A Review

Indian Securities Market

Volume XIX 2016

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

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NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Indian Securities Market
A Review

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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

A.1 Introduction

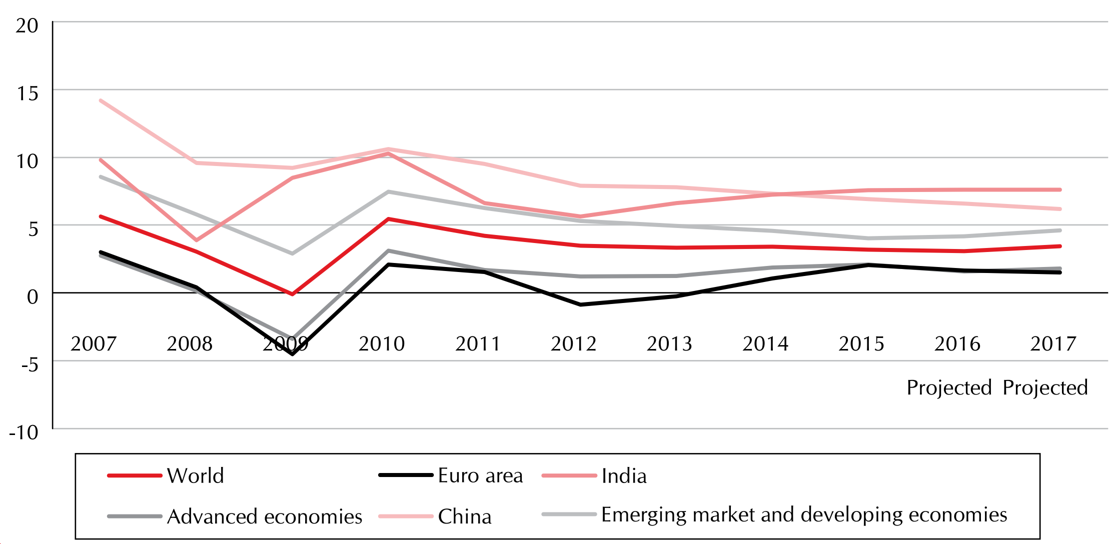
A.1.1 Global Macroeconomic Environment

A.1.1.1 Output Growth

In 2015, the global economy weakened owing to feeble aggregate demand, a precipitous fall in commodity prices (particularly, oil prices) and volatile financial markets. In case of advanced economies, the growth rates in 2015 were more or less stagnant - particularly in case of the United States, Japan and a few other advanced Asian economies. Although the growth rates of the emerging economies were also fairly ordinary, there was considerable intra-group variation among the emerging nations. While high growth rates were observed in case of China and most emerging Asian economies, Brazil, Russia, and a number of other commodity exporters were unfavourably impacted by the severe macroeconomic conditions prevalent in those countries.

Global growth picked up modestly in the second half of 2016, after weakening in the first half. The growth in advanced economies—albeit hesitant—was led by a rebound in the US. As regards the emerging markets, the policy stimulus in China and some easing of stress in the larger commodity exporters shored up the momentum.

Chart 1.1: IMF's Global GDP Growth Projections for 2016 and 2017



Source: World Economic Outlook Database, October 2016

According to the IMF's World Economic Outlook (October, 2016), the subdued growth in the global economy in 2016 is expected to give way to a gradual recovery in 2017. Moving forward, the risks to global growth would mainly pertain to the new shocks such as election of Mr. Donald Trump (as the President of the USA) and Brexit; on-going realignments (for instance, rebalancing in China); financial market volatility; as well as slow-moving trends with regards to demographics and the evolution of productivity growth. The reason why Mr. Trump's election is of major consequence to the world economy relates to his party's leanings toward stricter immigration policies, opposition to international trade agreements (on the grounds that they might hurt American workers by moving jobs offshore) and the attitude towards tackling of global warming (for instance, plan to scrap the Paris Agreement).

In addition to the risks outlined above, certain non-economic factors, such as geopolitical tensions and political uncertainty may also pose a hindrance towards faster recovery of the global economy.

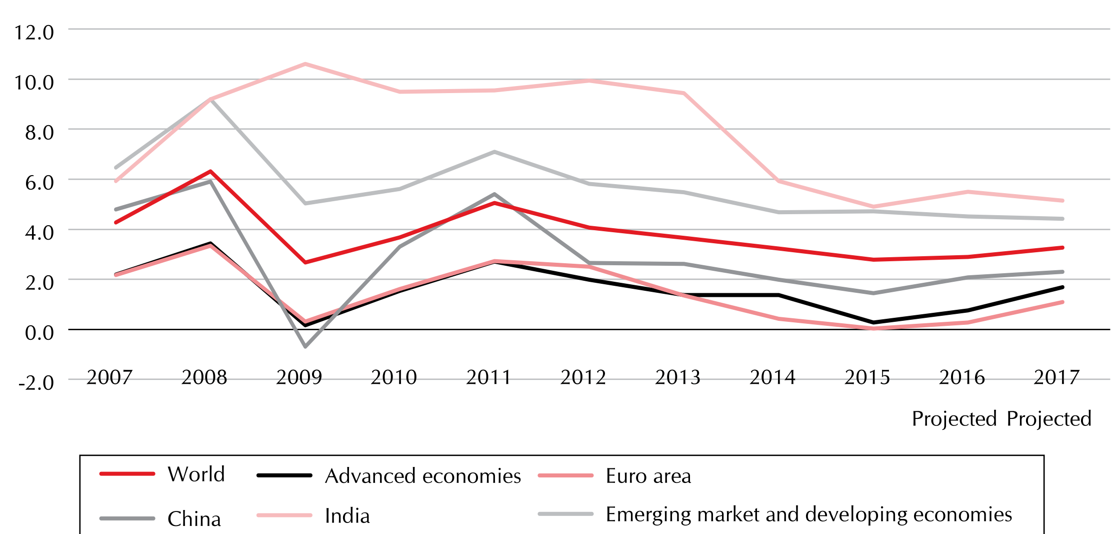
A.1.1.2 Inflation

According to the WEO (October, 2016), inflation in advanced economies is expected to rise, albeit marginally, to about 0.8 per cent in 2016, owing to a pick-up in the oil prices. In contrast, the inflation in emerging economies is expected to soften in the coming years, reflecting the waning effect of earlier currency depreciations (see Chart 1.2).

The headline inflation rate in 2015 in advanced economies stood at 0.3 per cent on average, the lowest since the global financial crisis of 2007-2008, resulting mostly from a sharp decline in commodity prices. Core inflation remained largely stable at 1.6–1.7 per cent, well below the central bank targets of the advanced economies. In case of emerging countries, lower prices for oil and other commodities contributed towards a reduction in inflation. However, in case of both advanced and emerging economies, there was intra-group diversity with regards to inflation rates.

In 2015, while the inflation in the United States, euro area and the United Kingdom picked up, it remained rather subdued in case of most other advanced economies. The within-group variation was sharper in the case of emerging economies. In some emerging economies such as Brazil, Colombia, and Russia, large currency depreciations more than offset the effect of lower commodity prices, and as a result, inflation rose sharply. An extreme case in this respect is Venezuela which has been witnessing a continuous and sharp increase in the inflation rates since 2013, with inflation touching a record high of 180.9 per cent in 2015 (Source: Venezuela's Central Bank).

Chart 1.2: IMF's Global Inflation Projections for 2016 and 2017



Source: World Economic Database, October 2016

Box 1.1: Major global developments of 2015-16

1. *Fed rate hike*: After about seven years of the most accommodative monetary policy in the history of United States of America, the Federal Reserve Bank raised the target Fed funds rate by a quarter point in December 2015 from an earlier range of 0 - 0.25 per cent to 0.25 - 0.5 per cent. In December 2016, the Fed hiked the target funds rate again by a quarter point; at present, the target range of the rate has been set at 0.5 - 0.75 per cent.
2. *Fourteenth Quota Reform*: A quota with the International Monetary Fund (IMF) is the central point with regards to a member country's financial as well as organisational relationship with the IMF. The quota determines the voting share of a member country, the amount that the member needs to give to the IMF and the amount of loan that a country can avail from the IMF. The Fourteenth quota reform came into effect from January 27, 2016. While the proposal for the reform was passed in the year 2010, it awaited the approval of the United States (US) Congress, which the IMF finally received in 2015. The quota reforms paved the way for more voting rights for the emerging economies, with India, China, Brazil and Russia becoming four of the ten largest members in the IMF with regard to voting share, the six other largest members being US, Japan, France, Germany, Italy and the United Kingdom.
3. *Brexit*: On June 23, 2016, in a historic move, the British citizens voted to exit the European Union. This event, in common parlance, has come to be known as the 'Brexit', which is a combination of the words 'Britain' and 'exit'. The event sent major shockwaves across the globe, entailing uncertainty with regard to stability of the global economy. In the aftermath of the event, the British Pound fell drastically and continues to remain low.
4. *Trans Pacific Partnership*: The proposal of the Trans-Pacific Partnership (TPP), a trade agreement among twelve of the Pacific Rim countries, was signed on 4 February 2016 in Auckland, New Zealand, bringing to a close about seven years of negotiations. The pact intends to strengthen economic ties between these nations, slashing tariffs and fostering trade to boost economic growth. At present, the agreement is awaiting ratification by the member countries in order to come into full force.
5. *Inclusion of yuan in SDR*: On October 1, 2016, the Chinese currency yuan (or remnibi) was added to the Special Drawing Rights (SDR), IMF's basket of reserve currencies created in the year 1969. The executive board of the IMF that represents the Fund's 189 member nations, arrived at the decision that the yuan is able to meet the standard of being freely usable and hence, is eligible to join the dollar, euro, yen and pound in the SDR basket. This is the first change in the composition of SDR since the year 1999 when euro replaced the Deutsche marc and the French franc. The weightings of the reserve currencies in the new basket are as follows: US dollar (41.73 per cent), euro (30.93 per cent), yuan (10.92 per cent), yen (8.33 per cent) and pound sterling (8.09 per cent).
6. *The Chinese stock market crash*: In the few years leading up to 2015, the Chinese stock market was considered a relatively safe haven for investors, a promising new area of financial growth. The market, however, crashed on June 12, 2015. The root cause of the turmoil was that during the year prior to the crash, enthusiastic investors poured more and more in Chinese stocks, despite slow economic growth and weak company profits. As a result, a bubble developed in the Chinese stock market, which eventually burst.. In reaction to the crash, the Chinese government reacted rather swiftly -- giving money to brokerages to buy stocks, ordering company executives to not sell their shares, suspending the listing of new companies and slashing the interest rates to a record low. However, in spite of all the efforts by the government to salvage the situation, major aftershocks were felt on July 27, 2015 and August 24, 2015 (both labelled as Black Mondays). In addition, slumps occurred on January 4 and 7, 2016, respectively. The market has since recovered, but remains much below the pre-crash level.
7. *Crash in oil prices*: Between June 2014 and January 2016, oil prices nosedived by a staggering 73 per cent. Several reasons could be attributed to the sharp decline in crude oil prices:
   i. Lifting of economic sanctions against Iran in June 2015;
   ii. Organization of the Petroleum Exporting Countries' (OPEC) decision in December 2014 to maintain the prevailing production level despite a sharp fall in prices;
   iii. Steady rise in oil production from non-OPEC countries, especially the US; and
   iv. Sluggish growth in the global economy.

   From February 2016 onwards, however, there has been a gradual reversal of the trend and the oil prices have now become relatively more stable.
8. *US presidential elections, 2016*: The 45th United States presidential elections were held on November 8, 2016. In a closely contested race, the Republican candidate, Mr. Donald Trump emerged triumphant, and he took office as the president of the US on January 20, 2017.

9. *G-20 Summit*: The 2016 Group of Twenty (G20) Summit was held in Hangzhou, China during September 4-5, 2016 to discuss efforts to reform global economic governance. The main themes of the summit are summarised as follows:
    i. Fight against tax evasion and work towards a globally fair and modern international tax system
    ii. Favour international trade and investments and opposition to protectionism.
    iii. Fiscal stimulus and innovation to achieve the collective goal of strong, sustainable, balanced and inclusive growth
    iv. Combating 'populist backlash' against globalisation.
    v. Strengthening humanitarian assistance for refugees.

A.1.2 Macroeconomic Environment in India

Even against the backdrop of a global economy struggling to find grip, the Indian economy enjoyed a relatively high degree of stability on the macroeconomic front in 2015-16 and in the current financial year so far. It is widely believed that macroeconomic stability is an essential prerequisite for sustaining a high growth trajectory. Improved macroeconomic stability in recent years is evidenced by the following facts:

i. On the domestic front, the inflation rate has been kept more or less in check. The fiscal deficit, another indicator of macroeconomic stability, has also been experiencing gradual improvement over the last few years.

ii. On the external front, factors such as current account deficit and external debt have been contained well within the limits of external sustainability in the last few years. The exchange rate has also remained more or less stable, and has not exhibited violent fluctuations in the recent years. India's import cover, an important indicator of the stability of the currency, has also been on a gradual and steady rise in the recent years; according to the latest available data, India's import cover stands at a robust 12 months as at the end of September 2016.

However, some important risks remain. One worrying factor relates to the deteriorating banking sector health. One of the major issues plaguing the Indian banking system, particularly the public sector banks, is the growing proportion of non-productive assets (NPAs). Another area of concern relates to the sluggish growth of investment in the economy – while the private corporate investment has remained rather subdued, public investment has been slow in rolling out in some sectors.

A.1.2.1 Economic Growth

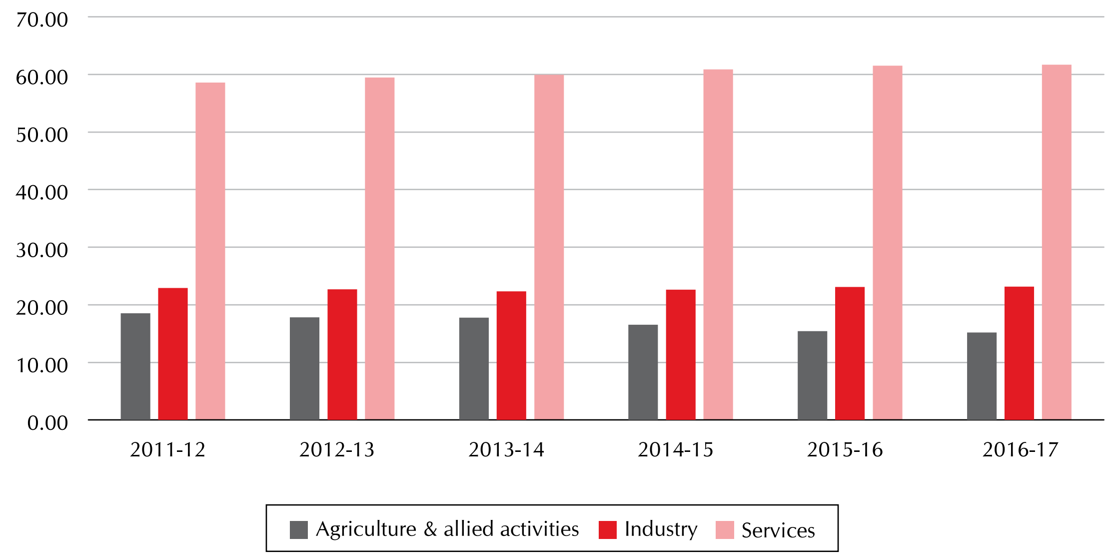
India emerged as the fastest growing major economy globally in 2015-16. The recovery of the Indian economy continued in 2015-16 with Gross Value Added (GVA) at basic prices growing by about 7.9 per cent, thus registering a slight upturn from the previous year (7.2 per cent). The Indian economy has continued to witness steady growth in the year 2016-2017 as well – the growth rates of GVA at basic prices in 2016-2017 is projected at 6.6 per cent. In this context, it would be useful to examine the relative contribution of the three major sectors of the economy: agriculture, industry and services.

GVA from agriculture and allied activities recorded a modest growth (0.7 %) in 2015-2016, on the back of a contraction in the previous year (-0.2 %). Thus, to some extent, the growth in 2015-16 can be attributed to favourable base effect. Even so, this humble growth is a rather encouraging sign for the economy, since it came in spite of yet another sub-normal monsoon year. Owing to a normal monsoon this fiscal (2016-17) and its timely onset, agricultural growth has begun to gather momentum; in the first half of 2016-17, the agricultural sector is expected to grow at 4.9 per cent in 2016-17.

In 2015-16, while agriculture registered modest growth, the industrial sector witnessed an upsurge, with the GVA in basic prices in the industrial sector rising by 10.2 % as compared to 8.6% in the previous year (see Chart 1.4). As a result, the contribution of industry to GVA rose marginally in 2015-16 (see Chart 1.3). During 2016-17, the industrial sector is expected to grow merely at 7 per cent.

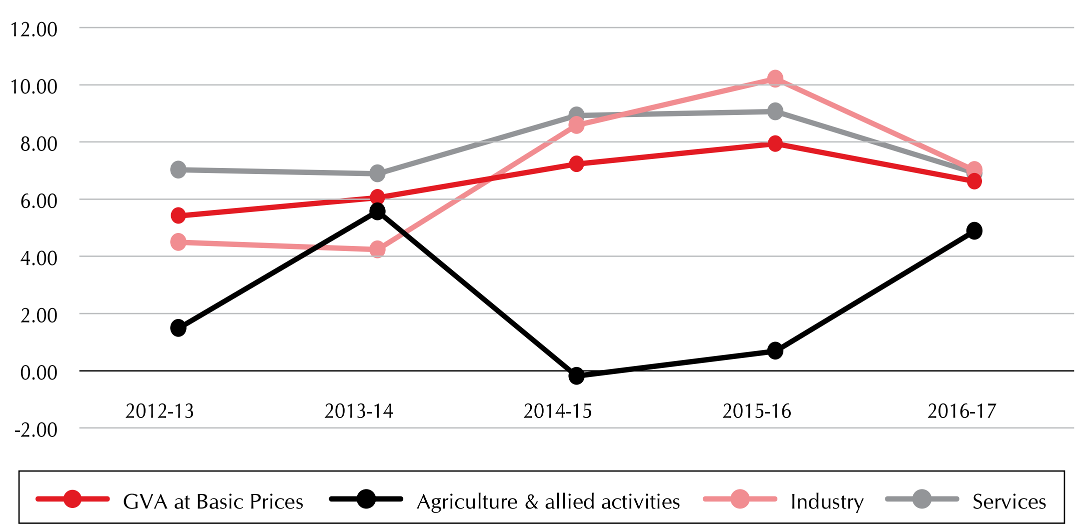
The growth in services sector witnessed a slight increase in 2015-16 (9.1 %) as compared to the previous year (8.9 %) (Chart 1.4). In terms of contribution to GVA, the rising trend that the services sector exhibited in the earlier years continued in 2015-16 as well (see Chart 1.3). During 2016-17, the services sector is projected a slowdown in growth rate to 6.9 % which will contribute around 61.7 % to total GVA.

Chart 1.3: Share of GVA at basic prices (%) (Base Year 2011-12)



Source: Reserve Bank of India.
Note: Data for 2012-13, 2013-14 are Third Revised Estimates (New Series), for 2014-15 are Second Revised Estimates, for 2015-16 are First Revised Estimates and for 2016-17 are Provisional Estimates.
Data for the base year 2011-12 has been revised on account of using new series of IIP and WPI.

Chart 1.4: Annual growth rate (per cent) (Base Year 2011-12)



Source: Reserve Bank of India
Note: Same as Chart 1.3.

As the year 2016-17 progressed, it was expected that the economic growth would accelerate on the back of normal monsoon together with the implementation of the recommendations of the seventh pay commission, both of which were expected to have a favourable impact on economic growth, through a boost in consumption demand.

In line with these expectations, during the first half of 2016-17, the Indian economy exhibited strong growth, with GVA at basic prices growing by about 7.2 per cent (y-o-y). However, the recent event of demonetisation, which was announced on November 8, 2016, is expected to adversely impact the growth prospects of the country. The growth forecast for 2016-17 has already been revised downwards. In its most recent (fifth) bi-monthly monetary policy report, RBI has lowered the growth forecast for India from 7.6 per cent to 7.1 per cent for 2016-17. Fitch and the World Bank have also cut the forecast by similar amount recently.

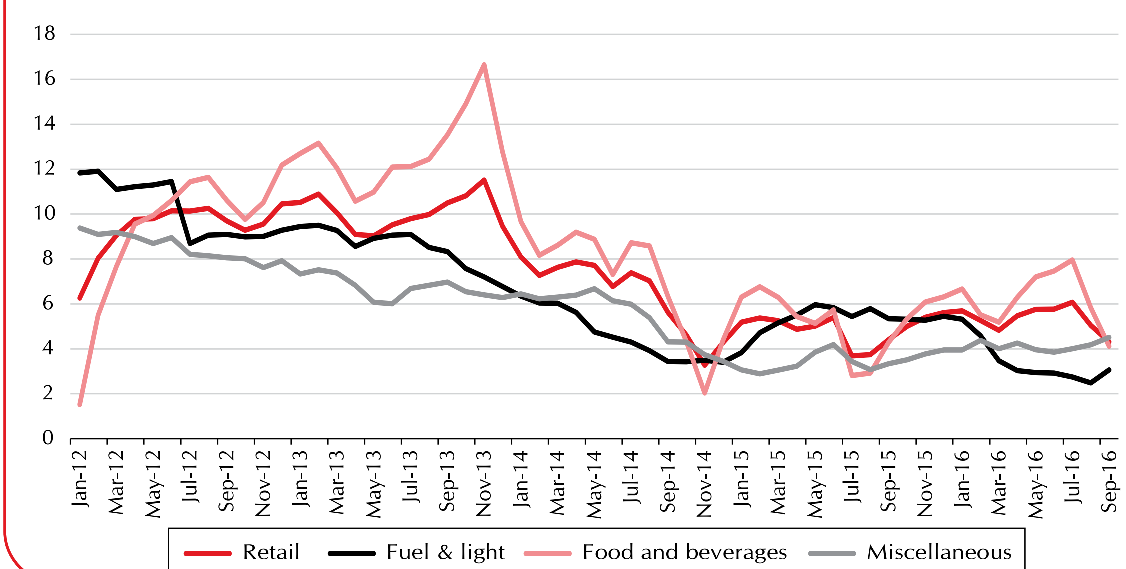
The effects of demonetisation are expected to manifest itself through two major channels: (a) short-run disruptions in economic activity in cash-intensive sectors (eg., retail trade, hotels & restaurants and transportation), and in the informal sector; (b) compression of aggregate demand associated with adverse wealth effects. While the impact through the second channel is likely to be limited, the impact through the first channel would ebb with the progressive increase in the circulation of new currency notes and greater usage of non-cash based payment instruments in the economy.

A.1.2.2 Inflation

The year 2015-16 saw the Indian economy experiencing fair amount of fluctuation in retail inflation (consumer price inflation), particularly during the second half of the year. The year 2016-17 began on a rather shaky note with inflation surging rapidly during the first quarter. However, the inflation rate has witnessed a steady decline from the second quarter of 2016-17 onwards.

During the early months of 2015-16, the retail inflation in India was generally on the lower side, touching an intra-year low of 3.7 per cent in July, 2015. From September 2015 onwards, inflation continued to rise till January 2016, owing mainly to an increase in inflation of food items, particularly pulses. During the subsequent couple of months, inflation subsided with a fall in the prices of pulses as well as fuels. Beginning April 2016, however, there occurred a reversal of tide. A sharper than anticipated upsurge in the prices of food items (primarily, vegetables) and a rise in global crude oil prices led to a spurt in inflation; this trend continued till July 2016 when both general inflation as well as food inflation recorded a 23-month high each. From August 2016 onwards, retail inflation has declined persistently partly owing to the timely onset of monsoon and its impact on food prices. According to the most recent available data (November 2016), retail inflation has dipped to a 2-year low of 3.6 per cent partly on account of the effect of demonetisation on consumption demand.

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



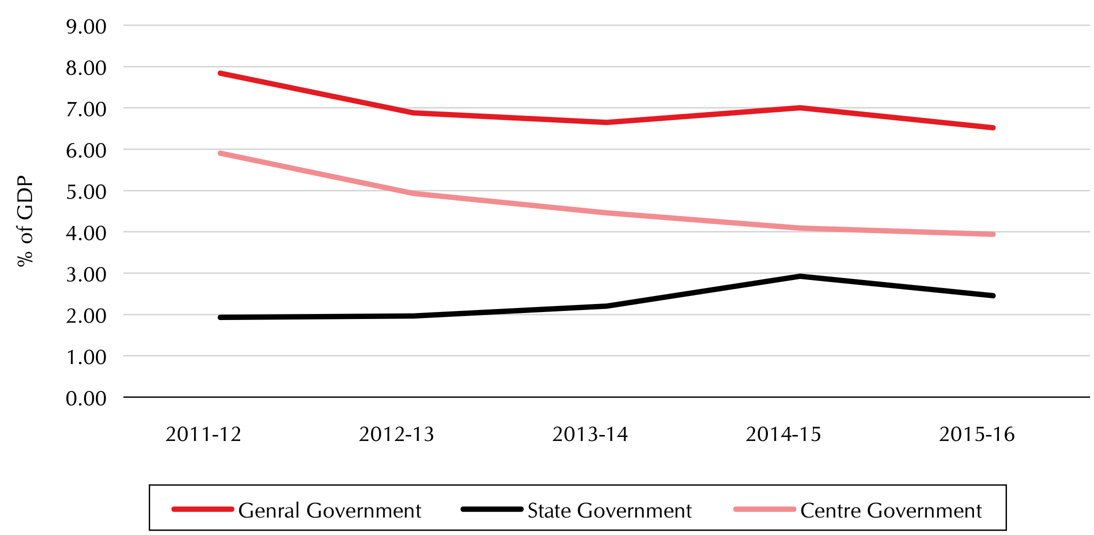
Source: CMIE

A.1.2.3 Fiscal scenario

On the fiscal front, the fiscal performance of both central and state governments in 2015-2016 was highly satisfactory as compared to the previous year, with gross fiscal deficit (GFD) as a per cent of GDP for the general government (centre plus states) standing at 6.5 per cent, well below the previous year's GFD-GDP ratio of 7.2 per cent (see Chart 1.6).

Performance was also better as compared to the target, albeit marginally. For the states, the actual GFD-GDP ratio in 2015-16 was 2.5 per cent, which was slightly higher than the target of 2.4 per cent. While the capital account remained more or less stable, it was the revenue account that saw some deterioration owing to a decline in both tax and non-tax revenues. Similarly, the centre's finances witnessed an improvement in 2015-2016 and the Central Government could achieve its targeted GFD-GDP ratio of 3.9 percent.

Chart 1.6: Gross Fiscal Deficit (per cent of GDP)



Source: Reserve Bank of India

The trends of the fiscal indicators of the Centre and the State have been provided as follows:

Table 1.1: Key fiscal indicators of the Centre (percent of GDP)

Financial Year	Gross Fiscal Deficit	Primary Deficit	Revenue Deficit
2011-12	5.9	2.8	4.5
2012-13	4.9	1.8	3.7
2013-14	4.5	1.1	3.2
2014-15	4.1	0.9	2.9
2015-16	3.9	0.7	2.5
2016-17 (RE)	3.5	0.3	2.1
2017-18 (BE)	3.2	0.1	1.9

Source: Reserve Bank of India
RE: Revised Estimates
BE: Budget Estimates

Table 1.2: Key fiscal indicators of the States (percent of GDP)

Financial Year	Gross Fiscal Deficit	Primary Deficit	Revenue Deficit
2011-12	1.9	0.4	-0.3
2012-13	2.0	0.5	-0.2
2013-14	2.2	0.7	0.1
2014-15 (RE)	2.9	1.4	0.2
2015-16 (BE)	2.5	0.8	-0.4

Source: Reserve Bank of India
RE: Revised Estimates
BE: Budget Estimates

The GFD-GDP ratio for state governments for 2015-16 is budgeted at 2.5 per cent. The revenue account of the states is expected to switch from a surplus to a deficit mode. However, improvements in the fiscal position are contingent upon budgeted higher tax revenues and lower development expenditure.

In 2016-17, the Union government constituted a five member committee with the objective of comprehensively reviewing and evaluating the FRBM Act, 2003 to pave the way forward for fiscal consolidation and prudence. The committee is yet to submit its report.

A.1.2.4 External sector

India's external sector also registered a decent performance in 2015-16. External debt as a percentage of GDP remained broadly unchanged at 23.8 % at end-March 2016. Further, the share of long-term external debt in total external debt grew marginally from 82.0 per cent at end-March 2015 to 82.8 per cent at end-March 2016. In terms of composition, commercial borrowings and NRI deposits continued to be the major constituents of long term debt with shares of 37.3 per cent and 26.1 per cent respectively, at end-March 2016. However, the increase in long-term external debt during the year could be attributed to a rise in NRI deposits, which in turn was a consequence of a rise in NR(E)RA and FCNR(B) deposits. As per the latest available data, India's external debt stock stood at US$ 484.3 billion at end-September 2016, recording a decline of US$ 0.8 billion (0.2 per cent) over the level at end-March 2016. The fall in external debt during the period was primarily due to commercial borrowings and short term external debt.

Table 1.3: India's Key External Debt Indicators

Financial Year	External Debt (US $ billion)	External Debt-GDP ratio	Short Term Debt to Total Debt	Long Term Debt to Total Debt
2011-12	360.8	21.1	21.7	78.3
2012-13	409.4	22.4	23.6	76.4
2013-14	446.2	23.8	20.5	79.5
2014-15 (PR)	475.0	23.8	18.0	82.0
2015-16 (QE)	485.6	23.7	17.2	82.8
2016-17: H1	484.3	-	16.8	83.2

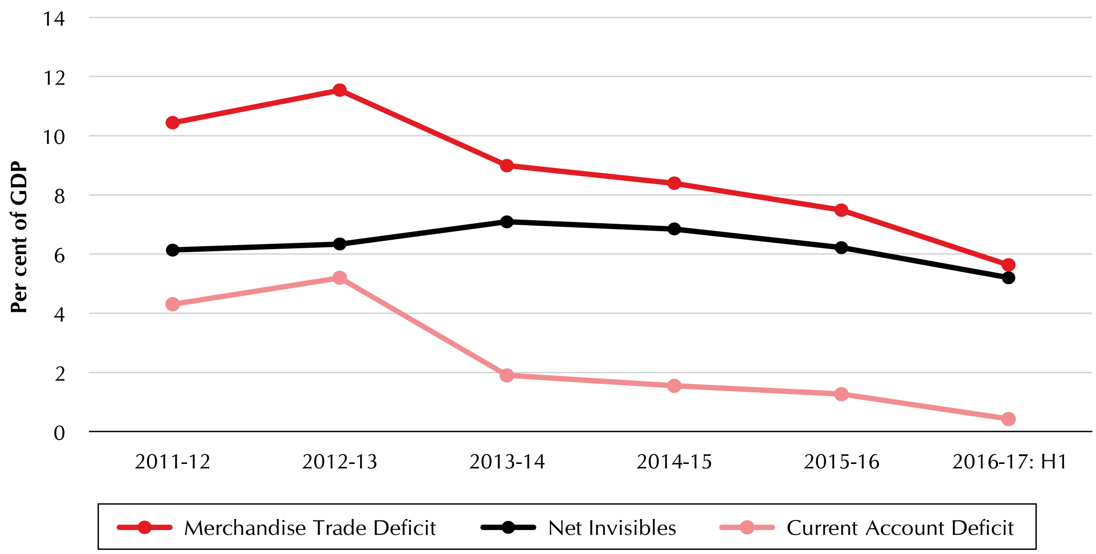
Source: Ministry of Finance
PR: Partially revised; QE: Quick estimates

As regards the balance of payments, India continued to witness steady improvement in 2015-16. Although the balance on net invisibles account registered a decline, the sharp fall in merchandise trade deficit led to the narrowing of the current account deficit (CAD)[1] from 1.3 per cent of GDP in 2014-15 to 1.1 per cent in 2015-16 - the lowest it has been

[1] Current account balance = Balance on merchandise trade account + Balance on net invisibles account

since 2007-08. It is rather remarkable that since 2013-14, CAD has been contained well within the limits of external sustainability, assisted mainly by a fall in gold imports and favourable terms of trade. According to the latest available data, CAD has further collapsed to about 0.4 per cent of GDP in the first half of 2016-17.

Chart 1.7: Current Account Deficit and its Components (per cent of GDP)



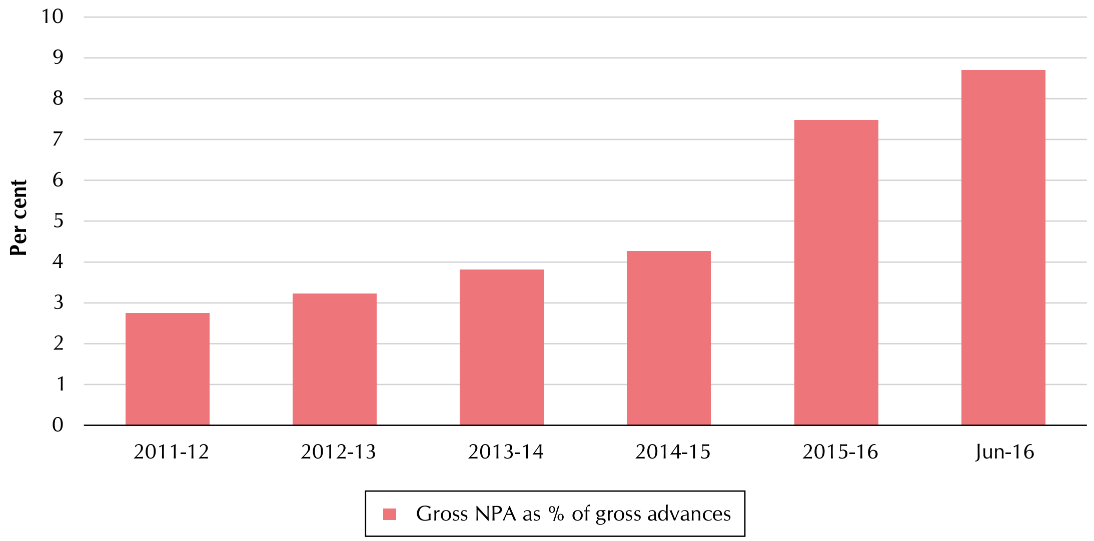
Source: Reserve Bank of India

A.1.2.5 Banking sector

Across the world, banking sector health is considered to be crucial for the overall well-being of an economy; banks play a pivotal role as a source of finance for various sectors of an economy. In emerging economies such as India banks do not just act as the agents of financial intermediation, they also carry the additional responsibility of fulfilling the government's social agenda.

In 2015-16, the health of the Indian banking sector deteriorated, as reflected in the non-productive assets (NPAs) of banks. A high level of NPAs not just adversely impacts the profitability and net worth of banks, but also results in raising the lending rates. In the past few years, growing NPAs have been a major cause of concern with regards to banks in India. Several reasons may be cited for such an occurrence – inadequate loan monitoring by banks, aggressive lending practices by banks, loan frauds and corruption, etc. Chart 1.8 depicts the NPAs for the Indian banking sector over time. Evidently, growing NPAs is not a new problem for the Indian economy. However, in 2015-16, the NPAs of Indian banks surged rather sharply.

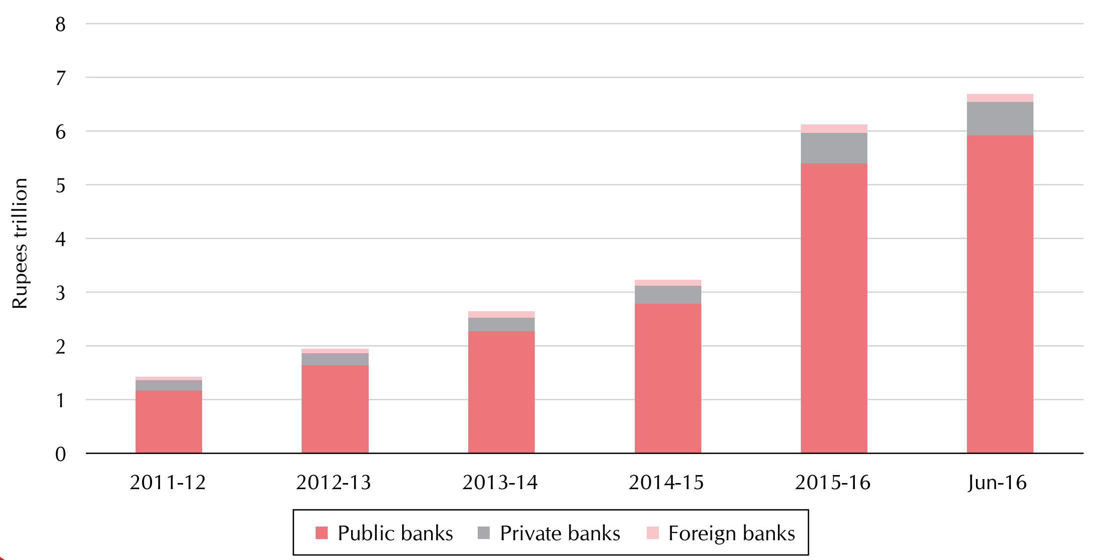
Chart 1.8: Non-productive assets (NPAs) for the Indian banking sector (end of period)



Source: CMIE

Chart 1.9 reveals clearly that the biggest contributors to the surge in NPAs in recent years were the public sector banks (PSBs).

Chart 1.9: Classification of NPAs – Bank group wise



Source: CMIE

The high NPAs have resulted in the PSBs coming under severe pressure. The government on its part has taken specific measures for sectors where the incidence of NPA is high. To improve the resolution or recovery of bank loans, Insolvency and Bankruptcy code has been enacted and SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) Act and RDDBFI (Recovery of Debts due to Banks and Financial Institutions) have been amended. Further, six new Debt Recovery Tribunals (DRTs) have been established for improving the recovery of loans. It remains to be seen if these measures are able to tackle the issue of rising NPAs in the Indian banking sector.

Box 1.2: Reform Initiatives and Policy Measures

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

1. *GST Bill*: In a path-breaking development, the Constitutional Amendment Bill paving the way for introduction of GST was passed in August 2016, after prolonged legislative logjam. Although the Bill was passed by the Lok Sabha back in May 2015, it was stuck in the Rajya Sabha for several months, owing to lack of adequate legislative support. The GST will subsume all indirect taxes levied on goods and services by the Central and State governments, and is expected to come into effect sometime in 2017.
2. *Seventh Pay Commission*: The Seventh Pay Commission submitted its report in November 2015. In the report, the Commission inter alia recommended a staggering 23.5 per cent hike in the salaries of the Central Government staff. The Union Cabinet approved the implementation of the Seventh Pay Commission in June 2016. The recommendations cover about 4.7 million central government employees and around 5.3 million pensioners, of which 1.4 million employees and 1.8 million pensioners are from the defence forces.
3. *Monetary Policy Committee*: For the first time in its history–in October 2016– the Reserve Bank of India (RBI) appointed a Monetary Policy Committee (MPC), comprising three members from the RBI and three prominent academics. The MPC has been assigned the responsibility of framing monetary policy so as to contain the inflation at the target rate of four per cent. The upper tolerance level of inflation has been fixed at six per cent while the lower target rate is two per cent.
4. *Issuance of Masala bonds*: vide a circular issued on 29 September 2015, RBI put in place a framework regarding the issuance of rupee denominated bonds overseas (popularly known as Masala Bonds) in order to facilitate Rupee denominated borrowing from overseas. While the term Masala bonds now extends to any rupee denominated bonds issued to overseas buyers, the RBI has not yet resorted to the use of this name in their guidelines. Masala bonds, like any other off-shore bond, are intended for those foreign investors who want to take exposure to Indian assets, but are restricted to do so directly in the Indian market or prefer to do so from their offshore locations. In July 2016, Housing Development Finance Ltd. (HDFC Ltd.) became the first ever Indian entity to issue Masala bonds.
5. *UDAY scheme:* Ujwal DISCOM Assurance Yojana (or UDAY scheme) was unveiled by the Government of India in November 2015. A voluntary rehabilitation scheme, UDAY aims to provide for the financial turnaround and revival of Power Distribution companies (DISCOMs), and to also ensure a sustainable permanent solution to the problem.
6. *Gold schemes*: India, one of the largest consumers of gold in the world, accounts for around one-fourth of the global gold consumption. In 2015-16, India's gold imports accounted for 8.4 per cent of total merchandise imports. In an effort to ease the pressure on the current account deficit (CAD) from gold imports, the Government of India launched three gold related schemes during 2015-16:
   i. *Gold Monetisation scheme*: It is a scheme that facilitates the depositors of gold to earn interest on their metal accounts;
   ii. *Gold Coin/Bullion scheme*: The scheme launched the first ever national gold coin in India. Unlike many other countries across the globe that have their own sovereign gold coins, India did not have any till the launch of this scheme. Prior to the introduction of this scheme, there used to be a trust deficit around buying and selling of gold, driving many people to import gold. The creation of a national branded coin of uniform price and quality is expected to address this trust deficit.
   iii. *Sovereign Gold Bond (SGB) scheme*: Perhaps the most popular of the three schemes, SGBs are nothing but government securities denominated in grams of gold. The bonds are issued by the Reserve Bank of India on behalf of the government and are distributed through banks and designated post offices. As of October 2016, six tranches of the scheme have been unveiled.
7. *Skill India scheme*: The Skill India campaign was launched by the Government of India in July 2015, with an aim to impart training to over 400 million people in India in different skills by the year 2022. As a part of the initiative,

the Government has launched the following four schemes: National Skill Development Mission, National Policy for Skill Development and Entrepreneurship, 2015, Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and the Skill Loan scheme.

