ISMR

Indian Securities Market A Review

May prosperity always bloom

A Review

Indian Securities Market

Volume XX 2017

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

Online: www.nseindia.com

NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Indian Securities Market
A Review

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ABBREVIATIONS

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

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

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

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

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

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

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

Part I
Securities Market Developments

A. Market Review / Analysis

Introduction to Securities Market in India

Section I: Macroeconomic Developments

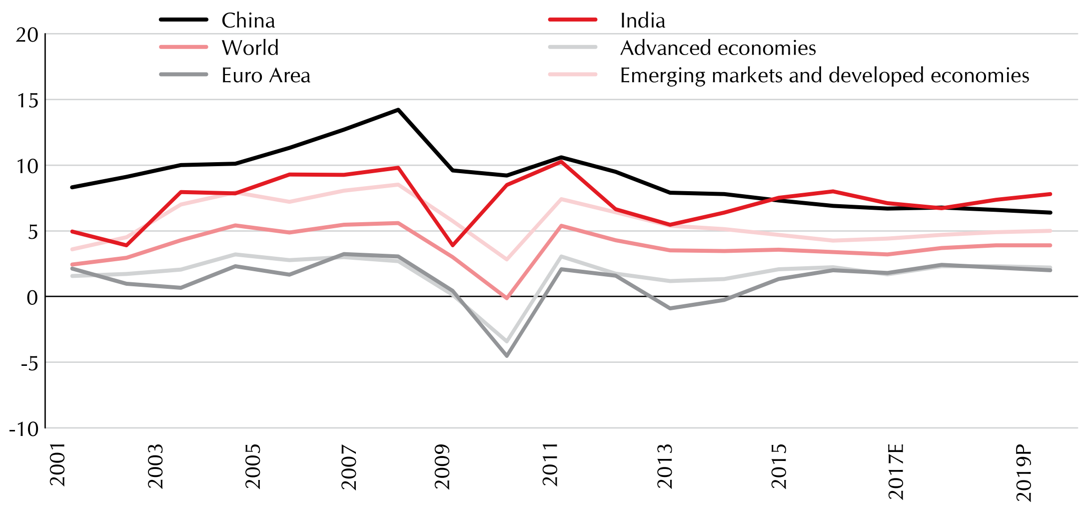
1.1. Global Environment

1.1.1. Output Growth

Global economic activity, after remaining 'too low for too long' following the global financial crisis that began in 2008 and after a particularly uninspiring 2016, began to pick up in the first quarter of 2017 and has continued to strengthen as the year progressed. The global output growth seen in 2017 is considered firm and the recovery decisive. According to the IMF's World Economic Outlook January 2018 data, the estimate for global output growth in 2017 is 3.7 percent, which is 0.5 percentage point higher than in 2016, indicating that the cyclical upswing underway since mid-2016 has continued to strengthen. The pickup in growth has been broad based: according to the IMF, "some 120 economies, accounting for three quarters of world GDP, have seen a pickup in growth in year-on-year terms in 2017, the broadest synchronized global growth upsurge since 2010".

Among the advanced economies, the upswing has been spectacular for quite a few. The US economy, for example, is projected to expand at 2.3 percent in 2017, up from 1.5 percent in 2016. The euro area recovery too has gathered strength in 2017, with growth projected to rise to 2.4 percent in 2017 from 1.8 percent in 2016, reflecting mostly acceleration in exports due to pick-up in global trade and continued strength in domestic demand growth. In Japan, the projected growth for 2017 (1.8 percent) is double that of 2016, partly due to strengthening global demand and policy actions to sustain a supportive fiscal stance. United Kingdom, however, is a notable exception, with growth expected to subside to 1.7 percent in 2017 from 1.9 percent in 2016, driven mainly by softer than expected growth in private consumption.

Chart 1.1: GDP Growth of major global economies

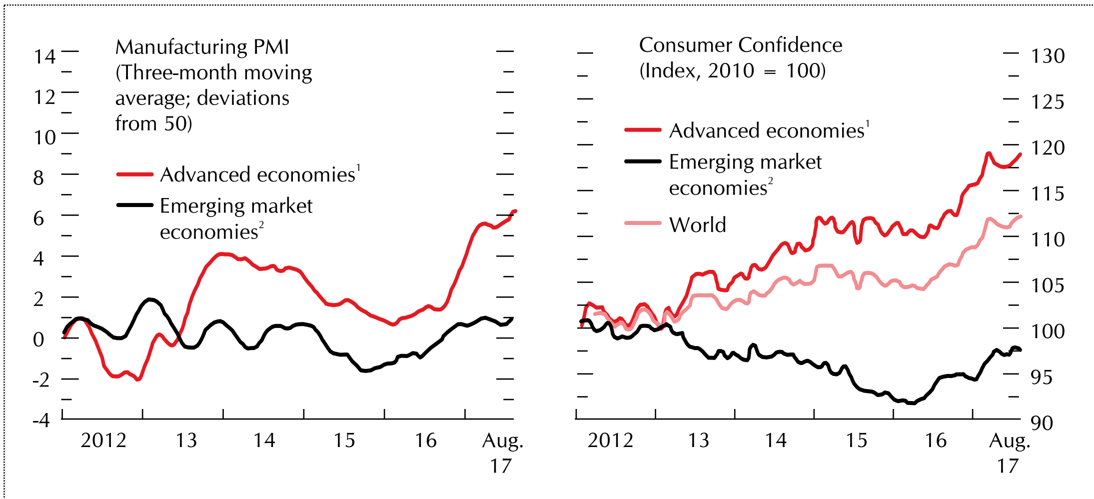


Source: World Economic Outlook Database (updated to January 2018)
Note: E = Estimate, P = Projection

The emerging and developing economies are projected to grow at 4.7 percent in 2017, more than double the rate at which the advanced economies are expected to grow. Among the major emerging market economies, China's estimated growth for 2017 (6.8 percent) is broadly at the same level as in 2016. While the services sector was the main driver of growth in China in 2017, real estate and construction activity remained a drag on growth. The South African economy (projected to grow at 0.9 percent in 2017) continued to face risks from weak manufacturing activity, high unemployment and political instability. In Brazil, strong export performance and a diminished pace of contraction in domestic demand allowed the economy to return to positive growth in the first quarter of 2017, after eight quarters of decline. Incoming data suggest that the recovery gained further momentum as the year progressed, with unemployment reaching an intra-year low in September. The projected growth of Brazil for the year as a whole is 1.1 percent, up from (-) 3.5 percent in 2016. Russia also saw a swift recovery from (-) 0.2 percent in 2016 to 1.8 percent in 2017, despite weakness in industrial production in the second half of the year.

What has aided global recovery from the financial crisis of 2008? Over the years, the positive cross-country spill-overs from fiscal policy actions helped the global economy recover from the crisis. In more recent years, the global growth has been strengthening due to recovery in investment, trade and industrial activity, coupled with improvements in business and consumer confidence. Notably, the continued recovery in global investment spurred stronger manufacturing activity which is reflected in a sharp increase in the Purchasing Managers' Index (PMI) for both advanced and emerging economies in the first half of 2017 (Chart 1.2). The Consumer Confidence has also improved during the period (Chart 1.2).

Chart 1.2: Purchasing Managers' Index (PMI) and Consumer Confidence improved in H1 of 2017



Source: World Economic Outlook: Seeking Sustainable Growth—Short-Term Recovery, Long-Term Challenges.
Note: CC = consumer confidence; PMI = purchasing managers' index; WEO = World Economic Outlook.

1 *Australia, Canada (PMI only), Czech Republic, Denmark, euro area, Hong Kong SAR (CC only), Israel, Japan, Korea, New Zealand (PMI only), Norway (CC only), Singapore (PMI only), Sweden (CC only), Switzerland, Taiwan Province of China, United Kingdom, United States.*

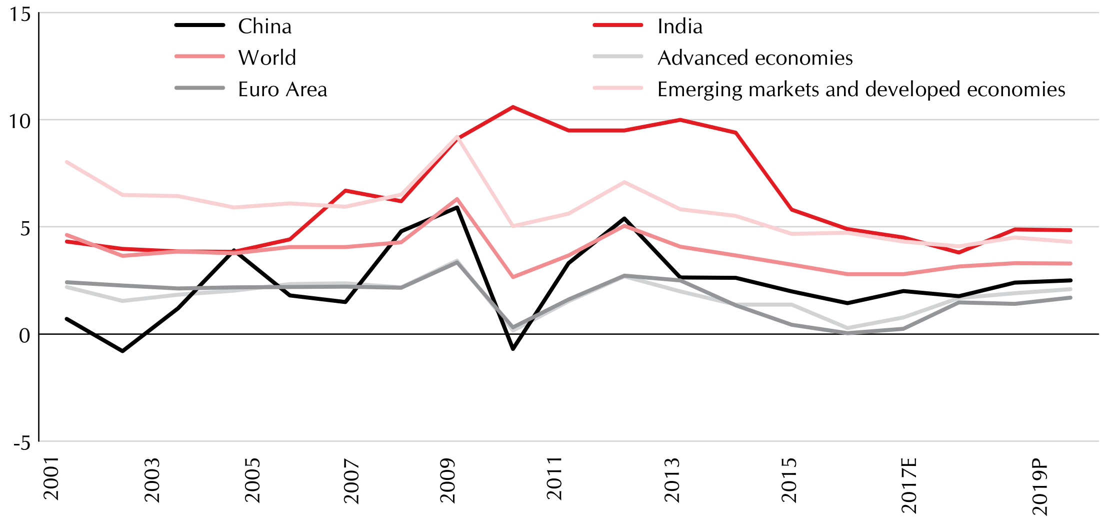
2 *Argentina (CC only), Brazil, China, Colombia (CC only), Hungary, India (PMI only), Indonesia, Latvia (CC only), Malaysia (PMI only), Mexico (PMI only), Philippines (CC only), Poland, Russia, South Africa, Thailand (CC only), Turkey, Ukraine (CC only).*

1.1.2. Inflation

Globally, core inflation—inflation rates when fuel and food prices are excluded—generally remained soft in the first half of 2017. In most advanced economies, core inflation failed to decisively increase toward central bank targets (about 2-3 percent), even as domestic demand gathered pace. In many emerging market and developing economies, core inflation has moderated, partly due a slow-down of the impact of earlier exchange rate depreciations on inflation and in some case, recent appreciation of their currencies against the US dollar. However, much of the softening of core inflation in emerging market economies can be attributed to India and Brazil, where a sharp decline in food price inflation in the middle of the year and high excess capacity in the economy, have also contributed to weaker inflation.

During the second half of 2017, fuel prices rose substantially. An improving global growth outlook, the extension of the OPEC+ agreement to limit oil production, and geopolitical tensions in the Middle East have led to a rise of about 20 percent in oil prices between August 2017 and mid-December 2017, to over $60 per barrel. Partly due to surge in crude oil prices in the second half of 2017 (Chart 1.3), the inflation rates for the year 2017 as a whole are projected to increase in advanced economies from 0.8 percent in 2016 to 1.7 percent in 2017. In contrast, the inflation is projected to decline marginally in the emerging and developing markets from 4.3 percent in 2016 to 4.2 percent in 2017.

Chart 1.3: Consumer Price Inflation across major regions



Source: World Economic Outlook Database, October 2017 (data for Advanced economies and Emerging markets as of January 2018 WEO update)

1.1.3. Trade

Global trade is estimated to have grown by 2.5 percent in 2016 in volume terms, the slowest pace since 2009, with weak growth seen in both advanced economies and emerging market and developing economies. Export in emerging countries and advanced economies as a whole increased by 2.3 and 2.6 percent respectively (Chart 1.4). Global trade growth picked up meaningfully in late 2016 and early 2017, reflecting a recovery in global demand and especially capital spending. Consequently, according to the IMF estimates, the global trade growth is projected to rebound to about 4.7 percent in 2017. The pick-up in external demand was seen both in advanced countries (such as Euro area and Japan) and in emerging market economies (such as Brazil, Russia, Turkey and emerging market economies in East Asia).

Chart 1.4a: Global Export (Goods & Services) Growth Projections for 2017 and 2018

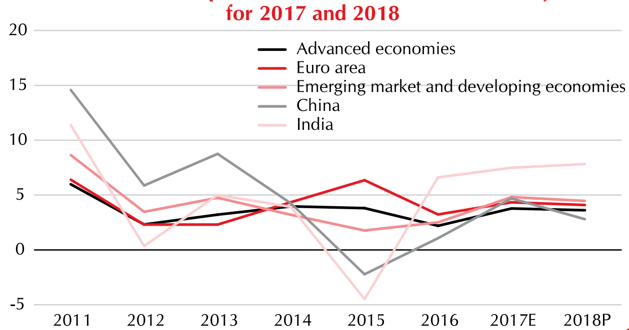
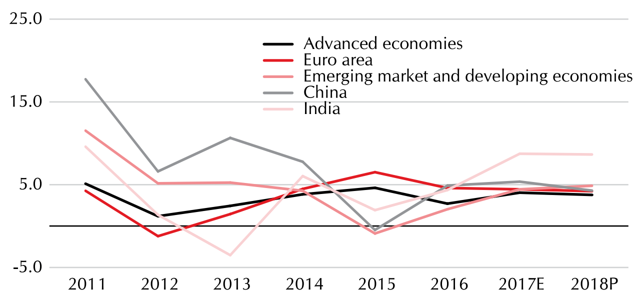


Chart 1.4b: Global Import (Goods & Services) Growth Projections for 2017 and 2018



Source: World Economic Outlook Database, October 2017

Box 1.1: Major global developments

1. *Upturn in global economy*: The upswing in global growth that began in mid-2016 has continued to gather momentum. Global growth is estimated at 3.7 percent in 2017 (compared to 3.2 percent in 2016) while it is expected to rise further to 3.9 percent in 2018, according to the IMF. At the same time, the growth in global trade volumes picked up in 2017, supported by an upswing in investment, especially in advanced economies.
2. *Fed rate hike*: Post financial crisis, the Federal Reserve had cut the effective federal funds rate close to zero in 2009. This helped the US economy to fight the recession by pumping out vast amounts of money to businesses and consumers through an expanding array of new lending programs. After 6 years (in December, 2015), the Federal Reserve decided to raise the target federal funds rate from 0-0.25 percent to 0.25-0.50 percent as the US economy began to get healthier. During the subsequent period, the economic activity has been rising at a solid rate with lower unemployment rate, increase in household spending and higher investments by businesses, leading the Federal Reserve to repeatedly increase the target federal funds rate. In December 2017, the target federal funds rate was raised to 1.25-1.5 percent.
3. *Brexit*: On June 23, 2016, in a historic move, the British citizens voted to exit the European Union. Those who voted for the exit believed that: (a) Britain is being held back by the EU as the EU imposes too many rules on business; (b) EU charges billions of pounds a year in membership fees for little in return; and (c) Britain should take back full control of its borders and reduce the number of people immigrating to live and/or work in the UK. The event sent major shockwaves across the globe, although in the subsequent period, its impact was found to be less severe than what was expected.
4. *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). (Source: IMF press release September 30, 2016)
5. *Recovery in oil Prices:* Crude oil price has increased significantly from 29.78 USD/bbl in January 2016 to 59.93 in the month of November 2017. This is a remarkable development for the world economy, particularly for the emerging markets and developing countries.
6. *US's exit from the Paris climate agreement:* In June 2017, President Donald Trump's decision to withdraw US from the Paris climate agreement is expected to have harmful effect on the global warming and as well as the economic growth in the medium term. There will be no penalty for leaving, as the Paris deal is based upon the premise of voluntary emissions reductions by participating countries.
7. *Tax Cuts and Jobs Act introduced in the US:* On December 22, 2017, President Donald Trump signed the Tax Cuts and Jobs Act that aims at reducing tax rates for businesses and individuals. The Act seeks to cut the corporate tax rate from 35 percent to 21 percent for tax years beginning after 2017, cut income tax rates, double the standard deduction, and eliminate personal exemptions. The corporate cuts are permanent, while other changes expire at the end of 2025.

