to have effect from the same date, as they would be subsumed under the service tax rate of 14%.

6. **Housing for All by 2022.** The Union Cabinet approved the launch of the "Housing for All by 2022" scheme, which is aimed at urban areas. Its essential features include: a) slum rehabilitation of slum dwellers with the participation of private developers using land as a resource; b) promotion of affordable housing for weaker sections through credit-linked subsidy; c) affordable housing in partnership with public and private sectors; and d) subsidy for beneficiary-led individual house construction or enhancement.

7. **Gold Monetization Scheme**. The Union Cabinet approved the introduction of the Gold Monetisation Scheme (GMS), as announced in the 2015–2016 Union Budget. The scheme aims to mobilise the gold held by households and institutions in the country, and to use this gold productively. The long-term objective of the scheme is to reduce the country's reliance on the import of gold to meet domestic demand.

8. **Pradhan Mantri Jan Dhan Yojana (PMJDY)**: The government launched the "Pradhan Mantri Jan Dhan Yojana" (PMJDY) in August 2014. The PMJDY aims to promote financial inclusion by providing each household with a bank account. The PMJDY proposes to channel all central, state, and local government benefits to the beneficiaries through these bank accounts.

5-Year Trend

Sector/Indicator	y-o-y growth rate (%)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Real Sector					
GDP at constant prices (base year: 2011-12)	9.1	6.7	4.9	6.6	7.2
Agriculture	8.7	5.0	1.2	3.7	0.2
Industry	7.8	7.7	2.4	4.5	6.1
Services	9.8	6.6	8.0	9.1	10.2
Consumer Price Index (average; index: 2012 = 100)	-	-	10.3	10.0	5.9
Financial Sector					
Money Supply (outstanding at end of period)	16.4	13.0	13.6	13.5	11.3
Bank credit to commercial sector (outstanding at end of period)	21.4	16.9	13.9	13.7	9.7
Securities Market Indicators					
Turnover (Daily average)					
Cash	-17.3	-19.6	-4.0	3.3	58.7
Equity F&O	59.1	9.3	0.8	20.2	49.5
Currency F&O*	86.5	31.7	11.3	-24.2	-23.1
Fiscal Sector					
Central Govt. Total Receipts	36.9	-4.2	16.7	14.7	8.2
Central Govt. Total Expenditure	17.0	8.4	8.1	10.9	5.5
Central Govt. Fiscal Deficit	-11.8	36.4	-5.1	3.7	-0.2
External Sector					
FDI (Inward)	-24.8	88.0	-38.6	8.4	27.3
FII (Net)	6.1	-41.3	64.1	-71.4	414.9
Export	40.6	21.9	-1.8	4.3	-1.5
Import	28.5	32.4	0.2	-8.5	-0.4

Memo Items					
Current Account Balance (% of GDP)	-2.6	-4.2	-4.7	-1.7	-1.3
Capital Account Balance (% of GDP)	3.6	3.6	4.7	1.7	1.3
91-day T-bill rates (end of period; %)	7.3	9.0	8.2	8.8	8.4
Central Government Debt (end of period; % of GDP)	49.9	46.7	47.5	47.6	50.0
Forex Reserves (end of period; US$ billion)	305.5	294.4	292.7	303.7	341.4

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

Section II: Structure and Trends of the Indian Securities Market in FY 2015

This section outlines the basic structure of the Indian securities market as it exists now, together with the broad trends in different segments of the market in 2014–2015.

Basic Market Structure

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 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 1.4). The process of mobilising resources is carried out under the supervision and overview of the regulators. The regulators regulate the conduct of the issuers of securities and the intermediaries and attempt to ensure fair market practices, so as to protect the interests of the investors. The regulators are also responsible for ensuring 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 1-4: Market Participants in Securities Market

Market Participants	FY 2012	FY 2013	FY 2014	FY 2015	As on Sep 30, 2015
Securities Appellate Tribunal (SAT)	1	1	1	1	1
Regulators*	4	4	4	4	4
Depositories	2	2	2	2	2
Stock Exchanges					
Cash Market	19	20	20	18	11
Equity Derivatives Market	2	3	3	3	3
Currency Derivatives Market	4	3	4	3	3
Brokers (Cash Segment)**	10,268	10,128	9,411	6,147	3,187
Corporate Brokers (Cash Segment)	4,877	5,113	4,917	3,757	2,771
Brokers (Equity Derivatives)	2,337	2,957	3,051	2,990	2,789
Brokers (Currency Derivatives)	2,173	2,330	2,395	2,406	1,984
Sub-brokers (Cash Segment)	77,141	70,242	51,885	42,351	37,629
Foreign Portfolio Investors	-	-	-		
Portfolio Managers	250	241	212	188	190
Custodians	19	19	19	19	19
Registrars to an issue & Share Transfer Agents	74	72	71	72	71
Merchant Bankers	200	198	197	197	189

Contd.

Contd.

Market Participants	FY 2012	FY 2013	FY 2014	FY 2015	As on Sep 30, 2015
Bankers to an Issue	57	57	59	60	62
Debenture Trustees	31	31	31	32	32
Underwriters	3	3	3	2	2
Venture Capital Funds	212	211	207	201	200
Foreign Venture Capital Investors	174	182	192	204	209
Mutual Funds	49	52	50	47	47
Collective Investment Management Company	1	1	1	1	1
KYC Registration Agency (KRA)	–	5	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
Notes:

1. *With the commencement of FPI Regime from June 1, 2014, the erstwhile FIIs, Sub Accounts and QFIs are merged into a new investor class termed as "Foreign Portfolio Investors (FPIs)".*
2. *With the commencement of FPI regime, all existing FIIs and SAs are deemed to be FPIs till the expiry of their registration. Figures for FPIs and Deemed FPIs are provided by NSDL.*
3. *The Hyderabad Securities and Enterprises Ltd (erstwhile Hyderabad Stock Exchange), Coimbatore Stock Exchange Ltd, Saurashtra Kutch Stock Exchange Ltd ,Mangalore Stock Exchange, Inter-Connected Stock Exchange of India Ltd, Cochin Stock Exchange Ltd, Bangalore Stock Exchange Ltd , Ludhiana Stock exchange Ltd, Gauhati Stock Exchange Ltd, Bhubaneswar Stock Exchange Ltd, Jaipur Stock Exchange Ltd, OTC Exchange of India, Pune Stock Exchange Ltd and Madras Stock Exchange Ltd. have been granted exit by SEBI vide orders dated January 25, 2013, April 3, 2013, April 5, 2013, March 3, 2014, December 08, 2014, December 23, 2014, December 26, 2014, December 30, 2014, January 27, 2015, February 09, 2015, March 23, 2015, March 31, 2015 and April 13, 2015 respectively.*
4. *SEBI vide order dated September 3, 2007 refused to renew the recognition granted to Magadh Stock Exchange Ltd.*
5. *Stock brokers and Sub-brokers of Inter connected Stock exchange, Cochin Stock Exchange, Bangalore Stock Exchange, and Ludhiana Stock Exchange, which were granted exit, are excluded.*
6. *United Stock Exchange of India Ltd. has stopped providing trading facilities to its members from 30th of December 2014 vide circular number: USE/CMPL/628/2014.*
7. *SEBI withdraw the recognition granted to Delhi Stock Exchange Limited dated November 19 2014.*

The securities market has two interdependent and inseparable segments, namely, the primary market and the secondary market. The primary market provides the channel for the creation and sale of new securities, while the secondary market deals with the securities that were issued previously. The securities issued in the primary market are issued by public limited companies or by government agencies. The resources in this kind of market are mobilised either through a public issue or through a private placement route. If *anybody* can subscribe to 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 the participants who hold securities to adjust their holdings in response to changes in their assessment of risks and returns. Once new securities are issued in the primary market, they are traded in the secondary market. The secondary market operates through two mediums, namely, the over-the-counter (OTC) market and the exchange-traded market. The OTC markets are 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 (trading day = T) are settled together after a certain time (T + 2 days). The trades executed on the exchanges are cleared and settled by a clearing corporation. The clearing corporation acts as a counterparty and guarantees settlement. One component of the secondary market is the forward market, where securities are traded for future delivery and payment. A variant of the forward market is the futures and options (F&O) market. Currently, trading in futures and options occurs mainly on two exchanges in India—the National Stock Exchange of India Ltd. (NSE) and the Bombay Stock Exchange (BSE).

Regulators

The absence of conditions for perfect competition in the securities market makes the role of the regulator extremely important. The regulator aim at ensuring 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 the sale and purchase of securities, gold-related securities, money market securities and securities derived from these securities, and ready forward contracts in debt securities are exercised concurrently by the RBI. The SEBI Act and the Depositories Act are mainly administered by SEBI. The rules under the securities laws are framed by the government and the regulations are framed 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. Self-regulatory organisations (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 international benchmarks and standards. Within a short span of time, these objectives have been realised, and the exchange has played a leading role in transforming the Indian capital market to its present form.

NSE has set up infrastructure that serves as a role model for the securities industry in terms of trading systems as well as 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. NSE 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.

Box 1.2: Rebranding of NSE Indices

India Index Services and Products Limited (IISL), an NSE group company, announced the rebranding of all existing IISL indices including CNX Nifty, CNX 100, CNX 200, CNX 500, and CNX Midcap. The rebranding was done with effect from November 9, 2015. The initiative rebranded all the existing indices to include "Nifty" in the name of its indices, as Nifty has become a strong brand name among the investors tracking the Indian capital markets. Nifty 50 options traded on NSE are the largest traded contract globally in the equity index options category. In addition to NSE, Nifty derivatives are also traded on Singapore Exchange Ltd., Chicago Mercantile Exchange Inc., and Osaka Exchange Inc. Further, 97% of the total assets under management of equity ETFs in India are linked to the Nifty family of indices.

NSE has played 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 demutualised setup, whereby the ownership, management, and trading rights are in the hands of three different sets of people. This has completely eliminated conflicts of interest and has helped NSE to aggressively pursue policies and practices within a framework that focuses on public interest. 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 endeavours in the area of clearing and settlement, namely, the reduction of the settlement cycle, the professionalization of the trading members, the implementation of a fine-tuned risk management system, the dematerialisation and electronic transfer of securities, and the establishment of a clearing corporation. Consequently, the market currently uses state-of-the-art technology to provide an efficient and transparent trading, clearing, and settlement mechanism.

NSE provides a trading platform for 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 the retail debt of government securities in January 2003, and currency futures trading in August 2008. Currency options' trading was started in October 2010. Derivatives on global indices such as S&P 500, Dow Jones Industrial Average (DJIA), and FTSE 100 have been introduced for trading on the NSE. The future contracts for trading on the DJIA and futures and options contracts on S&P 500 were introduced on August 29, 2011, while 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 Fixed Income Money Market and Derivatives Association of India (FIMMDA)—is used as the 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 and the NSE-VaR for fixed income securities have 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 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, EUR-INR, and 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; they were allowed for trading on August 31, 2009.

NSE launched the cash-settled interest rate futures on 21 January, 2014. On the first day of trading, contracts worth over ₹ 3,000 crore were traded in the new product. The contracts are based on the most liquid 10-year bonds.

Interest Rate Futures (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 settle the profit or loss in cash, without having the physical bond. This makes the IRF an independent derivative product that can be traded, apart from being used for genuine hedging purposes, something that was not allowed earlier.

NSE has also launched its futures contracts on the India Volatility Index (VIX) called NVIX to help investors hedge the near-term volatility risks in their equity portfolio. This is the first product 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 ₹ 325 crore, and 227 members participated in trading.

NSE has also offered a rebate on transaction charges for members in order to encourage participation in the product. NVIX futures will help market participants to hedge volatility risk, balance portfolios, and express views on expected volatility. NVIX futures are traded in NSE's F&O segment. All market participants are currently permitted to participate in the F&O segment.

Once again, the NSE is the market leader, with 77.8% of total turnover (volumes in cash market, equity derivatives, and currency derivatives) in 2013–2014. NSE proved itself to be the market leader, with 83.5% share in equity trading, and nearly 73.2 % share in the equity derivatives segment in 2014–2015 (Table 1.5).

Box 1.3: NSE MORE

NSE has continuously endeavoured to introduce new initiatives for market growth and development, and to enhance compliance and governance standards. One such initiative, launched by NSE in August 2015 is NSE-MORE. The scheme has been conceptualised with the objective of rewarding all types of trading members for maintaining a high degree of governance standards on a continuous basis. The scheme was launched on a pilot basis for trades done in currency futures in the currency derivatives segment of the exchange. The scheme will be effective from September 1, 2015 to March 31, 2016.

As per the scheme, a member registered for the scheme will earn points on a monthly basis, based on satisfying the following criteria:

1. 4 out of 6 compliances should be satisfied on all days of the month.
2. Active on 90% of the trading days in currency futures, or average daily turnover of ₹ 200 crore in currency futures.

The six parameters of compliance covered in the scheme are as follows:

1. No non-fulfilment of settlement obligations in Currency Derivative Segment
2. No position limit violation in Currency Derivative Segment
3. No CTCL mismatch
4. No breach in order to trade ratio in Currency Derivative Segment
5. No margin violation in Currency Derivative Segment
6. 100% participation in monthly mock trading

Table 1-5: Market segments on NSE for 2014-15 (Select indicators)

Segments	Market Capitalisation as of March 2015		Trading Value for 2014-15		Market share (in percent)
	₹ mn	US $ mn	₹ mn	US $ mn	
CM	99,301,220	1,624,161	43,296,550	708,154	83.5
Equity F&O	-	-	556,064,534	9,094,938	73.2
Currency F&O	-	-	30,23,9077	494,587	53.7
Total	**99,301,220**	**1,624,161**	**599,361,084**	**10,297,680**	**69.1**

Source: SEBI

Market Trends

a. Household Investments in India

According to the RBI data, investments in fixed income instruments accounted for 84% of the gross household financial savings during 2014–2015, which marked a decline in comparison to 2013–2014 (90%).

In the fiscal year 2014–2015, the share of bank deposits plunged from 61% of the gross financial savings in 2013–2014 to 47%. A corresponding increase in the share of provident funds and a pension fund was observed in 2014–2015 (Table 1.6). Shares and debentures accounted for 5% of the gross financial savings of the household sector in 2014–2015, as against 3% in 2013–2014. A growing preference for the currency was also observed, with the share of currency in the gross financial savings rising from 8% in 2013–2014 to 11% in 2014–2015.

Table 1-6: Financial Assets of the Household Sector (as % of gross financial saving)

Financial Assets	2011-12	2012-13	2013-14	2014-15
Currency	11%	11%	8%	11%
Bank Deposits	56%	56%	61%	47%
Non-Bank Deposits	1%	2%	2%	2%
Life Insurance Funds	21%	18%	16%	19%
Provident Funds and Pension Funds	10%	12%	11%	16%
Claims on government	-2%	-1%	1%	0%
Shares and Debentures	2%	4%	3%	5%
Units of UTI	0%	0%	0%	0%

Source: RBI

b. Primary Market

An aggregate of ₹ 14,479 billion was raised by the government and the corporate sector in 2014–2015, compared to ₹ 13,097 billion in 2013–2014 (an increase of 10.5%). Private placement accounted for 98% of the domestic total resource mobilisation by the corporate sector. Resource mobilisation through Euro Issues surged significantly to ₹ 96 billion in 2014–2015 from a mere ₹ 1 billion in 2013–2014. (Further details are provided in Chapter 2.)

c. Secondary Market

The exchanges in the country offer a screen-based trading system. There were 6147 trading members registered with the SEBI at the end of March 2015 (Table 1.4). Market capitalisation has grown over the period, indicating that more companies are using the trading platform of the stock exchanges. The market capitalisation of NSE and BSE has surged by 37% in the past 1 year. The turnover of the cash segment of stock exchanges across India has increased by 55% from 2013–2014 to 2014–2015.

Chart 1-7: Trends in trading volumes of cash market of NSE

d. Government Securities

The aggregate trading volumes in central and state government-dated securities on Subsidiary General Ledger (SGL) increased from ₹ 8,971 billion in FY 2014 to ₹ 9,820 billion in FY 2015.

e. Derivatives Market

The equity derivatives market turnover on the Indian exchanges increased from ₹ 4,74,308 billion in FY 2014 to ₹ 759692 billion in FY 2015. Currency derivatives trading in India was 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 were allowed on USD-INR. The currency derivatives trading turnover (₹ 56345.6 billion) in India declined by 19% in 2014–2015 as compared to a year ago. (Derivatives trading is discussed in detail in Chapter 6.)

Section III: International Scenario

As per the WFE, global equity trading volumes surged by 36% from December 2014 to June 2015. The increase was mainly driven by the impressive growth in the value of share trading in mainland China (+166%). However, after that period, the trading volumes in China fell drastically. Global market capitalisation increased by 3% (excluding mainland China[1]) between December 2014 and June 2015.

Globally, regulated open end fund assets increased 2% (q-o-q) to US$ 38 trillion (Table 1.7) at the end of the second quarter of 2015, excluding fund of funds. On a U.S. dollar–denominated basis, equity fund assets increased 1.0% to US$ 16.73 trillion at the end of the second quarter of 2015, and accounted for 21% of the quarterly increase in global mutual fund assets. Similarly, bond fund assets increased 1.0% to US$ 8.21 trillion in the second quarter. Balanced/ mixed fund assets rose 7.4% to US$ 5.41 trillion in the second quarter, accounting for 45% of the quarterly increase in global mutual fund assets. Money market fund assets rose 0.7% globally.

Global integration—the widening and intensifying of links—between high-income and developing countries has accelerated over the years. Over the past few years, 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 global ranking.

As shown in Chart 1.8, NSE ranks 12th among the world's stock exchanges as measured by domestic market capitalisation (at the end of September 2015). According to WFE, India is among the major Asian economies that experienced strong growth of market capitalisation in 2014–2015. The volume of currency derivatives traded in India also surged by 43% in the first half (December 2014 to August 2015) of 2015 (WFE, Market Highlights Report, August 2015).

1 Mainland China experienced the highest growth (+60%) in market capitalisation from December 2014 to June 2015. However, in one month (June 15, 2015 to July 15, 2015), the SSE composite index dropped 25%.

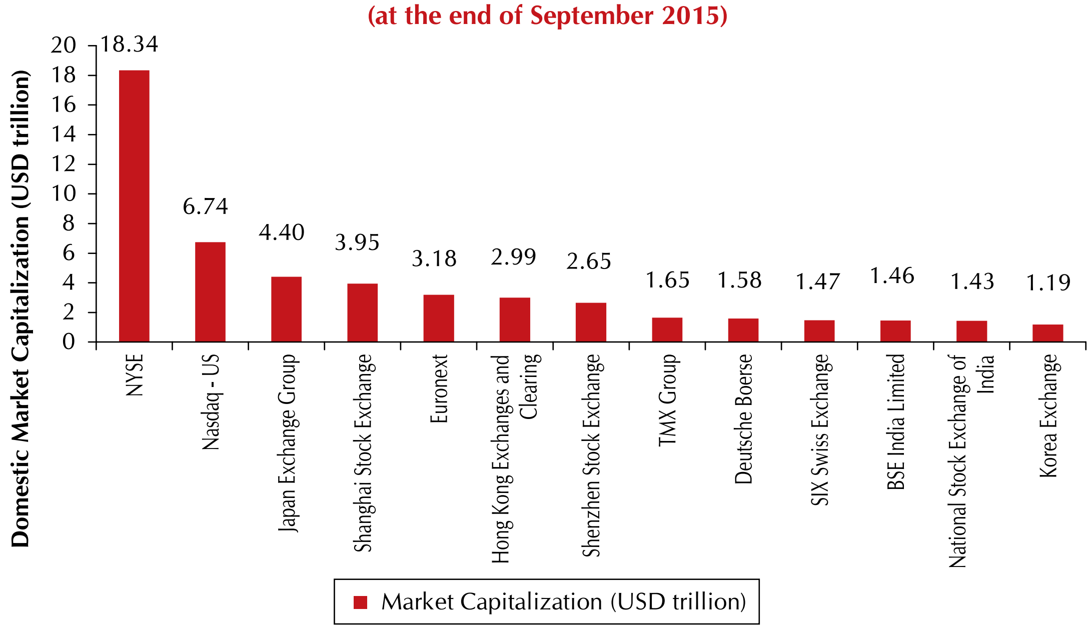
Table 1-7: Net assets of worldwide regulated open end funds (USD billion)

	2014				2015	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
All funds* (Billions of U.S.D)	36,612	38,000	37,080	36,985	37,446	38,273
Long-term	31,800	33,570	32,639	32,346	32,898	33,693
Equity	15,478	16,226	15,784	16,054	16,560	16,733
Bond	8,141	8,491	8,323	8,205	8,126	8,210
Balanced/Mixed	4,852	5,099	4,971	4,918	5,035	5,409
Guaranteed	144	134	118	110	96	87
Real Estate	348	359	336	436	402	436
Other	2,837	3,262	3,107	2,624	2,679	2,818
Money market	4,813	4,430	4,441	4,639	4,549	4,580
Memo items included above:						
ETFs	1,868	2,006	2,002	2,451	2,585	2,666
Institutional	2,818	2,920	2,782	2,746	2,660	2,739

** Excludes funds of funds where possible*

Source: International Investment Funds Association

Chart 1.8: World's Largest Stock Exchanges by Domestic Market Capitalisation (at the end of September 2015)



Source: WFE

2. Primary Market

Introduction

The primary market is an important part of the capital market, which deals with the issuance of new securities. It is the market where the new issues (initial public offerings [IPOs]) of stocks and bonds are sold. It enables corporates, public sector institutions,and the government to raise resources (through the issuance of debt- or equity-based securities) to meet their capital requirements. Additionally, the primary market provides an exit opportunity to private equity and venture capitalists by allowing them to off load their stake to the public.

Initial public offerings (IPOs) are the most common way that firms 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 a 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 called qualified institutional placement. In addition to the domestic market, companies can also raise capital in the international market through the issuance of American depository receipts (ADRs), global depository receipts (GDRs), and by way of external commercial borrowings (ECBs).

Securities can be issued and capital can be raised either through public issues or through private placement (which involves the issuance of securities to a relatively small number of select investors). Table 2-1 provides statistics on the resources mobilised by corporates and the government from domestic and international markets. Table 2-1 shows that the total resources mobilised through the issuance of securities by corporates and the government in 2014–2015 increased by 10.5%, as compared to 2013-2014, to ₹ 14,479 billion (US$ 237 billion).

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

Issues	2013-14 (₹ bn.)	2014-15 (₹ bn.)	2013-14 (USD bn.)	2014-15 (USD bn.)
Corporate Securities	**4,126**	**4,659**	**69**	78
Domestic Issues	4,125	4,563	69	76
Public Issues	133	98	2	2
Non-Govt. Public Companies	-	-	-	-
PSU Bonds	-	-	-	-
Govt. Companies	-	-	-	-
Banks & FIs	-	-	-	-
Private Placement	3,992	4,465	67	73
Euro Issues	1	96	0.02	1.57
Government Securities	**8,971**	**9,820**	**150**	**161**
Central Government #	7,005	7,412	117	121
State Governments	1,967	2,408	33	39
Total	**13,097**	**14,479**	**219**	**237**

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

Corporate Securities

Resource mobilisation by corporates in the primary market rose by 13% in 2014–2015 to ₹ 4,659 billion (US$ 78 billion). This rise was driven by an increase in the resources mobilised through the private placement route; the capital raised through private placement went up by 12% to ₹ 4,465 billion (US$ 73 billion). However, the resources mobilised through public issues witnessed a drop of 26% to ₹ 98 billion (US$ 2 billion), accounting for a mere 1% of the total resources mobilised domestically.

The resources raised by Indian corporates from the international capital market through the issuance of foreign currency convertible bonds (FCCBs), GDRs, and ADRs recovered from the down ward trajectory in 2013–2014. Indian corporates raised ₹ 96 billion (US$ 1.6 billion)from international capital markets in 2014–2015, as against ₹ 1 billion (US$ 0.02 billion) in the previous year. Compared to 2013–2014, the share of resources raised by Indian corporates from the international capital market surged from almost nil in 2013–2014 to 1% in 2014–2015 (Table 2-1).

Public and Rights Issues

In 2014–2015, the resources mobilised from public and rights issue decreased, unlike in the previous year. In particular,the capital raised from public and rights issue fell by 66% (compared to the 71% increase in 2013–2014) to ₹ 192 billion (US$ 3.1 billion). This was mainly driven by a 76% fall in the resources mobilised through public issues, which fell from ₹ 511 billion in 2013–2014 to ₹ 125 billion in 2014–2015. However, the amount raised through rights issue (which increased from ₹ 46 billion in 2013–2014 to ₹ 68 billion in 2014–2015) partially offset the decline in the total resources mobilised from public and rights issue (Table 2.2).

The total number of public issues (equity and debt) saw a marginal decline in 2014–2015 as opposed to the preceding year; public issues fell to 70 issues in 2014–2015 from 75 issues in 2013–2014. In the case of equities, a total of 46 IPOs were launched during 2014–2015, as compared to 38 in 2013–2014. Subsequently, the total capital raised by way of IPOs increased to ₹ 33 billion in 2014–2015 from ₹ 12 billion in 2013–2014 (Table 2.2).

However, in the debt segment, the number of public issues declined from 35 in 2013–2014 to 24 in 2014–2015. This was accompanied by a massive decline in the associated amount of mobilised resources (from ₹ 424 billion in 2013–2014 to ₹ 94 billion in 2014–2015).

The mobilisation of resources through rights issues recorded an increase of 48% in 2014–2015, following a 48% drop in 2013–2014. Resource mobilisation through rights issue increased from ₹ 46 billion in 2013–2014 to ₹ 68 billion in 2014–2015. In 2014–2015, the number of companies using the rights route to raise capital was 18 (as against 15 in the previous year).

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

Public and Rights Issues	2012-13			2013-14			2014-15			Apr'15-Sep'15		
	Number	Amount (₹ bn)	Amount (US $ bn)	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**	**70**	**125**	**2.0**	**49**	**65**	**1.0**
i. Public Issues	33	65	1.2	40	87	1.5	46	33	0.5	44	49	0.8
Public Issues (IPO)	33	65	1.2	38	12	0.2	46	33	0.5	39	49	0.8
Public Issues (FPO)	0	0	0	2	75	1.2	0	0	0	0	0	-
ii. Public Issues (Bond/NCD)	20	170	3.1	35	424	7.1	24	94	1.5	5	15	0.2
2. Rights Issues	**16**	**89**	**1.6**	**15**	**46**	**0.8**	**18**	**68**	**1.1**	**6**	**78**	**1.2**
Total (1+2)	**69**	**325**	**6.0**	**90**	**557**	**9.3**	**88**	**192**	**3.1**	**55**	**142**	**2.2**

Source: SEBI

In 2014–2015, private issuers raised ₹ 111 billion—a marginal fall of 5% over the previous year. However, a drastic fall was witnessed in the resources mobilised by the public sector, which declined from ₹ 440 billion in 2013–2014 to ₹ 81 billion. Further, the public issuers also witnessed a drop of (10%) from the 2013-2014 level in the amount of resources mobilised (₹ 81 billion) in 2014–2015 (Table 2-3).

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

Sector	2012-13		2013-14		2014-15		Apr'14- Sep'14		Apr'15- Sep'15	
	Number	Amount (₹ mn)	Number	Amount (₹ mn)	Number	Amount (₹ mn)	Number	Amount (₹ mn)	Number	Amount (₹ mn)
Private	55	176,900	70	116,810	70	110,990	37	43,350	**45**	**12,171**
Public	14	147,650	20	439,700	18	81,020	10	39,090	5	1,549
Total	**69**	**324,550**	**90**	**556,520**	**88**	**192,020**	**47**	**43,350**	**50**	**13,720**

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

Resource Mobilisation: Industry-wise and Size-wise Distribution

The finance sector contributed the maximum share (51%) of the total resources mobilised during 2014–15 with 30 issues,thus mobilising ₹ 97.3 billion. Compared to 2013–2014, the percentage share of the finance sector surged from 11% of the total resources mobilised in 2013–2014 to 51% of the total resources mobilised in 2014–2015. Over the years, several industries have emerged as the major contributors of the total resources mobilised. For instance, from April 2015 to September 2015, the power sector emerged as the major contributor. The power sector contributed 68% of the resources mobilised during the period April 2015–September 2015 (Table 2-4).

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

Industry	2012-13			2013-14			2014-15			April September 2015	
	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share	Amount (₹ mn)	Percentage Share
Banking/FIs	7	24,750	7.6	14	297,000	53.4	5.0	9,010	4.7	0	0.00%
Cement & Construction	1	90	0.0	4	7310	1.3	7.0	20,350	10.6	9,970	7.20%
Chemical	1	90	0.0	0	0	0.0	1.0	80	0.0	700	0.51%
Electronics	0	0	0.0	0	0	0.0	1.0	330	0.2	0	0.00%
Engineering	2	740	0.2	5	5,910	1.1	1.0	5,250	2.7	0	0.00%
Entertainment	1	120	0.0	2	6,020	1.1	6.0	8,840	4.6	210	0.15%
Finance	16	165,360	51.0	26	60,580	10.9	30.0	97,280	50.7	11,450	8.27%
Food Processing	2	190	0.1	0	-	0.0	2.0	250	0.1	4,000	2.89%
Healthcare	2	2,100	0.6	0	-	0.0	0.0	0	0.0	20	0.01%
Information Technology	1	40	0.0	1	190	0.0	3.0	1,370	0.7	50	0.04%
Paper & Pulp	0	0	0.0	1	280	0.1	0.0	0	0.0	0	0.00%
Power	0	0	0.0	4	117,020	21.0	0.0	0	0.0	4,480	3.24%
Telecom	1	41,730	12.9	1	50	0.0	1.0	1,750	0.9	0	0.00%
Textile	4	5,820	1.8	3	140	0.0	3.0	3,880	2.0	0	0.00%
Others	31	83,520	25.7	29	61,858	11.1	26.0	43,570	22.7	107,530	77.69%
Total	**69**	**324,550**	**100.0**	**90**	**556,358**	**100.0**	**86**	**191,960**	**100.0**	**138,410**	**100.00%**

Source: SEBI

Table 2-5 presents the size-wise distribution of public and rights issues in 2014–2015. There was a 65% decline in the total resources mobilised in the primary market in 2014–2015, with a slight change in the distribution pattern of issue prices. About 97% of the resource mobilisation occurred through public issues of issue size above ₹ 100 crore. In terms of the number of issues, however, there were only 41 issues out of 88 that were above ₹ 100 crore. The percentage share of issue size between ₹ 10 crore and ₹ 50 crore among the total resources mobilised increased from a mere 0.3% in 2013–2014 to 1.2%in 2014–2015.

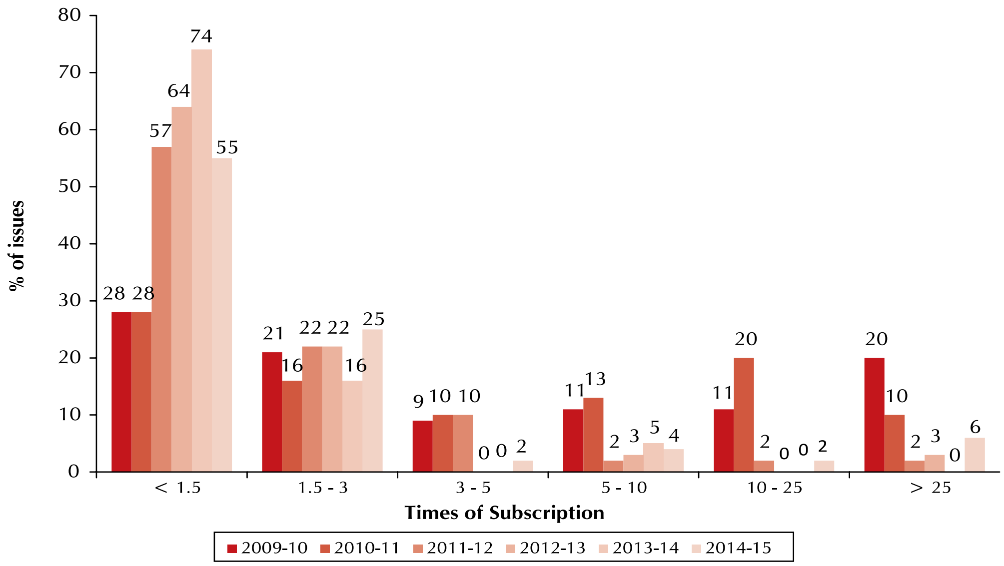
Table 2-5: Size-wise Distribution of Resources Mobilised

Issue Size	2013-14			2014-15			Apr'15-Sep'15		
	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share	Number	Amount (₹ mn)	Percentage Share
< ₹ 5 crore	14	410	0.07	23	75	0.39	11	32	0.23
≥ ₹ 5 crore & < ₹ 10 crore	17	1,220	0.22	11	89	0.46	6	33	0.23
≥ ₹ 10 crore & < ₹ 50 crore	10	1,740	0.31	11	227	1.18	5	103	0.73
≥ ₹ 50 crore & < ₹ 100 crore	3	2,210	0.40	2	109	0.57	3	229	1.61
≥ ₹ 100 crore	46	550,930	99.00	41	18,711	97.40	19	13,799	97.20
Total	**90**	**556,510**	**100.00**	**88**	**19,211**	**100.00**	**44**	**14,196**	**100.00**

Source: SEBI

There were 18 mega issues (₹ 1,000 million and above) and 29 issues that were ₹ 100 million and above (including 18 mega issues) during the period April 2014–March 2015. According to the Prime Database,which captures the Indian public's response to public and rights issues, the response was moderate for public issues and good for rights issues. The performance of public issues was far better in 2014–2015 compared to that in 2013–2014, which is reflected in the large increase in the number of times these public issues were oversubscribed. There were 6 public issues, which were subscribed more than 25 times in 2014–2015.