8. *Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015*: Popularly known as *Black Money Act*, the Act came into effect on July 1, 2015. The Act aims to curb black money by imposing tax and penalty on undisclosed foreign assets and income.
9. *MUDRA Bank:* Micro Units Development and Refinance Agency Bank (or MUDRA Bank), a public sector financial institution was launched by the Government of India in April 2015. Essentially designed for the MSME sector, the bank provides loans at low interest rates to micro-finance institutions and non-banking financial institutions which then provide credit to the MSMEs.
10. *Start-Up India scheme*: The Start-Up India campaign was unveiled by the Government of India in January 2016. The scheme intends to promote bank financing for start-up ventures India in order to boost entrepreneurship and encourage start-ups for job creation. A startup is an entity that is headquartered in India which was opened less than five years ago and has an annual turnover less than Rupees 25 crores. A similar initiative along the lines of Start-Up India, called the *Stand-Up India* initiative has also been launched in April 2016. Its objective is to promote entrepreneurship among Scheduled Caste (SC), Scheduled Tribes (ST) and women communities.
11. *Insolvency and Bankruptcy code 2016*: The Insolvency and Bankruptcy code 2016 is a bankruptcy law that seeks to integrate the present framework by creating a single uniform framework for bankruptcy and insolvency. The code was passed by both the Houses of the Parliament in May 2016. As of November 2016, the code has become partially operational with the implementation of some of its provisions. The code creates time-bound processes for insolvency resolution of companies and individuals and 180 days has been set as the time limit for the completion of the processes. The processes will be conducted by licensed insolvency professionals (IPs) who will be members of insolvency professional agencies (IPAs). Information utilities (IUs) will be created to collect, collate and disseminate financial information to facilitate insolvency resolution. The National Company Law Tribunal (NCLT) will look after insolvency resolution for companies. The Debt Recovery Tribunal (DRT) will adjudicate insolvency resolution for individuals. In addition, the Insolvency and Bankruptcy Board of India (IBBI) has been set up to monitor the functioning of IPs, IPAs and IUs.
12. *Digital India scheme*: In July 2015, the Government of India launched the Digital India scheme with an aim to promote digital literacy in India and connecting rural areas with high-speed Internet networks. The vision of Digital India programme involves promoting inclusive growth in the spheres of electronic services, products, manufacturing and job opportunities etc. It lays emphasis on three key areas – Digital Infrastructure as a Utility to Every Citizen, Governance & Services on Demand and Digital Empowerment of Citizens.
13. *Aadhaar Bill 2016*: The Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Bill, 2016 was passed by the Parliament in March 2016 as a Money Bill. The Aadhaar Act, 2016 intends to provide for targeted delivery of subsidies and services to individuals residing in India by assigning them unique identity numbers, called Aadhaar numbers.
14. *Demonetisation*: On November 8, 2016, the Prime Minister announced the demonetisation of the then existing Rupees 500 and Rupees 1,000 notes, in order to curb hoarding of black money and counterfeiting of Indian currencies. The step led to a wiping up of about 86 per cent of the cash in circulation overnight. The step has been criticised in most quarters on account of deficiencies in its implementation. The impact of this initiative on the economy is still unfolding.

A.1.3 Trends in the Securities Markets - International Scenario

As per the World Federation of Exchanges (WFE), the value of share trading worldwide decreased by 24.0% to USD 44.9 trillion in the first half of 2016 compared with US$ 59.2 trillion in the same period in 2015. Most of the decrease is attributable to the decline in trading activity in the Asia-Pacific region where the value of share trading decreased by 47.0% from that seen in the first half of 2015.

Globally, regulated open end fund assets increased 4% (q-o-q) to US$ 40.8 trillion (Table 1.4) at the end of the third quarter of 2016, excluding fund of funds. On a U.S. dollar–denominated basis, equity fund assets increased 4.9 % (q-o-q) to US$ 17.1 trillion at the end of the third quarter of 2016. Similarly, bond fund assets increased 4.6 % (q-o-q) to US$ 9.2 trillion in the third quarter. Balanced/mixed fund assets rose 3.1 % (q-o-q) to US$ 5.5 trillion in the third quarter, while money market fund assets registered a slight increase of 1.2% (q-o-q) to US$ 5.1 trillion during the same period.

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.

Table 1.4: Net assets of worldwide regulated open end funds (US$ billion; end of period)

	2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
All funds* (USD billion)	38,383	39,219	37,042	38,172	38,839	39,286	40,846
Long-term	33,835	34,635	32,199	33,099	33,776	34,295	35,794
Equity	16,845	17,003	15,374	16,187	16,160	16,299	17,094
Bond	8,393	8,478	8,184	8,110	8,487	8,809	9,210
Balanced/Mixed	5,047	5,423	5,051	5,164	5,229	5,293	5,458
Guaranteed	96	86	79	74	73	69	68
Real Estate	491	523	525	532	563	582	598
Other	2,962	3,122	2,985	3,032	3,264	3,243	3,366
Money market	4,548	4,584	4,843	5,072	5,063	4,991	5,052
Memo items included above:							
ETFs	2,586	2,667	2,560	2,744	2,814	2,877	3,183
Institutional	3,081	3,173	3,121	3,178	3,395	3,543	3,707

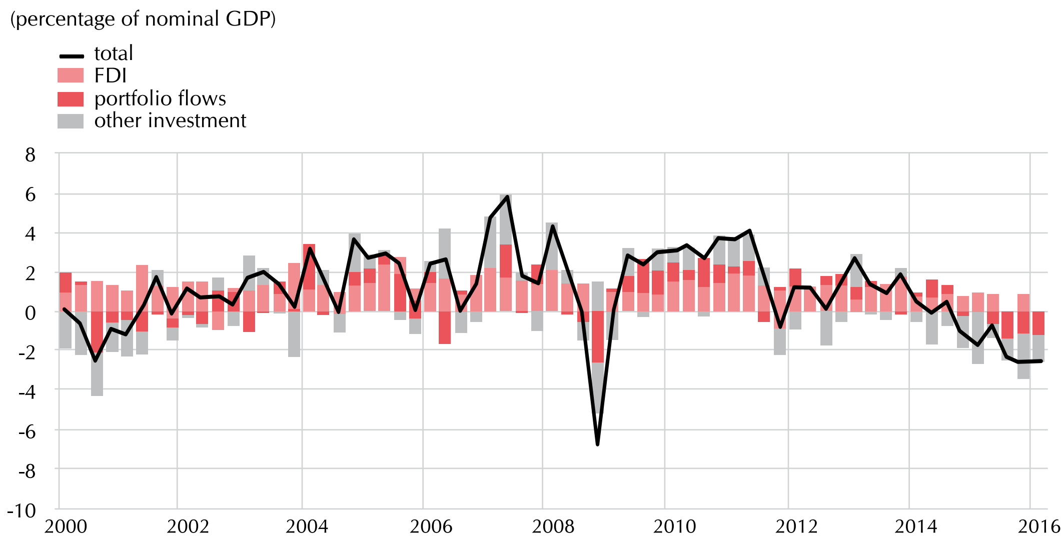
** Excludes funds of funds where possible*
Source: International Investment Funds Association

The net capital inflows to emerging market economies (EMEs) (as illustrated in Chart 1.10) has witnessed a persistent decline trend since 2011, and has remained in the negative territory since the fourth quarter of 2014.

Since 2010, growth in major EMEs has been on a downward trajectory, owing to a deteriorating external environment and domestic structural factors. At the same time, growth in advanced economies has been on a path of stability since 2013. This has led to a diminishing growth differential between EMEs and advanced economies, making the former less attractive a destination for foreign investment. Several studies have indicated that it is this diminishing growth differential between the EMEs and advanced economies that the downswing in capital inflows to EMEs could primarily be attributed to.

In addition, studies suggest that capital flows to EMEs have also been adversely impacted by external factors such as global risk aversion and changes in oil prices.

Chart 1.10: Net capital inflows to EMEs

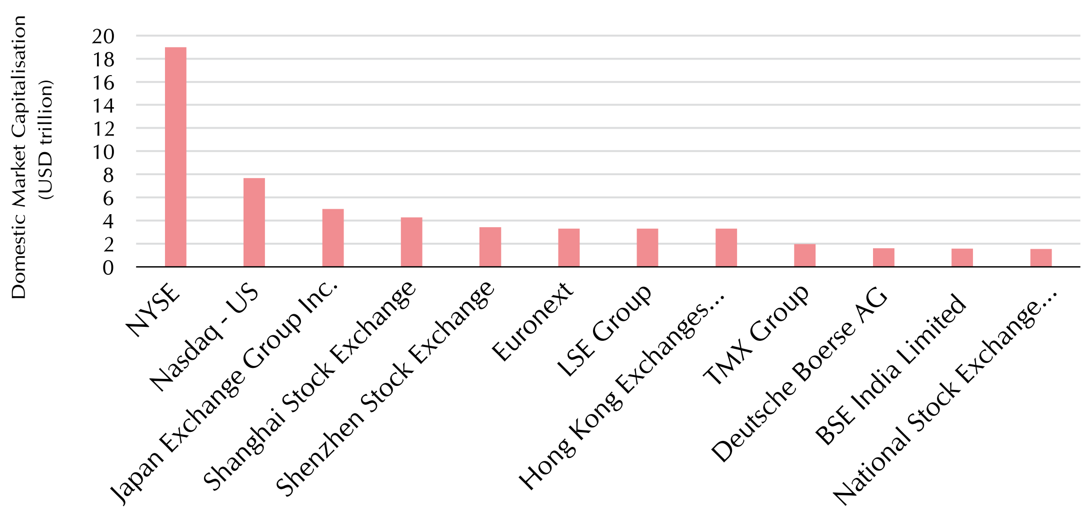


Source: European Central Bank[2]

Chart 1.11 depicts the ranking of the various stock exchanges of the world in terms of domestic market capitalisation, as at the end of November 2016. Out of the 81 exchanges across the globe that were taken into consideration, it was the New York Stock Exchange (NYSE) which stood at the top with a domestic market capitalisation of US$ 19 trillion (as of end November 2016).

Notably, the two top Indian stock exchanges – the BSE and the NSE – managed to make it to the top 15. While the BSE is ranked 11th, the NSE is placed a notch lower at the 12th position. As of end November 2016, the domestic market capitalisation of the BSE stood at US$ 1.56 trillion, while that of the NSE was US$ 1.55 trillion. The market capitalisation of the BSE being higher than that of the NSE perhaps reflects that the BSE has more listed companies than the NSE.

Chart 1.11: World's Largest Stock Exchanges by Domestic Market Capitalisation (As at the end of November 2016)



Source: WFE

[2] https://www.ecb.europa.eu/pub/pdf/other/eb201605_focus01.en.pdf?f932e100b1dfe7b3a9097cf8dbdcc297

A.1.4 Structure and Trends in the Indian Securities Market

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 2015-16.

A.1.4.1 Basic Market Structure

The securities market has essentially three categories of participants: (a) issuers of securities, (b) investors in securities (in both primary and secondary markets), and (c) intermediaries. The issuers are the borrowers or deficit savers, who issue securities to raise funds. The investors in primary markets, who are surplus savers, deploy their savings by subscribing to these securities. The investors in secondary markets buy and sell securities from each other to adjust their holdings of securities depending on their changing needs. The intermediaries are the agents who match the needs of the users and the suppliers of funds for a commission to help both the issuers and the investors to achieve their respective goals; besides, they play a variety of roles in the secondary market. There are a large variety of intermediaries providing various services in the Indian securities market (Table 1.5). 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.

Table 1.5: Market Participants in Securities Market

Market Participants	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
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	18
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	3,744	3,219
Corporate Brokers (Cash Segment)	4,877	5,113	4,917	3,290	2,820
Brokers (Equity Derivatives)	2,337	2,957	3,051	2,990	2,760
Brokers (Currency Derivatives)	2,173	2,330	2,395	2,406	2,205
Sub-brokers (Cash Segment)	77,141	70,242	51,885	42,351	35,246
Foreign Portfolio Investors	-	-	-	8,214	8,717
Portfolio Managers	250	241	212	188	202
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
Bankers to an Issue	57	57	59	60	62
Debenture Trustees	31	31	31	32	31
Underwriters	3	3	3	2	2
Venture Capital Funds	212	211	207	201	200
Foreign Venture Capital Investors	174	182	192	204	215
Mutual Funds	49	52	50	47	48
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).*
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 called a public issue; if the issue is made available only to a select group of people, it is known as private placement. There are two major types of issuers of securities—corporate entities, who issue mainly debt and equity instruments, and the government (central as well as state), which issues only debt securities (dated securities and treasury bills).

The secondary market enables the participants who hold securities to adjust their holdings in response to changes in their assessment of risks and returns. Once new securities are issued in the primary market, they 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).

A.1.4.2 Regulators

The absence of conditions for perfect competition in the securities market makes the role of the regulator extremely important. The regulator aims 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.

A.1.4.3 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, NSE has been able to achieve these objectives significantly, and has played a leading role in transforming the Indian capital market to its present form.

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

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 erstwhile 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.

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 January 21, 2014. On the first day of trading, contracts worth over Rs 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 Rs 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 are aimed at helping market participants 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, in 2015–2016, the NSE is the market leader, with 90% of total turnover (volumes in cash market, equity derivatives, currency derivatives and interest derivatives), with 85% share in equity trading, and nearly 94 % share in the equity derivatives segment (see Table 1.6).

Box 1.3: NSE's Electronic Debt Bidding Platform

NSE has persistently endeavoured to introduce new initiatives for bringing about growth and development of the securities market. One such initiative, launched by NSE on July 1, 2016 is NSE's Electronic Debt Bidding Platform (NSE-EBP).

Typically, issuers take one of the two options for placing corporate bonds - a public offering or a private placement. In India like most other geographies, the private placement route is largely preferred due to the time and cost efficiencies, in comparison to the public offerings. The traditional method of private placement typically involves one or several arrangers acting as intermediaries to the bond issuance and soliciting investments from the investors. Typically in case of the PSUs and some large corporates, the arrangers have a competitive bidding to discover the rate of issuance. However, in most cases, the rates are arrived via direct negotiations between the arrangers and the issuers which is not bound by any specific regulations resulting in a fairly non-transparent process without any trail. While these bonds are generally bought on behalf of specific clients, there is limited or no communication between the issuer and the direct investors, and the layer of intermediaries in between can potentially skew the price discovery mechanism. Further, this entire process is OTC and no formal trail is required to be maintained which leaves possibilities of further manipulation by different stakeholders.

NSE-EBP for issuance of debt securities on private placement basis is aimed to bring efficiency and transparency in the price discovery mechanism and to reduce the time and cost of these issuances. It takes the best of the OTC market operation and adds transparency to it by taking the entire system online.

Key features of NSE-EBP

i. NSE EBP has been designed as a user friendly, web-based and device independent interface which makes it accessible from any web-enabled device.

ii. It facilitates a seamless in-principle approval for listing of the securities.

iii. The access to NSE EBP is highly secured with two factor authentication mechanism.

iv. The market parameters are defined to ensure a well-balanced private placement mechanism.

v. It is designed to have a strict adherence to the regulatory guidelines with checks to ensure that violations are avoided.

As on October 31, 2016, a total of 217 issues have been recorded on NSE-EBP.

Table 1.6: Market segments on NSE for 2015-16 (Select indicators)

Segments	Market Capitalisation as of March 2016		Trading Value for 2015-16		Market share (in percent)
	Rs million	US $ million	Rs million	US $ million	
Cash Market	9,31,04,710	14,03,598	4,23,69,830	6,38,745	85
Equity Derivatives	-	-	64,82,58,340	97,72,803	94
Currency Derivatives	-	-	4,50,18,860	6,78,681	59
Interest Rate Derivatives	-	-	52,64,250	79,365	79
Total	**9,31,04,710**	**14,03,598**	**74,09,11,280**	**1,11,69,590**	**90**

Source: SEBI

A.1.4.4 Market Trends

a. Household Investments in India

A breakdown of household financial savings is given in Table 1.7. It can be seen that the household sector has been, in recent years, saving nearly 13.5% of its total financial savings in currency, which does not earn them any return. Historically, bank and non-bank deposits, particularly bank deposits, account for the predominant share of the household financial savings. In other words, most of the household sector financial savings are intermediated to other sectors such as the government and non-financial corporate sectors through banks and NBFCs. Life insurance funds and pension and provident funds also continue to serve as significant conduits of household financial savings. Like the banking sector, these two sectors also channel household savings to both the government and non-financial corporate sector. The share of Claims on Government, which largely reflect Small Savings, rose to 3.6% in 2015-16.

The share of bank deposits further declined from 47% of the gross financial savings in 2014–15 to 41% in 2015-16 (Table 1.7). Shares and debentures accounted for 6% of the gross financial savings of the household sector in 2015–16, as against 4% in 2014–15. A growing preference for the currency was also observed, with the share of currency in the gross financial savings rising from 10.5% in 2014–15 to 13.5% in 2015–16.

Table 1.7: Financial Assets of the Household Sector (as % of gross financial saving)

Financial Assets	2011-12	2012-13	2013-14	2014-15	2015-16
Currency	11.4	10.5	8.3	10.5	13.5
Bank deposits	56.4	54.1	54.0	46.6	41.3
Non-banking deposits	1.1	2.6	1.8	2.6	2.7
Life insurance fund	21.0	16.9	15.3	19.5	18.3
Provident and pension fund	10.3	14.7	15.9	16.1	14.2
Claims on Government	-2.4	-0.7	0.7	0.1	3.6
Shares & debentures	1.8	1.6	3.5	4.2	6.2
Units of UTI	0	0	0	0	0
Trade Debt(Net)	0.5	0.3	0.4	0.3	0.3

Source: RBI

b. Primary Market

An aggregate of Rs 15,515 billion was raised by the government and the corporate sector in 2015–16, compared to Rs 14,479 billion in 2014–15. Private placement accounted for 95.4% of the total resource mobilisation by the corporate sector. Further details are provided in Chapter 2.

c. Secondary Market

The exchanges in the country offer a screen-based trading system. There were 8,594 stock brokers registered with the SEBI at the end of March 2016. The market capitalisation at BSE decreased by 6.6 per cent to Rs 94,75,328 crore in 2015-16 from Rs 1,01,49,290 crore in 2014-15, whereas the market capitalisation at NSE declined by 6.2 per cent from Rs 99,30,122 crore in 2014-15 to Rs 93,10,471 crore in 2015-16.

In line with the general trend, the turnover of the cash segment of stock exchanges across also witnessed a decline in 2015-16 with regard to the levels achieved in 2014-15; while the turnover of the cash segment at NSE fell by a marginal 2.1 %, that of BSE decreased significantly by 13.4%. As of end September 2016, the turnover of the cash segment at NSE stood at Rs 24,17,489 crore, while that on BSE was Rs 3,87,467 crore.

d. Government Securities

The aggregate turnover in central and state government-dated securities and T-bills through non-repo Subsidiary General Ledger (SGL) transactions increased to Rs 13,163 billion in 2015–16 as compared to Rs 9,104 billion in 2014–15, recording a 45% increase.

e. Derivatives Market

The total turnover in equity derivatives on the Indian exchanges declined from Rs 7,59,692 billion in 2014-15 to Rs 6,93,008 billion in 2015-16. 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 futures and options turnover on the NSE increased by 49% from Rs 30,239 billion in 2014-15 to Rs 45,019 billion in 2015-16. As of end September 2016, the currency derivatives turnover on the NSE stood at Rs 23,971 billion. Derivatives trading is discussed in detail in Chapter 6.

References:

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IMF (2015), World Economic Outlook, October 2016

IMFC Statement by Arun Jaitley, Minister of Finance, India Ministry of Finance (2015), India's External Debt Report, 2015-2016

PRS Legislative Research (2016), Annual Policy Review, 2015-2016

World Federation of Exchanges, Market Highlights Statistics, H1 2016

Appendix

Table 1A: Trend in Select Indicators

Sector/ Indicator	Y-o-Y growth rate (%)				
	2012-13	2013-14	2014-15	2015-16	2016-17 (H1)
Real Sector					
GDP at constant prices (base year: 2011-12)	5.6	6.6	7.2	7.6	7.2
Gross capital formation constant prices (base year: 2011-12)	6.8	-1.9	6.3	-	-
Gross domestic savings (base year: 2011-12)	11.2	10.7	10.5	-	-
Prices					
Consumer Price Index (average; index: 2012 = 100)	10.3	10.0	5.9	4.9	5.4
Wholesale Price Index (base year: 2004-05 = 100)	7.4	6.0	2.0	-2.5	2.6
Financial Sector					
Money Supply (outstanding at end of period)	13.6	13.5	11.3	10.5	16.0
Bank credit to commercial sector (outstanding at end of period)	13.9	13.7	9.7	10.9	9.9
Securities Market Indicators					
Turnover (Daily average)					
Cash	-4.0	3.3	58.7	-3.7	9.1
Equity F&O	0.8	20.2	49.5	14.7	27.2
Currency F&O*	11.3	-24.2	-23.1	46.4	18.0
Fiscal Sector					
Fiscal Deficit	-1.2	-14.3	-8.7	0.1	-
Primary Deficit	27.8	-22.6	6.8	23.8	-
Revenue Deficit	11.8	-3.5	-6.4	7.7	-
External Sector					
FDI (Inward)	-5.2	27.1	15.6	36.3	6.0
FDI (Outward)	-4.2	28.1	16.6	37.3	-146.8
FDI (Net)	4.9	20.1	47.1	23.3	34.6
Export	-1.8	4.3	-1.5	-15.6	-1.1
Import	0.2	-8.5	-0.4	-15.1	-13.5
Balance of Trade	-10.7	-7.9	-7.0	-5.7	37.5
Memo Items					
Current Account Balance (% of GDP)	-4.2	-4.7	-1.7	-1.3	-0.4
Capital Account Balance (% of GDP)	3.6	4.7	1.7	1.3	0.02
Central Government Debt (end of period; % of GDP)	46.7	47.5	47.6	50.0	-
Forex Reserves (end of period; $ billion)	294.4	292.7	303.7	341.4	7.7

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

A.2 Primary Market

A.2.1 Introduction

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

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

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

A.2.2 Primary Market Issuances (2015-16)

Table 2-1 provides statistics on the resources mobilized by corporates and the government from domestic as well as international markets. It can be noted from the table that, total resources mobilized through issuance of securities by corporates and the government in 2015-16 increased marginally by 7% year-on-year to Rs 15,515 billion (US $238 billion)

A.2.2.1 Corporate Securities

Resource mobilization by corporates in the primary market increased by 11% from Rs 4,659 (US $78 billion) in 2014-15 to Rs 5,179 billion (US $ 79 billion) in 2015-16. Capital raising via public issues and private placement witnessed growth; capital raised through the private placement route increased by 11% to Rs 4,939 billion (US $76 billion) while public issues witnessed a sharp upsurge by 145% to Rs 240 billion (US $ 4 billion) (Table 2-1).

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

Issues	2014-15 (Rs bn.)	2015-16 (Rs bn.)	2014-15 (USD bn.)	2015-16 (USD bn.)	Growth in 2014-15	Growth in 2015-16
Corporate Securities	**4,659**	**5,179**	**78**	**79**	**13%**	**11%**
Domestic Issues	4,563	5,179	76	79	11%	13%
Public Issues	98	240	2	4	-26%	145%
Private Placement	4,465	4,939	73	76	12%	11%
Euro Issues	96	-	2	-	-	-
Government Securities	**9,820**	**10,336**	**161**	**158**	**9%**	**5%**
Central Government #	7,412	7,390	121	113	6%	0%
State Governments	2,408	2,946	39	45	22%	22%
Total	**14,479**	**15,515**	**237**	**238**	**11%**	**7%**

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

A.2.2.2 Public and Rights Issues

In 2015-16, resources mobilized via public issue increased significantly in comparison to the previous year. In particular, the capital raised from public and rights issues increased by 203% to Rs 581 billion (US $ 8.8 billion). IPOs witnessed phenomenal growth of 348% from Rs33 billion (US $ 0.5 billion) in 2014-15 to Rs 148 billion (US $ 2.2 billion) in 2015-16. Also, total number of IPOs saw a significant rise in 2015-16 as compared to the preceding year; public issues surged from 46 in 2014-15 to 74 in 2015-16 (Table 2.2).

In contrast, the number of public issues in the debt segment declined from 24 in 2014-15 to 20 in 2015-16. The associated amount of resources mobilized witnessed a sharp increase by 260% in 2015-16 from Rs 94 billion in 2014-15 to Rs 338 billion in 2015-16.

The mobilization of resources through right issues also recorded an increase of 35% from Rs 68 billion (US $ 1.1 billion) in 2014-15 to Rs 92 billion (US $ 1.4 billion) in 2015-16.

Table 2-2 Resource Mobilization from Public and Rights Issues

Public and Rights Issues	2013-14			2014-15			2015-16		
	Number	Amount (Rs bn)	Amount (US $ bn)	Number	Amount (Rs bn)	Amount (US $ bn)	Number	Amount (Rs bn)	Amount (US $ bn)
1. Public Issues (i) +(ii)	**75**	**511**	**8.5**	**70**	**125**	**2**	**94**	**489**	**7.4**
i. Public Issues	40	87	1.5	46	33	0.5	74	148	2.2
Public Issues (IPO)	38	12	0.2	46	33	0.5	74	148	2.2
Public Issues (FPO)	2	75	1.2	0	0	0	0	0	-
ii. Public Issues (Bond/NCD)	35	424	7.1	24	94	1.5	20	338	5.1
2. Rights Issues	**15**	**46**	**0.8**	**18**	**68**	**1.1**	**13**	**92**	**1.4**
Total (1+2)	**90**	**557**	**9.3**	**88**	**192**	**3.1**	**107**	**581**	**8.8**

Source: SEBI- Annual Report

A.2.2.3 Sector-wise resource mobilisation

During 2015-16, the private issuers raised Rs 267.7 billion through public and rights issues which is about 60% rise over the previous year. They issued 97 public/right issues in 2015-16 as compared to 85 issues in the previous year. The public sector witnessed a sharp increase in resource mobilization from Rs 24.5 billion in 2014-15 to Rs 311 billion in 2015-16. They issued 11 public/right issues in 2015-16 as opposed to 3 in 2014-15. As a result, the total resource mobilization registered a sharp growth of 201% from Rs 192 billion in 2014-15 to Rs 578.7 billion in 2015-16 (Table 2-3).

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

Sector	2014-15		2015-16	
	Number	Amount (Rs mn)	Number	Amount (Rs mn)
Private	85	1,67,560	97	2,67,680
Public	3	24,460	11	3,10,980
Total	**88**	**1,92,020**	**108**	**5,78,660**

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

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

The share of banking and financial sector in total resource mobilization was 55.4% in 2014-15 which has decreased to 32.8% in 2015-16. This sector has mobilized resources through 21 issues in 2015-16 and raised Rs186.8 billion as compared to Rs 106.4 billion in the previous year – recording a significant growth of 76%. Food processing, healthcare and information technology raised Rs 7 billion, Rs 37.9 billion and Rs 9.2 billion respectively in 2015-16. These industries have contributed around 1.2%, 6.6% and 1.6% respectively in total resource mobilization. Notably, health care industry recorded phenomenal growth in resource mobilization in 2015-16 through 7 issues as compared to merely 1 issue last year and raised Rs 38 billion in 2015-16 as compared to Rs 0.25 billion in previous year. Among others, cement & construction, chemical, engineering and power raised significant amount through public and rights issues (Table 2-4).

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

Industry	2014-15			2015-16		
	Number	Amount (Rs mn)	Percentage Share	Number	Amount (Rs mn)	Percentage Share
Banking/FIs/Finance	36	1,06,390	55.4	21	1,86,840	32.8
Cement & Construction	5	6,180	3.2	4	1,720	0.3
Chemical	2	3,600	1.9	3	11,790	2
Electronics	1	330	0.2	1	590	0
Engineering	0	0	0	2	3,730	0.6
Entertainment	6	8,840	4.6	2	210	0
Food Processing	2	250	0.1	2	7,000	1.2
Healthcare	1	250	0.1	7	37,930	6.6
Information Technology	3	1,370	0.7	6	9,210	1.6
Power	0	0	0	4	21,060	3.6
Telecom	1	1,750	0.9	0	0	0
Textile	5	4,070	2.1	5	160	0
Others	26	58,990	30.7	48	2,98,420	51.1
Total	**88**	**1,92,020**	**100**	**107**	**5,78,660**	**100**

Source: SEBI

Table 2-5 presents the size-wise distribution of public and rights issues in 2015-16. Although total resources mobilized in the primary market rose by 201% in 2016-17, the distribution pattern of issue sizes becomes more skewed towards the issue size more than Rs500 crore. Here, about 86% of the resource mobilization was through public issues of issue size more than Rs 500 crore. In terms of the number of issues, however, there were only 25 issues out of 107 that were above Rs 500 crore. Notably, 51 issues (47%) were below Rs 50 crore. Though a majority of the issues are above Rs 50 crore, issues above Rs 500 crore constitute 86% of total resource mobilization.

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

Issue Size	2014-15			2015-16		
	Number	Amount (Rs mn)	Percentage Share	Number	Amount (Rs mn)	Percentage Share
< Rs 5 crore	23	750	0.39	29	800	0.14
≥ Rs 5 crore & < Rs 10 crore	11	890	0.43	13	820	0.14
≥ Rs 10 crore & < Rs 50 crore	11	2,270	1.21	9	1,660	0.29
≥ Rs 50 crore & < Rs 100 crore	2	1,090	0.57	7	4,870	0.84
≥ Rs100 crore & < Rs500 crore	31	78820	41	24	75,550	13.06
≥ Rs500 crore	10	108210	56.4	25	4,94,950	85.54
Total	**88**	**1,92,020**	**100.00**	**107**	**5,78,650**	**100.00**

Source: SEBI Annual Report

A.2.3 Performance of Initial Public Offerings (IPOs) listed on NSE

In 2015-16, 32 IPOs (including SMEs) were listed on the NSE which is quite higher than 2014-15(Table 2-6). The sudden surge in the IPOs might have been driven by a positive investor sentiment in the country, which was motivated by regulatory policies of the government. Among the various IPOs issued in 2015-16, several issues have made significant listing gains, such as, Inox Wind Ltd., VRL Logistics Ltd., Dr. Lal PathLabs Ltd. (Table 2-6).

The trend so far in 2016-17 has been rather encouraging; as of September 2016, 34 IPOs (including SMEs) have been listed on the NSE. Among the various IPOs issued QUESS Corp. Ltd. Have made the maximum listing gains as of 31st October 2016 (Table 2-7).

Table 2-6: Performance of IPOs listed on NSE in the financial year 2015-16

SNO.	COMPANY	OPENING DATE	OFFER PRICE (Rs)	ISSUE AMOUNT (Rs mn)	LISTING DATE	OPEN PRICE ON LISTING DATE (Rs)	CLOSE PRICE ON LISTING DATE (Rs)	MARKET PRICE AS ON 31.03.2016	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
MAIN-BOARD IPOs									
1	ADLABS ENTERTAINMENT LTD.	10-03-2015	180.00	3,746	06-04-2015	162.20	192.65	85.45	7.03
2	INOX WIND LTD.	18-03-2015	325.00	10,205	09-04-2015	400.00	438.40	259.20	34.89
3	VRL LOGISTICS LTD.	15-04-2015	205.00	4,679	30-04-2015	288.00	294.10	368.80	43.46
4	MEP INFRASTRUCTURE DEVELOPERS LTD.	21-04-2015	63.00	3,240	06-05-2015	65.00	58.40	37.95	-7.30
5	UFO MOVIEZ INDIA LTD.	28-04-2015	625.00	6,000	14-05-2015	600.00	597.30	421.40	-4.43
6	PNC INFRATECH LTD.	08-05-2015	378.00	4,884	26-05-2015	387.00	360.50	528.60	-4.63
7	MANPASAND BEVERAGES LTD.	24-06-2015	320.00	4,000	09-07-2015	300.00	327.75	466.05	2.42
8	SYNGENE INTERNATIONAL LTD.	27-07-2015	250.00	5,500	11-08-2015	295.00	310.55	385.25	24.22
9	POWER MECH PROJECTS LTD.	07-08-2015	640.00	2,732	26-08-2015	600.00	586.55	559.10	-8.35
10	NAVKAR CORP.LTD.	24-08-2015	155.00	6,000	09-09-2015	152.00	167.95	182.00	8.35

Contd.

Contd.

SNO.	COMPANY	OPENING DATE	OFFER PRICE (Rs)	ISSUE AMOUNT (Rs mn)	LISTING DATE	OPEN PRICE ON LISTING DATE (Rs)	CLOSE PRICE ON LISTING DATE (Rs)	MARKET PRICE AS ON 31.03.2016	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
11	SHREE PUSHKAR CHEMICALS & FERTILISERS LTD.	25-08-2015	65.00	700	10-09-2015	60.05	63.05	130.65	-3.00
12	PENNAR ENGINEERED BUILDING SYSTEMS LTD.	25-08-2015	178.00	1,562	10-09-2015	177.95	169.90	166.85	-4.55
13	SADBHAV INFRASTRUCTURE PROJECT LTD.	31-08-2015	103.00	4,917	16-09-2015	111.00	106.20	102.00	3.11
14	PRABHAT DAIRY LTD.	28-08-2015	115.00	3,559	21-09-2015	113.00	115.95	109.55	0.83
15	COFFEE DAY ENTERPRISES LTD.	14-10-2015	328.00	11,500	02-11-2015	317.00	270.45	225.45	-17.55
16	INTERGLOBE AVIATION LTD.	27-10-2015	765.00	30,171	10-11-2015	855.80	877.25	873.20	14.67
17	S.H.KELKAR & CO.LTD.	28-10-2015	180.00	5,082	16-11-2015	223.70	208.25	227.30	15.69
18	DR.LAL PATHLABS LTD.	08-12-2015	550.00	6,319	23-12-2015	720.00	825.00	923.30	50.00
19	ALKEM LABORATORIES LTD.	08-12-2015	1,050.00	13,478	23-12-2015	1,380.00	1,381.70	1,356.45	31.59
20	NARAYANA HRUDAYALAYA LTD.	17-12-2015	250.00	6,131	06-01-2016	291.00	336.95	286.30	34.78
21	PRECISION CAMSHAFTS LTD.	27-01-2016	186.00	4,102	08-02-2016	165.00	177.45	150.30	-4.60
22	TEAMLEASE SERVICES LTD.	02-02-2016	850.00	4,237	12-02-2016	860.00	1,022.85	895.90	20.34
23	QUICK HEAL TECHNOLOGIES LTD.	08-02-2016	321.00	4,513	18-02-2016	305.00	253.85	217.70	-20.92
24	HEALTHCARE GLOBAL ENTERPRISES LTD.	16-03-2016	218.00	6,496	30-03-2016	210.20	171.00	178.55	-21.56
SME IPOs									
1	EMKAY TAPS & CUTTING TOOLS LTD.	27-07-2015	330.00	148	13-08-2015	334.00	333.05	345.00	0.92
2	SHAIVAL REALITY LTD.	15-09-2015	100.00	50	01-10-2015	100.50	100.50	103.00	0.50
3	AHIMSA INDUSTRIES LTD.	24-09-2015	25.00	36	15-10-2015	26.00	26.00	25.20	4.00
4	PERFECT INFRAENGINEERS LTD.	30-10-2015	23.00	55	20-11-2015	26.00	25.10	16.25	9.13
5	FOURTH DIMENSION SOLUTIONS LTD.	30-12-2015	30.00	82	22-01-2016	31.80	36.00	104.50	20.00
6	HI-TECH PIPES LTD.	15-02-2016	50.00	130	25-02-2016	60.00	58.75	61.25	17.50
7	WEALTH FIRST PORTFOLIO MANAGERS LTD.	10-03-2016	50.00	80	30-03-2016	52.00	51.50	50.00	3.00
8	HEC INFRA PROJECTS LTD.	10-03-2016	100.00	51	30-03-2016	102.00	97.90	93.85	-2.10

Source: PRIME Database

Table 2-7: Performance of IPOs listed on NSE in April2016-October 2016

SR. NO.	COMPANY	OPENING DATE	ISSUE AMOUNT (Rs mn)	LISTING DATE	OPEN PRICE ON LISTING DATE (Rs)	CLOSE PRICE ON LISTING DATE (Rs)	MARKET PRICE (AS ON 31.10.2016)	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
Main Board IPOs								
1	BHARAT WIRE ROPES LTD.	18-03-2016	700	01-04-2016	47.25	45.55	96.75	1.22
2	INFIBEAM INCORPORATION LTD.	21-03-2016	4,500.00	04-04-2016	453	445.75	947.15	3.18
3	EQUITAS HOLDINGS LTD.	05-04-2016	21,766.85	21-04-2016	145.1	135.2	169.55	22.91
4	THYROCARE TECHNOLOGIES LTD.	27-04-2016	4,792.14	09-05-2016	665	618.8	717.8	38.74
5	UJJIVAN FINANCIAL SERVICES LTD.	28-04-2016	8,824.96	10-05-2016	231.9	231.55	423.35	10.26
6	PARAG MILK FOODS LTD.	04-05-2016	7,505.37	19-05-2016	217.5	247	228.05	14.88
7	MAHANAGAR GAS LTD.	21-06-2016	10,388.79	01-07-2016	540	520.3	895.4	23.59
8	QUESS CORP LTD.	29-06-2016	4,000.00	12-07-2016	500	503.1	690.4	58.71
9	LARSEN & TOUBRO INFOTECH LTD.	11-07-2016	12,363.75	21-07-2016	667	697.6	714.85	-1.75
10	ADVANCED ENZYME TECHNOLOGIES LTD.	20-07-2016	4,114.89	01-08-2016	1,210.00	1,178.10	2,059.45	31.48
11	DILIP BUILDCON LTD.	01-08-2016	6,539.77	11-08-2016	240	251.75	349.75	14.95
12	S.P.APPARELS LTD.	02-08-2016	2,391.20	12-08-2016	275	288.75	428.5	7.74
13	RBL BANK LTD.	19-08-2016	12,129.67	31-08-2016	274.2	299.4	494.55	33.07
14	L&T TECHNOLOGY SERVICES LTD.	12-09-2016	8,944.00	23-09-2016	920	860.55	778.6	0.06
15	GNA AXLES LTD.	14-09-2016	1,304.10	26-09-2016	252	245.05	218.9	18.38
16	ICICI PRUDENTIAL LIFE INSURANCE CO.LTD.	19-09-2016	60,567.91	29-09-2016	330	295.85	382.4	-11.42
17	HPL ELECTRIC & POWER LTD.	22-09-2016	3,610.00	04-10-2016	190	189.3	119.05	-6.29
18	ENDURANCE TECHNOLOGIES LTD.	05-10-2016	11,617.35	19-10-2016	572	646.9	768.5	37.06
SME IPOs								
1	SAGARDEEP ALLOYS LTD.	04-05-2016	56.88	17-05-2016	20	19	21	-5
2	UNITED POLYFAB GUJARAT LTD.	25-05-2016	72.63	07-06-2016	42.5	44	20.6	-2.22
3	KKV AGRO POWERS LTD.	30-06-2016	34.05	15-07-2016	325	342	327	6.88
4	MADHYA BHARAT AGRO PRODUCTS LTD.	29-08-2016	131.9	12-09-2016	27	28.8	51.1	20
5	CROWN LIFTERS LTD.	09-09-2016	63.4	27-09-2016	122.8	109	77.1	-9.92
6	HUSYS CONSULTING LTD.	09-09-2016	39.74	27-09-2016	72.9	60.6	41	-12.17
7	AVSL INDUSTRIES LTD.	15-09-2016	49.03	06-10-2016	38	36	33.5	-
8	JET KNITWEARS LTD.	27-09-2016	40.01	07-10-2016	46.8	46.8	68.1	20

Contd.