1.2. Indian Scenario

1.2.1. Economic Growth

Until early 2016, India's growth had been accelerating, while growth in other major countries (such as US, China, OECD) was decelerating. Beginning FY 17, the converse happened. The world economy began to recover in a synchronous way, while India's GDP growth began to decelerate. In other words, India's growth was "decoupled" from global growth, as has been described by the Economic Survey 2017-18. A number of factors accounted for this, including demonetization, introduction of GST and the twin balance sheet problem. Further, while real interest rates began to rise in India since middle of 2016, they continued to decline globally. Anyway, the slowdown in FY 17 and FY 18 notwithstanding, India registered an average real GDP growth rate of over 7.3 percent for the period FY15- FY 18, which is the highest among the major economies of the world. This was possible because of distinctly improved macro fundamentals (such as inflation, current account balance, fiscal deficit and so on) over the last 4 years. Not surprisingly, Moody's Investors Service ("Moody's") upgraded the Government of India's local and foreign currency issuer ratings to Baa2 from Baa3 in November 2017 – after a stagnated period of 13 years. India's sovereign credit rating was last upgraded in January 2004 to Baa3 (from Ba1). Moody's cited low inflation, prudent external balance and the Government's resolve to stick to its fiscal consolidation path as key reasons for the upgrade in credit rating.

As regards FY 18, it was marked by two swings. In the first half, the economy continued to "decouple"', that is, to slow down as the rest of the world accelerated, because of reasons stated earlier. In the second half, however, the economy witnessed robust recovery, as the shocks began to fade, corrective actions were taken and the synchronous global recovery boosted exports. For the year as a whole, real GDP growth is estimated to slow down to 6.5 percent, while GVA growth is expected to come even lower at 5.6 percent (Chart 1.5).

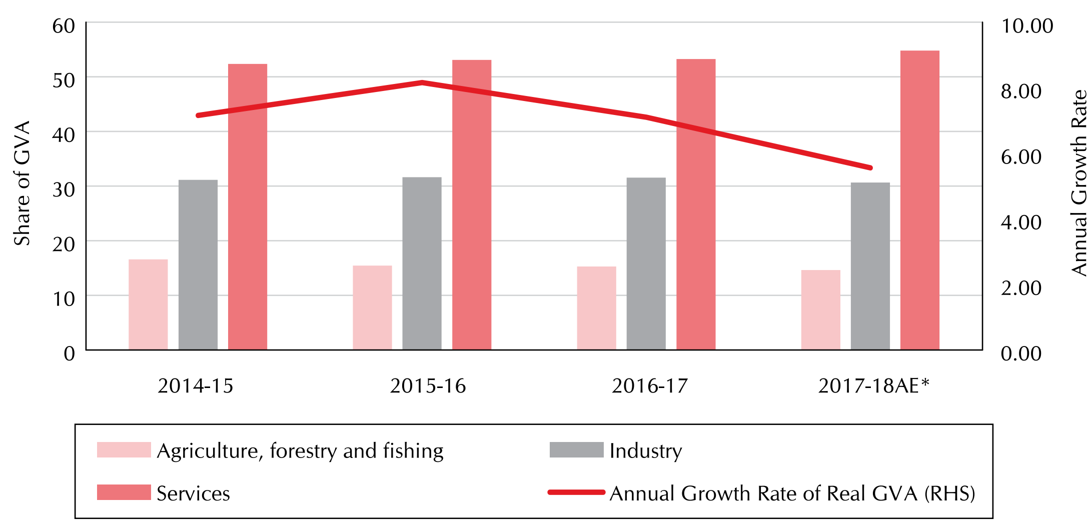
On a sectoral level, agriculture is estimated to witness the sharpest slowdown among all sectors in FY 18 on account of lower food grain production (1st advance estimate at 134.7 mn tonnes, lower by 3.9 percent YoY) and sowing, below-normal monsoon season and decline in reservoir levels. Similarly, industrial growth has dropped on poor manufacturing and mining performance, however, a pick-up in construction activity has provided some relief to the sector. Services, on the other hand, is expected to improve on a broad basis, with financial services continuing to contribute the highest to the overall growth.

Table 1.1: Annual wise real GVA and GDP growth (%YoY)

Indicator	FY15	FY16	FY17	FY18AE*
Real GVA at basic prices	7.2	8.1	7.1	5.5
Agriculture, forestry and fishing	(0.2)	0.6	6.3	0.9
Industry	7.0	9.8	6.8	2.7
Services	9.8	9.6	7.5	8.6
Real GDP	7.5	8.0	7.1	6.5

*Source: CSO. *AE – Advance estimate*

Chart 1.5: Annual Growth Rate & Composition of Real GVA (At 2011-12 Prices)



*Source: CSO. *AE – Advance estimate*

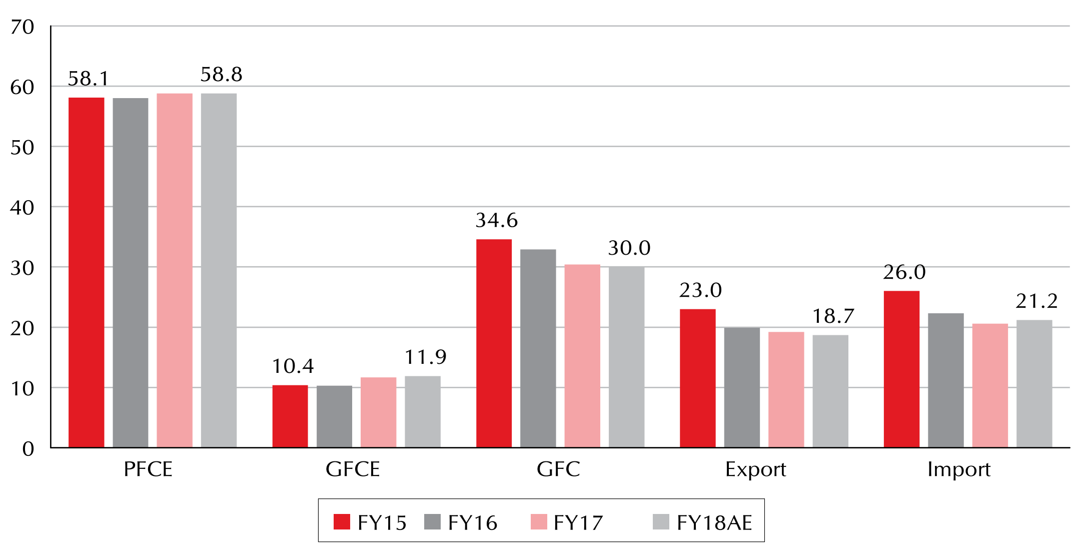
From an expenditure perspective, the economy continues to be consumption driven. In FY17, the real growth in the Government Final Consumption Expenditure (GFCE) was as high as nearly 21 percent (See Table 1.2), mainly due to the payment of higher wages and salaries to the government staff that followed the implementation of the recommendations of the Seventh Central Pay Commission (7CPC). Real Private Final Consumption Expenditure (PFCE) also grew above its four year average (+6.3 percent) at 8.7 percent during FY17. However, with lingering effects of demonetization and uncertainty around GST implementation, both PFCE and GFCE are estimated to be lower in FY18. The share of investment (Gross Fixed Capital Formation or GFCF) in the GDP persistently declined from 34 percent in FY12 to 27 percent in FY17. Although GFCF is estimated to grow faster in FY18 as compared to FY 17, it is still not high enough to prevent a further reduction in the share of GFCF to GDP. After nearly stagnating in FY15 and declining in FY16, exports of goods and services picked up in FY17 and is estimated to maintain similar growth rate in FY 18. In FY 17, the growth in imports also increased, albeit slower than exports, helping to reduce the current account deficit in FY17. In FY 18, imports are estimated to grow faster at 10 percent, led by higher crude oil prices.

Table 1.2: Components of GDP by expenditure

Indicator	%YoY (constant prices)			
	FY15	FY16	FY17	FY18AE
Private Consumption (PFCE)	6.2	6.1	8.7	6.3
Government Consumption (GFCE)	9.6	3.3	20.8	8.5
Gross Fixed Capital (GFC)	8.3	5.6	1.7	6.9
Gross Fixed Capital Formation (GFCF)	3.4	6.5	2.4	4.5
Exports of goods and services	1.8	(5.3)	4.5	4.5
Imports of goods and services	0.9	(5.9)	2.3	10.0

*Source: CSO. *AE – Advance estimate*

Chart 1.6: Different components of GDP by expenditure (percent of GDP at Current Prices)

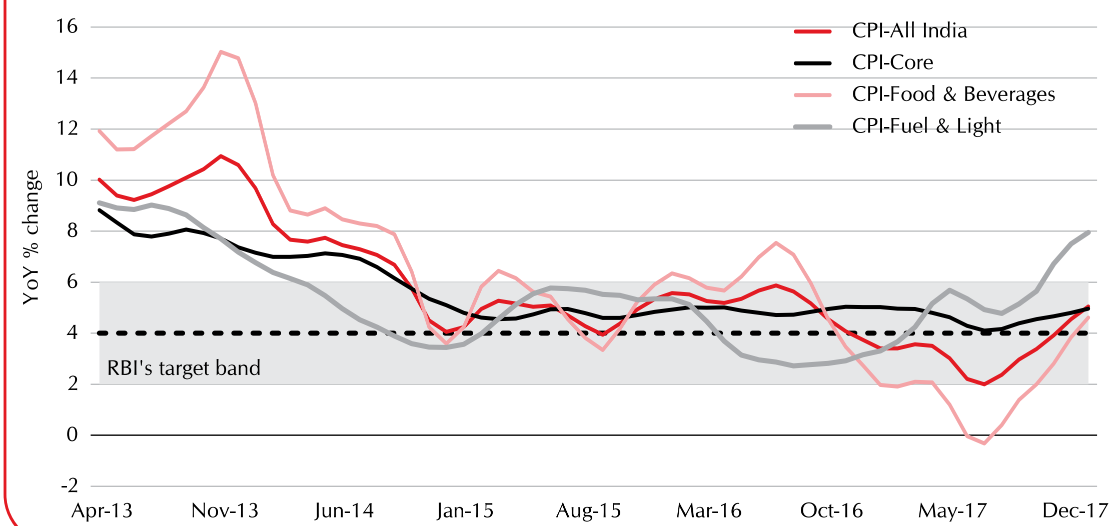


*Source: CSO. * AE – Advance estimate*

1.2.2. Inflation

Retail inflation, measured by the year-on-year change in the consumer price index (CPI), has been on a rise since the second quarter of FY18. Even then, inflation has remained in RBI's comfort zone of 4+/-2 percent, and is less than half the peak of 11.5 percent seen in November 2013. Several factors such as lower global oil and food prices, muted support prices for farmers, higher buffer stocks and crackdown on hoarding have aided in bringing inflation under control. However, the recent rise in inflation was led by a pick-up in food prices (specially vegetable prices) amidst a weak monsoon, higher international crude oil prices, and impact of higher housing rent allowance (HRA) given to government employees under 7CPC. Anticipating that some of the proposals contained in the 2018-19 budget such as the new method of fixing minimum support price, higher custom duty for a number of commodities and above all, fiscal slippage in both FY18 and FY19 to be inflationary in nature, the RBI continues to follow a 'neutral' stance on its monetary policy.

Chart 1.7: CPI Inflation-Base Year 2012 (3 month moving average)



Source: CSO

1.2.3. Fiscal discipline

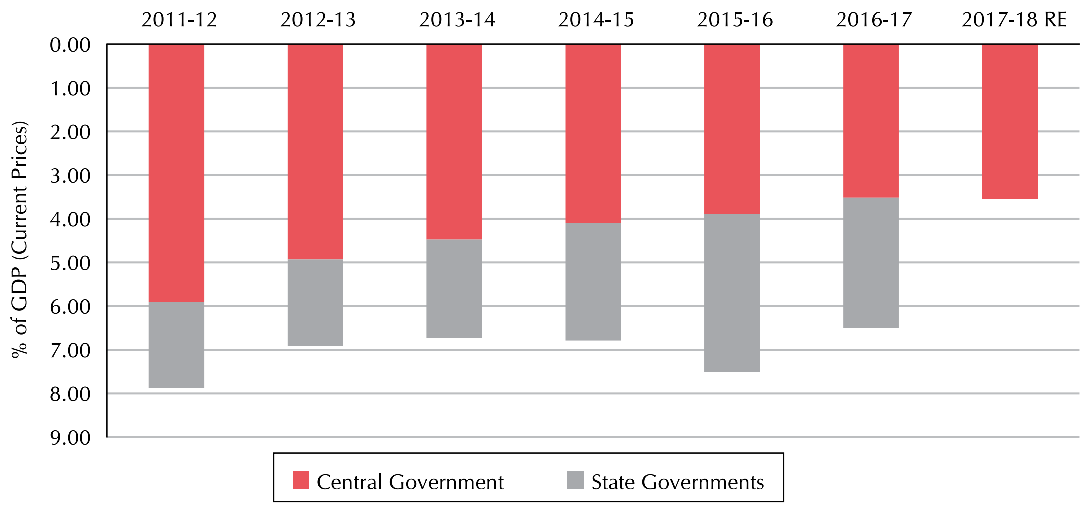
In the Union Budget 2018-19, the Government has slipped from the fiscal consolidation path that it sought to follow. In FY 18, against a target of 3.2 percent of GDP, there was a fiscal deficit slippage of 0.3 percent of GDP (see Table 1.3). Even though in a fast growing economy like India, fiscal consolidation (rather than fiscal slippage) is expected to be the norm, there was a slippage in FY 18—albeit small—on account of disruptions due to GST and demonetization,. The revenue deficit slippage in FY 18 is much higher (0.7 percent of GDP) than fiscal deficit slippage and is a matter of concern. This implies that the capital spending by the Government was significantly compressed in FY 18. Indeed, about 73 percent of Government's market borrowing in FY 18 was for consumption. The Government's capital expenditure at 1.6 percent of GDP in FY18 is the lowest since FY15. Furthermore, the budget's proposal to amend the FRBM Act to do away with the revenue deficit target is worrying.