Chart 2-1: Subscription of Public Issues (IPO and FPO)



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

Euro Issues

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

In 2014–2015, there was an upturn in the resources mobilised through Euro issues, which increased from ₹ 1 billion (US$ 0.02 billion) to ₹ 96 billion (US$ 1.6 billion). The sudden surge in the resources mobilised through Euro issues was partly driven by the improved investor sentiment in view of the future prospects of the Indian economy. The Indian economy has remained largely unaffected by the global slowdown (Table 2-1).

Performance of Initial Public Offerings (IPOs) listed on NSE

In 2014–15, ₹ 1.4 billion was raised through the 6 IPOs listed on the NSE. The year 2014–2015 witnessed a slowdown in the funds mobilised through the IPO channel; however, there was an increase in the number of IPOs. Compared to the previous year, there was a 90% decline in the resources generated through IPOs, which fell from ₹ 12 billion in 2013–2014 to ₹ 1.4 billion in 2014–2015 (Table 2-6).

In the period April 2015–September 2015, there was a sudden surge in the mobilisation of funds that were channelled through the IPOs. As of September 30, 2015, 14 IPOs were issued over a period of 6 months (from April 2015 to September 2015), raising funds worth ₹ 219 billion. INOX WIND LIMITED made the largest fund raising of ₹ 72 billion, but it failed to generate significant listing gains (10% over its issue price). Among the various IPOs issued, VRL Logistics Ltd. incurred listing gains to the tune of 91% over its issue price. The sudden surge in resource mobilisation through IPOs might have been driven by the positive investor sentiment in the country, which was motivated by the regulatory policies of the government (Table 2-7).

Table 2-6: Performance of IPOs (EQ) Listed on NSE in April 2014 - March 2015

Sr. No.	Company Name	Issue size (₹ mn.)	Date of Listing	Issue Price (₹)	Listing price (₹)	Close Price at end of Mar' 15 (₹)	Listing gains (in percent)	Price Appreciation/ Depreciation at end March 2015 with the issue price (in percent)
1	Wonderla Holidays Limited	181.25	9-May-2014	125	125	261.3	109.04	109.04
2	Snowman Logistics Limited	197.43	12-Sep-2014	47	47	85	80.85	80.85
3	Sharda Cropchem Limited	351.86	23-Sep-14	156	156	316.1	102.63	102.63
4	Shemaroo Entertainment Limited	124.67	1-Oct-14	170	170	183.35	7.85	7.85
5	Monte Carlo Fashions Limited	350.43	19-Dec-14	645	645	480.3	-25.53	-25.53
6	Ortel Communications Limited	174.71	19-Mar-15	181	181	152.3	-15.86	-15.86

Source: NSE

Table 2-7: Performance of IPOs listed on NSE during Apr 2015 to Sep 2015

Sr. No.	Company Name	Issue size (₹ mn)	Date of Listing	Issue Price (₹)	Listing price (₹)	Close Price at end of Sep' 2015	Listing gains (in percent)	Price Appreciation/ Depreciation at end Sep' 15 with the issue price (in percent)
1	Adlabs Entertainment Limited	14381.61	6-Apr-15	180	180	112.15	-37.69	-37.69
2	INOX WIND LIMITED	72123.42	9-Apr-15	325	325	358.8	10.40	10.40
3	VRL LOGISTICS LIMITED	18704.92	30-Apr-2015	205.00	205.00	392.5	91.46	91.46
4	MEP INFRASTRUCTURE DEVELOPERS LIMITED	10241.86	6-May-2015	63.0	63.0	53.15	-15.63	-15.63
5	UFO MOVIEZ INDIA LIMITED	16186.04	14-May-2015	625.0	625.0	571.85	-8.50	-8.50
6	Power Mech Projects Limited	9414.89	26-Aug-15	640	640	577.15	-9.82	-9.82
7	Navkar Corporation Limited	22104.24	9-Sep-15	155	155	158.55	2.29	2.29
8	Pennar Engineered Building Systems Limited	6100.93	10-Sep-15	178	178	169.35	-4.86	-4.86
9	Shree Pushkar Chemicals and Fertilisers Limited	1964.26	10-Sep-15	65	65	63.05	-3.00	-3.00
10	Sadbhav Infrastructure Project Limited	36279.20	16-Sep-15	103	103	98.8	-4.08	-4.08
11	Prabhat Dairy Limited	11232.76	21-Sep-15	115	115	106.05	-7.78	-7.78

Source: NSE

Debt Issues

The government and the corporate sector collectively raised a total of ₹ 14,242 billion (US$ 233 billion) from the primary market in 2014–2015. Corporates continued their preference for raising capital through private placement as compared to public issues, at an even higher pace than in the previous year. In 2014–2015, private placement accounted for 98% of the total resources raised by corporates from the debt markets. Its share in the total resources mobilised also increased from 22.4% in 2013–2014 to 30.3% in 2014–2015 (Table 2-8).

Table 2-8: Resources Raised from Debt Markets

Issuer	2013-14 (₹ bn.)	2014-15 (₹ bn.)	2013-14 (USD bn.)	2014-15 (USD bn.)
Corporate	**3,135**	**4,421**	**52**	**72**
Public Issues	424	94	7	2
Private Placement*	2,711	4,327	45	71
Government	**8,971**	**9,820**	**150**	**161**
Central	7,005	7,412	117	121
State	1,967	2,408	33	39
Total	**12,106**	**14,242**	**202**	**233**

** 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 344 issuers (institutional and corporate) raised ₹ 4,327 billion (US$ 71 billion) through 1,765 privately placed issues in 2014–2015. The response to most of the issues was good. As many as 304 of the 1,765 issues—i.e., around 17% of the total issues—were made by government sector units, which mobilised 63% of the total resources. Although the resources raised from the debt markets were dominated by government issues (accounting for 63% of the total resources), the resources raised by corporates from the debt market in the form of public issues and private placement saw an increase of 41% in 2014–2015 compared to the previous year.

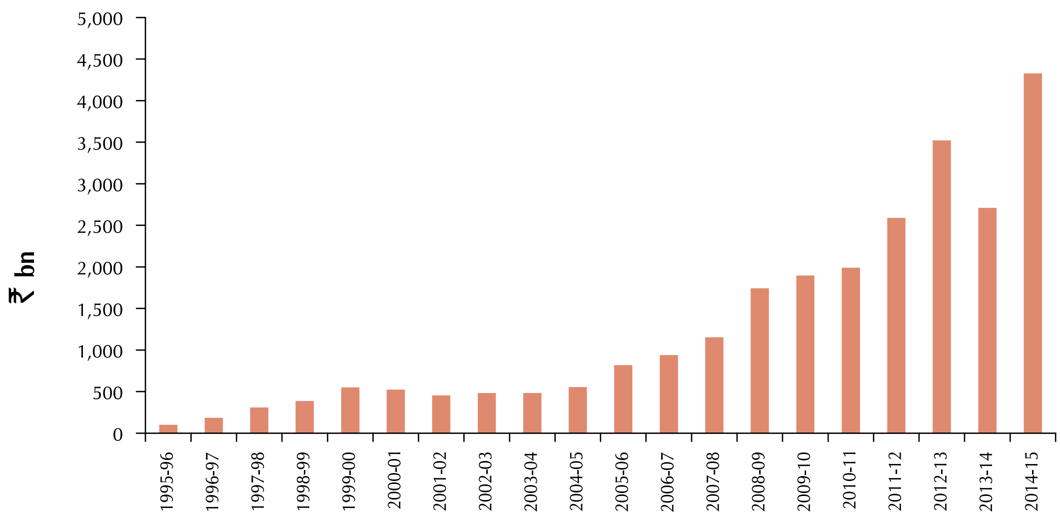
According to SEBI, the private placement of corporate debt reported to NSE from April 2015 to September 2015 was around ₹ 1,060 billion (US$ 17 billion). The amount raised through the private placement of debt issues has been on an increasing trend over the past few years,barring the year 2013–2014.

Table 2-9: Private Placement - Institutional and Corporate Debt

Year	No. of issuers	No. of Privately Placed issues	Resource Mobilisation through Private Placement of Debt (₹ bn)	Resource Mobilisation through Private Placement of Debt (US $ bn)
1995-96	47	72	100	3
1996-97	159	192	184	5
1997-98	151	250	310	8
1998-99	204	443	386	9
1999-00	229	711	551	13
2000-01	214	603	525	11
2001-02	214	557	454	10
2002-03	171	485	484	10
2003-04	140	364	484	11
2004-05	116	321	554	12
2005-06	99	366	818	18
2006-07	98	506	939	21
2007-08	104	612	1,154	29
2008-09	167	799	1,743	37
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
2014-15	**344**	**1,765**	**4,327**	**71**

Source: Prime Database

Chart 2-2: Growth of Private Placement of Debts



Source: Prime Database

The debt securities were mainly privately placed. Although there were some instances of the 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 the information gathered from arrangers, covers equity private placements as well. The RBI estimates the share of equities in total private placements to be rather insignificant. However, some idea can be derived from the equity shares issued by NSE-listed companies on a private placement basis.

The issuer-wise distribution indicates that during 2014–2015, pan-Indian financial institutions/banks accounted for 83% (1,469) of the year's offers;they mobilised 74% of the total amount mobilised through the private placement of debt.

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

Issuer	Issue Amount (₹ mn)		Issue Amount (US $ mn)		% of Issue Amount	
	2013-14	**2014-15**	**2013-14**	**2014-15**	**2013-14**	**2014-15**
All India Financial Institutions/Banks	1,449,263	23,421,253	24,273	383,076	53.5	54.0
State Financial Institutions	14,821	88,323	269	1,445	0.5	0.0
Public Sector Undertakings	312,479	3,121,937	5,286	51,062	11.5	7.0
State Level Undertakings	36,864	605,730	617	9,907	1.4	1.0
Private Sector	897,824	16,031,911	15,182	262,216	33.1	37.0
Total	**2,711,251**	**43,269,154**	**45,626**	**707,706**	**100.0**	**100.0**

Source: Prime Database

The sectoral distribution shows that the banking and financial services sectors continued to dominate the private placement market, accounting for a combined 74% in 2014–2015, (Table 2-11)

Table 2-11: Sectoral Distribution of Resources Mobilised through Private Placement (in %)

Sector	2011-12	2012-13	2013-14	2014-15
Banking	50.2	39.5	36.3	41.0
Financial Services	27.1	30.1	35.1	33.0
Power	9.2	6.1	7.7	8.0
Housing/ Civil Construction/ Real Estate	1.0	2.8	2.7	4.0
Travel/Transportation	2.7	3.0	0.3	-
Others	9.7	18.6	17.8	14.0
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 2014–2015. The highest number of placements was for 36 months (2,259 placements) followed by 60 months (329 placements). A total of 78 offers had a put option, while 94 offers had a call option. It should be noted that rating is required for listing. Of the 1,765 debt private placements deals in 2014–2015, 1,760 issues opted for credit rating, while 5 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 2014–2015, the total resources raised by the corporate sector rose by 38% to ₹ 4,519 billion, compared to the gross mobilisation of ₹ 3,268 billion in 2013–2014. The equity route was used to raise 0.7% of the total resources through public equity shares in 2014–2015, down from 2.7% in 2013–2014. The share of rights issues was 1.5% in 2014–2015. The resources raised through debt issues (debt public issues and debt private placements) accounted for 98%, which reflects the preference of borrowers for debt capital over equity capital. Among the debt issues, the share of debt public issues fell from 13% in 2013–2014 to 2% in 2014–2015. However, the share of debt private placements rose from 83% in 2013–2014 to 96% in 2014–2015.

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
2008-09	20,830	126,370	15,000	1,743,267	1,905,467	37,399	1.1	6.6	0.8	91.5
2009-10	467,366	83,186	25,000	1,897,299	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
2014-15	**30,390**	**67,500**	**94,220**	**4,326,915**	**4,519,025**	**75,396**	**0.7**	**1.5**	**2.1**	**95.7**

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

Going forward, the primary equity market may improve in 2015–2016, fuelled by strong investment activity and lower volatility in the secondary market. As indicated in the early months (April 2015–September 2015) of the year 2015–2016, the funds raised from the primary market through IPOs surged from ₹ 1.4 billion in 2014–2015 to ₹ 219 billion in first 6 months of the year 2015–2016. Aiming to revive the primary market and to increase the reach of retail investors in the public issue of equity shares, SEBI approved norms for companies to launch their IPOs in electronic form. This will reduce the listing time from T + 12 days to T + 6 days. Under these e-IPO norms, the depository participants and the registrar and transfer agents (RTAs) will also be able to accept IPO applications in electronic and physical form. As per the current regulations, only brokers and stock exchanges can accept applications. These e-IPO norms will come into effect on January 1, 2016.

3. Collective Investment Vehicles

Introduction

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

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. It excludes schemes investing in property/real estate, mortgages or venture capital."

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

Mutual Funds

Mutual funds are considered a good route to invest and earn returns with a reasonable amount of safety. Some of the other major benefits of investing in MFs 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 the MF industry until 1986. Other public sector MFs were set up by public sector banks, 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 MF, which was established in June 1987. The MF business was progressively opened up to competition after 1988. This move gathered momentum in India after the economic liberalisation in 1991, and the establishment of the Securities and Exchange Board of India (SEBI) in 1992.

Resource Mobilisation

The MF is quite popular as an investment vehicle among investors who are wary of directly investing in the securities markets. The popularity of MFs as an investment avenue is clearly visible from the data presented in Table 3-1. The MFs in India have primarily been sponsored by the government, banks, and foreign investors (FIs). The MF schemes of the commercial banks and the insurance companies that entered the market in 1987 were well received by investors. The boom continued into the early 1990s, with liberalisation evoking positive responses from investors. The net resource mobilisation by MFs remained steady during 1992–1995, with an annual average net resource mobilisation of nearly ₹ 120 billion per annum during the period. However, the MFs were hit severely by the bearish sentiments that prevailed in the secondary market since October 1994.

The years 1995–1996 and 1996–1997 witnessed net outflows of funds from MFs. The MF industry managed to mobilise modest sums during the next two financial years. It was in the late 1990s and the first few years of the next decade that the MF industry witnessed a sharp turnaround. The tax sops announced in the Union Budget 1999–2000 and the emergence of bullish trends in the secondary market fuelled the recovery. The year 2000–2001 witnessed a slowdown once again, with the net resource mobilisation by all the MFs aggregating ₹ 111 billion, which could be attributed to a slump in the secondary market and the increase in the tax on income distributed by debt-oriented MFs. In 2002–2003, the resource mobilisation by all the MFs aggregated to a further low of ₹ 46 billion, with UTI having a net outflow of ₹ 94 billion. The fiscal year 2003–2004 witnessed a sharp rise in the net resources mobilised compared to that in the previous year, aggregating ₹ 479 billion; however, the net resources mobilised reduced to ₹ 28 billion in 2004–2005. An upward trend was seen in the fiscal year 2005–2006; the net resources mobilised were ₹ 525 billion, which marked a multifold increase in the resource mobilisation of the MFs. The performance of the private sector MFs in 2005–2006 remained consistent compared to that in the previous year; they mobilised ₹ 416 billion.

The highest resource mobilisation was witnessed in 2007–2008: net resources worth ₹ 1,587 billion were mobilised from the MF industry, compared to ₹ 941 billion attracted by the industry in 2006–2007. Because of the global crisis, the resources mobilised by the industry were quite volatile for the last couple of years. The fiscal year 2008–2009 witnessed a sharp drop in the net resources mobilised compared to the previous year's numbers, aggregating ₹ -242 billion, as private sector MFs witnessed a net outflow of ₹ 305 billion. The trend was reversed in 2009–2010; the net resources mobilised totalled ₹ 785 billion. The year 2010–2011 witnessed a slowdown once again, with the net resource mobilisation by all the MFs aggregating ₹ -486 billion. The MF industry continued to witness a decline in 2011–2012; the net resources mobilised during this year were ₹ -454 billion. Encouragingly, the trend reversed once again in 2012–2013, with the net resource mobilisation by all the MFs aggregating ₹ 788 billion. The year 2013–2014 continued to record positive net resource mobilisation (₹ 546 billion) by the MF industry, albeit at a slower pace compared to that in the preceding year.

In 2014–2015, there was a sudden trend reversal in the resource mobilisation pattern of the MF industry. There was a net outflow of funds from UTI MFs, bank-sponsored MFs, and FI-sponsored MFs, but the private sector MFs recorded a manifold increase in the resources mobilised. The net resources mobilised by the MF industry registered a 100% increase in the total resources mobilised, which was driven solely by the increase in resource mobilisation by the private sector MFs. This trend was in sharp contrast to the pattern observed in the previous years, where a rise in the resource mobilisation by the MF industry corresponded to a general increase in the resources mobilised by all the key players. The net resources mobilised by the MF industry in 2014–2015 totalled ₹ 1094 billion, compared to ₹ 546 billion in 2013–2014.

Table 3-1: Net Resources Mobilised by Mutual Funds

Year	UTI	Bank Sponsored Mutual Funds	FI-sponsored mutual funds	Private Sector mutal funds	Total	Total
	₹ bn					(US $ bn)
2000-01	3	2	13	93	111	2
2001-02	-73	9	4	161	101	2
2002-03	-94	10	9	121	46	1
2003-04	11	45	8	416	480	11
2004-05	-25	7	-34	79	28	1
2005-06	34	54	21	416	525	12
2006-07	73	30	42	795	941	22
2007-08	107	76	22	1,382	1,587	40
2008-09	-41	45	60	-305	-242	-5
2009-10	157	99	49	480	784	17
2010-11	**-166**	**13**	**-170**	**-163**	-486	**-11**
2011-12	**-32**	**4**	**-31**	**-395**	-454	**-9**
2012-13	**46**	**67**	**22**	**653**	788	**14**
2013-14	**4**	**48**	**26**	**468**	546	**9**
2014-15 P	**-13**	**-7**	**-10**	**1,124**	1,094	**18**

P: Provisional
Source: RBI

Number of Mutual Funds and New Fund Offers

As on March 31, 2015, the number of MFs registered with the SEBI was 47; this number remained the same until the end of September 2015. While there were 1,638 schemes in 2013–2014, there were 1,884 MF schemes as on March 31, 2015. Of this, 1,249 were income/debt-oriented schemes, 379 were growth/equity-oriented schemes, and 25 were balanced schemes. In addition, there were 14 gold ETFs, 34 other ETFs, and 31 schemes operating as fund of funds. As on September 30, 2015, there were 2,170 schemes. During 2014–2015, the aggregate sales of all the schemes amounted to ₹ 1,10,862 billion, and the redemptions during the year equalled ₹ 1,09,829 billion (Table 3-2).

Institution-wise Resource Mobilisation

Resource mobilisation through MFs is mainly conducted by three categories: banks, the private sector, and institutions. The structure of institution-wise resource mobilisation is depicted in Table 3-2 and Table 3-3, which present the details of the sales, purchases (redemptions), and assets under management.

Table 3-2: Accretion of Funds with Mutual Funds

		Category	2013-14				2014-15				Assets Under Management			
			Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $. Mn)	Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $. Mn)	March-14# (₹mn)	March-14# (US $ mn)	March-15# (₹mn)	March-15# (US $ mn)
A		**Bank Sponsored**	**18,810,650**	**18,758,210**	**52,440**	**875**	**20,987,350**	**21,007,110**	**-19,760**	**-323**	**1,651,040**	**27,546**	**1,960,700**	**32,069**
	i.	Joint Ventures - Predominantly Indian	7,627,650	7,570,210	57,440	958	9,088,480	9,080,330	8,150	133	768,360	12,819	888,030	**14,525**
	ii.	Joint Ventures-Foreign	1,623,620	1,620,620	3,000	50	1,564,370	1,580,020	-15,650	-256	81,060	1,352	71,720	**1,173**
	iii.	Others	9,559,380	9,567,380	-8,000	-133	10,334,500	10,346,760	-12,260	-201	801,620	13,374	1,000,950	**16,371**
B		**Institutions**	**792,840**	**767,120**	**25,720**	**429**	**795,310**	**805,770**	**-10,460**	**-171**	**107,520**	**1,794**	**96,440**	**1,577**
C		**Private Sector (i+ii+iii+iv)**	**78,080,520**	**77,617,850**	**462,670**	**7,719**	**89,079,940**	**88,016,840**	**1,063,100**	**17,388**	**7,292,640**	**121,671**	9,829,760	**160,775**
	i.	Indian	28,418,700	28,312,880	105,820	1,766	32,505,360	32,221,380	283,980	4,645	2,292,550	38,249	2,992,200	**48,940**
	ii.	Joint Ventures-Predominantly Indian	44,980,190	44,668,570	311,620	5,199	50,289,110	49,601,420	687,690	11,248	4,124,660	68,816	5,671,310	**92,759**
	iii.	Joint Ventures - Predominantly Foreign	2,527,250	2,538,060	-10,810	-180	3,391,400	3,406,890	-15,490	-253	286,050	4,772	301,010	**4,923**
	iv	Foreign	2,154,380	2,098,340	56,040	935	2,894,070	2,787,150	106,920	1,749	589,380	9,833	86,524	**1,415**
Grand Total (A+B+C)			**97,684,010**	**97,143,180**	**540,830**	**9,023**	**110,862,600**	**109,829,720**	**1,032,880**	16,894	**9,051,200**	**151,010**	**11,886,900**	**194,421**

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

Table 3-3: Accretion of Funds with Mutual Funds

Category			April 15 - June 15				Assets Under Management at the end of	
			Sale (₹ mn)	Purchase (₹ mn)	Net (₹ mn)	Net (US $. Mn)	June - 15 (₹ mn)	June - 15 (US $ mn)
A	**Bank Sponsored**		**6,293,070**	**6,068,910**	**224,160**	**3,666**	**2,012,890**	**32,923**
	i.	Joint Ventures - Predominantly Indian	3,037,340	2,974,870	62,470	1,022	957,780	**15,665**
	ii.	Joint Ventures- Predominantly Foreign	443,830	419,370	24,460	400	72,250	**1,182**
	ii.	Others	2,811,900	2,674,670	137,230	2,245	982,860	**16,076**
B	**Institutions**		**498,130**	**495,020**	**3,110**	51	**114,710**	**1,876**
C	**Private Sector (i+ii+iii+iv)**		**27,355,120**	**26,725,120**	**630,000**	**10,304**	**10,157,610**	**166,137**
	i.	Indian	10,370,940	10,068,050	302,890	4,954	3,119,310	**51,019**
	ii.	Joint Ventures- Predominantly Indian	15,365,510	15,143,290	222,220	3,635	5,844,560	**95,593**
	iii.	Joint Ventures - Predominantly Foreign	772,790	751,650	21,140	346	290,430	**4,750**
	iv	Foreign	845,880	762,130	83,750	1,370	903,310	**14,774**
Grand Total (A+B+C)			**34,146,320**	**33,289,050**	**857,270**	14,021	**12,285,210**	**200,936**

Source: AMFI Updates

Private sector MFs accounted for 80% of the resource mobilisation (sales) by the MF industry in 2014–2015. Moreover, these private sector MFs witnessed a net inflow of ₹ 1063 billion, registering an increase of around 130% over the previous year.

In 2014–2015, bank-sponsored MFs mobilised resources worth ₹ 20,987 billion, which was 116% higher than the resource mobilisation in 2013–2014 (₹ 18,810 billion). Bank-sponsored schemes accounted for 19% of the gross resource mobilisation in 2014–2015. In net terms, bank-sponsored MFs witnessed an outflow of ₹ 20 billion in 2014–2015.

Resource Mobilisation as per Maturity Period/Tenor

The share of open-ended schemes in the total sales of MFs in 2014–2015 continued to maintain an upward trend and dominated over the other schemes (such as close-ended schemes and interval funds). The share of open-ended schemes in the total sales of MFs was 99% in 2014–2015, compared to 98% the previous year. Close-ended schemes and interval funds together accounted for almost 1% of the total MF sales in 2014–2015. In sharp contrast to the year-on-year increase in the sales of close-ended MFs observed in 2013–2014, the sales of these funds saw a 60% decline in 2014–2015 compared to the previous fiscal year. The details of the sales and redemptions of the MFs based on their tenor for 2013–2014 and 2014–2015 are presented in Table 3-4.

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

Scheme	2013-14				2014-15			
	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase
	(₹ mn)		(US $ mn)		(₹ mn)		(US $ mn)	
Open-ended	96,075,260	96,179,790	1,602,921	1,604,665	110,262,220	108,709,390	1,803,438	1,778,040
Close-ended	1,446,680	846,260	24,136	14,119	575,450	1,050,750	9,412	17,186
Interval fund	162,070	117,130	2,704	1,954	24,930	69,580	408	1,138
Total	**97,684,010**	**97,143,180**	**1,629,762**	**1,620,739**	**110,862,600**	**109,829,720**	**1,813,258**	**1,796,364**

Source : AMFI Updates

Resource Mobilisation as per Investment Objective

Liquid/money market schemes gained popularity among investors because of the attractive returns they delivered. The share of these schemes in the total sales of MFs was reported to be 94% of the gross resource mobilisation in 2014–2015. However, during the year 2015–2016, there was a trend reversal in the net resource mobilisation by the liquid/money market funds from April 2015–September 2015. There was a net outflow of ₹ 3 billion from these schemes.

Income-oriented schemes—which 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. These schemes accounted for 4.4% of the total sales of all the schemes in 2014–2015, which was less than that in the previous year. There was a sharp decline in the net inflow of these income-oriented funds, driven by a sharp drop in the sales of these funds. The net inflow of these funds fell from ₹ 405 billion in 2013–2014 to ₹ 48 billion in 2014–2015.

The scheme-wise resource mobilisation by MFs for 2013–2014 and 2014–2015 is depicted in Table 3-5.

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

Scheme	2013-14				2014-15			
	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)
	(₹ mn)			(US $ mn)	(₹ mn)			(US $ mn)
Income	6,007,360	5,601,900	405,460	6,765	4,935,020	4,886,270	48,750	797
Growth	434,320	510,590	-76,270	-1,272	1,398,280	717,070	681,210	11,142
Balanced	34,350	54,210	-19,860	-331	154,170	55,910	98,260	1,607
Liquid/ Money Market	90,985,470	90,744,480	240,990	4,021	104,052,660	103,954,840	97,820	1,600
Gilt	99,170	117,850	-18,680	-312	131,330	54,210	77,120	1,261
ELSS-Equity	26,610	43,020	-16,410	-274	83,430	54,350	29,080	476
GOLD ETFs	4,030	26,970	-22,940	-383	1,180	15,930	-14,750	-241
Other ETFs *	73,290	35,760	37,530	626	100440	76,050	24,390	399
Funds of Funds Investing Overseas **	19,410	8,400	11,010	184	6,090	15,090	**1,041,880**	17,041
Total	**97,684,010**	**97,143,180**	**540,830**	**9,023**	**110,862,600**	**109,829,720**	**2,083,760**	**34,082**

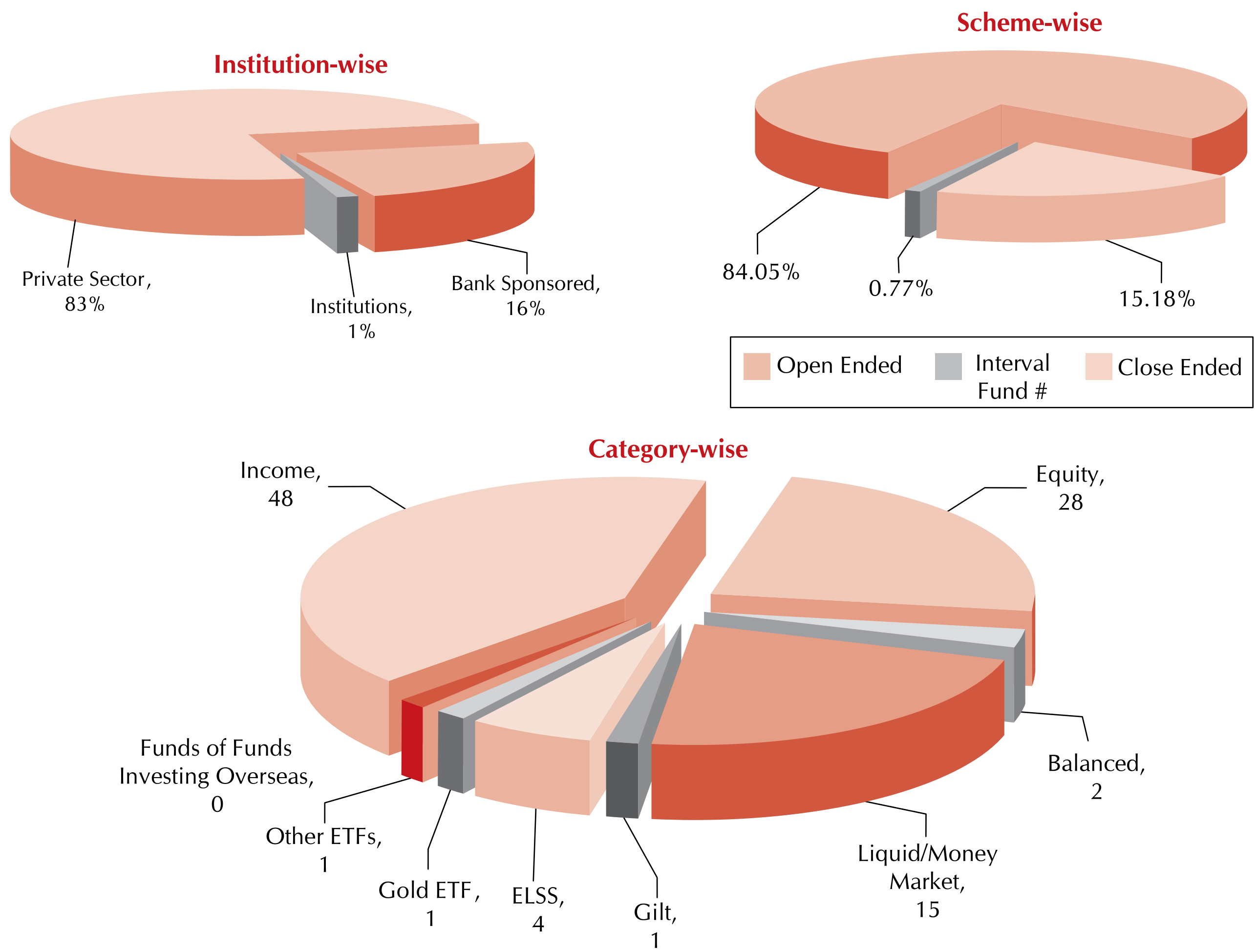
**This scheme was earlier classified as growth Funds and included in that category.*
Source: AMFI Updates
Note: Other ETFs include Infrastructure Debt Fund in 2014-15

Assets under Management

As on March 31, 2015, the MFs in India have managed assets totalling ₹ 10,816 billion (US $ 177 billion) (Table 3-6). Open-ended schemes and close-ended schemes accounted for 84.1% and 15.1%, respectively, of the total assets under management (AUM) of MFs (Chart 3-1) as on March 31, 2015.

Income - oriented schemes accounted for 47% of the total AUM at the end of March 2015, followed by equity schemes with 28%. Liquid/money market schemes accounted for 15% of the AUM of MFs (Chart 3-1).

Chart 3-1: Assets Under Management of Mutual Funds as of March 2015 (in percent)



Mutual Fund Service System (MFSS)

In November 2009, the SEBI allowed transactions in MF 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 an MF scheme.

As many as 32 fund houses joined the NSE MFSS platform as on September 30, 2015, and there were 4461 sub-schemes available for trading. During the period April 2014–March 2015, 3,29,010 orders were placed for subscriptions worth ₹ 19,204 million, and 47,205 orders worth ₹ 15,235 million were redeemed. The trend moved upwards in the April–September period of 2015–2016, when 254,501 orders were placed for subscriptions worth ₹ 16443 million, and 22,159 orders worth ₹ 13,167 million were redeemed (Table 3-7).