Contd.

SR. NO.	COMPANY	OPENING DATE	ISSUE AMOUNT (Rs mn)	LISTING DATE	OPEN PRICE ON LISTING DATE (Rs)	CLOSE PRICE ON LISTING DATE (Rs)	MARKET PRICE (AS ON 31.10.2016)	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
9	NANDANI CREATION LTD.	28-09-2016	38.3	10-10-2016	33.6	33.6	56.15	20
10	GRETEX INDUSTRIES LTD.	30-09-2016	37.56	14-10-2016	24	24	15.5	20
11	SAKAR HEALTHCARE LTD.	30-09-2016	140.4	14-10-2016	52.8	52.15	57	4.3
12	AURANGABAD DISTILLERY LTD.	30-09-2016	73.08	17-10-2016	42	42	59	20
13	DHANUKA REALTY LTD.	30-09-2016	40.08	18-10-2016	43	41.25	38	3.13
14	PANSARI DEVELOPERS LTD.	30-09-2016	96.62	18-10-2016	22	22.9	20.05	4.09
15	ART NIRMAN LTD.	30-09-2016	47.55	19-10-2016	27.55	30	27.5	20
16	GLOBE INTERNATIONAL CARRIERS LTD.	30-09-2016	48.96	19-10-2016	24.5	24.95	26	3.96

Source : PRIME Database

A.2.4 Debt Issues

The government and the corporate sector collectively raised a total of Rs 15,614 billion from the primary market in 2015-16. Corporates continued their preference to raise capital through private placement as compared to public issues. In 2015-16, private placement accounted for 94% of the total resources raised by corporates from the debt market, as against 98% in 2014-15. The share of private placement in the total resources mobilized remained same as 32% in 2015-16 (Table 2-8).

Table 2-8: Resources Raised from Debt Markets

Issuer	2014-15	2015-16	2014-15	2015-16
	(Rs bn)		(US $ bn)	
Corporate	**4,754**	**5,277**	**78**	**80**
Public Issues	97	338	2	5
Private Placement*	4,657	4,939	76	75
Government	**9,820**	**10,336**	**161**	**156**
Central	7,412	7,390	121	111
State	2,408	2,946	39	44
Total	**14,574**	**15,614**	**238**	**235**

*Note: * 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).

A.2.4.1 Private Placement of Debt

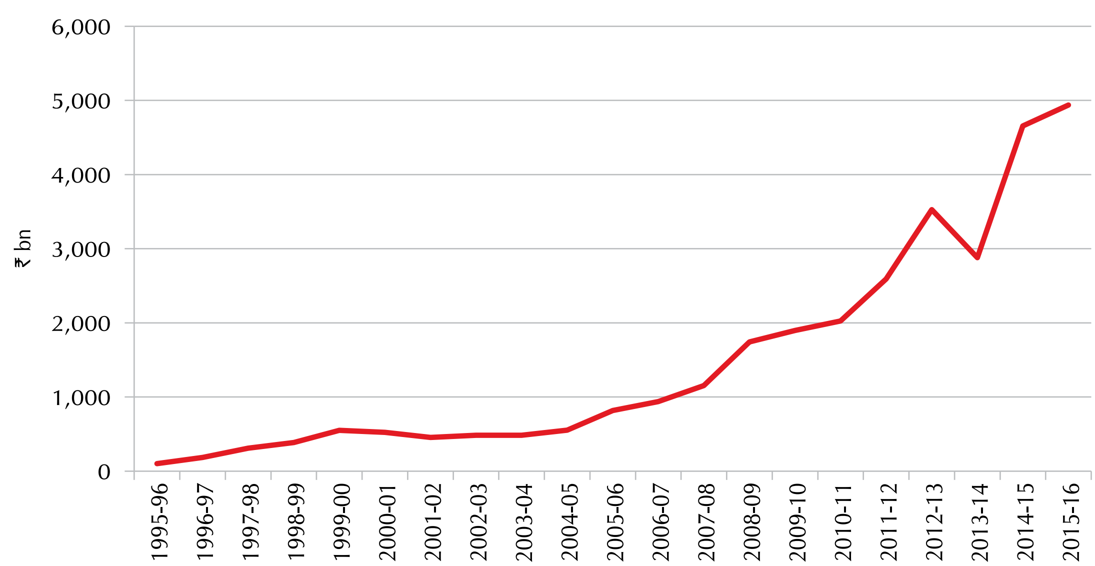
According to the Prime Database, a total of 589 issuers (institutional and corporate) raised Rs 4,939 billion through 2,682 privately placed issues in 2015-16. Though the resources raised from debt markets were dominated by government issues (accounting for 66% of the total resources), the resources raised by corporates from debt market in the form of public issues and private placement witnessed a significant increase of 34% in 2015-16 from the previous year. The resource mobilization through the private placement of debt issues grew by only 6% in 2015-16 as compared to 62% growth in 2014-15 (Table 2-9). Overall, there is a positive trend in total amount raised through private placement over the period, barring 2013-14 (Chart 2-1).

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 (Rs 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	800	1,743	37
2009-10	243	812	1,898	40
2010-11	225	862	2,026	44
2011-12	179	1,430	2,592	54
2012-13	278	1,888	3,528	65
2013-14	254	1,683	2,879	46
2014-15	506	2,221	4,657	76
2015-16	**589**	**2,682**	**4,939**	**74**

Source: Prime Database

Chart 2-1: Private Placement of Debt



Source: Prime Database

The issuer wise distribution indicates that during 2015-16, the private sector accounted for 48.0% of the total amount of resources mobilized through the private placement of debt, followed closely by All India Financial Institutions and banks that mobilized around 41.0 % of the total amount (Table 2-10).

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

Issuer	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
	Issue Amount (Rs mn)		Issue Amount (US $ mn)		% of Issue Amount	
All India Financial Institutions/Banks	23,61,277	20,35,917	38,384	31,004	50.7	41
State Financial Institutions	8,832	-	145	-	0.2	0
Public Sector Undertakings	3,12,194	3,22,671	5,090	4,958	6.7	7
State Level Undertakings	78,219	2,38,479	1,276	3,590	1.7	5
Private Sector	18,99,459	23,42,046	30,950	35,939	40.8	48
Total	**46,59,981**	**49,39,112**	**75,844**	**75,490**	100	**100**

Source: Prime Database

The sectoral distribution shows that Banking and Financial Services continued to dominate the private placement market, accounting for 64% in 2015-16. Among others, power sector contributed to 12.0% of total private placement in 2015-16 (Table 2-11).

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

Sector	2014-15	2015-16
Banking	41.0	28.0
Financial Services	33.0	36.0
Power	8.0	12.0
Housing/ Civil Construction/ Real Estate	4.0	6.0
Travel/Transportation	-	-
Others	14.0	18.0
Total	**100.0**	**100.0**

Source: Prime Database

A.2.4.2 Corporate Sector

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

In 2015-16, the total resources raised by the corporate sector rose by 14% to Rs 5,517 billion, compared to the gross mobilization of Rs 4,852 billion in 2014-15. The equity route was used to raise 2.7% of the total resources through public equity shares in 2015-16, higher from 0.6% used in 2014-15. The share of rights issues was 1.7% in 2015-16. The resources raised through the debt issues (debt public issues and debt private placements) accounted for about 95.6%, which reflects the preference of borrowers for debt capital over equity capital. Among the debt issues, the share of debt public issues was 2.0% in 2014-15 and increased significantly to 6.1% in 2015-16. However, the share of debt private placements declined from 96.0% in 2014-15 to 89.5% in 2015-16 (Table 2-12).

Table 2-12: Resources Raised by Corporate Sector

Year	Public Equity Issues (mn)	Rights Issues (Rs mn)	Debt Public Issues (Rs mn)	Debt Private Placements (Rs mn)	Total Resource Mobilisation (Rs mn)	Total Resource Mobilisation (US $ mn)	Percentage Share in the Total Resource Mobilisation			
							Public Equity issues	Rights Issue	Debt Public Issues	Debt Private Placements
2009-10	4,69,410	83,211	25,000	18,98,299	24,75,920	54,850	19.0	3.4	1.0	76.7
2010-11	4,61,820	95,937	94,310	20,25,899	26,77,966	59,977	17.2	3.6	3.5	75.7
2011-12	1,04,710	23,750	3,56,110	25,92,290	30,76,860	60,146	3.4	0.8	11.6	84.3
2012-13	64,970	89,447	1,69,820	35,27,590	38,51,827	70,851	1.7	2.3	4.4	91.6
2013-14	86,610	45,733	4,23,830	28,78,929	34,35,102	57,311	2.5	1.3	12.3	83.8
2014-15	30,190	67,501	97,130	46,57,131	48,51,952	79,358	0.6	1.4	2.0	96.0
2015-16	**1,48,150**	**92,390**	**3,38,120**	**49,39,112**	**55,17,772**	**83,183**	**2.7**	**1.7**	**6.1**	**89.5**

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

A.3 Collective Investment Vehicles

A.3.1 Introduction

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

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

A.3.2 Growth and performance of CIVs (2015-16)

A.3.2.1 Mutual Funds

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

A.3.2.1.1 History of MFs in India

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India (UTI), an initiative of the Government of India and Reserve Bank of India (RBI). UTI was established in 1963 by an Act of Parliament. Initially, it functioned under the regulatory and administrative control of the Reserve Bank of India. In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control from RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988, UTI had Rs 6,700 crores of assets under management (AUM).

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

In 1993, a new era began in the Indian mutual fund industry with the entry of private sector funds, giving Indian investors a wider choice of fund families. Simultaneously, the first Mutual Fund Regulations were introduced under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. At the end of 1993, the mutual fund industry had AUM of Rs 47,004 crores.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The Mutual Fund industry now functions under the SEBI (Mutual Fund) Regulations 1996. The number of mutual fund houses has kept on increasing, with many foreign mutual funds setting up funds in India and the industry witnessing several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs 1,21,805 crore. The Unit Trust of India with Rs 44,541 crores of AUM was way ahead of other mutual funds. In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India which is functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations. The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations.

A.3.2.1.2 Resource Mobilization

Mutual Funds play an important role in mobilising the household savings for investment in the capital market. The popularity of MFs is clearly visible from the data presented in Table 3-1. MFs in India have primarily been sponsored by the government, banks, and foreign investors (FIs).

The MF schemes of the commercial banks and the insurance companies that entered the market in 1987 were well received by investors. The boom continued into the early 1990s, with liberalisation evoking positive responses from investors. The net resource mobilisation (inflows less outflows) by MFs remained steady during 1992–1995, with an annual average net resource mobilisation of nearly Rs 120 billion per annum during the period. However, the MFs were severely hit by the bearish sentiments that prevailed in the secondary market since October 1994. The years 1995–1996 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 Rs 111 billion, which could be attributed to a slump in the secondary market and the increase in the tax on income distributed by debt-oriented MFs. In 2002–03, the resource mobilisation by all the MFs aggregated to a further low of Rs 46 billion, with UTI having a net outflow of Rs 94 billion. The fiscal year 2003–04 witnessed a sharp rise in the net resources mobilised compared to that in the previous year, aggregating Rs 479 billion; however, the net resources mobilised reduced to Rs 28 billion in 2004–05. An upward trend was seen in the fiscal year 2005–06; the net resources mobilised were Rs 525 billion, which marked a multifold increase in the resource mobilisation of the MFs. The performance of the private sector MFs in 2005–06 remained consistent compared to that in the previous year; they mobilised Rs 416 billion.

The highest resource mobilisation was witnessed in 2007–08: net resources worth Rs 1,587 billion were mobilised from the MF industry, compared to Rs 941 billion attracted by the industry in 2006–07. Because of the global crisis, the resources mobilised by the industry were quite volatile for the last couple of years. The fiscal year 2008–09 witnessed a sharp drop in the net resources mobilised compared to the previous year's numbers, aggregating Rs -242 billion, as private sector MFs witnessed a net outflow of Rs 305 billion. The trend was reversed in 2009–10; the net resources mobilised totalled Rs 785 billion. The year 2010–11 witnessed a slowdown once again, with the net resource mobilisation by all the MFs aggregating Rs -486 billion. The MF industry continued to witness a decline in 2011–12; the net resources mobilised during this year were Rs -454 billion. Encouragingly, the trend reversed once again in 2012–13, with the net resource mobilisation by all the MFs aggregating Rs 788 billion. The year 2013–14 continued to record positive net resource mobilisation (Rs 546 billion) by the MF industry, albeit at a slower pace compared to that in the preceding year. In 2014–15, there was a sudden trend reversal in the resource mobilisation pattern of the MF industry. There was a net outflow of funds from UTI MFs, bank-sponsored MFs, and FI-sponsored MFs, but the private sector MFs recorded a manifold increase in the resources mobilised. The net resources mobilised by the MF industry registered a 100% increase in the total resources mobilised, which was driven solely by the increase in resource mobilisation by the private sector MFs. This trend was in sharp contrast to the pattern observed in the previous years, where a rise in the resource mobilisation by the MF industry corresponded to a general increase in the resources mobilised by all the key players. The net resources mobilised by the MF industry in 2014–15 totalled Rs 1,094 billion, compared to Rs 546 billion in 2013–14.

In 2015-16, the net resources mobilised by the MF industry increased further to Rs 1,318 billion, the highest it has been since 2007-08. The industry witnessed across-the-board growth with all the sub-sectors - UTI MFs, bank-sponsored MFs, FI-sponsored MFs, and private sector MFs - registering a net inflow of funds. In 2015-16, net resources mobilised by the MF industry increased by 28% to a level of Rs 1,318 billion but net investment in private sector MF has decreased from Rs 1,063 billion to Rs 875 billion.

Table 3-1: Net Resource Mobilised by Mutual Funds

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

Source: RBI

A.3.2.1.3 Sales, purchases and AUM of MFs

Table 3-2 has annual data on sales, purchases and AUM of MFs. As on March 31, 2015, the number of MFs registered with the SEBI was 48. There were 1,884 mutual fund schemes as on March 31, 2015 which increased to 2,420 mutual fund schemes as on March 31, 2016. Of these, 1,730 were income/debt oriented schemes, 413 were growth/equity-oriented schemes, and 28 were balanced schemes. In addition there were 13 gold exchange traded funds, 45 other ETFs and 30 schemes operating fund of funds During 2015-16, the aggregate sales of all the schemes amounted to Rs 1,37,655.5 billion, and purchases during the year equaled Rs 1,36,314 billion (Table 3-2).

A.3.2.1.4 Institution-wise Resource Mobilization

The resource mobilization through the route of mutual funds is conducted by three categories: banks, private sector, and institutions. The structure of the institution-wise resource mobilization is depicted in Table 3-2 and Table 3-3, which gives the details of the sales, purchases (redemptions), and assets under management.

Private sector MFs accounted for 77.7% of the resource mobilization (sales) by the MF industry in 2015-16. The private sector MFs witnessed a net inflow of Rs 901.8 billion (US $ 13.9 billion) in 2015-16, registering a decline of 15.2% over the previous year.

In 2015-16, bank-sponsored MFs mobilized resources worth Rs 28,249 billion, which was 34.6 % higher than the resource mobilization in 2014-15 (Rs 20,987 billion). The bank-sponsored schemes accounted for 20.5% of the gross resource mobilization in 2015–16. In net terms, the bank-sponsored MFs witnessed an inflow of Rs 430 billion (US $ 6.5 billion) in 2015-16, as compared to an outflow of Rs 20 billion during the previous year.

Table 3-2: Accretion of Funds with Mutual Funds

Category			2014-15				2015-16				Assets Under Management					
			Sale (Rs mn)	Purchase (Rs mn)	Net Sales (Rs mn)	Net Sales (US $. Mn)	Sale (Rs mn)	Purchase (Rs mn)	Net Sales (Rs mn)	Net Sales (US $. Mn)	March-14# (Rs mn)	March-14# (US $ mn)	March-15# (Rs mn)	March-15# (US $ mn)	March-16# (Rs mn)	March-16# (US $ mn)
A	**Bank Sponsored**		**2,09,87,350**	**2,10,07,110**	**-19,760**	**-323**	**2,82,49,160**	**2,78,19,240**	**4,29,920**	**6,481**	**16,51,040**	**26,725**	**19,60,700**	**32,069**	**24,28,360**	**36,609**
	i.	Joint Ventures - Predominantly Indian	90,88,480	90,80,330	8,150	133	1,26,41,560	1,23,71,630	2,69,930	4,069	7,68,360	12,437	8,88,030	14,525	12,00,360	18,096
	ii.	Joint Ventures-Foreign	15,64,370	15,80,020	-15,650	-256	18,56,360	18,54,320	2,040	31	81,060	1,312	71,720	1,173	96,560	1,456
	iii.	Others	1,03,34,500	1,03,46,760	-12,260	-201	1,37,51,240	1,35,93,290	1,57,950	2,381	8,01,620	12,975	10,00,950	16,371	11,31,440	17,057
B	**Institutions**		**7,95,310**	**8,05,770**	**-10,460**	**-171**	**23,92,440**	**23,82,350**	**10,090**	**152**	**1,07,520**	**1,740**	**96,440**	**1,577**	**1,35,140**	**2,037**
C	**Private Sector (i+ii+iii+iv+v)**		**8,90,79,940**	**8,80,16,840**	**10,63,100**	**17,388**	**10,70,13,950**	**10,61,12,160**	**9,01,790**	**13,595**	**72,92,640**	**1,18,042**	**98,29,760**	**1,60,775**	**1,09,70,930**	**1,65,392**
	i.	Indian	3,25,05,360	3,22,21,380	2,83,980	4,645	3,69,51,290	3,64,38,800	5,12,490	7,726	22,92,550	37,108	29,92,200	48,940	33,42,060	50,383
	ii.	Joint Ventures-Predominantly Indian	5,02,89,110	4,96,01,420	6,87,690	11,248	6,13,44,820	6,08,38,280	5,06,540	7,636	41,24,660	66,764	56,71,310	92,759	63,66,920	95,984
	iii.	Joint Ventures - Predominantly Foreign	33,91,400	34,06,890	-15,490	-253	19,66,590	20,46,480	-79,890	-1,204	2,86,050	4,630	3,01,010	4,923	1,89,300	2,854
	iv	Foreign	28,94,070	27,87,150	1,06,920	1,749	22,19,160	22,31,600	-12,440	-188	5,89,380	9,540	8,65,240	14,152	8,12,780	12,253
	v	Joint Ventures - Others	0	0	0	0	45,32,090	45,57,000	-24,910	-376	0	0			2,59,870	3,918
Grand Total (A+B+C)			**11,08,62,600**	**10,98,29,720**	**10,32,880**	**16,894**	**13,76,55,550**	**13,63,13,750**	**13,41,800**	**20,228**	**90,51,200**	**1,46,507**	**1,18,86,900**	**1,94,421**	**1,35,34,430**	**2,04,038**

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

Table 3-3: Accretion of Funds with Mutual Funds (half-yearly comparison)

Category			April 15 - September 15				April 16 - September 16				Assets under management at the end of			
			Sale (Rs mn)	Purchase (Rs mn)	Net (Rs mn)	Net (US $. Mn)	Sale (Rs mn)	Purchase (Rs mn)	Net (Rs mn)	Net (US $. Mn)	September - 15 (Rs mn)	September - 15 (US $ mn)	September - 16 (Rs mn)	September - 16 (US $ mn)
A	**BanK Sponsored**		**1,28,31,850**	**1,26,12,840**	**2,19,010**	**3,410**	**1,76,70,730**	**1,71,52,700**	**5,18,030**	**7,810**	**22,20,190**	34,572	**29,50,600**	**44,482**
	i.	Joint Ventures - Predominantly Indian	58,11,690	57,38,020	73,670	1,147	72,32,860	69,67,930	2,64,930	3,994	10,13,940	15,789	14,78,960	22,296
	ii.	Joint Ventures- Predominantly Foreign	8,98,760	8,79,300	19,460	303	13,84,640	13,61,810	22,830	344	95,320	1,484	1,17,030	1,764
	ii.	Others	61,21,400	59,95,520	1,25,880	1,960	90,53,230	88,22,960	2,30,270	3,471	11,10,930	17,299	13,54,610	20,421
B	**Institutions**		**9,44,830**	**9,49,760**	**-4,930**	**-77**	**16,66,960**	**16,37,400**	**29,560**	**446**	**1,15,070**	1,792	**1,68,410**	**2,539**
C	**Private Sector (i+ii+iii+iv+v)**		**5,55,78,440**	**5,49,83,570**	**5,94,870**	**9,263**	**6,52,79,150**	**6,34,81,100**	**17,98,050**	**27,106**	**1,08,22,340**	1,68,520	**1,29,88,280**	**1,95,804**
	i.	Indian	2,12,98,700	2,09,87,610	3,11,090	4,844	1,31,63,890	1,28,70,890	2,93,000	4,417	34,50,560	53,730	20,62,530	31,094
	ii.	Joint Ventures- Predominantly Indian	3,13,56,550	3,10,54,340	3,02,210	4,706	4,68,13,230	4,54,69,780	13,43,450	20,253	61,63,660	95,977	93,47,690	1,40,921
	iii.	Joint Ventures - Predominantly Foreign	13,74,980	14,24,580	-49,600	-772	5,39,340	5,44,880	-5,540	-84	2,69,210	4,192	1,87,040	2,820
	iv	Foreign	14,67,980	14,35,470	32,510	506	25,79,750	24,44,150	1,35,600	2,044	9,15,250	14,252	11,46,290	17,281
	v	Joint Ventures - Others	80,230	81,570	-1,340	-21	21,82,940	21,51,400	31,540	475	23,660	368	2,44,730	3,689
Grand Total (A+B+C)			**6,93,55,120**	**6,85,46,170**	**8,08,950**	**12,597**	**8,46,16,840**	**8,22,71,200**	**23,45,640**	**35,362**	**1,31,57,600**	2,04,883	**1,61,07,290**	**2,42,825**

Source: AMFI Updates

A.3.2.1.5 Resource Mobilization as per Maturity Period/Tenor

The share of open-ended schemes in the total sales of mutual funds in 2015-16 continued to remain close to 100%. The share of open-ended schemes in the total sales of mutual funds was 99.7 % in 2015-16 as compared to 99.5% the previous year. Close-ended schemes and interval funds together accounted for a meagre 0.32 % of the total MF sales in 2015-16. Both close-ended schemes and interval funds witnessed a year-on-year decrease in sales 2015-16 over the previous fiscal year. The details of the sales and redemptions of the mutual funds based on their tenor for 2014-15 and 2015–16 are presented in Table 3-4.

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

Scheme	2014-15				2015-16			
	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase
	(Rs mn)		(US $ mn)		(Rs mn)		(US $ mn)	
Open-ended	11,02,62,220	10,87,09,390	18,03,438	17,78,040	13,58,67,897	13,72,13,972	20,28,112	20,68,566
Close-ended	5,75,450	10,50,750	9,412	17,186	4,24,552	4,31,324	6,337	6,502
Interval fund	24,930	69,580	408	1,138	21,296	10,255	318	155
Total	11,08,62,600	10,98,29,720	18,13,258	17,96,364	13,63,13,745	13,76,55,551	20,34,767	20,75,223

Source: AMFI Updates

A.3.2.1.6 Resource Mobilization as per Investment Objective

The liquid/money market schemes have become very popular among investors. The share of these schemes in the total sales was reported to be 93.8% of the gross resource mobilization in 2015-16. Further, the schemes also recorded a net inflow of Rs 171.1 billion (US $ 2.6 billion), as against Rs 97.8 billion (US $ 1.5 billion) However, in terms of net inflow of funds, it was the equity-oriented schemes that registered the maximum net inflow of Rs 676.1 billion (US $ 10.2 billion). The income/debt-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, and accounted for 4.5 % of the total sales of all the schemes in 2015-16,. The scheme-wise resource mobilization by MFs for 2014-15 and 2015-16 is depicted in Table 3-5.

Table 3-5: Scheme Wise Resource mobilization by Mutual Funds

Scheme	2014-15		2015-16			
	Net Inflow/ (Outflow)		Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)
	(Rs mn)	(US $ mn)	(Rs mn)		(US $ mn)	
Income	48,750	750	49,35,020	48,86,270	1,47,380	2,222
Equity	6,81,210	10,480	13,98,280	7,17,070	6,76,110	10,193
Balanced	98,260	1,512	1,54,170	55,910	1,97,430	2,976
Liquid/ Money Market	97,820	1,505	10,40,52,660	10,39,54,840	1,71,090	2,579
Gilt	77,120	1,186	1,31,330	54,210	7,590	114
ELSS-Equity	29,080	447	83,430	54,350	64,130	967
GOLD ETFs	-14,750	-227	1,180	15,930	-9,030	-136
Other ETFs *	22,510	346	1,00,440	76,050	87,240	1,315
**Funds of Funds Investing Overseas ** **	-9,000	-138	6,090	15,090	-4,170	-63
Total	10,32,880	15,890	11,08,62,600	10,98,29,720	13,41,800	20,228

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

A.3.2.1.7 Assets under Management

As on March 31, 2016, the MFs have managed assets totaling Rs 12,310 billion (US $ 185 billion) (Table 3-6). The open-ended schemes and the close-ended schemes accounted for 85.5% and 13.9%, respectively, of the total assets under management of MFs (Chart 3-1) as on March 31, 2016.

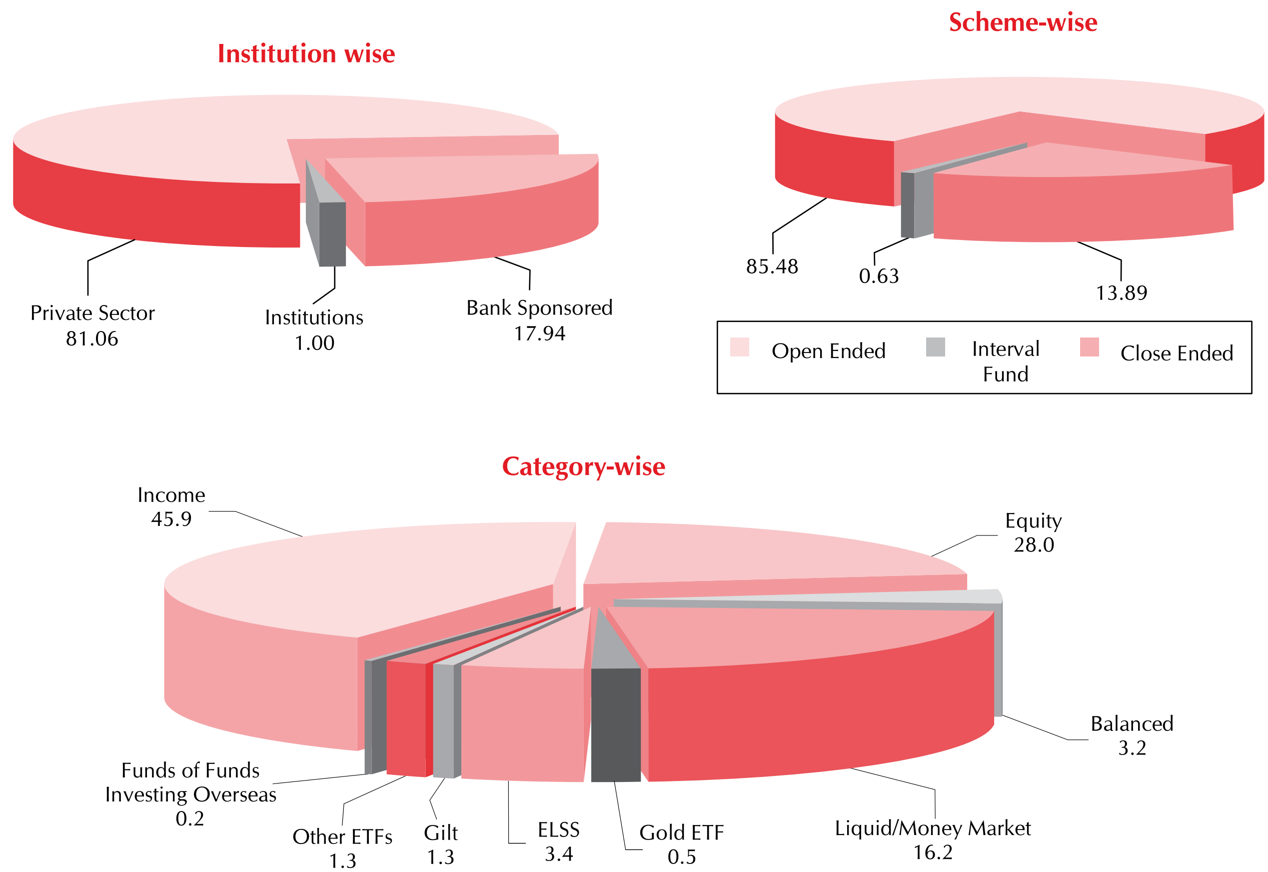
The income-oriented schemes accounted for 45.9% of the total assets under management at the end of March 2016, followed by the equity schemes with 28%. The liquid/money market schemes accounted for 16.2% of the assets under management of MFs (Chart 3-1).

Table 3-6: Assets under Management

Scheme	As on March 2015						As on March 31, 2016					
	Open Ended	Close Ended	Interval Fund #	Total	Total	Percent to total	Open Ended	Close Ended	Interval Fund #	Total	Total	Percent to total
	(Rs mn.)				(US $ mn)		(Rs mn.)				(US $ mn)	
Income	36,44,310	14,30,060	83,360	51,57,730	84,359	47.7	40,86,100	14,90,220	78,270	56,54,590	85,246	45.9
Equity	28,85,170	1,71,520		30,56,690	49,995	28.3	32,70,340	1,76,730		34,47,070	51,966	28
Balanced	2,63,680	-		2,63,680	4,313	2.4	3,91,460	-		3,91,460	5,901	3.2
Liquid/Money Market	16,25,620	-		16,25,620	26,588	15	19,94,040	-		19,94,040	30,061	16.2
Gilt	1,46,140	-		1,46,140	2,390	1.4	1,63,060	-		1,63,060	2,458	1.3
ELSS	3,64,620	30,080		3,94,700	6,456	3.6	3,88,860	28,100		4,16,960	6,286	3.4
Gold ETF	66,550	-		66,550	1,088	0.6	63,460	-		63,460	957	0.5
Other ETFs *	80,600	-		80,600	1,318	0.7	1,60,630	-		1,60,630	2,422	1.3
Funds of Funds Investing Overseas	24,080	-		24,080	394	0.2	19,670	-		19,670	297	0.2
Total	**91,00,770**	**16,31,660**	**83,360**	**1,08,15,790**	**1,76,901**	**100**	**1,05,37,620**	**16,95,050**	**78,270**	**1,23,10,940**	**1,85,594**	**100**

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

Chart 3-1: Assets Under Management of Mutual Funds as of March 2016 (in %)



Source: AMFI

A.3.2.1.8 Mutual Fund Service System (MFSS)

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

As many as 37 fund houses have joined the NSE MFSS platform as on September 30, 2016. During 2015-16, there were 6,93,665 orders placed for subscriptions worth Rs 44.3 billion and 76,222 orders worth Rs 31.9 billion were redeemed. The trend moved upwards in the April–September period of 2016-17, when 7,76,635 orders were placed for subscriptions worth Rs 35 billion and 1,21,531 orders worth Rs 24 billion were redeemed (Table 3-7).

Table 3-7: MFSS Trade Statistics

Date	Subscription		Redemption		Total orders
	No of orders	Total subscription amount (Rs mn)	No of orders	Total redemption amount (Rs mn)	
2011-12	1,09,814	4,891	10,662	3,353	1,20,476
2012-13	1,79,630	8,050	26,959	7,036	2,06,589
2013-14	2,00,221	15,004	34,714	11,972	2,34,935
2014-15	3,29,010	19,204	47,205	15,235	3,76,215
2015-16	6,93,665	44,339	76,222	31,896	7,69,887
April - Sep' 16	7,76,635	35,188	1,21,531	24,033	8,98,166

Source: NSE

A.3.2.1.9 NMF II for Mutual Fund Distributors & Investors

After SEBI allowed mutual fund distributors to use exchange infrastructure for facilitating mutual fund transactions for their clients, to allow distributors and members to access exchange infrastructure for executing mutual fund transactions, NSE developed an online platform NMF II. This is an online platform which facilitates subscription, redemption, Systematic Investment Plan (SIP), Systematic Withdrawal Plan (SWP), Systematic Transfer Plan (STP), Switch and other transactions of mutual fund units. At present, MFSS and NMF II are different platforms. At a later stage, once all the key features of MFSS are made available in NMF II, the MFSS platform may get merged into the new NMF II. NMF II is a web application and it can be accessed online from anywhere using a standard internet connection.

A.3.2.1.10 Unit Holding Pattern of Mutual Funds

The unit holding pattern of MFs depicted in Table 3-8 shows that individual investors accounted for 97.5% of the total number of investor accounts at the end of March 2016. This category was followed by NRIs/OCBs and corporates/ institutions, which constituted a meagre 1.7% and 0.8% of the total number of investor accounts, respectively. The corporates/institutions accounted for 48.8% of the net assets of the MF industry in 2015-16, followed by, "individuals" category which accounted for 46.7% of the net assets. The corporates/institutions saw the highest increase in net assets among the four categories, with a year-on-year improvement of 48.8% in 2015-16. Net assests holding by individuals and NRIs/OCBs have increased by 13.2% and 6.6%, respectively in 2015-16. On the other hand, FPIs witnessed a sharp decline of 45% in 2015-16 over the previous year.

Table 3-9 segregates the unit holding pattern of public sector-sponsored MFs and private sector-sponsored MFs. Individuals accounted for 96.8% of the total portfolios under the private sector-sponsored MFs compared to 98.7% holdings in the public sector-sponsored MFs. However, the opposite pattern of holdings was observed for NRIs/OCBs, for whom the holdings in total portfolios under private and public sector-sponsored MFs are 2.1% and 0.9%, respectively. The net asset value (NAV) of private sector-sponsored MFs witnessed an increase of 11.4% in 2015-16 over the previous year, whereas the public sector-sponsored MFs registered no growth during the same period.

Table 3-8: Unit Holding Pattern of Mutual Funds

Category	No. of Folios	Percentage to Total Folios	NAV (in Rs crore)	Percentage to Total Net Assets	No. of Folios	Percentage to Total Folios	NAV (in Rs crore)	Percentage to Total Net Assets
	2014-15				2015-16			
Individuals	4,06,06,623	97	5,08,032	47	4,64,67,881	98	5,75,217	47
NRIs/OCBs	7,31,081	2	41,363	4	8,01,841	2	44,095	4
FPIs	19,798	0	17,546	2	238	0	11,557	1
Corporates/ Institutions/Others	3,82,704	1	5,15,816	48	3,93,064	1	6,01,955	49
Total	**4,17,40,206**	**100**	**10,82,757**	**100**	**4,76,63,024**	**100**	**12,32,824**	**100**

Source: SEBI

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

Category	No. of Folios	Percentage to Total Folios under Private Sector	NAV (in Rs crore)	Percentage to Total Net Assets under Private Sector	No. of Folios	Percentage to Total Folios under Public Sector	NAV (in Rs crore)	Percentage to Total Net Assets under Public Sector	No. of Folios	Percentage to Total Folios under Private Sector	NAV (Rs crore)	Percentage to Total Net Assets under Private Sector	No. of Folios	Percentage to Total Folios under Public Sector	NAV (Rs crore)	Percentage to 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			
	2014-15								2015-16							
Individuals	2,62,85,069	96.6	4,25,238	46.3	1,43,21,554	98.6	82,794	50.2	3,04,49,453	96.8	4,80,474	47	1,60,18,428	98.7	94,743	44.9
NRIs/OCBs	6,01,263	2.2	37,200	4.1	1,29,818	0.9	4,163	2.5	6,58,173	2.1	39,512	3.9	1,43,668	0.9	4,583	2.2
FPIs	19,788	0.1	17,502	1.9	10	0	44	0	219	0	11,407	1.1	19	0	150	0.1
Corporates/ Institutions/ Others	3,15,761	1.2	4,37,822	47.7	66,943	0.5	77,994	47.3	3,33,585	1.1	4,90,641	48	59,479	0.4	1,11,314	52.8
Total	**2,72,21,881**	**100**	**9,17,762**	**100**	**1,45,18,325**	**100**	**1,64,995**	**100**	**3,14,41,430**	**100**	**10,22,034**	**100**	**1,62,21,594**	**100**	**2,10,790**	**100**

Source: SEBI

A.3.2.2 Exchange-Traded Funds

Exchange-traded funds (ETFs) have gained wide acceptance as financial instruments whose unique advantages over mutual funds have caught the eye of many investors. ETFs are baskets of securities that are traded, like individual stocks, on an exchange. Unlike regular open-end mutual funds, ETFs can be bought and sold throughout the trading day like any stock. These instruments are beneficial for investors who find it difficult to understand, analyse and pick stocks. Various mutual funds provide ETF products that attempt to replicate the indices on NSE (e.g. Nifty50) so as to provide returns that closely correspond to the total returns of the securities represented in the index. Most ETFs charge lower annual expenses than index mutual funds. However, as with stocks, one must pay a brokerage to buy and sell ETF units, which can be a significant drawback for those who trade frequently or invest regular sums of money. There are different types of ETFs available in NSE, viz. Equity ETF, Debt ETF, Gold ETF and International Indices ETF. The list of all NSE listed ETFs are given in Table 3-10.

Table 3-10: Exchange-Traded Funds listed in NSE

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

Contd.

Contd.

Issuer Name	Name	Symbol	Underlying	Launch Date
Reliance Nippon Life Asset Management Limited	Reliance ETF Junior BeES	JUNIORBEES	NIFTY Next 50	21-Feb-03
Reliance Nippon Life Asset Management Limited	Reliance ETF PSU Bank BeES	PSUBNKBEES	NIFTY PSU BANK	25-Oct-07
Reliance Nippon Life Asset Management Limited	Reliance ETF Shariah BeES	SHARIABEES	NIFTY50 Shariah Index	Mar-09
Reliance Nippon Life Asset Management Limited	Reliance ETF NV20	RELNV20	NIFTY50 Value 20 Index	Jun-15
List of Gold ETFs listed on NSE				
Axis Mutual Fund	Axis Gold ETF	AXISGOLD	Gold	Nov-10
Birla Sun Life Mutual Fund	Birla Sun Life Gold ETF	BSLGOLDETF	Gold	May-11
Canara Robeco MF	Canara Robeco Gold ETF	CANGOLD	Gold	Mar-12
HDFC Mutual Fund	HDFC Gold Exchange Traded Fund	HDFCMFGETF	Gold	Aug-10
ICICI Prudential Mutual Fund	ICICI Prudential Gold Exchange Traded Fund	IPGETF	Gold	Aug-10
IDBI AMC	IDBI Gold ETF	IDBIGOLD	Gold	Nov-11
Kotak Mutal Fund	Kotak Gold Exchange Traded Fund	KOTAKGOLD	Gold	Jul-07
Quantum Mutual Fund	Quantum Gold Fund (an ETF)	QGOLDHALF	Gold	Feb-08
Reliance Mutual Fund	Reliance Gold Exchange Traded Fund	RELGOLD	Gold	Nov-07
Religare Mutual Fund	Religare Gold Exchange Traded Fund	RELIGAREGO	Gold	Mar-10
SBI Mutual Fund	SBI Gold Exchange Traded Scheme	SBIGETS	Gold	Apr-09
UTI Mutual Fund	UTI GOLD Exchange Traded Fund	GOLDSHARE	Gold	Mar-07
Reliance Nippon Life Asset Management Limited	Reliance ETF Gold BeES	GOLDBEES	Gold	Mar-07
World Indices				
Motilal Oswal AMC	MOSt Shares NASDAQ 100	N100	Nasdaq 100	29-Mar-11
Reliance Nippon Life Asset Management Limited	Reliance ETF Hang Seng BeES	HNGSNGBEES	HangSeng	Mar-10
List of Debt ETFs listed on NSE				
LIC Nomura AMC	LIC Nomura MF G-Sec Long Term ETF - Reg - Growth	LICNMFET	Nifty 8-13 yr G-Sec Index	26-Dec-14
Reliance Nippon Life Asset Management Limited	Reliance ETF Liquid BeES	LIQUIDBEES	NIFTY 1 D rate Index	Jul-03
Reliance Nippon Life Asset Management Limited	Reliance ETF Long Term Gilt	RRSLGETF	NIFTY 4-8 yr G-Sec Index	Jul-16

A.4 Secondary Market

A.4.1 Introduction

The secondary market is where securities are traded after they are initially offered to the public in the primary market and/or are listed on the stock exchange. 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 SEBI. NSE has laid down rules and guidelines for various intermediaries with regard to the admission and fee structure for trading members, listing criteria, and the listing fees for companies. With the increased adoption of information technology, the trading platforms of 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 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.