Table 1.3: Key fiscal indicators of the Centre and States (percent to GDP)

Fiscal Year	Central Government		State	
	Fiscal Deficit	Revenue Deficit	Fiscal Deficit	Revenue Deficit
2011-12	5.9	4.5	1.97	0.37
2012-13	4.9	3.7	1.99	0.46
2013-14	4.5	3.2	2.25	0.72
2014-15	4.1	2.9	2.69	1.12
2015-16	3.9	2.5	3.62	2.03
2016-17	3.5	2.1	2.98	1.29
2017-18 RE	3.5	2.6		

Source: Union Government: Budget Documents, RBI
Note 1: Surplus (-) / Deficit (+); GDP is at current prices (2011-12 series)
Note 2: The revised estimates for state government deficits in FY 18 are not available yet.

Chart 1.8: General Government Gross Fiscal Deficit (percent of GDP)



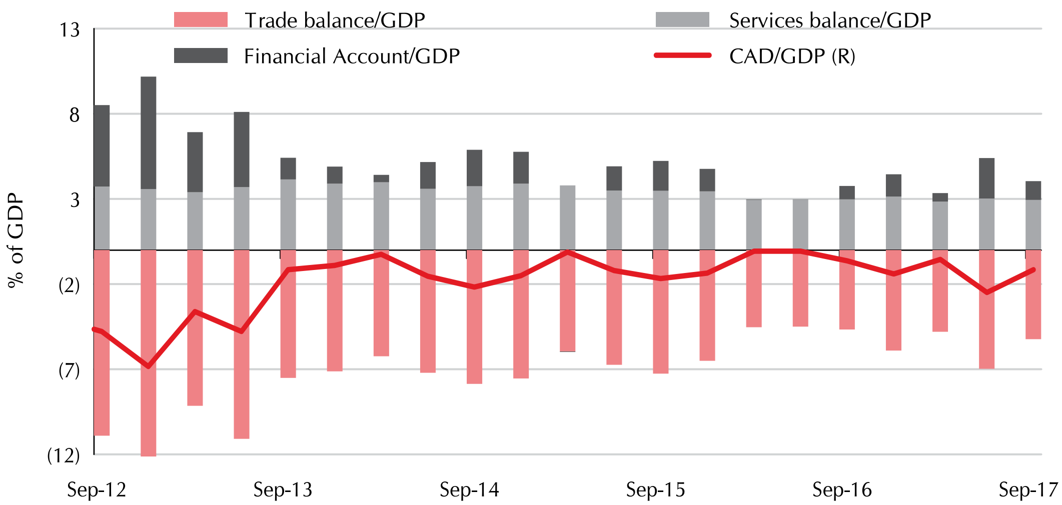
Source: Union Budget documents; State Government: Finance Accounts (various years)

What matters from the macroeconomic stability viewpoint is the general government fiscal deficit (center plus states) and not just the central government's deficit alone. With several states having promised farm-loans-waivers to alleviate the rural distress, state finances have deteriorated over the last few years. As can be seen from Chart 1.8, state finances have widened by 1percent of GDP over the last 5 years and have largely undone the Center's fiscal consolidation efforts.

1.2.4. External sector

In the year 2017, the external sector of the Indian economy benefitted from the swift global recovery. With the global economy gathering pace to grow 3.7 percent, and the world trade volume rising to 4.7 percent in 2017 (IMF estimates), India's external sector has continued to be resilient. Indeed, this trend has been continuing for the last 4-5 years. Just 4 years ago, poor macroeconomic performance caused India a significant balance of payments distress in 2013. Four years later, the external scenario has changed dramatically. The CAD has collapsed from nearly 5 percent of GDP in 2012-13 to less than 1 percent in 2016-17, benefitting significantly from the sharp drop in crude oil prices. Further, strong capital flows supported the overall balance of payments account that has remained benign since FY14 and also in the first half of FY18. In the first half of FY 18, however, CAD was higher at 1.8 percent of GDP, primarily on account of a higher trade deficit. While the current account came under pressure, the net capital flows dominated by foreign investment and banking capital was more than sufficient to finance the current account deficit leading to accretion in foreign exchange reserves. Foreign reserves approximated US$ 409 bn at the end of Dec'17, as compared to US$ 360 bn a year ago.

Chart 1.9: Break up of balance of payments as a percent of GDP



Source: CMIE, Reserve Bank of India

India's external debt remains within manageable limits as indicated by the external debt indicators (See Table 1.4). Total external debt increased by 5.1 percent to US$ 495.7 billion at end-Sep'17 from end-Mar'17. Both the long term and short term debt increased during the period in absolute terms. The increase in short term debt (by 5.4 percent) was mainly due to an increase in trade related credits. By end-Sep '17, the foreign exchange reserves cover to total external debt improved to 80.7 percent from 68.2 % at the end of FY 14, indicating a marked improvement. (See Table 1.4).

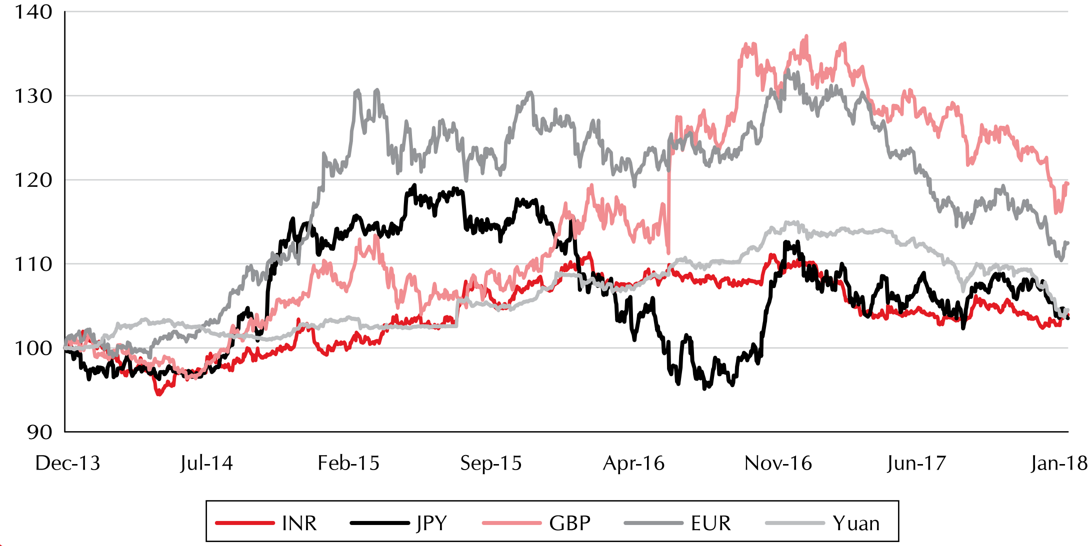
Table 1.4: India's Key External Debt Indicators

Year	External Debt (US$ billion)	Ratio of External Debt to GDP (percent)	Ratio of Short-term Debt to Foreign Exchange Reserves (percent)	Ratio of Short-term Debt to Total Debt (percent)	Ratio of Foreign Exchange Reserves to Total Debt (percent)
FY11	317.9	18.2	21.3	20.4	95.9
FY12	360.8	21.1	26.6	21.7	81.6
FY13	409.4	22.4	33.1	23.6	71.3
FY14	446.2	23.9	30.1	20.5	68.2
FY15	474.7	23.9	25	18	72
FY16	485.0	23.5	23.1	17.2	74.3
FY17 PR	471.8	20.2	23.8	18.6	78.4
End-Sep 2017 P	495.7	*	23.2	18.7	80.7

Source: Reserve Bank of India. P: Provisional. PR: Partially Revised.

A relatively stable rupee has also helped keep the external account situation under check. After a sharp depreciation of 21 percent between FY12 to FY14, and 9 percent between FY15 to FY17, the rupee has appreciated by 2.5 percent to a level of Rs 64.24 per US dollar during Dec'17 from the level of Rs 65.88 per US dollar during Mar'17 on the back of significant capital flows. Furthermore, within year fluctuations have also become much less. Consequently, with the positive developments in balance of payments, external debt and rupee, India's external worries have reduced significantly over the past few years.

Chart 1.10: The rupee remains stable relative to other major currencies (Rebased to 31-Dec-13 = 100)



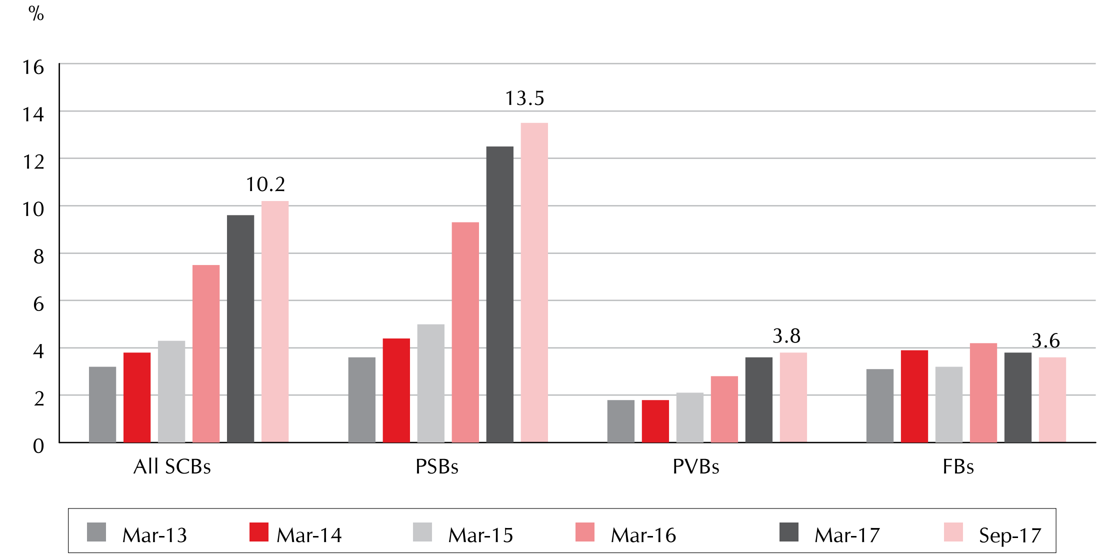
Source: Bank of International Settlement, Daily data.

1.2.5. Banking Sector

In India, the health of the banking sector has been deteriorating over the past few years and particularly sharply since FY 16, as reflected in surging nonperforming assets (NPAs)(see Chart 1.11a). As can be seen from the Chart 1.11, gross NPAs as a percentage of total advances has been rising from FY13, initially modestly, but sharply since FY 16, with gross non-performing advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) rising to 10.2 percent by Sep'17. At one level, the sharp rise in the GNPA ratio since FY 16 was due to the Asset Quality Review conducted by the RBI in August-November 2015, forcing banks to clean up their books. But the deeper issue was that the bad loans had been accumulating over the years through inadequate loan monitoring by banks, aggressive lending practices by banks, loan frauds and corruption; but these loans were swept under the carpet, which got exposed by the RBI's intervention in the second half of 2015. Another interesting aspect of the problem was that the bad loans were much more concentrated in the public sector banks as compared to the private banks or the foreign banks, as can be seen from the Chart. More than four-fifths of the non-performing assets were in the public sector banks, where the NPA ratio had reached 13.5 percent by September 2017.

The problem was reflected on the balance sheets of the corporate sector; many large corporates were overleveraged and many firms did not earn enough to pay the interest obligations on their loans. India was clearly suffering from the twin balance sheet problem—a problem that continues even today, although it has been somewhat mitigated.

Chart 1.11: Gross NPAs to total advances



Source: RBI

Note: PSBs = Public sector banks, PVBs = Private sector banks and FBs = Foreign banks.

This situation led to severe consequences. Credit and investments, which had already been falling since the global financial crisis in 2008, were further intensified with the twin-balance sheet problem. Muted credit growth leads to lower investments and poses a significant risk to growth. However, after two years of declining credit growth, all scheduled commercial banks witnessed an uptick in credit growth from 4.4 percent in Mar'17 to 6.2 percent in Sep'17. The PSBs credit growth also increased from 0.7 percent to 2.2 percent over the same period. Personal loans, however, continue to be the major contributor to credit growth. On the other hand, deposit growth of SCBs decelerated from 11.1 percent in Mar'17 to 7.8 percent in Sep'17, and this decline was observed across all bank groups.

Chart 1.12a: Credit Growth

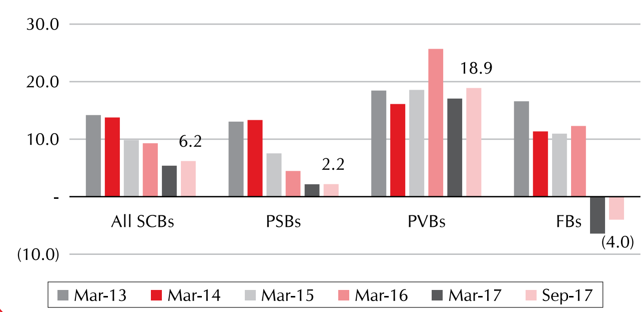
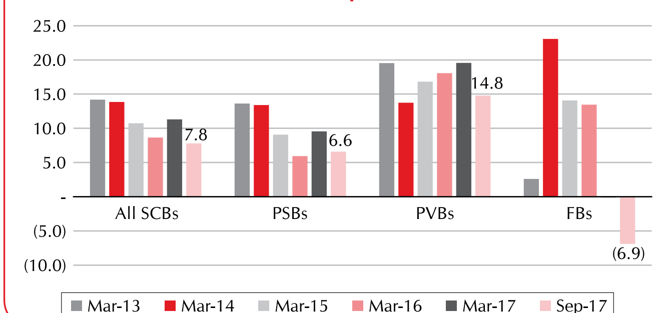


Chart 1.12b: Deposit Growth



Source: RBI Financial Stability Report, CMIE

Note: SCBs = Scheduled Commercial Banks, PSBs = Public sector banks, PVBs = Private sector banks and FBs = Foreign banks.

Amidst these ongoing concerns, the Indian government has taken various measures to resolve the banking problem. The government provided a boost to banks by announcing a recapitalisation plan of Rs 2.11 trn for the sector in Oct'17. The aim is to help banks clean up their balance sheets and start fresh. Further, to improve the resolution of bank loans in the long run, the Insolvency and Bankruptcy Code had been enacted in May'16, which is proving to be very promising (details in Box 1.2). In Aug'16, the government amended the existing Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act, and the Debt Recovery Tribunal (DRT) Act that would help faster recovery and resolution of bad debts by banks and financial institutions.