Table 3-6: Assets under Management

Scheme	As on March 31, 2014						As on March 31, 2015					
	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	2,623,700	1,862,770	120,240	4,606,710	76,858	55.9	3,644,310	1,430,060	83,360	5,157,730	84,359	47.7
Equity	1,621,800	33,800	-	1,655,600	27,622	20.1	2,885,170	171,520		3,056,690	49,995	28.3
Balanced	167,780	150	-	167,930	2,802	2.0	263,680	-		263,680	4,313	2.4
Liquid/Money Market	1,332,800	-	-	1,332,800	22,236	16.2	1,625,620	-		1,625,620	26,588	15.0
Gilt	61,150	-	-	61,150	1,020	0.7	146,140	-		146,140	2,390	1.4
ELSS	231,990	23,480	-	255,470	4,262	3.1	364,620	30,080		394,700	6,456	3.6
Gold ETF	86,760	-	-	86,760	1,448	1.1	66,550	-		66,550	1,088	0.6
Other ETFs *	45,280	-	-	45,280	755	0.5	80,600	-		80,600	1,318	0.7
Funds of Funds Investing Overseas	31,910	-	-	31,910	532	0.4	24,080	-		24,080	394	0.2
Total	**6,203,170**	**1,920,200**	**120,240**	**8,243,610**	**137536.54**	**100.0**	**9,100,770**	**1,631,660**	**83,360**	**10,815,790**	**176,902**	**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
2014-15	329,010	19,204	47,205	15,235	376,215
April - Sep'15	254,501	16,443	22,159	13,167	276,660

Source: NSE

Unit Holding Pattern of Mutual Funds

The unit holding pattern of MFs depicted in Table 3-8 shows that individual investors accounted for 97.3% of the total number of investor accounts at the end of March 2015. This category was followed by non-resident Indians (NRIs) and corporates/institutions, which constituted a meagre 1.8% and 0.9% of the total number of investor accounts, respectively. The "individuals" category accounted for 47% of the net assets of the MF industry in 2014–2015, followed by corporates/institutions, which accounted for 47.6%. The "individuals" category saw the highest increase in net assets among the four categories, with a year-on-year improvement of 2 percentage points in 2014–2015. On the other hand, corporates/institutions saw a decline of 2 percentage points in 2014–2015 as compared to the previous year.

Table 3-9 segregates the unit holding pattern of public sector-sponsored MFs and private sector-sponsored MFs. Individuals accounted for 96.6% of the total portfolios under the private sector-sponsored MFs compared to 98.6% holdings in the public sector-sponsored MFs. However, the opposite pattern of holdings was observed for NRIs, for whom the holdings in total portfolios under private and public sector-sponsored MFs are 2.2% and 0.9%, respectively. Private sector-sponsored MFs showed better performance compared to that of the public sector-sponsored MFs. The net asset value (NAV) of private sector-sponsored MFs witnessed an increase of 33% in 2014–2015 as compared to that in 2013–2014, whereas the net asset value of public sector-sponsored MFs increased by 19% in 2014-15, as compared to that in 2013-14.

Table 3-8: Unit Holding Pattern of Mutual Funds

Category	No. of Folios	Percentage of Total Folios	NAV (in ₹ crore)	Percentage of Total Net Assets	No. of Folios	Percentage to Total Folios	NAV (in ₹ crore)	Percentage of Total Net Assets
	2013-14				2014-15			
Individuals	3,90,42,636	97.2	3,70,905	44.7	4,06,06,623	97.3	5,08,032	46.9
NRIs/OCBs	7,83,048	1.9	22,597	4	7,31,081	1.8	41,363	3.8
FPIs	432	0	13,675	1.6	19,798	0	17,546	1.6
Corporates/ Institutions/Others	3,45,525	0.9	4,11,681	49.6	3,82,704	0.9	5,15,816	47.6
Total	**4,01,71,641**	**100**	**8,29,858**	**100**	**4,17,40,206**	**100**	**10,82,757**	**100**

Source: SEBI

Exchange-Traded Funds

At the end of September 2014, there were 43 ETFs listed on NSE. Out of these, 29 are Index based ETFs, 11 are Gold based ETFs, 2 are Global Index based ETFs and 2 were Debt based ETFs. The details of these ETFs such as their name, symbol, underlying asset and their performance (in terms of returns in 3 months, 6 months, and 12 months) are mentioned in Table 3-10.

Table 3-9: Unit Holding Pattern of Public and Private Sector Mutual Funds

Category	No. of Folios	Percentage of Total Folios under Private Sector	NAV (in ₹ crore)	Percentage of Total Net Assets under Private Sector	No. of Folios	Percentage of Total Folios under Public Sector	NAV (in ₹ crore)	Percentage of Total Net Assets under Public Sector	No. of Folios	Percentage of Total Folios under Private Sector	NAV (in ₹ crore)	Percentage of Total Net Assets under Private Sector	No. of Folios	Percentage of Total Folios under Public Sector	NAV (in ₹ crore)	Percentage of Total Net Assets under Public Sector
1	2	3	4	5	6	7	8	9	2	3	4	5	6	7	8	9
	Private Sector-Sponsored Mutual Funds				Public Sector-Sponsored Mutual Funds				Private Sector-Sponsored Mutual Funds				Public Sector-Sponsored Mutual Funds			
	2013-14								2014-15							
Individuals	2,48,85,093	96.30	3,04,711	44.10	1,41,57,543	98.80	66194.00	47.60	2,62,85,069	96.60	4,25,238	46.30	1,43,21,554	98.60	82794.00	50.20
NRIs/OCBs	6,62,677	2.60	30181.00	4.40	1,20,371	0.80	3415.00	2.40	6,01,263	2.20	37200.00	4.10	1,29,818	0.90	4163.00	2.50
FPIs	207.00	0.00	7776.00	1.10	225.00	0.00	5898.00	4.20	19788.00	0.10	17502.00	1.90	10.00	0.00	44.00	0.00
Corporates/ Institutions/ Others	2,94,932	1.10	3,48,018	50.40	50593.00	0.40	63662.00	45.70	3,15,761	1.20	4,37,822	47.70	66943.00	0.50	77994.00	47.30
Total	**2,58,42,909**	**100.00**	**6,90,688**	**100.00**	**1,43,28,732**	**100.00**	**1,39,170**	**100.00**	**2,72,21,881**	**100.00**	**9,17,762**	**100.00**	**1,45,18,325**	**100.00**	**1,64,995**	**100.00**

Source: SEBI

Table 3-10: Performance of NSE listed ETFs (As of September 30, 2015)

S.No.		Issuer Name	Name	Symbol	Underlying	Launch Date	3 Months returns (%)	6 months returns (%)	12 months returns (%)
1	INDEX BASED ETFs	Edelweiss AMC	Edelweiss Exchange Traded Scheme - Nifty	NIFTYEES	Nifty 50 Index	8-May-15	-8.4	-7.8	NA
2		Goldman Sachs Asset Management	GS Nifty BeES	NIFTYBEES	Nifty 50 Index	28-Dec-01	-4.95	-5.73	-0.64
3		ICICI Prudential AMC	ICICI Prudential Nifty ETF	INIFTY	Nifty 50 Index	20-Mar-13	-1.13	-3.99	3.79
4		Kotak AMC	Kotak Nifty ETF	KOTAKNIFTY	Nifty 50 Index	2-Feb-10	-4.87	-6.04	-0.86
5		Motilal Oswal AMC	MOSt Shares M50	M50	Nifty 50 Index	28-Jul-10	-5.3	-5.59	-30.58
6		Quantum AMC	Quantum Index Fund - Growth	QNIFTY	Nifty 50 Index	10-Jul-08	-4.24	-6.03	NA
7		Reliance AMC	R*Shares Nifty ETF	RELNIFTY	Nifty 50 Index	22-Nov-13	-3.3	-6.32	0.04
8		Religare AMC	Religare Invesco Nifty ETF	RELGRNIFTY	Nifty 50 Index	13-Jun-11	0.63	-7.27	-2.63
9		SBI AMC	SBI ETF Nifty	SETFNIFTY	Nifty 50 Index	23-Jul-15	-4.11	-5.46	NA
10		Birla Sun Life AMC	Birla Sun Life Nifty ETF	BSLNIFTY	Nifty 50 Index	21-Jul-11	-7.62	-11.7	18.12
11		ICICI Prudential AMC	ICICI Prudential CNX 100 ETF	ICNX100	Nifty 100	20-Aug-13	0.44	-4.98	3.07
12		Reliance AMC	R*Shares CNX 100 ETF	RELCNX100	Nifty 100	22-Mar-13	-4.41	-8.79	-6.13
13		Goldman Sachs Asset Management	GS Bank BeES	BANKBEES	Nifty Bank	27-May-04	-5.76	-4.2	11.85
14		Kotak AMC	Kotak Banking ETF	KOTAKBKETF	Nifty Bank	4-Dec-14	-4.91	-3.4	NA
15		Reliance AMC	R*Shares Banking ETF	RELBANK	Nifty Bank	24-Jun-08	-5.96	-5.2	12.85
16		SBI AMC	SBI ETF Banking	SETFBANK	Nifty Bank	20-Mar-15	-4.11	-5.46	NA
17		Goldman Sachs Asset Management	CPSE ETF	CPSEETF	Nifty CPSE Index	28-Mar-14	-15.06	-14.08	-16.73
18		Reliance AMC	R*Shares Dividend Opportunities ETF	RELDIVOPP	Nifty Dividend Opportunities 50	15-Apr-14	1.06	-2.56	-9.74
19		Reliance AMC	R*Shares Consumption ETF	RELCONS	Nifty India Consumption	10-Apr-14	-3.3	-7.28	2.36
20		Goldman Sachs Asset Management	GS Infra BeES	INFRABEES	Nifty Infrastructure	29-Sep-10	-9.54	-7.86	14.92
21		Motilal Oswal AMC	MOSt Shares M100	M100	Nifty Midcap 100	31-Jan-11	-0.3	-0.59	13.85
22		Goldman Sachs Asset Management	GS Junior BeES	JUNIORBEES	Nifty Next 50	21-Feb-03	0.35	1.86	15.66
23		SBI AMC	SBI ETF Nifty Junior	SETFNIFJR	Nifty Next 50	20-Mar-15	-1.53	1.82	NA
24		Goldman Sachs Asset Management	GS PSU Bank BeES	PSUBNKBEES	Nifty PSU BANK	25-Oct-07	-4.83	-8.96	-9.73
25		Kotak AMC	Kotak PSU Bank ETF	KOTAKPSUBK	Nifty PSU BANK	8-Nov-07	-3.13	-8.96	-11.62
26		Goldman Sachs Asset Management	GS Shariah BeES	SHARIABEES	Nifty50 Shariah Index	18-Mar-09	-6.46	-2.97	0.24
27		Reliance AMC	R*Shares NV20 ETF	RELNV20	Nifty50 Value 20 Index	18-Jun-15	12.92	NA	NA
28		ICICI Prudential AMC	ICICI SENSEX Prudential Exchange Traded Fund	ISENSEX	S&P BSE Sensex	10-Jan-03	25.51	8.77	15.56
29		UTI AMC	UTI Sensex ETF	UTISENSETF	S&P BSE Sensex	3-Sep-15	NA	NA	NA

Contd.

Contd.

S.No.		Issuer Name	Name	Symbol	Underlying	Launch Date	3 Months returns (%)	6 months returns (%)	12 months returns (%)
30	GOLD BASED ETFs	Axis Mutual Fund	Axis Gold ETF	AXISGOLD	Gold	Nov-10	-3.97	-2.88	-6.33
31		Birla Sun Life Mutual Fund	Birla Sun Life Gold ETF	BSLGOLDETF	Gold	May-11	-4.8	-4.05	-5.77
32		Canara Robeco MF	Canara Robeco Gold ETF	CANGOLD	Gold	Mar-12	-0.79	-0.79	-2.82
33		Goldman Sachs Asset Management	Goldman Sachs Gold Exchange Traded Scheme	GOLDBEES	Gold	Mar-07	-3.35	-0.5	-3.35
34		HDFC Mutual Fund	HDFC Gold Exchange Traded Fund	HDFCMFGETF	Gold	Aug-10	-1.88	-1.08	-3.19
35		IDBI AMC	IDBI Gold ETF	IDBIGOLD	Gold	Nov-11	-5.77	-3.36	-3.52
36		Kotak Mutal Fund	Kotak Gold Exchange Traded Fund	KOTAKGOLD	Gold	Jul-07	-0.69	-90.16	-90.42
37		Quantum Mutual Fund	Quantum Gold Fund (an ETF)	QGOLDHALF	Gold	Feb-08	-0.86	0.68	-2.63
38		Reliance Mutual Fund	Reliance Gold Exchange Traded Fund	RELGOLD	Gold	Nov-07	-3.85	-1.31	-2.12
39		Religare Mutual Fund	Religare Gold Exchange Traded Fund	RELIGAREGO	Gold	Mar-10	-4.56	-2.6	-7.84
40		SBI Mutual Fund	SBI Gold Exchange Traded Scheme	SBIGETS	Gold	Apr-09	-1.42	-1.42	-3.34
41	WORLD INDICES BASED ETFs	Goldman Sachs Asset Management	GS Hang Seng BeES	HNGSNGBEES	HangSeng	9-Mar-10	-11.25	9.87	9.6
42		Motilal Oswal AMC	MOSt Shares NASDAQ 100	N100	Nasdaq 100	29-Mar-11	2.86	1.8	15.67
43	DEBT BASED ETFs	LIC Nomura AMC	LIC Nomura MF G-Sec Long Term ETF - Reg - Growth	LICNMFET	Nifty 8-13 yr G-Sec Index	26-Dec-14	4.26	4.11	NA

4. Secondary Market

Introduction

The secondary market is where securities are traded after they are initially offered to the public in the primary market and/or are listed on the stock exchange. The stock exchanges, along with a host of other intermediaries, provide the 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 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 via the Internet. In a geographically vast country like India, this has significantly expanded the reach of the stock exchanges. The secondary market is composed of equity markets and debt markets. This chapter focuses on equity markets, and Chapter 5 deals with debt markets.

Turnover and Market Capitalisation: Growth

The trading volumes in the equity segments of the stock exchanges have witnessed phenomenal growth over the last few years. The Indian equity markets performed remarkably well in 2014–2015, supported by improved conditions in the global financial markets and some decisive actions on the domestic policy front. During this period, there was a rise in the inflows of foreign capital and increased trading activity in equity markets. Moreover, the benchmark indices and market capitalisation attained new highs.

The National Stock Exchange of India (NSE) and the Bombay Stock Exchange (BSE) were the only stock exchanges that reported significant trading volumes. No other stock exchange in India reported any significantly large trading volumes during 2014–2015. The NSE consolidated its position as the market leader by contributing 83.5% of the total turnover in India in 2014–2015, and 85.1% in the first half of 2015–2016. Since its inception in 1994, the NSE has emerged as the favoured exchange among trading members. The consistent increase in popularity of the NSE is evident from Annexure 4-1, which presents the business growth of the capital market (CM) segment of the NSE. The NSE's market capitalisation increased 36% year-on-year (y-o-y) to consolidate at ₹ 99,301 billion. The average daily turnover also increased 59% y-o-y from ₹ 112 billion in 2013–2014 to ₹ 178 billion in 2014–2015. The NSE has been successful in creating a niche for itself not only in the national arena but also in international markets.

The trends in the turnover on the NSE and the BSE from 2012–2013 to the first half of 2015–2016 (Table 4-1) reveals a persistent increase in turnover on the exchanges. However, during 2013–2014, the turnover increased only marginally, reflecting the impact of the crisis and the uncertainties in the global financial markets. The impact of the crisis was mitigated in 2014–2015 because of the strengthening of the global financial markets and domestic macroeconomic fundamentals. The turnover on the NSE surged by 51% in 2014–2015 (compared to 3.7% in 2013–2014), indicating the strong position of Indian capital markets. The average daily turnover on the NSE stood at ₹ 178 billion in 2014–2015, which marked an increase of 60% compared to ₹ 112 billion in 2013–2014. However, the average daily turnover on the BSE declined to ₹ 20.8 billion in 2013–2014; it increased in the first half of 2014–2015 to ₹ 35.5 billion.

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

	Stock Exchanges	Capital Market Turnover						Share in Turnover (percent)		
		2013-14		2014-15		Apr-Sep' 15		2013-14	2014-15	Apr-Sep' 15
		(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)	(₹ mn)	(US $ mn)			
1	NSE	28,084,880	468,569	43,296,550	708,154	22,064,016	347,191	84.1	83.5	85.1
2	BSE	5,216,640	87,035	8,548,453	139,818	3,868,978	60,881	15.6	16.5	14.9
3	Calcutta	790	13	-	-	-	-	0.0	0.0	0.0
4	MCX-SX	111,850	1,866	3		1380		0.3	0.0	0.0
5	Other regional exchanges*	0	-	-	-	0	0	0.0	0.0	0.0
	Total	**33,414,160**	**557,482**	**51,845,007**	**847,972**	**25,934,374**	**408,072**	**100.0**	**100.0**	**100.0**

** Other regional exchanges include Uttar Pradesh, Ahmedabad, Delhi, Pune, Ludhiana, Bangalore, Madras, Madhya Pradesh, Vadodara, Cochin etc.*
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
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
Oct-14	2,711,910	44,053	510,780	8,297	150,660	2,447	28,380	461	94,905,200	1,541,657	96,846,910	1,573,199
Nov-14	3,296,377	53,547	678,921	11,029	183,132	2,975	37,718	613	97,395,702	1,582,114	99,825,642	1,621,586
Dec-14	3,544,729	57,581	671,350	10,906	161,124	2,617	30,520	496	96,004,595	1,559,516	98,363,770	1,597,839
Jan-15	3,838,721	62,357	736,860	11,970	182,796	2,969	35,089	570	101,002,177	1,640,698	103,462,816	1,680,669
Feb-15	3,927,185	63,794	784,091	12,737	196,359	3,190	39,205	637	102,126,144	1,658,956	104,666,607	1,700,223
Mar-15	3,979,027	64,636	795,881	12,928	189,477	3,078	37,899	616	99,301,220	1,613,067	101,492,900	1,648,669
2014-15	**43,296,550**	703,317	**8,548,453**	138,863	**178,175**	2,894	**35,179**	571	**99,301,220**	1,613,067	**101,492,900**	1,648,669
Apr-15	3,793,491	60,481	674,213	10,749	199,657	3,183	35,485	566	96,863,239	1,544,330	99,680,153	1,589,242
May-15	3,619,352	54,684	606,046	9,157	180,968	2,734	30,302	458	100,206,646	1,514,014	103,266,863	1,646,426
Jun-15	3,332,892	51,218	603,702	9,277	151,495	2,328	27,441	422	98,490,764	1,513,558	101,435,106	1,617,221
Jul-15	3,834,839	60,263	702,537	11,040	166,732	2,620	30,545	480	101,685,612	1,597,952	104,793,956	1,670,773
Aug-15	4,199,322	65,757	738,217	11,560	199,968	3,131	35,153	550	95,290,699	1,492,164	98,279,305	1,566,907
Sep-15	3,284,119	51,475	544,263	8,531	164,210	2,574	27,213	427	94,916,094	1,487,705	96,481,219	1,538,240
Apr-Sep'15	**22,064,016**	343,608	**3,868,978**	60,253	**210,133**	3,272	**37,563**	585	**94,916,094**	1,478,151	**96,481,219**	1,538,240

Source: BSE, NSE, SEBI

According to the statistics of the World Federation of Exchanges (WFE), in terms of the number of trades in equity shares, the NSE ranks first globally, with 1,449,227 thousand trades at the end of December 2013. The NSE retained its top position in the first half of 2014 as well, with 1,298,294 thousand trades in January–September 2014. However, as of end September 2015, NSE slipped to third position in terms of number of trades in equity shares. The trade details of the top-ranked stock exchanges are presented in Table 4-3.

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

Exchange	End December 2012	End December 2013	End September 2014	End September 2015
NYSE Euronext (US)	1,374,539	1,187,800	1,091,855	1,287,295
Shanghai Stock Exchange	925,550	1,153,367	876,613	4,134,931
NSE	1,406,498	1,449,227	1,298,294	1,437,133
Shenzhen SE	935,565	1,289,435	1,135,297	3,297,160
Korea Stock Exchange	1,218,992	1,031,553	812,411	1,320,261

** Year to date.*
Source : WFE Reports

The NSE continued to register high growth in annual turnover in 2014–2015. The turnover of NSE exhibited a 54% increase in 2014–2015, while that of the BSE showed an increase of 64% in 2014–2015 compared to 2013–2014. The market capitalisation for securities available for trading on the equity segment of the NSE and the BSE increased in tandem, with both exchanges reporting a 36% y-o-y increase in market capitalisation (Table 4-2: Stock Market Indicators—Monthly Trends on NSE and BSE). The market capitalisation of the NSE—which at the end of March 2014 amounted to ₹ 72,777 billion (US$ 1,214.2 billion)—increased to ₹ 99,301 billion (US$ 1,613.1 billion) at the end of March 2015. However, the market capitalisation of the NSE declined to ₹ 94,916 billion (US$ 1,538.2) at the end of September 2015.

Market Movements

The movement of a few of the selected indices presented in Table 4-4 indicates the trend witnessed in stock markets globally during 2013–2014 and 2014–2015. A comparison of the selected indices indicates that in 2014–2015, these indices reflected regional differences in investor sentiment. The American and the European financial markets faced a slowdown in growth, whereas the Asian markets surged heavily as compared to 2013–2014. Nikkei and Nifty 50 registered massive growth rate to the tune of 30% (y-o-y) and 27% (y-o-y), respectively. Other Asian indices such as Hong Kong's Hang Seng and South Korea's Kospi moved from negative growth (-1% y-o-y) in 2013–2014 to positive growth at 12% (y-o-y) and 3% (y-o-y), respectively.

However, there was a reversal of trends in 2015–2016 (until September 2015) because of weak investor sentiment and uncertainty in the global financial markets. Almost all the major indices ended in negative return territory from April 2015 to September 2015, as shown in Table 4-4. Hong Kong's Hang Seng index registered a 16% fall in 2015–2016 (till September 2015), which could be attributed to fears of slowing growth and the steep climb of the stocks in the previous year. The fall in the Chinese market had its implications on all the emerging markets as well. Consequently Nifty 50 fell by 6% in April–September 2015 despite India's strong macroeconomic fundamentals.

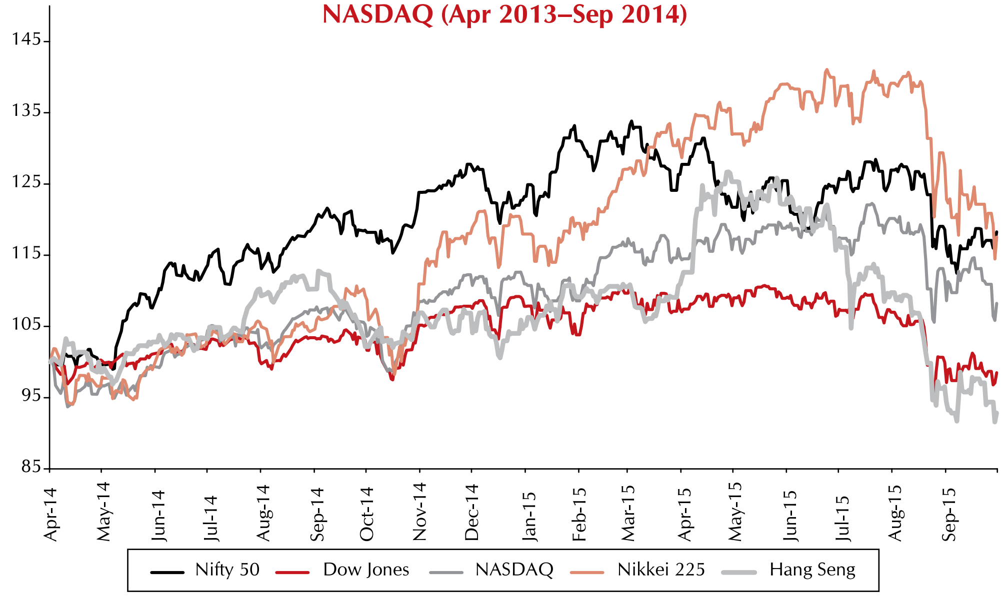
Table 4-4: Movement of Select Indices on Indian & Foreign Markets

Region	Index - Country	End March 2014	End March 2015	End Sep 2015	Change during 2013-14 (Percent)	Change during 2014-15 (Percent)	Change during Apr-Sep'15 (Percent)
Americas	Dow Jones	16458	17976	16285	9.2%	9.2%	-9.4%
	Nasdaq	4199	4901	4620	28.5%	16.7%	-5.7%
Europe	FTSE 100- UK	6598	6773	6062	2.9%	2.6%	-10.5%
	CAC 40 - France	4392	5034	4455	17.7%	14.6%	-11.5%
Asia Pacific	Nifty 50 (S&P CNX Nifty)- India	6704	8491	7949	18.0%	26.7%	-6.4%
	BSE Sensex- India	22386	27976	26155	18.8%	25.0%	-6.5%
	Hang Seng- Hong Kong (China)	22151	24901	20846	-0.7%	12.4%	-16.3%
	Nikkei- Japan	14828	19207	17388	19.6%	29.5%	-9.5%
	Kospi - South Korea	1986	2041	1963	-1.0%	2.8%	-3.8%

Source: Yahoo Finance

A comparison of the movement of the Nifty with that of other major global indices during April 2014–September 2015 (as depicted in Chart 4-1) shows that Nifty 50 was the best performer globally during April 2014–March 2015. However, for the period April–September 2015, Nikkei 25 emerged as the best performer. The emerging markets faced a huge sell-off in 2015–2016 because of the interest rate uncertainty in U.S. and growth concerns in the emerging markets, particularly China.

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



Source: Yahoo Finance and NSE

The stock market index, volatility, and P/E ratio for the two major indices of the Indian stock exchanges are presented in Table 4-5.

Table 4-5: Stock Market Index, Volatility and P/E Ratio: April '14 to Sep '15

Month/Year	Nifty 50			Sensex		
	Index	Volatility (Percent)**	P/E Ratio*	Index	Volatility (Percent)**	P/E Ratio*
Apr-14	6696	0.7	18.8	22418	0.7	18.3
May-14	7230	1.0	19.8	24217	0.9	17.9
Jun-14	7611	0.8	20.7	25414	0.9	18.6
Jul-14	7721	0.8	20.6	25895	0.8	18.5
Aug-14	7954	0.6	20.8	26638	0.8	18.2
Sep-14	7965	0.8	20.8	26631	0.8	18.5
Oct-14	8322	1.0	21.6	27866	0.9	18.3
Nov-14	8588	0.5	21.9	28694	0.4	19.5
Dec-14	8283	0.8	21.2	27499	0.9	19.7
Jan-15	8809	1.2	22.5	29183	1.2	19.2
Feb-15	8902	0.8	23.8	29220	0.8	18.8
Mar-15	8491	1.0	22.7	27957	1.0	19.2
Apr-15	8182	0.9	22.1	26898	0.8	19.4
May-15	8434	1.2	23.1	26155	1.2	19.9
Jun-15	8369	1.0	23.2	25298	1.0	20.7
Jul-15	8533	0.9	23.2	27416	0.9	22.5
Aug-15	7971	1.6	22.1	26307	1.6	21.9
Sep-15	7949	1.3	22.2	26424	1.3	20.6

**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 1 month, 3 months and 12 months (as at the end of March 2015 and September 2015) is presented in Table 4-6. Over a 1-year horizon for the period ending March 2015, all the indices showed significantly high returns in the range of 26% (y-o-y) (for Nifty 50) and 51% (y-o-y) (for Nifty Midcap). The Nifty Junior index registered a growth rate of 44% in 2014–2015 compared to the 20% y-o-y growth rate in the previous year. Further, the 3-month returns were also positive for all the indices. However, the 1-month returns were negative for all the indices, which was not the case in the previous year. At the end of September 2015, only Nifty 500 and Nifty Midcap were able to maintain positive growth rates. The Nifty Junior index fell by 11% by the end of September 2015, compared to the levels in the previous year. The 1-month and 3-month returns as of September 2015 were negative for all the indices.

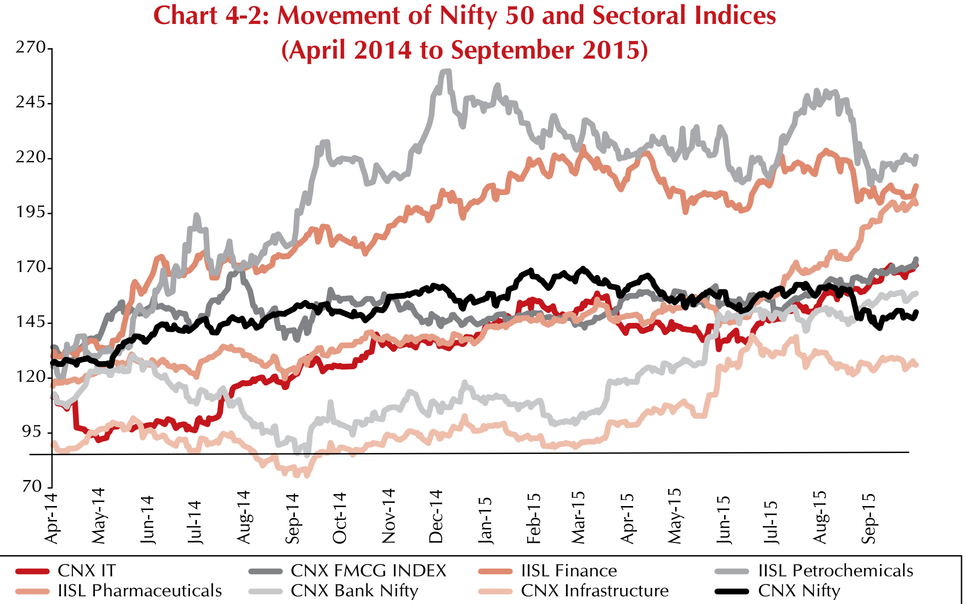
Table 4-6: Performance of Select Indices - NSE

As at end March 2015- in percent			
	1 month	**3 months**	**12 months**
S&P CNX Nifty	-4.62	2.51	26.65
S&P CNX 500	-3.61	3.02	33.56
CNX Nifty Junior	-1.33	4.09	44.34
CNX Midcap	-0.89	3.32	50.96
As at end Sep 2015 - in percent			
	1 month	**3 months**	**12 months**
S&P CNX Nifty	-0.28	-5.01	-0.2
S&P CNX 500	-0.35	-3.64	3.59
CNX Nifty Junior	-2.42	-12.88	-11.83
CNX Midcap	-0.57	-0.19	13.72

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 2014–September 2015 is presented in Chart 4-2. This period was marked by high volatility, as indicated in Table 4-7. During the period April 2014–September 2015, CNX Petrochemicals and CNX Pharmaceuticals generated significantly high returns (CNX Petrochemicals: 70%; CNX Pharmaceuticals: 63%) compared to the returns on Nifty 50 (19%).

Chart 4-2: Movement of Nifty 50 and Sectoral Indices (April 2014 to September 2015)



Source: NSE

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

Table 4-7: Performance of NSE Sectoral Indices

Month/ Year	Monthly Index Value*						Average Daily Volatility (Percent)					
	CNX Nifty	CNX FMCG	CNX IT	CNX Finance	CNX-Pharma-ceuticals	CNX Petro-chemi-cals	CNX Nifty	CNX FMCG	CNX IT	CNX Finance	CNX pharma-ceuticals	CNX Petro-chemi-cals
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
Oct-14	8,322	19,394	11,341	7,397	17,016	19,918	0.9	0.9	1.7	1.1	1.3	1.1
Nov-14	8,588	20,027	11,898	7,734	17,741	23,421	0.4	1.1	0.7	0.9	0.7	1.2
Dec-14	8,283	20,126	11,216	8,034	17,460	23,096	0.8	1.2	1.2	1.2	1.0	1.6
Jan-15	8,809	21,166	11,825	8,489	18,532	21,632	1.1	1.0	1.2	1.2	0.9	1.1
Feb-15	8,902	21,102	12,660	8,550	18,747	21,243	0.8	1.4	0.8	1.0	1.0	1.3
Mar-15	8,491	19,880	12,083	8,230	20,445	21,099	0.9	1.1	1.0	1.1	1.2	1.4
Apr-15	8,182	19,511	11,001	8,037	19,184	20,706	0.9	1.3	1.1	1.2	1.9	1.0
May-15	8,434	20,107	11,575	7,995	20,003	22,107	1.2	1.1	1.2	1.0	1.2	1.9
Jun-15	8,369	20,156	11,037	8,185	19,599	20,141	0.9	1.3	1.1	0.9	1.3	1.5
Jul-15	8,533	20,920	11,594	8,640	20,110	23,064	0.9	1.0	1.2	1.0	1.6	1.4
Aug-15	7,971	20,112	11,606	8,001	21,307	20,281	1.6	1.3	1.5	1.7	1.9	2.5
Sep-15	7,949	19,957	12,032	8,114	20,993	20,847	1.3	1.0	1.0	1.0	1.1	1.3

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

The volatility across the different sectoral indices for the period April 2014–September 2015 varied widely, as shown in Table 4-7. The CNX Petrochemicals index was the most volatile index, with the highest volatility among the sectoral indices during 12 of the 18 months considered. The average volatility for the period April 2014–September 2015 was also highest for the petrochemicals index, followed by the pharmaceuticals index.