A.4.2 Turnover and Market Capitalisation: Growth

Table 4-1 depicts the capital market turnover for various stock exchanges in India. Evidently, the National Stock Exchange of India (NSE) and the Bombay Stock Exchange (BSE) were the only stock exchanges that registered significant trading volumes in 2015-16. No other stock exchange in India reported any significantly large trading volumes during the aforementioned period. The NSE consolidated its position as the market leader by contributing 85.1% of the total turnover in India in 2015-16. Since its inception in 1994, the NSE has emerged as the favoured exchange among trading members. The NSE has been successful in creating a niche for itself not only in the national arena but also in international markets. Notably, NSE achieved phenomenal growth in both average daily turnover and market capitalisation in last decade with 10.6% and 12.7% CAGR respectively.

The trends in the turnover on the NSE and the BSE from 2014–15 to the first half of 2016-17 has been illustrated in Table 4-2. While the turnover on the exchanges have persistently increased during the period except in 2015-16 when turnover on the exchanges witnessed a decline, albeit not a very sharp one. In 2015-16, the average daily turnover on the NSE stood at Rs 171.5 billion, which marked a decrease of 3.7% compared to Rs 178.2 billion in 2014-15. The trend is reversed in the first half of 2016-17 as well; the average daily turnover on NSE increased to Rs 194.9 billion. The average daily turnover on the BSE decreased from Rs 35 billion in 2014-15 to Rs 30 billion in 2015-16. Later on at the end of the first half of 2016-17, the average daily turnover on the BSE increased further to Rs 37 billion.

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

Stock Exchanges		Capital Market Turnover				Share in Turnover (percent)	
		2014-15		2015-16			
		(Rs mn)	(US $ mn)	(Rs mn)	(US $ mn)	2014-15	2015-16
1	NSE	4,32,96,550	7,08,154	4,23,69,830	6,38,745	83.5	85.1
2	BSE	85,48,453	1,39,818	74,00,890	1,11,572	16.5	14.9
3	Calcutta	-	-	-	0	0	0
4	MSEI (MCX-SX)	3		2,060	31	0	0
	Total	**5,18,45,006**	**8,47,972**	4,97,72,780	7,50,348		100

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	
	Rs mn	US $ mn	Rs mn	US $ mn	Rs mn	US $ mn	Rs mn	US $ mn	Rs mn	US $ mn	Rs mn	US $ mn
2014-15	**4,32,96,550**	**7,03,317**	**85,48,453**	**1,38,863**	**1,78,175**	**2,894**	**35,179**	**517**	**9,93,01,220**	**16,13,067**	10,14,92,900	16,48,669
Apr-15	37,93,491	60,454	6,74,213	10,744	1,99,657	3,182	35,485	50.71	9,68,63,239	15,43,637	9,96,80,153	15,88,528
May-15	36,19,352	56,730	6,06,046	9,499	1,80,968	2,836	30,302	44.46	10,02,06,646	15,70,637	10,32,66,863	16,18,603
Jun-15	33,32,892	52,191	6,03,702	9,454	1,51,495	2,372	27,441	37.15	9,84,90,764	15,42,292	10,14,35,106	15,88,398
Jul-15	38,34,839	60,258	7,02,537	11,039	1,66,732	2,620	30,545	41.17	10,16,85,612	15,97,825	10,47,93,956	16,46,668
Aug-15	41,99,322	64,535	7,38,217	11,345	1,99,968	3,073	35,153	47.23	9,52,90,699	14,64,434	9,82,79,305	15,10,363
Sep-15	32,84,119	49,594	5,44,263	8,219	1,64,210	2,480	27,213	37.45	9,49,16,094	14,33,345	9,64,81,219	14,56,980
Oct-15	33,38,010	51,275	5,81,428	8,931	1,66,900	2,564	29,071	39.38	9,65,41,140	14,82,967	9,83,33,587	15,10,501
Nov-15	30,71,500	46,467	5,07,986	7,685	1,61,660	2,446	26,736	37	9,67,56,690	14,63,793	9,88,82,267	14,95,950
Dec-15	33,48,540	50,293	6,17,414	9,270	1,52,250	2,286	28,064	34.32	9,83,16,580	14,76,225	10,03,77,337	15,07,167
Jan-16	35,20,840	52,354	6,35,763	9,454	1,76,040	2,618	31,788	38.92	9,20,93,860	13,69,425	9,39,21,334	13,96,600
Feb-16	34,56,460	50,659	5,71,584	8,377	1,64,590	2,412	27,218	35.36	8,42,28,570	12,34,480	8,58,31,447	12,57,972
Mar-16	35,69,470	53,260	6,17,734	9,217	1,78,470	2,663	30,887	39.73	9,31,04,710	13,89,208	9,47,53,283	14,13,806
2015-16	**4,23,69,836**	**6,48,071**	**74,00,886**	**1,13,235**	**1,71,540**	**2,586**	**29,963**	**38.99**	**9,31,04,711**	**14,03,598**	**9,47,53,283**	**14,28,451**
Apr-16	30,94,800	46,538	4,91,741	7,395	1,71,930	2,586	27,319	38.88	9,52,25,890	14,31,968	9,71,05,386	14,60,231
May-16	38,76,480	57,944	5,95,207	8,897	1,76,200	2,634	27,055	39.37	9,74,05,510	14,55,987	9,92,86,782	14,84,107
Jun-16	38,34,840	56,981	6,07,400	9,025	1,74,310	2,590	27,609	38.49	10,10,03,360	15,00,793	10,28,55,487	15,28,313
Jul-16	40,73,320	60,615	6,80,325	10,124	2,03,670	3,031	34,016	45.1	10,67,52,110	15,88,573	10,86,35,808	16,16,604
Aug-16	47,06,260	70,348	7,40,839	11,074	2,13,920	3,198	33,675	47.8	10,91,06,960	16,30,896	11,09,94,229	16,59,107
Sep-16	45,89,200	68,804	7,59,153	11,382	2,29,460	3,440	37,958	51.58	10,86,60,631	16,29,095	11,07,36,481	16,60,217
Apr'16-Sep'16	**2,41,74,900**	**3,61,230**	**38,74,665**	**57,897**	**1,94,915**	**2,913**	**31,272**	**43.54**	**10,86,60,631**	**16,29,095**	**11,07,36,481**	**16,60,217**

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 ranked first, with 14,49,227 thousand trades at the end of December 2013. NSE retained its top position in the first half of 2014 as well, with 1,298,294 thousand trades in January–September 2014. However, as of end September 2015, NSE had slipped by two notches to the third position in terms of trades in equity shares. As of end September 2016, NSE retained the third spot, ranking marginally above NYSE Euronext (US). The trade details of the top-ranked stock exchanges are presented in Table 4-4.

Table 4-3: Share turnover velocity

Exchange	September 2013	September 2014	September 2015	September 2016
Shanghai Stock Exchange	198%	243%	270%	143%
National Stock Exchange of India Limited	47%	50%	41%	50%
Shenzhen Stock Exchange	293%	418%	426%	277%
Korea Exchange	98%	108%	133%	119%
BSE India Limited	7%	10%	7%	8%

Source : WFE Reports

Table 4-4: Total Number of Trades in Equity Shares - Electronic order book trade* (in thousands)

Exchange	End of September 2013	End September 2014	End September 2015	End September 2016
NYSE Euronext (US)	11,87,800	10,91,855	12,87,295	14,32,374
Shanghai Stock Exchange	11,53,367	8,76,613	41,34,931	17,99,428
NSE	14,49,227	12,98,294	14,37,133	14,33,956
Shenzhen SE	12,89,435	11,35,297	32,97,160	28,04,732
Korea Exchange	10,31,553	8,12,411	13,20,261	13,89,639

*Note: * Year to date.*
Source : WFE Reports

A.4.3 Market Movements

The movement of a few of the selected indices presented in Table 4-5 indicates the trends witnessed in the Indian and foreign markets during 2014-2015 and 2015-16. A global comparison of the selected indices indicates that in 2015-16, all the indices witnessed negative growth rates which declined sharply after year 2014-15. However, the positive trend is observed except in Nikkei Japan in the first half of 2016-17 (until September 2016).

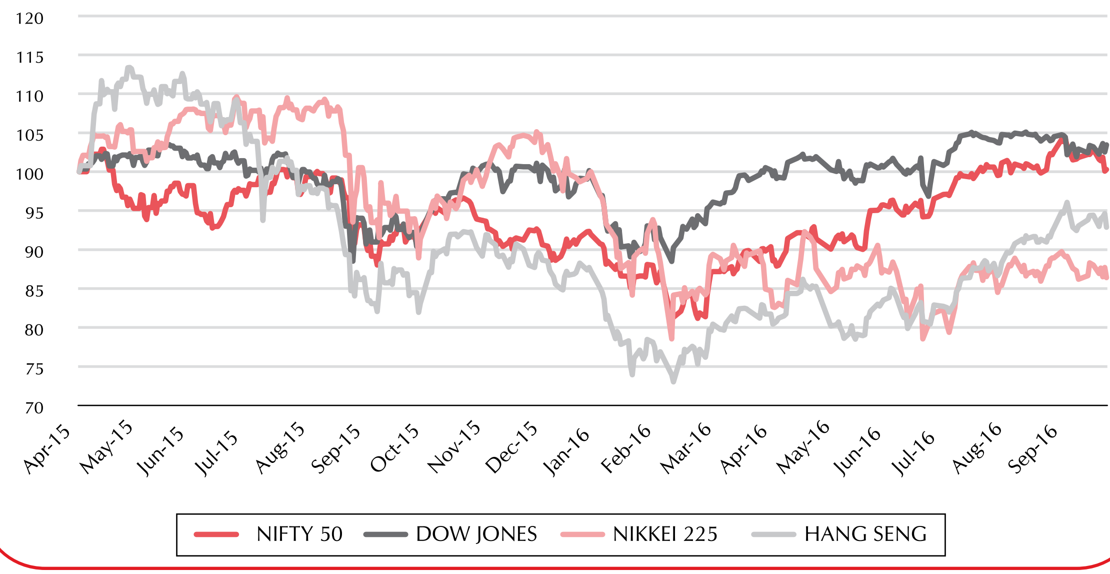
Table 4-5: Movement of Selected Indices on Indian & Foreign Markets

Region	Index - Country	End March 2015	End March 2016	End Sep 2016	Change during 2014-15 (Percent)	Change during 2015-16 (Percent)	Change during Apr – Sep'16 (Percent)
Americas	Dow Jones	17,976	17,685	18,308	23.30%	-1.60%	3.50%
	Nasdaq	4,901	4,870	5,312	50.00%	-0.60%	9.10%
Europe	FTSE 100- UK	6,773	6,175	6,899	5.60%	-8.80%	11.70%
	CAC 40 - France	5,034	4,385	4,448	34.90%	-12.90%	1.40%
Asia Pacific	Nifty 50 India	8,491	7,738	8,611	49.40%	-8.90%	11.30%
	S&P BSE Sensex- India	27,976	25,342	27,866	48.50%	-9.40%	10.00%
	Hang Seng- Hong Kong (China)	24,901	20,777	23,297	11.70%	-16.60%	12.10%
	Nikkei- Japan	19,207	16,759	16,450	54.90%	-12.70%	-1.80%
	Kospi - South Korea	2,041	1,996	2,044	1.80%	-2.20%	2.40%

Source: Yahoo Finance

A comparison of the movement of the Nifty with that of other major global indices over April 2015-September 2016 has been depicted in Chart 4-1.

Chart 4-1: Movement of NIFTY, Dow Jones, Nikkei 225, Hang Seng (Apr 2015-Sep 2016)



The stock market index, volatility, and P/E ratio for the two major indices of the Indian stock exchanges are presented in Table 4-6.

Table 4-6: Stock Market Index, Volatility and P/E Ratio: April '15 to Sep '16

Month/Year	Nifty 50			S&P BSE Sensex		
	Index	Volatility (Percent)**	P/E Ratio*	Index	Volatility (Percent)**	P/E Ratio*
Apr-15	8,182	0.9	22.1	27,011	1.1	19.4
May-15	8,434	1.2	23.1	27,828	0.6	19.9
Jun-15	8,369	1	23.2	27,781	0.9	20.7
Jul-15	8,533	0.9	23.2	28,115	0.5	22.5
Aug-15	7,971	1.6	22.1	26,283	1.5	21.9
Sep-15	7,949	1.3	22.2	26,155	0.5	20.6
Oct-15	8,066	0.5	22.1	26,657	0.5	21.8
Nov-15	7,935	0.5	21.5	26,146	0.5	20.6
Dec-15	7,946	0.6	21.5	26,117	0.6	19.9
Jan-16	7,564	1	20.2	24,871	1	18.5
Feb-16	6,987	1.1	18.9	23,002	1.1	17.5
Mar-16	7,738	0.8	20.9	25,342	0.7	18.6
Apr-16	7,850	1	21.2	25,607	1	19.4
May-16	8,160	0.9	22.6	26,668	1	19.5
Jun-16	8,288	0.8	22.8	27,000	0.8	19.6
Jul-16	8,639	0.6	23.6	28,052	0.6	20.5
Aug-16	8,786	0.7	24.1	28,452	0.7	20.8
Sep-16	8,611	0.8	23.4	27,866	0.8	20.9

Note: * *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

A.4.4 Returns in Indian Market

The performance of the Nifty 50, Nifty 500 and Nifty Junior for the last 1 month to 12 months (as at the end of March 2016 and September 2016) is presented in Table 4-7. Over 3 months, 6 months and 1-year horizon for the period ending March 2016, all the indices showed negative returns. The trend reversed during the first half of 2016-17; at the end of September 2016, all the indices were able to maintain positive growth rates in terms of 3-month, 6-month and 12-month returns.

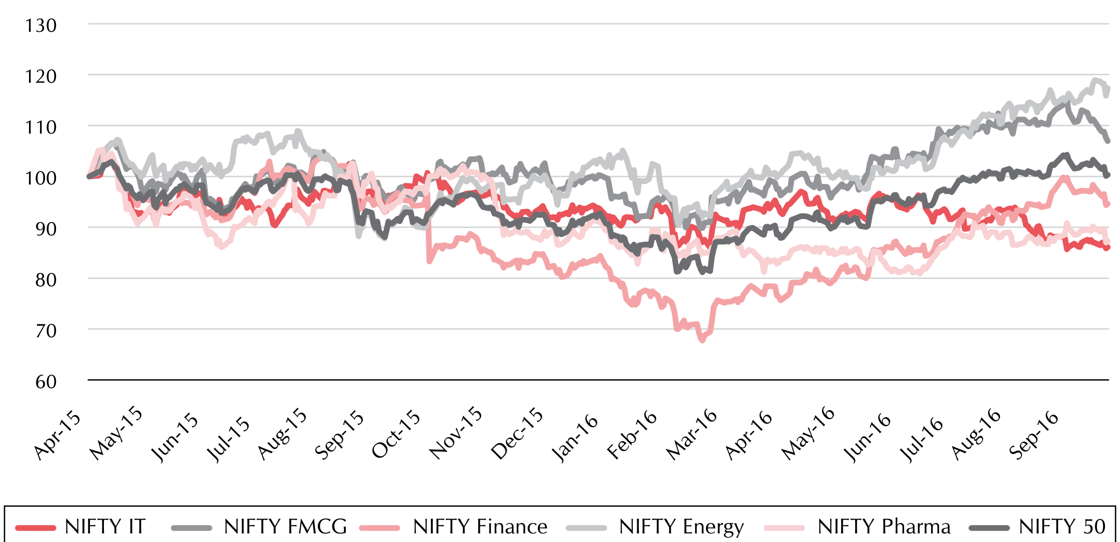
Table 4-7: Performance of Select Indices – NSE

As at end March 2016 - in percent				
	1 month	**3 months**	**6 months**	**1 year**
Nifty 50	10.75	-2.62	-2.65	-8.86
Nifty 500	10.67	-4.05	-2.92	-7.54
Nifty Junior	9.57	-6.11	-4.35	-3.52
As at end Sep 2016 - in per cent				
	1 month	**3 months**	**6 months**	**1 year**
Nifty 50	-1.99	3.9	11.28	8.33
Nifty 500	-1.28	5.93	14.61	11.27
Nifty Junior	-0.42	11.56	22.13	16.82

Source: NSE

The comparative performance of the five major sectoral indices—the NIFTY Energy Index, the NIFTY Finance Index, the NIFTY FMCG Index, the NIFTY Pharmaceuticals Index, and the NIFTY IT Index—with the NIFTY 50 Index for the period April 2015–September 2016 is depicted in Chart 4-2. This period was marked by high volatility, as indicated in Table 4-8.

Chart 4-2: Movement of Nifty 50 and Sectoral Indices (April 2015 - September 2016)



Source: NSE

Table 4-8: Performance of NSE Sectoral Indices

Month/ Year	Monthly Index Value*						Average Daily Volatility (Percent)					
	Nifty 50	Nifty FMCG	Nifty IT	Nifty Finance	Nifty Pharma-ceuticals	Nifty Energy	Nifty 50	Nifty FMCG	Nifty IT	Nifty Finance	Nifty Pharma-ceuticals	Nifty Energy
Apr-15	8,182	19,511	11,001	8,037	12,058	8,332	0.9	1.3	1.1	1.2	2.4	1
May-15	8,434	20,107	11,575	7,995	12,512	8,488	1.2	1.1	1.2	1	0.7	0.5
Jun-15	8,369	20,156	11,037	8,185	12,203	8,893	1	1.3	1.1	0.9	1	1.2
Jul-15	8,533	20,920	11,594	8,640	12,353	8,712	0.9	1	1.2	1	1.2	0.6
Aug-15	7,971	20,112	11,606	8,001	13,213	7,646	1.6	1.3	1.5	1.7	1.1	2.4
Sep-15	7,949	19,957	12,032	8,114	12,032	8,114	1.3	1	1	1	0.8	0.7
Oct-15	8,066	19,394	11,487	7,202	11,487	7,202	0.5	0.9	0.7	0.6	0.3	0.9
Nov-15	7,935	20,027	11,206	7,109	11,206	7,109	0.5	1.1	0.9	0.5	1.9	0.8
Dec-15	7,946	20,126	11,213	7,059	11,964	8,584	0.6	1.2	0.4	0.6	0.7	1.1
Jan-16	7,564	21,166	11,236	6,508	11,756	8,517	1	1	0.4	1.5	1	1
Feb-16	6,987	21,102	10,278	5,839	11,168	7,665	1.1	1.4	1.4	1.7	0.8	1.2
Mar-16	7,738	19,880	11,309	6,579	10,989	8,425	0.8	1.1	0.8	1	1.1	0.9
Apr-16	7,850	19,738	11,196	6,725	11,293	8,405	1	1.1	1.1	1.1	0.7	0.9
May-16	8,160	20,522	11,396	7,193	10,995	8,373	0.9	1.1	1	1.1	1	0.8
Jun-16	8,288	21,608	11,120	7,321	11,142	8,705	0.8	0.9	1	0.9	0.7	0.8
Jul-16	8,639	22,229	10,913	7,838	11,697	9,312	0.6	0.8	1.1	0.9	0.9	0.9
Aug-16	8,786	22,609	10,546	8,139	11,489	9,664	0.7	1	1	0.9	0.8	1
Sep-16	8,611	21,542	10,292	7,953	11,461	9,756	0.8	0.9	0.8	1	1.1	0.9

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

The monthly closing prices of these sectoral indices are presented in Table 4-88. The volatility across different sectoral indices for the period April 2015–September 2016 varied widely, as shown in Table 4-8.

A.4.5 Liquidity

In March 2016, the percentage of companies traded to companies listed on the NSE was 86.4%. In September 2016, 88.3% of the companies traded on the NSE (Table 4-9).

Table 4-9: Trading Frequency on NSE

Month/Year	NSE		
	No. of companies listed	Companies Traded	Percent of Companies Traded to Listed
Apr-14	1,690	1,551	91.8
May-14	1,692	1,551	91.7
Jun-14	1,695	1,556	91.8
Jul-14	1,696	1,555	91.7
Aug-14	1,696	1,554	91.6
Sep-14	1,699	1,555	91.5
Oct-14	1,706	1,555	91.1
Nov-14	1,707	1,558	91.3
Dec-14	1,708	1,551	90.8

Contd.

Contd.

Month/Year	NSE		
	No. of companies listed	Companies Traded	Percent of Companies Traded to Listed
Jan-15	1,718	1,549	90.2
Feb-15	1,719	1,503	87.4
Mar-15	1,733	1,514	87.4
Apr-15	1,740	1,518	87.2
May-15	1,749	1,519	86.8
Jun-15	1,750	1,517	86.7
Jul-15	1,756	1,521	86.6
Aug-15	1,772	1,574	88.8
Sep-15	1,779	1,535	86.3
Oct-15	1,781	1,534	86.1
Nov-15	1,786	1,541	86.3
Dec-15	1,794	1,549	86.3
Jan-16	1,797	1,548	86.1
Feb-16	1,800	1,550	86.1
Mar-16	1,808	1,563	86.4
Apr-16	1,806	1,561	86.4
May-16	1,811	1,566	86.5
Jun-16	1,822	1,575	86.4
Jul-16	1,839	1,592	86.6
Aug-16	1,831	1,598	87.3
Sep-16	1,822	1,608	88.3

Source: NSE

The share of companies that traded on the NSE for over 100 days declined from 92.5% in 2014-15 to 91.2% in 2015-16 (Table 4-10). In 2015-16, of the 1,703 stocks that were traded on the NSE, 3.6% witnessed trading for less than 11 days, which was marginally greater than 3.4% reported in 2014-15.

Table 4-10: Trading Frequency of NSE Listed Companies

Trading Frequency (Range of Days)	2014-15		2015-16	
	No. of Companies Traded	Percentage of Total	No. of Companies Traded	Percentage of Total
Above 100	1,564	92.5	1554	91.2
91-100	6	0.4	9	0.53
71-80	10	0.6	15	0.88
61-70	8	0.5	6	0.35
51-60	5	0.3	6	0.35
41-50	-	-	9	0.53
31-40	15	0.9	10	0.59
21-30	7	0.4	8	0.47
11-20	11	0.7	14	0.82
01-10	57	3.4	61	3.58
Total	1,691	100	1,703	100

Source: NSE

A.4.6 Takeovers

In 2015-16, there were 73 takeovers under the open category, involving Rs 117.6 billion (US$ 1.8billion), compared to 60 takeovers involving Rs 172.4 billion (US$ 2.8 billion) in the preceding year (2014-15) (Table 4-11). As of September 2016, there were 29 takeovers in 2016-17, involving Rs 53.8 billion (US $ 2.8 billion).

Table 4-11: Substantial Acquisition of Shares and Takeovers

Year	Open Offers								
	Objectives						Total		
	Change in Control of Management		Consolidation of Holdings		Substantial Acquisition				
	Number	Value (Rs mn)	Number	Value (Rs mn)	Number	Value (Rs mn)	Number	Value (Rs mn)	Value (US $ mn)
2011-12	57	1,87,260	8	2,860	6	2,940	71	1,93,060	3,774
2012-13	14	8,360	38	84,190	27	29,040	79	1,21,590	2,237
2013-14	59	77,210	10	3,76,440	6	460	75	4,54,110	7,576
2014-15	51	54,418	1	1,14,489	8	3,503	60	1,72,410	2,819
2015-16	61	68,684	6	28,473	6	20,503	73	1,17,660	1,774
Apr-Sep '16	24	48,267	3	1,948	2	3,592	29	53,807	804

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 (Rs mn)	Demat Turnover (Rs mn)	Market Capitalisation (Rs mn)*
2001-02	247	1,019	175	27,841	20,776	51,28,661	63,68,610
2002-03	251	899	240	36,407	24,621	61,79,845	53,71,332
2003-04	254	804	379	71,330	43,289	1,09,95,339	1,12,09,760
2004-05	253	856	451	79,769	45,062	1,14,00,720	1,58,55,853
2005-06	251	928	609	84,449	62,532	1,56,95,579	2,81,32,007
2006-07	249	1,114	785	85,546	78,124	1,94,52,865	3,36,73,500
2007-08	251	1,244	1,173	1,49,847	1,41,476	3,55,10,382	4,85,81,217
2008-09	243	1277	1,365	1,42,635	1,13,252	2,75,20,230	2,89,61,942
2009-10	244	1,359	1,682	2,21,553	1,69,591	4,13,80,234	6,00,91,732
2010-11	255	1,483	1,551	1,82,451	1,40,291	3,57,74,098	6,70,26,156
2011-12	249	1,551	1,438	1,61,698	1,12,890	2,81,08,930	6,09,65,180
2012-13	250	1,542	1,361	1,65,916	1,08,330	2,70,82,790	6,23,90,350
2013-14	251	1,586	1,443	1,53,372	1,11,892	2,80,84,884	7,27,77,200
2014-15	243	1,514	1,833	2,36,178	1,78,175	4,32,96,550	9,93,01,220
2015-16	247	1,613	1,852	2,20,177	1,71,538	4,23,69,829	9,31,04,710
Apr-16	18	1,561	133	16,283	1,71,933	30,94,795	9,52,25,890
May-16	22	1,566	162	19,380	1,76,203	38,76,476	9,74,05,510
Jun-16	22	1,575	165	23,347	1,74,311	38,34,844	10,10,03,360
Jul-16	20	1,592	158	25,065	2,03,666	40,73,317	10,67,52,110
Aug-16	22	1,598	180	22,767	2,13,921	47,06,258	10,91,06,960
Sep-16	20	1,608	170	23,206	2,29,460	45,89,200	10,86,60,631
Apr-Sep'16	124	1,650	969	1,30,048	1,16,949	2,41,74,890	10,86,60,631

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

A.5 Debt Market

A.5.1 Introduction[1]

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

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

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

A.5.2 Resource Mobilisation

In 2015-16, the government and the corporate sector collectively mobilised Rs 15,515 billion (US$ 234 billion) from the primary debt market, year-on-year increase of 7.2% (Table 5-1). Also, there was a significant increase in the share of government borrowings out of the total borrowings. About 66.7% of the resources were raised by the government (the central and the state governments), while the balance was mobilised by the corporate sector through public and private placement issues. The corporate sector witnessed an increase of 11.1% in primary market borrowings. The turnover in the secondary debt market in 2015-16 aggregated Rs 17,377 billion (US$ 262 billion).

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

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

Table 5-1: Debt Market—Select Indicators

Issuer / Securities	Amount raised from Primary Market* (Rs bn)		Turnover in Secondary Market (Rs bn)		Amount raised form Primary Market (US $ bn)		Turnover in Secondary Market (US $ bn)	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Government	9,820	10,336	6,710	7,153	161	156	2,949	108
Corporate/Non-Government	4,659	5,179	10,913	10,224	72	78	47	154
Total	**14,479**	**15,515**	**17,623**	**17,377**	**233**	**234**	**2,996**	**262**

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

A.5.2.1 Government

The net borrowings of the central and the state governments rose by 6.6%, from Rs 6,710 billion in 2014-15 to Rs 7,153 billion in 2015-16. While there was a 1.6% decline in the net borrowings of the central government, the 25% increase in the net borrowing of the state governments was sufficient to offset the decline.

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

Type of Government	Gross Market Borrowings						Net Market Borrowings					
	2013-14 (Rs bn)	2013-14 (US $ bn)	2014-15 (Rs bn)	2014-15 (US $ bn)	2015-16 (Rs bn)	2015-16 (US $ bn)	2013-14 (Rs bn)	2013-14 (US $ bn)	2014-15 (Rs bn)	2014-15 (US $ bn)	2015-16 (Rs bn)	2015-16 (US $ bn)
Central	7,005	116	7,412	112	**7,390**	112	4,750	79	4,654	70	4,455	67
State	1,967	32	2,408	36	**2,946**	44	1,646	27	2,075	31	2,594	39
Total	**8,971**	**149**	**9,820**	**148**	**10,336**	**156**	**6,396**	**106**	**6,729**	**101**	**7,048**	**106**

Source: RBI

A.5.2.2 Corporates

Private placement mechanism dominates the resource mobilisation through corporate bonds. The trend of resource mobilisation through private placement is shown in Table 5-3a. Resource mobilisation through the private placement mechanism increased by 13.3% in 2015-16 as compared to the previous year (Table 5-3a). Resource mobilisation through public issues increased sharply by 248% in 2015-16 as compared to the previous year (Table 5-3b).

Table 5-3a: Private Placement of Corporate Bonds

Year/ Month	NSE		BSE		Common		Total	
	No. of Issues	Amount (Rs crore)	No. of Issues	Amount (Rs crore)	No. of Issues	Amount (Rs crore)	No. of Issues	Amount (Rs 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	**1,198**	**2,06,676**	**1,619**	**1,52,281**	**158**	**99,116**	**2,975**	**4,58,073**
Apr-16	112	15,602	189	20,167	13	5,310	314	41,079
May-16	89	24,470	167	21,549	16	13,782	272	59,801
Jun-16	102	13,102	180	9,521	25	10,953	307	33,576
Jul-16	98	20,214	189	8,491	16	8,070	303	36,774
Aug-16	85	23,285	268	31,265	22	16,615	375	71,165
Sep-16	97	18,689	191	33,333	10	15,930	298	67,952
Apr-Sep'16	**583**	**1,15,362**	**1,184**	**1,24,327**	**102**	**70,659**	**1,869**	**3,10,347**

Source: SEBI

Table 5-3b: Public Issues of Corporate Bonds

Year/ Month	Total	
	No. of Issues	Final Issue Size (Rs crore)
2012-13	20	16,982.05
2013-14	35	42,382.97
2014-15	25	9,713.43
2015-16	**20**	**33,811.92**
Apr-Sep 16	**10**	**23,892.53**

Source: SEBI

A.5.3 Secondary Market

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

A.5.3.1 Settlement of Trades in Government Securities

8,83,363 trades in government securities amounting to Rs 97,38,003 crores which were settled by the Clearing Corporation of India Ltd. (CCIL) in 2015-16 (Table 5-4a). Also, 86,324 repo and 2,17,499 CBLO transactions amounting to Rs 1,20,74,239 and 2,44,00,432 crores respectively were settled in 2015-16.

Table 5-4a: Settlement of Trades in Government Securities

Month	Central Government		SDL		T-Bills		Total	
	Trades	Value (Rs Cr)	Trades	Value (Rs Cr)	Trades	Value (Rs Cr)	Trades	Value (Rs Cr)
2012-13	5,85,729	55,73,135	15,887	1,46,663	57,926	9,12,575	6,15,288	65,82,592
2013-14	7,81,796	79,48,581	17,591	1,54,863	19,122	8,35,851	8,18,509	89,39,294
2014-15	9,42,919	91,58,870	17,005	1,83,032	18,730	8,24,402	9,78,654	1,01,66,304
2015-16	8,37,777	85,69,937	28,839	3,18,187	16,747	8,49,878	8,83,363	97,38,003
Apr-16	91,666	10,50,716	2,619	31,926	1,354	84,089	95,639	11,66,731
May-16	73,177	7,62,602	2,783	36,015	1,229	58,854	77,189	8,57,471
Jun-16	96,380	10,62,650	3,154	44,857	1,883	96,466	1,01,417	12,03,973
Jul-16	1,64,819	19,30,525	3,813	58,988	1,772	90,135	1,70,404	20,79,649
Aug-16	1,49,444	18,20,490	3,901	64,097	1,619	90,369	1,54,964	19,74,956
Sep-16	1,14,720	14,19,066	4,398	64,430	1,608	93,009	1,20,726	15,76,505

Source: CCIL

Table 5-4b: Settlement of Repos and CBLO

Month	Repo		CBLO	
	Trades	Value (Rs Cr)	Trades	Value (Rs Cr)
2012-13	45,658	71,40,685	1,81,747	1,71,96,500
2013-14	56,261	78,59,871	2,12,485	1,73,37,484
2014-15	70,570	89,74,887	2,11,905	1,79,18,854
2015-16	86,324	1,20,74,239	2,17,499	2,44,00,432
Apr-16	5,273	6,85,427	14,029	12,22,747
May-16	7,125	9,32,212	17,696	16,21,758
Jun-16	7,867	10,00,663	19,250	17,27,229
Jul-16	7,066	9,85,113	18,805	17,33,233
Aug-16	7,822	10,79,758	19,962	19,58,326
Sep-16	7,007	11,24,165	18,464	18,44,074

Source: CCIL

The market shares of top five members in settlement of government securities are shown in Table 5-5.

Table 5-5: Market share of top five members in settlement of Government Securities (Category-wise in Percentage)

Categories	Cooperative Bank	Foreign Bank	Public Sector Bank	Private Bank	Mutual Fund	Primary Dealer
No. of members	54	37	20	20	26	7
2002-03	87.0	75.9	41.4	50.7	59.8	62.0
2003-04	76.7	75.5	43.9	53.3	55.5	63.0
2004-05	82.3	77.9	51.2	69.1	57.0	61.9
2005-06	75.1	77.9	53.5	71.6	56.5	57.0
2006-07	77.2	76.0	52.6	73.7	68.0	72.4
2007-08	86.7	75.0	55.3	73.0	70.2	86.2
2008-09	82.2	76.3	52.5	76.8	66.1	86.8
2009-10	72.1	79.9	48.0	79.6	64.2	82.4
2010-11	62.1	83.1	49.0	74.6	66.5	84.8
2011-12	61.2	75.9	51.5	74.4	68.0	82.4
2012-13	55.5	77.3	48.9	83.4	65.4	82.1
2013-14	55.3	81.2	45.7	86.5	65.1	85.4
2014-15	58.7	82.1	47.6	80.4	66.2	87.3
2015-16	60.6	86.1	50.2	83.2	63.9	89.2
Apr-16	56.0	86.4	43.8	77.0	64.5	90.8
May-16	49.1	89.6	45.7	79.4	66.5	88.6
Jun-16	51.5	87.5	51.1	79.9	61.4	90.8
Jul-16	57.4	87.9	47.0	78.2	63.2	93.5
Aug-16	61.6	91.7	51.2	86.9	72.2	97.6
Sep-16	54.6	83.9	44.5	78.0	60.2	94.3

Source: CCIL

A.5.3.2 Trading in Corporate Bonds

The data on corporate bond trading (Table 5-6) at NSE and BSE includes the trades on the respective trading systems as well as reporting of the trades carried out in the OTC market. The value of the trades on the NSE decreased by 8.1% to Rs 8,148 billion (US$ 123 billion) in 2015-16 from Rs 8,868 billion (US$ 145 billion) in the previous fiscal year. The BSE turnover in 2015–16 was Rs 2,076 billion (US$ 31 billion).

Table 5-6: Secondary Market Corporate Bond Trades at the Exchanges and OTC

Year	BSE			NSE		
	No. of trades	Amount (Rs mn)	Amount (US $ mn)	No. of trades	Amount (Rs mn)	Amount (US $ mn)
2010-11	4,465	3,95,810	8,865	8,006	15,59,510	34,927
2011-12	6,424	4,98,420	9,741	11,973	19,34,350	37,806
2012-13	8,639	5,16,224	9,496	21,141	24,21,050	44,533
2013-14	10,187	10,30,270	17,189	20,809	27,57,010	45,998
2014-15	17,710	20,45,055	33,471	58,073	88,67,875	1,45,137
2015-16	16,900	20,76,520	31,305	53,223	81,47,560	1,22,828

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

Source: SEBI

A.5.3.3 Settlement of Trades in Corporate Bonds

In 2015-16, 53,856 trades in corporate bonds amounting to Rs 7,136 billion (US$ 1076 billion) were settled by the NSCCL and the ICCL (Table 5-7). NSE accounted for 92% of total trading volume settled for the year 2015-16.

Table 5-7: Settlement Statistics of Corporate Bonds

Month	NSCCL			ICCL			MSEI CCL			Total		
	Total No. of Trades Settled	Settled Value Rs mn	Settled Value US $ mn	Total No. of Trades Settled	Settled Value Rs mn	Settled Value US $ mn	Total No. of Trades Settled	Settled Value Rs mn	Settled Value US $ mn	Total No. of Trades Settled	Settled Value Rs mn	Settled Value US $ mn
2014-15	46,107	65,14,230	1,05,818	7,737	4,24,804	6,901	8	8	0	53,852	69,39,037	1,12,719
2015-16	**44,629**	**65,57,060**	**98,850**	**9,227**	**5,78,740**	**8,725**	**0**	**0**	**0**	**53,856**	**71,35,800**	**1,07,576**

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

Appendix

Table 5-A1: Historical Summary of corporate bond trading (Rs Crore)

Period	Total		Average	
	Trades	Value	Trades	Value
2008-09	-	1,45,828	-	621
2009-10	-	4,02,157	-	1,690
2010-11	43,795	5,98,604	177	2,423
2011-12	51,439	5,91,979	216	2,487
2012-13	66,180	7,36,347	275	3,055
2013-14	69,518	9,72,156	287	4,017
2014-15	72,364	10,13,504	305	4,276
2015-16	**63,701**	**9,05,333**	**264**	**3,757**
Apr-16	5,302	64,438	331	4,027
May-16	5,629	63,172	256	2,871
Jun-16	5,751	74,592	261	3,391
Jul-16	6,013	83,570	301	4,178
Aug-16	5,931	80,459	282	3,831
Sep-16	6,932	1,08,996	347	5,450
Apr-Sep'16	**35,557**	**4,75,226**	**294**	**3,927**

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

Table 5-A2: Category-wise Corporate Bond trading (Rs Crore)

Year	Categories					
	Finance	Infrastructure	Manufacturing	Oil	Others	Total
2008-09	1,02,644	17,543	7,468	4,952	13,222	1,45,828
2009-10	2,32,669	50,546	25,739	18,186	75,017	4,02,157
2010-11	3,94,887	75,663	26,536	16,916	84,602	5,98,604
2011-12	3,44,743	99,947	8,781	13,948	1,24,560	5,91,979
2012-13	3,34,871	1,31,421	38,073	7,613	2,24,370	7,36,348
2013-14	5,80,267	1,88,209	42,594	17,945	1,43,141	9,72,156
2014-15	5,36,550	2,48,001	41,028	15,605	1,72,320	10,13,504
2015-16	**5,48,616**	**2,59,910**	**41,691**	**4,182**	**50,933**	**9,05,333**
Apr-16	40,572	20,452	1,223	391	2,695	65,333
May-16	36,833	21,724	1,972	60	2,536	63,125
Jun-16	48,398	19,017	2,024	793	4,535	74,766
Jul-16	49,469	19,112	3,331	4,590	7,494	83,995
Aug-16	54,291	15,953	1,819	731	5,522	78,316
Sep-16	65,877	19,143	6,085	117	4,050	95,273
Apr-Sep'16	**2,95,441**	**1,15,401**	**16,454**	**6,681**	**26,831**	**4,60,808**

Source: CCIL

Table 5-A3: Historical Summary of CP, CD and Corporate Bond Repo trading (Rs Crore)

Period	CDs				CPs			CB Repo		
	Trades	Value	Average Value	Weighted avg yield %	Trades	Value	Average Value	Trades	Value	Average Value
2012-13	39,624	18,33,097	13,283	9	10,831	5,86,796	4,252	33	723	5
2013-14	34,228	16,98,860	7,020	9	9,223	5,53,702	2,288	25	1,962	8
2014-15	28,958	15,60,787	6,586	9	11,687	7,41,289	3,128	64	2,015	9
2015-16	**22,454**	**12,72,810**	**5,281**	**8**	**14,531**	**9,04,256**	**3,741**	**177**	**8,378**	**32**
Apr-16	2,243	1,31,408	8,213	7	1,064	73,525	4,595	25	1,058	66
May-16	1,893	1,07,578	4,890	7	1,717	1,09,897	4,995	12	218	10
Jun-16	1,646	94,561	4,298	7	1,357	1,01,317	4,605	31	383	17
Jul-16	1,079	58,270	2,914	7	1,361	89,672	4,484	24	1,079	54
Aug-16	1,098	66,742	3,178	7	1,483	1,20,286	5,728	40	584	28
Sep-16	1,514	93,532	4,677	7	1,397	1,08,070	5,403	69	2,180	109
Apr-Sep'16	**9,473**	**5,52,092**	**4,563**	**7**	**8,379**	**6,02,767**	**4,982**	**201**	**5,502**	**45**

Source: CCIL

A.6 Derivatives Market

A.6.1 Introduction

The emergence and growth of the market for derivative instruments can be traced back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. Let us consider an example of how buying put options of a stock minimizes downside risk. Suppose that an investor bought 1000 shares of a company a year ago and that the company's stock has increased from Rs 100 to Rs 150 over the last year. The investor likes to hold on to the stock but is concerned about price correction that could accompany such a strong upmove. The investor can meet his or her objective by buying put options of the stock. If the investor buys the put option with an exercise price of Rs 150 and an expiry day six months into the future, he or she will be able to guarantee a sale price of Rs 150 irrespective of the stock price performance over the next six months. To get this insurance from downside risk, the investor pays the option premium. Thus use of put option limits downside risk while the investor continues to gain if the stock price rises further.