Box 1.2: Reform initiatives and policy measures in India

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

1. *Implementation of GST*: In a path-breaking development, the GST—which subsumes all indirect taxes levied on goods and services by the Central and State governments--was launched on 1 July 2017. With a policy change of such scale and complexity, the transition unsurprisingly encountered several challenges in implementation, which especially affected the informal sector. The Government was quick to respond to rationalize and reduce the rates, and simplify the compliance burdens. The GST Council, which is a joint forum of centre and states, has been formed, which acts as the key decision-making body for all important decisions regarding the GST. It is being envisaged as one of the most effective institutional mechanisms for cooperative federalism, which could potentially tackle a wide array of difficult structural reforms (that involve the states), such as creating a common agricultural market, integrate fragmented and inefficient electricity markets and so on.
2. *Recapitalisation of Banks*: Stringent capital adequacy requirements imposed by RBI in the wake of the Basel III norms and high and rising levels of NPAs of PSBs have led to significant capital erosion of PSBs, making it imperative for banks to significantly raise their capital base. To ensure that PSBs are adequately capitalized to meaningfully expand credit and drive economic growth, the Union Government took a decision on 24th October 2017 to inject Rs 2.11 lakh crore worth of capital into the sector. The programme has been integrated with an ambitious reform agenda, under the rubric of an Enhanced Access and Service Excellence (EASE) programme. This recapitalization will pave the way for the public sector banks to lend additional credit of about Rs 5 lakh crore.
3. *Seventh Pay Commission*: The Seventh Pay 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 Commission in June 2016. The recommendations cover about 4.7 million central government employees and around 5.3 million pensioners. The new pay scales are expected to put an extra burden of a whopping Rs 1 trillion (0.7 percent of GDP) on the exchequer in 2016/17. Subsequently, several state governments have also implemented revision in salaries of employees based on the recommendations of the Seventh Pay Commission.
4. 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. The MPC, which holds bi-monthly meetings to inter alia review monetary policy, changed policy repo rate only once during the year 2017. In August 2017, the MPC cut the repo rate by 25 basis points to 6 percent, which is the lowest in almost 7 years. The cut in the policy rate was carried out in view of expected normal monsoon and significant decline in core inflation.
5. *Insolvency and Bankruptcy code (IBC) 2016*: The Insolvency and Bankruptcy Code, a landmark legislation replacing the existing patchwork of regulations with a consolidated regulatory framework governing the re-organization and insolvency resolution of incorporated entities was enacted by the Parliament in May 2016. By facilitating the resolution of 'insolvency situation' of a corporate debtor or, in extreme cases its liquidation through a time-bound and credible mechanism--the absence of which has hurt the Indian economy for decades—the Code not only addresses the need of the hour, but also provides a more efficient solution to the corporate insolvency issue for years to come. Since the enactment of the Code, substantial progress has been made in the implementation of the Code. The twin balance sheet problem was partially addressed by sending major stressed companies for resolution under the Code. During 2017, 540 corporates were admitted for resolution, of which 461 were undergoing resolution at the end of December 2017, while the rest faced closure through appeal/ review (39), approval of resolution plan (10) and commencement of liquidation (30).
6. *Financial Resolution and Deposit Insurance (FRDI) Bill, 2017*: What the IBC is expected to achieve for the financial firms, the FRDI bill seeks to do for the financial firms. The Bill establishes a Resolution Corporation to monitor financial firms, anticipate risk of failure, take corrective action, and resolve them in case of such failure.

The Corporation will also provide deposit insurance up to a certain limit, in case of bank failure. If resolution is not completed within a maximum period of two years, the firm will be liquidated. The Bill also specifies the order of distributing liquidation proceeds.

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 (a) curb hoarding of black money, put a check on counterfeiting of Indian currencies and encourage more digitized transactions. As a result of this move, about 86 per cent of the cash in circulation was wiped off overnight. The step has been criticised in most quarters on account of deficiencies in its implementation. Also, the temporary slowdown in the Indian economy has been partially attributed to demonetisation.

1.2.6. Ease of doing business

According to the World Bank's report on *'Doing Business 2018: Reforming to Create Jobs'*, India for the first time moved into the top 100 (vs. 130th rank last year) in the global ranking of 'ease of doing business'. An improvement in investor protection rights, the establishment of debt recovery tribunals to reduce bank NPAs, easier tax compliance by implementing an online platform for electronic payment of some taxes are among the positive developments that led to the uptick in ranking. Notably, India was the only economy in South Asia to join the list of the top 10 improvers.

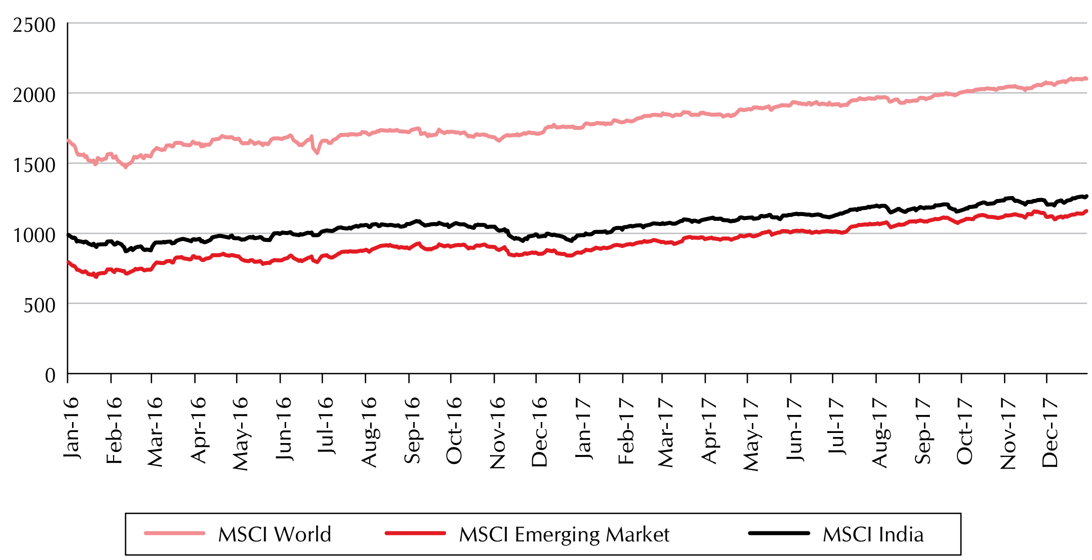
Section II: Trends in the Securities Markets – The International Scenario

Equity prices in advanced economies continued to rally in 2017, partly due to favourable sentiment resulting from global recovery, and improved corporate earnings prospects, expectation of a very gradual normalization path for monetary policy in advanced economies in a weak inflation environment, and low expected volatility in underlying fundamentals. Emerging market equity indices have also risen in 2017, lifted by the improved near-term outlook for economic growth and commodity exports (World Economic Outlook Update, January 2018).

1.1 Market Trends

Global integration of financial markets—the widening and intensifying of links—between high-income and developing countries has accelerated over the past few years. Financial markets in most countries have become increasingly global and synchronized. In 2017, the securities markets worldwide exhibited an upward trend due to favorable global economic scenario. The resurgence in global economic growth, favourable investor response to tax reforms in the US and rise in energy prices all contributed to strengthen the global markets to a new high at the end of 2017 (SEBI Bulletin, January 2018). Emerging markets stocks too recorded gains as investor sentiments were uplifted by forecast of a sustained global economic growth and improved corporate earnings (See Chart 1.13). Significantly, these gains in emerging markets came despite the US Federal Reserve raising its short term interest rates for third time in 2017.

Chart 1.13: Movement in MSCI World and Emerging Market Index



Source: Bloomberg

Equity markets exhibited an upward trend in both advanced and emerging markets in 2017. Among the advanced economies, US equities advanced and continued their steady rise throughout the year. UK stocks rose by the close of December quarter as IMF upgraded its global growth forecast, reflecting hopes for synchronised economic recovery and gradual progress on Brexit negotiations. Japanese equities strengthened slightly in US dollar terms. (SEBI Bulletin, January 2018).

Among the emerging markets, Chinese stocks recorded strong gains as the fourth quarter GDP growth remained stable. Indian equities generated strong gains as the government announced plans for a major recapitalisation initiative for Public sector banks. Brazilian stocks posted negative returns owing to weakening of its currency. Russian stocks underperformed slightly as compared to emerging European markets amidst higher prices and a strong currency.

According to the International Investment Funds Association, worldwide, net assets in regulated open-end funds increased by about 15 percent (yoy) to $47.37 trillion at the end of the third quarter (Q3) of 2017, excluding funds of funds (Table 1.5). During this period, while the net assets in equity funds increased by 19 percent (yoy), the bond fund net assets increased by 12 percent. Among all regulated open-end fund categories, equity and bond contributed around 74 percent of all long-term funds at the end of Q3 2017 which is marginally higher than Q1 2016 (73 percent). Notably, at the end of Q3 2017, the net assets under ETFs increased significantly by 34 per cent (yoy) to $ 4.28 trillion, although its contribution to total long term funds remained low at 10.3 percent.

Table 1.5: Net assets of worldwide regulated open end funds (US$ billion; end of period)

	2016				2017		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3**
All funds* (USD billion)	38,875	39,329	41,048	40,554	42,973	44,979	47,371
Long-term	33,722	34,240	35,899	35,420	37,817	39,649	41,652
Equity	16,294	16,433	17,303	17,326	18,768	19,587	20,614
Bond	8,368	8,680	9,071	8,796	9,312	9,740	10,176
Balanced/Mixed	5,227	5,294	5,458	5,323	5,659	5,926	6,218
Guaranteed	73	69	68	66	69	71	71
Real Estate	572	593	610	607	637	679	712
Other	3,188	3,171	3,388	3,302	3,372	3,646	3,860
Money market	5,152	5,088	5,149	5,135	5,156	5,330	5,719
Memo items included above:							
ETFs	2,815	2,877	3,183	3,315	3,751	4,001	4,281
Institutional	3,404	3,554	3,720	3,560	3,799	4,002	4,238

Source: International Investment Funds Association[1]

** Excludes funds of funds where possible*

Note: Regulated open-end funds include mutual funds, exchange-traded funds, and institutional funds.

Further, global volatility has been at historically low levels of late for a wide range of risky assets across most international markets, particularly the US markets. At the end of 2015, global volatility was close to its mean value over the period from 2000 to 2017, but by mid-2017 it had almost halved. The US Federal Reserve has found that global factors and U.S. conventional and unconventional monetary policies are key to understand the dynamics of global volatility and these factors largely account for the recent low levels of global volatility.

There is finally some optimism in the area of international capital flows, which collapsed during the global financial crisis, and has proven to be very persistent since then. Most of the decline in capital inflows has been experienced in Advanced Economies (AEs) rather than in Emerging Markets (EMs). In terms of the type of capital flows, most of the decline has taken place in portfolio inflows (equity and debt securities) and ‘other investments’ (which are often related to the lending activity of international banks), while FDI inflows have proved to be more resilient. After falling sharply during the crisis, international capital flows have only partially recovered in recent years. The capital flows to global GDP ratio in recent years is about one third of the pre-crisis (2003-07) average.

1 https://www.iifa.ca/files/1515520678_IIFA%20-%20Worldwide%20Open-End%20Fund%20Report%20-%20Q3%202017.pdf

1.1.1 Cash Market

Total domestic market capitalisation of member countries of World Federation of Exchanges (WFE) at the end of 2017 was 22.6 percent higher than at the end of 2016, reaching a new record high of $ 87.1 trillion, an all-time high during the period 2012-2017, globally (Chart 1.14). This increase was driven by an uptick in the domestic market cap across all regions – the Americas up 17.8 percent, Asia-Pacific region up 27.6 percent and the Europe, the Middle East, and Africa (EMEA) region up 24.3 percent at the end of 2017 as compared to 2016 (WFE Market Highlights, FY 2017). This increase in domestic market cap, was against a backdrop of a synchronized global recovery in GDP growth rates, the continuation of accommodative monetary policy in many regions, low levels of inflation, low market volatility, recovering commodity prices and strong corporate profits.

According to the WFE, the number of new listings through IPOs was up by 47.8 percent in 2017 as compared to 2016. [2] Non-IPO listings which accounted for about 36 percent of the total new listings increased by 49.1 percent in the same time period. The secondary market activities, on the other hand, contracted. The total value and volume of trades in equity shares declined by 2.6 percent and 5.1 percent respectively in 2017 compared to 2016.

Chart 1.14a: Domestic Market Capitalisation (USD trillion)

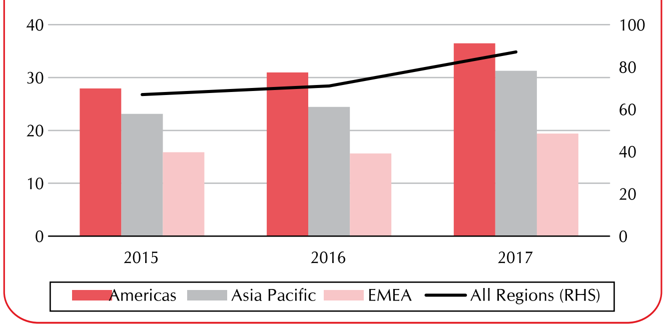


Chart 1.14b: Value of Share Trading (USD trillion)

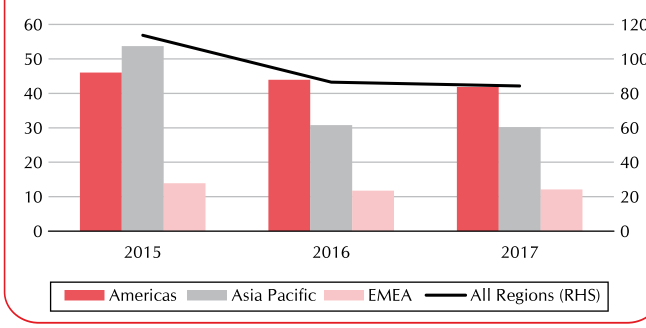


Chart 1.14c: Number of trades (billion of trades)

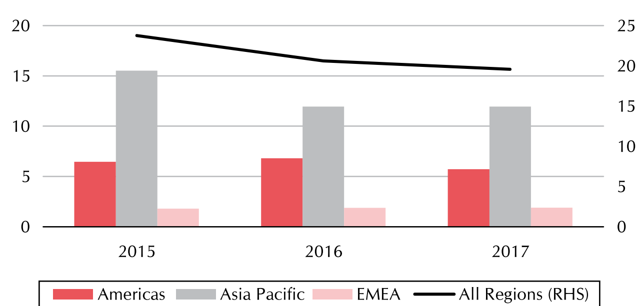
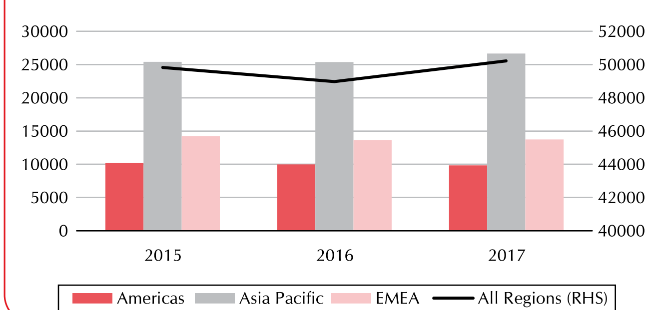


Chart 1.14d: Number of listed companies



Source: World Federation of Exchanges, 2017- Full year market highlights based on data from World Federation of Exchanges members, affiliates, correspondents and non-members.

Note: Bats Chi-X Europe is included in the data for Value of share trading and Number of trades, but not in the data for Domestic Market capitalisation.

Data is based on those exchanges which are reported by members of WFE.

Excluding investment funds, Including Alternative and SME Markets.

1.1.2 Derivatives Market

Based on WFE data as reported by the members of WFE, the total volume of Exchange Traded Derivatives (ETD) increased by 0.6 percent in 2017 compared to the previous year. While single stock options, stock index options and interest rate futures registered increase in volumes, stock index futures, currency derivatives and commodities

[2] Findings are solely based on data reported by the members of the WFE. For further details please refer to the monthly reports of the WFE at 'https://www.world-exchanges.org/home/index.php/statistics/monthly-reports

derivatives witnessed decline (See Chart 1.15).