Liquidity

In March 2015, the percentage of companies traded to companies listed on the NSE was 87.4%, while at the BSE, it was 50.1%. In September 2015, 47.9% of the companies traded on the BSE, while 86.3% of the companies traded on the NSE (Table 4-8).

Table 4-8: Trading Frequency on NSE & 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-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
Oct-14	1,706	1,555	91.1	5,498	3,023	55.0
Nov-14	1,707	1,558	91.3	5,518	3,106	56.3
Dec-14	1,708	1,551	90.8	5,541	2,977	53.7
Jan-15	1,718	1,549	90.2	5,575	2,960	53.1
Feb-15	1,719	1,503	87.4	5,596	2,854	51.0
Mar-15	1,733	1,514	87.4	5,624	2,818	50.1
Apr-15	1,740	1,518	87.2	5,650	2,808	49.7
May-15	1,749	1,519	86.8	5,672	2,785	49.1
Jun-15	1,750	1,517	86.7	5,688	2,801	49.2
Jul-15	1,756	1,521	86.6	5,725	2,984	52.1
Aug-15	1,772	1,574	88.8	5,752	2,755	47.9
Sep-15	1,779	1,535	86.3	5,763	2,758	47.9

** 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 NSE for over 100 days increased to 92.5% in 2014–2015 from 89.1% in 2013–2014 (Table 4-9). In 2014–2015, of the 1,691 stocks that were traded on the NSE, 3.4% witnessed trading for less than 11 days, which was higher than the 2.1% reported in 2013–2014.

Table 4-9: Trading Frequency of NSE listed companies

Trading Frequency (Range of Days)	2010-11		2011-12		2012-13		2013-14		2014-15	
	No. of Companies Traded	Percentage of Total	No. of Companies Traded	Percentage of Total	No. of Companies Traded	Percentage of Total	No. of Companies Traded	Percentage of Total	No. of Companies Traded	Percentage of Total
Above 100	1,444	93.7	1,530	94.0	1,561	95.4	1,469	89.1	1,564	92.5
91-100	7	0.5	5	0.3	3	0.2	17	1.0	6	0.4
71-80	7	0.5	7	0.4	5	0.3	15	0.9	10	0.6
61-70	11	0.7	5	0.3	5	0.3	25	1.5	8	0.5
51-60	5	0.3	6	0.4	9	0.5	15	0.9	5	0.3
41-50	6	0.4	3	0.2	3	0.2	17	1.0	-	-
31-40	8	0.5	3	0.2	3	0.2	13	0.8	15	0.9
21-30	8	0.5	8	0.5	6	0.4	14	0.8	7	0.4
11-20	11	0.7	8	0.5	4	0.2	13	0.8	11	0.7
1-10	29	1.9	44	2.7	32	2.0	35	2.1	57	3.4
Total	**1,541**	**100.0**	**1,627**	**100.0**	**1,637**	**100.0**	**1,648**	**100.0**	**1,691**	**100.0**

Source: NSE

Takeovers

In 2014–2015, there were 60 takeovers under the open category, involving ₹ 172.4 billion (US$ 2.8 billion), compared to 75 takeovers involving ₹ 454.1 billion (US$ 7.5 billion) in the preceding year (2013–2014) (Table 4-10). As of September 2015, there were 33 takeovers in 2015–2016, involving ₹ 10 billion (US$ 157 million).

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)
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**
2014-15	**51**	**54,418**	**1**	**114,489**	**8**	**350**	**60**	**172,410**	**2,819**
Apr-Sept* 2015	**29**	**590**	**1**	**-**	**3**	**418**	**33**	**1,009**	**16**

Source: SEBI.

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

Month/Year	No. of Trading Days	No. of Companies Traded	No. of Trades (mn)	Traded Quantity (mn)	Average Daily Turnover (₹ mn)	Demat Turnover (₹ mn)	Market Capitalisation (₹ mn) *
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**
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**	**90,609,598**
Oct-14	18	1,555	119	13,577	150,660	2,711,910	94,905,200
Nov-14	18	1,558	137	17,128	183,132	3,296,377	97,395,702
Dec-14	22	1,551	153	17,752	161,124	3,544,729	96,004,595
Jan-15	21	1,549	161	19,014	182,796	3,838,721	101,002,177
Feb-15	20	1,503	158	20,402	196,359	3,927,185	102,126,144
Mar-15	21	1,514	161	19,005	189,477	3,979,027	99,301,220
2014-15	**243**	**1,514**	**1,833**	**236,178**	**178,175**	**43,296,550**	**99,301,220**
Apr-15	19	1,518	151	16,266	199,657	3,793,491	9,686,324
May-15	20	1,519	145	15,294	180,968	3,619,352	10,020,665
Jun-15	22	1,517	153	17,777	151,495	3,332,892	9,849,076
Jul-15	23	1,521	174	19,678	166,732	3,834,839	10,168,561
Aug-15	21	1,574	186	21,582	199,968	4,199,322	9,529,070
Sep-15	20	1,535	150	16,411	164,210	3,284,119	94,916,094
Apr-Sep 15	**125**	**1,535**	**959**	**107,008**	**176,512**	**22,064,016**	**94,916,094**

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

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 2014-15, the government and the corporate sector collectively mobilized ₹ 14,244 billion (US $ 233 billion) from the primary debt market, an increase of 18 percent as compared to a decline of 2 percent in the preceding year (Table 5-1). The year also saw decline in the share of government borrowings in the total borrowings. About 69 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 corporate sector showed an increase of 41 percent in the primary market borrowings. The turnover in the secondary debt market in 2014-15 aggregated ₹ 1,83,191 billion (US $ 2,996 billion), 11 percent higher than that in the previous fiscal year. Similar to the previous years, government borrowing in the secondary market accounted for more than 98 percent of the total secondary market borrowings.

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)	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
Government	8,971	9,820	162,739	1,80,314	150	161	2,715	2,949
Corporate/Non Government	3,133	4,424	2,232	2,877	52	72	37	47
Total	**12,104**	**14,244**	**164,971**	**183,191**	**202**	**233**	**2,752**	**2,996**

** 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 2014-15, the central government and the state governments borrowed ₹ 7,412 billion (US $ 121 billion) and ₹ 2,408 billion (US $ 39 billion), respectively. The gross borrowings of the central and the state governments taken together were budgeted 10 percent higher, from ₹ 8,971 billion (US $ 150 billion) in 2013-14 to ₹ 9,820 billion (US $ 161 billion) in 2014-15 (Table 5-2). The net borrowings of the central and the state governments also rose by 5 percent, from ₹ 6,396 billion in 2013-14 to ₹ 6,729 billion in 2014–15. There was a 2 percent decline in the net borrowings of the central government but a 26 percent increase in the net borrowing of the state governments was sufficient to offset the decline. The state governments collectively raised ₹ 2,408 billion (US $ 39 billion) in 2014–15 as against ₹ 1,967 billion (US $ 33 billion) in the preceding year.

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

Type of Government	Gross Borrowings				Net Borrowings			
	2013-14 (₹ bn)	2013-14 (US $ bn)	2014-15 (₹ bn)	2014-15 (US $ bn)	2013-14 (₹ bn)	2013-14 (US $ bn)	2014-15 (₹ bn)	2014-15 (US $ bn)
Central	7,005	117	7,412	121	4,750	79	4,655	76
State	1,967	33	2,408	39	1,646	27	2,074	34
Total	**8,971**	**150**	**9,820**	**161**	**6,396**	**107**	**6,729**	**110**

Source: RBI

Secondary Market

Private placement mechanism dominates the resource mobilization through corporate bonds. Past trend of resource mobilization through private placement is shown in Table 5-3. Resource mobilization through private placement mechanism surged by 46 percent in 2014-15 as compared to last year. (Table 5-3).

Table 5-3: Private placement of corporate debt reported to BSE and NSE

Year/ Month	NSE		BSE		Common		Total	
	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)
2012-13	**1,295**	**2,06,187**	**1,094**	**72,474**	**100**	**82,801**	**2,489**	**3,61,462**
2013-14	**837**	**1,40,713**	**997**	**78,805**	**90**	**56,536**	**1,924**	**2,76,054**
2014-15	**1,094**	**1,69,726**	**1,386**	**1,17,949**	**131**	**1,16,461**	**2,611**	**4,04,137**
2015-16$	**802**	**1,05,996**	**855**	**73,327**	**51**	**51,706**	**1,708**	**2,42,720**
Apr-15	175	37,968	186	31,282	17	15,556	378	84,807
May-15	134	9,349	113	8,193	4	3,150	251	20,692
Jun-15	170	20,184	109		4	4,250	283	36,125
Jul-15	150	15,059	170	9,401	5	3,460	325	27,920
Aug-15	109	15,565	153	16,186	10	14,814	272	46,564
Sep-15	64	7,872	124	8,264	11	10,476	199	26,612

$ indicates as on September 30, 2015.
Source: SEBI

The aggregate turnover in central and state government dated securities and t-bills through non-repo SGL transactions declined to ₹ 9,104 billion (US $ 148 billion) in 2014-15 as compared to ₹ 15,958 billion (US $ 266 billion) in 2013–14, recording a 43 percent decline. The monthly turnover in non-repo transactions for the year 2014-15 ranged between ₹ 105 billion (US $ 1.7 billion) and ₹ 2,039 billion (US $ 33 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)		
2001-02	**11,446,342**	**673,316**	**12,119,658**	**248,354**	**94.4**	**5.6**
2002-03	**13,155,989**	**767,845**	**13,923,834**	**293,133**	**94.5**	**5.5**
2003-04	**15,813,076**	**1,200,556**	**17,013,632**	**392,110**	**92.9**	**7.1**
2004-05	**9,897,351**	**2,711,314**	**12,608,665**	**288,198**	**78.5**	**21.5**
2005-06	**4,986,040**	**2,094,107**	**12,066,187**	**270,482**	**41.3**	**17.4**
2006-07	**2,747,384**	**1,235,603**	**3,982,988**	**91,374**	**69.0**	**31.0**
2007-08	**3,541,760**	**1,461,287**	**5,003,047**	**125,170**	**70.8**	**29.2**
2008-09	**5,427,749**	**1,217,740**	**6,645,488**	**130,432**	**81.7**	**18.3**
2009-10	**6,304,237**	**2,714,149**	**9,018,385**	**199,787**	**69.9**	**30.1**
2010-11	**5,137,117**	**1,945,950**	**7,083,067**	**158,635**	**72.5**	**27.5**
2011-12	**5,363,758**	**2,438,708**	**7,802,466**	**152,496**	**68.7**	**31.3**
2012-13	**8,464,821**	**2,953,401**	**11,418,222**	**210,029**	**74.1**	**25.9**
2013-14	**10,764,141**	**5,193,641**	**15,957,782**	**266,240**	**67.5**	**32.5**
Apr-14	678,962	496,668	1,175,630	19,097	57.8	42.2
May-14	1,036,637	564,593	1,601,230	26,011	64.7	35.3
Jun-14	1,574,236	464,743	2,038,979	33,122	77.2	22.8
Jul-14	840,464	457,034	1,297,498	21,077	64.8	35.2
Aug-14	543,609	418,942	962,551	15,636	56.5	43.5
Sep-14	751,093	411,804	1,162,897	18,890	64.6	35.4
Oct-14	79,275	38,653	117,928	1,916	67.2	32.8
Nov-14	88,520	47,136	135,656	2,204	65.3	34.7
Dec-14	127,042	39,826	166,867	2,711	76.1	23.9
Jan-15	117,150	56,934	174,084	2,828	67.3	32.7
Feb-15	73,291	31,280	104,571	1,699	70.1	29.9
Mar-15	121,925	44,032	165,957	2,696	73.5	26.5
2014-15	**6,032,204**	**3,071,645**	**9,103,849**	**147,885**	**66.3**	**33.7**
Apr-15	278,883	41,587	320,470	4,990	87.0	13.0
May-15	140,893	29,072	169,965	2,647	82.9	17.1
Jun-15	117,602	60,582	178,184	2,775	66.0	34.0
Jul-15	94,975	46,626	141,601	2,205	67.1	32.9
Aug-15	112,368	43,904	156,272	2,433	71.9	28.1
Sep-15	133,906	47,439	181,345	2,824	73.8	26.2
April-September 2015	**878,627**	**269,210**	**1,147,837**	**17,874**	**76.5**	**22.5**

Source : NSE
**excludes NDS-OM turnover*

The share of the WDM segment of the NSE in the total turnover of non-repo SGL transactions fell in 2014–15 to 36 percent from 40 percent in 2013-14 (Table 5-5). The share of the WDM in the turnover of non-repo dated securities (central and state government securities) increased from 33 percent in 2013-14 to 38 percent in 2014–15. The share of the WDM in the turnover of non-repo t-bills decreased to 33 percent in 2014–15 as compared to 54 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)
2008-09	**6,645,488**	**2,911,124**	**43.8**	**5,427,749**	**2,342,884**	**43.2**	**1,217,740**	**568,241**	**46.7**
2009-10	**9,018,385**	**4,217,022**	**46.8**	**6,304,237**	**3,285,111**	**52.1**	**2,714,149**	**931,911**	**34.3**
2010-11	**7,083,067**	**4,035,492**	**57.0**	**5,137,117**	**3,048,360**	**59.3**	**1,945,950**	**987,131**	**50.7**
2011-12	**7,802,466**	**4,643,860**	**59.5**	**5,363,758**	**3,248,673**	**60.6**	**2,438,708**	**1,395,187**	**57.2**
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**
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
Oct-14	117,928	38,210	32.4	79,275	29,352	37.0	38,653	8,858	22.9
Nov-14	135,656	44,777	33.0	88,520	34,445	38.9	47,136	10,332	21.9
Dec-14	166,867	54,783	32.8	127,042	44,976	35.4	39,826	9,807	24.6
Jan-15	174,084	58,040	33.3	117,150	36,271	31.0	56,934	21,769	38.2
Feb-15	104,571	35,124	33.6	73,291	25,606	34.9	31,280	9,518	30.4
Mar-15	165,957	48,796	29.4	121,925	35,067	28.8	44,032	13,729	31.2
2014-15	**17,342,634**	**6,232,776**	**35.9**	**11,457,205**	**4,305,355**	**37.6**	**5,885,429**	**1,927,421**	**32.7**
Apr-15	320,470	51,332	16.0	278,883	28,715	10.3	41,587	22,616	54.4
May-15	169,965	35,656	21.0	140,893	30,298	21.5	29,072	5,357	18.4
Jun-15	178,184	33,634	18.9	117,602	21,360	18.2	60,582	12,274	20.3
Jul-15	141,601	29,439	20.8	94,975	23,834	25.1	46,626	5,605	12.0
Aug-15	156,272	30,740	19.7	112,368	24,894	22.2	43,904	5,846	13.3
Sep-15	181,345	43,724	24.1	133,906	35,230	26.3	47,439	8,494	17.9
Apr-Sep '15	**1,147,837**	**224,524**	**0.2**	**878,627**	**164,332**	**0.2**	**269,210**	**60,192**	**0.2**

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

Settlement of Trades in Government Securities

In 2014-15, 7,83,214 trades in government securities amounting to ₹ 1,34,015 billion (US $ 2,192 billion) were settled by the CCIL. Of the total trades, 95 percent of the trades were outright transactions, and the rest were repo. (Table 5-6)

Table 5-6: Settlement of Trades in Government Securities

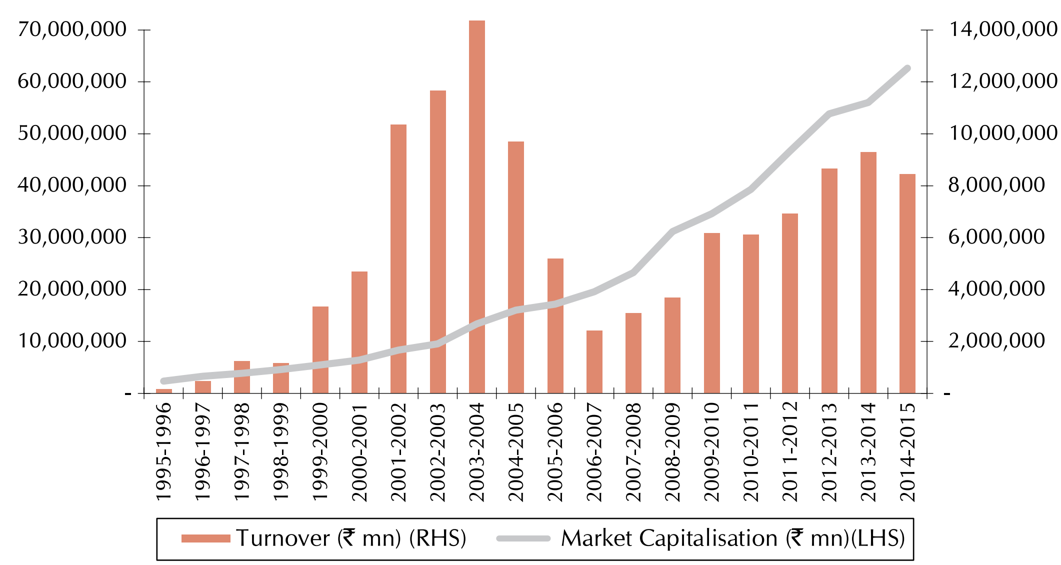
Month	Outright Transactions		Repo (First + Second Leg)		Total		
	No. of Trades	Amount (Face Value in ₹ mn)	No. of Trades	Amount (Face Value in ₹ mn)	No. of Trades	Amount (Face Value in ₹ mn)	Amount (Face Value in US $ mn)
2008-09	245,964	21,602,334	48,561	81,878,560	294,525	103,480,894	2,031,028
2009-10	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
2014-15	**742,820**	**76,437,830**	**40,394**	**57,577,361**	**783,214**	**134,015,191**	**2,191,940**

Source: CCIL

Turnover in WDM Segment of NSE

In 2014-15, the turnover in the WDM segment of the NSE (of g-secs, t-bills, PSU bonds, and others) registered a decline of 9 percent to ₹ 7,724 billion from ₹ 8,514 billion in 2013-14. The average daily turnover also declined from 35 billion (US $ 586 million) to ₹ 30 billion (US $ 482 million) in the same period (Annexure 5-1).

Chart 5-1: Business Growth of Debt Segment



Source: NSE

The summary statement of the business growth of the debt segment is presented in Annexure 5-1 and Chart 5-1. The highest turnover of ₹ 910 billion (US $ 14.5 billion) was witnessed in May 2014 during the fiscal year 2014-15. The average daily turnover ranged between ₹ 25,505 million (US $ 407 million) and ₹ 45,518 million (US $ 727 million) in 2014-15.

Securities Profile

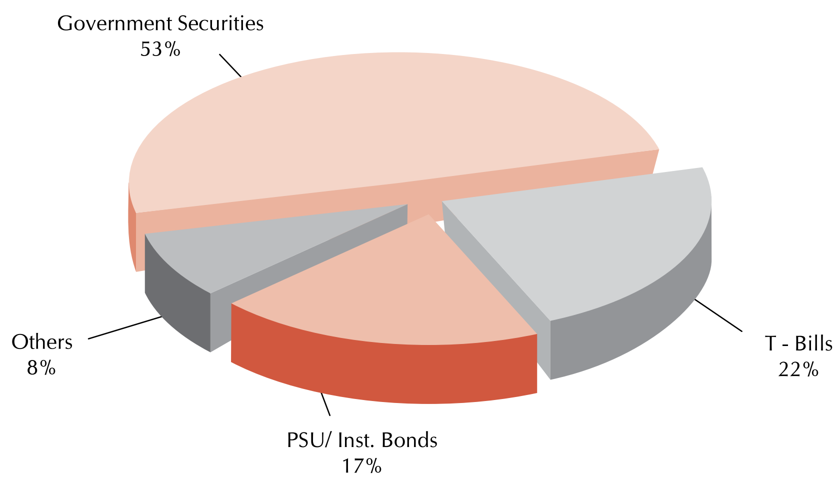
The turnover in government securities increased by 16 percent in 2014–15 as compared to the previous year, and accounted for a turnover of ₹ 4,107 billion. Its share in the total turnover was 53 percent in 2014–15 (Table 5-7). The share of T-Bills in the debt segment turnover accounted for 22 percent in 2014–15 (Chart 5-2).

Table 5-7: Security-wise Distribution of Debt Segment Turnover

Month & Year	Turnover (In ₹ million)					Turnover (In %)			
	Government Securities	T-Bills	PSU /Inst. Bonds	Others	Total Turnover	Government Securities	T-Bills	PSU /Inst. Bonds	Others
2010-11	**3,048,360**	**987,131**	**1,095,855**	**463,121**	**55,944,675**	**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**
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
Oct-14	293,517	88,580	121,050	56,710	559,857	52.4	15.8	21.6	10.1
Nov-14	344,447	103,324	139,418	73,544	660,733	52.1	15.6	21.1	11.1
Dec-14	449,764	98,071	106,158	47,068	701,061	64.2	14.0	15.1	6.7
Jan-15	362,713	217,690	157,631	60,734	798,768	45.4	27.3	19.7	7.6
Feb-15	256,056	95,181	102,340	33,534	487,111	52.6	19.5	21.0	6.9
Mar-15	350,674	137,287	85,791	32,560	606,312	57.8	22.6	14.1	5.4
2014-15	**4,106,939**	**1,666,797**	**1,344,101**	**605,854**	**7,723,691**	**53.2**	**21.6**	**17.4**	**7.8**
Apr-15	287,151	226,164	104,511	43,214	661,040	43.4	34.2	15.8	6.5
May-15	302,984	53,575	82,388	43,062	482,008	62.9	11.1	17.1	8.9
Jun-15	213,603	122,735	71,315	35,124	442,776	48.2	27.7	16.1	7.9
Jul-15	238,344	56,046	61,607	43,022	399,019	59.7	14.0	15.4	10.8
Aug-15	248,937	58,462	83,933	34,117	425,449	58.5	13.7	19.7	8.0
Sep-15	352,301	84,938	68,474	40,580	546,293	64.5	15.5	12.5	7.4

Source: NSE

Chart 5-2: Security-wise distribution of turnover (2014-15)



Source: NSE

Participant Profile

Indian banks, foreign banks, and PDs together accounted for 37 percent of the debt segment turnover in 2013–14, and 50 percent of the debt segment turnover during April–September 2015. The share of the Indian banks rose to 13 percent in 2014–15 from 9 percent in 2013-14. The trading members' contribution was the highest at 56 percent in 2014–15, however it declined from 62 percent in the previous year. A separate segment of FPI/FII category was also segregated since July 2015. This category contributed 2 percent as of September 2015 (Table 5-8 and Chart 5-3).

Table 5-8: Participant wise Distribution of WDM Turnover

Month/ Year	Turnover (In ₹ Crores)							Turnover (In %)					
	Trading Members	FIs/MFs/ Corporates	FII/ FPI	Primary Dealers	Indian Banks	Foreign Banks	Total Turnover	Trading Members	FIs/MFs/ Corporates	FII/ FPI	Primary Dealers	Indian Banks	Foreign Banks
2009-10	**277592**	**14769**		**26096**	**111886**	**133472**	**563816**	**49.2**	**2.6**		**4.6**	**19.8**	**23.7**
2010-11	**299366**	**13417**		**23579**	**73239**	**149846**	**559447**	**53.5**	**2.4**		**4.2**	**13.1**	**26.8**
2011-12	**345167**	**28509**		**26377**	**96566**	**136559**	**633179**	**54.5**	**4.5**		**4.2**	**15.2**	**21.6**
2012-13	**422768**	**34438**		**29309**	**130621**	**175078**	**792214**	**53.4**	**4.3**		**3.7**	**16.5**	**22.1**
Apr-13	48856	3512		3465	18857	18707	93397	52.3	3.8		3.7	20.2	20.0
May-13	55004	3899		4213	15157	19703	97976	56.1	4.0		4.3	15.5	20.1
Jun-13	52947	1989		4279	7295	17056	83565	63.4	2.4		5.1	8.7	20.4
Jul-13	43148	3230		1224	5421	13165	66188	65.2	4.9		1.9	8.2	19.9
Aug-13	45887	2669		2942	1005	14058	66561	68.9	4.0		4.4	1.5	21.1
Sep-13	47653	1395		4392	3190	20428	77058	61.8	1.8		5.7	4.1	26.5
Oct-13	43272	3353		2263	3879	14572	67338	64.3	5.0		3.4	5.8	21.6
Nov-13	33020	1044		1397	4123	12343	51927	63.6	2.0		2.7	7.9	23.8
Dec-13	38131	1262		2275	4368	16453	62489	61.0	2.0		3.6	7.0	26.3
Jan-14	53530	1905		2663	5635	15301	79035	67.7	2.4		3.4	7.1	19.4
Feb-14	39003	2190		1209	3986	13460	59848	65.2	3.7		2.0	6.7	22.5

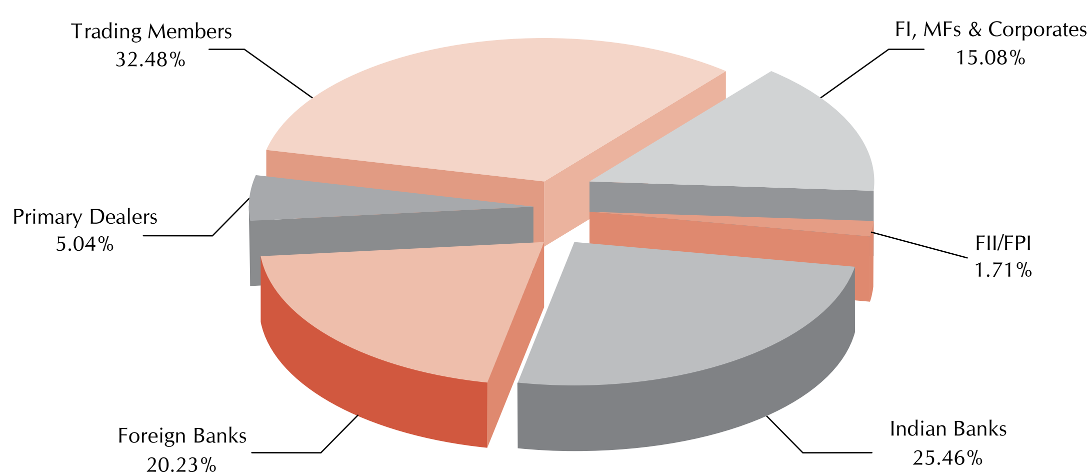
Contd.

Contd.

Month/ Year	Turnover (In ₹ Crores)							Turnover (In %)					
	Trading Members	FIs/MFs/ Corporates	FII/ FPI	Primary Dealers	Indian Banks	Foreign Banks	Total Turnover	Trading Members	FIs/MFs/ Corporates	FII/ FPI	Primary Dealers	Indian Banks	Foreign Banks
Mar-14	29575	1805		1851	2275	10546	46053	64.2	3.9		4.0	4.9	22.9
2013-14	**530017**	**28268**		**32184**	**75182**	**185783**	**851434**	**62.3**	**3.3**		**3.8**	**8.8**	**21.8**
Apr-14	30955	2424		1681	3274	10239	48573	63.7	5.0		3.5	6.7	21.1
May-14	50716	4260		2422	10815	22823	91036	55.7	4.7		2.7	11.9	25.1
Jun-14	41796	5320		2808	10244	15936	76103	54.9	7.0		3.7	13.5	20.9
Jul-14	30519	5258		1436	6638	12260	56112	54.4	9.4		2.6	11.8	21.9
Aug-14	39072	2199		2810	3571	12257	59908	65.2	3.7		4.7	6.0	20.5
Sep-14	32660	4343		1410	7229	13610	59253	55.1	7.3		2.4	12.2	23.0
Oct-14	30372	5733		1142	7995	10744	55986	54.3	10.2		2.0	14.3	19.2
Nov-14	37206	4513		1559	10578	12217	66073	56.3	6.8		2.4	16.0	18.5
Dec-14	38355	6933		1746	13369	9703	70106	54.7	9.9		2.5	19.1	13.8
Jan-15	40761	4713		2372	14450	17581	79877	51.0	5.9		3.0	18.1	22.0
Feb-15	24935	4730		360	6557	12129	48711	51.2	9.7		0.7	13.5	24.9
Mar-15	34857	5257		1031	10071	9416	60631	57.5	8.7		1.7	16.6	15.5
2014-15	**432218**	**55611**		**20777**	**104810**	**158954**	**772369**	**56.0**	**7.2**		**2.7**	**13.6**	**20.6**
Apr-15	35029	2604		992	13446	14034	66104	53.0	3.9		1.5	20.3	21.2
May-15	26438	3745		1162	8291	8565	48201	54.9	7.8		2.4	17.2	17.8
Jun-15	24725	2590		987	7753	8222	44278	55.8	5.9		2.2	17.5	18.6
Jul-15	13063	8284	1057	2404	8587	6506	39902	32.7	20.8	2.7	6.0	21.5	16.3
Aug-15	12428	7505	1179	1508	10586	9339	42545	29.2	17.6	2.8	3.5	24.9	22.0
Sep-15	17743	8238	933	2752	13911	11053	54629	32.5	15.1	1.7	5.0	25.5	20.2

Source: NSE

Chart 5-3: Participant-wise Distribution of Turnover (2014–2015)



Source: NSE

The share of the top 10 securities increased to 37 percent in 2014–15, compared to 29 percent in 2013–14 (Table 5-9). The share of the top 100 securities also increased to 72 percent in 2014–15, as against 68 percent in 2013–14. The top 50 securities accounted for 61 percent of the turnover in 2014–15.

The top 50 trading members accounted for 100 percent of the total turnover of the debt segment in 2014–15, which is indicative of the narrow membership structure of the debt 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
2014-15	**29.0**	**37.3**	**49.9**	**60.7**	**71.9**
Apr-Sep'15	**26.6**	**33.7**	**46.9**	**60.6**	**73.9**
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	
2014-15	**79.2**	**91.8**	**100.0**	**100.0**	
Apr-Sep'15	**79.6**	**92.6**	**100.0**	**100.0**	--
Participants					
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
2014-15	**21.3**	**31.8**	**43.5**	**44.0**	**-**
Apr-Sep'15	**25.8**	**34.6**	**46.7**	**52.2**	**55.4**

Source: NSE

Market Capitalization

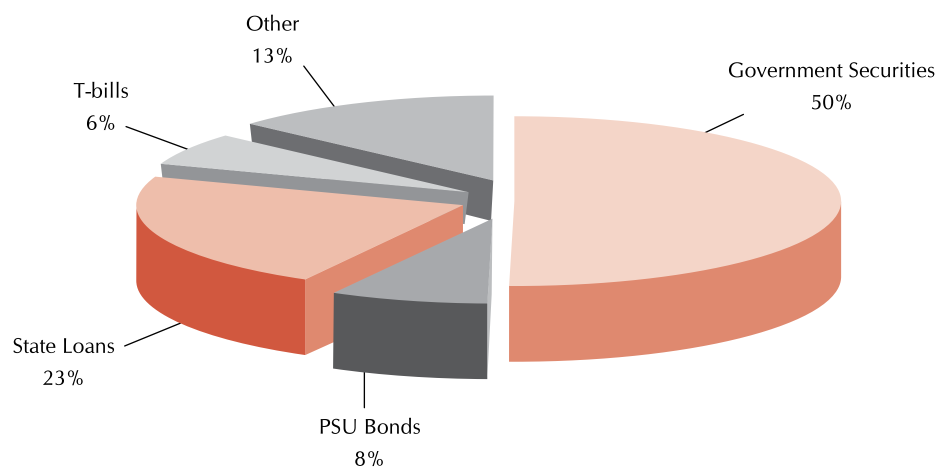
The market capitalization of the WDM segment witnessed a more or less consistent increase. The total market capitalization of the securities available for trading in the WDM segment stood at ₹ 57,392 billion (US $ 917 billion) at the end of March 2015, registering a growth of 7 percent over the figures at the end of March 2014. The market capitalization at the end of September 2015 was ₹ 57,892 billion (US $ 902 billion). The relative shares of the different securities in market capitalization at the end of September 2015 is shown in Chart 5-4. The growth of the market capitalization of the WDM segment is presented in Table 5-10.