Derivatives are meant to facilitate the hedging of price risks of inventory holdings or a financial/commercial transaction over a certain period. By locking in asset prices, derivative products minimize the impact of fluctuations in asset prices on the profitability and cash flow situation of risk-averse investors, and thereby, serve as instruments of risk management. Also, now that world markets for trade and finance have become more integrated, derivatives have strengthened important linkages between global markets and have facilitated the flow of trade and finance. As an example, suppose that an Indian exporter sells its product to an American company for 10,000 USD, with the payment to be made in USD by the US company to the Indian exporter at the end of three months. Suppose the current exchange rate is Rs 65/USD. Thus, if the Indian exporter is paid immediately, it would receive Rs 6,50,000. However, payment is due after three months and thus the Indian exporter faces the risk that the Indian rupee appreciates (for example, becomes 63/USD). The Indian exporter can protect its Rupee revenue from possible exchange rate appreciation while still benefiting if the exchange rate depreciates (for example, becomes 66/USD) by buying a put option on the USD today. Similarly, importers who need to make payments in USD in the future, can buy call option on the USD today to lock-in the exchange rate.

A.6.2 History

Following 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 derivative to be launched in the Indian market, followed by index options in June 2001, options in individual stocks in July 2001, and futures in single stock derivatives in November 2001. Since then, equity derivatives have come a long way. New products, rising volumes and the best risk management framework for exchange-traded derivatives have been the hallmark of the journey of equity derivatives in India so far.

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 response of Indian investors to the equity derivatives segment has been extremely positive (Table 6-1). The turnover of derivatives on NSE increased from Rs 24 billion in 2000–01 to Rs 313,497 billion in 2011–2012 and further to Rs 382,114 billion in 2013-14. In 2015-16, the figure reached Rs 648,258 billion maintaining a continuous upward trend. The average daily turnover in the derivatives segment of NSE was Rs 2,624.5 billion in 2015-16 as compared to Rs 2,288.3 billion in 2014-15. Thus, average daily turnover of futures and options segment of NSE increased by 14.7% in 2015-16.

The various kinds of equity derivative contracts that are traded on NSE are shown in table 6-1 including the derivatives on global indices such as Dow Jones, S&P 500 and FTSE 100.

Table 6-1: Benchmark Indices-Contracts and Volume in Futures and Options Segment of NSE for the Fiscal Year 2015-16 and first half of 2016-17

Indices	No. of Contracts Traded	Traded Value (Rs mn.)	Traded Value (US $ mn.)	Percentage of Contracts to total contracts (%)	No. of Contracts Traded	Traded Value (Rs mn.)	Traded Value (US $ mn.)	Percentage of Contracts to total contracts (%)
	2015-2016				Apr-Sep 2016			
Index Futures								
BANKNIFTY	3,44,95,234	1,57,83,442	2,37,943	1.96	1,23,23,868	76,28,156	1,14,998	2.35
NIFTY INFRA	76	25	0	0.00	23	11	0	0.00
NIFTY IT	99,556	32,544	491	0.01	26,225	13,733	207	0.00
NIFTY PSE	47	15	0	0.00	0	0	0	0.00
DJIA	1,00,282	46,459	700	0.01	28,396	15,274	230	0.01
FTSE100	201	74	1	0.00	25	14	0	0.00
NFTYMCAP50	5,757	1,764	27	0.00	9	6	0	0.00
NIFTY	10,57,50,888	2,96,63,143	4,47,186	5.99	2,33,61,051	1,45,20,092	2,18,897	4.45
S&P500	86,633	43,670	658	0.00	44,740	23,469	354	0.01
Index Options								
BANKNIFTY	13,33,29,754	4,61,842	6,962	7.56	15,02,94,631	3,36,032	5,066	28.62
NIFTY INFRA	0	0	0	0.00	0	0	0	0.00
NIFTY IT	1,072	5	0	0.00	34	0	0	0.00
NIFTY PSE	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	1,49,01,97,652	30,69,137	46,269	84.48	33,90,38,809	13,87,494	20,917	64.56
S&P500	8	0	0	0.00	0	0	0	0.00
Total of all Indices	1,76,40,67,160	4,91,02,120	7,40,238	100.00	52,51,17,811	2,39,24,282	3,60,670	100.00
Total of Nifty Index Futures and Options	1,59,59,48,540	3,27,32,280	4,93,455	-	36,23,99,860	1,59,07,586	2,39,814	-

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

A.6.3 Global Derivative Markets

As per the WFE IOMA 2015 derivatives report, the volume of futures and options traded on exchanges around the world grew by 12% year-on-year in 2015. Currency derivatives experienced a remarkable surge in volumes by 37%. Trading of commodity derivatives grew by 26%. The equity derivatives increased by 6% y-o-y. The "Total others'' category that comprises a wide range of products like volatility index options, exotic options and futures, REIT derivatives, dividend and dividend index derivatives also experienced increase in total volume by 58%. Total volume of exchange-traded derivatives in 2015 was 23.4 billion contracts, up from 20.9 billion in 2014. It was third year in a row that volumes increased (Table 6-2).

Table 6-2: Number of exchange traded derivatives traded worldwide (millions of contracts)

Sl. No.	Category	2014	2015	Change
1	**Total Equity**	**11,849**	**12,596**	**6%**
1.1	Single Stock Options	3,841	3,522	-8%
1.2	Single Stock Futures	987	999	1%
1.3	Stock Index Options	3,154	3,748	19%
1.4	Stock Index Futures	2,370	2,769	17%
1.5	ETF Options	1,495	1,558	4%
1.6	ETF Futures	1	1	-4%
2	**Total Interest Rates**	**3,268**	**3 267**	**-0.10%**
2.1	STIR Options	356	341	-4%
2.2	STIR Futures	1,382	1,339	-3%
2.3	LTIR Options	204	227	11%
2.4	LTIR Futures	1,326	1,361	3%
3	**Total Currency**	**1,881**	**2,585**	**37%**
3.1	Currency Options	225	467	108%
3.2	Currency Futures	1,656	2,118	28%
4	**Total Commodity**	**3,427**	**4,323**	**26%**
4.1	Commodity Options	223	237	6%
4.2	Commodity Futures	3,203	40,861	28%
5	**Total 'other'**	**428**	**655**	**58%**
5.1	Other Options	194	158	-19%
5.2	Other Futures	221	496	125%
5.3	Other Derivatives	14	1.1	-92%
	Grand Total	**20,864**	**23,428**	**12%**

Note: Based on the number of contracts traded and/or cleared at 47 exchanges worldwide who have responded to this year's survey
Source: WFE IOMA 2015 derivatives report, April 2016

Table 6-3 provides the ranking of the top 15 exchanges in terms of the number of futures and options traded and/or cleared in 2014 and 2015. NSE has improved its ranking over time 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 NSE had maintained the fourth position worldwide till 2014, which has further improved to 3 in 2015.

Table 6-3: Global Futures and Options Volume

Exchanges	Volume (in million)		Growth
	2014	2015	2015
CME Group	3,443	3,530	2.50%
Eurex	2,098	3,464	65%
National Stock Exchange of India Limited	1,880	3,060	62.70%
Moscow Exchange	1,413	1,659	17.40%
Shanghai Futures Exchange	842	1,349	60%
BM&FBOVESPA S.A.	1,420	1,276	-10%
Chicago Board Options Exchange	1,325	1,122	-15%
ICE Futures Europe	623	538	-14%
Zhengzhou Commodity Exchange	676	1,070	58%
Nasdaq US	1035	945	-8.70%
Korea Exchange	686	779	13.50%
NYSE Derivatives	894	712	-20%
International Securities Exchange	608	600	0%
BSE Limited	732	610	-16%

Note: Total volume include all F&O trade volume in individual stocks, stock index, commodity derivatives, interest rate derivatives, currency derivatives and others

Source: WFE Annual Statistics Guide 2015

A.6.4 Indian Derivative Markets

A.6.4.1 Turnover

The total turnover in equity derivatives at NSE and BSE decreased from Rs 759,692 billion in 2014-15 to Rs 693,008 billion in 2015-16 (Table 6-4). In 2015-16 at NSE, 2,098 million contracts with a turnover of Rs 648,258 billion (US$ 9,772 billion) were traded while at BSE 106.2 million contracts were traded with trading value of Rs 44,750 billion (US$ 674.6 billion).

A.6.4.2 Product-wise turnover

The index options segment continued to remain the clear leader in the product-wise turnover of the futures and options segment of NSE in 2015-16 (Table 6-5). In 2015-16, the notional turnover in the index options category was 75.5% of total turnover in the F&O segment of NSE. There was a marginal decline in the percentage share of index futures and stock futures in 2015-16. During the first half of 2016-17, index options constituted around 75.4% of the total turnover in F&O segment, whereas the turnover of index futures and stock future has further declined to 5.31% and 0.67% of total turnover respectively.

Table 6-4: Trade Details of Equity Derivatives Market

Month/Year	NSE			BSE			TOTAL		
	No. of Contracts Traded	Turnover (Rs mn.)	Turnover (US $ mn)	No. of Contracts Traded	Turnover (Rs mn.)	Turnover (US $ mn)	No. of Contracts Traded	Turnover (Rs mn.)	Turnover (US $ mn)
2010-11	1,03,42,12,062	29,24,82,211	65,50,553	5,623	1,540	34	1,03,42,17,685	29,24,83,751	65,50,588
2011-12	1,20,50,45,464	31,34,97,318	62,68,683	3,22,22,825	80,84,770	1,58,915	1,23,72,68,289	32,15,82,088	64,27,599
2012-13	1,13,14,67,418	31,53,30,040	58,00,229	26,24,43,366	7,16,35,180	13,17,669	1,39,39,10,784	38,69,65,220	71,17,898
2013-14	1,28,44,24,321	38,21,14,077	63,75,198	28,56,40,217	9,21,94,346	15,38,172	1,57,00,64,538	47,43,08,423	79,13,370
2014-15	1,83,70,41,131	55,60,64,527	90,94,938	50,54,78,869	20,36,27,413	33,30,511	2,34,25,20,000	75,96,91,939	1,24,25,449
2015-16	**2,09,86,10,395**	**64,82,58,343**	**97,72,803**	**10,62,09,394**	**4,47,50,083**	**6,74,629**	**2,20,48,19,789**	**69,30,08,426**	**1,04,47,431**
Apr-16	9,66,09,734	5,39,52,719	8,13,363	88,173	44,602	672	9,66,97,907	5,39,97,321	8,14,035
May-16	11,33,60,348	6,37,61,281	9,61,232	1,022	550	8	11,33,61,370	6,37,61,831	9,61,240
Jun-16	11,62,00,233	6,71,68,406	10,12,596	452	263	4	11,62,00,685	6,71,68,668	10,12,600
Jul-16	9,88,38,812	6,69,77,277	10,09,714	4,560	3,180	48	9,88,43,372	6,69,80,457	10,09,762
Aug-16	11,40,82,924	7,92,37,830	11,94,548	17,431	12,246	185	11,41,00,355	7,92,50,076	11,94,733
Sep-16	12,00,17,026	8,67,07,804	13,07,161	6,596	4,740	71	12,00,23,622	8,67,12,544	13,07,233
Apr-Sep'16	**65,91,09,077**	**41,78,05,317**	**62,98,614**	**1,18,234**	**65,581**	**988**	**65,92,27,311**	**41,78,70,897**	**62,99,603**

Source: BSE, NSE

Table 6-5: Product wise turnover in the equity derivative segment of NSE

Year	Index Futures			Stock Futures			Index Options				Stock Options				Total		Average Daily Turnover (Rs mn.)
	No. of contracts	Turnover (Rs mn.)	Percentage share in total turnover	No. of contracts	Turnover (Rs mn.)	Percentage share in total turnover	No. of contracts	Premium Turnover (Rs mn)	Notional Turnover (Rs mn.)	Percentage share in total turnover	No. of contracts	Premium Turnover (Rs mn)	Notional Turnover (Rs mn)	Percentage share in total turnover	No. of contracts	Turnover (Rs mn)	
2010-11	16,50,23,653	4,35,67,545	14.90	18,60,41,459	5,49,57,567	18.79	65,06,38,557	19,26,379	18,36,53,657	62.79	3,25,08,393	2,04,750	1,03,03,441	3.52	1,03,42,12,062	29,24,82,211	11,51,505
2011-12	14,61,88,740	3,57,79,984	11.41	15,83,44,617	4,07,46,707	13.00	86,40,17,736	25,30,682	22,72,00,316	72.47	3,64,94,371	1,96,129	97,70,311	3.12	1,20,50,45,464	31,34,97,318	12,59,025
2012-13	9,61,00,385	2,52,71,307	8.01	14,77,11,691	4,22,38,719	13.40	82,08,77,149	18,43,832	22,78,15,742	72.25	6,67,78,193	3,42,886	2,00,04,273	6.34	1,13,14,67,418	31,53,30,040	12,66,386
2013-14	10,52,70,529	3,08,52,965	8.07	17,04,14,186	4,94,92,817	12.95	92,85,65,175	24,40,907	27,76,73,413	72.67	8,01,74,431	4,64,284	2,40,94,886	6.31	1,28,44,24,321	38,21,14,081	15,22,367
2014-15	12,93,03,044	4,10,72,152	7.39	23,76,04,741	8,29,17,662	14.91	137,86,42,863	26,53,156	39,92,26,634	71.80	9,14,79,209	6,17,326	3,28,25,523	5.90	1,83,70,41,131	55,60,64,534	22,88,331
2015-16	**14,05,38,674**	**4,55,71,136**	**7.03**	**23,42,43,967**	**7,82,86,060**	**12.08**	**1,62,35,28,486**	**35,12,210**	**48,95,19,306**	**75.51**	**10,02,99,174**	**6,11,184**	**3,48,81,738**	**5.38**	**2,09,86,10,395**	**64,82,58,343**	**26,24,528**
Apr-16	60,59,350	33,34,389	6.18	1,31,29,520	64,76,029	12.00	7,10,45,932	2,72,203	4,09,20,272	75.84	63,74,932	49,408	3,22,203	0.60	9,66,09,734	5,39,52,719	2,99,737
May-16	71,66,531	40,18,933	6.30	1,57,83,401	77,58,215	12.17	8,25,48,799	3,18,623	4,80,50,811	75.36	78,61,617	65,113	3,93,332	0.62	11,33,60,348	6,37,61,281	2,89,824
Jun-16	68,31,756	40,08,918	5.97	1,48,03,058	78,09,116	11.63	8,69,03,821	3,15,535	5,12,98,547	76.37	76,61,598	67,680	4,05,182	0.60	11,62,00,233	6,71,68,406	3,05,311
Jul-16	47,01,956	31,74,600	4.74	1,39,05,533	92,75,722	13.85	7,23,11,766	2,43,848	4,91,39,266	73.37	79,19,557	87,343	5,38,769	0.80	9,88,38,812	6,69,77,277	3,34,886
Aug-16	56,81,464	38,92,967	4.91	1,55,04,379	1,06,24,756	13.41	8,49,11,344	2,78,903	5,91,22,918	74.61	79,85,737	89,560	5,59,719	0.71	11,40,82,924	7,92,37,830	3,60,172
Sep-16	53,43,280	37,70,949	4.35	1,50,06,450	1,05,82,711	12.21	9,16,11,812	2,94,414	6,65,12,028	76.71	80,55,484	88,326	5,84,212	0.67	12,00,17,026	8,67,07,804	4,33,539
Apr-Sep' 16	**3,57,84,337**	**2,22,00,756**	**5.31**	**8,81,32,341**	**5,25,26,550**	**12.57**	**48,93,33,474**	**17,23,526**	**31,50,43,840**	**75.40**	**4,58,58,925**	**4,47,429**	**28,03,417**	**0.67**	**65,91,09,077**	**41,78,05,317**	**20,23,470**

Source: NSE

A.6.4.3 Open Interest

Open interest is the total number of unsettled derivative contracts on a security; i.e. the number of futures or options that have not been exercised, expired or fulfilled by delivery. Increasing open interest means that fresh positions are being taken on the security, while declining open interest means that the positions are being squared off. Open interest in the equity derivatives segment at the end of the year 2015-16 at NSE was 29,08,184 in terms of number of contracts as compared to 68,37,326 in 2014-15. In terms of value, the figure stood at Rs 1,544 billion at the end of 2015-16 as compared to Rs 1,793 billion in the previous year end (Table 6-6).

Table 6-6: Open Interest in Various Equity Derivatives Segment at NSE (Year-end)

Segment	No. of Contracts		Value (Rs Cr.)	
	2014-15	2015-16	2014-15	2015-16
Equity Derivatives	68,37,326	29,08,184	1,79,344	1,54,411
Index Futures	9,20,979	3,34,124	21,800	18,806
Stock Futures	21,99,054	10,85,544	63,994	50,986
Index Options	34,33,267	13,93,706	85,327	80,161
Stock Options	2,84,026	94,810	8,223	4,459

Source: SEBI Annual Report

A.6.4.4 Implied Interest Rate

In the futures market, the implied interest rate and cost of carry is often used interchangeably. Cost of carry is more appropriately used for commodity futures, as by definition it means the total cost incurred to keep a commodity or any other good for the future. 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 and the spot value, annualized on the basis of the number of days before the expiry of the contract. For example, if a stock is currently trading at Rs 100 and its two-year future contract is trading at Rs 121, the implied interest rate is 10%. Implied interest rate is also a measure of the profitability of an arbitrage position. Theoretically, if the futures price is less than the spot price plus cost of carry, or if the futures price is greater than the spot price plus cost of carry, arbitrage opportunities exist.

The difference between the future and the spot price is called basis. As the time to expiration approaches, the basis reduces.

A.6.4.5 Implied Volatility

Volatility is one of the important factors that are taken into account while pricing options. One could work out the implied volatility by entering all the parameters into an option pricing model, and then solving it for volatility. For example, the Black Scholes model solves for the fair price of the option by using the following parameters: days to expiry, strike price, spot price, and volatility of underlying, interest rate, and dividend. The reverse of this model could be used to arrive at the implied volatility by putting the current price of the option prevailing in the market.

To put it simply, implied volatility is an estimate of how volatile the underlying will be from the present until the expiry of the option. If the volatility of the underlying is high, then the option premiums are relatively expensive because there is a greater chance to hit the strike price especially for out-of-money options. However, the implied volatility estimate can be biased, especially if they are based on options that are thinly traded.

A.6.4.6 Settlement

All derivative contracts are currently cash settled. In 2015-16, cash settlement increased to Rs 1,057 billion as compared to Rs 861 billion in 2014-15. During the first half of 2016-17, cash settlement amounted to Rs 885 billlion. The details of the settlement statistics in the F&O segment are presented in Table 6-7.

Table 6-7: Settlement Statistics in F&O Segment at NSE

Month/Year	Index/Stock Futures		Index/Stock Options		Total Settlement (Rs mn.)	Total Settlement (US $ mn.)
	MTM Settlement	Final Settlement	Premium Settlement	Exercise Settlement		
	(Rs mn.)					
2010-11	6,72,879	15,906	1,27,034	21,189	8,37,008	18,746
2011-12	5,66,629	12,735	1,27,983	15,615	7,22,962	14,132
2012-13	4,19,252	12,193	1,19,133	17,010	5,67,588	10,440
2013-14	4,22,910	14,253	1,32,573	21,575	5,91,311	9,865
2014-15	6,87,685	15,416	1,33,138	24,989	8,61,228	12,976
2015-16	**8,55,838**	**14,207**	**1,59,223**	**28,022**	**10,57,290**	**15,939**
Apr-16	45,224	1,758	13,757	62,213	1,22,952	1,854
May-16	54,122	1,866	12,834	70,279	1,39,101	2,097
Jun-16	53,832	1,654	13,294	72,512	1,41,292	2,130
Jul-16	47,989	1,203	11,450	62,729	1,23,371	1,860
Aug-16	57,633	790	12,279	72,044	1,42,746	2,152
Sep-16	87,239	5,871	13,072	1,08,924	2,15,106	3,243
Apr-Sep'16	**3,46,039**	**13,142**	**76,686**	**4,48,701**	**8,84,568**	**13,336**

Source: NSE

A.6.4.7 Business Growth in Currency Futures & Options Segment

The currency futures and options turnover on NSE increased by 49% from Rs 30,239 billion in 2014-15 to Rs 45,019 billion in 2015-16. The trading value for the period April 2016 to September 2016 was Rs 23,971 billion. Table 6-8 presents the business growth in the currency derivatives segment (currency futures and options volumes) on NSE while Table 6-9 presents the number of contracts and turnover for USD-INR futures and option contracts; and future contracts on Euro-INR, Japanese Yen-INR and GBP-INR.

Currency option contracts based on the currency pair USD-INR were launched by NSE on October 29, 2010. In 2015-16, number of USD-INR currency future contracts traded stood at 372 million with a traded value of Rs 24,528 billion. The total currency futures and options traded on NSE during 2015-16 stood at 673.6 million contracts with a traded value of Rs 45,019 billion, an 49% increase as compared to 2014-15.

Table 6-8: Business Growth in Currency Futures and options at NSE

Month/Year	Currency Futures		Currency Options			Total	
	No. of contracts	Turnover (Rs mn)	No. of contracts	Premium turnover (Rs mn)	Notional Turnover	No. of contracts	Turnover* (Rs mn)
2010-2011	71,21,81,928	3,27,90,021	3,74,20,147	9,467	17,07,856	74,96,02,075	3,44,97,877
2011-2012	70,13,71,974	3,37,84,889	27,19,72,158	71,007	1,29,65,010	97,33,44,132	4,67,49,899
2012-2013	68,41,59,263	3,76,51,053	27,50,84,185	1,01,100	1,50,93,593	95,92,43,448	5,27,44,647
2013-2014	47,83,01,579	2,94,08,859	18,18,90,951	72,972	1,07,16,275	66,01,92,530	4,01,25,135
2014-2015	35,55,88,963	2,24,79,923	12,50,75,731	31,645	77,59,153	48,06,64,694	3,02,39,077
2015-2016	**40,97,59,364**	**2,74,93,330**	**26,38,23,800**	**60,590**	**1,75,25,526**	**67,35,83,164**	**4,50,18,856**
Apr-16	2,91,62,057	19,84,079	2,23,36,853	4,489	14,99,229	5,14,98,910	34,83,308
May-16	3,33,68,426	23,03,087	2,90,75,094	6,088	19,62,878	6,24,43,520	42,65,965
Jun-16	4,57,74,934	32,08,004	3,34,40,957	8,071	22,68,674	7,92,15,891	54,76,678
Jul-16	2,37,57,025	16,52,560	2,20,94,587	3,923	14,99,826	4,58,51,612	31,52,386
Aug-16	2,46,49,243	16,98,092	2,45,98,002	4,515	16,61,963	4,92,47,245	33,60,055
Sep-16	2,98,38,524	20,38,597	3,25,86,802	5,933	21,94,359	6,24,25,326	42,32,956
Apr-Sep'16	**18,65,50,209**	**1,28,84,419**	**16,41,32,295**	**33,018**	**1,10,86,929**	**35,06,82,504**	**2,39,71,348**

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

Table 6-9: 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 (Rs mn)	No. of Contracts	Traded Value (Rs mn)	No. of Contracts	Traded Value (Rs mn)	No. of Contracts	Traded Value (Rs mn)	No. of Contracts	Traded Value in Rs Mn	No. of Contracts	Traded Value (Rs mn)
2014-15	12,50,75,731	77,59,153	32,49,14,009	1,99,82,050	1,33,98,536	10,32,606	55,04,289	3,03,278	1,17,72,129	11,61,990	48,06,64,694	3,02,39,077
2015-16	26,38,23,800	1,75,25,526	37,24,07,240	2,45,28,478	1,86,37,560	13,54,144	55,25,927	3,05,734	1,31,88,637	13,04,973	67,35,83,164	4,50,18,854
Apr-16	2,23,36,853	14,99,229	2,64,44,783	17,63,362	10,14,777	76,753	5,41,900	33,001	11,60,597	1,10,963	5,14,98,910	34,83,308
May-16	2,90,75,094	19,62,878	2,96,64,361	19,94,093	11,87,664	90,310	7,53,965	46,551	17,62,436	1,72,133	6,24,43,520	42,65,966
Jun-16	3,34,40,957	22,68,674	3,91,95,716	26,49,977	15,46,198	1,17,210	12,43,299	80,198	37,89,721	3,60,620	7,92,15,891	54,76,678
Jul-16	2,20,94,587	14,99,826	1,93,58,677	13,04,856	10,98,262	81,898	11,28,061	72,832	21,72,025	1,92,975	4,58,51,612	31,52,386
Aug-16	2,45,98,002	16,61,963	2,08,54,440	14,01,079	11,05,326	83,267	10,71,163	71,032	16,18,314	1,42,714	4,92,47,245	33,60,054
Sep-16	3,25,86,802	21,94,359	2,57,64,054	17,25,291	11,69,255	87,804	13,48,204	88,781	15,57,011	1,36,721	6,24,25,326	42,32,956
Apr-Sep'16	**16,41,32,295**	**1,10,86,929**	**16,12,82,031**	**1,08,38,658**	**71,21,482**	**5,37,242**	**60,86,592**	**3,92,395**	**1,20,60,104**	**11,16,126**	**35,06,82,504**	**2,39,71,348**

Note: Currency Futures on GBP-INR and JPY-INR were introduced w.e.f. February 01, 2010. For Options, Notional Value has been considered
Source: NSE

A.6.4.8 Interest Rate Futures

NSE had launched Interest Rate Futures (IRF) in June 2003. Trading in Interest Rate Futures (IRF) contracts on 91 Day GOI T-Bill was introduced at NSE on July 4, 2011. During 2015-16, total turnover of interest rate futures at NSE increased by 25% to Rs 5,26,425 crore from Rs 4,21,558 crore in 2014-15.

Table 6-10: Trading Statistics of Interest Rate Futures at NSE

Year/ Month	No. of Trading Days	Interest Rate Futures		Open Interest at the end of	
		No. of Contracts	Traded Value (Rs crore)	No. of Contracts	Value (Rs crore)
2013-2014	81	15,02,148	30,173	55,710	1,113
2014-2015	238	2,05,87,036	4,21,558	3,38,372	7,071
2015-16	**242**	**2,60,56,481**	**5,26,425**	**25,24,841**	**50,979**
Apr-16	18	15,04,083	30,289	1,57,229	3,172
May-16	22	11,48,618	23,131	1,55,964	3,139
Jun-16	22	10,03,943	20,214	1,37,103	2,775
Jul-16	20	9,42,851	19,302	1,48,705	3,082
Aug-16	22	10,88,283	22,532	1,50,564	3,143
Sep-16	20	8,17,622	17,057	95,582	2,011
Apr-Sep'16	**124**	**65,05,400**	**1,32,525**	**8,45,147**	**17,322**

Source: SEBI

Box 6.1: Importance of IFSC and recent developments in India

Rationale of IFSC: The securities market in India has matured substantially over the years and is on par with the best-in-class globally. The market has also witnessed a huge degree of globalization in terms of allowing the participation of foreign investors. However, many of the Indian products are being traded on the stock exchanges of other countries because of which the domestic stakeholders cannot adequately capture all the trading benefits and as such, the Indian economy loses out on a lot of income. Having a stock exchange at IFSC could result in bringing back a lot of these products to the Indian soil which could in turn result in lot of value creation for the domestic economy.

Recent policy developments in India: Securities and Exchange Board of India issued the International Financial Services Centres Guidelines, 2015 on March 27, 2015 which are effective from April 1, 2015. To further aid in the facilitation and regulation of the financial services relating to securities market in an IFSC, SEBI, on November 28, 2016, also issued the guidelines for functioning of Stock Exchanges and Clearing Corporations in IFSC.

Some of the key highlights of these guidelines are as under:

a. Participants: Any entity desirous of operating in an IFSC for rendering financial services relating to securities market, is required to comply with the provisions relating to registration or recognition, as the case may be, of applicable regulations of SEBI.

b. Market Structure: Single market structure to be adopted to achieve synergies and to facilitate ease of doing business. At present, the platform for various products traded on a stock exchange are segregated based on the products' respective asset class; for example, equity derivatives and currency derivatives are traded in different segments of the exchange. This requires market participants to maintain separate collaterals, margins, settlement accounts for each segment. By having a single market structure, such operational procedures for market participants is expected to be eased.

c. Trading Hours: Stock exchanges have been given the flexibility to decide trading hours for all product categories subject to maximum of 23 hours and 30 minutes in a day. The current market timings for Indian stock exchanges do not enable market participants to seize any trading opportunities in common products which are traded in India and across different global trading venues. Extension of market timings shall ensure that the stock exchanges in GIFT City are operating when the other leading global markets are also open, allowing the former to capture some of the trading opportunities. It will also allow international investors and Non Residents Indians to trade from anywhere across the globe.

d. Settlement: Settlement shall be done at least twice a day, instead of once as is the current practice.

e. Product Category: SEBI in its guidelines for IFSC issued in March 2015 had informed that the stock exchanges operating in IFSC may permit dealing in equity shares of a company incorporated outside India, depository receipt(s), debt securities issued by eligible issuers, currency and interest rate derivatives; Index based derivatives and other securities as may be specified by SEBI.

f. Dealings in these securities can be done in any currency other than Indian rupee.

g. Risk Management and Position Limit Framework applicable for various products traded in the IFSC may be independent of the same applicable on other Indian stock exchanges.

h. Arbitration, mediation and other dispute resolution mechanisms offered by International Arbitration Centre to be established in IFSC shall be available for the resolution of securities market-related disputes.

i. Business Continuity Plan (BCP) and Disaster Recovery (DR) shall be in place, in order to ensure preparedness to deal with any possible disruptive events.

India INX: BSE was first to establish the country's first international exchange at the International Financial Services Centre (IFSC), GIFT city Gandhinagar. BSE signed an agreement with GIFT SEZ Limited in January 2015 to set up International Exchange and International Clearing Corporation at the GIFT IFSC. India International Exchange IFSC Limited (India INX) and India International Clearing Corporation IFSC Limited (India ICC) are wholly owned subsidiaries of BSE Limited. India INX and the India ICC commenced mock trading from India INX's data centre at GIFT City from December 17, 2016

NSE IFSC: NSE IFSC obtained Certificate of Incorporation dated November 29, 2016 issued by the Registrar of Companies, Gujarat situated at Ahmedabad. NSE IFSC will offer a wide range of products in the segments of equity index derivatives, commodity derivatives, interest rate derivatives and currency derivatives. The NSE IFSC Exchange offers trading in Futures and Options contracts in 3 Indices and 109 Indian individual stock derivatives and also on 15 Global single stock derivatives. On NSE IFSC, the price of a currency derivatives contract is in terms of USD per unit of other currency e.g. Indian Rupees or Pound Sterling. Commodity Derivatives is a unique offering by NSE IFSC which aims to provide a robust trading platform for transacting derivatives based on precious metals, base metals and energy products. To begin with, only cash settled futures contracts on Gold and Silver products have been introduced. NSE IFSC has a product level agreement with the administrators of London Bullion Market Association's (LBMA) for using the respective Gold and Silver benchmark prices as reference price for settlement of derivative contracts. Trading volume of index derivatives crossed USD 100 million for the first time in a single day on NSE IFSC Limited on November 10. Trades in 8,590 contracts worth USD 88.73 million were executed in Nifty50 futures and 735 contracts worth USD 18.72 million were traded in Nifty Bank contracts.

A.7 Foreign Investments in India

A.7.1 Introduction

Since 1992, Foreign Institutional Investors (FIIs) have been allowed to invest in all traded securities on the primary and secondary markets, including shares, debentures and warrants issued by companies listed or to be listed on the major stock exchanges of India and in schemes floated by domestic mutual funds. All FIIs registered with SEBI are eligible to invest in India's primary and secondary capital markets (purchase shares and debentures) only through the country's Portfolio Investment Scheme (PIS).

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

Recently, SEBI introduced a new class of foreign investors in India known as the Foreign Portfolio Investors (FPIs) effective from June 2014. It was formed by merging the following existing classes of investors, namely, FIIs, QFIs, and the sub-accounts of FIIs. The investments and purchases of FPIs and private equity have been further discussed below.

A.7.2 FPI investments in India

Foreign portfolio investors hold a significant share of Indian equity shares (about 15%[1]), as developing economies like India provide a high growth potential compared to mature economies. This has been one of the major reasons for the strong FPI flows seen from 2011-12 to 2014-15 (see Table 7-1). However, inflows turned negative in 2015-16 as the Indian economy started dipping from the third quarter of 2015. At the same time the US economy was showing signs of recovery, and there were talks of interest rate hikes. This was the third time since FPIs entered Indian markets that they became net sellers for the year. The first time was seen in 1998-99 during the Asian crisis (Rs -16 bn), while the second time was during the Global Financial Crisis in 2008-09 (Rs -458 bn). Surprisingly, there was no crisis in 2015-16, and even then FPIs had begun withdrawing from emerging markets with India no exception.

[1] *FPI ownership for all NSE listed companies as of September 2016*

Table 7-1: Trends in FPI Investment

Period	Purchases (Rs mn)	Sales (Rs mn)	Net Investment (Rs mn)	Net Investment (US $ mn)
2001-02	4,99,199	4,11,650	87,549	1,846
2002-03	4,70,601	4,43,710	26,891	562
2003-04	14,48,575	9,90,940	4,57,635	9,949
2004-05	21,69,530	17,10,730	4,58,800	10,173
2005-06	34,49,780	30,55,120	3,94,660	9,334
2006-07	52,05,090	48,96,680	3,08,410	6,709
2007-08	94,80,196	83,89,304	10,90,892	16,040
2008-09	61,45,810	66,03,920	-458,110	-11,356
2009-10	84,64,400	70,37,810	14,26,580	30,253
2010-11	99,25,990	84,61,610	14,64,380	32,226
2011-12	92,12,850	82,75,620	9,37,250	18,923
2012-13	90,48,450	73,64,810	16,83,670	31,047
2013-14	90,29,350	96,93,620	4,50,080	8,876
2014-15	1,52,13,461	1,24,38,868	27,74,599	45,698
2015-16	**1,32,44,175**	**1,34,25,927**	**-181,751**	**-2,558**
Apr-16	11,86,093	10,37,751	1,48,342	2,231
May-16	10,71,263	10,89,922	-18,659	-279
Jun-16	11,77,113	12,02,187	-25,074	-373
Jul-16	12,02,844	10,08,271	1,94,573	2,895
Aug-16	12,75,218	12,10,753	64,465	964
Sep-16	14,60,498	12,58,172	2,02,326	3,039
Apr-Sep’16	**73,73,029**	**68,07,056**	**5,65,973**	**8,477**

Source: SEBI Bulletin

A.7.2.1 Category wise: Equity and Debt investments

In 2015-16, net FPI investments turn negative in both equity and debt segments. Total FPI outflows were Rs 141 billion in equity segment and Rs 40 billion in debt segment (Table 7-2). However, this trend has reversed in the first half of 2016-17 with net FPI inflows of Rs 876 bl in equity segment and Rs 25 bl in debt segment.

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

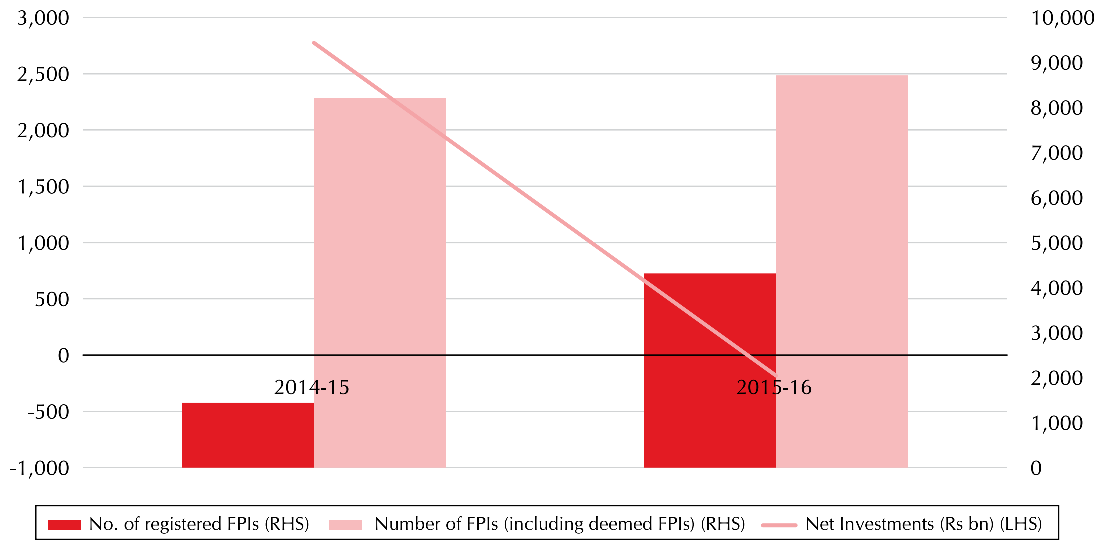
Year	FPIs			
	Net Investment in Equity (Rs mn)	Net Investment in Debt (Rs mn)	Net Investment in Equity (US$ mn)	Net Investment in Debt (US$ mn)
2014-15	**11,13,330**	**16,61,270**	**18,210**	**27,172**
Apr-15	1,17,210	36,120	1,868	576
May-15	-57,680	-85,040	-904	-1,333
Jun-15	-33,440	17,370	-524	272
Jul-15	53,190	40	836	1
Aug-15	-168,770	-6,470	-2,594	-99
Sep-15	-64,750	6,920	-978	105
Oct-15	66,500	1,57,009	1,022	2,412
Nov-15	-70,740	**-37,523**	-1,070	-568
Dec-15	-28,170	-54,878	-423	-824
Jan-16	-111,260	23,127	-1,654	344
Feb-16	-55,210	-81,948	-809	-1,201
Mar-16	2,11,430	-14,757	3,155	-220
2015-16	**-1,41,720**	**-40,040**	**-2,076**	**-537**
Apr-16	84,157	64,184	1,266	965
May-16	25,429	-44,087	380	-659
Jun-16	1,26,118	-62,202	552	-924
Jul-16	37,129	68,454	1,877	1,019
Aug-16	90,713	-26,249	1,356	-392
Sep-16	5,12,929	24,417	7,690	366
Apr-Sep'16	**8,76,475**	**24,517**	**13,121**	**375**

Source: NSDL, Bloomberg

A.7.2.2 Number of FPIs

The number of SEBI-registered FPIs increased significantly from 1,444 in 2014-15 to 4,311 in 2015-16, and total number of FPIs (including deemed FPIs) increased marginally from 8,214 to 8,717 over the same period (Chart 7-1). During this period, net investment declined significantly from Rs 2,775 billion in 2014-15 to Rs -182 billion in 2015-16.

Chart 7-1: Number of FPIs and Net Investment



Source: SEBI

A.7.3 Turnover of FPIs: Equity and Derivatives

A.7.3.1 Equity Market

In 2015-16, the gross turnover of FPIs in the equity market segment on the major Indian stock exchanges (NSE and the BSE) was Rs 21.9 trn, increment of 0.5% from the previous year. And, the ratio of FPI equity turnover to total turnover for both the exchanges (NSE and BSE) increased to 22 percent in 2015-16, reflecting a slight increase from 21% percent recorded in the previous year (Table 7-3 and Chart 7-2).