Volumes traded of single stock options, which account for 77 percent of single stock derivatives, increased by 4.8 percent, mainly driven by a 3.6 percent increase in the Americas where more than 80 percent of total trading takes place. The Asia-Pacific saw a significant increase in volumes traded (up by 26.6 percent) while the EMEA region experienced a decline in volume traded (down by 2.4 percent). Total traded volume of stock Index options increased 22.6 percent in 2017, mainly due to 34.3 percent increase in the Asia-Pacific region where more than 65 percent of total trading takes place.

In a year when several key central bank interest rate decisions were scheduled to take place across various markets, it was unsurprising to notice an uptick in volumes of interest rate futures traded by 11.3 percent with increases in all the regions. Volumes traded of interest rate options which accounted for about 18 percent of interest rate derivatives were also up by 17.6 percent in 2017 compared to the previous year.

In case of commodity derivatives, there was a year-on-year decline in volumes traded in 2017 (down by 15.6 percent), entirely driven by 26 percent decline in the Asia-Pacific region where over 60 percent of total trading takes place.

Chart 1.15a: Stock Options

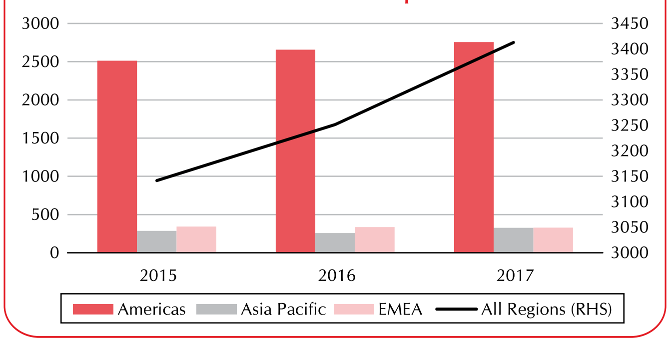
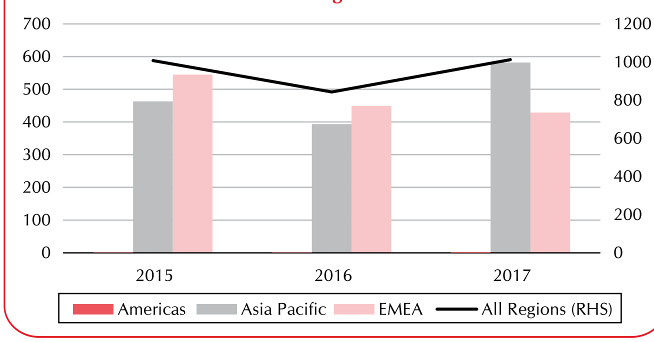


Chart 1.15b: Single Stock Futures



Char 1.15c: Stock Index Options

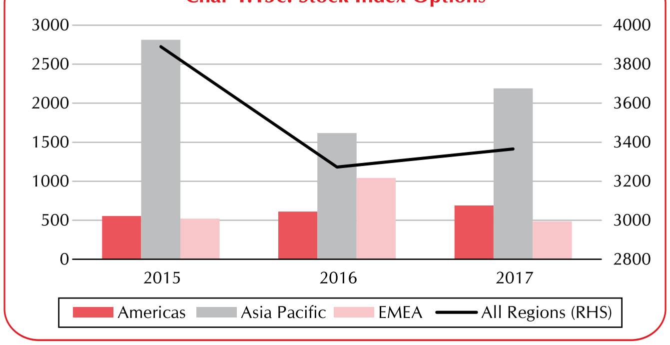


Chart 1.15d: Stock Index Futures

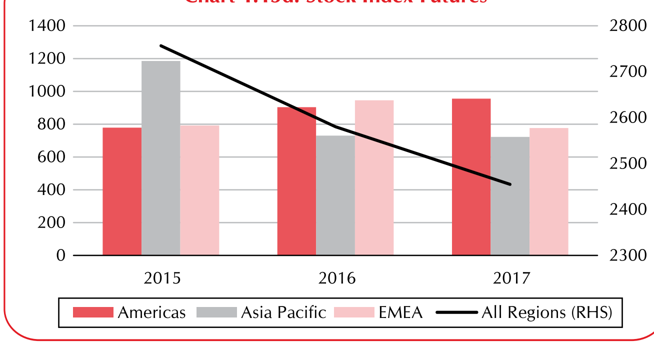


Chart 1.15e: Interest Rate Derivatives

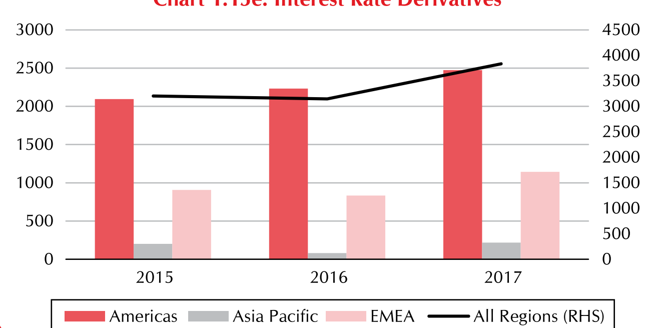
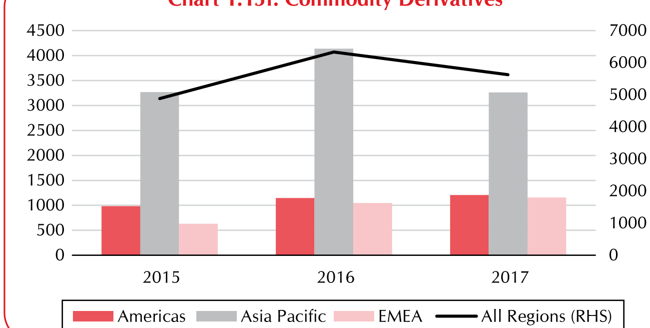
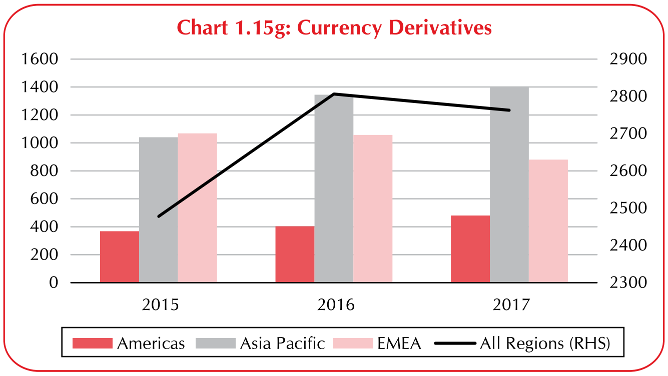
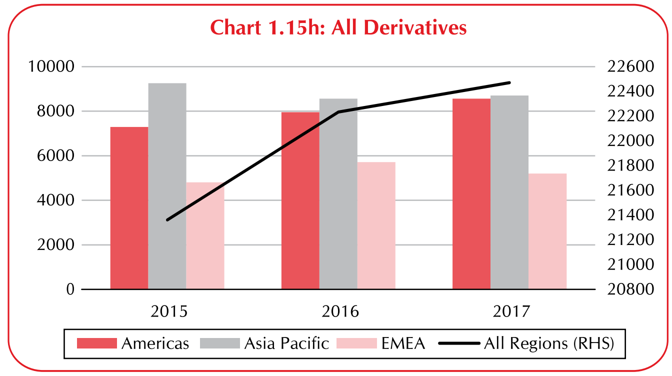


Chart 1.15f: Commodity Derivatives







Source: World Federation of Exchanges, 2017- Full year market highlights.

1.1.3 Other Markets

According to the WFE data, while total listing of Exchange Traded Funds (ETF) increased by 5.7 percent in 2017 compared to 2016 driven by increases across all regions, the value traded was down by 12.6 percent mainly due to 13.9 percent decline in turnover in the Americas which accounts for over 85 percent of total value traded of ETFs. Both listings and value traded of Investment Funds were down by 9.5 percent and 15 percent, respectively in 2017 compared to the previous year.

Section III: Structure and Trends of the Indian Securities Market

This section outlines the basic structure of the Indian securities market as it exists now, along with the broad trends in different segments of the market 2016-17 and 2017-18 up to December 2017.

1.1 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 in the primary market 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 as well. There are a large variety of intermediaries providing various services in the Indian securities market (Table 1.6).

Table 1.6: Market Participants in Securities Market

Market Participants	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018$
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	20	18	18	5	5
Equity Derivatives Market	3	3	3	3	3
Currency Derivatives Market	4	3	3	3	3
Brokers (Cash Segment)**	9,411	3,744	3,219	3,192	3,202
Corporate Brokers (Cash Segment)	4,917	3,290	2,820	2,775	2,778
Brokers (Equity Derivatives)	3,051	2,990	2,760	2,651	2,668
Brokers (Currency Derivatives)	2,395	2,406	2,205	1,985	2,310
Sub-brokers (Cash Segment)	51,885	42,351	35,246	30,610	25,642
Foreign Portfolio Investors	-	8,214	8,717	7,807	9,042
Portfolio Managers	212	188	202	218	261
Custodians	19	19	19	19	19
Registrars to an issue & Share Transfer Agents	71	72	71	73	73
Merchant Bankers	197	197	189	189	188
Bankers to an Issue	59	60	62	64	65
Debenture Trustees	31	32	31	32	32
Underwriters	3	2	2	2	1
Venture Capital Funds	207	201	200	198	196
Foreign Venture Capital Investors	192	204	215	218	220
Mutual Funds	50	47	48	45	45
Collective Investment Management Company	1	1	1	1	1
KYC Registration Agency (KRA)	5	5	5	5	5

** DCA,DEA,RBI&SEBI,**Including brokers on Mangalore SE (58), HSE (303), Magadh SE (197), SKSE (399), $ indicates as on December 31, 2017*

Source: SEBI Bulletin – April 2017 and January 2018.

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 classtermed 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 andDeemed FPIs are provided by NSDL.*
3. *The Hyderabad Securities and Enterprises Ltd (erstwhile Hyderabad Stock Exchange), Coimbatore Stock Exchange Ltd, Saurashtra Kutch StockExchange Ltd ,Mangalore Stock Exchange, Inter-Connected Stock Exchange of India Ltd, Cochin Stock Exchange Ltd, Bangalore Stock ExchangeLtd , Ludhiana Stock exchange Ltd, Gauhati Stock Exchange Ltd, Bhubaneswar Stock Exchange Ltd, Jaipur Stock Exchange Ltd, OTC Exchangeof 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 StockExchange, 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 any member of the public 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 can be 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 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 in equity occurs mainly on the National Stock Exchange of India Ltd. (NSE).

1.2 Regulators

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 supply of quality securities as well as high service standards of the intermediaries. The regulator's aim is to ensure that the market participants behave in such a manner so that the securities markets continue to be a secure and important source of finance for the corporate sector and the government, while protecting the interests of investors.

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

The Ministry of Finance regulates through the Capital Markets Division of the Department of Economic Affairs. - The Division is responsible for institutional reforms in the securities markets, building regulatory and market institutions, strengthening investor protection mechanism, and providing efficient legislative framework for securities markets. The Division administers legislations and rules made under the Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Securities and Exchange Board of India Act, 1992.

The Investor Education and Protection Fund (IEPF) has been set-up under Section 205C of the Companies Act, 1956 by way of the Companies (Amendment) Act, 1999 under the chairmanship of the Secretary of the Ministry of Corporate Affairs (MCA).

The Reserve Bank derives statutory powers to regulate market segments from specific provisions of the Reserve Bank of India Act, 1934. The prudential guidelines issued to eligible market participants form the broad regulatory framework for government securities, money market and interest rate derivatives. All the secondary market transactions in Government Securities are settled through a central counterparty mechanism under Delivery Versus Payment mode. Multilateral netting is achieved with a single funds settlement obligation for each member for a particular settlement date. The settlement is achieved in the RTGS (Real Time Gross Settlement) Settlement/Current Account maintained by the member in the Reserve Bank. The RBI formulates detailed guidelines on each segment of the money market (collaterised borrowing, uncollaterised call money market, Commercial Paper issuances by corporates, Primary Dealers and financial institutions and Certificates of Deposit) under the section Master Circulars for financial markets. In the foreign exchange market, the Foreign Exchange Management Act, 1999 (Act 42 of 1999), better known as FEMA, 1999, provides the statutory framework for the regulation of Foreign Exchange derivatives contracts. 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 is the regulatory authority established under the SEBI Act 1992 and is the principal regulator for stock exchanges in India. SEBI's primary functions include protecting investor interests and promoting and regulating the Indian securities markets. Foreign Portfolio Investors are required to register with Designated Depository Participants (DDPs) in order to participate in the Indian securities markets. 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. Besides, the Depositories Act is administered by SEBI. The rules under the securities laws are framed by the government and the regulations are framed by SEBI.

Box 1.3: Some reform initiatives introduced in the securities market during March 2016 - December 2017

SEBI initiated a host of policies and programmes during the period with the objectives of (i) protecting investors' interests in securities; (ii) promoting the development of the securities market; and (iii) regulating the securities market., such as;

a) *Integrated reporting by listed entities*: SEBI has mandated submission of Business Responsibility Reports (BRRs) for top 500 listed entities to further improve disclosure standards of non-financial information. The key areas which are required to be reported by the entities pertain to environment, governance stakeholder relationships and so on.
b) *Implementation of New Accounting Standards Ind-AS by Listed Entities*: In accordance with the rules prescribed by the Ministry of Corporate Affairs, the listed entities are required to comply with the new accounting standards Ind-AS, which are on the lines of international accounting standards, in a phased manner beginning 2016-17. In order to facilitate a smooth transition during the first year of Ind-AS implementation, SEBI issued detailed guidelines. The formats for financial results were also aligned with those prescribed under the Companies Act/the Banking Regulation Act/IRDAI Act.
c) *Transparency in Listed Companies' Dividend Distribution Policies:* In order to bring in more transparency with respect to listed companies' dividend policies, a new Regulation 43A has been introduced in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. This requires the top 500 listed companies (by way of market capitalization) to formulate and disclose their dividend distribution policies in their annual reports and on their websites.

d) *Enhancing Corporate Governance Standards:* The SEBI Committee on corporate governance was formed on June 2, 2017 under the Chairmanship of Mr. Uday Kotak with the aim of improving standards of corporate governance of listed companies in India. The Committee submitted its report to SEBI on October 4, 2017; the report contained several proposals to enhance the current corporate governance norms to global standards. Subsequently, SEBI invited comments from the public till early November. The SEBI is currently reviewing the committee's proposals and comments from the public.

e) *Guidance on Board Evaluation:* The evaluation of the performance of the board of directors and its committees is an important component of corporate governance. The provisions on board evaluation are contained in the Companies Act, 2013 and the SEBI Listing Regulations, 2015. After studying the various practices on board evaluation by listed companies in India and abroad, the SEBI issued a guidance note on the matter of board evaluation in January 2017 that covers all major aspects of a board evaluation including subject of evaluation, process of evaluation including laying down objectives and criteria to be adopted for evaluating different persons, feedback to the persons being evaluated and action plan based on the results of the evaluation process.