Table 5-10: Market Capitalisation of WDM Securities

Month/ Year	Govt. securities	PSU bonds	State loans	T-bills	Others	Total	Total	Govt. securities	PSU bonds	State loans	T-bills	Others
	Market Capitalization (₹ million)						(US $ bn)	(in percent)				
Mar-10	19,504,360	1,629,786	5,369,956	1,356,961	37,982,323	31,659,295	**701**	**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**	**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**	**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**	**56.2**	**6.2**	**18.3**	**6.1**	**13.2**
Mar-14	26,975,395	3,709,916	10,681,145	3,284,074	6,636,803	51,287,333	**858**	**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	820	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	823	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	832	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	852	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	862	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	868	51.9	7.3	21.0	7.0	12.8
Oct-14	28,314,866	3,974,485	11,661,811	3,672,479	7,082,099	54,705,740	874	51.8	7.3	21.3	6.7	12.9
Nov-14	28,179,302	4,063,503	11,860,512	3,876,920	7,134,713	55,114,950	881	51.1	7.4	21.5	7.0	12.9
Dec-14	28,564,535	4,152,607	12,076,185	3,913,320	7,254,865	55,961,512	894	51.0	7.4	21.6	7.0	13.0
Jan-15	28,947,917	4,283,723	12,404,364	3,766,055	7,394,154	56,796,213	907	51.0	7.5	21.8	6.6	13.0
Feb-15	28,941,640	4,353,062	12,667,319	3,644,092	7,485,883	57,091,996	912	50.7	7.6	22.2	6.4	13.1
Mar-15	28,840,228	4,448,636	12,878,230	3,555,213	7,670,420	57,392,726	**917**	**50.3**	**7.8**	**22.4**	**6.2**	**13.4**
Apr-15	28,853,271	4,579,370	13,044,607	3,718,543	7,768,849	57,964,639	903	49.8	7.9	22.5	6.4	13.4
May-15	28,856,945	4,552,994	13,143,258	3,778,874	7,749,881	58,081,951	904	49.7	7.8	22.6	6.5	13.3
Jun-15	27,810,343	4,589,674	13,280,096	3,959,248	7,802,221	57,441,581	894	48.4	8.0	23.1	6.9	13.6
Jul-15	27,810,341	4,530,972	13,514,291	3,880,719	7,714,419	57,450,742	895	48.4	7.9	23.5	6.8	13.4
Aug-15	27,663,372	4,773,800	13,645,353	3,787,017	7,913,465	57,783,007	900	47.9	8.3	23.6	6.6	13.7
Sep-15	27,229,662	4,872,578	13,810,479	4,038,718	7,940,994	57,892,431	901	47.0	8.4	23.9	7.0	13.7

Source: NSE

Chart 5-4: Market Capitalization of WDM Segment at the end of September 2015



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 221 percent to ₹ 8,867 billion (US $ 145 billion) in 2014–15 from ₹ 2,757 billion (US $ 46 billion) in the previous fiscal year. The BSE turnover in 2014-15 was ₹ 2,045 billion (US $ 33 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)
2008-09	8,327	373,200	7,325	4,902	495,050	9,716	9,501	615,350	13,632
2009-10	7,408	533,230	11,813	12,522	1,519,200	33,655	18,300	1,959,550	43,507
2010-11	4,465	395,810	8,865	8,006	1,559,510	34,927	31,589	4,097,420	91,768
2011-12	6,424	498,420	9,741	11,973	1,934,350	37,806	33,136	3,505,060	68,505
2012-13	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**
2014-15	**17,710**	**2,045,055**	**33,471**	**58,073**	**8,867,875**	**145,137**	**8**	**8**	**0**
April-September 15	**8,388**	**1,105,440**	**17,219**	**27,475**	**4,039,150**	**62,915**	**-**		

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

Notes: 1. As per RBI circular dated Feburary 24, 2014, reporting of secondary market transaction in Corporate Bond has been discontinued at FIMMDA with effect from April 1, 2014.

2. Na: Not Applicable

Source: SEBI

Settlement of Trades in Corporate Bonds

In 2014-15, there were 53852 trades in corporate bonds amounting to ₹ 6,939 billion (US $ 113 billion) were settled by the NSCCL and the ICCL (Table 5-12). During April –September 2015, 27,289 trades amounting to ₹ 3,542 billion (US $ 55 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**
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
Oct-14	3,854	546,577	8,879	725	51,614	838	0	0	-	4,579	598,191	9,717
Nov-15	4,505	670,732	10,895	802	40,184	653	1	1	0	5,308	710,917	11,548
Dec-14	4,771	685,856	11,141	728	32,047	521	1	1	0	5,500	717,904	11,662
Jan-15	4,733	728,174	11,829	620	52,554	854	0	0	-	5,353	780,728	12,682
Feb-15	1,462	174,197	2,830	298	12,598	205	0	0	-	1,760	186,795	3,034
Mar-15	5,127	603,921	9,810	737	45,586	741	2	2	0	5,866	649,509	10,551
2014-15	**46,107**	**6,514,225**	**105,818**	**7,737**	**424,804**	**6,901**	**8**	**8**	**0**	**53,852**	**6,939,037**	**112,719**
Apr-15	4,260	590,865	9,204	721	48,054	781	0	0	0	4,981	638,919	9,948.91
May-15	3,788	471,051	7,337	719	55,701	905	0	0	0	4,507	526,752	8,202.30
Jun-15	3,918	537,061	8,365	805	50,894	827	0	0	0	4,723	587,955	9,155.33
Jul-15	3,815	513,275	7,995	665	45,697	742	0	0	0	4,480	558,972	8,704.02
Aug-15	3,658	582,869	9,079	629	39,925	649	0	0	0	4,287	622,794	9,697.82
Sep-15	3,659	561,560	8,747	652	44,960	730	0	0	0	4,311	606,520	9,444.41
April-September 2015	**23,098**	**3,256,681**	**50,727**	**4,191**	**285,231**	**4,633**	**-**	**-**	**-**	**27,289**	**3,541,912**	**55,153**

* *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 2014-Sep 2015)

(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-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
Oct-14	8.47	8.44	8.50	8.51	9.15	8.95	8.95	8.89
Nov-14	8.32	8.25	8.24	8.25	8.81	8.66	8.68	8.63
Dec-14	8.21	8.03	8.00	7.99	8.76	8.66	8.69	8.64
Jan-15	8.02	7.85	7.84	7.84	8.83	8.47	8.42	8.29
Feb-15	8.13	7.77	7.77	7.73	8.89	8.47	8.28	8.27
Mar-15	8.03	7.80	7.82	7.82	9.08	8.47	8.37	8.18
Apr-15	7.87	7.81	7.85	7.84	8.82	8.41	8.35	8.21
May-15	7.86	7.90	7.95	7.94	9.10	8.56	8.56	8.26
Jun-15	7.67	7.94	8.02	8.12	8.51	8.56	8.60	8.48
Jul-15	7.50	8.01	8.06	8.20	8.32	8.50	8.59	8.49
Aug-15	7.47	7.93	7.94	8.04	8.00	8.41	8.53	8.44
Sep-15	7.38	7.75	7.81	7.96	8.46	8.34	8.45	8.26

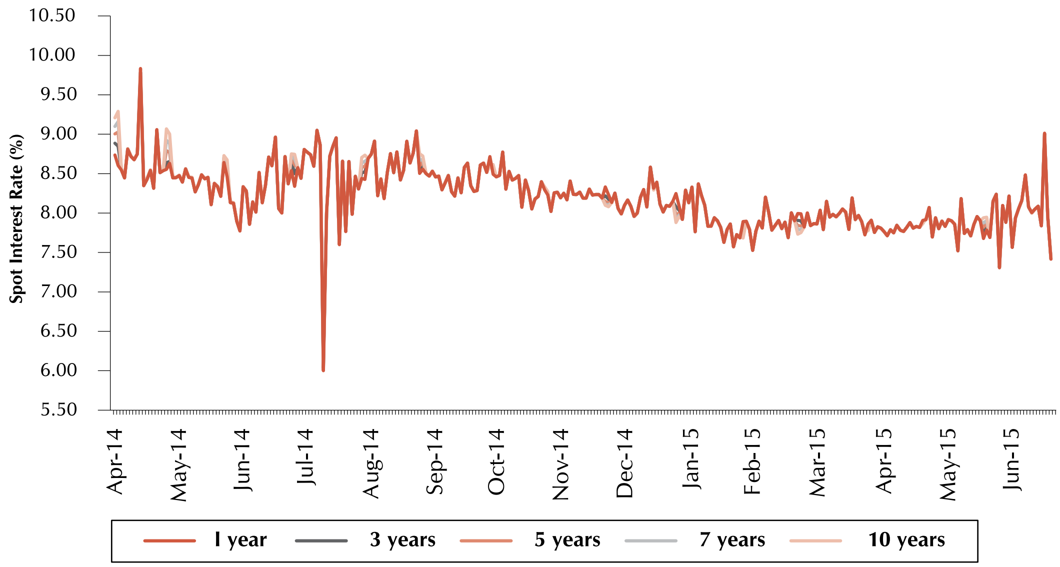
Source: NSE

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 used to disseminate 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 was developed using the Nelson-Siegel model to estimate the term structure of the interest rate at any given point of time, and was successfully tested using the daily WDM trades data. This was disseminated daily, but since July 2015, it has been discontinued. 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 2014 to June 2015.

Chart 5-5: Zero Coupon Yield Curve (April 2014–June 2015)



Source: NSE

Annexture 5-1: Business Growth of Debt Segment

Month/Year	All Trades						
	No. of active securities	Number of Trades	Trading Volume		Average Daily Trading Volume		Average Trade Size
			(₹ million)	(US $ mn)	(₹ million)	(US $ mn)	(₹ million)
2010-11	**1,111**	**20,383**	**5,594,468**	**125,296**	**22,558**	**505**	**275**
2011-12	**1,140**	**23,447**	**6,331,786**	**123,773**	**26,493**	**518**	**270**
2012-13	**1,421**	**26,974**	**7,922,138**	**145,656**	**32,601**	**599**	**294**
2013-14	**1,585**	**21,143**	**8,514,336**	**142,480**	**35,038**	**586**	**403**
Apr-14	287	1,208	485,728	7,760	28,572	456	402
May-14	363	1,931	910,358	14,545	45,518	727	471
Jun-14	311	1,620	761,034	12,159	36,240	579	470
Jul-14	339	1,356	561,119	8,965	25,505	407	414
Aug-14	263	1,169	599,083	9,571	33,282	532	513
Sep-14	368	1,723	592,528	9,467	26,933	430	344
Oct-14	332	1,478	559,857	8,945	32,933	526	379
Nov-14	416	1,798	660,733	10,556	36,707	586	368
Dec-14	429	1,873	701,061	11,201	31,866	509	374
Jan-15	437	1,812	798,768	12,762	38,037	608	441
Feb-15	339	1,302	487,111	7,782	27,062	432	374
Mar-15	322	1,519	606,312	9,687	28,872	461	399
2014-15	**1,553**	**18,789**	**7,723,691**	**123,400**	**30,171**	**482**	**411**
Apr-15	361	1,393	661,040	10,293	36,724	572	475
May-15	327	1,151	482,008	7,506	25,369	395	419
Jun-15	343	1,204	442,776	6,895	20,126	313	368
Jul-15	368	1,173	399,019	6,213	17,349	270	340
Aug-15	392	1,241	425,449	6,625	21,272	331	343
Sep-15	387	1,400	546,293	8,507	27,315	425	390
April - Sept 2015	**2,178**	**7,562**	**2,956,585**	**46,038**	**1,481,552**	**2,307**	**2,334**

Note: Data on retail trades on WDM have been discontinued. Retail trades are the trades with trading volume of less than ₹ 1 crore
Note: Starting from July 1, 2015 WDM segment has been closed and the entire segment is now called as Debt Segment

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 minimise the impact of fluctuations in asset prices on the profitability and cash flow situation of risk-averse investors, thereby serving 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, thus lowering the cost of capital formation and stimulating economic growth. Now that the global 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.

Given the growing instability in the financial markets, 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 ₹ 3,13,497 billion in 2011–2012, and further to ₹ 3,82,114.1 billion in 2013–2014. In 2014–2015, the figure reached ₹ 5,56,064.5 billion, maintaining a continuous upward trend.

The average daily turnover in the equity derivatives segment of the NSE was ₹ 2,288.3 billion in 2014–2015 as compared to ₹ 1,522.4 billion in 2013–2014. Thus, the average daily turnover of the futures and options (F&O) segment of the NSE surged by 50% in 2014–2015.

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 the 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 the 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 2014–2015 and the first half of 2015–2016

Indices	No of Contracts Traded	Traded Value (₹ mn.)	Traded Value (US $ mn.)	Percent-age of Contracts to total contracts (%)	No of Contracts Traded	Traded Value (₹ mn.)	Traded Value (US $ mn.)	Percent-age of Contracts to total contracts (%)
	2014-2015				Apr-Sep 2015			
Index Futures								
BANKNIFTY	32,922,727	13,812,456	225,915	2.18	19,523,681	8,773,972	136,624	1.61
CNXINFRA	69	21	0	0.00	41	13	0	0.00
CNXIT	184,552	51,500	842	0.01	71,663	20,613	321	0.01
CNXPSE	68	17	0	0.00	30	7	0	0.00
DJIA	114,844	49,020	802	0.01	52,420	22,761	354	0.00
FTSE100	1,646	554	9	0.00	147	50	1	0.00
NFTYMCAP50	3,341	1,225	20	0.00	3,931	974	15	0.00
NIFTY	96,009,195	27,124,389	443,644	6.37	76,048,852	15,673,173	244,054	6.27
S&P500	66,602	32,969	539	0.00	37,187	19,092	297	0.00
Index Options								
BANKNIFTY	98,228,733	287,472	4,702	6.51	69,034,719	229,628	3,576	5.69
CNXINFRA	0	0	0	0.00	0	0	0	0.00
CNXIT	458	2	0	0.00	857	4	0	0.00
CNXPSE	0	0	0	0.00	0	0	0	0.00
FTSE100	0	0	0	0.00	0	0	0	0.00
NFTYMCAP50	0	0	0	0.00	0	0	0	0.00
NIFTY	1,280,413,641	2,365,682	38,693	84.91	1,048,229,014	1,562,976	24,338	86.42
S&P500	31	0	0	0.00	0	0	0	0.00
Total of all Indices	**1,507,945,907**	**43,725,308**	**715,167**	**100.00**	**1,213,002,542**	**26,303,263**	**409,581**	**100.00**
Total of Nifty Index Futures and Options	1,376,422,836	29,490,071			1,124,277,866	17,236,150		

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

Global Derivatives Markets

As per the WFE Market Highlights for the first half of 2015 (December 2014 to June 2015), trading activity in the global derivatives markets recovered slightly following the maximum broad-based decline in volume in 2012. The Highlights noted that the volume of the futures and options traded on exchanges around the world rose by 3.5% in the December 2014–June 2015 period. Among the different categories, commodity derivatives witnessed a 12% (y-o-y) semi-annual growth rate. This was driven by China and the U.S. experiencing strong growth rates in commodity derivatives trading. The volume of currency derivatives trade increased by 7% semi-annually, primarily driven by a 43% increase in the number of currency derivatives contracts traded in India.

The global trends in derivatives volume in 2014 show that the volume of exchange-traded derivatives increased by 1% (y-o-y), driven by a surge in agricultural commodities and non-precious metals. The mild increase was narrow-based, with most of the categories reporting a decline in the volume of exchange-traded derivatives in 2014 as compared to their levels in 2013. While the equity index derivatives increased by 9% y-o-y (as compared to a decline of 11% in 2013), the volume of energy derivatives fell by 8% y-o-y (as compared to a 37% increase in 2013) (Table 6-2).

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

GLOBAL	Jan-Dec 2013 (in mn)	Jan-Dec 2014 (in mn)	Change (in percent)
Equity Index	5,371	5,828	9%
Individual Equity	6,402	6,493	1%
Interest Rate	3,331	3,268	-2%
Agricultural	1,213	1,400	15%
Energy	1,266	1,160	-8%
Currency	2,491	2,119	-15%
Precious Metal	431	371	-14%
Non-precious metal	646	873	35%
Other	493	355	-28%
Total Volume	**21,643**	**21,867**	1%

Source: Futures Industry Annual Volume Survey, March 2015

The number of futures and options traded on exchanges worldwide rose by a mere 1.5% in 2014. The total volume was 21.87 billion contracts, up from 21.55 billion in 2013. While it was the second year in a row that this volume increased, the level of trading was still well below the peak volume of 24.99 billion contracts in 2011.

North America continued to be the region with the greatest amount of growth. Exchanges in the U.S. and Canada reported 8.21 billion in volume in 2014, up from 7.83 billion in 2013 and 7.23 billion in 2012. Exchanges in Asia-Pacific, which account for about one-third of the global volume, reported lower volume for the second year in a row. Trading in that region was 7.25 billion in 2014, down from 7.30 billion in 2013 and 7.53 billion in 2012. The European region fared slightly better, with the volume reaching 4.45 billion in 2014, up from 4.36 billion in 2013 and 4.39 billion in 2012. However, most of this growth came from exchanges outside the core markets in Western Europe.

In terms of categories, trading in equity index futures and options showed the highest increase. The volume in this category rose 8.3% to 5.83 billion, equivalent to nearly 26.7% of the volume of the global market. Another hot area was agricultural futures and options. The volume in this category rose 15.7% to 1.40 billion, equivalent to 6.4% of the volume of the global market. Currency trading moved in the opposite direction, falling 15.1% to 2.12 billion.

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

1	**Top 5 exchanges by number of single stock future contracts traded in 2015 (in million)**	
	Exchange	**2015**
1	Moscow Exchange	228
2	National Stock Exchange India	212
3	Korea Exchange	127
4	EUREX	104
5	ICE Futures Europe	42
2	**Top 5 exchanges by number of stock option contracts traded in 2015 (in million)**	
	Exchange	**2015**
1	BM&FBOVESPA	519
2	NYSE Liffe (US)	306
3	Chicago Board Options Exchange	301
4	International Securities Exchange	262
5	EUREX	143

Contd.

Contd.

3	**Top 5 exchanges by number of stock index options contracts traded in 2015 (in million)**	
	Exchange	**2015**
1	National Stock Exchange India	1647
2	Korea Exchange	385
3	EUREX	317
4	Chicago Board Options Exchange	309
5	BSE India	160
4	**Top 5 exchanges by number of stock index futures contracts traded in 2015 (in million)**	
	Exchange	**2015**
1	CME Group	424
2	China Financial Futures Exchange	333
3	EUREX	324
4	Osaka SE	242
5	National Stock Exchange India	143
5	**Top 5 exchanges by Turnover of stock index Options in 2015 (in US$ million)**	
	Exchange	**2015**
1	Korea Exchange	120
2	CME Group	14
3	EUREX	14
4	National Stock Exchange India	6
5	TAIFEX	2
6	**Top 5 exchanges by Turnover of stock index futures in 2015 (in US$ million)**	
	Exchange	**2015**
1	China Financial Futures Exchange	66
2	CME Group	43
3	EUREX	18
4	Osaka SE	9
5	Korea Exchange	7
7	**Top 5 exchanges by Turnover of stock Options in 2015 (in US$ million)**	
	Exchange	**2015**
1	ICE Futures Europe	1.8
2	EUREX	0.7
3	National Stock Exchange India	0.4
4	BM&FBOVESPA	0.2
5	Hong Kong Exchanges	0.2
8	**Top 5 exchanges by Turnover of single stock Futures in 2015 (in US$ million)**	
	Exchange	**2015**
1	ICE Futures Europe	1.7
2	National Stock Exchange India	1.0
3	EUREX	0.5
4	Korea Exchange	0.1
5	TAIFEX	0.5
9	**Top 5 exchanges by number of Exchange Rate Futures contracts traded in 2015 (in US$ million)**	
	Exchange	**2015**
1	CME Group	1020
2	BM&FBOVESPA	256
3	EUREX	226
4	ICE Futures Europe	176
5	ASX SFE Derivatives Trading	88

Contd.

Contd.

10	**Top 5 exchanges by Turnover of Exchange Rate Futures in 2015 (in US$ million)**	
	Exchange	**2015**
1	CME Group	592
2	ICE Futures Europe	44
3	EUREX	35
4	ASX SFE Derivatives Trading	28
5	Bourse de Montreal	14
11	**Top 5 exchanges by number of Currency Futures contracts traded in 2015 (in million)**	
	Exchange	**2015**
1	Moscow Exchange	691
2	National Stock Exchange India	305
3	BSE India	197
4	CME Group	154
5	BM&FBOVESPA	89
12	**Top 5 exchanges by Turnover of Currency Futures in 2015 (in US$ million)**	
	Exchange	**2015**
1	BM&FBOVESPA	27.5
2	CME Group	15.7
3	ICE Futures US	1.0
4	Moscow Exchange	0.7
5	Korea Exchange	0.4
13	**Top 5 exchanges by number of Currency Options contracts traded in 2015 (in million)**	
	Exchange	**2015**
1	National Stock Exchange India	150
2	BSE India	148
3	CME Group	16
4	Moscow Exchange	16
5	Tel Aviv SE	13
14	**Top 5 exchanges by Turnover of Currency Options in 2015 (in US$ million)**	
	Exchange	**2015**
1	CME Group	2.0
2	National Stock Exchange India	0.2
3	BSE India	0.1
4	Tel Aviv SE	0.1
5	Moscow Exchange	0.0

Source: WFE Market Highlights 2015

The NSE remained the global leader in the category of stock index options (by number of contracts traded) and currency options (by number of currency options traded) in 2014–2015 as per the Futures Industry Association (FIA) Annual Volume Survey. The NSE also figured among the top 5 stock exchanges globally in different categories of ranking in the derivatives market. A detailed set of the rankings of different stock exchanges is provided in 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 and 2014. The NSE maintained its ranking in 2014 in terms of traded volumes in futures and options taken together, improving its worldwide ranking from 15 in 2006 to 8 in 2008, 7 in 2009, and 5 in 2010 and 2011, and 4 in 2012. Since then, the NSE has maintained the fourth position worldwide. However, given the general trend of a decline in the volume of derivatives traded, the NSE also witnessed a 12% (y-o-y) fall in the traded volumes of futures and options globally.

Table 6-4: Global Futures and Options Volume

Rank 2014	Exchange	Volume (in million)		
		Jan-Dec 2012	Jan-Dec 2013	Jan-Dec 2014
1	CME Group (includes CBOT and Nymex)	2,890	3,161	3,443
2	IntercontinentalExchange * #	2,425	2,558	2,276
3	Eurex (includes ISE)	2,291	2,191	2,098
4	**National Stock Exchange of India**	**2,010**	**2,127**	**1,880**
5	BM&F Bovespa	1,636	1,604	1,418
6	Chicago Board Options Exchange group	1,134	1,188	1,325
7	Nasdaq OMX Group	1,116	1,143	1,127
8	Moscow Interbank Currency Exchange	1,062	1,134	1,413
9	Shanghai Futures Exchange	1,836	642	842
10	Dalian Commodity Exchange	960	701	770

Source: Futures Industry Annual Volume Survey, March 2015
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 the NSE and the BSE increased from ₹ 474,308.4 billion in 2013–2014 to ₹ 759692 billion in 2014–2015. In 2014–2015, 1,837 million contracts with a turnover of ₹ 5,56,064.5 billion (US$ 9,094.9 billion) were traded at the NSE, while at the BSE, 505 million contracts were traded, with a trading value of ₹ 2,03,627.4 billion (US$ 3,330.5 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**
2012-2013	**1,131,467,418**	**315,330,040**	**5,800,229**	**262,443,366**	**71,635,180**	**1,317,669**	**1,393,910,784**	**386,965,220**	**7,117,898**
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**
2014-15	**1,837,041,131**	**556,064,527**	**9,094,938**	**505,478,869**	**203,627,413**	**3,330,511**	**2,342,520,000**	**759,691,939**	**12,425,449**
Apr-15	236,822,287	56,997,626	908,329	9,330,991	3,882,157	61,867	246,153,278	60,879,782	970,196
May-15	225,129,677	52,007,250	815,161	9,729,507	3,989,236	62,527	234,859,184	55,996,486	877,688
Jun-15	239,295,164	54,985,206	861,027	15,423,676	6,302,000	98,685	254,718,840	61,287,206	959,712
Jul-15	238,487,488	57,055,728	882,669	31,740,117	13,272,015	205,322	270,227,605	70,327,743	1,087,991
Aug-15	252,694,119	58,986,738	906,512	14,970,460	6,267,753	96,323	267,664,579	65,254,491	1,002,835
Sep-15	223,579,801	50,322,178	759,924	5,966,403	2,276,651	34,380	229,546,204	52,598,828	794,304
Apr - Sep'15	**1,416,008,536**	**330,354,725**	**5,133,622**	**87,161,154**	**35,989,812**	**559,104**	**1,503,169,690**	**366,344,537**	**5,692,726**

Source: BSE, NSE

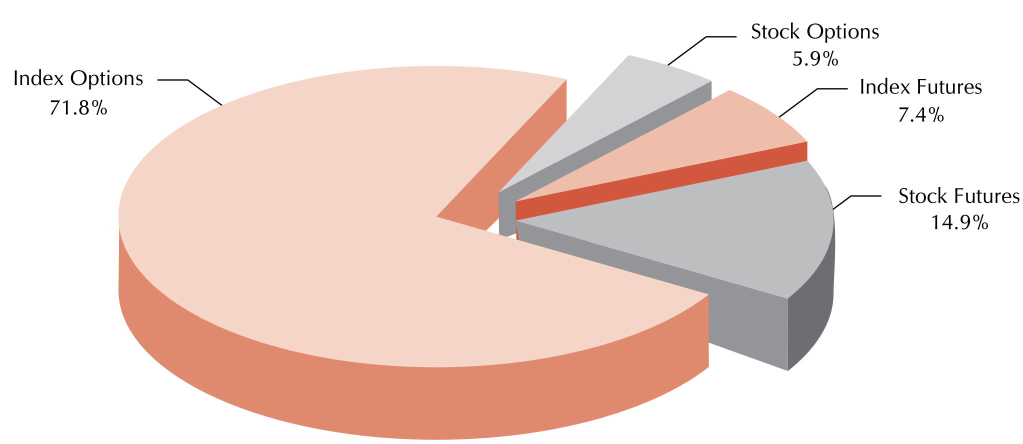
The index options segment was the clear leader in the product-wise turnover of the futures and options (F&O) segment of the NSE in 2014–2015 (Table 6-6). In 2014–2015, the turnover in the index options category was 71.8% of the total turnover in the F&O segment of the NSE. A marginal decline in the percentage share of index options, index futures, and stock options in 2014–2015 was offset by an increase of 2 percentage points in the share of stock futures. During the first half of 2015–2016, index options constituted around 75.7% of the total turnover in this segment, whereas the turnover of stock futures and stock options fell to 12% (from 15%) and 5% (from 6%) of the total turnover, respectively, in the first half of 2015–2016.

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.)	Percentage share in total turnover	No. of contracts	Turnover (₹ mn.)	Percentage share in total turnover	No. of contracts	Notional Turnover (₹ mn.)	Percentage share in total turnover	No. of contracts	Notional Turnover (₹ mn)	Percentage share in total turnover	No. of contracts	Turnover (₹ mn)	
2009-10	**178,306,889**	**39,343,887**	**22.3**	**145,591,240**	**51,952,466**	**29.4**	**341,379,523**	**80,279,642**	**45.4**	**14,016,270**	**5,060,652**	**2.9**	**679,293,922**	**176,636,647**	**723,921**
2010-11	**165,023,653**	**43,567,545**	**14.9**	**186,041,459**	**54,957,567**	**18.8**	**650,638,557**	**183,653,657**	**62.8**	**32,508,393**	**10,303,441**	**3.5**	**1,034,212,062**	**292,482,211**	**1,151,505**
2011-12	**146,188,740**	**35,779,984**	**11.4**	**158,344,617**	**40,746,707**	**13.0**	**864,017,736**	**227,200,316**	**72.5**	**36,494,371**	**9,770,311**	**3.1**	**1,205,045,464**	**313,497,318**	**1,259,025**
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**
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**
2014-15	**129,314,318**	**41,094,713**	**7.4**	**237,604,741.0**	**82,917,662**	**14.9**	**1,378,642,863**	**399,226,629**	**71.8**	**91,479,209**	**32,825,523**	**5.9**	**1,837,041,131**	**556,064,527**	**2,288,331**
Apr-15	14,679,503	3,854,642	6.8	21,704,444.0	6,764,099	11.9	191,781,877	43,539,558	76.4	8,656,463	2,839,326	5.0	236,822,287	56,997,626	2,999,875
May-15	14,755,189	3,766,239	7.2	23,811,852.0	6,285,306	12.1	177,590,810	39,525,229	76.0	8,971,826	2,430,476	4.7	225,129,677	52,007,250	2,600,362
Jun-15	15,854,676	4,039,101	7.3	23,688,366.0	6,122,501	11.1	190,507,944	42,419,731	77.1	9,244,178	2,403,874	4.4	239,295,164	54,985,206	2,499,328
Jul-15	14,789,002	3,917,361	6.9	25,841,503.0	7,198,807	12.6	186,578,685	42,704,053	74.8	11,278,298	3,235,507	5.7	238,487,488	57,055,728	2,480,684
Aug-15	17,167,226	4,351,226	7.4	27,086,931.0	7,349,241	12.5	196,602,536	43,909,636	74.4	11,837,426	3,376,635	5.7	252,694,119	58,986,738	2,808,892
Sep-15	18,492,427	4,582,169	9.1	22,454,408.0	5,703,248	11.3	174,202,738	37,838,016	75.2	8,430,228	2,198,744	4.4	223,579,801	50,322,178	2,516,109
2015-16$	**95,738,023**	**24,510,738**	**7.4**	**120,775,652.0**	**39,423,201**	**11.9**	**1,117,264,590**	**249,936,223**	**75.7**	**58,418,419**	**16,484,562**	**5.0**	**1,392,196,684**	**330,354,725**	**2,642,838**

Source: NSE
$: As of September 2015

Chart 6-1: Product wise distribution of FO segment of NSE

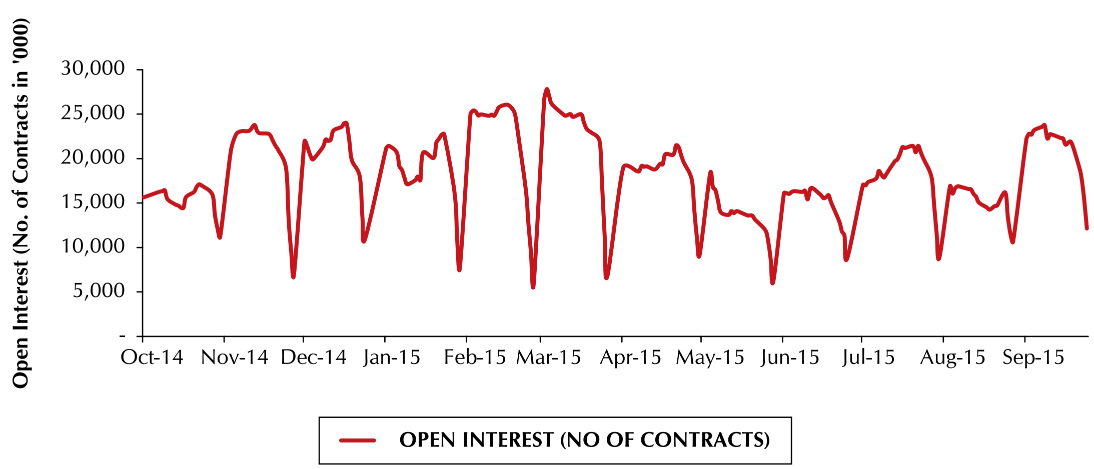


Source: NSE

Open Interest

Open interest is the total number of open contracts on a security, i.e., the number of future contracts or options contracts that have not been exercised, expired, or fulfilled by delivery. 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 indicates that fresh funds are flowing in the market, while declining open interest means that the market is liquidating. The daily open interest for near month index futures at the NSE is presented in Chart 6-2.

Chart 6-2: Daily open interest for near month Nifty Futures (September 2014 – September 2015)



Source: NSE

Implied Interest Rate

In the futures market, the terms "implied interest rate" and "cost of carry" are often used interchangeably. However, cost of carry is more appropriate 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, annualised 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 markets. 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 the cost of carry, or if the futures price is greater than the spot price plus the cost of carry, arbitrage opportunities exist.

The futures prices are available for different contracts at different points of time. Chart 6-3 presents the Nifty 50 futures close prices for the near month contracts, and the spot Nifty 50 close values from April 2014 to September 2015. The difference between the future and the spot price is called the basis. As the time to expiration approaches, the basis reduces. The 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 the near month Nifty 50 futures as on the last trading day of the month is presented in Table 6-7.