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

Year	Buy Value (Rs mn)	Buy Value US $ mn	Sell Value (Rs mn)	Sell Value (US$ mn)	Gross Turnover of FPIs (Rs mn)	Gross Turnover of FPIs (US$mn)	Total Turnover on Exchanges (Rs mn)	Total Turnover on Exchanges (US $ mn)	FPI turnover to total turnover (%)
2010-11	77,15,649	1,72,803	66,14,442	1,48,140	1,43,30,091	3,20,943	9,36,48,733	20,97,396	15
2011-12	63,70,594	1,24,531	59,33,226	1,15,982	1,23,24,747	2,40,922	6,95,67,816	13,59,902	18
2012-13	69,85,370	1,28,490	55,85,052	1,02,732	1,23,96,042	2,28,015	6,51,41,071	11,98,215	19
2013-14	77,41,739	1,29,163	69,44,656	1,15,865	1,36,87,624	2,28,365	6,66,03,060	11,11,207	21
2014-15	1,14,61,929	1,87,470	1,03,48,472	1,69,259	2,18,10,401	3,56,729	10,36,90,007	16,95,944	21
2015-16	**1,08,67,624**	**1,63,835**	**1,10,09,340**	**1,65,971**	**2,19,16,315**	**3,30,399**	**9,95,45,560**	**15,00,697**	**22**

Source: SEBI

A.7.3.2 Derivative Market

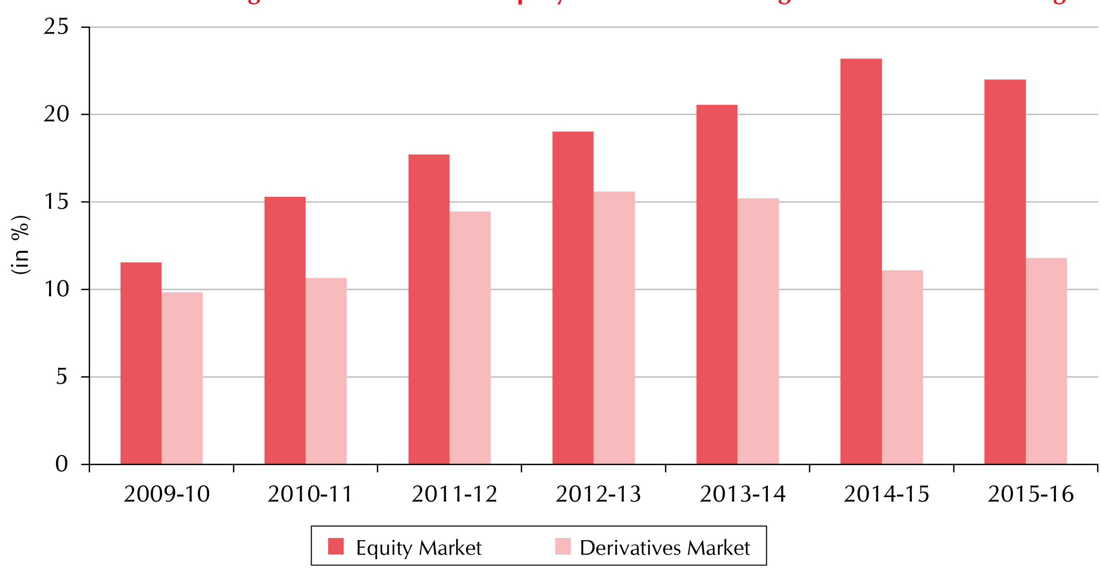
On the other hand, the turnover for derivatives rose by 22% yoy, with FPI turnover at Rs 153 trn in 2015-16. The FPI turnover constituted 11.8 percent of the total turnover in the F&O segment in the Indian capital markets during the same period (Table 7-4 and Chart 7-2).

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

Year	Buy Side			Sell side			Gross No. of contracts traded	Gross Turnover of FPIs		F&O Turnover		FPI Turnover to total F&O turnover
	No. of Contracts (mn)	Amount (Rs bn)	Amount (US$bn)	No. of Contracts (mn)	Amount (Rs bn)	Amount (US$bn)	No. of Contracts (mn)	Amount (Rs bn)	Amount (US$bn)	Amount (Rs bn)	Amount (US$bn)	
2012-13	181	49,902	918	177	49,108	903	358	99,010	139	6,30,660	11,600	15.7
2013-14	198	58,397	974	196	57,787	964	395	1,16,184	163	7,64,228	12,752	15.2
2014-15	202	63,287	1,035	199	62,511	1,022	401	1,25,798	177	11,12,129	18,190	11.3
2015-16	**225**	**77,236**	**1,164**	**220**	**75,837**	**1,143**	**446**	**1,53,072**	**2,308**	**12,96,517**	**19,546**	**11.8**

Source: NSE

Chart 7-2: Percentage of FPI turnover in Equity and Derivative segments of Stock Exchanges



Source: SEBI

A.7.3.3 Offshore Derivative Instruments (ODIs)

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

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

While popular during initial phase, ODIs have lost their charm over time. The share of ODIs in the assets under custody of FPIs has witnessed a continuous fall after reaching a peak in June 2007, as tightening of regulations by SEBI has made it difficult to use these instruments.

As of September 2016, the total value of ODIs with underlying Indian securities as a percentage of assets under custody of FPIs has declined to 8.3 percent from 11.3 percent in March 2015 (Table 7-5).

Table 7-5: Total Value of ODIs compared to Assets under Management of FPIs

Year/ Month	Notional value of ODIs on Equity, Debt & Derivatives (Rs mn)	Notional value of ODIs on Equity & Debt excluding Derivatives (Rs mn)	Assets Under Custody of FPIs/ Deemed FPIs (Rs mn)	Notional value of ODIs on Equity, Debt & Derivatives as % of Assets Under Custody of FPIs/Deemed FPIs	Notional value of ODIs on Equity & Debt excluding Derivatives as % of Assets Under Custody of FPIs/ Deemed FPIs
2014-15	27,20,780	21,16,050	2,41,18,100	11.3	8.8
2015-16	**22,30,770**	**16,94,700**	**2,22,45,370**	**10**	**7.6**
Apr-16	21,21,320	16,12,800	2,28,13,460	9.3	7.1
May-16	21,53,380	16,08,670	2,34,86,180	9.2	6.8
Jun-16	21,07,310	16,13,790	2,38,76,850	8.8	6.8
Jul-16	21,21,790	16,29,210	2,51,40,380	8.4	6.5
Aug-16	21,62,320	15,88,480	2,56,53,040	8.4	6.2
Sep-16	21,25,090	15,26,240	2,55,64,500	8.3	6

Source: SEBI

Notes: 1. Figures are compiled based on reports submitted by FPIs/deemed FPIs issuing ODIs. 2. Column 4 Figures are compiled on the basis of reports submitted by custodians & does not includes positions taken by FPIs/deemed FPIs in derivatives. 3. The total value of ODIs excludes the unhedged positions & portfolio hedging positions taken by the FPIs/deemed FPIs issuing ODIs.

A.7.4 Assets under Custody

Among major economies, US has the highest assets under custody (AUC) in the equity segment, while Singapore has the highest number of assets in debt segment as of September 2016. However, on an overall basis, US has the highest assets under custody (Table 7-6). Among all categories, FPIs holds highest AUC as compared to other categories, such as MFs, Insurance Company, FDI Investments, etc. Sovereign Wealth Fund has highest AUC in Category I, whereas Mutual Funds hold highest AUC in Category II.

Table 7-6: Assets under Custody 2016: Top 10 Countries as of September 2016

Sr. No.	Country	AUC (INR Cr.)		
		Equity	Debt	Total
1	United States of America	7,57,420	47,786	8,05,206
2	MAURITIUS	4,34,729	48,590	4,83,319
3	SINGAPORE	1,91,841	96,515	2,88,356
4	LUXEMBOURG	1,78,540	45,532	2,24,072
5	UNITED KINGDOM	88,069	2,528	90,597
6	IRELAND	61,132	4,683	65,815
7	NORWAY	40,125	25,020	65,145
8	NETHERLANDS	48,821	12,302	61,124
9	JAPAN	49,016	11,605	60,621
10	UNITED ARAB EMIRATES	59,816	500	60,317
11	Other	2,97,585	54,293	3,51,879
	Total	22,07,096	3,49,354	25,56,450

Source: NSDL

Table 7-7: Category wise AUC data for all clients

Type of Client	AUC (INR Cr.)				AUC (INR Cr.)			
	Equity	Debt	Gold	Total	Equity	Debt	Gold	Total
	March 2016				September 2016			
FPIs	18,88,788	3,35,749	0	22,24,537	22,07,096	3,49,354	0	25,56,450
MFs	4,08,949	6,90,545	2,230	11,01,724	5,02,293	8,26,524	6,358	13,35,175
Insurance Company	6,92,422	5,34,879	0	12,27,301	7,80,837	5,44,584	0	13,25,421
FDI Investments	4,64,623	3,875	0	4,68,498	5,22,264	2,667	0	5,24,931
Foreign Depository	2,35,914	0	0	2,35,914	2,60,543	0	0	2,60,543
Banks	27,596	1,65,350	0	1,92,946	33,238	2,04,033	0	2,37,272
Local Pension Funds	12,489	1,04,501	0	1,16,990	16,097	1,85,308	0	2,01,405
Financial Institutions	57,354	12,645	0	69,999	65,097	11,516	0	76,613
Corporates	36,575	21,209	0	57,784	45,816	25,703	0	71,519
Portfolio Manager	27,725	7,672	0	35,397	41,069	9,986	1	51,056
Foreign Venture Capital Investment	56,174	1,754	0	57,928	35,924	1,794	0	37,718
Others	88,225	3,09,759	2	3,97,985	1,04,899	3,37,646	91	4,42,633
Total	39,96,835	21,87,937	2,232	61,87,004	46,15,173	24,99,115	6,449	71,20,736

Source: NSDL

Table 7-8: FPI/FII AUC category wise data as of September 2016

Sr. No.	Type of Client	AUC (INR Cr.)		
Category of the FPI	**Sub Category of the FPI**	**Equity**	**Debt**	**Total**
Category I	Sovereign Wealth Fund	2,28,092	33,299	2,61,391
Category I	Governmental Agency	29,494	2,045	31,539
Category I	Central Bank	18,931	28,904	47,835
Category I	International/ Multilateral Organization	1,284	13,910	15,193
Category I	Others	137	296	433
Category II	Pension Fund	1,42,567	1,387	1,43,954
Category II	Mutual Fund	10,04,862	74,172	10,79,033
Category II	Broad Based Fund	4,17,561	34,550	4,52,111
Category II	Investment Manager / Advisor	1,58,574	43,067	2,01,641
Category II	Investment Trust	72,114	5,077	77,191
Category II	Bank	22,457	39,304	61,761
Category III	Corporate Bodies	10,135	33,918	44,053
Category III	Others	30,911	11,290	42,201
Category II	Others	28,129	3,426	31,555
Category II	Insurance/Reinsurance Company	22,055	7,628	29,684
Category II	Portfolio Manager	0	16,567	16,567
Category II	Others	19,793	517	20,310
	Total	22,07,096	3,49,354	25,56,450

Source: NSDL

B. Policy Developments

B. 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 2015–December 2016 are discussed in this section under four major heads: issuer related reforms, investor related reforms, stock exchange related reforms and foreign institutional investor related reforms.

B.1 Issuer Related Circulars

SEBI issues guidelines on stress testing of Liquid Fund and Money Market Mutual Fund Schemes (SEBI; 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).

SEBI modifies the system of product labelling in mutual funds (SEBI; April 30, 2015):

SEBI modified the system of product labelling in mutual funds and the depiction of risk using colour 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.

SEBI has notified the format for the compliance report on Corporate Governance for listed companies (SEBI; 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 since September 02, 2015.

Disclosures in the Abridged Prospectus and Price Information of past issues handled by Merchant Bankers (SEBI; October 30, 2015):

1. SEBI had earlier prescribed the disclosure requirements in the abridged prospectus in accordance with the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 and the Companies Act, 2013.

2. However, it was observed by SEBI that the abridged prospectus had become voluminous and thereby defeated the very purpose of an abridged prospectus.

3. With a view to address the issue, the disclosure requirements in the abridged prospectus have been rationalized in consultation with Investor Associations and market participants.

4. The revised abridged prospectus improves the readability and contains relevant information for the investor to take well informed investment decision. Also, the investor has the option to obtain full prospectus from the market intermediaries associated with the public issue and can also download from the websites of stock exchanges, merchant bankers and SEBI.

Streamlining the process of public issue of equity shares and convertibles (SEBI; November 10, 2015):

SEBI has made amendments to SEBI (Issue of capital and disclosure requirements) Regulations, 2009 to streamline the process of public issue of equity shares. Following key decisions have been taken:

i. SEBI has decided to reduce the time taken for listing after the closure of issue to 6 working days as against the present requirement of 12 working days. SEBI has also directed the intermediaries to coordinate with each other to ensure completion of listing of shares and commencement of trading by T+6.

ii. SEBI has also decided to broad base the reach of investors by substantially enhancing the points for submission of application.

iii. It has been mandated that all investors applying for a public issue shall use only 'Application Supported by Blocked Amount' (ASBA) facility for making the payment. Consequently, NEAT IPO TWS terminal of NSE which supports only non-ASBA bids shall be discontinued.

Minimum public shareholding requirements (SEBI; November 30, 2015):

As per Securities Contracts (Regulation) Rules, 1957, a listed entity must maintain a minimum public shareholding in a manner specified by SEBI. Vide a circular issued on November 30, 2015, SEBI revised the methods to achieve the minimum shareholding requirements. The list of methods are as follows:

i. Issuance of shares to public through prospectus.

ii. Offer for sale of shares held by promoters to public through prospectus.

iii. Sale of shares held by promoters through the secondary market in terms of SEBI circular CIR/MRD/DP/05/2012 dated February 1, 2012.

iv. Institutional Placement Programme (IPP) in terms of chapter VIII A of SEBI (Issue of capital and disclosure requirements) regulations, 2009

v. Rights issue to public shareholders, with promoter group shareholders forgoing their entitlement to equity shares.

vi. Bonus issues to public shareholders, with promoter group shareholders forgoing their entitlement to equity shares.

The circular has come into force from December 1, 2015.

Review of Annual Custody / Issuer Charges (SEBI; December 9, 2015):

SEBI had allowed the custody/issuer charges to be collected by the depositories from the issuers in the manner specified therein. Subsequently, the charges and the methodology were revised with time.

The Depository Systems Review Committee (DSRC) has, with an objective of promoting financial inclusion and expanding the reach of depository services to tier II and tier III towns, recommended that the revenue source of the depositories may be augmented and Depository Participants (DPs) may be incentivized by having a revenue sharing mechanism between depositories and DPs. It has also suggested that the annual issuer charges may be enhanced and the incremental revenue be shared suitably by the depositories with their Participants for promoting the Basic Services

Demat Accounts (BSDA) and opening new accounts in tier II and tier III towns.

It has also been decided to revise the per folio charges from Rs 8.00 (eight) to Rs 11.00 (eleven). The temporary ISIN shall not be considered for the purpose of computing the annual issuer charges. In order to compensate the DPs towards the cost of opening and maintaining Basic Services Demat Accounts (BSDA), the depositories shall pay an incentive of Rs 100/- for every new BSDA opened by their participants in other than the top 15 cities. The incentive shall be provided at the end of the financial year only with respect to the new BSDA opened during the financial year and which displayed at least one credit in the account during the Financial Year. Further to the above, in order to incentivize the DPs to promote holdings in the BSDA, the depositories may pay an amount of Rs 2 per folio per ISIN to the respective depository participant (DP), in respect of the ISIN positions held in Basic Service Demat Accounts (BSDA). This incentive may be provided with respect to all the BSDA in the depository system.

Clarification Circular on Streamlining the Process of Public Issue of Equity Shares and Convertibles (SEBI; January 21, 2016):

On November 10, 2015, SEBI had via a circular issued operational details to, inter-alia, reduce the time taken for listing after the closure of the issue to 6 working days and enhancing the points of submission of applications by the investors. With an endeavour to make the public issue process more efficient and robust, in discussion with market participants, SEBI has further made the following clarifications:

i. Stock exchange(s) may validate the electronic bid details with depository's records for DP ID, Client ID and PAN, at periodic intervals throughout the bidding day during the bidding period and bring the inconsistencies to the notice of intermediaries concerned, for rectification and re-submission within the time specified by stock exchange.

ii. Syndicate members, registered brokers of stock exchanges, depository participants (DPs) and registrars to an issue and share transfer agents (RTAs) registered with SEBI, may also forward the physical application forms received by them on day-to-day basis during the bidding period to designated branches of the respective self-certified syndicate banks (SCSBs) for blocking of funds. Such applications should be with value not more than ` 2 lakh and shall be forwarded along with the schedule specified in SEBI Circular dated November 10, 2015.

iii. Stock exchanges may share the electronic bid file for applications with value not more than ` 2 lakh with RTA to the issue on daily basis who in turn may share the same with each SCSB. SCSBs may carry out the blocking of funds on a daily basis during the bidding period for such physical application forms received. Revised electronic bid file / final bid file shall be shared by the stock exchanges with RTA to the issue. SCSBs to ensure blocking of funds is based on final electronic bid file received from RTA to the issue.

iv. Working days shall be all trading days of stock exchanges excluding Sundays and bank holidays.

v. The instruction for publication of basis of allotment may be given by T+5 day so that basis of allotment is published in all the newspapers, where issue opening/closing advertisements have appeared earlier, on T+6 before the commencement of trading.

Electronic book mechanism for issuance of debt securities on private placement basis (SEBI; April 21, 2016):

Typically, issuers take one of the two options for placing corporate bonds - a public offering or a private placement. In India like most other geographies, the private placement route is largely preferred due to the time and cost efficiencies, in comparison to the public offerings. The traditional method of private placement typically involves one or several arrangers acting as intermediaries to the bond issuance and soliciting investments from the investors. Typically in case of the PSUs and some large corporates, the arrangers have a competitive bidding to discover the rate of issuance. However, in most cases, the rates are arrived at via direct negotiations between the arrangers and the issuers which is not bound by any specific regulations resulting in a fairly non-transparent process without any trail. While these bonds are generally bought on behalf of specific clients, there is limited or no communication between the issuer and the direct investors, and the layer of intermediaries in between can potentially skew the price discovery mechanism. Further, this entire process is OTC and no formal trail is required to be maintained which leaves possibilities of further manipulation by different stakeholders.

Accordingly, in order to streamline procedures for issuance of debt securities on private placement basis and enhance transparency to discover prices, SEBI laid down the framework for issuance of debt securities on private placement basis through an electronic book mechanism, so as to bring about efficiency and transparency in the price discovery mechanism, and to reduce the time and cost of these issuances. The provisions of the circular came into force from July 1, 2016.

Guidelines for public issue of units of InvITs (SEBI; May 11, 2016):

SEBI has issued detailed guidelines pertaining to public issue and allotment of units by an InvIT, whether by way of public issue or private placement. Some of the key guidelines are as follows:

1. Appointment and obligations of merchant banker and others: The Manager on behalf of the InvIT shall appoint one or more merchant bankers, at least one of whom shall be a lead merchant banker and shall also appoint other intermediaries, in consultation with the merchant banker(s), to carry out the obligations relating to the issue. Where the issue is managed by more than one merchant banker, the rights, obligations and responsibilities, relating inter alia to disclosures, allotment, refund and underwriting obligations, if any, of each merchant banker shall be predetermined and disclosed in the offer document.

ii. Allocation in public issue: In an issue made through the book building process or otherwise, the allocation in the public issue shall be as follows:

    (a) not more than 75% to Institutional Investors

    (b) not less than 25% to other investors.

iii. Security Deposit: The Manager on behalf of the InvIT shall deposit, before the opening of subscription, and keep deposited with the stock exchange(s), an amount calculated at the rate of 0.5% of the amount of units offered for subscription to the public or Rs 5 crore, whichever is lower.

iv. Price and price band: The manager on behalf of the InvIT may determine the price of units in consultation with the merchant banker(s) or through the book building process. Differential price shall not be offered to any investor. In addition, the manager on behalf of the REIT shall announce the floor price or price band at least five working days before the opening of the bid (in case of an initial public offer) on the website of the sponsor, manager and stock exchanges and in all the newspapers in which the pre issue advertisement was released and website of REIT, if applicable.

v. Bidding process: In all issues, the InvIT shall accept bids including using ASBA facility, if so opted. An amount to the extent of entire application money shall be collected or blocked, as the case may be, from the applicants before they place an order on their behalf. The payment accompanied with any revision of Bid, shall be adjusted against the payment made at the time of the original bid or the previously revised bid.

vi. Allotment procedure and basis of allotment: On receipt of the sum payable on application, the manager on behalf of the InvIT shall allot the units to the applicants. The allotment of units to applicants other than anchor investors shall be on proportionate basis within the specified investor categories and the number of units allotted shall be rounded off to the nearest integer, subject to minimum allotment as per InvITs Regulations.

Formats for publishing financial results (SEBI; July 5, 2016):

In order to enable investors to make well-informed investment decisions, timely, adequate and accurate disclosure of financial results on a periodical basis is critical. At the same time, to ensure comparability, uniformity and parity in disclosures made by listed entities across stock exchanges is essential. Towards this end, Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 has prescribed various disclosures to be filed under various provisions contained therein in the formats as may be specified by the Board. SEBI has issued a circular specifying the format for publishing of the financial results.

Disclosure of financial information in offer document/placement memorandum for InvITs (SEBI; October 20, 2016):

SEBI has issued a circular notifying the financial information that is required to be made in the offer document for InvITs. Some of the key disclosures that are required to be made in the offer document, are as follows:

1. Financial Information of InvITs: The financial information, to be disclosed in the offer document, shall comply with the following:

   i. Period of financial information to be disclosed: The offer document shall contain financial information for a period of last three completed financial years immediately preceding the date of offer document. If the closing date of the last completed financial year falls more than six months before the date of offer document, then the InvIT shall also disclose interim financial information, in addition to the three year financial information.

   ii. Nature of financial information: InvIT shall disclose the financial information for the previous three financial years and the interim period, if any, in either of the following manner depending upon the history of the REIT:

   - If the InvIT has been in existence for the last three completed financial years immediately preceding the date of offer document, then the historical financial statements of the REIT (on both standalone as well as consolidated basis) for last three years, and the interim period, if any, shall be disclosed.
   - If the InvIT has been in existence for a period lesser than the last three completed financial years and the historical financial statements of REIT are not available for some portion or the entire portion of the reporting period of three years and interim period, then the combined financial statements need to be disclosed for the periods when such historical financial statements are not available.

   iii. Content and basis of preparation of financial information:

   The financial information shall be prepared in accordance with Indian Accounting Standards (Ind AS) of the Companies (Indian Accounting Standards) Rules, 2015. The financial information shall disclose the following financial statements:

   - Balance Sheet;
   - Statement of Profit and Loss/Income and Expenditure;
   - Statement of Changes in Unit holders' Equity;
   - Statement of Cash flows / Receipts and Payments;
   - Statement of Net Assets at Fair Value; and
   - Statement of Total Returns at Fair Value

2. Projections of InvIT's Income and Operating Cash flows:

   i. The offer document shall contain disclosures of the projections of income and operating cash flows of the InvIT, property-wise, over the next three years including related assumptions.

   ii. The projections shall be disclosed for InvIT assets/properties that are owned by the InvIT or are proposed to be owned by InvIT prior to the allotment of units in the public offer.

   iii. The following minimum items shall be disclosed as a part of the projections for the next three years:

   - Property-wise income (rental income and/or other operating income);
   - Property-wise operating cash flows;
   - Assumptions for projections; and
   - Any other item deemed important for better readability and understanding

3. Management Discussion and Analysis of REIT's operations:

   i. InvIT shall prepare and disclose Management Discussion and Analysis (MDA) (by the Manager), based on the financial statements. A comparison shall be provided for the most recent financial information with financial information of previous two years.

   ii. MDA shall contain the following:

   - Overview of the business of the InvIT;
   - A summary of the financial information containing significant items of income and expenditure;
   - Factors that may affect results of the operations, key risks and mitigating factors;
   - Quality of earnings and revenue streams;
   - Significant developments subsequent to the last financial year;
   - Procedure for dealing with and approval of related party transactions; Related party transaction(s) involving acquisition or disposal of an InvIT asset

Guidelines for public issue of units of REITs (SEBI; December 19, 2016):

Guidelines have been issued by SEBI for public issue of units of REITs. Some of the key guidelines are as follows:

i. Appointment and obligations of merchant banker and others: The Manager on behalf of the REIT shall appoint one or more merchant bankers, at least one of whom shall be a lead merchant banker and shall also appoint other intermediaries, in consultation with the merchant banker(s), to carry out the obligations relating to the issue. Where the issue is managed by more than one merchant banker, the rights, obligations and responsibilities, relating inter alia to disclosures, allotment, refund and underwriting obligations, if any, of each merchant banker shall be predetermined and disclosed in the offer document.

ii. Allocation in public issue: In an issue made through the book building process or otherwise, the allocation in the public issue shall be as follows:

   (a) not more than 75% to Institutional Investors

   (b) not less than 25% to other investors.

iii. Security Deposit: The Manager on behalf of the REIT shall deposit, before the opening of subscription, and keep deposited with the stock exchange(s), an amount calculated at the rate of 0.5% of the amount of units offered for subscription to the public or Rs 5 crore, whichever is lower.

iv. Price and price band: The manager on behalf of the REIT may determine the price of units in consultation with the merchant banker(s) or through the book building process. Differential price shall not be offered to any investor. In addition, the manager on behalf of the REIT shall announce the floor price or price band at least five working days before the opening of the bid (in case of an initial public offer) on the website of the sponsor, manager and stock exchanges and in all the newspapers in which the pre issue advertisement was released and website of REIT, if applicable.

v. Bidding process: In all issues, the REIT shall accept bids including using ASBA facility, if so opted. An amount to the extent of entire application money shall be collected or blocked, as the case may be, from the applicants before they place an order on their behalf. The payment accompanied with any revision of Bid, shall be adjusted against the payment made at the time of the original bid or the previously revised bid.

vi. Allotment procedure and basis of allotment: On receipt of the sum payable on application, the manager on behalf of the REIT shall allot the units to the applicants. The allotment of units to applicants other than anchor investors shall be on proportionate basis within the specified investor categories and the number of units allotted shall be rounded off to the nearest integer, subject to minimum allotment as per REIT Regulations.

Disclosure of financial information in offer document for REITs (SEBI; December 26, 2016):

SEBI has issued a circular notifying the financial information that is required to be made in the offer document for REITs. Some of the key disclosures that are required to be made in the offer document, are as follows:

4. Financial Information of REIT: The financial information, to be disclosed in the offer document, shall comply with the following:

   i. Period of financial information to be disclosed: The offer document shall contain financial information for a period of last three completed financial years immediately preceding the date of offer document. If the closing date of the last completed financial year falls more than six months before the date of offer document, then the REIT shall also disclose interim financial information, in addition to the three year financial information.

   ii. Nature of financial information: REIT shall disclose the financial information for the previous three financial years and the interim period, if any, in either of the following manner depending upon the history of the REIT:

      - If the REIT has been in existence for the last three completed financial years immediately preceding the date of offer document, then the historical financial statements of the REIT (on both standalone as well as consolidated basis) for last three years, and the interim period, if any, shall be disclosed.
      - If the REIT has been in existence for a period lesser than the last three completed financial years and the historical financial statements of REIT are not available for some portion or the entire portion of the reporting period of three years and interim period, then the combined financial statements need to be disclosed for the periods when such historical financial statements are not available.

   iii. Content and basis of preparation of financial information:

      The financial information shall be prepared in accordance with Indian Accounting Standards (Ind AS) of the Companies (Indian Accounting Standards) Rules, 2015. The financial information shall disclose the following financial statements:

      - Balance Sheet;
      - Statement of Profit and Loss/Income and Expenditure;
      - Statement of Changes in Unit holders' Equity;
      - Statement of Cash flows / Receipts and Payments;
      - Statement of Net Assets at Fair Value; and
      - Statement of Total Returns at Fair Value

5. Projections of REIT's Income and Operating Cash flows:

   i. The offer document shall contain disclosures of the projections of income and operating cash flows of the REIT, property-wise, over the next three years including related assumptions.

   ii. The projections shall be disclosed for REIT assets/properties that are owned by the REIT or are proposed to be owned by REIT prior to the allotment of units in the public offer.

   iii. The following minimum items shall be disclosed as a part of the projections for the next three years:

      - Property-wise income (rental income and/or other operating income);
      - Property-wise operating cash flows;
      - Assumptions for projections; and
      - Any other item deemed important for better readability and understanding

6. Management Discussion and Analysis of REIT's operations:

   i. REIT shall prepare and disclose Management Discussion and Analysis (MDA) (by the Manager), based on the financial statements. A comparison shall be provided for the most recent financial information with financial information of previous two years.

   ii. MDA shall contain the following:

      - Overview of the business of the REIT;
      - A summary of the financial information containing significant items of income and expenditure;
      - Factors that may affect results of the operations, key risks and mitigating factors;
      - Quality of earnings and revenue streams;
      - Significant developments subsequent to the last financial year;
      - Procedure for dealing with and approval of related party transactions; Related party transaction(s) involving acquisition or disposal of an REIT asset

B.2 Investor Related Circulars

Revision of limits relating to currency derivatives contracts (SEBI; April 8, 2015):

SEBI has made 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:

i. 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 pairs 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 are instructed to report to the Market Surveillance Team of Financial Markets Regulation Department (FMRD), RBI.

Review of Offer for Sale (OFS) of Shares through Stock Exchange Mechanism (SEBI; June 26, 2015):

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

i. 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.

ii. In addition to price bids, sellers have been mandated to provide the option to retail investors to place bids at cut off price.

Facility for Basic Services Demat Account (BSDA): (SEBI; December 11, 2015):

SEBI has advised the Depository Participants (DP) to convert all the eligible (individuals having only one demat account, with the value of securities held in the demat account not exceeding Rs 2 lakhs at any point of time) demat accounts into BSDA unless the beneficial owners specifically opt to avail the facility of a regular demat account. The decision to introduce the facility of BSDA was taken by SEBI in August 2012, with a view to achieve wider financial inclusion, encourage holding of demat accounts and to reduce the cost of maintaining securities in demat accounts for retail individual investors.

Investment by Gold ETFs in Gold Monetisation Scheme (GMS) of banks: (SEBI; December 31, 2015):

SEBI has notified that investment by Gold ETFs in GMS will be designated as gold related instrument in line with the Gold Deposit Scheme (GDS) of banks. Investment in GMS by the Gold ETFs will be subject to the condition that the cumulative investment by Gold ETFs in GMS and GDS should not exceed 20% of the total AUM of these schemes. The existing investments by Gold ETFs under the GDS will be allowed to run till maturity unless withdrawn by the Gold ETFs prematurely. RBI had previously decided in October 2015 that the GMS (2015) will replace the GDS (1999).

Investor Protection Fund (IPF) of Depositories (SEBI; June 07, 2016):

The Depository System Review Committee (DSRC) had examined various aspects of the depository IPF including utilization and investment policy of IPF and quantum of funds to be transferred to IPF. SEBI (Depositories and Participants) (Amendment) Regulations, 2012 require every depository to establish and maintain an Investor Protection Fund (IPF). Pursuant to the aforesaid committee recommendations, the SEBI (Depositories and Participants) Regulations were amended mandating the depositories to credit five per cent or such percentage as may be specified by the Board, of its profits from depository operations every year to the IPF. Based on the recommendations of DSRC and Expert Committee on Clearing Corporations, guidelines have been issued with regard to IPF of the Depositories for the following aspects:

- Utilization of the IPF
- Constitution and Management of the IPF
- Contribution to the IPF
- Investments of Fund in the IPF

Operationalization of Central KYC Records Registry (CKYCR) (SEBI; July 21, 2016):

Government of India has authorized the Central Registry of Securitization and Asset Reconstruction and Security Interest of India (CERSAI) to act as, and to perform the functions of the Central KYC Records Registry under the PML Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a "client". As per the 2015 amendment to PML (Maintenance of Records) Rules, 2005 (the rules), every reporting entity shall capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the Rules, as per the KYC template for "individuals" finalised by CERSAI.

B.3 Exchange Related Circulars

Co-location / Proximity hosting facility offered by stock exchanges (SEBI; 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:

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

ii. 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.

iii. 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.

iv. 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

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

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

Exchange Traded Cash Settled Interest Rate Futures (IRF) on 6 year, 10 year and 13 year Government of India (GoI) Security (SEBI; 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.

Cyber Security and Cyber Resilience framework of Stock Exchanges (SEBI; July 6, 2015):

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

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, SEBI, 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.

Review of minimum contract size in equity derivatives segment (SEBI; 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 between Rs 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.

Policy for annulment of trades undertaken on stock exchanges (SEBI; July 16, 2015):

In October 2013, SEBI had issued a discussion paper for a framework on trade annulment. It sought market feedback on the kind of exceptional circumstances under which exchanges could annul trades. Taking into consideration inputs received during the discussion process, SEBI has put in place a framework for the annulment of trades undertaken on the stock exchanges.

According to the above mentioned circular, an exchange can consider a trade for annulment either on its own or following a request by a stockbroker. Stock exchanges should, however, define suitable criteria to discourage frivolous requests. Stockbrokers are required to submit such requests to the stock exchange within 30 minutes from execution of trade(s) which is sought to be annulled. However, a stock exchange may consider requests received after 30 minutes, but no longer than 60 minutes, only in exceptional cases and after examining and recording reasons for such consideration.

The reasons for an annulment or a price reset must be recorded in writing in the interest of investors and market integrity. Further, the exchanges are required to inform all stockbrokers and stock exchange members of such requests in a suitable and time-bound manner.

In order to discourage frivolous requests for annulments, stock exchanges will charge an application fee equal to 5% of the value of the trade for accepting an annulment request, subject to a minimum fee of Rs1 lac and a maximum fee of Rs10 lacs. Additionally, stock exchanges may suitably increase the upper limit of the application fee as deemed necessary to discourage frequent or frivolous requests for annulment. The amount realized as application fee shall be credited to the 'Investor Protection Fund' of the concerned stock exchange.

Comprehensive Risk Management Framework for National Commodity Derivatives Exchanges (SEBI; October 1, 2015):

This circular was issued with the objective of aligning and streamlining the risk management framework across national derivatives exchanges. The comprehensive risk management framework has been finalised after a due consultative process with the exchanges. The provisions of this circular were to be implemented latest by January 01, 2016 unless specified otherwise.

The exchanges were also advised to:

i. Ensure that their risk management framework is in line with the provisions contained in the annexure and take steps to make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the same.

ii. The provisions of this circular need to be bought to the notice of their members and also to disseminate the same for their website.

iii. The status of implementation of the provisions of this circular need to be reported to SEBI.

Review of capacity planning framework of stock exchanges and clearing corporations (SEBI; October 8, 2015):

The Technical Advisory Committee (TAC) of SEBI has reviewed the framework adopted by stock exchanges and clearing corporations for planning their capacities in providing trading platforms for equity derivatives and currency derivatives. Key requirements that have to be complied with are as follows:

1. The installed capacity shall be at least 1.5 times of the projected peak load, which is to be calculated for the next 60 days on the per second peak load trend of last 180 days.

2. All systems in trading, clearing and settlement ecosystem shall be considered in the revised capacity planning framework including all the technical components as well.

3. In case the actual capacity utilization exceeds 75% of the installed capacity, immediate action shall be taken by the stock exchanges and clearing corporations to enhance the capacity.

Risk Management for regional commodity derivatives exchanges (SEBI; October 21,2015):

According to this circular exchanges should comply with the following norms by April 01,2016:

i. Member Deposits: Exchanges should continue with their practice of keeping exposure free member deposits at that current level.

ii. Ordinary Margins: Exchanges shall levy minimum ordinary margins of 4% on the open outstanding positions.

iii. Other margins: It allowed exchanges to levy appropriate delivery period margin, additional margins etc. based on their evaluation.

iv. Additional Ad-hoc Margins: It gave exchanges the right to impose additional risk containment measures over and above the risk containment system mandated by SEBI taking care of other factors like additional risk management, transparency etc.

v. Margin computation at client level: Exchanges should levy ordinary margins at the level of each individual client compromising his positions in futures contacts across different maturities.

vi. Margin collection and Enforcement: All applicable margins should be collected by the exchanges before start of the trading on the next trading day.

vii. Collateral type to cover margin/deposit requirements: According to this exchanges are allowed to collect collateral from their members only in the form of cash, Pledging of bank fixed deposits and Bank guarantee.

viii. Mark to market settlement: There should be Daily mark to market settlement of open positions based on the Daily settlement price (DSP) in cash before starting of the next trading day.

According to circular the exchanges are also advised to take steps to make necessary amendments to the relevant bye-laws, rules and regulations. They are also advised to bring the provisions of this circular to the notice of the members of the Exchange and communicate to SEBI regarding the status of the implementation.

Format for Business Responsibility Report (BRR) (SEBI; November 4, 2015): With the objective to bring about improvement in corporate governance practices and to ensure more transparency in terms of reporting of various socially-responsible activities carried out by listed entities, SEBI board has made it applicable for top 500 listed companies, based on their market capitalization at the end of March every year, to submit business responsibility reports. The key principles which are required to be reported by the entities include the areas such as environment, social, governance and stakeholder's relationships.

Timelines for Compliance with various provisions of Securities Laws by Commodity Derivatives Exchanges (SEBI; November 26, 2015):

i. Corporatization and Demutualization:

Regional commodity derivatives exchanges shall corporatize and demutualize within a period of three years. In this regard, regional commodity derivatives exchanges shall submit a scheme for corporatization and demutualization of SEBI approval within a period of two years, as per the procedure laid down in SCRA.

ii. Clearing and Settlement:

Commodity derivatives exchanges shall transfer the functions of clearing and settlement of trade to a separate clearing corporation within three years. Till then the exchanges may continue with the existing arrangement for clearing and settlement of trades.

iii. Validity of recognition of Commodity Derivatives Exchanges:

Exchanges should immediately put in place adequate surveillance system to monitor positions, prices and volumes etc. so as to ensure market integrity till online real time surveillance system are set up and operationalized.

iv. Regulatory fee and Net worth Requirements :

Regulatory fee need to be paid in addition to that, any national commodity derivative exchange having net worth than INR 100 crore, shall achieve a minimum net worth of INR 100 crores by May5, 2017. Any regional commodity derivative derivatives exchanges should also achieve minimum net worth of INR 100 crores within three years and the profits will not be distributed to the shareholders until the net worth of INR 100 crore is not achieved.

v. Ownership and Governance:

Exchanges should put in place a monitoring mechanism to ensure the compliance with the shareholding restriction specified in SECC regulations.

It also stated that existing Independent Directors on the board of exchanges shall be deemed to be Public Interest Directors (PIDs) under SECC regulations.

vi. Oversight and Advisory Committee:

Commodity exchanges should constitute an oversight committee for 'Product Design', chaired by a Public Interest Director and advisory and statutory committees as specified within three months and one respectively after release.

vii. General Obligations:

It specifies that till the functions of clearing and settlement are transferred to a separate clearing corporation, commodity exchanges have right to recover its dues from trading/clearing members arising from the discharge of their clearing and settlement functions from the collaterals, deposits, and the assets.

viii. Dematerialization of Securities:

Commodity Derivative Exchanges are advised to make necessary amendments to the relevant rules/bye-laws for the implementation of above security. It should also be bought to the notice of their members and disseminate the same through the website. The status of the implementation of the provisions of this circular need to be reported to SEBI through daily/monthly/quarterly development reports.

Mandatory requirements/Exit Policy for Commodity derivatives exchanges (SEBI; January 11,2016):

SEBI reviewed the said circular decided that, if there is no trading operation on the platform of any commodity derivatives exchanges for more than twelve months, then in terms of the above circular, such exchange shall be liable to exit in addition to the above, henceforth, all National Commodity Derivative Exchanges should continuously meet the turnover criteria of Rs 1000 crores per annum. The Regional Commodity Exchanges should ensure that they have at least 5% of the nation-wide market share of the commodity, which is principally traded on their platform. In case the National and Regional Commodity Exchanges fail to meet the above criteria for 2 consecutive years, they shall be liable to exit.