f) *Guidelines for Functioning of Stock Exchanges and Clearing Corporations in the International Financial Services Centre (IFSC):* SEBI prescribed a broad framework for the functioning of stock exchanges and clearing corporations in IFSC by way of SEBI (IFSC) Guidelines, 2015, with regard to market structure, trading hours and settlement, product category, position limits, trading in rupee denominated bonds issued overseas (Masala bonds), the risk management framework, the dispute resolution mechanism and business continuity plan & disaster recovery. The Guidelines were amended on July 27, 2017; according to the Amendment, any Indian recognised stock exchange or any recognised stock exchange of a foreign jurisdiction can form a subsidiary to provide the services of stock exchange in IFSC wherein at least 51 per cent of paid up equity share capital should be held by such stock exchange and the remaining share capital should be held by the following: i) any other stock exchange, ii) a depository, iii) a banking company, iv) an insurance company, v) commodity derivatives exchange, whether Indian or of foreign jurisdiction and vi) a public financial institution of Indian jurisdiction, provided that any one of the aforesaid entities may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto15 per cent of the paid up equity share capital of such stock exchange.

g) *Actions taken against shell companies:* SEBI directed stock exchanges to take action against 331 suspected shell companies that are listed on the bourses.in August 2017. The exchanges were advised to subject these companies to stricter surveillance action and subsequently, were directed to appoint independent auditors to verify their financial credentials. Based on the audit findings, the exchanges were advised to dispose of the cases or take further action such as appointing forensic auditors. The exchanges are currently in the process of carrying out this mandate.

h) *Integration of Broking Activities in Equity Markets and Commodity Derivatives Market under Single Entity:* The SEBI is in the process of integrating equity and commodity markets which would ultimately result in the creation of a universal exchange that offers trading in equity and equity derivatives, commodity derivatives, debt, interest rate derivatives, currency derivatives, etc. under a single entity. The integration of these two markets is envisaged to happen in four phases. First, FMC was merged with SEBI on September 28, 2015. Consequent to this merger the commodity derivative market is also regulated by SEBI. Second, the Forward Contracts Regulation Act (FCRA) was repealed and the commodity derivatives market regulations shifted to SEBI under the Securities Contracts Regulation Act (SCRA), 1957. In the third phase, the broking activities of equity and commodity markets are integrated. Under the last phase, SEBI in its Board meeting on December 28, 2017 has approved the proposal of trading of commodity derivatives and other segments of securities market on a single exchange with effect from October 1, 2018.

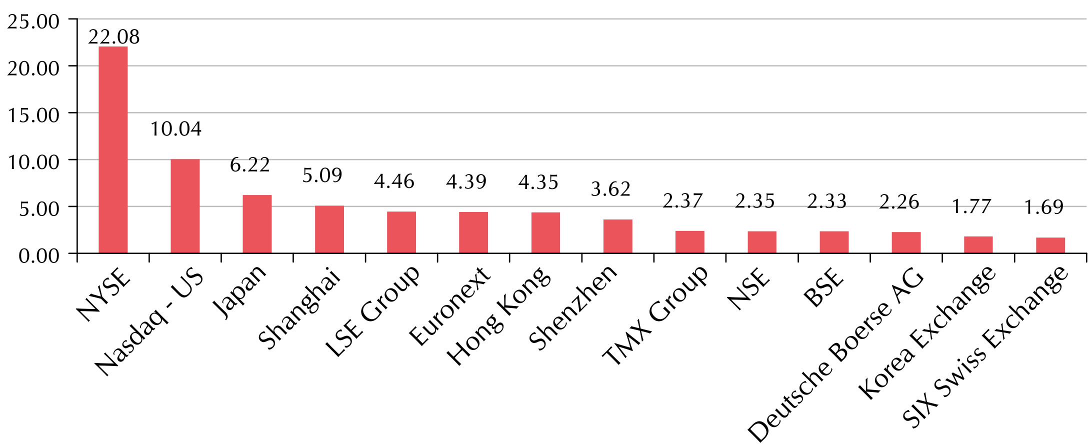
i) *Strengthening Risk Management in the Commodity Derivatives Market*: Immediately after the merger of FMC with SEBI, a comprehensive risk management framework was prescribed to streamline and strengthen risk management at the national commodity derivatives exchanges and align these to the extent appropriate with the securities market's norms.

j) *Review of the Position Limits Available to Stock Brokers / Foreign Portfolio Investors (FPIs) - Category I & II / Mutual Funds (MFs) for Stock Derivatives Contracts*: In order to ease trading requirements of stock brokers/foreign portfolio investors (FPIs) - Category I & II/mutual funds (MFs) in the equity derivatives segment, the extant sub-position limits applicable on stock futures including quantitative/value based restrictions on position limits for stock derivatives were removed. Accordingly, it was decided that the combined futures and options position limit for stock brokers/FPIs (Category I & II)/mutual funds shall be 20 per cent of the applicable market wide position limit (MWPL).

1.3 Market Trends in India

Out of the exchanges across the globe that are members of the WFE, two Indian stock exchanges – NSE (Rank: 10) and BSE (Rank: 11) – were in the top 11 in terms of domestic market capitalisation at the end of December 2017 (Chart 1.16). As of end December 2017, the domestic market capitalisation of the NSE stood at US$ 2.35 trillion, a notch higher than that of the BSE (US$ 2.33 trillion).

Chart 1.16: Domestic Market Capitalisation (USD trillion)

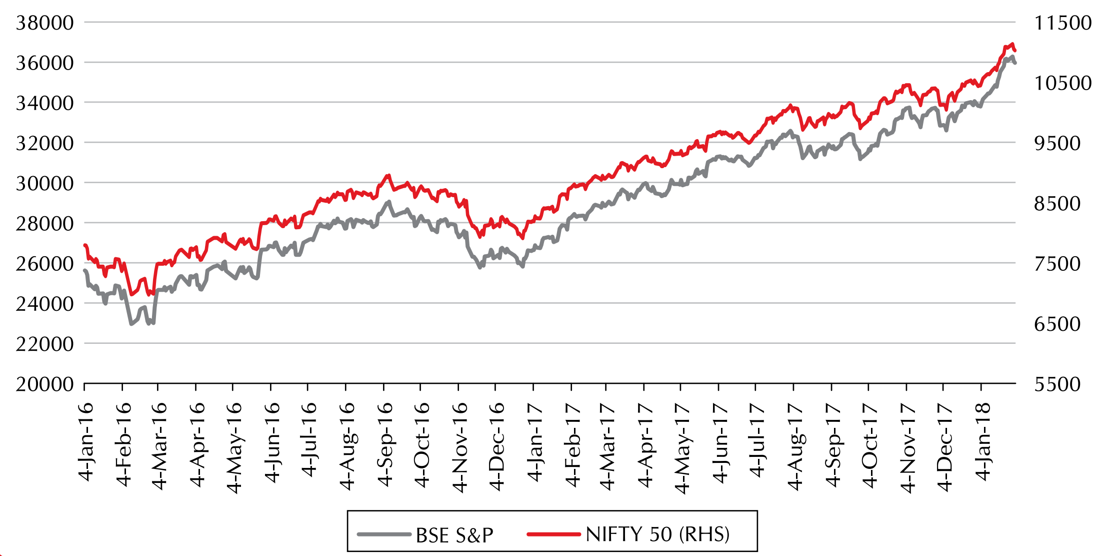


Source: WFE, Monthly Statistics, January 2018

Note: The ranking is based on the data from 80 stock exchanges across the world and is in terms of domestic market capitalisation at the end of December 2017.

As pointed out earlier, the surge in equity market in 2017 was almost a worldwide phenomenon and India was no exception. S&P BSE Sensex, the benchmark index of BSE, closed at 34,056 points as on end-2017, witnessing a gain of 28 per cent from its closing of 26,626 points from a year ago. During the same period, Nifty 50, the benchmark index of NSE, closed at 10,531 points, witnessing a gain of 29 per cent from its closing of 8,186 points at the end of 2016. The upward trend continued in January 2018 as well. On January 23, 2018, India's stock market reached at a new all-time high with benchmark indices Sensex and Nifty crossing the psychological levels of 36,000 and 11,000 respectively for the first time in the history of Indian capital markets. The P/E ratios of S&P BSE Sensex and Nifty 50 were 25.2 and 26.9 respectively at the end of Dec-17 compared to 20.6 and 21.9 respectively a year ago.

Chart 1.17: Movement of Sensex and Nifty



Source: NSE and BSE

Over the past two years, the Indian stock market has soared, outperforming many other major markets. For example, between end-December 2015 and January 2018, while S&P index rose by 45 percent, the Sensex surged 52 percent in dollar terms. What is worth noting is that while markets in US and India rose by nearly the same extent, their respective economies followed paths that are different in three major ways (Economic Survey - 2017-18):

i. Stock market surge in India has coincided with a deceleration in economic growth, whereas in US growth has accelerated.

ii. India's current corporate earnings-GDP ratio has been sliding since the global financial crisis, falling to just 3.5 percent, while profits in the US have remained a healthy 9 percent of GDP.

iii. Over the period of the boom, real interest rates have averaged -1.0 percent as compared with India's 2.2 percent, a difference of 3.2 percentage points.

Why did the Indian stock market surge despite the fact that India's growth has decelerated in 2016-17 and 2017-18. According to the Economic Survey 2017-18, two factors seemed to be at work. In early 2016, signs emerged that after a long decline, corporate profit to GDP ratio was set to rise. In anticipation of recovery in corporate earnings, investors bid up the prices. But, by 2017-18, the profit recovery was not as much as was expected. At this point, the second factor came into play and that was demonetization. Demonetisation, which was part of the government campaign against illicit wealth, had in effect put a tax on certain activities, particularly holding of cash, property or gold. This made stocks more attractive and pushed investors to reallocate their portfolios towards shares. There were other factors at work too.

1.3.1 Primary Market in Equity

When there is a boom in the stock markets, as has been the case in in India recently, firms typically issue more equity publicly, taking advantage of the reduced cost of capital to start new investment projects. During the first 9 months of 2017-18, there has been a steady increase in resource mobilisation in the primary market segment as compared to the corresponding period in the last financial year. During this period, 153 companies accessed the primary market through public and rights issues to raise Rs 727.87 billion compared to Rs 497.05 billion raised through 85 issues during the same period last year, showing 46 per cent increase in resource mobilisation over the year. (SEBI Bulletin, January 2018).

1.3.2 Primary Market in Debt

During the first nine months of 2017-18, the resources mobilised through primary market in debt witnessed a decline compared to the corresponding period in the previous financial year. Private placements continued to dominate the corporate bond market with Rs 4.60 trillion raised through 1,943 issues, showing a 4 percent year-on-year decline in mobilisation. On the contrary, there were only 5 public debt issues that raised Rs 41 billion over this period (as compared to Rs 239 billion raised through 10 public debt issues during the same period in the previous financial year; SEBI Bulletin, January 2018).[3]

1.3.3 Mutual Fund

The Indian mutual fund industry also registered a robust growth during April–December 2017 with a net inflow of Rs 2.15 trillion, mainly due to change in household investment pattern in the post demonetisation period. In this period, there was net outflow of Rs 70.56 billion from income / debt oriented schemes and a net inflow of Rs 1.33 trillion into growth / equity oriented schemes. Balanced schemes recorded inflow of Rs 703.11 billion. Exchange traded funds witnessed net inflow of Rs 195.89 billion whereas there was an outflow of Rs 5.69 billion from gold ETFs and an inflow of Rs 201.57 billion from other ETFs. The Fund of funds schemes investing overseas recorded net outflow of Rs 3.74 billion. The cumulative net assets under management by all mutual funds increased by 22 per cent to Rs 21.38 trillion at the end of December 2017 from Rs 17.55 trillion at the end of march 2017 (SEBI Bulletin, January 2018).

1.3.4 Equity Derivative Markets

The total turnover in equity derivatives at NSE increased to Rs 1,155 trillion in April-December 2017 from Rs 667.53 trillion in the same period last year, with 1,359 million contracts traded during this period vs. 1,023 million contracts traded in the corresponding period last year.

[3] Amount raised through debt issues for the last two months are provisional.

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2. Primary Market

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).

2.2 Primary Market Issuances (2016-17)

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 2016–17 increased marginally by 19% year-on-year to Rs 18,440 billion (US $ 282 billion).

2.2.1 Corporate Securities

Resource mobilization by corporates in the primary market increased by 42% from Rs 5,179 billion (US $ 79 billion) in 2015-16 to Rs 7,375 billion (US $ 113 billion) in 2016-2017. Capital raising via public issues and private placement witnessed strong growth; capital raised through the private placement route increased by 43% to Rs 7,050 billion (US $108 billion) while public issues also witnessed a sharp upsurge by 36% to Rs 325 billion (US $ 5 billion) (Table 2-1).

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

Issues	2015-16 (Rs bn.)	2016-17 (Rs bn.)	2015-16 (USD bn.)	2016-17 (USD bn.)	Growth in 2015-16	Growth in 2016-17
Corporate Securities	**5,179**	**7,375**	**79**	**113**	**11%**	**42%**
Domestic Issues	5,179	7,375	79	113	14%	42%
Public Issues	240	325	4	5	145%	36%
Private Placement	4,939	7,050	76	108	11%	43%
Euro Issues	-	-	-	-	-	-
Government Securities	**10,336**	**11,065**	**158**	**170**	**5%**	**7%**
Central Government #	7,390	7,245	113	111	0%	-2%
State Governments	2,946	3,820	45	59	22%	30%
Total	**15,515**	**18,440**	**238**	**282**	**7%**	**19%**

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

2.2.2 Public and Rights Issues

In 2016-2017, 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 7% to Rs 621 billion (US $ 9.5 billion). IPOs witnessed phenomenal growth of 97% from Rs 148 billion (US $ 2.2 billion) in 2015-16 to Rs 291 billion (US $ 4.5 billion) in 2016-17. Also, total number of IPOs saw a significant rise in 2016-17 as compared to the preceding year; public issues surged from 74 in 2015-16 to 106 in 2016-2017 (Table 2.2).

In contrast, the number of public issues in the debt segment declined from 20 in 2015-16 to 16 in 2016-17. Thus, the associated amount of resources mobilized witnessed a decline by 13% in 2016-17 from Rs 338 billion in 2015-16 to Rs 295 billion in 2016-17.

The mobilization of resources through right issues also recorded a massive decline of 63% from Rs 92 billion (US $ 1.4 billion) in 2015-16 to Rs 34 billion (US $ 0.5 billion) in 2016-17. In 2016-17, the number of companies using the rights route to raise capital was 12 (as against 13 in the previous year).