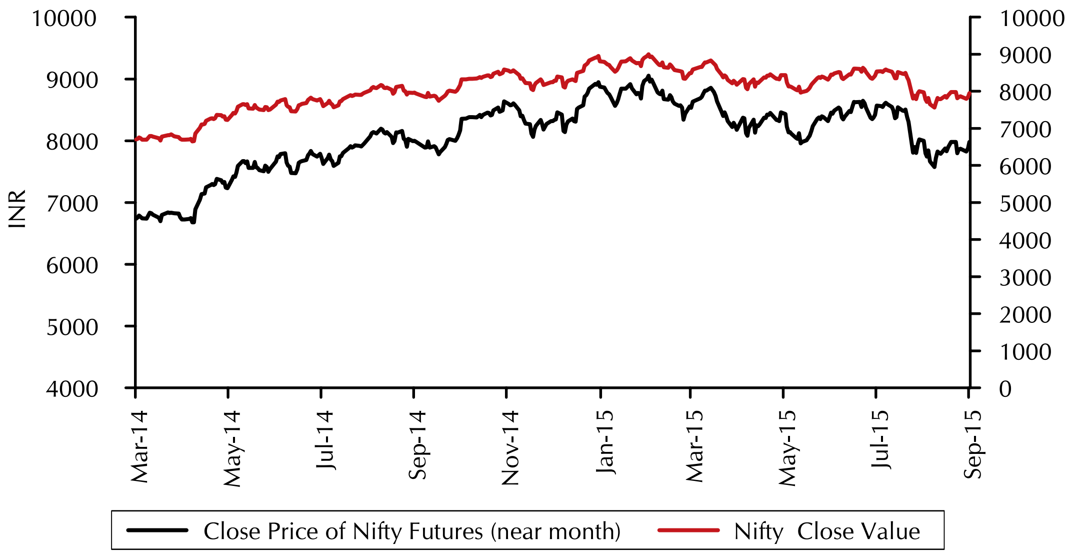
Table 6-7: Implied Interest Rate for Near Month Nifty Futures (April 2014–September 2015)

Month	Expiry Date of near month Contract	Closing Future Price (₹)	Closing Spot Price (₹)	Implied Interest Rate (in percent)
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
Oct-14	30-Oct-2014	8352.70	8322.20	4.95
Nov-14	27-Nov-2014	8638.35	8588.25	8.17
Dec-14	24-Dec-2014	8337.85	8282.70	8.35
Jan-15	29-Jan-2015	8872.65	8808.90	9.75
Feb-15	26-Feb-2015	8964.65	8901.85	9.87
Mar-15	26-Mar-2015	8534.75	8491.00	6.25
Apr-15	30-Apr-2015	8177.35	8181.50	0.00
May-15	28-May-2015	8458.65	8433.65	4.00
Jun-15	25-Jun-2015	8377.80	8368.50	1.35
Jul-15	30-Jul-2015	8569.65	8532.85	5.82
Aug-15	27-Aug-2015	8000.05	7971.30	5.48
Sep-15	24-Sep-2015	7980.35	7948.90	4.97

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

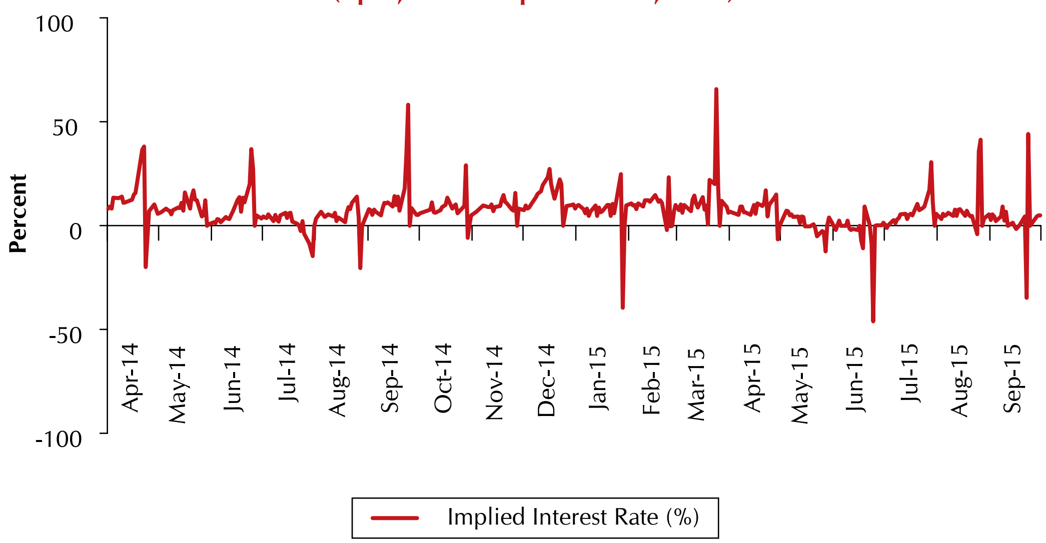
Source: NSE.

Chart 6-3: Nifty Futures and Spot Price (April 2014 to September 2015)



Source: NSE

Chart 6-4: Implied Interest Rate (%) for near month Nifty Futures (April, 2014 - September 30, 2015)



Source: NSE

Implied Volatility

Volatility is one of the important factors taken into account while pricing options. It is a measure of the amount and the speed of price change. To estimate future volatility, a time-series analysis of historical volatility can be conducted to understand the future movements of the underlying assets. 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 the underlying, as well as the 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.

In short, implied volatility is the estimate of how volatile the underlying would 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 it is based on options that are thinly traded samples.

Settlement

All derivative contracts are currently cash settled. In 2014–2015, the cash settlement increased to ₹ 793.3 billion, as compared to ₹ 591.3 billion in 2013–2014. During the first half of 2015–2016, the cash settlement amounted to ₹ 485.4 billion. The settlement statistics in the F&O segment are presented in Table 6-8.

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

Month/Year	Index/Stock Futures		Index/Stock Options		Total Settlement (₹ mn.)	Total Settlement (US $ mn.)
	MTM Settlement	Final Settlement	Premium Settlement	Exercise Settlement		
	(₹ mn.)					
2006-07	**613,137**	**7,975**	**31,944**	**11,888**	**664,945**	**15,255**
2007-08	**1,446,547**	**13,121**	**67,602**	**37,923**	**1,565,193**	**39,159**
2008-09	**751,936**	**14,983**	**109,605**	**41,876**	**918,400**	**18,026**
2009-10	**606,557**	**13,953**	**110,110**	**38,808**	**769,428**	**17,045**
2010-11	**672,879**	**15,906**	**127,034**	**21,189**	**837,009**	**18,746**
2011-12	**566,629**	**12,735**	**127,983**	**15,615**	**722,962**	**14,132**
2012-13	**419,252**	**12,193**	**119,133**	**17,010**	**567,588**	**10,440**
2013-14	**422,910**	**14,253**	**132,573**	**21,575**	**591,310**	**9,865**
2014-15	**757,664**	**17,536**	**15,299**	**2,835**	**793,334**	**12,976**
Apr-15	64,514	1,456	1,089	161	67,221	1,071
May-15	78,529	930	1,071	99	80,629	1,264
Jun-15	69,355	681	1,424	518	71,977	1,127
Jul-15	72,083	1,463	993	126	74,664	1,173
Aug-15	102,868	3,489	1,395	216	107,968	1,659
Sep-15	80,748	710	1,402	132	82,993	1,253
Apr-Sep 15	**468,097**	**8,729**	**7,374**	**1,253**	**485,452**	**7,559**

Source: NSE

Business Growth in Currency Futures and Options Segment

The currency futures and options turnover on the NSE declined by 52% from ₹ 40,125.1 billion in 2013–2014 to ₹ 19085.4 billion in 2014–2015. The trading value for the period April 2015 to September 2015 was ₹ 13,604.7 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 USD-INR were launched by the NSE in 2010–2011 (October 29, 2010). From April 2014 to March 2015, the number of USD-INR currency future contracts traded stood at 324.9 million with a traded value of ₹ 19,982 billion. The total currency futures and options traded on the NSE during 2014–2015 stood at 480.6 million contracts, with a traded value of ₹ 30,239 billion. There was a 27% fall in the total number of currency contracts traded on the NSE in 2014–2015 as compared to the number in 2013–2014.

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

Month/ Year	Currency Futures		Currency Options				Total		Total Turnover (US $ mn)
	No. of Contracts	Turnover (₹ mn)	Call		Put		No. of Contracts	Turnover (₹ mn)	
			No. of Contracts	Turnover (₹ mn)	No. of Contracts	Turnover (₹ mn)			
2010-11	**712,181,928**	**32,790,021**	**23,297,306**	**1,065,061**	**14,122,841**	**642,795**	**749,602,075**	**34,497,877**	**674,360**
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**
2012-2013	**684,159,263**	**37,651,053**	**148,148,355**	**8,173,620**	**126,935,830**	**6,919,974**	**959,243,448**	**52,744,647**	**970,193**
2013-2014	**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**
2014-15	**212,434,540**	**13,070,773**	**39,099,057**	**2,492,596**	**57,642,446**	**3,522,558**	**309,176,043**	**19,085,438**	**312,160**
Apr-15	21,069,185	1,331,132	3,173,211	202,737	11,706,754	724,096	35,949,150	2,257,965	35,984
May-15	20,819,151	1,333,824	9,383,506	417,555	10,635,581	668,588	37,899,138	2,419,967	37,931
Jun-15	21,796,194	1,397,825	4,706,291	306,666	6,796,143	421,828	33,298,628	2,126,319	33,297
Jul-15	18,895,627	1,208,267	7,923,900	514,668	6,297,784	397,711	33,117,311	2,120,646	33,323
Aug-15	27,802,763	1,821,984	5,868,030	387,568	7,820,958	499,759	41,491,751	2,709,311	41,637
Sep-15	22,814,502	1,516,218	4,489,521	300,627	2,307,650	153,673	29,611,673	1,970,517	29,757
Apr-Sep 15	**133,197,422**	**8,609,250**	**26,160,953**	**2,129,822**	**45,564,870**	**2,865,655**	**211,367,651**	**13,604,726**	**211,835**

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)
2009-10	**--**	**--**	**372,495,580**	**17,443,161**	**5,709,979**	**358,783**	**199,419**	**9,991**	**202,005**	**14,146**	**378,606,983**	**17,826,080**
2010-11	**37,420,147**	**170,786**	**691,678,302**	**31,544,673**	**15,326,870**	**920,467**	**2,755,184**	**151,171**	**2,421,572**	**173,710**	**749,602,075**	**32,960,807**
2011-12	**271,972,158**	**12,965,010**	**676,249,054**	**32,126,143**	**15,626,184**	**1,017,017**	**4,488,227**	**266,408**	**5,008,509**	**375,320**	**973,344,132**	**46,749,899**
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**
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
Oct-14	9,998,079	619,402	24,438,914	1,506,277	935,413	73,192	350,999	20,007	742,258	73,472	36,465,663	2,292,351
Nov-14	7,849,819	488,343	21,873,226	1,356,312	956,434	73,878	581,827	30,967	821,747	80,157	32,083,053	2,029,657
Dec-14	14,140,228	896,934	28,939,481	1,829,076	1,130,585	87,880	654,984	34,708	1,010,378	99,597	45,875,656	2,948,196
Jan-15	19,002,251	1,197,377	34,294,108	2,139,537	1,550,335	112,308	800,948	42,216	1,174,789	111,120	56,822,431	3,602,558
Feb-15	8,638,555	540,234	24,336,755	1,516,696	1,020,655	72,145	554,868	29,125	968,760	92,376	35,519,593	2,250,577
Mar-15	16,505,804	1,040,373	33,009,397	2,072,897	1,655,080	112,244	571,386	29,778	1,225,474	114,978	52,967,141	3,370,270
2014-15	**125,075,731**	**7,759,153**	**324,914,009**	**19,982,050**	**13,398,536**	**1,032,606**	**5,504,289**	**303,278**	**11,772,129**	**1,161,990**	**480,664,694**	**30,239,077**
Apr-15	15,521,510	984,315	27,942,267	1,765,797	1,590,023	108,275	383,739	20,261	1,139,877	107,533	46,577,416	2,986,181
May-15	15,790,911	1,015,788	30,268,507	1,939,074	1,498,684	106,941	414,589	21,911	1,150,907	114,085	49,123,598	3,197,799
Jun-15	15,474,614	999,162	28,958,025	1,856,015	1,829,513	131,469	569,391	29,501	1,067,638	106,468	47,899,181	3,122,615
Jul-15	14,561,975	937,330	25,480,975	1,629,332	1,775,577	124,953	414,211	21,476	1,152,745	114,548	43,385,483	2,827,638
Aug-15	24,605,109	1,613,746	39,502,228	2,589,493	1,673,308	123,102	485,549	26,146	1,154,697	117,790	67,420,891	4,470,277
Sep-15	20,054,667	1,338,991	32,008,573	2,126,299	1,589,841	118,636	476,463	26,380	1,091,684	111,285	55,221,228	3,721,592
April - Sep 15	**106,008,786**	**6,889,332**	**184,160,575**	**11,906,010**	**9,956,946**	**713,377**	**2,743,942**	**145,675**	**6,757,548**	**671,709**	**309,627,797**	**20,326,102**

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

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	Premium Settlement	Exercise Settlement		
	(₹ mn)	(₹ mn)	(₹ mn)	(₹ mn)	(₹ mn)	(US $ mn)
2010-11	**24,108**	**903**	**2,457**	**644**	**28,112**	**630**
2011-12	58,290	1,561	14,210	8,843	82,904	1,621
2012-13	**63,716**	**917**	**16,917**	**4,929**	**86,479**	**1,591**
2013-14	**47,467**	**852**	**11,787**	**4,707**	**64,814**	**1,081**
2014-15	**48,017**	**442**	**5,909**	**1,523**	**55,891**	**914**
Apr-15	4,766	157	551	180	5,653	90
May-15	4,792	30	585	152	5,559	87
Jul-15	6,285	11	490	111	6,897	108
Aug-15	8,101	145	1,177	758	10,181	156
Sep-15	3,934	105	869	194	5,102	77
Apr-Sep 15	**28,362**	**449**	**3,723**	**1,411**	**33,944**	**529**

Source:NSE

During April 2014–March 2015, the cash settlement for currency derivatives amounted to ₹ 55.8 billion (US$ 1 billion). The settlement statistics for currency futures and options at the NSE are presented in Table 6-11.

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)	Turn-over (US $ mn)	No. of Con-tracts traded	Turnover (₹ mn)	Turn-over (US $ mn)	No. of Contracts traded	Turn-over (₹ mn)	Turn-over (US $ mn)	No. of Con-tracts traded	Turnover (₹ mn)	Turn-over (US $ mn)	No. of Contracts traded	Turnover (₹ mn)	Turn-over (US $ mn)
2011-12	**348,718**	**111,610**	**2,182**	**42,085**	**13,108**	**256**	-	-	-	**-**	**-**	-	**487,787**	**148,647**	**2,906**
Apr-12	7,267	2,509	46	305	107	2	-	-	-	-	-	-	15,105	4,889	90
May-12	6,443	2,146	39	875	296	5	135,205	36,813	677	19,247	5,204	96	20,553	6,504	120
Jun-12	7,321	2,419	44	336	111	2	77,487	20,976	386	15,628	4,285	79	20,251	6,337	117
Jul-12	5,336	1,811	33	70	24	0	23,098	6,497	120	25,774	7,186	132	16,637	5,311	98
Aug-12	5,427	1,900	35	24	9	0	18,032	5,234	96	24,384	6,925	127	18,448	6,049	111
Sep-12	3,109	1,122	21	131	46	1	17,902	5,230	96	21,300	6,136	113	12,306	4,132	76
Oct-12	2,620	943	17	**2**	**1**	0	21,850	6,338	117	18,375	5,318	98	16,341	5,439	100
Nov-12	3,743	1,297	24	0	-	-	5,344	1,543	28	2,023	587	11	22,084	7,084	130
Dec-12	2,432	863	16	10	4	0	3,244	959	18	32	8	0	10,314	3,381	62
Jan-13	4,148	1,522	28	28	10	0	4,415	1,345	25	2	1	0	15,022	5,059	93
Feb-13	6,380	2,409	44	25	9	0	4,888	1,537	28	3	1	0	13,706	4,772	88
Mar-13	9,398	3,635	67	82	32	1	4,520	1,457	27	7	2	0	25,913	9,308	171
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

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Month / Year	S&P 500 Futures			S&P 500 Options			FTSE Futures			FTSE Options			DJIA Futures		
	No. of Contracts traded	Turnover (₹ mn)	Turn-over (US $ mn)	No. of Con-tracts traded	Turnover (₹ mn)	Turn-over (US $ mn)	No. of Contracts traded	Turn-over (₹ mn)	Turn-over (US $ mn)	No. of Con-tracts traded	Turnover (₹ mn)	Turn-over (US $ mn)	No. of Contracts traded	Turnover (₹ mn)	Turn-over (US $ mn)
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
Oct-14	10,877	5,210		8	4		121	38		0	0	-	14,487	5,999	
Nov-14	5,297	2,712		0	0	-	26	9		0	0	-	9,586	4,228	
Dec-14	5,795	2,964		0	0	-	100	32		0	0	-	8,387	3,700	
Jan-15	6,094	3,079		0	0	-	29	10		0	0	-	11,025	4,827	
Feb-15	5,438	2,823		0	0	-	50	17		0	0	-	5,925	2,635	
Mar-15	5,120	2,660		0	0	-	56	19		0	0	-	8,254	3,691	
2014-15	**66,602**	**32,969**	**220**	**31**	**15**	**0**	**1,646**	**554**	**7**	**-**	**-**	**-**	**114,844**	**49,020**	**389**
Apr-15	4,600	2,404		0	0	-	72	25		0	0	-	7,300	3,273	
May-15	5,531	2,914		0	0	-	16	6		0	0	-	7,973	3,604	
Jun-15	7,201	3,767		0	0	-	11	4		0	0	-	9,173	4,101	
Jul-15	6,744	3,519		0	0	-	21	7		0	0	-	7,177	3,186	
Aug-15	6,384	3,216		0	0	-	7	2		0	0	-	11,042	4,616	
Sep-15	6,727	3,272		0	0	-	20	6		0	0	-	9,755	3,981	
April - Sep'15	**37,187**	**19,092**	**-**	**-**	**-**	**-**	**147**	**50**	**-**	**-**	**-**	**-**	**52,420**	**22,761**	**-**

Source: NSE
F&O turnover is Notional turnover
*For Futures, Value of contract = Traded Qty * Traded Price.*
For Options, Value of contract = Traded Qty(Strike Price + Traded Premium)*
Note: With effect from May 03, 2012 FTSE100 index has been included.
Source: NSE

7. Foreign Investments in India

Introduction

Since 1992, foreign institutional investors (FIIs) have been allowed to invest in all the securities traded on the primary and secondary markets, including shares, debentures, and warrants issued by companies that were listed or were to be listed on the stock exchanges in India, and in the schemes floated by domestic mutual funds. Foreign institutional investors registered with the Securities and Exchange Board of India (SEBI) are eligible to purchase shares and convertible debentures issued by Indian companies under the portfolio investment scheme (PIS).

In the Union Budget 2011–2012, the Government of India permitted qualified foreign investors (QFIs) who meet the "Know Your Customer" (KYC) norms to directly invest in Indian equity mutual fund (MF) schemes and in MF debt schemes that invest in infrastructure. This was the first time that this class of investors was allowed to directly participate in the Indian capital market. In January 2012, the central government expanded this scheme to allow QFIs to directly invest in Indian equity markets. In the union budget 2012–2013, the central government announced its intention to permit QFIs to invest in corporate bonds in India.

The SEBI introduced a new class of foreign investors in India known as foreign portfolio investors (FPIs) effective from June 2014. This class was formed by merging some existing classes of investors, namely, FIIs, QFIs, and the sub-accounts of FIIs. This chapter discusses the investments and purchases of FPIs and private equity.

Foreign Institutional Investors (FIIs)

The monthly trend in FII investments in 2014–2015 (depicted in Table 7-1) shows that the net FII investments were positive for all the months, which reflects the positive investor sentiment and the growing affinity for India as a popular investment destination. The net FPI investments surged four times in 2014–2015 compared to the numbers in 2013–2014. However, FII investments in 2015–2016 (until September 2015) reflect the adverse impact of the slow pace of reforms on investor sentiment. In 2015–2016, the net FPI investments were negative in most of the months. In July 2015, the net investment of ₹ 360,460 million (US$ 6,009 million) by FIIs was the highest monthly net investment in 2015–2016. In the first half of 2015–2016, the corresponding figure went into the negative territory driven by the dwindling investor sentiment.

Table 7.1: Trends in FII Investment

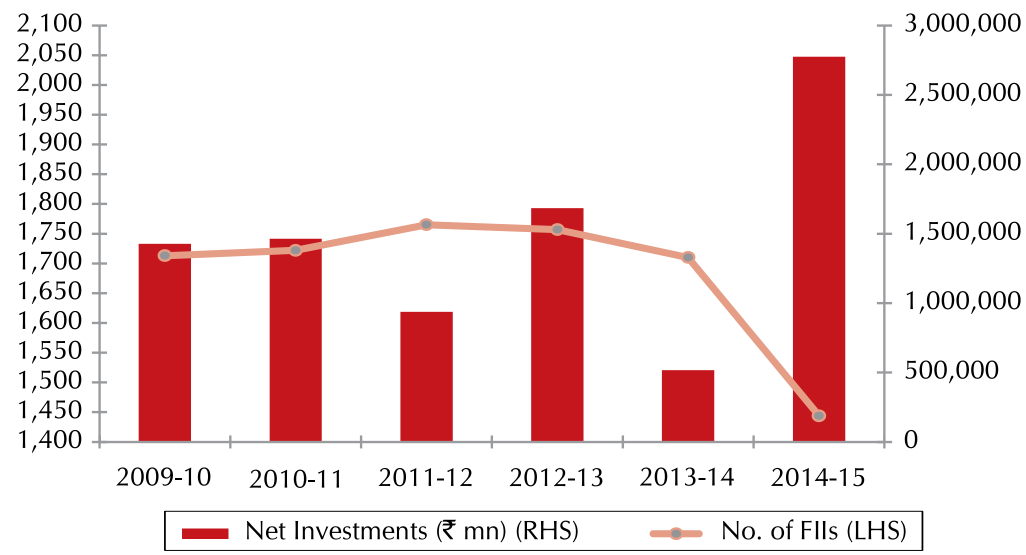
Period	Purchases (₹ mn)	Sales (₹ mn)	Net Investment (₹ mn)	Net Investment (US $ mn)	Cumulative Net Investment (US $ mn)
2001-02	**499,199**	**411,650**	**87,549**	**1,846**	**15,242**
2002-03	**470,601**	**443,710**	**26,891**	**562**	**15,804**
2003-04	**1,448,575**	**990,940**	**457,635**	**9,949**	**25,754**
2004-05	**2,169,530**	**1,710,730**	**458,800**	**10,173**	**35,927**
2005-06	**3,449,780**	**3,055,120**	**394,660**	**9,334**	**45,261**
2006-07	**5,205,090**	**4,896,680**	**308,410**	**6,709**	**51,967**
2007-08	**9,480,196**	**8,389,304**	**1,090,892**	**16,040**	**68,006**
2008-09	**6,145,810**	**6,603,920**	**-458,110**	**-11,356**	**56,650**
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**
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	191,369
Jul-14	1,30,9020	948,560	360,460	6,009	197,378
Aug-14	1,11,4810	893,480	221,340	3,646	201,025
Sep-14	1,318,050	1,108,330	209,720	3,460	204,485
Oct-14	998,636	831,319	167,317	2,730	207,215
Nov-14	1,283,585	1,028,823	254,761	4,134	211,349
Dec-14	1,132,313	1,010,066	122,248	1,998	213,347
Jan-15	1,412,273	1,075,392	336,882	5,453	218,800
Feb-15	1,208,384	962,748	245,636	3,966	222,765
Mar-15	1,447,133	1,239,902	207,231	3,337	226,102
2014-15	**15,213,461**	**12,438,868**	**2,774,599**	**45,698**	**271,800**
Apr-15	1,362,376	1,209,047	153,329	2,441	228,551
May-15	1,211,397	1,354,122	-142,725	-2,235	226,317
Jun-15	1,433,200	1,449,278	-16,079	-250	226,067
Jul-15	1,085,979	1,032,750	53,230	842	226,909
Aug-15	1,118,439	1,293,680	-175,242	-2,645	224,264
Sep-15	1,003,449	1,061,285	-57,836	-874	223,391
Apr-Sep 2015	**7,214,839**	**7,400,162**	**-185,323**	**-2,720**	**223,391**

Source: SEBI.

Number of Foreign Institutional Investors

The number of SEBI-registered FIIs declined to 1,444 in 2014–2015 from 1,710 in the previous year. The number of FIIs registered with the SEBI has been falling over the past 3 years. There was a net addition of 43 SEBI-registered FIIs in 2011–2012, compared to over 300 in 2007–2008 and 2008–2009 put together. Since 2011–2012, the number has been falling, and in 2014–2015, the number fell by 16% (Chart 7-1).

Chart 7-1: Number of FIIs and Net Investments



Source: SEBI

Foreign Institutional Investments: Equity and Debt

In 2014–2015, the net FII investment in equity surged by 40%, compared to a decline of 43% in the previous fiscal year. The net investment in equity was reported at ₹ 1,113,330 million (US$ 18,210 million) in 2014–2015 (Table 7-2).

However, the net investments by FIIs in the debt segment in 2014–2015 was reported at ₹ 1,661 billion (US$ 27 billion), as against the net outflow of FII investments worth ₹ 280,610 million in 2013–2014. However, in the first half of 2015–2016, the FIIs were net sellers in the equity and debt markets. The outflow of investments by FIIs in the equity and debt segments in the first half of 2015–2016 were ₹ 154,240 million (US$ 2,296 million) and ₹ 31,060 million (US$ 480 million), respectively.

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)
2002-03	25,280	600	532	12.63
2003-04	399,590	58,050	9,209	1,338
2004-05	441,230	17,590	10,085	402
2005-06	488,010	-73,340	12,209	-1,835
2006-07	252,370	56,070	5,790	1,286

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Year	FIIs			
	Net Investment in Equity (₹ mn)	Net Investment in Debt (₹ mn)	Net Investment in Equity (US $ mn)	Net Investment in Debt (US $ mn)
2007-08	**534,038**	**127,753**	**13,361**	**3,196**
2008-09	**-477,070**	**18,950**	**-9,363**	**372**
2009-10	**1,102,200**	**324,380**	**24,417**	**7,186**
2010-11	**1,101,207**	**363,190**	**24,663**	**8,134**
2011-12	**437,380**	**499,880**	**8,550**	**9,772**
2012-2013	**1,394,073**	**304,429**	**25,643**	**5,600**
2013-2014	**797,080**	**-280,610**	**13,298**	**-4,682**
Apr-14	96,024	-91,850	1,560	-1,492
May-14	140,061	197,720	2,275	3,212
Jun-14	139,908	167,150	2,273	2,715
Jul-14	131,104	229,350	2,130	3,726
Aug-14	54,298	167,040	882	2,713
Sep-14	51,025	158,690	829	2,578
Oct-14	(11,715)	179,032.40	-190	2,908
Nov-14	137,533	117,228.50	2,234	1,904
Dec-14	10,363	111,884.70	168	1,817
Jan-15	129,190	207,692.20	2,099	3,374
Feb-15	114,755	130,881.00	1,864	2,126
Mar-15	120,781	86,449.80	1,962	1,404
2014-15	**1,113,330**	**1,661,270**	**18,210**	**27,172**
April	117,210	36,120	1,868	576
May	-57,680	-85,040	-904	-1,333
June	-33,440	17,370	-524	272
July	53,190	40	836	1
August	-168,770	-6,470	-2,594	-99
September	-64,750	6,920	-978	105
April-Sept 2015	**-154,240**	**-31,060**	**-2,296**	**-480**

Source: SEBI

Turnover of Foreign Institutional Investors: Equity and Derivatives

Equity Market

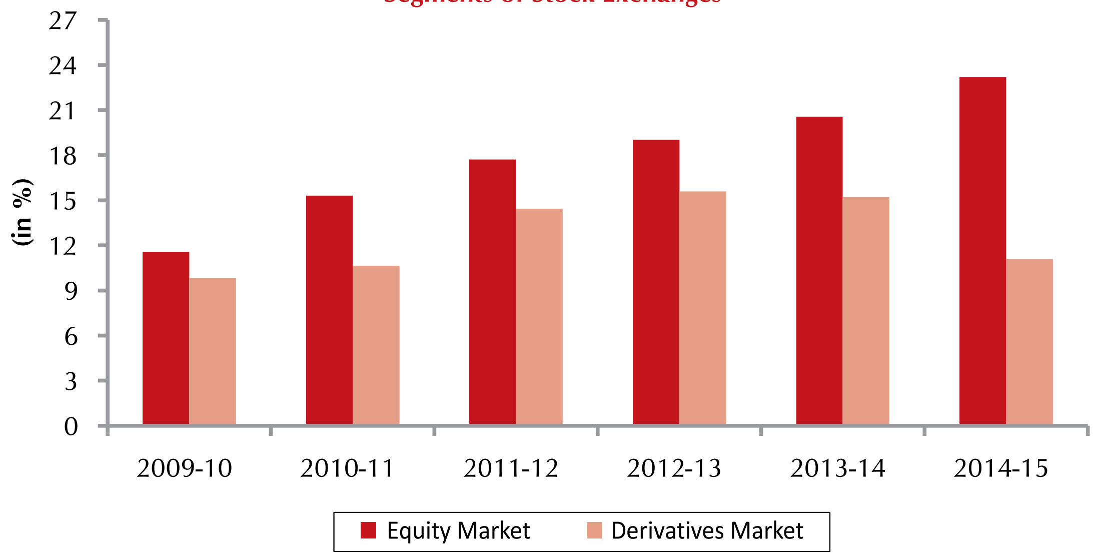
The gross turnover of FIIs in the equity market segment of the Indian stock exchanges (the NSE and the BSE) was ₹ 1,113,332 million in 2014–2015, which marked a year-on-year (y-o-y) increase of 40%. The total turnover of the FIIs in the equity market constituted 21% of the total turnover on the BSE and the NSE in 2014–2015, reflecting a marginal increase from 20.5% recorded in 2013–2014 (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
2010-11	7,715,649	172,803	6,614,442	148,140	14,330,091	320,943	93,648,733	2,097,396	15.3
2011-12	6,370,594	124,531	5,933,226	115,982	12,324,747	240,922	69,567,816	1,359,902	17.7
2012-13	6,985,370	128,490	5,585,052	102,732	12,396,042	228,015	65,141,071	1,198,215	19.0
2013-14	**7,741,739**	**129,163**	**6,944,656**	**115,865**	**13,687,624**	**228,365**	**66,603,060**	**1,111,207**	**20.6**
2014-15	**11,461,929**	**187,470**	**10,348,472**	**169,259**	**21,810,401**	**356,729**	**103,690,007**	**1,695,944**	**21.0**

Source: CMIE and SEBI

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



Source: CMIE

Derivative Market

The FII gross turnover in the futures and options (F&O) segment of the stock exchanges in 2014–2015 was ₹ 124,648,816 million, which was 8.2% of the total turnover in the F&O segment in the Indian capital markets (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		Percent of FII turnover to total F&O turnover
	No. of Contracts	Amount (₹ Million)	Amount (US$ million)	No. of Contracts	Amount (₹ Million)	Amount (US$ million)	No. of contracts	Amount (₹ mn)	Amount (US $ mn)	Amount (₹ mn)	Amount (US $ mn)	
2010-11	113,671,185	31,744,576	710,965	108,536,565	30,417,076	681,233	222,207,750	62,161,652	87,306	584,967,508	13,101,176	10.6
2011-12	177,239,569	45,437,735	888,210	173,758,950	44,636,618	872,550	350,998,519	90,074,353	126,509	643,164,158	12,572,482	14.0
2012-13	177,585,699	48,681,133	895,448	174,431,780	47,900,244	881,084	352,017,479	96,581,377	135,648	773,930,455	14,235,796	12.4
2013-14	**197,752,308**	**57,791,833**	**964,322**	**195,707,091**	**57,207,554**	**954,573**	**393,459,399**	**114,999,387**	**161,516**	**948,616,852**	**15,828,748**	**12.1**
2014-15	**201,222,538**	**62,699,183**	**1,025,502**	**198,519,359**	**61,949,632**	**1,013,242**	**399,741,897**	**124,648,816**	**175,069**	**1,519,383,878**	**24,850,898**	**8.2**

Source: CMIE and SEBI

Offshore Derivative Instruments (ODIs)

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

Participatory Notes (PNs)

Participatory notes (PNs) are the most common type of ODIs. Participatory notes 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 2015, the total value of PNs with underlying Indian securities as a percentage of the assets under custody of the FIIs declined from 13% in March 2014 to 11% (Table 7-5).