Introduction of exchange traded cross currency derivative contracts and exchange traded options contracts (SEBI; March 9, 2016):

SEBI has permitted recognized stock exchanges to introduce cross currency futures and options contracts in the EUR-USD, GBP-USD and USD-JPY currency pairs. Additionally, in EUR-INR, GBP-INR and JPY-INR currency pairs, only currency options have been allowed.

1. The exposure of market participants to cross currency derivatives has been capped at USD 15 million for USD-INR contracts and USD 5 million for non- USD-INR contracts (all put together), per exchange.
2. The trading hours for cross currency derivatives contracts are between 9:00 am and 7:30 pm.
3. Before the launch of the cross currency derivative products and currency options, the stock exchanges should take prior approval from SEBI regarding the contract specifications, risk management framework and surveillance systems.
4. To ensure orderly trading and market integrity, a 'dynamic price band' mechanism has to be implemented, so as to prevent acceptance of orders placed beyond the price limits set by the stock exchanges.
    i. Dynamic price band of the currency futures contracts shall be set as below:

Contracts with tenure up to 6 months	± 3% of the theoretical price or the previous day closing price, as applicable
Contracts with tenure greater than 6 months	± 5% of the theoretical price or the previous day closing price, as applicable

The dynamic price band mechanism for currency options shall be implemented based on the theoretical price of the contracts.

Enhanced Supervision of Stock Brokers/Depository Participants (SEBI; September 26, 2016):

SEBI had constituted a committee on "Enhanced Supervision of Stock Brokers", which included representatives from Stock Exchanges, Depositories and Brokers. Following the recommendations of the Committee, SEBI through a circular has put in place an enhanced supervision framework for stock brokers to monitor their financial strength as well as detect any misutilisation of clients' funds. The stock brokers would now have to follow a uniform nomenclature for "naming/tagging of bank and demat accounts" and for reporting of such accounts to stock exchanges and depositories.

Guidelines have been issued for monitoring of clients' funds lying with the stock broker by the stock exchanges, through a "sophisticated alerting and reconciliation mechanism", to detect any misutilisation of clients' fund.

Introduction of Options in Commodity Derivatives Market (SEBI; September 28, 2016):

SEBI had constituted a committee of experts known as 'Commodity Derivatives Advisory Committee (CDAC)' to advise SEBI on matters concerning effective regulation and development of the commodity derivatives market. On the basis of the recommendations made by the CDAC, SEBI through a circular has decided to allow Commodity Derivatives Exchanges to introduce trading in 'options', with a view to attract broad base participation, enhance liquidity and bring about more depth to the commodity derivatives market. Before the issuance of this circular, the only instrument available in the Commodity Derivatives market was futures on individual commodities.

System-driven Disclosures in Securities Market (SEBI; December 21, 2016):

In a circular dated December 1, 2015, SEBI had introduced the system-driven disclosures in securities market detailing the procedure to be adopted for its implementation with effect from January 01, 2016.

As per the procedure laid down in the aforementioned circular, the Depositories would provide daily trade data of the promoters/promoter group to the Registrar and Share Transfer Agents (RTAs) and the RTAs provide the necessary information to the stock exchanges for dissemination of disclosures to the public in terms of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and SEBI (Prohibition of Insider Trading) Regulations, 2015.

On the basis of the experience gained from the implementation of the system, SEBI has now decided to streamline the procedure such that the depositories shall now be required to provide the transaction data of promoters/promoter group on a daily basis directly to the stock exchanges for dissemination of the necessary disclosures.

B.4 Circulars related to IFSC

Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 (IFSC Guidelines) – Inclusion of Commodity Derivatives (SEBI; March 27, 2016):

An International Financial Services Centre (IFSC) may be defined as a centre that provides financial services across borders. India's first and only IFSC is located at Gujarat International Finance Tec-City. SEBI issued IFSC (International Financial Services Centres) Guidelines dated March 27, 2015.

All recognized associations (commodity derivatives exchanges) under the Forward Contracts (Regulation) Act, 1952 ('FCRA') are deemed to be recognized stock exchanges under the Securities Contracts (Regulation) Act, 1956 ('SCRA').

As per the circular based on the guideline issued in 2015, it has been specified that the "Commodity Derivatives" will be eligible as securities for trading and the stock exchanges operating in IFSC may permit dealing in Commodity Derivatives.

Guidelines for functioning of Stock Exchanges and Clearing Corporations in International Financial Services Centre (IFSC) (SEBI; November 28, 2016):

SEBI has issued a circular putting in place a broad framework for functioning of stock exchanges and clearing corporations in IFSC. Some of them are mentioned as under:

- **Market Structure:** There shall be a single market structure to achieve synergies in terms of various operations and to facilitate ease of doing business.
- **Trading Hours and Settlement:** The trading hours for all product categories shall be as decided by the stock exchanges in IFSC based on cost-benefit analysis, but not exceeding 23 hours and 30 minutes in a day and settlement shall be done at least twice a day. The stock exchanges and clearing corporations in IFSC shall ensure that the risk management system and infrastructure are commensurate to the trading hours at all times.
- **Product Category:** All categories of exchange-traded products as available for trading in stock exchanges in FATF/IOSCO compliant jurisdictions shall be eligible for trading, subject to prior approval of SEBI. However, with respect to commodity derivatives, only non-agri commodity derivatives shall be eligible for trading.
- **Trading in Rupee denominated bonds issued overseas (Masala Bonds):** Masala Bonds shall be eligible for trading in stock exchanges in IFSC, provided such bonds are listed on stock exchanges in FATF/IOSCO compliant jurisdictions.

- **Risk Management Framework:** Prior to commencement of their operations, stock exchanges in IFSC shall tie-up with Clearing Corporations for clearing and settlement of their trades.
- **Dispute Resolution Mechanism:** Market participants shall avail the arbitration, mediation and other dispute resolution mechanisms offered by International Arbitration Centre in IFSC to resolve securities market-related disputes.
- **Business Continuity Plan (BCP) and Disaster Recovery (DR):** The Disaster Recovery Site (DRS) shall be set up sufficiently away, i.e. in a different seismic zone, from Primary Data Centre (PDC) to ensure that both DRS and PDC are not affected by the same disasters.

B.5 Circulars Related to Foreign Institutional Investors

Clarification on grant of registration as a Foreign Portfolio Investor (FPI) to Registered Foreign Venture Capital Investors (FVCI) (SEBI; 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:

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

ii. 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.

Implementation of Multilateral Competent Authority Agreement (MCAA) and Foreign Account Tax Compliance Act (FATCA) (SEBI; August 26, 2015):

SEBI has notified the stock exchanges and depositories, about India joining the MCAA, under which India will be obliged to exchange a wide range of financial information after collecting the same from all the financial institutions in the country. It is further notified about the agreement with U.S. to improve international tax compliance and implement FATCA in India. As per FATCA, Foreign Financial Institutions (FFIs) will be required to report tax information about U.S. taxpayers, directly to Indian Government, who will relay that information to the U.S. Internal Revenue Service.

Registration for the purpose of Foreign Accounts Tax Compliance Act (FATCA) (SEBI; 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.

Investment by FPIs in Government Securities (SEBI; October 06, 2015):

RBI announced a Medium Term Framework for FPI limits in Government securities in consultation with Government of India. According to circular released it has been decided to enhance the limits for FPI investment in debt securities as follows:

Type of Instrument	Present Upper Cap (INR cr)	Revised Upper Cap with effect from October 12, 2015 (INR cr)	Revised upper cap with effect from January 01, 2016 (INR cr)
Government Debt	124,432	129,900	135,400
Government Debt – Long Term	29,137	36,600	44,100
State Development Loans	0	3,500	7,000
Total	**153,569**	**170,000**	**186,500**

It has also been decided to put a security-wise limit of 20% of the amount outstanding under each Government security. The Central Government securities in which the aggregate FPI investments is more than 20% of the outstanding would be placed in a negative investment category in which fresh investments would not be permitted.

The stipulation on minimum residual maturity of three years will apply to Central Government securities as well as SDLs (State Development Loans). According to the circular, the depositories(NSDL and CDSL) shall put in place the necessary systems for the daily reporting by the custodians of the FPIs and shall also disseminate on their websites the negative investment list, the aggregate security-wise holdings by FPIs and the coupon investment data along with the daily debt utilization data.

Investment by FPIs in REITs, InvITs, AIFs and corporate bonds under default: (SEBI; March 15, 2016):

RBI has amended the Foreign Exchange Management Regulations 2015 to allow FPIs to invest in REITs, InvITs and AIFs. These investments by FPIs will be subject to SEBI (FPI) Regulations, 2014.

RBI has also allowed FPIs to acquire bonds under default, either fully of partly in repayment of principal on maturity or principal instalment in the case of amortising bond. Such bonds shall have a minimum maturity period of three years. All investment by FPIs in these bonds will be capped at INR 244,323 crores, as per the corporate debt limit.

Know Your Client (KYC) norms for ODI subscribers, transferability of ODIs, reporting of suspicious transactions, periodic review of systems and modified ODI reporting format (SEBI; June 10, 2016):

With a view to bring about uniformity and to increase the transparency in the systems and procedures adopted by the ODI issuers to comply with regulatory conditions, SEBI has revised the KYC (Know Your Client) norms for offshore derivative instruments (ODI) subscriptions by foreign portfolio investors and modified ODI reporting format.

SEBI in its board meeting held on 19 May 2016 had decided that ODI issuers shall be guided by the same KYC (know your client) norms as applicable to Indian market participants and intermediaries. Accordingly, new rules have been framed on the basis of inputs received during the discussion process.

Foreign Investment in Rupee denominated bonds issued overseas by Indian Corporates (SEBI; August 04, 2016):

RBI in its fourth Bi-monthly Policy Statement for the year 2015-16, dated September 29, 2015 had permitted Indian corporates to issue rupee denominated bonds overseas within the ceiling of FPI investments in corporate debt. In a circular issued on the same date, the RBI had put in place the framework for issuance of rupee denominated bonds overseas.

Accordingly, INR 244,323 crore corporate debt limit for FPIs has been redefined as the 'combined corporate debt limit' for all foreign investments in rupee denominated bonds issued both onshore and overseas by Indian corporates. However, these investments in overseas rupee denominated bonds shall not be treated as FPI investments and hence shall not come under the purview of the SEBI (Foreign Portfolio Investor), Regulations, 2014.

Investments by FPIs in Government Securities (RBI; October 03, 2016):

According to the circular released, the revised FPI debt limits would be as follows:

Type of Instrument	Revised Upper Cap with effect from October 03, 2016 (INR cr)	Revised Upper Cap with effect from January 02, 2017 (INR cr)
Government Debt	148,000	152,000
Government Debt – Long Term	62,000	68,000
State Development Loans	17,500	21,000
Total	**227,500**	**241,000**

Other than the revised debt limits, the incremental limits for long term FPIs were available for investment on tap with effect from October 03, 2016 and January 02, 2017 respectively. All other existing terms and conditions, including the security-wise limits, investment of coupons being permitted outside the limits and investments being restricted to securities with a minimum residual maturity of three years continued to apply.

Issuance of Rupee denominated bonds overseas by Indian banks (RBI; November 03, 2016):

On August 25, 2016, RBI had notified its decision of allowing Indian banks to issue Rupee Denominated Bonds overseas for their capital requirements, and for financing infrastructure and affordable housing. With the aim to further develop the market of Rupee Denominated Bonds overseas, as also provide an additional avenue for Indian banks to raise capital / long term funds, RBI has decided to allow Indian banks, within the limit set for foreign investment in corporate bonds (INR 2,44,323 crore, at present), to issue the following:

i. Perpetual Debt Instruments (PDI) qualifying for inclusion as Additional Tier 1 capital and debt capital instruments qualifying for inclusion as Tier 2 capital, by way of Rupee Denominated Bonds overseas;

ii. Long term Rupee Denominated Bonds overseas for financing infrastructure and affordable housing

Investment by Foreign Portfolio Investors (FPI) in corporate debt securities (RBI; November 17, 2016):

RBI has issued a circular notifying the decision of expanding the basket of eligible instruments for investment by FPIs under the corporate bond route to include the following:

i. Unlisted corporate debt securities in the form of non-convertible debentures / bonds issued by public or private companies subject to minimum residual maturity of three years and end use-restriction on investment in real estate business, capital market and purchase of land. Earlier, foreign portfolio investors (FPI) were permitted to invest only in listed or to-be-listed debt securities. Investment in unlisted debt securities was allowed only in case of companies in the infrastructure sector.

ii. Securitised debt instruments as under: (a) any certificate or instrument issued by a special purpose vehicle (SPV) set up for securitisation of asset(s) where banks, FIs or NBFCs are originators; and / or (b) any certificate or instrument issued and listed in terms of the SEBI Regulations on Public Offer and Listing of Securitised Debt Instruments, 2008.

Investment by FPIs in the unlisted corporate debt securities and securitised debt instruments shall not exceed INR 35,000 crore within the extant investment limits prescribed for corporate bond from time to time which currently is INR 2,44,323 crore. Further, investment by FPIs in securitised debt instruments shall not be subject to the minimum 3-year residual maturity requirement.

Review of requirement for copy of PAN Card to open accounts of FPIs (SEBI; November 17, 2016):

Based on representations received from stakeholders and to further ease the PAN verification process at the time of account opening of FPIs, SEBI has decided that the intermediaries can verify the PAN of FPIs online from website authorised by Income Tax department at the time of account-opening for FPIs. However, FPIs need to provide the copy of PAN card within 60 days of account-opening or before remitting funds out of India, whichever is earlier to their intermediaries.

C. Corporate Governance Developments

C Corporate Governance in India: Developments and Policies

C.1 Importance of corporate governance in the capital market

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

But why is corporate governance so pivotal to a country? Two significant reasons may be cited in this regard. Firstly, an orderly and transparent business environment inspires confidence on the part of domestic and international investors. While making investment decision, investors consider governance risk, which arises from the potential lack of transparency, accountability and enforceability in the marketplace, as one of the critical factors. Research suggests that foreign investors shy away from countries characterized by weak shareholder protection and related legal institutions since investors' information and monitoring costs could be overly taxing. Secondly, weak governance systems often lead to serious problems; the 1997 East Asian crisis, for example, could partly be attributed to the weak institutions. The total indebtedness of countries affected by the crisis exceeded one hundred billion dollars. Similarly, the failure of a large corporate can cost an economy dearly; for example, the first year cost to the US economy caused by the failure of Enron in terms of only stock price erosion has been estimated at $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 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). Foreign direct investment (net) in India rose from USD 0.3 billion in FY 1996 to USD 36 billion in 2015-16 (RBI, Handbook of Statistics on Indian Economy, 2016). The governance reforms in India and the globalisation of the capital markets have been mutually reinforcing. While continuing governance reforms have led to rising foreign investment, the globalisation of the capital markets has provided an impetus towards a more stringent CG regime.

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

C.2 International comparison

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

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
11. Labour market regulations

According to the Doing Business report 2017, India ranks 131 among 190 countries in 2016, which is one position down than its ranking in 2015. The report notes that in the recent few years, India "has embarked on a fast-paced reform path" and further acknowledges the "several substantial improvements" that have been brought about in the realm of corporate governance in the country in the recent past. India's relative ranking in all the above stated 11 components of business regulation are outlined in Table 1:

Table 1: India's rank across ease of doing business and its components

Sr. No	Indicator	2015	2016	2017
1	Ease of doing business	130	131	130
2	Starting a business	155	151	155
3	Dealing with construction permits	183	184	185
4	Getting electricity	70	51	26
5	Registering property	138	140	138
6	Getting credit	42	42	44
7	Protecting minority investors	8	10	13
8	Paying taxes	157	172	172
9	Trading across borders	133	142	143
10	Enforcing contracts	178	178	172
11	Resolving insolvency	136	135	136

Source: World Bank's Doing Business 2017

Doing Business Report 2017 recognized India's achievements in implementing reforms in four of its eleven indicators- Getting Electricity, Paying Taxes, Enforcing contracts and Trading across borders The improvements made across these four different areas of ease of doing business include:

- **Getting electricity**: Getting electricity measures the procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse. India made getting electricity faster and cheaper by streamlining the process of getting a new commercial electricity connection. .

- **Paying taxes**: Paying taxes records the taxes and mandatory contributions that a medium-size company must pay or withhold in a given year, as well as measures the administrative burden in paying taxes and contributions. India made paying taxes easier by introducing an electronic system for paying employee state insurance contributions.
- **Trading across borders**: Doing Business records the time and cost associated with the logistical process of exporting and importing goods. India made exporting and importing easier by launching Customs Electronic Commerce Interchange Gateway portal and simplifying border and documentary compliance procedures.
- **Enforcing contracts**: The enforcing contracts indicator measures the time and cost for resolving a commercial dispute through a local first-instance court, and the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system. India made enforcing contracts easier by creating dedicated divisions to resolve commercial cases.

Notably, India's ranking has improved mainly due to improvements in four indicators; viz., starting a business, dealing with construction permits, Getting electricity and registering property. Table 2 shows that in terms of "getting electricity", India is doing better than Brazil, China, South Africa and USA. India's ranking in "Starting a business" is far better than Brazil although India is below in ranking compared to many of the other developed countries like Russia, USA and UK. .

Table 2: India's comparison with selected advanced countries, 2017

Parameters (Rank)	India	Brazil	Russia	China	S. Africa	USA	UK
Starting s business	155	175	26	127	131	51	16
Dealing with construction permits	185	172	115	177	99	39	17
Getting Electricity	26	47	30	97	111	36	17
Registering Property	138	128	9	42	105	36	47

Source: World Bank's Doing Business 2017

C.3 Reforms in CG framework for listed companies

Some of the important developments and policy changes in the CG framework in India during the period April 2015 – September 2016 are summarised as follows.

C.3.1 The Companies (Amendment) Bill, 2016

The enactment of the Companies Act, 2013 was one of the most significant legal reforms in India, aimed at bringing Indian companies law in line with the global standards. The Act introduced significant changes in the company's law in India, especially in relation to accountability, disclosures, investor protection and corporate governance. With significant challenges along the way, the Ministry of Corporate Affairs constituted a Companies Law Committee for addressing these concerns. The Committee submitted its report in about six months. The Government considered many of the suggestions made by the Committee and introduced the Companies (Amendment) Bill 2016 in the Lok Sabha on March 16, 2016.

The major amendments proposed include simplification of the private placement process, rationalization of provisions related to loan to directors, omission of provisions relating to forward dealing and insider trading, doing away with the requirement of approval of the Central Government for managerial remuneration above prescribed limits, aligning disclosure requirements in the prospectus with the regulations to be made by SEBI, providing for maintenance of register of significant beneficial owners and filing of returns in this regard to the Registrar of Companies (ROC) and removal of requirement for annual ratification of appointment or continuance of auditor.

Key features of the Bill are as follows:

i. *Private placement*: "Private placement" means any offer or invitation to subscribe or issue securities to a select group of persons by a company (other than by way of public offer) is done privately through an application. A private placement shall be made only to a select group of persons who have been identified by the Board, whose number shall not exceed fifty or such higher number as may be prescribed [excluding the qualified institutional buyers and employees of the company being offered securities under a scheme of employees stock option in terms of provisions of clause (b) of sub-section (1) of section 62], in a financial year subject to such conditions. The use of the money has been linked with filing of returns with ROC. The bar on the time limit before which the money raised through private placement cannot be utilized has now been extended up to the time, the return of allotment has been filed with the Registrar of Companies., which is reduced to 15 days from 30 days earlier. Further, the Private Placement offer letter shall not contain any right of renunciation. These restrictions are enforced to safeguard against round tripping of share application money without there being an actual allotment of shares. The only relief seems to be that the amount of penalty for contravention has now been limited to Rs 2cr, as compared to the earlier provision of paying the entire amount raised through private placement.

ii. *Prohibition on forward dealings in securities of company by director or key managerial personnel (KMPs):* Given that SEBI regulations connected with forward dealings for listed companies are comprehensive in nature, such prohibitions have been omitted from the Companies Act 2013 to avoid duplication.

iii. *Prohibition on Insider trading of securities:* Given that SEBI regulations on prohibition of insider trading are comprehensive in nature, such prohibitions have been omitted from the Companies Act 2013 to avoid duplication.

iv. *Managerial remuneration*: The total managerial remuneration payable by a public company, to its directors, including managing director and whole-time director, and its manager shall not exceed 11 percent of net profits of the company for that financial year computed in the manner laid down in Section 198 except that remuneration shall not be deducted from gross profits,

Provided that in the general meeting, with the approval of the Central Government, authorise the payment of remuneration exceeding 11 percent of the net profits of the company.

a. The remuneration payable to any one managing director; or whole-time director or manager shall not exceed 5 percent of the net profits of the company, and if there is more than one such director, then the remuneration shall not exceed 10 percent of the net profits to all such directors and managers taken together.

b. The remuneration payable to directors who are neither managing directors nor whole- time directors shall not exceed

o one percent of the net profits of the company, if there is a managing/whole-time director or manager,

o three percent of net profits in any other case

v. *Loans to directors of a company*: The amendment retains the prohibition on loans advances, etc., only on the directors of the company or its holding company or any partner of such director or any firm in which such director or relative is a partner. It however, allows a company to give a loan or guarantee or provide security to any person in whom any of the director is interested subject to passing of special resolution by the company and utilization of loans by the borrowing company for its principal business activities. This is a very welcome change and should open lending between group companies with common directors across the group.

vi. *Associates and subsidiaries*: This amendment provides that a company having subsidiary (ies) and/or associate companies shall prepare consolidated financial statements in the same form and manner as that of its own in accordance with applicable accounting standards.

vii. *Start-Ups*: For company registration, instead of affidavits, declarations will be required; In case of incorporation, name reserved by the Registrar of Companies ("ROC") shall be valid for 20 days from date of the approval instead of 60 days from the date of application, as currently provided. Sweat Equity Shares can be issued at any time.

Currently it can be issued after one year from commencement of business; Partnership or LLP with 2 members can convert into a company

viii. *Ease of doing business*: In addition to Directors & Key Managerial Personnel, any employee can authenticate documents; officers not more than one level below the directors who are in whole time employment, can be designated as KMP; Annual General Meeting of unlisted company can be held anywhere in India; wholly Owned Subsidiary of foreign company can hold EGM outside India; no Central Government approval for payment of remuneration in excess of 11 percent of net profits.

There are several other Amendments in the Bill related to the Nomination and Remuneration Committee, Board of Directors of every listed company, disclosure norms, etc.[1]

C.3.2 SEBI (Listing Obligations and Disclosure Requirements) Regulations

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

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

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

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

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

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

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

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

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

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

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

[1] http://www.mca.gov.in/Ministry/pdf/Company_AmendentBill_2016.pdf

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

C.4 CAG Audit Report on Central Public Sector Enterprises (CPSE):[2]

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

There are 607 CPSEs under the audit jurisdiction of CAG of India. These include 410 government companies, 191 government controlled other companies and 6 statutory corporations. The report dealt with 554 CPSEs comprising 378 government companies, 170 government controlled other companies and 6 statutory corporations. 53 government companies including 21 government controlled other companies were not covered in this report, as accounts of these companies were in arrears for three years or more or were defunct/under liquidation or first accounts were not received/due.

Out of the 384 government companies and corporations whose data has been analysed in this report, 197 government companies and corporations earned profits of Rs 1,36,695cr during FY16, of which, 72.75 percent (Rs 99,43cr) was contributed by 47 government companies and corporations in three sectors viz., petroleum and natural gas, power and coal & lignite. Out of the companies that earned a profit, 106 companies declared a dividend in FY16 amounting to Rs 71,88cr. Out of this, Rs 41,185cr was paid to the government of India, which represented 13.91 percent return on the total investment by the government of India (Rs 2,96,061 cr) in all government companies and corporations. Thirteen government companies under the Ministry of Petroleum and Natural Gas contributed Rs 16,570cr representing 23.05 percent of the total dividend declared by all government companies. Non-compliance with government's directive in the declaration of dividend by 37 government companies resulted in a shortfall of Rs 9,011cr in the payment of dividend for FY16.

Equity investment in 67 government companies had been completely eroded by their accumulated losses. As a result, the aggregate net worth of these government companies had become negative to the extent of Rs 79,227cr as on March 31, 2016.

Provisions of the Companies Act, 2013 and guidelines of Department of Public Enterprises /Securities and Exchange Board of India on Corporate Governance, though mandatory, were not being complied with by some of the CPSEs listed on the Stock Exchanges. Following significant departures from the prescribed guidelines were noticed:

a. Representation of Independent Directors in 33 CPSEs was not adequate. There was no Independent Director in the Board in 13 CPSEs.

b. In 18 CPSEs the post of Independent Directors and in 9 CPSEs vacancy of Functional Directors were not filled in time.

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

d. There was no Nomination and Remuneration Committee in 6 CPSEs.

2 http://www.cag.gov.in/sites/default/files/audit_report_files/Report_6_of_2017_compliance_audit_Union_Government_General_Purpose_Financial_Reports_of_Central_Public_Sector_Enterprises.pdf

C.5 Corporate governance initiatives undertaken by NSE

C.5.1 NSE-IGIDR Conference on Corporate Governance

The NSE-IGIDR Conference on Corporate Governance was held on January 21-22, 2016 in Mumbai, in collaboration with IGIDR, one of the leading academic institutes of India. NSE organises the conference annually with an objective to bring together academics, practitioners and policy makers to debate on the existing and emerging corporate governance issues and generate useful insights. Each conference includes a panel discussion on a topical issue. . The conference was a part of the research initiative in CG undertaken by NSE in collaboration with IGIDR. Dr. Marco Becht (Professor of Finance and the Goldschmidt Professor of Corporate Governance, Solvay Brussels School for Economics and Management) delivered a key note speech on "how much shareholder voting do we really need from a comparative perspective?" The conference featured a panel discussion on "Gender diversity in corporate boards: Implications for corporate governance". Six research papers – selected through a global call for papers – were presented during the conference. Besides NSE, company secretaries, some reputed Directors and academics participated in the conference.

C.5.2 NSE-CAM Training Program for Women Directors

Recognising that directors are the most critical stakeholders of corporate governance and that gender diversity on board is a cherished goal of policy makers, the National Stock Exchange of India Ltd. (NSE) in collaboration with Cyril Amarchand Mangaldas (CAM) organized a one-day training program for women directors (both serving and aspiring) on November 11, 2016 in Mumbai. The Companies Act 2013 mandate that all companies must have at least one woman director on their board, makes the event all the more relevant in present times. The event was marked with the presence of domain experts, reputed Directors and eminent corporate lawyers.

C.6 Quarterly Briefings under the aegis of the NSE Centre for Excellence in Corporate Governance (NSE CECG)

In recognition of the important role that stock exchanges play in enhancing the CG standards, NSE had established a Centre for Excellence in Corporate Governance (NSE CECG) in 2012. This is an independent expert advisory body comprising eminent domain experts, academics and practitioners. The Committee meets from time to time to discuss CG issues and developments. The 'Quarterly Briefing', a note that offers an analysis of one emerging or existing CG issue, is a product emerging from these discussions. In 2016, the Centre has brought out four issues of the 'Quarterly Briefing' on the following topics:

a) Independent Directors under the new dispensation

b) The Long and Short of Insider Trading Regulation in India

c) Risk Management and the Board of Directors in Indian Firms

d) Issues in Board and Director Independence.

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

D. EMERGE: SME PLATFORM

D EMERGE: SME PLATFORM

D.1 Introduction

The micro, small, and medium enterprises (MSME) sector has emerged as a vibrant and dynamic sector of the Indian economy over the last five decades. Small and medium enterprises (SMEs) play a vital role in developing the local economy, as it provides employment opportunities at relatively lower cost and also industrialisation of rural and backward areas, thereby reducing regional imbalances and increasing equitable income distribution. Because of their small size and entrepreneurial spirit, they are able to adapt to changes quickly. They use innovation as a key competitive strategy, and have high growth prospects. The latest data from CII shows that India's MSME sector has been able to provide employment to over 80 million people through 36 million enterprises producing over 6000 products as of March 2016. The sector contributed about 8% to India's GDP, 45% of the manufacturing output and 40% of the overall exports from India.

Until two decades ago, Indian SMEs were concentrated in the traditional brick and mortar sectors; they were focused more on the local markets, driven by the protection provided through the reservation of sectors. However, over the last decade, there has been a paradigm shift in the profile of Indian SMEs. Today, they are much more diversified in terms of sectors, stage, and geographic locations. They operate in sectors ranging from those that are very traditional to those that are most modern and cutting-edge. Sectors such as IT, IT-enabled services, organised retail, education, entertainment, and media represent the new and modern face of Indian SMEs.

To further advance the development of the MSME segment, the central bank and government have taken various steps to enhance credit flow to the sector. For example, the central bank has set up a Trade Receivables Discounting System (TREDS), an institutional mechanism for facilitating the financing of the trade receivables of MSMEs from corporate buyers, reducing delay in payments. Further, major exchanges, NSE and BSE, have set up a separate trading platform for SME companies, providing higher visibility and reputation, and the opportunity to get better price discovery and fair valuation.

D.2 Regulatory Framework

The SME platform is a regulated platform under the purview of the Securities and Exchange Board of India (SEBI). A new chapter (XB) was added to the Issue of Capital and Disclosure Requirements (ICDR) regulations to define the regulations applicable to the SME platform. According to the SEBI regulations, companies with post-issue paid up capital (face value) up to Rs 25cr 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 Rs 10cr and Rs 25cr have the option of migrating to the main board.

The listing requirements are simpler on the SME platform. The exchanges' admission and diligence process are intended to help in addressing investor expectations. Post-listing compliance is similar to that for the main board, with certain exemptions in the reporting requirements for SMEs.

D.3 NSE SME Platform: EMERGE

NSE launched its SME platform, EMERGE, in September 2012. Since its launch, there have been 19 listings on the EMERGE platform, of which 1 have migrated to the main board. Currently, 39 companies (18 companies on EMERGE and 21 companies on the ITP platform) with an approximate fund raising of Rs 220crore. NSE believes that EMERGE has an important role to play in facilitating the raising of capital by SMEs. There has been enthusiasm for and comprehension of the platform among stakeholders, from entrepreneurs to intermediaries and investors.

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

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

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

D.4 Performance

NSE's EMERGE has shown remarkable progress over the last one year, with the number of trades carried out on the platform increasing from 440 in October 2015 to 1,783 in September 2016. Further, the average daily turnover increased significantly from Rs 57 lacs to Rs 2.45 cr over the same period. Currently two companies, Veto Switchgear Cable Ltd have migrated to NSE's main board on fulfilling the eligibility criteria. Table 1 presents the details of the trades conducted on the EMERGE platform during the period October 2015 – September 2016, while Table 2 gives details of each of the company's performance over the said period.

Table 1: Trading Trends in NSE's EMERGE Platform

Month-Year	No. of companies traded	Total No. of Trades	Total Traded Quantity (lakh)	Total Traded Value (Rs crore)	No. of trading days	Market Cap * (Rs crore)	Average trade size (Rs crore)
Oct-15	9	440	30.48	16.35	20	463.67	0.04
Nov-15	10	456	38.01	17.67	19	491.58	0.04
Dec-15	9	782	60.34	33.89	22	517.44	0.04
Jan-16	9	778	68.42	34.75	20	564.99	0.04
Feb-16	10	841	63.74	26.38	21	594.61	0.03
Mar-16	12	842	42.70	19.70	19	700.61	0.02
Apr-16	13	355	11.37	7.56	18	699.19	0.02
May-16	12	530	21.40	12.83	22	717.80	0.02
Jun-16	13	796	38.52	18.45	22	729.40	0.02
Jul-16	14	877	40.56	22.19	20	760.38	0.03
Aug-16	14	1166	44.01	37.20	22	881.76	0.03
Sep-16	18	1783	88.09	48.94	20	1047.97	0.03

Source: NSE
**Note - Market Cap indicates the market capitalisation on the last day of the month.*

Table 2: Company-wise Trading Details in NSE's EMERGE Platform during Oct 2015 – Sep 2016

Symbol	Total Traded Quantity (in lakh)	Total Traded Value (in Rs crore)	Market Cap (in Rs crore)
AHIMSA	0.96	0.24	13.69
CROWN	1.44	1.65	23.78
EMKAYTOOLS	1.18	3.92	60.47
FOURTHDIM	48.8	43.57	158.81
HECPROJECT	3.11	3.07	21.9
HITECH	31.07	26.22	137.83
HUSYSLTD	0.86	0.54	12.36
KKVAPOW	0.12	0.38	11.79
MBAPL	46.68	13.79	64.84
MITCON	24.52	16.52	87.12
MOMAI	49.9	45.38	154.4
OPAL	9.08	8.67	28.89
PERFECT	8.22	1.84	12.07
SAGARDEEP	8.64	1.69	25.02
SANCO	290.06	113.76	67.72
SHAIVAL	0.94	0.96	19.87
SIIL	13	8.97	34.36
THEJO	0.38	0.71	65.24
UNITEDPOLY	5.55	2.46	17.8
WEALTH	3.15	1.59	30.05

Source: NSE

D.5 Conclusion

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

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

With continued support from the regulators, the EMERGE platform has the potential to revolutionise the way companies gain access to public equity at an early stage of their development.

Part II
Market Design

Part II: 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), commodities market, derivatives market (equity and currency), and foreign investors (foreign institutional investors, qualified foreign investors and foreign venture capital investors).[1]

1. Primary Market

The Indian securities primary market is governed by the provisions of the Companies Act, 2013, which deals with the listing and allotment of securities. Additionally, the Securities and Exchange Board of India (SEBI) prescribes the eligibility and disclosure norms through the Issue of Capital and Disclosure Requirements (ICDR) Regulations 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, preferential issue, qualified institutions placement and rights issue by companies, as per the ICDR prescribed by the SEBI.

The Issue of Capital and Disclosure Requirements (ICDR) Regulations 2009:[2]

The ICDR Regulation is issued in 2009 by conversion of the SEBI (Disclosure and Investor Protection) Guidelines, 2000. The ICDR Regulations, 2009 is applicable for public issue; rights issue; preferential issue; qualified institutions placement, an issue of bonus shares by a listed issuer, Issue of Specified Securities by Small and Medium Enterprises; and issue of Indian Depository Receipts.

General conditions:,

An issuer cannot make a public issue or rights issue of equity shares and convertible securities under the following conditions.

- If the issuer, any of its promoters, promoter group or directors or persons in control of the issuer are debarred from accessing the capital market by SEBI;
- if any of the promoters, directors or persons in control of the issuer was or also is a promoter, director or person in control of any other company which is debarred from accessing the capital market under any order or directions made by the Board;
- unless it has made an application to one or more recognised stock exchanges for listing of specified securities on such stock exchanges and has chosen one of them as the designated stock exchange. In case of an initial public offer, the issuer should make an application for listing of the specified securities in at least one recognised stock exchange having nationwide trading terminals;
- unless it has entered into an agreement with a depository for dematerialisation of specified securities already issued or proposed to be issued;
- unless all existing partly paid-up equity shares of the issuer have either been fully paid up or forfeited;

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

[2] where the aggregate value of specified securities offered is Rs 50 lakh or more.

- unless firm arrangements of finance through verifiable means towards seventy five per cent of the stated means of finance, excluding the amount to be raised through the proposed public issue or rights issue or through existing identifiable internal accruals, have been made.

Eligibility Requirements

An issuer making a public issue should satisfy the following conditions as on the date of filing draft offer document with the Board and also as on the date of registering the offer document with the Registrar of Companies.

1. The issuer has net tangible assets of at least three crore rupees in each of the preceding three full years (of twelve months each), of which not more than 50% are held in monetary assets. However, if more than 50% of the net tangible assets are held in monetary assets, the issuer has to show that it has made firm commitments to utilise such excess monetary assets in its business or project;
2. it has a minimum average pre-tax operating profit of rupees fifteen crore, calculated on a restated and consolidated basis, during the three most profitable years out of the immediately preceding five years;
3. it has a net worth of at least one crore rupees in each of the preceding three full years;
4. 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;
5. if it has changed its name within the last one year, at least 50% of the revenue for the preceding one full year has been earned by it from the activity indicated by the new name.

An issuer not satisfying the above conditions may make an initial public offer if the issue is made through the book-building process and the issuer undertakes to allot, at least 75% of the net offer to public, to qualified institutional buyers and to refund full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.

An issuer may make an initial public offer of convertible debt instruments without making a prior public issue of its equity shares and listing thereof. It should not make an allotment pursuant to a public issue if the number of prospective allottees is less than one thousand.

Issuer should not make an initial public offer if there are any outstanding convertible securities or any other right which would entitle any person with any option to receive equity share. However, there are few exceptions in this conditions, such as,

- a public issue made during the currency of convertible debt instruments which were issued through an earlier initial public offer, if the conversion price of such convertible debt instruments was determined and disclosed in the prospectus of the earlier issue of convertible debt instruments;
- outstanding options granted to employees pursuant to an employee stock option scheme framed in accordance with the relevant Guidance Note or Accounting Standards, if any, issued by the Institute of Chartered Accountants of India in this regard.
- Fully paid-up outstanding securities which are required to be converted on or before the date of filing of the red herring prospectus (in case of book built issues) or the prospectus (in case of fixed price issues), as the case may be.

Pricing of Public Issues

An issuer may determine the price of specified securities, the coupon rate and conversion price of convertible debt instruments in consultation with the lead merchant banker or through the book building process.

Differential pricing:

An issuer may offer specified securities at different prices, subject to the following;

- retail individual investors or retail individual shareholders or employees entitled for reservation made under the regulation making an application for specified securities of value not more than 2 lakhs rupees, may be offered specified securities at a price lower than the price at which net offer is made to other categories of applicants. Such difference shall not be more than 10% of the price at which specified securities are offered to other categories of applicants;
- in case of a book built issue, the price of the specified securities offered to an anchor investor should not be lower than the price offered to other applicants;
- in case of a composite issue, the price of the specified securities offered in the public issue may be different from the price offered in rights issue and justification for such price difference shall be given in the offer document.

- In case the issuer opts for the alternate method of book building, the issuer may offer specified securities to its employees at a price lower than the floor price. But the difference between the floor price and the price at which specified securities are offered to employees should not be more than 10% of the floor price.

Price and price band:

The issuer may mention a price or price band in the draft prospectus (in case of a fixed price issue) and floor price or price band in the red herring prospectus (in case of a book built issue) and determine the price at a later date before registering the prospectus with the Registrar of Companies. But the prospectus registered with the Registrar of Companies should contain only one price or the specific coupon rate.

The issuer has to announce the floor price or price band at least five working days before the opening of the bid (in case of an initial public offer) and at least one working day before the opening of the bid (in case of a further public offer), in all the newspapers in which the pre issue advertisement was released.

The announcement referred to in sub-regulation shall contain relevant financial ratios computed for both upper and lower end of the price band and also a statement drawing attention of the investors to the section titled basis of issue price in the prospectus.

The announcement and the relevant financial ratios should be disclosed on the websites of those stock exchanges where the securities are proposed to be listed and shall also be pre-filled in the application forms available on the websites of the stock exchanges.

The cap on the price band should be less than or equal to 20% of the floor price and the floor price or the final price should not be less than the face value of the specified securities.

Face value of equity shares:

An issuer making an initial public offer may determine the face value of the equity shares in the following manner:

(a) if the issue price per equity share is five hundred rupees or more, the issuer should have the option to determine the face value at less than ten rupees per equity share. But it should not be less than one rupee per equity share;

(b) if the issue price per equity share is less than five hundred rupees, the face value of the equity shares should be ten rupees per equity share.

The disclosure about the face value of equity shares should be made in the advertisements, offer documents and application forms in identical font size as that of issue price or price band.

Contribution of Promoters and Lock-in Period

The promoters of the issuer should contribute in the public issue as follows:

a) in case of an initial public offer, not less than 20% of the post issue capital. But in case 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.

b) in case of a further public offer, either to the extent of 20% of the proposed issue size or to the extent of 20% of the post-issue capital;

c) in case of a composite issue, either to the extent of 20% of the proposed issue size or to the extent of 20% of the post-issue capital excluding the rights issue component.

In case of a public issue or composite issue of convertible securities, minimum promoters' contribution should be as follows:

(a) the promoters should contribute 20% of total public issue either by way of equity shares or by way of subscription to the convertible securities. But if the price of the equity shares allotted pursuant to conversion is not predetermined and not disclosed in the offer document, the promoters should contribute only by way of subscription to the convertible securities being issued in the public issue and shall undertake in writing to subscribe to the equity shares pursuant to conversion of such securities.