Table 2-2 Resource Mobilization from Public and Rights Issues

Public and Rights Issues	2014-15			2015-16			2016-17		
	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)	**70**	**125**	**2.0**	**94**	**489**	**7.4**	**122**	**587**	**9.0**
i. Public Issues	46	33	0.5	74	148	2.2	106	291	**4.5**
Public Issues (IPO)	46	33	0.5	74	148	2.2	106	291	**4.5**
Public Issues (FPO)	0	0	0	0	0	-	0	0	**0**
ii. Public Issues (Bond/NCD)	24	94	1.5	20	338	5.1	16	295	**4.5**
2. Rights Issues	**18**	**68**	**1.1**	**13**	**92**	**1.4**	**12**	**34**	**0.5**
Total (1+2)	**88**	**192**	**3.1**	**107**	**581**	**8.8**	**134**	**621**	**9.5**

Source: SEBI- Annual Report

2.2.3 Sector-wise resource mobilisation

During 2016-17, the private issuers raised Rs 609.4 billion through public and rights issues which is about 128% rise over the previous year. They issued 133 public/right issues in 2016-17 as compared to 97 issues in the previous year. In contrast, the public sector witnessed a sharp decline in resource mobilization from Rs 311 billion in 2015-16 to merely 11.2 billion in 2016-17. They issued only one public/right issue in 2016-17 as opposed to 11 in 2015-16. As a result, the total resource mobilization registered a moderate growth of 7% from Rs 578.7 billion in 2015-16 to Rs 620.7 billion in 2016-17 (Table 2-3).

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

Sector	2014-15		2015-16		2016-17	
	Number	Amount (Rs mn)	Number	Amount (Rs mn)	Number	Amount (Rs mn)
Private	85	1,67,560	97	2,67,680	133	6,09,430
Public	3	24,460	11	3,10,980	1	11,240
Total	**88**	**1,92,020**	**108**	**5,78,660**	**134**	**6,20,670**

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

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

The share of banking and financial sector in total resource mobilization was 32.8% in 2015-16 which has increased to 65.3% in 2016-17. This sector has mobilized resources through 26 issues in 2016-17 and raised Rs 405.1 billion as compared to Rs 189.9 billion in the previous year – recording a significant growth of 113%. Food processing, healthcare and information technology raised Rs 19.3 billion, Rs 18.7 billion and Rs 12.7 billion respectively in 2016-17. These industries have contributed around 3.1%, 3% and 2% respectively in total resource mobilization. Notably, textile industry recorded phenomenal growth in resource mobilization in 2016-17 through 16 issues as compared to merely 5 issues last year and raised Rs 9.4 billion in 2016-17 as compared to Rs 0.2 billion in the previous year. Among others, Cement & Construction, Chemical, Engineering and Entertainment raised significant amount through public and rights issues (Table 2-4).

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

Industry	2015-16			2016-17		
	Number	Amount (Rs mn)	Percentage Share	Number	Amount (Rs mn)	Percentage Share
Banking/FIs/Finance	23	1,89,850	32.8	26	4,05,070	65.3
Cement & Construction	4	1,720	0.3	10	3,280	0.5
Chemical	3	11,790	2.0	9	5,040	0.8
Electronics	1	590	0.0	2	280	0.0
Engineering	2	3,730	0.6	4	9,020	1.5
Entertainment	2	210	0.0	2	4,910	0.8
Food Processing	2	7,000	1.2	6	19,380	3.1
Healthcare	7	37,930	6.6	6	18,660	3.0
Information Technology	6	9,210	1.6	4	12,660	2.0
Paper & Pulp	0	0	0.0	0	0	0.0
Power	4	21,060	0.0	1	40	0.0
Telecom	0	0	0.0	1	110	0.0
Textile	5	160	0.0	16	9,420	1.5
Others	48	2,95,410	51.1	47	1,32,800	21.4
Total	**107**	**5,78,660**	**100.0**	**134**	**6,20,670**	**100.0**

Source: SEBI

Table 2-5 presents the size-wise distribution of public and rights issues in 2016-17. Although total resources mobilized in the primary market rose by 7% in 2016-17, there was not much change in the distribution pattern of issue sizes. About 90% of the resource mobilization was through public issues of issue size above Rs 500 crore. In terms of the number of issues, however, there were only 29 issues out of 134 that were above Rs 500 crore. Notably, 84 issues (63%)

were below Rs 50 crore. Though a majority of the issues are below Rs 50 crore, issues above Rs 500 crore constitute 90% of total resource mobilization, .

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

Issue Size	2015-16			2016-17		
	Number	Amount (Rs mn)	Percentage Share	Number	Amount (Rs mn)	Percentage Share
< Rs 5 crore	29	800	0.14	26	900	0.15
≥ Rs 5 crore & < Rs 10 crore	13	820	0.14	25	1,750	0.28
≥ Rs 10 crore & < Rs 50 crore	9	1,660	0.29	33	7,010	1.13
≥ Rs 50 crore & < Rs 100 crore	7	4,870	0.84	4	2,640	0.43
≥ Rs100 crore & < Rs500 crore	24	75,550	13.06	17	49,050	7.90
≥ Rs500 crore	25	4,94,950	85.54	29	5,59,320	90.12
Total	**107**	**5,78,650**	**100.00**	**134**	**6,20,670**	**100.00**

Source: SEBI Annual Report

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

In 2016–17, 57 IPOs (including SMEs) were listed on the NSE, as against only 21 in 2015-16 (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 2016-17, Avenue Supermarts Ltd., Quess Corp Ltd. and Sheela Foam Ltd. achieved listing gains to the tune of 115%, 59% and 41% respectively, over their respective issue prices (Table 2-6).

The trend so far in 2017-2018 has been rather encouraging; as of September 2017, 76 IPOs (including SMEs) have been listed on the NSE. Among the various IPOs issued during April-October 2017, Salasar made the maximum listing gains as of October 31, 2016 (143% over its issue price) (Table 2-7).

Table 2-6: Performance of IPOs listed on NSE in 2016-17

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 31.03.2017)	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
Main Board IPOs								
1	BHARAT WIRE ROPES LTD.	18-03-2016	700.00	01-04-2016	47.25	45.55	96.75	1.22
2	INFIBEAM INCORPORATION LTD.	21-03-2016	4,500.00	04-04-2016	453.00	445.75	947.15	3.18
3	EQUITAS HOLDINGS LTD.	05-04-2016	21,766.85	21-04-2016	145.10	135.20	169.55	22.91
4	THYROCARE TECHNOLOGIES LTD.	27-04-2016	4,792.14	09-05-2016	665.00	618.80	717.80	38.74
5	UJJIVAN FINANCIAL SERVICES LTD.	28-04-2016	8,824.96	10-05-2016	231.90	231.55	423.35	10.26
6	PARAG MILK FOODS LTD.	04-05-2016	7,505.37	19-05-2016	217.50	247.00	228.05	14.88
7	MAHANAGAR GAS LTD.	21-06-2016	10,388.79	01-07-2016	540.00	520.30	895.40	23.59
8	QUESS CORP LTD.	29-06-2016	4,000.00	12-07-2016	500.00	503.10	690.40	58.71
9	LARSEN & TOUBRO INFOTECH LTD.	11-07-2016	12,363.75	21-07-2016	667.00	697.60	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	240.00	251.75	349.75	14.95

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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 31.03.2017)	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
12	S.P.APPARELS LTD.	02-08-2016	2,391.20	12-08-2016	275.00	288.75	428.50	7.74
13	RBL BANK LTD.	19-08-2016	12,129.67	31-08-2016	274.20	299.40	494.55	33.07
14	L&T TECHNOLOGY SERVICES LTD.	12-09-2016	8,944.00	23-09-2016	920.00	860.55	778.60	0.06
15	GNA AXLES LTD.	14-09-2016	1,304.10	26-09-2016	252.00	245.05	218.90	18.38
16	ICICI PRUDENTIAL LIFE INSURANCE CO.LTD.	19-09-2016	60,567.91	29-09-2016	330.00	295.85	382.40	-11.42
17	HPL ELECTRIC & POWER LTD.	22-09-2016	3,610.00	04-10-2016	190.00	189.30	119.05	-6.29
18	ENDURANCE TECHNOLOGIES LTD.	05-10-2016	11,617.35	19-10-2016	572.00	646.90	768.50	37.06
19	PNB HOUSING FINANCE LTD.	25-10-2016	30,000.00	07-11-2016	860.00	891.15	1,190.40	14.99
20	VARUN BEVERAGES LTD.	26-10-2016	11,125.00	08-11-2016	430.00	459.50	404.95	3.26
21	SHEELA FOAM LTD.	29-11-2016	5,100.00	09-12-2016	860.00	1,032.00	1,125.20	41.37
22	LAURUS LABS LTD.	06-12-2016	13,305.10	19-12-2016	489.90	480.40	516.20	12.24
23	BSE LTD.	23-01-2017	12,434.32	03-02-2017	1,085.00	1,069.20	977.65	32.66
24	MUSIC BROADCAST LTD.	06-03-2017	4,885.29	17-03-2017	413.00	372.90	360.55	11.98
25	AVENUE SUPERMARTS LTD.	08-03-2017	18,700.00	21-03-2017	600.00	641.60	637.85	114.58
26	CL EDUCATE LTD.	20-03-2017	2,389.52	31-03-2017	402.00	422.10	422.10	-15.92
SME IPOs								
1	SAGARDEEP ALLOYS LTD.	04-05-2016	56.88	17-05-2016	20.00	19.00	21.00	-5.00
2	UNITED POLYFAB GUJARAT LTD.	25-05-2016	72.63	07-06-2016	42.50	44.00	20.60	-2.22
3	KKV AGRO POWERS LTD.	30-06-2016	34.05	15-07-2016	325.00	342.00	327.00	6.88
4	MADHYA BHARAT AGRO PRODUCTS LTD.	29-08-2016	131.90	12-09-2016	27.00	28.80	51.10	20.00
5	CROWN LIFTERS LTD.	09-09-2016	63.40	27-09-2016	122.80	109.00	77.10	-9.92
6	HUSYS CONSULTING LTD.	09-09-2016	39.74	27-09-2016	72.90	60.60	41.00	-12.17
7	AVSL INDUSTRIES LTD.	15-09-2016	49.03	06-10-2016	38.00	36.00	33.50	-
8	JET KNITWEARS LTD.	27-09-2016	40.01	07-10-2016	46.80	46.80	68.10	20.00
9	NANDANI CREATION LTD.	28-09-2016	38.30	10-10-2016	33.60	33.60	56.15	20.00
10	GRETEX INDUSTRIES LTD.	30-09-2016	37.56	14-10-2016	24.00	24.00	15.50	20.00
11	SAKAR HEALTHCARE LTD.	30-09-2016	140.40	14-10-2016	52.80	52.15	57.00	4.30
12	AURANGABAD DISTILLERY LTD.	30-09-2016	73.08	17-10-2016	42.00	42.00	59.00	20.00
13	DHANUKA REALTY LTD.	30-09-2016	40.08	18-10-2016	43.00	41.25	38.00	3.13
14	PANSARI DEVELOPERS LTD.	30-09-2016	96.62	18-10-2016	22.00	22.90	20.05	4.09
15	ART NIRMAN LTD.	30-09-2016	47.55	19-10-2016	27.55	30.00	27.50	20.00
16	GLOBE INTERNATIONAL CARRIERS LTD.	30-09-2016	48.96	19-10-2016	24.50	24.95	26.00	3.96
17	AGRO PHOS INDIA LTD.	27-10-2016	122.50	16-11-2016	26.40	22.85	22.00	3.86
18	JET FREIGHT LOGISTICS LTD.	24-11-2016	38.53	06-12-2016	33.60	33.60	64.40	20.00
19	LIBAS DESIGNS LTD.	27-12-2016	128.93	09-01-2017	78.25	71.40	68.00	5.00
20	PROLIFE INDUSTRIES LTD.	27-12-2016	39.90	09-01-2017	42.00	37.10	42.50	-2.37
21	MAHESHWARI LOGISTICS LTD.	30-12-2016	257.86	13-01-2017	71.80	76.35	88.10	12.28
22	MADHAV COPPER LTD.	23-01-2017	42.51	06-02-2017	90.50	93.80	140.90	15.80
23	STEEL CITY SECURITIES LTD.	06-02-2017	256.41	17-02-2017	55.00	50.10	66.15	-8.91
24	KRISHANA PHOSCHEM LTD.	13-02-2017	187.20	27-02-2017	36.00	36.00	35.15	20.00

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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 31.03.2017)	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
25	GLOBAL EDUCATION LTD.	16-02-2017	97.20	02-03-2017	180.00	180.00	224.00	20.00
26	NITIRAJ ENGINEERS LTD.	20-02-2017	209.04	08-03-2017	97.00	94.50	83.00	-5.50
27	SANGINITA CHEMICALS LTD.	01-03-2017	95.30	10-03-2017	23.00	22.90	23.85	4.09
28	AKASH INFRA-PROJECTS LTD.	28-02-2017	241.50	15-03-2017	124.50	128.15	127.90	2.52
29	AIRAN LTD.	14-03-2017	140.94	24-03-2017	54.00	53.85	67.75	19.67
30	LAXMI COTSPIN LTD.	17-03-2017	91.20	31-03-2017	21.00	19.90	19.90	-0.50
31	EURO INDIA FRESH FOODS LTD.	21-03-2017	486.35	31-03-2017	82.40	89.85	89.85	15.19

Source : PRIME Database

Table 2-7: Performance of IPOs listed on NSE in April 2017–October 2017

SR. NO.	NSE SYMBOL	COMPANY	OPENING DATE	ISSUE AMOUNT (Rs mn)	LISTING DATE	OFFER PRICE (Rs)	OPEN PRICE ON LISTING DATE (Rs)	CLOSE PRICE ON LISTING DATE (Rs)	MARKET PRICE (AS ON 31.10.2017)	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
Main Board IPOs										
1	SHANKARA	SHANKARA BUILDING PRODUCTS LTD.	3/22/2017	3,450.01	4/5/2017	460.00	555.05	632.45	1,489.50	37.49
2	SCHAND	S.CHAND & CO.LTD.	4/26/2017	7,285.57	5/9/2017	670.00	700.00	676.00	479.85	0.90
3	HUDCO	HOUSING & URBAN DEVELOPMENT CORP.LTD.	5/8/2017	12,097.77	5/19/2017	60.00	73.00	72.55	85.95	20.92
4	PSPPROJECT	PSP PROJECTS LTD.	5/17/2017	2,116.80	5/29/2017	210.00	190.00	199.50	428.95	-5.00
5	TEJASNET	TEJAS NETWORKS LTD.	6/14/2017	7,766.88	6/27/2017	257.00	257.00	263.50	326.15	2.53
6	ERIS	ERIS LIFESCIENCES LTD.	6/16/2017	17,404.86	6/29/2017	603.00	611.00	601.50	583.80	-0.25
7	CDSL	CENTRAL DEPOSITORY SERVICES (INDIA) LTD.	6/19/2017	5,239.91	6/30/2017	149.00	250.00	261.60	371.95	75.57
8	GTPL	GTPL HATHWAY LTD.	6/21/2017	4,848.00	7/4/2017	170.00	170.00	171.65	146.20	0.97
9	AUBANK	AU SMALL FINANCE BANK LTD.	6/28/2017	19,125.14	7/10/2017	358.00	530.00	541.65	581.75	51.30
10	SALASAR	SALASAR TECHNO ENGINEERING LTD.	7/12/2017	359.53	7/25/2017	108.00	250.00	262.50	295.05	143.06
11	SIS	SECURITY & INTELLIGENCE SERVICES (INDIA) LTD.	7/31/2017	7,795.80	8/10/2017	815.00	879.80	757.05	783.55	-7.11
12	COCHINSHIP	COCHIN SHIPYARD LTD.	8/1/2017	14,429.30	8/11/2017	432.00	440.15	528.15	579.70	22.26
13	APEX	APEX FROZEN FOODS LTD.	8/22/2017	1,522.50	9/4/2017	175.00	202.00	212.10	416.35	21.20
14	BRNL	BHARAT ROAD NETWORK LTD.	9/6/2017	6,006.50	9/18/2017	205.00	205.00	208.45	178.65	1.68
15	DIXON	DIXON TECHNOLOGIES (INDIA) LTD.	9/6/2017	5,992.79	9/18/2017	1,766.00	2,725.00	2,891.55	2,724.30	63.73
16	MATRIMONY	MATRIMONY.COM LTD.	9/11/2017	4,968.77	9/21/2017	985.00	985.00	904.65	882.65	-8.16
17	CAPACITE	CAPACIT'E INFRAPROJECTS LTD.	9/13/2017	4,000.00	9/25/2017	250.00	399.00	342.55	336.15	37.02
18	ICICIGI	ICICI LOMBARD GENERAL INSURANCE CO.LTD.	9/15/2017	57,009.39	9/27/2017	661.00	651.10	681.20	677.00	3.06