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

Month	*Total Value of PNotes on Equity and Debt with Underlying Indian securities (A) (₹ mn)	*Total Value of PNotes with Underlying Indian securities (US $ mn)	#Assets Under Custody of FIIs (B) (₹ mn)	#Assets Under Custody of FIIs (US $ mn)	A as percent of B
March-07	**2,428,390**	**55,329**	**5,470,100**	**125,490**	44
March-08	**2,508,520**	**57,155**	**7,367,530**	**184,326**	34
March-09	**694,450**	**15,823**	**3,919,540**	**76,929**	18
March-10	**1,450,370**	**33,046**	**9,008,690**	**199,572**	16
March-11	**1,750,970**	**39,895**	**11,065,500**	**247,828**	16
March-12	**1,658,320**	**37,784**	**11,073,990**	**216,473**	15
March-13	**1,479,050**	**27,206**	**13,365,570**	**245,848**	**11**
March-14	**2,076,390**	**34,643**	**15,938,690**	**265,921**	**13**
April-14	1,874,860	30,456	16,065,960	260,978	12
May-14	2,117,400	34,395	17,707,810	287,649	12
June-14	2,242,480	36,427	19,094,000	310,166	12
July-14	2,082,840	33,834	19,718,220	320,306	11
August-14	2,114,990	34,356	20,471,750	332,547	10
September-14	2,223,940	36,126	20,841,610	338,555	11
October-14	2,656,750	43,157	21,712,760	352,706	12
November-14	2,492,100	40,482	22,679,100	368,403	11
December-14	2,366,770	38,446	22,451,570	364,707	11
January-15	2,680,330	42,170	24,024,410	377,977	11
February-15	2,717,520	42,755	24,563,210	386,454	11
March-15	**2,720,780**	**42,806**	**24,118,100**	**379,451**	**11**
April-15	2,681,680	42,191	23,553,080	370,562	11
May-15	2,848,260	44,812	24,130,490	379,646	12
June-15	2,754,360	43,334	23,864,570	375,462	12
July-15	2,720,530	42,802	24,530,140	385,934	11
August-15	2,533,100	39,853	23,135,480	363,991	11
September-15	2,538,750	39,942	23,035,130	362,413	11

**Figures compiled based on reports submitted by PNote issuing FIIs.*
#Figures compiled based on reports submitted by custodians.
Source: SEBI, NSDL

B. Policy Developments

Policy Developments

With the objectives of promoting investor protection, maintaining fair, transparent and efficient markets, systemic risk minimization, 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 2014–September 2015 are discussed in this section under five major heads: *investor related reforms, issuer related reforms, stock exchange related reforms, foreign institutional investor related reforms and miscellaneous*.

1. Issuer Related Circulars

I. 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 strengthen the disclosure norms, thus increasing 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:

   a. 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.

b. 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.

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

The debt-oriented mutual fund schemes are required to ensure that a minimum of Rs. 20 crore for debt oriented and balanced schemes and Rs. 10 crores for other schemes is subscribed 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 revised regulations have been introduced so that the debt oriented schemes have an adequate corpus to ensure adherence to the investment objectives as stated in Scheme Information Document. 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.

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

The OFS (Offer for Sale) mechanism for sale of shares was modified to encourage retail participation in OFS, enable large shareholders to use the OFS mechanism and also allow more companies to use this framework. The following modifications to the existing OFS framework were announced:

1. OFS mechanism shall be available to top 200 companies by market capitalization in any of the last four completed quarters.
2. Any non-promoter shareholder of eligible companies possessing a minimum of 10% of share capital may also offer shares through the OFS mechanism.
3. A minimum of 10% 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.

IV. Amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (Sebi circular dated August 14, 2014)

Sebi reviewed the regulatory framework in the primary market and approved reforms to increase the investment bucket for anchor investor and regulations concerning the preferential issue norms. In this regard, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 have been amended. Earlier, Sebi had issued guidelines for pricing of preferential shares and increased the anchor investor's bucket to 60% from 30%. Further, Sebi clarified that new anchor investor allocation would be applicable to the listed companies which have filed offer documents with the Registrar of Companies (RoC).

V. Position Limits for Mutual Funds in 10-year Interest Rate Futures (IRF) (Sebi circular dated September 15, 2014):

Sebi had prescribed a framework for trading of cash settled interest rate futures (IRF) on 10 years Government of India Security on stock exchanges.The circular clarified the applicable position limits in IRFs. 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% 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% of the total open interest or 200 crore, whichever is higher).

VI. Modification to Offer for Sale (OFS) of Shares through stock exchange mechanism (Sebi circular dated December 1, 2014):

For simplification of retail investor participation in the OFS, the seller has been allowed to give the option to retail investors to place their bids at cut-off price in addition to placing price bids. Following conditions shall be applicable to the OFS in this regard:

1. Sellers shall mandatorily announce floor price latest by 5 pm on T-1 day to the stock exchange.
2. Exchange will decide upon the quantity of shares eligible to be considered as retail bids, based on the floor price decided by the seller.
3. Retail investors may enter a price bid or opt for bidding at cut-off price.
4. Allocation to the retail investors shall be made based on the cut off price determined in the non-retail category.
5. In respect of the bids in the retail category, clearing corporation shall collect margin to the extent of 100% of order value in cash or cash equivalents. Pay-in and pay-out for retail bids shall take place as per normal secondary market transactions.

VII. SEBI issues revised guidelines for shifting of trading in securities from Trade for Trade Settlement (TFTS) to Normal Rolling Settlement (NRS) (Sebi circular dated March 24, 2015):

The following procedure should be followed for the purpose of shifting of trading in securities from TFTS to NRS-

1. A company, after establishment of connectivity with both the Depositories, should approach the stock exchange(s) having nationwide terminals for shifting the trading of its securities from TFTS to NRS.
2. The stock exchange, upon verification of status of establishment of connectivity by the company with both the Depositories can consider shifting the trading in these securities to NRS subject to the following conditions:
    - o At least 50% of holdings other than promoter holdings are in dematerialized mode before shifting the trading in the securities of the company from TFTS to Rolling Settlement.
    - o There are no other grounds/reasons for continuation of the trading in TFTS.
3. The stock exchanges should inform the market of the names of the companies that have been shifted from TFTS to NRS.

VIII. SEBI issues guidelines on stress testing of Liquid Fund and Money Market Mutual Fund Schemes (Sebi circular dated April 30, 2015):

To strengthen the risk management practices in liquid funds and money market mutual funds (MMMF), SEBI has mandated that AMCs should have in place a stress testing policy for all Liquid Fund and MMMF Schemes. These tests should be carried out internally at least on a monthly basis and should be tested on the following risk parameters among others: Interest rate risk, Credit risk and Liquidity & Redemption risk. The stress test should evaluate the impact of these risk parameters on the scheme and its net asset value (NAV).

IX. SEBI modifies the system of product labeling in mutual funds (Sebi circular dated April 30, 2015):

SEBI modified the system of product labeling in mutual funds and the depiction of risk using color codes has been replaced by pictorial meter named "Riskometer". The level of risk in mutual fund schemes was also increased from three to five i.e. low risk, moderately low risk, moderate risk, moderately high risk and high risk schemes.

X. SEBI has notified Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Sebi circular dated September 9, 2015):

This circular deals with the disclosure of material events by the listed entities, to ensure that investors are able to make well informed investment decisions. For thisthe events that need to be disclosed have been divided into two broad categories, (1) that have to be necessarily disclosed without applying any test of materiality and (2) events that should be disclosed by the listed entity, if considered material.

Under the first category, events such as acquisition(s) (including agreement to acquire), scheme of arrangement (amalgamation/ merger/ demerger/restructuring), or sale or disposal of any unit(s), division(s) or subsidiary of the listed entity or any other restructuring are included, whereas under the second category, events such as amendment or termination of orders/contracts.

XI. SEBI has notified the format for the compliance report on Corporate Governance for listed companies (Sebi circular dated September 24, 2015):

As per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, listed entities shall submit compliance report on corporate governance at regular intervals of time, in the format specified by SEBI. Key information such as composition of Board of Directors, related party transactions, disclosures on listing regulations etc. will have to be disclosed by the listed entities. Additionally, the report shall be placed before the Board of Directors of the listed entity in its next meeting. The compliance report on Corporate Governance has to be submitted to the Stock Exchanges The circular has come into force sinceSeptember 02, 2015.

XII. Securities Contracts (Regulation) (Third Amendment) Rules, 2014(Sebi circular dated November 19, 2014):

Following amendments have been done to the Securities Contracts (Regulation) Act, 1956:

(i) At least twenty five per cent. of each class or kind of equity shares or debenture convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is less than or equal to one thousand six hundred crore rupees;

(ii) At least twenty five percent of each class or kind of equity shares or debentures convertible into equity shares issued by the company equivalent to the value of four hundred crore rupees, if the post issue capital of the company calculated at offer price is more than one thousand six hundred crore rupees but less than or equal to four thousand crore rupees;

(iii) at least ten per cent of each class or kind of equity shares or debentures convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is above four thousand crore rupees.

2. Investor Related Circulars

I. 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% for USD-INR contracts in the currency derivatives segment. Through the circular, SEBI has modified the margin regulations for USD-INR contracts and has restored the margins for USD-INR contracts to the earlier levels.

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

The limit of cash transactions in mutual funds has increased 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.

As per the 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 disclosure 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.

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

The 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% of the total open interest or USD 100 million, whichever is higher.
EUR-INR	Gross open position across all contracts should not exceed 15% of the total open interest or EUR 50 million, whichever is higher.
GBP-INR	Gross open position across all contracts should not exceed 15% of the total open interest or GBP 50 million, whichever is higher.
JPY-INR	Gross open position across all contracts should not exceed 15% 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:

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.

IV. Increasing the investment bucket for anchor investor and regulations concerning the preferential issue norms (Sebi circular dated September 11, 2014):

SEBI ICDR (Issue of Capital and Disclosure Requirements) Regulations 2009 have been amended with an aim to revive the primary market. As per the revised regulations, Accordingly, the issuer may now allocate upto 60% (as against 30% previously) of the portion available for allocation to qualified institutional buyers to an anchor investor.The revised framework is applicable to issuers who have filed offer documents with the RoC (Registrar of Companies) 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% 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 regulation.

V. Consolidated Account Statement (CAS) for all securities assets (Sebi circular dated November 12, 2014):

Sebi has taken the initiated steps to create one record for all financial assets of every individual. It has been decided to enable a consolidated view of all the investments of an investor in mutual funds and securities, held in demat form. In this regard, following directions have been given by SEBI:

1. The Depositories and the Asset Management Companies (AMCs)/ MF-RTAs have to facilitate generation of Consolidated Account Statements (CAS) (on the basis of PAN), on a monthly basis, for investors having MF investments and holding demat accounts.

2. A grievance redressal mechanism shall be put in place by the depositories and the AMCs/MF-RTAs which shall also be communicated to the investors through CAS.

3. The depositories and the AMCs/ MF-RTAs shall ensure data integrity and confidentiality in respect of the shared information.

VI. Facilitating transaction in Mutual Fund schemes through the Stock Exchange Infrastructure (Sebi circular dated December 9, 2014):

SEBI had permitted the Mutual Fund Distributors to use recognized stock exchanges' infrastructure to purchase and redeem mutual fund units directly from Mutual Fund/ Asset Management Companies on behalf of their clients. Subsequently, the pay in will be directly received by the clearing corporation and payout will be directly made to investor account.

Further to broad base the reach of stock exchange platform, it is decided to permit non-demat transactions also in the mutual fund through the stock exchange platform.

VII. SARAL Account Opening Form for Resident Individuals (Sebi circular dated March 4, 2015):

To encourage participation of individual investors in the securities market, Sebi has taken steps to simplify the account opening process for new investors who wish to participate only in cash market trading. In this regard, it has been decided that such investors can now open a trading and demat account by filling up a simplified Account Opening Form (AOF) termed as 'SARAL AOF'. The form has been made accessible and can be obtained separately from the intermediaries or downloaded from the stock exchange and depository website. Further the updation of SARAL account to trading account can be done by submitting one documentary proof address.

VIII. Revision of limits relating to currency derivatives contracts (Sebi circular dated April 8, 2015):

SEBI hasmade changes to the regulations relating to currency derivatives contracts in line with RBI's revised limits for currency derivatives contracts beyond which the market participants are required to establish proof of the underlying exposure. The modifications are as given below:

a) Foreign Portfolio Investors (FPIs) would be allowed to take up long as well as short positions without establishing any underlying exposure up to a limit of USD 15 million for USD-INR currency pair and up to USD 5 million for EUR-INR, GBP-INR and JPY-INR pairs (all put together). However, the FPIs would be required to have an underlying exposure in the Indian debt or equity securities once they decide to take up long positions in excess of the above specified limits. Similar limits will be applicable for domestic clients also.

   In case of a breach, the stock exchanges/ clearing corporations areinstructed to report to the Market Surveillance Team of Financial Markets Regulation Department (FMRD), RBI.

IX. Review of Offer for Sale (OFS) of Shares through Stock Exchange Mechanism (Sebi circular dated June 26, 2015):

To encourage investor participation and simplify the bidding process, the OFS mechanism was further amended in the following manner:

1. OFS notice will continue to be given latest by 5 pm on T-2 days of process closure but it will be calculated from banking day instead of trading day.
2. In addition to price bids, sellers have been mandated to provide the option to retail investors to place bids at cut off price.

3. Exchange Related Circulars

I. 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.

- Introduction of liquidity enhancement schemes - The stock exchange were granted permission to introduce liquidity enhancement schemes in equity cash and equity derivatives segments subject to the following:

  i) The scheme specifies the incentives available to the market makers / liquidity providers. Such incentives include discount in fees, adjustment in fees in other segments, cash payment or issue of shares, including options and warrants.

  ii) 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.

- Securities eligible for liquidity enhancement schemes - The stock exchanges are now permitted to 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.

  Securities listed on SME Platform or SME Exchangewere kept outside the purview of the liquidity enhancement schemes.

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

Based on the suggestions from market participants regarding agreement between clearing member and client for the purpose of lending and borrowing of securities, Sebi introduced the following modification to the SLB framework:

1. The authorized intermediary shall enter into an agreement with the clearing member for lending and borrowing the securities. The agreement shall specify the rights, responsibilities and obligations of the parties to the agreement.
2. Authorized intermediary have to ensure that no direct agreement between the buyer and the lender takes place.
3. For executing trades in the SLB framework, the clearing members and the clients have to adhere to rights and obligations document prepared by the authorized intermediary.

III. Modification to Investor Protection Fund (IPF) / Customer Protection Fund (CPF) Guidelines (Sebi circular dated October 4, 2014):

SEBI vide Circular dated October 28, 2004 prescribed the Comprehensive Guidelines for Investor Protection Fund (IPF)/Customer Protection Fund (CPF) at Stock Exchanges. Subsequently SEBI vide Circular dated December 14, 2006 and dated June 16, 2011, modified the above guidelines. As per these Guidelines, surplus funds of defaulter could be returned to the defaulter provided that if any subsequent claims are received against the defaulter such claims shall be met by Exchanges.

Based on the representations received from the stock exchanges and recommendations of the Secondary Market Advisory Committee (SMAC), SEBI modified the framework by providing that claims received from investors shall be considered for compensation in cases where defaulter members' funds are inadequate. The modified provisions also stated that in in cases where any litigation is pending against the defaulter member, the residual amount, if any, may be retained by the stock exchange until such litigations are concluded."

IV. Index based market-wide circuit breaker mechanism (Sebi circular dated January 12, 2015):

SEBI had advised the stock exchanges to implement an index based market wide circuit breaker system to bring about a coordinated trading halt in all equity and equity derivative markets nationwide on 10%, 15% and 20% movement either way of BSE SENSEX or NSE NIFTY.

1. Further, Sebi has taken the following steps to strengthen the mechanism implemented by the exchanges for 'index based market-wide circuit breaker mechanism':

   a) The exchanges are now required to compute their market-wide index after every trade in the index constituent stocks and to check for breach of market-wide circuit breaker limits after every such computation of the market-wide index.

   b) The exchanges shall implement suitable mechanism to ensure that all messages related to market-wide index circuit breakers are given higher priority over other messages.

   c) The exchanges should include the review of the index based market-wide circuit breaker mechanism in their annual audit system, with a view to identify improvements.

V. Exclusively Listed Companies of Derecognized/Non-operational/exited Stock Exchanges (Sebi circular dated April 17, 2015):

In the interest of the investors of companies exclusively listed on de-recognized/non-operational stock exchanges, Sebi decided to provide time to such companies to get listed on nationwide stock exchanges. Following requirements were mandated to be fulfilled by such companies:

1. A time frame of 18 months was given to the exclusively listed companies of derecognized/non-operational stock exchanges to obtain listing in any other nationwide stock exchange. In case they fail to list during this period, these companies will cease to be a listed company and shall be moved to dissemination board by the existing stock exchange.
2. Once the non-operational exchanges refer the companies to the respective Registrar of Companies (RoC) to be declared as a 'vanishing company', then that company will be removed from the dissemination board and identified as 'vanishing' by the Ministry of Corporate Affairs (MCA) or the RoC.
3. The exclusively listed companies seeking listing on nationwide stock exchanges should not undergo any material changes in their shareholding pattern at the time of listing on the nationwide stock exchanges.
4. The nationwide stock exchanges have been directed to process the application of exclusively listed companies, not later than two months from the date pf receipt of the application.

VI. Co-location / Proximity hosting facility offered by stock exchanges (Sebi circular dated May 13, 2015):

Guidelines have been issued by SEBI for stock exchanges while providing co-location/proximity hosting facility to stock brokers and data vendors to ensure fair, equitable treatment of all participants in the process of allotment of facilities and data feed during the hosting process. Key guidelines are as follows:

a. Stock exchanges are required to provide adequate accommodation and ensure similar latency for all eligible participants.

a) It has to be ensured that the size of the co-located hosting space is sufficient to accommodate all the stock brokers and data vendors who are desirous of availing the facility.

b) Exchanges have to take prompt decisions (within 15 working days) on all applications for availing such facilities, and in case of non-approval, the broker/data vendor needs to be notified the reason for the same.

c) Stock brokers availing the co-location facility should be facilitated to receive data feeds from other recognized stock exchanges at the co-location facility and to route orders to other exchanges

d) Exchange should disseminate data relating to orders and trades executed during hosting of co-location facility.

e) Exchanges should publish quarterly report on latency observed at the exchanges.

VII. Cyber Security and Cyber Resilience framework of Stock Exchanges(Sebi circular dated July 6, 2015):

1. SEBI, as a member of IOSCO, adopted the 'Principles for Financial Market Infrastructures laid down by CPMI-IOSCO, and also issued guidance for implementation of these principles in the securities markets.

2. As a part of the 'Operational Risk Management' – Stock Exchanges, Depositories and Clearing Corporations, collectively known as ' Market Infrastructure Institutions' (MIIs) need to have robust cyber security framework to provide its services relating to trading, clearing and settlement.

Hence, inSEBI, along with the Technical Advisory Committee (TAC) has laid down the framework that MIIs would be required to comply with in regard to cyber security and cyber resilience.

VIII. Exchange Traded Cash Settled Interest Rate Futures (IRF) on 6 year, 10 year and 13 year Government of India (GoI) Security (Sebi circular dated June 12, 2015):

Stock exchanges have been allowed to introduce cash settled IRFs on 6 and 13 year government of India securities at face value of INR 100 each. Prior to the launch of these derivative products, stock exchanges to seek approval from Sebi and give details of contract structure, risk management framework, safeguards and risk protection mechanisms, surveillance systems, etc. The size of each futures contract would now be representative of 2,000 underlying bonds, having total face value of INR 200,000. The contract value would therefore be the (quoted price times 2,000) in rupee terms.

IX. Review of minimum contract size in equity derivatives segment (Sebi circular dated July 13, 2015):

The minimum contract size in equity derivatives segment was increased to Rs 5 lakhs from Rs 2 lakhs. Accordingly, following changes have taken place:

i. The lot size for equity derivatives segment shall be fixed such that the contract value of the derivative on the day of review is betweenRs. 5 lakhs and Rs. 10 lakhs.

ii. For stock derivatives, the lot size (in units of underlying) shall be fixed as a multiple of 25, provided the lot size is not less than 50. However, if the contract value of the stock derivatives at the minimum lot size of 50 is greater than Rs 10 lakhs, then lot size shall be fixed as a multiple of 5, provided the lot size is not less than 10.

iii. For index derivatives, the lot size (in units of underlying) shall be fixed as a multiple of 5, provided the lot size is not less than 10. The lot sizes are to be reviewed once in every 6 months.

4. Circulars Related to Foreign Institutional Investors

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

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

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

SEBI came 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.

III. 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 harmonize KYC norms with that of the RBI. KYC documents of FPIs can be shared only after getting authorization 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 authorized representative. 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.

IV. 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)

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 USD 51 billion earmarked for corporate debt.

V. 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. 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 USD 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 an 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 the 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% of the total open interest or USD 100 million, whichever is higher.
EUR-INR	Gross open position across all contracts should not exceed 15% of the total open interest or EUR 50 million, whichever is higher.
GBP-INR	Gross open position across all contracts should not exceed 15% of the total open interest or GBP 50 million, whichever is higher.
JPY-INR	Gross open position across all contracts should not exceed 15% 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% of the total open interest or USD 10 million, whichever is higher.
EUR-INR	Gross open position across all contracts should not exceed 6% of the total open interest or EUR 5 million, whichever is higher.
GBP-INR	Gross open position across all contracts should not exceed 6% of the total open interest or GBP 5 million, whichever is higher.
JPY-INR	Gross open position across all contracts should not exceed 6% of the total open interest or JPY 200 million, whichever is higher.

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

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.

VII. Clarification on grant of registration as a Foreign Portfolio Investor (FPI) to Registered Foreign Venture Capital Investors (FVCI) (Sebi circular dated June 12, 2015):

In response to a query regarding registration of FVCI as FPI, Sebi has clarified that the investment conditions and restrictions for FVCI and FPI are different. A DDP may consider an applicant holding FVCI registration for grant of registration as an FPI subject to the following conditions-

a. The applicant complies with the eligibility criteria as prescribed under the FPI Regulations.

b. The funds raised, allocated and invested must be clearly segregated for both the registrations and separate reporting must be done for both the transactions.

Separate accounts must be maintained with the same custodian for execution of trades.

VIII. Implementation of Multi- lateral Competent Authority Agreement (MCAA) and Foreign Account Tax Compliance Act (Sebi circular dated August 26, 2015):

India joined the Multi-lateral Competent Authority Agreement (MCAA) on automatic exchange of financial account information on June 3, 2015.

As a member of the MCAA, India will be able to exchange a wide range of financial information with other signatory members of MCAA.

As per the agreement between India and U.S. to improve international tax compliance and to implement the Foreign Account Tax Compliance Act (FATCA) in India, foreign financial institutions operating in India will now be required to report tax information about U.S. account holders/ taxpayers directly to the Indian Government and the Indian government shall pass this information to the U.S. Internal Revenue Service (IRS).

IX. Registration for the purpose of Foreign Accounts Tax Compliance Act (FATCA) (Sebi circular dated September 10, 2015):

As per US Internal Revenue Service (IRS) website, Foreign Financial Institutions (FFIs) in Model 1 jurisdictions need to register with the US IRS and obtain a Global Intermediary Identification Number (GIIN) in order to avoid withholding. The FFIs who have registered but have not obtained a GIIN should indicate to the withholding agents that the GIIN is applied for.

X. Conditions for issuance of Offshore Derivative Instruments under SEBI (Foreign Portfolio Investor) Regulations, 2014 (Sebi circular dated November 24, 2015):

SEBI has decided to align the applicable eligibility and investment norms between Foreign Portfolio Investor (FPI) regime and subscription through the Offshore Derivative Instruments (ODI) route.

A FPI shall issue ODIs only to those subscribers which meet the eligibility criteria as follows:

a. The applicant is resident of a country whose securities market regulator is a signatory to International Organization of Securities Commission's Multilateral Memorandum of Understanding.

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

c. The applicant is not resident in a country identified in the public statement of Financial Action Task Force.

5. Miscellaneous

I. Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 2014(Sebi circular dated October 13, 2014):

Sebi has introduced single registration of stock brokers and clearing members with any stock exchange/clearing member as against individual registration required prior to the introduced amendment. Following guidelines were introduced in this regard:

(i) No person shall act as a stock broker, unless he obtains a certificate of registration from SEBI.

(ii) A stock broker registered with the SEBI, who desires to operate in any other stock exchange/clearing corporation or any other segment(s) of the stock exchange/clearing corporation, of which it holds a membership, shall apply to the concerned stock exchange/clearing corporation, in the manner specified by SEBI. The stock exchange has been given the discretion to grant membership to the applicant, provided the applicant satisfies the regulations mandated by SEBI.

II. Modification of client codes of non-institutional trades executed on stock exchanges (All Segments) (Sebi circular dated October 21, 2014):

1. SEBI had earlier vide its circular dated August ... 2011 formulated a policy which stipulated penalties for non-Institutional client code modification including for modifications carried out for rectifying a genuine error. Based on the practical difficulties expressed by the intermediaries, SEBI vide its circular dated October 2, 2104 modified its earlier circular and provided for certain exceptions in levy of penalty as per the following conditions : If evidence is produced that the modification was on account of genuine error by the stock broker, then Stock Exchanges may waive the penalty for the client code modification.

2. Not more than one waiver per quarter may be given to the stock broker for modification in a client code.

   Propriety trades shall not be allowed to be modified as client trade and vice versa.

III. Revision of proprietary position limits of nonbank stock brokers for currency derivatives contracts (Sebi circular dated October 22, 2014):

Based on the feedback received from market participants with regard to the proprietary position limits of stock brokers in the exchange traded currency derivatives contracts (further to the SEBI Circular relating to revision od position limits in USD-INR, EUR-INR and JPY-INR), the following has been decided:

1. Position limits prescribed earlier in July 2014 shall be the total limits available to the stock brokers for taking positions on proprietary basis and for positions of their clients.

2. Proprietary open position limits of a stock broker, who is not a bank, across all contracts in a permitted currency pair shall be higher of (a) 15% of the total open interest in the currency pair, or (b) USD 50 million / EUR 25 million / GBP 25 million / JPY 1000 million, as applicable.

IV. Creation of Database for Distinctive Number (DN) of Shares by Depository Institutions (Sebi circular dated June 16, 2015):

To maintain a centralized record of all securities, including both physical and dematerialized shares issued by the company, the depositories were instructed to create and maintain a database of distinctive numbers (DN) of equity shares of all listed companies.

The following guidelines have been suggested for the operationalization of the DN database-

a) *Instructions to the Depositories*: The depositories were instructed to create and maintain a database to capture DN in respect of all physical equity shares and overall DN range for dematerialized equity shares issued by listed companies.

b) *Instructions to the Stock Exchanges*: The stock exchanges were instructed to provide the information of different classes of equity shares of all listed companies as on September 30, 2015

c) *Instructions to the Issuers/Registrar and Transfer Agents (RTAs):* Issuers/ RTAs shall use the interface provided by the Depositories for updating information relating to physical share capital and the overall DN range for dematerialized share capital for all listed companies.

C. Corporate Governance Developments

Corporate Governance in India: Developments and Policies

A. Importance of corporate governance in the capital market

Corporate governance (CG) represents "the set of checks and balances within the corporate structure that helps create long-term value enhancement for stakeholders in a company." (Varottil, 2009) The corporate scandals at Enron and Worldcom and collapse of financial giants such as Bear Stearns, AIG and Lehman Brothers have underscored the significance of corporate governance to the economy and have focused the attention of the policy makers the world over on the CG standards in their respective countries.

Why is corporate governance so important to a country? There are two significant reasons. First, an orderly and transparent business environment inspires confidence on the part of domestic and international investors. While making investment decision, investors consider governance risk, which arises from the potential for lack of transparency, accountability and enforceability in the marketplace, as one of the critical factors. Research suggests that foreign investors shy away from countries characterized by weak shareholder protection and related legal institutions. Second, weak governance systems often lead to serious problems; the 1997 East Asian crisis, for example, was partly attributed to the weak institutions. The total indebtedness of countries affected by the crisis exceeded one hundred billion dollars. Similarly, the failure of a large corporate can cost an economy dear; for example, the first year cost to the US economy caused by the failure of Enron in terms only of stock price erosion has been estimated at $35 billion! In India, the focus on corporate governance reforms came with the liberalization of the economy in early 1990s, motivated by the first reason stated above rather than the second.

The initial impetus for CG reforms in India was provided by the industry, rather than the government. In 1998, a voluntary Code of Corporate Governance was published (by Competition Commission of India), which was followed by the establishment of the Kumar Mangalam Birla Committee on Corporate Governance by the Securities and Exchange Board of India (SEBI). Over the past one and half decades, India has made significant strides in CG reforms, thereby improving public trust in the market. These reforms have been well received by investors, including foreign institutional investors (FIIs). Compelling evidence of the improving standards in India comes from the growing interest of foreign portfolio investors (FPIs) in the Indian market. Foreign portfolio investment (equity and debt) in India rose from USD 2.1 billion in FY 1996 to USD 45.4 billion in FY 2015.

The governance reforms in India and the globalisation of the capital markets have been mutually reinforcing. While continuing governance reforms have led to rising foreign investment, the globalisation of the capital markets has provided an impetus towards a more stringent CG regime. How did capital market globalization improve corporate governance regime? To market their securities to foreign investors, Indian companies making public offerings in India had to comply with the CG norms with which investors in the developed world were familiar. Further, Indian companies listing abroad to raise capital were subject to the stiff CG requirements that are applicable to companies listing on those exchanges. However, such practices have remained confined to a few large companies and have not percolated to the majority of Indian companies.

B. Where does India stand?

Doing Business is an annual publication of the World Bank, which presents a detailed analysis of global regulatory systems, the efficacy of bureaucracy, and the nature of business governance worldwide. The report presents data for 189 economies and aggregates information from 10 areas of business regulation, namely:

1. Starting a business
2. Dealing with construction permits
3. Getting electricity
4. Registering property
5. Getting credit
6. Protecting minority investors
7. Paying taxes
8. Trading across borders
9. Enforcing contracts
10. Resolving insolvency

In terms of 'ease of doing business', India ranks 130 among 189 countries in 2015, which is four positions up from its ranking in 2014 (Doing Business 2016).[1] India's relative ranking in all these 10 components of 'ease of doing business' in 2015 and 2016 are outlined in Table 1.

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

Year	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading across Borders	Enforcing Contracts	Resolving Insolvency
2016	130	155	183	70	138	42	8	157	133	178	136
2015	134	164	184	99	138	36	8	156	133	178	136

Source: Doing Business 2016, World Bank

Clearly, India's relative position is the best in the area of 'protecting minority investors', where it ranks eighth in the world. While the indicator does not measure all aspects related to the protection of minority investors, a higher ranking does indicate that an economy's regulations offer stronger minority investor protections against self-dealing in the areas measured. In the recent years, India has taken steps to strengthen minority investor protection by requiring substantial disclosure of conflicts of interest by board members, increasing the remedies available in case of related-party transactions, and introducing additional safeguards for the shareholders of privately held companies.

Protecting minority investors matters for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. Effective regulations define related-party transactions precisely, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set detailed standards of accountability for company insiders.

India fared better than China, Brazil, and Russia with regard to 'protecting minority investors' (Table 2). Table 2 also provides a comparative analysis of India's score--vis-à-vis a select group of countries--on a number of parameters of 'minority investors' protection'

[1] Doing Business 2016 takes into account data until June 2015.
The Doing Business 2015 rankings are adjusted based on 10 topics (business regulations)..

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

Parameters	India	China	Brazil	Russia	USA	UK
Protecting minority investors (rank)	8	134	29	66	35	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)	10	1	7	7.5	4	8
Extent of ownership and control index (0–10)	8	2	7	6	4.4	6
Extent of corporate transparency index (0–10)	6	8	8	6	5.4	8
Extent of shareholder governance index (0–10)	8	3.7	7.3	7	4.6	7.3
Strength of minority investor protection index (0–10)	7.3	4.3	6.5	5.7	6.5	7.8

Source: Doing Business 2016, World Bank

C. Recent reforms in CG framework for listed companies

Corporate governance in India was guided by Clause 49 of the Listing Agreement before the introduction of the Companies Act of 2013. As per the new provision, the SEBI approved certain amendments in the Listing Agreement to improve transparency in the transactions of listed companies and to empower minority stakeholders to influence the decisions of the management. These amendments became effective from October 1, 2014.

During the current fiscal year (up to September 2015), the regulators focused on implementing the changes in the CG framework. The SEBI took steps to ensure that companies comply with the new rules; the stock exchanges were directed to take action against companies that did not comply with the new framework.

Some of the important developments and policy changes in the CG framework in the country during the period October 2014–September 2015 are summarised in this section.

Fine structure for non-compliance with Clause 49(II)(A)(1) (Appointment of Women Directors) of the Listing Agreement:

The Companies Act of 2013, Section 149 (1) requires every company of a prescribed class to have "at least one woman director"; the prescribed class comprises all listed companies (with some exceptions) and every other public company having a paid up share capital of INR 100 crore or more, or, turnover of INR 300 crore or more. As regards listed companies, this provision is reflected in the Clause 49 (II) (A) (1) of the Listing Agreement. Also, SEBI had mandated that the appointment of woman directors to the board must happen no later than 1 April, 2015. If the listed companies remain non-compliant after 1 April, 2015, stock exchanges have been mandated by SEBI to levy monetary penalties starting June 30, 2015, while additional penal measures would be taken for those continuing to stay in default (see table 3).