(b) in case of any issue of convertible securities which are convertible or exchangeable on different dates and if the promoters' contribution is by way of equity shares (conversion price being pre-determined), such contribution should not be at a price lower than the weighted average price of the equity share capital arising out of conversion of such securities.

(c) in case of an initial public offer of convertible debt instruments without a prior public issue of equity shares, the promoters should bring in a contribution of at least 20% of the project cost in the form of equity shares, subject to contributing at least 20% of the issue size from their own funds in the form of equity shares. if the project is to be implemented in stages, the promoters' contribution should be with respect to total equity participation till the respective stage vis-a-vis the debt raised or proposed to be raised through the public issue.

In case of a further public offer or composite issue where the promoters contribute more than the stipulated minimum promoters' contribution, the allotment with respect to excess contribution should be made at a price determined or the issue price, whichever is higher.

The promoters should satisfy the requirements of this regulation at least one day prior to the date of opening of the issue and the amount of promoters' contribution should be kept in an escrow account with a scheduled commercial bank and shall be released to the issuer along with the release of the issue proceeds. If the promoters' contribution has already been brought in and utilised, the issuer shall give the cash flow statement disclosing the use of such funds in the offer document. Further, if the minimum promoters' contribution is more than one hundred crore rupees, the promoters should bring in at least one hundred crore rupees before the date of opening of the issue and the remaining amount may be brought on pro-rata basis before the calls are made to public.

Securities ineligible for minimum promoters' contribution:

For the computation of minimum promoters' contribution, the following specified securities shall not be eligible:

(a) specified securities acquired during the preceding three years, if they are (i) acquired for consideration other than cash and revaluation of assets or capitalisation of intangible assets is involved in such transaction; or (ii) resulting from a bonus issue by utilisation of revaluation reserves or unrealised profits of the issuer or from bonus issue against equity shares which are ineligible for minimum promoters' contribution;

(b) specified securities acquired by promoters and alternative investment funds during the preceding one year at a price lower than the price at which specified securities are being offered to public in the initial public offer. This condition is not applicable (i) if the promoters (/alternative investment funds, as applicable] pay the issuer, the difference between the price at which specified securities are offered in the initial public offer and the price at which the specified securities had been acquired; (ii) if such specified securities are acquired in terms of the scheme under sections 391-394 of the Companies Act, 1956, as approved by a High Court, by promoters in lieu of business and invested capital that had been in existence for a period of more than one year prior to such approval; (iii) to an initial public offer by a government company, statutory authority or corporation or any special purpose vehicle set up by any of them, which is engaged in infrastructure sector;

(c) specified securities allotted to promoters and alternative investment funds during the preceding one year at a price less than the issue price, against funds brought in by them during that period, in case of an issuer formed by conversion of one or more partnership firms, where the partners of the erstwhile partnership firms are the promoters of the issuer and there is no change in the management. However, the specified securities allotted to promoters against capital existing in such firms for a period of more than one year on a continuous basis should be eligible;

(d) specified securities pledged with any creditor.

Pre-Issue Obligations

The lead merchant banker has to exercise due diligence and satisfy himself/herself about all aspects of the issue including the offering, veracity, and adequacy of disclosures in the offer document. The liability of the merchant banker will continue even after the completion of the issue process.

The lead merchant banker has to file draft offer document filed with the SEBI. 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 and issuer should ensure that the securities of the company issued pursuant to IPO are listed on the Exchange within 6 working days from closure of the issue.

Credit Rating

Credit rating agencies (CRAs) can be promoted by public financial institutions, scheduled commercial banks, foreign banks operating in India, or by any corporate body having a continuous minimum net worth of Rs 100 crore for the previous five years. Further, foreign CRAs that are recognised by/under any law in force 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 Rs 50 million. The merchant banking regulations cover the code of conduct to be followed by merchant bankers, the responsibilities of the lead managers, the payments of fees, and the disclosures to the SEBI.

Demat Issues

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

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.

2.1 Mutual Funds

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

Structure of Mutual Funds

A typical MF in India has the following constituents:

Fund Sponsor: A fund sponsor is a 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 fulfil the eligibility criteria specified in the SEBI Regulations).

Trustees: Trustees could mean the board of trustees or the trustee company that holds the property of the mutual fund in trust for the benefit of the unit holders. The trustees are appointed with the approval of the SEBI. Two-thirds of the trustees should be independent individuals who are not associated with the sponsors in any manner whatsoever. Since the trustees are the primary guardians of the unit holders' funds and assets, they have to be individuals of high repute and integrity. The trustees, however, do not directly manage the portfolio of an MF. It is managed by the asset management company as per the defined objectives, in accordance with the trust deed and the SEBI (MF) Regulations.

Asset Management Company: The asset management company (AMC), which is appointed by the sponsor or the trustees and is approved by the SEBI, acts as the investment manager of the trust. The AMC should have a net worth of not less than Rs 50 crore. It functions under the supervision of its board of directors, trustees, and the SEBI. In the name of the trust, the AMC floats and manages different investment "schemes" as per the SEBI Regulations and the Investment Management Agreement signed with the trustees. The Regulations require a non-interfering relationship involving the fund sponsors, trustees, custodians, and the AMC. The AMC is required to obtain prior in-principle approval from the recognised stock exchange(s) where the units are proposed to be listed.

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

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

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

Types of MFs/Schemes

A wide variety of MFs/schemes caters to the different preferences of the investors based on their financial position, risk tolerance, and return expectations. The MF schemes can be broadly categorised under three headings—

a. funds by structure (e.g., open-ended and close-ended schemes);
b. funds by investment objective (e.g., growth schemes, income schemes, balanced schemes, and money market schemes); and
c. other schemes (e.g., tax saving schemes, index schemes, and sector-specific schemes).

Open-ended and Close-ended Schemes

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

Listing of Close-ended Schemes

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

Repurchase of Close-ended Schemes

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

Regulation of Funds

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

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

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

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

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

Advertisements Code by Mutual funds

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

Investment Restrictions

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

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

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

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

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

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

Valuation of Investments

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

Computation of Net Asset Value

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

Mutual Fund Service System for members & 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.

NMF II for Mutual Fund Distributors & investors

Securities and Exchange Board of India has allowed the mutual fund distributors to use the Exchange infrastructure for facilitating mutual fund transactions for their clients. In order to allow distributors and members of the Exchange to access our infrastructure, for executing mutual fund transactions, NSE has developed an online platform NMF II which facilitates transactions in mutual fund by distributors. This is an online platform which facilitates subscription, redemption, Systematic Investment Plan (SIP), Systematic Withdrawal Plan (SWP), Systematic Transfer Plan (STP), Switch and other transactions of mutual fund units. At present, MFSS and NMF II are different platforms. At a later stage, once all the key features of MFSS are made available in NMF II, the MFSS platform may get merged into the new NMF II. NMF II is a web application and it can be accessed online from anywhere using a standard internet connection.

2.2 Index Funds

Index funds replicate the portfolio of a particular index such as NIFTY50. This is done by investing in all the stocks that are part of the index in proportions equal to the weightage given to those stocks in the index. The value of the fund is linked to the chosen index, so that if the index rises, the value of the fund will also rise. Conversely, if the index falls, so will the value of the fund.

Unlike a typical MF, index funds do not actively trade stocks throughout the year. Index funds are considered appropriate for conservative long-term investors who are looking at moderate risks and moderate returns arising out of a well-diversified portfolio. Since index funds are passively managed, the bias of the fund managers in stock selection is reduced, and yet they provide returns at par with the index.

2.3 Exchange-Traded Funds

An exchange-traded fund (ETF) refers to a diversified basket of securities that is traded in real time like an individual stock on an exchange. Unlike regular open-ended mutual funds, ETFs can be bought and sold throughout the trading day like any other stock. An ETF is similar to an index fund. A gold ETF (GETF) unit is like a mutual fund unit whose underlying asset is gold and is held in demat form. It is typically an exchange-traded mutual fund unit that is listed and traded on a stock exchange. Every gold ETF unit is representative of a definite quantum of pure gold and the traded price of the gold unit moves in tandem with the price of the actual metal. The GETF aims at providing returns that closely correspond to the returns provided by gold.

2.4 Collective Investment Schemes

A collective investment scheme (CIS) is any scheme or arrangement made or offered by any company that pools the contributions or payments made by the investors and deploys the same. Despite the similarity between a CIS and an MF regarding the pooling of savings and issuing of securities, they differ in their investment objectives. While an MF invests exclusively in securities, a CIS confines its investments to plantations and real estate. Any entity proposing to operate as a collective investment management company (CIMC) has to apply for registration with the SEBI. The regulations governing CIS are called the SEBI Collective Investment Schemes Regulations, 1999.

2.5 Alternative Investment Funds

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

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

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

Registration of AIFs

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

Funds registered as venture capital fund under the SEBI (Venture Capital Funds) Regulations, 1996 shall continue to be regulated by said Regulations until the existing fund or scheme managed by the fund is wound up and such funds shall not launch any new scheme after the notification of the AIF Regulations. Further, the existing fund or scheme shall not increase the targeted corpus of the fund or scheme after notification of AIF Regulations. However, VCFs may seek re-registration under these regulations subject to approval of two-thirds of their investors by value of their investment.

Registration Categories of AIFs

Category I AIFs invest in start-up or early-stage ventures, social ventures, small and medium enterprises (SMEs), or infrastructure or other sectors/areas that the government or the regulators consider as socially or economically desirable and shall include venture capital funds, SME funds, social venture funds, infrastructure funds, and such other AIFs as may be specified. Those AIFs that are generally perceived to have positive 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 Rs 20 crore

An AIF shall not accept from an investor any investment of value less than Rs 1 crore. In case of investors who are employees or directors of the AIF, or employees or directors of the fund manager, the minimum value of investment shall be Rs 25 lakh.

The fund manager or sponsor shall have a continuing interest in the AIF of not less than 2.5% of the corpus or Rs 5 crore (whichever is lower) in the form of investments in the AIF; such interest shall not be through the waiver of the management fees. However, for Category III AIFs, the continuing interest shall be not less than 5% of the corpus or Rs 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 Rs 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[3]

3.1 Stock Exchanges

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

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

Membership of Stock Exchanges

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

Membership: Corporates

A. Eligibility Criteria for Corporates

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

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

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

CRITERIA	
Status	Corporate registered under The Companies Act, 1956 (Indian)
Minimum Paid up Equity Capital	Rs 30 lakhs
Designated Directors	Identification of at least two directors as designated directors who would be managing the day to day trading operations

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

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 Rs 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		-	-	1	-	1	300
	New members	Trading Member	*BMC	-	-	-	*BMC	50
		Trading & Self Clearing Membership	*BMC	-	10	-	*BMC +10	100
		Trading & Clearing Membership	*BMC	-	10	-	*BMC +10	300
	Professional Clearing Membership		-	-	10	-	10	300

* 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. *The professional clearing member (PCM) is required to bring in an IFSD of Rs 2 lakh and a CSD of Rs 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 Rs 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.*

Membership: Banks

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

- Minimum net worth of Rs 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 derivatives contracts and management of risks.

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

Deposit Requirement:

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

Fees/Eligibility Criteria

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

Corporatisation of Brokers and Sub-Brokers

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

Listing of Securities

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

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

Listing Fees in the CM Segment

The stock exchanges levy listing fees on the companies whose securities are listed with them. The listing fee has two components—an initial fee and an annual fee. Companies which have a paid up capital, bond and/or debenture and/or debt capital, etc, of more than 500 crore will pay minimum fees of 6,75,000/- and an additional listing fees of 4,150/- for every increase of 5 crore or part thereof in the paid up share, bond and/or debenture and/or debt capital, etc.

Companies which have a paid up share, bond and /or debenture and/or debt capital etc. of more than 1,000 crore will pay minimum fees of 11,00,000/- and an additional listing fees of 4,625/- for every increase of 5 crore or part thereof in the paid up share, bond and/debenture and/or debt capital, etc.

Companies which have a paid up share, bond and /or debenture and/or debt capital etc. of more than 2,000 crore will pay minimum fees of 11,25,000/- and an additional listing fees of 5,025/- for every increase of 5 crore or part thereof above 1,000 crore in the paid up share, bond and/debenture and/or debt capital, etc.

Companies which have a paid up share, bond and /or debenture and/or debt capital etc. of more than 3,000 crore will pay minimum fees of 12,00,000 and an additional listing fees of 4,600/- for every increase of 5 crore or part thereof above 1,000 crore in the paid up share, bond and/debenture and/or debt capital, etc. The detailed structure of the listing fees is presented in the table below:

Listing Fees		Amount (Rs)
Initial Listing Fees		50,000
Annual Listing Fees (based on paid-up share, bond, and/or debenture, and/or debt capital, etc.)	a. Upto Rs 50 Crore	2,00,000
	c. Above Rs 50 Crore and upto Rs 100 Crore	2,55,000
	e. Above Rs 100 Crore and upto Rs 200 Crore	3,30,000
	g. Above Rs 200 Crore and upto Rs 300 Crore	4,15,000
	i. Above Rs 300 Crore and upto Rs 400 Crore	5,10,000
	k. Above Rs 400 Crore and upto Rs 500 Crore	6,70,000

Trading Mechanism

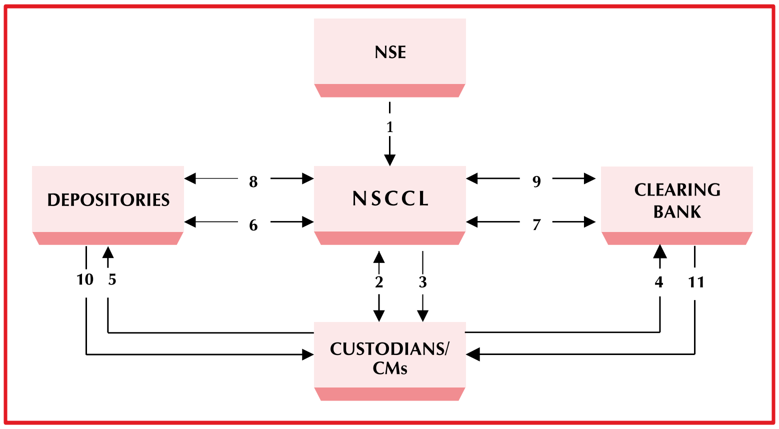
The National Exchange for Automated Trading (NEAT) is the trading system of the NSE. The NEAT facilitates an online, fully automated, nation-wide, anonymous, order-driven, screen-based trading system. In this system, a member can enter the quantities of securities and the prices at which he/she would 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, 2015. The Regulations prohibits an insider from dealing (on his/her behalf or on behalf of any other person) in the securities of a company listed on any stock exchange when he/she is in possession of any unpublished price-sensitive information. Further, it also prohibits any insider from communicating, providing or allowing access (directly or indirectly) to any unpublished price-sensitive information to any person including any insider. Price-sensitive information means any information that is related directly or indirectly to a company, and which if published, is likely to materially affect the price of the securities of a company. It includes information such as the periodical financial results of the company; the intended declaration of dividends (both interim as well as final); the issue of securities or the buy-back of securities; any major expansion plans or the execution of new projects, amalgamation, mergers, or takeovers; the disposal of the whole or a substantial part of the undertaking; and significant changes in the policies, plans, or operations of the company. The SEBI is empowered to investigate any complaint received from investors, intermediaries, or any other individuals on any matter having a bearing on allegations of insider trading.

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

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

Some of the salient features of these Regulations include:

Acquirer to make public announcement to acquire at least 26% additional shares of the total shares of the target company from other shareholders. The following are the triggers for open offer:

A. Shares or voting rights acquisition

- Acquisition of 25% or more,
- when the acquirer already holds between 25% and 75% or 90%, as the case may be acquired more than 5% in a financial year

B. Acquisition of control - Acquisition of control irrespective of acquisition or holding of shares or voting rights

C. Indirect acquisition of shares or control

Buy Back

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

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

The company has to disclose the pre- and post-buy back holding of the promoters. To ensure the speedy completion of the buyback process, the Regulations have stipulated a time limit for each step. For example, in the case of purchases through tender offers, an offer for buy back shall remain open for a period of ten working days. The company should complete the verification of the offers received within 7 days of the closure of the offer and shares, or other specified securities. The payment for the accepted securities has to be made within seven days of the completion of verification and bought back shares have to be extinguished and physically destroyed within seven days of the date of the payment. Further, the company making an offer for buy back will have to open an escrow account on the same lines as provided in the Takeover Regulations.

Circuit Breakers

Volatility in stock prices is a cause for concern for both policy makers as well as investors. To curb excessive volatility, The Exchange has implemented index-based market-wide circuit breakers with effect from July 02, 2001 based on SEBI Circular. The circuit breakers bring about a nation-wide coordinated halt in trading on all the equity and equity derivatives markets. An index-based, market-wide circuit breaker system applies at three stages of the index movement either way, at 10%, 15%, and 20%. The breakers are triggered by the movement of either the Nifty 50 or the SENSEX, whichever is breached earlier. The market shall re-open, after index based market-wide circuit filter breach, with a pre-open call auction session. As an additional measure of safety, individual scrip-wise price bands have been fixed as presented below:

- Daily price bands of 5% (either way) on a set of specified securities
- Daily price bands of 10% (either way) on a set of specified securities
- Daily price bands of 20% (either way) on a set of specified securities

No price bands are applicable to scrips on which derivative products are available or scrips included in indices on which derivative products are available (unless otherwise specified). In order to prevent members from entering orders at non-genuine prices in such securities, the exchange has fixed an operating range of 10%.

Depository and Demat Trading

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

NSE Capital Market Transaction Charges

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

Securities Transaction Tax (STT)

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

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)[4] 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.[5] These cash flows are traded separately as independent securities in the secondary market. STRIPS allow investors to hold and trade the individual interest and principal 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.

4 The Government of India, in consultation with the RBI, decided to issue a new short-term instrument known as Cash Management Bills (CMBs) to meet the temporary mismatches in the cash flow of the government. (Source: RBI Press Release, dated August 10, 2009).

5 For example, when Rs 100 of the 8.24% GS2018 is stripped, each cash flow of the coupon (Rs 4.12 each half year) will become a coupon STRIP and the principal payment (Rs 100 at maturity) will become a principal STRIP.

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 Rs 100 of the face value of the security (e.g., Rs 102.00, Rs 101.00, Rs 100.00, Rs 99.00, etc. per Rs 100). The bids are arranged in descending order. Successful bidders are those who have bid at or above the cut-off price. Bids that are below the cut-off price are rejected.

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

Listing of G-secs on Stock Exchanges

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

Trading in Government Securities

There is an active secondary market in government securities. These securities can be bought/sold in the secondary market (i) 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 can do so 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 New debt market (NDM) segment offers a fully automated, screen-based trading platform. The trades on the NDM segment can be executed in the continuous or negotiated market. In the continuous market, orders entered by the trading members are matched by the trading system. For each order entering the trading system, the system scans for a probable match in the order books. On finding a match, a trade takes place. In case the order does not find a suitable counter order in the order books, it is added to the order books and is called a passive order. This could later match with any future order entering the order book and result in a trade. This future order that results in the matching of an existing order is called the active order. In the negotiated market, deals are negotiated outside the exchange through recognised intermediaries between the two counterparties and are reported on the trading system for approval.

Major players in the Government Securities Market

The major players in the government securities market include commercial banks and primary dealers, in addition to institutional investors such as insurance companies. Primary dealers play an important role as market makers in the government securities market. Other participants include co-operative banks, regional rural banks, mutual funds, and provident and pension funds. Foreign institutional investors (FIIs) are allowed to participate in the government securities market within the quantitative limits prescribed from time to time. Corporates also buy/sell government securities to manage their overall portfolio risk.

Settlement of Government Securities

Primary Market

Once the allotment process in the primary auction is finalised, the successful participants are advised of the consideration amounts that they need to pay to the government on the settlement day. The settlement cycle for dated security auctions and T-bill auctions are T+1. 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.[6]

[6] If credit rating has been obtained from more than one credit rating agency, the credit ratings (including the unaccepted ratings) must be disclosed in the offer document.

(d) 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.

Private Placement of Debt Securities

NSE's Electronic Debt Bidding platform (NSE-EBP) was launched on 1 July 2016 for issuance of debt securities on private placement basis and was aimed to bring efficiency and transparency in the price discovery mechanism and to reduce the time and cost of these issuances.

The current implementation of Electronic Book Platform replicates the broad OTC market operation by taking the entire system online and making all issuances directly accessible to the Qualified Institutional Buyers (QIBs). Apart from these QIBs, the arrangers, sub-arrangers and institutional non-QIB investors can directly access the NSE-EBP platform to place their respective bids. At present there are over 40 top arrangers and 200+ investors registered with on the platform making NSE-EBP the deepest platform in the market.

Key benefits of the EBP platform include:

- The electronic platform can help the issuer to reach out to a wider array of potential investors and arrangers as required
- Usage of the EBP for price discovery increases the probability of getting a better pricing as compared to the traditional arranger driven approach due to the wider participation
- Placement of bonds via the EBP is system driven and it minimizes the chances of discretionary choices thus enhancing the reliability and integrity of the process
- EBP provides a direct access to the institutional investors (default access to registered QIBs and select access to institutional non-QIBs), thus bringing in a more efficient pricing mechanism
- During the entire process of the bond issuance the identities of the bidders are not disclosed to the issuer or to the other bidders participating in the particular issue thus minimizing the risk of i) manipulation by the issuer to push the prices down or ii) cartelization between the bidders to push the prices up
- Further the wider investor base with varied holding capabilities will bring in much required liquidity in the secondary market for these debt securities.

Minimum Subscription

The issuer can decide the amount of minimum subscriptions that it seeks to raise by the issue of debt securities and disclose the same in the offer document. In the event of non-receipt of the minimum subscription amount, all the application money received in the public issue has to be refunded to the applicants.

Debenture Redemption Reserve

For the redemption of the debt securities issued by a company, the issuer has to create a debenture redemption reserve in accordance with the provisions of the Companies Act, 2013 and the Circulars issued by the central government in this regard. Where the issuer has defaulted in the payment of interest on debt securities, or the redemption thereof, or in the creation of security as per the terms of the issue of debt securities, any distribution of dividend would require the approval of the debenture trustees.

Listing of Debt Securities

Mandatory listing

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

Conditions for listing of debt securities issued on private placement basis

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

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

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

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

(d) The prescribed disclosures have been made.

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

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

Trading of Debt Securities

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

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

Clearing and Settlement

The corporate bonds are cleared and settled by the clearing corporations of stock exchanges, i.e., the Indian Clearing Corporation Limited (ICCL) and the NSCCL. All trades in corporate bonds available in demat form that are reported on any of the specified platforms (including the FIMMDA, the NSE-NDM, and the CBRICS) are eligible for settlement through the 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 and Exchange Board of India (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008 to include under the definition of securities any certificate or instrument (by whatever name it is called) issued to an investor by any issuer who is a special purpose distinct entity possessing any debt or receivable (including mortgage debt assigned to such entity) and acknowledging the beneficial interest of the investor in such debt or receivable (including mortgage debt), as the case maybe.[7]

Securitisation means acquisition of debt or receivables by any special purpose distinct entity from any originator or originators for the purpose of issuance of securitised debt instruments to investors based on such debt or receivables and such issuance.

Asset Pool, in relation to a scheme of a special purpose distinct entity, means the total debt or receivables, assigned to such entity and in which investors of such scheme have beneficial interest;

Regulatory Framework

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

Eligibility Criteria for Trustees[8]

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

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

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

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

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

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

However, these persons and special purpose distinct entities of which they are trustees are required to comply with all the other provisions of the SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008. However, these Regulations are not applicable to the National Housing Bank and the National Bank for Agriculture and Rural Development, to the extent of inconsistency with the provisions of their respective Acts.

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.

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

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

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

(4) The terms of 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. Commodities Market

Commodity market which may be in form of a spot or a derivatives market facilitates trading in specified commodities, including agricultural commodities, metals and bullion. In spot market, commodities are bought and sold for ready delivery, whereas in derivatives market, various financial instruments which are not ready delivery in nature and whose value is derived from prices of underlying commodities are traded.

Changing Regulatory Landscape

In the 2015-16 Union Budget speech Hon'ble Union Finance Minister had proposed to merge the Forwards Markets Commission (FMC) with SEBI to strengthen the regulation of Commodity Forward Markets. Enabling legislation, amending the Securities Contracts Regulation Act (SCRA) 1956 and FCRA 1952 were proposed in the Finance Act, 2015.

Consequently, the Forward Contracts Regulation Act (FCRA) 1952 was repealed and Regulation of Commodity

Derivatives market shifted to SEBI under the Securities Contracts Regulation Act (SCRA) 1956 with effect from 28th September, 2015.

List of Commodities Notified under SCRA

The Central Government in consultation with SEBI on September 27, 2016 has notified list of underlying goods on which commodity contracts may be launched. This list of 91 commodities is classified as under:

1. Cereals and Pulses
2. Oilseeds, Oilcakes and Oils
3. Spices
4. Metals
5. Precious Metals
6. Gems and Stones
7. Fibres
8. Energy
9. Sweeteners
10. Plantation
11. Dry Fruits
12. Others

SEBI vide circular CIR/MRD/DSA/41/2016 dated March 17, 2016 specified that 'commodity derivatives' shall be eligible as securities for trading and the stock exchanges operating in the International Financial Services Centre (IFSC) may permit dealing in commodity derivatives.

8. Derivatives Market

Derivatives trading in India began in 2000 when both the NSE as well as the BSE commenced trading in equity derivatives. In June 2000, index futures became the first type of derivative instruments to be launched in the Indian markets, followed by index options in June 2001, options in individual stocks in July 2001, and futures on single stocks derivatives in November 2001. Since then, equity derivatives have come a long way.[9]

Equity Derivatives

Trading Mechanism

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

Products Available

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

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

Charges

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

Total Traded Value in a Month	Revised Transaction Charges (Rs per Lakh of Traded Value)
Up to first Rs 2500 crore	Rs 1.90 each side
More than Rs 2500 crore and up to Rs 7500 crore (on incremental volume)	Rs 1.85 each side
More than Rs 7500 crore and up to Rs 15,000 crore (on incremental volume)	Rs 1.80 each side
Exceeding Rs 15,000 crore (on incremental volume)	Rs 1.75 each side

Securities Transaction Tax

Taxable Securities Transactions	Rate (percent)	Taxable Value	Payable by
Sale of an option in securities	0.017	Optionpremium	Seller
Sale of an option in securities, where option is exercised	0.125	Settlement price	Purchaser
Sale of a futures in securities	0.01	Price at which such futures are traded	Seller

Clearing and Settlement

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

Eligibility Criteria for Stocks for F&O Trading

- The stock is chosen from amongst the top 500 stocks in terms of average daily market capitalisation and average daily traded value in the previous six months on a rolling basis.
- The stock's median quarter-sigma order size over the last six months should be not less than Rs 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 Rs 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 Rs 200 crore and stock's median quarter-sigma order size over the last six months shall be not less than Rs 5 lakh.
- Additionally, the stock's average monthly turnover in the derivative segment over the last three months should not be less than Rs 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 based on the norms provided user SEBI circular. The most critical component of the risk containment mechanism for the F&O segment is the margining system and the online position monitoring system. The actual position monitoring and margining is carried out online through the Parallel Risk Management System (PRISM); PRISM uses the Standard Portfolio Analysis of Risk (SPAN®).[10] The SPAN® system is used for the computation of online margins based on the parameters defined by the SEBI.

Margining System

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

The NSCCL collects initial margin for all the open positions of a CM based on the margins computed by NSE-SPAN®. A CM is required to ensure the collection of adequate initial margin from his/her TMs and his/her respective clients. The TM is required to collect adequate initial margins upfront from his/her clients.

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

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 2016)

Equity Derivatives					
Parameter	**Index Futures**	**Index Options**	**Futures on Individual Securities**	**Options on Individual Securities**	**Long-Term Index Options**
Underlying	NIFTY 50 NIFTY BANK NIFTY IT NIFTY PSE NIFTY INFRA NIFTY MIDCAP 50		172 Securities		Nifty 50
Security Descriptor					
Instrument	FUTIDX	OPTIDX	FUTSTK	OPTSTK	OPTIDX
Option Type	-	Call European/ Put European	-	Call European/ Put European	Call European/Put European
Trading Cycle	3-month trading cycle—the near month (one), the next month (two), and the far month (three) *				3 quarterly expiries (March, June, September, and December cycle) and next 8 half-yearly expiries (June and December cycle)
Expiry Day	Last Thursday of the expiry month. If the last Thursday is a trading holiday, then the expiry day is the previous trading day.				
Strike Price Intervals	-	Depending on underlying price	-	Depending on underlying volatility *	Depending on underlying price
Permitted Lot Size	Underlying specific	Underlying specific	Underlying specific	Underlying specific	Underlying specific
Price Steps	Rs 0.05**	Rs 0.05	Rs 0.05	Rs 0.05	Rs 0.05
Price Bands	Operating range of 10% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	Operating range of 10% of the base price	A contract specific price range based on its delta value is computed and updated on a daily basis	A contract specific price range based on its delta value is computed and updated on a daily basis

***- Additionally 7 Weekly expiry option contracts for NIFTY BANK**

****- Re 1 for NIFTY IT**

Contract Specifications for India VIX Futures

NVIX Futures Contract Specifications	
Underlying	India VIX Index
Symbol	INDIAVIX
Instrument Type	FUTIVX
Market Type	N
Lot Size	900
Quotation Price	India VIX Index X 100
Contract Value	Minimum Rs 10 lakhs at the time of introduction
Tick Size	Rs 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 Rs1814.75.

Derivatives on Global Indices

The NSE has introduced derivatives on global index FTSE 100. 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 = Rs 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 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 FTSE 100 Futures and Option Contracts Trading at NSE

	Future Contracts	Option Contracts
Ticker Symbol	FTSE100	
Contract Size	100 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 = Rs 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)
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 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 = Rs 2,50,000)
Tick Size	2.50
Trading Hours	As in the equity derivative segment
Expiry Date	3rd Friday of the respective contract month. In case the third Friday, is a holiday in the U.S. or in India, the contract shall expire on the preceding business day.
Contract Months	3 serial monthly contracts and 3 quarterly expiry contracts in the Mar-Jun-Sep-Dec cycle
Daily Settlement Price	Last half hour's weighted average price
Final Settlement Price	All open positions at close of the last day of trading shall be settled to the special opening quotation (SOQ) of the DJIA Index on the date of expiry. (http://www.cmegroup.com/trading/equity-index/files/SOQ.pdf)
Final Settlement Procedure	Final settlement will be cash settled in INR based on final settlement price.
Final Settlement Day	All open positions on expiry date shall be settled on the next working day of the expiry date (T+1).
Position Limits	The Trading member/Mutual funds position limits as well as the disclosure requirements for clients are the same as those applicable in the case of domestic stock index derivatives.

Currency Derivatives

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

Contract Specifications for Currency Futures

Symbol	USD-INR	EUR-INR	GBP-INR	JPY-INR
Market Type	Normal	Normal	Normal	Normal
Instrument Type	FUTCUR	FUTCUR	FUTCUR	FUTCUR
Unit of Trading	1-1 unit denotes 1000 US Dollars	1-1 unit denotes 1000 Euro	1-1 unit denotes 1000 Pound Sterling	1-1 unit denotes 100000 Japanese Yen
Underlying/Order Quotation	The exchange rate in Indian Rupees for US Dollars	The exchange rate in Indian Rupees for Euro	The exchange rate in Indian Rupees for Pound Sterling	The exchange rate in Indian Rupees for 100 Japanese Yen
Tick size	0.25 paise or Rs 0.0025			
Trading Hours	Monday to Friday, 9:00 a.m. to 5:00 p.m.			
Contract Trading Cycle	12-month trading cycle			
Last Trading Day	Two working days prior to the last business day of the expiry month at 12.30p.m			

Final Settlement Day		Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for interbank settlements in Mumbai.			
Quantity Freeze		10,001 or greater			
Base Price		Theoretical price on the first day of the contract; on all other days, daily settlement price (DSP) of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract	Theoretical price on the first day of the contract; on all other days, DSP of the contract
Price Operating Range	**Tenure up to 6 months**	+/- 3% of base price			
	Tenure greater than 6 months	+/- 5% of base price			
Position Limits	**Clients**	Higher of 6% of the total open interest or USD 10 million	Higher of 6% of the total open interest or Euro 5 million	Higher of 6% of the total open interest or GBP 5 million	Higher of 6% of the total open interest or JPY 200 million
	Trading Members	Higher of 15% of the total open interest or USD 50 million	Higher of 15% of the total open interest or Euro 25 million	Higher of 15% of the total open interest or GBP 25 million	Higher of 15% of the total open interest or JPY 1000 million
	Banks	Higher of 15% of the total open interest or USD 100 million	Higher of 15% of the total open interest or Euro 50 million	Higher of 15% of the total open interest or GBP 50 million	Higher of 15% of the total open interest or JPY 2000 million
Initial Margin		SPAN-based margin			
Extreme Loss Margin		1% of MTM value of the gross open position	0.3% of MTM value of the gross open position	0.5% of MTM value of the gross open position	0.7% of MTM value of the gross open position
Calendar Spreads		Rs 400 for spread of 1 month	Rs 700 for spread of 1 month	Rs 1500 for spread of 1 month	Rs 600 for spread of 1 month
		Rs 500 for spread of 2 months	Rs 1000 for spread of 2 months	Rs 1800 for spread of 2 months	Rs 1000 for spread of 2 months
		Rs 800 for spread of 3 months	Rs 1500 for spread of 3 months and more	Rs 2000 for spread of 3 months and more	Rs 1500 for spread of 3 months and more
		Rs 1000 for spread of 4 months and more			
Settlement		**Daily settlement**: T+1 **Final settlement**: T+2			
Mode of Settlement		Cash settled in Indian Rupees			
Daily Settlement Price (DSP)		Calculated on the basis of the last half an hour weighted average price			
Final Settlement Price (FSP)		RBI reference rate	RBI reference rate	Exchange rate published by the RBI in its Press Release captioned "RBI reference Rate for US$ and Euro"	Exchange rate published by the RBI in its Press Release captioned "RBI reference Rate for US$ and Euro"

Contract Specifications for Currency Options

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

Contract Specifications for - NSE Bond Futures II

Instrument Type	FUTIRC				
Symbol	788GS2030	759GS2029	768GS2023	761GS2030	697GS2026
	The symbol shall denote coupon, type of bond and Maturity Year.				
Underlying	Futures contracts based on 7.88% Central Government Security having maturity on Mar 19, 2030	Futures contracts based on 7.59% Central Government Security having maturity on March 20, 2029	Futures contracts based on 7.68% Central Government Security having maturity on December 15, 2023	Futures contracts based on 7.61% Central Government Security having maturity on May 09, 2030	Futures contracts based on 6.97% Central Government Security having maturity on September 06, 2026
Market Type	N				
Unit of trading	Rs 2 lakhs face value of GOI securities equivalent to 2000 units. Members shall place orders in terms of number of lots.				
Quotation	Similar to the quoted price of GOI security				
Contract Value	Quoted price * 2000				
Tick size	Rs 0.0025				
Trading hours	Monday to Friday 9:00 a.m. to 5:00 p.m.				
Contract trading cycle	Three serial monthly contracts followed by three quarterly contracts of the cycle March / June / September / December				
Spread Contract	Near-Mid, Near-Far & Mid-Far All spread orders shall be placed in terms of price difference only.				
Last trading day	Last Thursday of the month. In case the last Thursday is a trading holiday, the previous trading day shall be the expiry/last trading day				
Quantity Freeze	1251 lots or greater i.e. orders having quantity up to 1250 lots shall be allowed.				
Base price	Theoretical future price of the 1st day of the contract. On all other days, daily settlement price of the contract.				
Price operating range	+/-3 % of the base price (Whenever a trade in any contract is executed at the highest/lowest price of the band, Exchange may expand the price band for that contract by 0.5% in that direction after 30 minutes after taking into account market trend. Price band may be relaxed only 2 times during the day)				
Daily Settlement	Daily MTM settlement on T+1 in cash based on daily settlement price				
Final Settlement	Final settlement on T+1 day in cash based on final settlement price				
Daily Settlement Price	Volume Weighted Average Futures Price of last half an hour or Theoretical price				
Final Settlement Price	Weighted average price of the underlying bond based on the prices during the last two hours of the trading on NDS-OM. If less than 5 trades are executed in the underlying bond during the last two hours of trading, then FIMMDA price shall be used for final settlement				

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

Symbol	91DTB	
Market Type	Normal	
Instrument Type	FUTIRT	
Unit of Trading	One contract denotes 2000 units (face value: Rs 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) = Rs 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 Rs 300 crore, whichever is higher
	Trading members	15% of the total open interest or Rs1000 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 **Final settlement:** T+1 in Cash	
Daily Settlement Price & Value	Rs (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	

9. Foreign Portfolio Investors

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

Regulations, 2014. SEBI has, thus, intended to simplify the overall operation of foreigners investing in the country.

Eligibility Criteria of Foreign Portfolio Investors

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

i) The applicant is 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

Permitted investments for FPIs: A foreign portfolio investor is allowed to invest only in the following securities, namely

i) Securities in the primary and secondary markets including shares, debentures and warrants of companies which are listed or to be listed on a recognized Indian stock exchange.

ii) Units of schemes floated by listed or unlisted domestic mutual funds.

iii) Units of schemes floated by a collective investment scheme.

iv) Derivatives traded on a recognized stock exchange.

v) Treasury bills and dated government securities. (FPIs not allowed to invest in any fixed income securities with residual maturity of less than three years)

vi) Commercial papers issued by an Indian company.

vii) Rupee denominated credit enhanced bonds.

viii) Security receipts issued by asset reconstruction companies

ix) Perpetual debt instruments and debt capital instruments, as specified by the RBI from time to time.

x) Listed and unlisted non-convertible debentures or bonds issued by an Indian company in the infrastructure sector.

xi) Non-convertible debentures or bonds issued by Non-banking Financial Companies categorized as ' Infrastructure Finance Companies' (IFCs) by RBI.

xii) Rupee denominated bonds or units issued by infrastructure debt funds

xiii) Indian Depository Receipts.

1) Where a FII or a sub account, prior to commencement of these regulations, holds equity shares in a company whose shares are not listed on a recognized stock exchange, and continues to hold such shares after initial public offering and listing thereof, such shares will be subject to lock-in for the same period, if any, as is applicable to shares held by a FDI placed in a similar position.

2) In respect of investments in the secondary market, a FPI shall hold, deliver or cause to be delivered securities only in dematerialized form. Provided that any shares held in non-dematerialized form before the commencement of these regulations, can continue to be held in that form, if such shares cannot be dematerialized.

3) The purchase of equity shares of each company by a single FPI or an investor group shall be below 10% of the total issued capital of the company.

4) A FPI can lend or borrow securities according to the framework specified by SEBI in this regard.

Conditions for issuance of offshore derivative instruments

1) No FPI can issue, subscribe to or otherwise deal in offshore derivative instruments, directly or indirectly, unless the following conditions are satisfied.

   a) Such offshore derivative instruments are issued only to persons who are regulated by an appropriate foreign regulatory authority.

   b) Such offshore derivative instruments are issued after ensuring compliance with 'know your client' norms.

   Provided that those unregulated broad based funds which are classified as Category-II FPIs by virtue of their investment manager being appropriately regulated will not deal in offshore derivative instruments directly or indirectly. Further, it is required that no Category III FPI will deal in offshore derivative instruments directly or indirectly.

2) A FPI should ensure that further issue or transfer of any offshore derivative instruments issued by or on behalf of 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.

Points to be included

- Ownership limit in equity for FPIs
- Debt Investments (Limits and criteria)
  - o Government of India Securities (Central and State)
  - o Corporate bonds
- Derivatives instruments
  - o Equity F&O
  - o Currency Derivatives
  - o Interest rate derivatives
- Securities Lending & Borrowing
- Reporting requirements
  - o SEBI
  - o RBI
- Taxation
  - o LTCG

10. Foreign Venture Capital Investor

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

Investment Conditions and Restrictions

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

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

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

iii. An FVCI should make investments as enumerated below:

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

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

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

iv. Preferential allotment of equity shares of a listed company subject to lock-in period of one year. This condition should be achieved by the FVCI by the end of the life cycle.An FVCI should disclose the duration of the life cycle of the fund

v. 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.