Table 3: Fine structure for non-compliance with Clause 49(II)(A)(1) of the Listing Agreement

Compliance Status	Fine Structure
Listed entities complying between April 1, 2015 and June 30, 2015	₹ 50,000/-
Listed entities complying between July 1, 2015 and September 30, 2015	₹ 50,000 + ₹ 1000/- per day w.e.f. July 1, 2015 until the date of compliance
Listed entities complying on or after October 1, 2015	₹ 1,42,000/- + ₹ 5000/- per day from October 1, 2015 until the date of compliance

CAG review report on corporate governance compliance by central public sector enterprises:

CPSEs under the Ministry of Commerce and Industry, Ministry of Mines, Ministry of Tourism, Ministry of Urban Development and Ministry of Textiles had been selected for the purpose of reviewing their adherence to the guidelines issued by the SEBI and the Department of Public Enterprises (DPE). As such, the review covered 34 (excluding closed companies and SPVs) companies under the jurisdiction of the aforesaid five ministries. The period of one year ended March, 2014 was covered in the review. In the Corporate Governance chapter of the CAG's report, which was submitted to the Ministry of Corporate Affairs in March 2015, revealed that 18 out of these 34 CPSEs had not appointed independent directors. A risk policy was yet to be developed in 9 CPSEs, and a model of code of conduct for the board of directors was not circulated in 16 CPSEs. Delays of over six months were observed in filling the vacancies in the board of directors of 8 CPSEs. The CAG report concluded that a large number of CPSEs did not comply with the DPE's CG guidelines, even though compliance was mandatory.

RBI gives CG direction to NBFCs:

In April 2015, the Reserve Bank of India (RBI) issued CG directions to the non-banking financial companies (NBFCs) in order to regulate the credit system in India. These CG directions are applicable to all NBFCs, except the Systemically Important Core Investment Companies as defined in the Core Investment Companies (Reserve Bank) Directions, 2011.

The key CG directions issued by the RBI are as follows:

I. **Constitution of committees of board:** The RBI directed all the applicable NBFCs to constitute an audit committee, a nomination committee, and a risk management committee. The functioning of these committees will be guided by the Companies Act, 2013.

II. **Ensure fit and proper criteria:** All applicable NBFCs were directed to establish a policy—with the approval of the board of directors—to ascertain the fit and proper criteria of the directors at the time of appointment. Further, a quarterly statement about the change of directors and a certificate from the NBFC's managing director (MD) that the fit and proper criteria of directors have been ascertained, have to be furnished to the RBI.

III. **Disclosure and transparency:** NBFCs are required to present to the board of directors a report about the progress that has been made in establishing a risk management system and policy, and about conformity with the CG standards. Additional disclosures are outlined in the annual financial statements, with effect from March 31, 2015.

IV. **Rotation of partners of the statutory auditors' audit firm:** The new CG directions to the NBFCs require that the partners of the chartered accountants' (CA) firm conducting the audit should be rotated every 3 years, so that the same partner does not audit the company continuously for more than 3 years.

V. **Framing of internal guidelines:** All applicable NBFCs are required to frame their internal guidelines on CG, with the approval of the board of directors. These guidelines should be published on the company website for the benefit of different stakeholders.

Establishment of Bank Boards Bureau to improve governance in PSU banks:

In the Union Budget 2015–2016, the government announced the establishment of the Bank Boards Bureau (BBB) to improve governance in the public sector banks (PSBs). The BBB was established based on the recommendations of the "Gyan Sangam," a conclave of public sector banks (PSBs) and foreign investors (FIs) organised in the beginning of 2015. The BBB, which will commence functioning from April 1, 2016, was established to strengthen the risk management practices undertaken by the PSBs.

Revised road map for implementation of Indian Accounting Standards: The Ministry of Corporate Affairs, Government of India, outlined the revised timeline for the implementation of the Indian Accounting Standards (Ind AS) for companies other than banking and insurance companies, and NBFCs. The objective of the Ind AS is to ensure the transparent dissemination of financial reports to the users and to ensure the reports are comparable across the periods presented. The implementation of the Ind AS will be a big step in the direction of better corporate governance in the country.

The Ind AS will be applied to companies as follows:

(i) On voluntary basis for financial statements for the accounting period beginning on or after April 1, 2015, with comparatives for the period ending March 31, 2015 or thereafter;

(ii) On mandatory basis for the accounting period beginning on or after April 1, 2016, with comparatives for the period ending March 31, 2016 or thereafter for the following companies:

(a) Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India, having net worth of ₹ 500 crore or more.

(b) Companies other than those covered in paragraph (ii) (a), having net worth of ₹ 500 crore or more.

(c) Holding, subsidiary, joint venture, or associate companies of companies covered under paragraph (ii) (a) and (ii) (b).

(iii) On mandatory basis for the accounting period beginning on or after April 1, 2017, with comparatives for the period ending March 31, 2017 or thereafter for the following companies:

(a) Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India, having net worth of less than ₹ 500 crore.

(b) Companies other than those covered in paragraph (ii) and paragraph (iii)(a); i.e., unlisted companies having net worth of ₹ 250 crore or more, but less than ₹ 500 crore.

(c) Holding, subsidiary, joint venture, or associate companies of companies covered under paragraph (iii) (a) and (iii) (b).

However, companies whose securities are listed or are in the process of listing on small and medium enterprises (SME) exchanges are not required to apply the Ind AS. Such companies will continue to comply with the existing accounting standards, unless they choose otherwise.

(iv) Once a company opts to follow the Ind AS, it shall be required to follow the Ind AS for all subsequent financial statements.

(v) Companies that are not covered by this roadmap will continue to apply the existing accounting standards prescribed in the Annexure to the Companies (Accounting Standards) Rules, 2006.

D. Seminar on "Board Evaluation: An Imperative for Corporate Governance"

The National Stock Exchange of India Limited (NSE) organised a seminar on "Board Evaluation: An Imperative for Corporate Governance" in Mumbai on March 30, 2015. The broad objective of this seminar was to familiarise the directors of its listed companies—who constituted the bulk of the audience—with the relevance of board evaluation exercises, the various options available for the same, and the associated implementation issues.

The conference included a keynote speech by Dr. Chris Pierce, CEO, Global Governance Services Limited and a panel discussion. Dr. Pierce highlighted the opportunities and challenges of board evaluation, which provided several new perspectives to the participants. The panellists in the subsequent panel discussion—Prof. N. Balasubramanian, Dr. Chris Pierce, Deepak Satwalekar, and Cyril Shroff—discussed some of the potential challenges that corporates face during board evaluation in the Indian context. They also shared some good practices related to board evaluations. The overall view that emerged was that if one were to do the bare minimum for the sake of compliance, one would squander one of the best opportunities to genuinely improve board effectiveness.

E. Quarterly briefings under the aegis of the NSE Centre for Excellence in Corporate Governance

In recognition of the important role that stock exchanges play in enhancing CG standards, the NSE established a Centre for Excellence in Corporate Governance (NSE CECG) in December 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 an emerging or existing CG issue, is based on these discussions. In 2015, the NSE CECG published four issues of the *Quarterly Briefing* on the following topics:

a) Related-party transactions

b) Corporate governance in state-owned enterprises

c) Gender diversity on boards

d) Indian corporate board structure: Moving towards best practices

All the issues of *Quarterly Briefing* are available on the NSE website:
http://www.nseindia.com/research/content/res_NSE_CECG.htm

D. EMERGE: SME PLATFORM

EMERGE: SME PLATFORM

Introduction

The micro, small, and medium enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. Small and medium enterprises (SMEs) play a vital role in developing the local economy. They have been a key engine of economic growth and effective mobilisation of resources (capital and skills) in India. MSMEs play a crucial role not only in providing significant employment opportunities at comparatively lower capital cost compared to large industries but also in the industrialisation of rural and backward areas, thereby reducing regional imbalances and ensuring the equitable distribution of national income and wealth. Because of their small size and entrepreneurial spirit, they are able to adapt to changes quickly. They use innovation as a key competitive strategy, and have high growth prospects. Until two decades ago, Indian SMEs were concentrated in the traditional brick and mortar sectors; they were focused more on the local markets, driven by the protection provided through the reservation of sectors for them. However, over the last decade, there has been a paradigm shift in the profile of Indian SMEs. Today, they present a much more diversified profile in terms of sectors, stage, and geographic locations. Indian SMEs operate in diverse sectors, from those that are very traditional to the most modern and cutting-edge industries competing with the best in the world. The SMEs in new economy sectors such as IT, IT-enabled services, organised retailing, education, entertainment, and media represent the new and modern face of Indian SMEs.

As of March 2015, the MSME sector in India comprises 36 million units. This sector provides employment to over 80 million people. Through over 6,000 products, this sector contributes about 8% of the GDP. Additionally, it contributes 45% of the country's total manufacturing output and 40% of the exports. The MSME sector has the potential to lead to the spread of industrial growth across the country, and it can be a major partner in the process of inclusive growth. The health of this sector is of tremendous importance, as the livelihood of a majority of Indians depends on the sector. India's growth story could remain incomplete without the mention of SMEs. In today's globalised world, where almost all large corporations are converting themselves into assembly lines, corporate India need more SMEs to feed them. Several steps have been taken by the Reserve Bank of India (RBI) and the central government to enhance the flow of credit to the MSME sector. To address the delayed payments to the MSME sector, the RBI has set up Trade Receivables Discounting System (TReDS), which is an institutional mechanism for facilitating the financing of the trade receivables of MSMEs from corporate buyers.

Regulatory Framework

The SME platform is a regulated platform under the purview of the Securities and Exchange Board of India (SEBI). A new chapter (XB) was added to the Issue of Capital and Disclosure Requirements (ICDR) regulations to define the regulations applicable to the SME platform. According to the SEBI regulations, companies with post-issue paid up capital (face value) up to ₹ 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 listing requirements are simpler on the SME platform. The exchange's admission and diligence process are intended to help in addressing investor expectations. As part of the process, companies are encouraged to opt for voluntary grading by rating agencies; they will also be subject to certain additional due diligence. Research reports on a company's business fundamentals and corporate governance would be available post listing. Post-listing compliance is similar to that for the main board, with certain exemptions in the reporting requirements for SMEs.

NSE SME Platform: EMERGE

NSE launched its SME platform, EMERGE, in September 2012. Since its launch, there have been 10 listings on the EMERGE platform, of which 1 migrated to the main board. Currently, 30 companies (10 companies on EMERGE and 21 companies on the ITP platform) are listed on the platform, with an approximate fund raising of ₹ 150 crore. NSE has always endeavoured to build a credible platform for SMEs that would help them raise risk capital from informed investors who are looking for investing early in promising companies. NSE believes that EMERGE has an important role to play in facilitating the raising of capital by SMEs. There has been enthusiasm for and comprehension of the platform among stakeholders, from entrepreneurs to intermediaries and investors.

There is a promising pipeline of companies that are in the process of coming on board, and the momentum is expected to sustain and strengthen. As the overall trends in the capital markets improve, EMERGE is expected to attract more entrepreneurs and investors.

NSE's EMERGE is a segment within NSE, and it enjoys the benefits of a well-established exchange. The trading terminals of the main exchange, its risk management and surveillance systems, and the existing infrastructure are all available to the SME platform. The members and other intermediaries continue to be the same as those of the main board. In addition to the criteria specified by the SEBI for the eligibility of a company to list on an SME Platform, NSE has specified the following criteria for listing on EMERGE:

- The company should have a track record of at least 3 years.
- The company should have positive cash accruals (earnings before depreciation and tax) from operations for at least 2 financial years preceding the application.
- The company's net worth should be positive.

Performance

NSE's EMERGE has shown remarkable progress over the last 1 year, with the number of trades carried out on the platform increasing from 1052 in Oct 2013–Sep 2014 to 6488 in Oct 2014–Sep 2015. Further, the average daily turnover increased significantly by 116%, from 9.2 lakh in Oct 2013–Sep 2014 to 20.1 lakh in Oct 2014–Sep 2015. During the period Oct 2014–Sep 2015, Veto Switchgear Cable Ltd migrated to the NSE main board after fulfilling the eligibility criteria for this migration. Moreover, the market capitalisation of the SME platform increased by 50%, from 308 crore in Oct 2013–Sep 2014 to 462 crore in Oct 2014–Sep 2015. Table 1 presents the details of the trades conducted on the EMERGE platform during the period Oct 2014–Sep 2015.

Table 1: Trading Trends in NSE's EMERGE Platform

Month-Year	No. of companies traded	Total No. of Trades	Total Traded Quantity (in lakh)	Total Traded Value (in ₹ crore)	Average trade size (in ₹ crore)	No. of trading days	Market Cap (in ₹ crore)
Oct-14	5	1,503	40	34	0.0229	11	446
Nov-14	6	253	16	6	0.0243	18	420
Dec-14	6	284	11	7	0.0232	21	429
Jan-15	6	227	4	3	0.0128	21	408
Feb-15	6	403	14	8	0.0210	20	426
Mar-15	7	717	28	17	0.0243	21	461
Apr-15	7	663	17	14	0.0205	19	396
May-15	5	470	11	8	0.0173	20	385
Jun-15	5	521	12	10	0.0184	22	385
Jul-15	6	483	9	8	0.0172	22	376
Aug-15	6	653	9	11	0.0164	21	450
Sep-15	6	311	16	9	0.0276	20	462

Table 2: Company-wise Trading Details in NSE's EMERGE Platform during Oct 2014–Sep 2015

Symbol	Total Traded Quantity (in lakh)	Total Traded Value (in ₹ crore)	Market Cap (in ₹ crore)
EMKAYTOOLS	2.38	7.91	57.80
MITCON	31.70	19.95	96.01
MOMAI	88.11	77.59	137.08
OPAL	0.32	0.35	37.62
SANCO	35.44	8.53	37.07
SIIL	9.88	6.28	34.26
THEJO	0.60	1.21	61.80
VETO	20.01	13.09	133.79

Note: Market cap is as on 30 September 2015; for Veto, the market cap is as on the last trading day in the SME segment. Since AHIMSA and SHAIVAL were listed on October 13, 2015 and October 1, 2015, respectively, they are not included in the table 2

Conclusion

India has the right demographic contours for a young and energetic entrepreneurial community, and there is increasing activity in the start-up space. Today, the success and survival of knowledge-intensive organisations depend on creativity, innovation, and discovery. There are rapid changes in the market place. To cope with these changes, there is a rapid increase in the creation of new knowledge, idea generation, and global diffusion. For any organisation to survive and grow, creativity and innovation play a significant role in this change process.

NSE is committed to creating a credible and vibrant market place to provide an alternate viable option for smaller companies to raise risk capital from informed investors who are looking for opportunities to invest early in promising companies. NSE is continuously engaged in spreading awareness about the platform among investor communities and in generating interest in the platform. NSE has also aligned its admission process to meet the expectations of sophisticated investors in order to instil confidence and to attract them to the platform.

We are still in the early days of the EMERGE experiment, but the signs are encouraging. With support from the regulators, the EMERGE platform has the potential to revolutionise the way that companies access 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% is held in monetary assets, provided that if more than 50% 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% 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.

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

- 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.
- In case the company has changed its name within the last one year, at least 50% 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% 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% 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% 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% 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% of the post-issue capital, provided that if the post-issue shareholding of the promoters is less than 20%, 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% of the post-issue capital.
- In the case of a further public offer, the promoters should contribute up to 20% of the proposed issue size or should ensure a post-issue shareholding that is up to 20% of the post-issue capital (excluding the rights issue component).
- For a composite issue, the promoters' contribution should be either 20% of the proposed issue size or 20% 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% of the net worth of the asset management company (provided that any person who holds 40% or more of the net worth of an asset management company should be deemed to be a sponsor and would be required to 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% or more of the voting rights of the share capital of the custodian or where 50% or more of the directors of the custodian represents the interests of the sponsor or its associates should act as the custodian for a mutual fund constituted by the same sponsor or any of its associates or subsidiary companies.

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

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

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

- Such limit is not applicable to investments in government securities.
- No mutual fund is allowed to invest more that 30% of its net assets in the money market instruments of an issuer (this is not applicable to investments in G-secs, T-bills, collateralised borrowing, and lending obligations).
- Further, that investment within such limit can be made in mortgage-backed securitised debts that are rated not below investment grade by a credit rating agency registered with the SEBI. A mutual fund scheme should not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer, and the total investment in such instruments should not exceed 25% of the NAV of the scheme. All such investments should be made with the prior approval of the board of trustees and the board of the AMC.

No mutual fund under all its schemes should own more than 10% of any company's paid up capital carrying voting rights.

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

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

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

Valuation of Investments

Every mutual fund is required to ensure that the AMC computes and carries out a valuation of the investments made by its schemes in accordance with the investment valuation norms specified in the Eighth Schedule of the SEBI (Mutual Funds) Regulations, 1996.

Computation of Net Asset Value

Every mutual fund is required to compute the net asset value (NAV) of each scheme by dividing the net asset of the scheme by the number of units outstanding on the valuation date. The NAV of the scheme shall be calculated on a daily basis and published in at least two daily newspapers that have circulation all over India.

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% 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% 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% 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 fulfil the prescribed criteria:

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

B. Deposit & Net worth Requirement for Corporates:

Deposit & Net worth Requirement (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
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
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.
3. 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/EligibilityCriteria

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).

Corporatisationof Brokers andSub-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 theCM 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

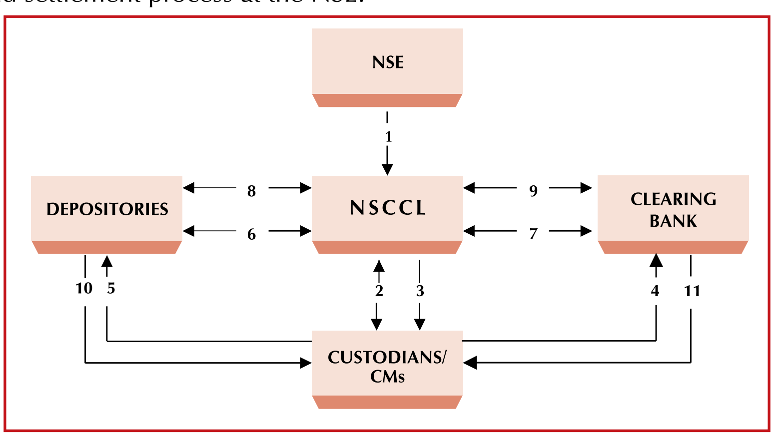
The National Exchange for Automated Trading (NEAT) is the trading system of the NSE. The NEAT facilitates an online, fully automated, nation-wide, anonymous, order-driven, screen-based trading system. In this system, a member can enter the quantities of securities and the prices at which he/she would 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% for the trigger of the mandatory open offer as against 15% that existed earlier; minimum offer size of 26%as against 20%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%, 15%, and 20%. 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% (either way) on a set of specified securities
- Daily price bands of 10% (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%.

Price bands of 20% (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	RevisedTransactionCharges (₹ per Lakh of Traded Value)
Up to the first ₹ 1250 core	₹ 3.25 each side
More than ₹ 1250 crore up to ₹ 2500 crore (on incremental volume)	₹ 3.20 each side
More than ₹ 2500 crore up to ₹ 5000 crore (on incremental volume)	₹ 3.15 each side
More than ₹ 5000 crore up to ₹ 10000 crore (on incremental volume)	₹ 3.10 each side
More than ₹ 10000 crore up to ₹ 15000 crore (on incremental volume)	₹ 3.05 each side
Exceeding ₹ 15000 crore (on incremental volume)	₹ 3.00 each side

Securities Transaction Tax (STT)

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

4. Government Securities

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

Types of Securities

Treasury Bills: Treasury bills (T-bills) are money market instruments, i.e., short-term debt instruments issued by the Government of India. T-bills are issued in three tenors—91 days, 182 days, and 364 days. T-bills are zero coupon securities and pay no interest. They are issued at a discount and are redeemed at face value on maturity.

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

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

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

Types of Dated Government Securities

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

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

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

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

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

Separate Trading of Registered Interest and Principal of Securities (STRIPS): STRIPS are instruments in which each cash flow of the fixed coupon security is converted into a separate tradable zero coupon bond and traded.[4] These cash flows are traded separately as independent securities in the secondary market. STRIPS allow investors to hold and trade the individual interest and principal components of eligible government securities as separate securities of varying tenure. They are popular with investors who want to receive a known payment on a specific future date and want to hold securities of desired maturity.

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[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% 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%, 8.20%, and so on). The bids are arranged in ascending order and the cut-off yield is the one corresponding to the notified amount of the auction. The cut-off yield is taken as the coupon rate for the security. Successful bidders are those who have bid at or below the cut-off yield. Bids that are higher than the cut-off yield are rejected.

Price-Based Auction: A price-based auction is conducted when the Government of India re-issues securities that had been issued earlier. The bidders quote in terms of price per ₹ 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% 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) 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%), 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	Optionpremium	Seller
Sale of an option in securities, where option is exercised	0.125	Settlementprice	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% 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% weightage of the index are individually eligible for derivative trading. However, no single ineligible stocks in the index should have a weightage of more than 5% in the index. This criteria is applied every month. If the index fails to meet the eligibility criteria for three months consecutively, then no fresh month contract would be issued on that index,

However, the existing unexpired contacts shall be permitted to trade till expiry and new strikes may also be introduced in the existing contracts.

Risk Management Framework

The 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%, 80%, and 90%;it generates a disablement message at 100% 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 upto 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 2015)

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		163 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% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	Operating range of 10% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	Operating range of 10% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	A contract specific price range based on its delta value is computed and updated on a daily basis

- **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% 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	3rd 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 are European styled, which can be exercised only on the expiration date.
Daily Settlement Price	Last half hour's weighted average price	Daily premium settlement
Final Settlement Price	All open positions at close of last day of trading shall be settled to the Special Opening Quotation (SOQ) of the S&P 500 Index on the date of expiry. (http://www.cmegroup.com/trading/equity-index/files/SOQ.pdf)	
Final Settlement Procedure	Final settlement will be cash settled in INR based on final settlement price.	Final settlement will be cashsettled in INR based on final settlement price. Longpositions 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 is same as applicable in 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	1.00	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	3rd Friday of the respective contract month. In case 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) LSE	
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 is same as applicable in 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	Asin the equity derivative segment
Expiry Date	3rd Fridayof 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 cashsettled 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 12.30 p.m			
Final Settlement Day		Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for interbank settlements in Mumbai.			
Quantity Freeze		10,001 or greater			
Base Price		Theoretical price on the first day of the contract; on all other days, daily settlement price (DSP) of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract	Theoretical price on the first day of the contract;on all other days, DSP of the contract
Price Operating Range	**Tenure up to 6 months**	+/-3% of base price			
	Tenure greater than 6 months	+/- 5% of base price			
Position Limits	**Clients**	Lower of 6% of the total open interest or USD 10 million	Higher of 6% of the total open interest or Euro 5 million	Higher of 6% of the total open interest or GBP 5 million	Higher of 6% of the total open interest or JPY 200 million
	Trading Members	Lower of 15% of the total open interest or USD 50 million	Higher of 15% of the total open interest or Euro 25 million	Higher of 15% of the total open interest or GBP 25 million	Higher of 15% of the total open interest or JPY 1000 million
	Banks	Lower of 15% of the total open interest or USD 100 million	Higher of 15% of the total open interest or Euro 50 million	Higher of 15% of the total open interest or GBP 50 million	Higher of 15% of the total open interest or JPY 2000 million

Symbol	USD-INR	EUR-INR	GBP-INR	JPY-INR
Initial Margin	SPAN-based margin			
Extreme Loss Margin	1% of MTM value of the gross open position	0.3% of MTM value of the gross open position	0.5% of MTM value of the gross open position	0.7% of MTM value of the gross open position
Calendar Spreads	₹ 400 for spread of 1 month	₹ 700 for spread of 1 month	₹ 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% (₹ 0.05 per lakh of turnover) on each side.

Contract Specifications for Currency Options

<table>
<tr><td>Symbol</td><td colspan="2">USD–INR</td></tr>
<tr><td>Market Type</td><td colspan="2">Normal</td></tr>
<tr><td>Option Type</td><td colspan="2">Premium-style European call &put options</td></tr>
<tr><td>Premium</td><td colspan="2">Premium quoted in Indian Rupees</td></tr>
<tr><td>Unit of Trading</td><td colspan="2">1 contract unit denotes USD 1000</td></tr>
<tr><td>Underlying/Order Quotation</td><td colspan="2">The exchange rate in Indian Rupees for US Dollars</td></tr>
<tr><td>Tick Size</td><td colspan="2">0.25 paise (i.e. 0.0025)</td></tr>
<tr><td>Trading Hours</td><td colspan="2">Monday to Friday, 9:00 a.m. to 5:00 p.m.</td></tr>
<tr><td>Contract Trading Cycle</td><td colspan="2">3 serial monthly contracts followed by 1 quarterly contract of the cycle March-June–September–December</td></tr>
<tr><td>Strike Price</td><td colspan="2">12 in-the-money, 12 out-of-the-money, and 1 near-the-money (25 CE and 25 PE)</td></tr>
<tr><td>Strike Price Intervals</td><td colspan="2">0.25</td></tr>
<tr><td>Price Operating Range</td><td colspan="2">A contract-specific price range based on its delta value is computed and updated on a daily basis.</td></tr>
<tr><td>Quantity Freeze</td><td colspan="2">10,001 or greater</td></tr>
<tr><td>Base Price</td><td colspan="2">Theoretical price on the first day of the contract; on all other days, DSP of the contract</td></tr>
<tr><td>Expiry/Last Trading Day</td><td colspan="2">Two working days prior to the last business day of the expiry month at 12 noon</td></tr>
<tr><td>Exercise at Expiry</td><td colspan="2">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.</td></tr>
<tr><td>Final Settlement Day</td><td colspan="2">Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for interbank settlements in Mumbai.</td></tr>
<tr><td rowspan="4">Position Limits</td><td colspan="2">The gross open positions across all contracts (both futures and options) shall not exceed the following:</td></tr>
<tr><td>Clients</td><td>Lower of 6%of total open interest or USD 10 million</td></tr>
<tr><td>Trading Members</td><td>Higher of 15%of the total open interest or USD 50 million</td></tr>
<tr><td>Banks</td><td>Lower of 15% of the total open interest or USD 100 million</td></tr>
<tr><td>Initial Margin</td><td colspan="2">SPAN-based margin</td></tr>
<tr><td>Extreme Loss Margin</td><td colspan="2">1.5% of the notional value of open short position</td></tr>
<tr><td>Settlement of Premium</td><td colspan="2">Premium to be paid by the buyer in cash on T+1 day</td></tr>
<tr><td>Settlement</td><td colspan="2">Daily settlement: T+1
Final settlement: T+2</td></tr>
<tr><td>Mode of Settlement</td><td colspan="2">Cash settled in Indian Rupees</td></tr>
<tr><td>Final Settlement Price (FSP)</td><td colspan="2">RBI reference rate on the date of the expiry of the contract</td></tr>
</table>

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% Central Government Security having maturity on July 28, 2024 shall be denoted as 840GS2024	
Underlying	Futures contracts based on 8.40% Central Government Security having maturity on July 28, 2024	Futures contracts based on 7.72% Central Government Security having maturity on May 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 followed by three quarterly contracts of the cycle March / June / September / December	
Spread Contract	Near-Mid, Near-Far & Mid-Far All spread orders shall be placed in terms of price difference only.	
Last trading day	Last Thursday of the month. In case the last Thursday is a trading holiday, the previous trading day shall be the expiry/last trading day	
Quantity Freeze	1251 lots or greater i.e. orders having quantity up to 1250 lots shall be allowed.	
Base price	Theoretical future price of the 1st day of the contract. On all other days, daily settlement price of the contract.	
Price operating range	+/-3 % of the base price (Whenever a trade in any contract is executed at the highest/lowest price of the band, Exchange may expand the price band for that contract by 0.5% in that direction after 30 minutes after taking into account market trend. Price band may be relaxed only 2 times during the day)	
Daily Settlement	Daily MTM settlement on T+1 in cash based on daily settlement price	
Final Settlement	Final settlement on T+1 day in cash based on final settlement price	
Daily Settlement Price	Volume Weighted Average Futures Price of last half an hour or Theoretical price	
Final Settlement Price	Weighted average price of the underlying bond based on the prices during the last two hours of the trading on NDS-OM. If less than 5 trades are executed in the underlying bond during the last two hours of trading, then FIMMDA price shall be used for final settlement	

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

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.INR 0.0025)	
Trading Hours	Monday to Friday, 9:00 a.m. to 5:00 p.m.	
Contract Trading Cycle	3 serial monthly contracts followed by 1 quarterly contracts of the cycle March-June-September-December	
Last Trading Day	Last Wednesday of the expiry month at 1:00 pm. In case the last Wednesday of the month is a designated holiday, the expiry day would be the previous working day.	
Price Quotation	100 minus futures discount yield e.g. for a futures discount yield of 5%p.a., the quote shall be 100 - 5 = 95	
Contract Value	2000 * (100 - 0.25 * *y*), where *y* is the futures discount yield e.g. for a futures discount yield of 5% p.a. the contract value shall be 2000 * (100 - 0.25 * 5) = ₹ 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%of the base price	
Position Limits	**Clients**	6% of total open interest or ₹ 300 crore, whichever is higher
	Trading	15% of the total open interest or ₹ 1000 crore whichever is higher
Initial Margin	SPAN® (Standard Portfolio Analysis of Risk) based subject to a minimum of 0.1% of the notional value of the contract on the first day and 0.05% of the notional value of the contract thereafter.	
Extreme Loss Margin	0.03% of the notional value of the contract for all gross open positions	
Settlement	**Daily settlement MTM:** T+1 in cash **Delivery settlement:** Last business day of the expiry month	
Daily Settlement Price & Value	₹ (100 - 0.25 * *yw*), where *yw* is the weighted average futures yield of the trades during the time limit as prescribed by the NSCCL. In the absence of trading in the prescribed time limit, theoretical futures yield shall be considered.	
Daily Contract Settlement Value	2000 * daily settlement price	
Final Contract Settlement Value	2000 * (100 - 0.25 * *yf*) where *yf* is the weighted average discount yield obtained from weekly auction of 91-day T-Bills conducted by the RBI on the day of expiry	
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% of the shares or units of the fund. If the fund has an institutional investor who holds more than 49% of the shares or units of the fund, then such an institutional investor must itself be a broad based fund.

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

Know Your Client Norms -FPI					
	Document Type	**Category -I**	**Category -II**	**Category -III**	**Erstwhile KYC requirement**
Entity Level	Constitutive Docs	Required	Required	Required	Required
	Proof of Address	Power of Attorney mentioning address is acceptable	Power of Attorney mentioning address is acceptable	Power of Attorney mentioning address is acceptable	Required
	PAN Card	Required	Required	Required	Required
	Financials	*Exempt	*Exempt	Risk Based-Financial data sufficient	Required (Exempt for SWFs)
	Board Resolution to invest in india	*Exempt	Required	Required	Not Required
	Uniform Know Your Client (KYC) Form	Required	Required	Required	Required
Senior Management (Whole Time Directors/ Partners/ Trustees/etc)	List of personnel	Required	Required	Required	Required
	Proof of identity	*Exempt	*Exempt	Entity declares on letterhead -Full name, nationality and Date of Birth or Proof of Identity	Required
	Proof of Address	*Exempt	*Exempt	Declaration on Letter Head	Required
	Photographs	*Exempt	*Exempt	*Exempt	Required
Authorized Signatories	List & Signatures	Required	Required	Required	Required
	Proof of identity	*Exempt	*Exempt	Required	Not Required
	Proof of Address	*Exempt	*Exempt	Declaration on Letter Head	Not Required
	Photographs	*Exempt	*Exempt	*Exempt	Only photograph of signer on the KYC form is required in page 1
Ultimate Beneficial Owner (UBO)	List	*Exempt	Required (Can declare no UBO over 25%)	Required	Required (Exempt for SWFs)
	Proof of identity	*Exempt	*Exempt	Required	Not Required
	Proof of Address	*Exempt	*Exempt	Declaration on Letter Head	Not Required
	Photographs	*Exempt	*Exempt	*Exempt	Not Required

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% 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 USD 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 USD 3000 and USD 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% of the investible funds should be invested in unlisted equity shares or equity-linked instruments of venture capital undertakings or the investee company as defined in the SEBI Alternative Investment Funds Regulations (AIF), 2012.

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

      - Subscription to an Initial Public Offer (IPO) of a venture capital undertaking (VCU) or investee company as defined in the SEBI AIF Regulations, 2012, whose shares are proposed to be listed.
      - Debt or debt instruments of a VCU or investee company as defined in the SEBI AIF Regulations, 2012, in which the FVCI has already made an investment by way of equity.
      - Preferential allotment of equity shares of a listed company subject to lock-inperiod 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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