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SR. NO.	NSE SYMBOL	COMPANY	OPENING DATE	ISSUE AMOUNT (Rs mn)	LISTING DATE	OFFER PRICE (Rs)	OPEN PRICE ON LISTING DATE (Rs)	CLOSE PRICE ON LISTING DATE (Rs)	MARKET PRICE (AS ON 31.10.2017)	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
19	SBILIFE	SBI LIFE INSURANCE CO.LTD.	9/20/2017	83,887.29	10/3/2017	700.00	735.00	707.55	662.10	1.08
20	DIAMONDYD	PRATAAP SNACKS LTD.	9/22/2017	4,815.98	10/5/2017	938.00	1,270.00	1,180.65	1,172.30	25.87
21	GODREJAGRO	GODREJ AGROVET LTD.	10/4/2017	11,573.12	10/16/2017	460.00	615.60	595.65	575.20	29.49
22	MASFIN	MAS FINANCIAL SERVICES LTD.	10/6/2017	4,600.42	10/18/2017	459.00	660.00	654.40	636.90	42.57
23	IEX	INDIAN ENERGY EXCHANGE LTD.	10/9/2017	10,007.27	10/23/2017	1,650.00	1,500.00	1,629.15	1,554.25	-1.26
24	GICRE	GENERAL INSURANCE CORP.OF INDIA	10/11/2017	112,568.31	10/25/2017	912.00	850.00	874.30	861.95	-4.13
SME IPOs										
1	BOHRA	BOHRA INDUSTRIES LTD.	3/23/2017	238.48	4/5/2017	55.00	56.20	57.85	34.80	5.18
2	CREATIVE	CREATIVE PERIPHERALS & DISTRIBUTION LTD.	3/29/2017	127.92	4/12/2017	75.00	75.75	83.25	107.25	11.00
3	FOCUS	FOCUS LIGHTING & FIXTURES LTD.	3/30/2017	38.34	4/13/2017	45.00	54.00	54.00	107.35	20.00
4	DEVIT	DEV INFORMATION TECHNOLOGY LTD.	3/31/2017	58.46	4/17/2017	42.00	50.40	50.40	58.50	20.00
5	ASLIND	ASL INDUSTRIES LTD.	3/31/2017	92.96	4/18/2017	35.00	33.10	35.05	26.00	0.14
6	MKPL	M.K.PROTEINS LTD.	3/31/2017	97.16	4/18/2017	70.00	72.00	72.00	74.50	2.86
7	SIKKO	SIKKO INDUSTRIES LTD.	4/5/2017	48.64	4/18/2017	32.00	34.40	35.20	34.20	10.00
8	PANACHE	PANACHE DIGILIFE LTD.	4/11/2017	138.28	4/25/2017	81.00	84.00	85.75	96.00	5.86
9	INFOBEAN	INFOBEANS TECHNOLOGIES LTD.	4/18/2017	349.39	5/2/2017	58.00	69.60	69.60	62.65	20.00
10	CKPPRODUCT	CKP PRODUCTS LTD.	4/26/2017	59.10	5/9/2017	50.00	50.00	50.15	50.10	0.30
11	ZOTA	ZOTA HEALTH CARE LTD.	4/27/2017	555.25	5/10/2017	125.00	140.40	125.60	213.55	0.48
12	JALAN	JALAN TRANSOLUTIONS (INDIA) LTD.	5/18/2017	168.08	5/31/2017	46.00	42.25	41.95	39.00	-8.80
13	VSCL	VADIVARHE SPECIALITY CHEMICALS LTD.	5/22/2017	137.09	6/2/2017	42.00	50.40	50.40	130.50	20.00
14	SRIRAM	SHRI RAM SWITCHGEARS LTD.	5/25/2017	48.11	6/7/2017	19.00	22.80	22.80	16.00	20.00
15	GLOBE	GLOBE TEXTILES (INDIA) LTD.	6/12/2017	129.74	6/23/2017	51.00	50.00	50.15	45.00	-1.67
16	ACCORD	ACCORD SYNERGY LTD.	6/22/2017	52.56	7/6/2017	60.00	72.00	72.00	61.00	20.00
17	PUSHPREALM	PUSHPANJALI REALMS & INFRATECH LTD.	6/27/2017	138.16	7/10/2017	55.00	55.00	55.45	76.50	0.82
18	BANSAL	BANSAL MULTIFLEX LTD.	6/30/2017	58.78	7/12/2017	31.00	34.00	35.70	74.50	15.16
19	TRANSWIND	TRANSWIND INFRASTRUCTURES LTD.	6/30/2017	69.12	7/12/2017	27.00	30.85	32.40	35.50	20.00
20	ACEINTEG	ACE INTEGRATED SOLUTIONS LTD.	6/29/2017	68.40	7/13/2017	40.00	38.90	39.55	29.55	-1.13
21	SHRENIK	SHRENIK LTD.	7/6/2017	204.48	7/18/2017	40.00	41.90	48.00	237.75	20.00
22	UNIVASTU	UNIVASTU INDIA LTD.	7/14/2017	56.88	7/27/2017	40.00	48.00	40.20	48.00	0.50
23	SHANTI	SHANTI OVERSEAS (INDIA) LTD.	7/21/2017	93.30	8/3/2017	50.00	60.00	42.90	37.75	-14.20
24	KEERTI	KEERTI KNOWLEDGE & SKILLS LTD.	7/24/2017	38.48	8/7/2017	52.00	51.00	51.25	39.80	-1.44

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SR. NO.	NSE SYMBOL	COMPANY	OPENING DATE	ISSUE AMOUNT (Rs mn)	LISTING DATE	OFFER PRICE (Rs)	OPEN PRICE ON LISTING DATE (Rs)	CLOSE PRICE ON LISTING DATE (Rs)	MARKET PRICE (AS ON 31.10.2017)	GAINS / LOSS OFFER PRICE V/S CLOSE PRICE ON LISTING (%)
25	TOTAL	TOTAL TRANSPORT SYSTEMS LTD.	7/25/2017	161.46	8/7/2017	45.00	54.00	54.00	50.20	20.00
26	SUREVIN	SUREVIN BPO SERVICES LTD.	7/28/2017	34.56	8/9/2017	40.00	48.00	40.20	35.90	0.50
27	VAISHALI	VAISHALI PHARMA LTD.	8/7/2017	134.78	8/22/2017	72.00	71.90	70.35	58.50	-2.29
28	LEXUS	LEXUS GRANITO (INDIA) LTD.	8/9/2017	245.70	8/23/2017	45.00	53.00	54.00	117.35	20.00
29	GEEKAYWIRE	GEEKAY WIRES LTD.	8/9/2017	104.28	8/24/2017	33.00	33.35	33.25	33.25	0.76
30	SERVOTECH	SERVOTECH POWER SYSTEMS LTD.	8/9/2017	141.98	8/24/2017	31.00	30.70	31.85	35.10	2.74
31	PASHUPATI	PASHUPATI COTSPIN LTD.	8/28/2017	193.44	9/8/2017	75.00	77.00	75.00	73.90	-
32	MANAV	MANAV INFRA PROJECTS LTD.	9/4/2017	52.32	9/18/2017	30.00	32.00	24.00	19.00	-20.00
33	SKML	SRI KRISHNA METCOM LTD.	9/14/2017	182.60	9/26/2017	55.00	53.95	49.00	46.05	-10.91
34	WORTH	WORTH PERIPHERALS LTD.	9/15/2017	173.38	9/27/2017	43.00	51.60	51.60	76.25	20.00
35	MPTODAY	MADHYA PRADESH TODAY MEDIA LTD.	9/19/2017	134.54	9/29/2017	66.00	70.00	79.20	101.30	20.00
36	RMDRIP	R M DRIP & SPRINKLERS SYSTEMS LTD.	9/19/2017	108.30	10/4/2017	57.00	57.10	58.80	78.50	3.16
37	CADSYS	CADSYS (INDIA) LTD.	9/21/2017	139.44	10/4/2017	70.00	84.00	84.00	114.00	20.00
38	AARVI	AARVI ENCON LTD.	9/21/2017	201.74	10/5/2017	54.00	56.00	54.50	74.00	0.93
39	DPWIRES	D.P.WIRES LTD.	9/21/2017	255.12	10/5/2017	75.00	78.00	75.00	74.95	-
40	TIRUPATI	SHREE TIRUPATI BALAJEE FIBC LTD.	9/21/2017	102.24	10/5/2017	40.00	45.00	43.05	45.90	7.62
41	INNOVATIVE	INNOVATIVE TYRES & TUBES LTD.	9/22/2017	268.65	10/5/2017	45.00	54.00	47.15	45.65	4.78
42	AIROLAM	AIRO LAM LTD.	9/25/2017	144.10	10/6/2017	38.00	45.60	45.60	47.55	20.00
43	RKEC	RKEC PROJECTS LTD.	9/25/2017	272.43	10/9/2017	45.00	54.00	54.00	128.65	20.00
44	GOLDSTAR	GOLDSTAR POWER LTD.	9/27/2017	68.70	10/10/2017	25.00	27.30	26.30	26.00	5.20
45	RELIABLE	RELIABLE DATA SERVICES LTD.	9/27/2017	140.22	10/11/2017	57.00	68.40	68.40	64.25	20.00
46	JASH	JASH ENGINEERING LTD.	9/28/2017	456.05	10/11/2017	120.00	144.00	144.00	173.70	20.00
47	BETA	BETA DRUGS LTD.	9/29/2017	184.14	10/12/2017	85.00	102.00	101.95	130.20	19.94
48	CMMIPL	CMM INFRAPROJECTS LTD.	9/29/2017	172.68	10/12/2017	40.00	46.50	42.25	48.15	5.63
49	FORGE	TIRUPATI FORGE LTD.	9/29/2017	49.53	10/12/2017	29.00	34.80	34.10	40.00	17.59
50	OMFURN	OMFURN INDIA LTD.	9/29/2017	39.47	10/13/2017	23.00	27.60	22.85	21.50	-0.65
51	MILTON	MILTON INDUSTRIES LTD.	9/29/2017	135.46	10/16/2017	34.00	40.80	34.35	31.55	1.03
52	DPABHUSHAN	D.P.ABHUSHAN LTD.	10/9/2017	157.70	10/23/2017	28.00	33.60	33.60	32.95	20.00

Source : PRIME Database

2.4 Debt Issues

The government and the corporate sector collectively raised a total of Rs 18,410 billion (US $ 278 billion) from the primary market in 2016–17. Corporates continued their preference to raise capital through private placement as compared to public issues. In 2016-17, private placement accounted for 96% of the total resources raised by corporates from the debt market, as against 94% in 2015-16. The share of private placement in the total resources mobilized registered a significant increase from 32% in 2015-16 to 38% in 2016-17 (Table 2-8).

Table 2-8: Resources Raised from Debt Markets

Issuer	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
	(Rs bn)			(US $ bn)		
Corporate	**4,754**	**5,277**	**7,345**	**78**	**80**	**111**
Public Issues	97	338	295	2	5	4
Private Placement*	4,657	4,939	7,050	76	75	105
Government	**9,820**	**10,336**	**11,065**	**161**	**156**	**167**
Central	7,412	7,390	7,245	121	111	109
State	2,408	2,946	3,820	39	44	58
Total	**14,574**	**15,614**	**18,410**	**238**	**235**	**278**

*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).

2.4.1 Private Placement of Debt

According to the Prime Database, a total of 663 issuers (institutional and corporate) raised Rs 7,050 billion (US $ 105 billion) through 2,835 privately placed issues in 2016–17. Though the resources raised from debt markets were dominated by government issues (accounting for 60% 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 39% in 2016-17 from the previous year as compared to merely 7% growth in government security issues. The resource mobilization through the private placement of debt issues grew by 43% in 2016-17 as compared to weak growth of 6% in 2015-16 (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).

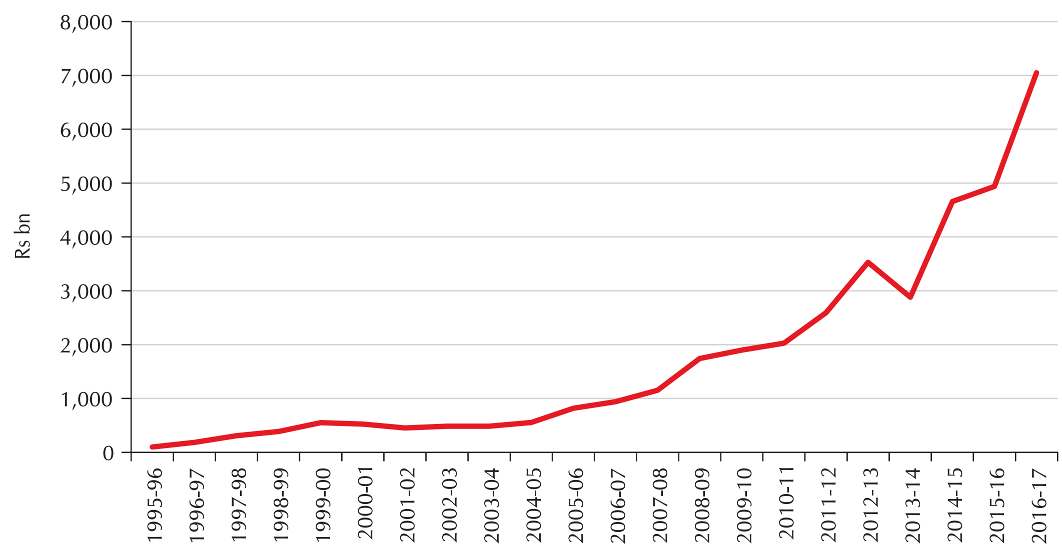
Table 2-9: Private Placement—Institutional and Corporate Debt

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

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)
2013-14	254	1,683	2,879	46
2014-15	506	2,221	4,657	76
2015-16	589	2,682	4,939	74
2016-17	**663**	**2,835**	**7,050**	**105**

Source: Prime Database

Chart 2-1: Trend of Private Placement of Debt



Source: Prime Database

The issuer wise distribution indicates that during 2016-17, the private sector accounted for 46.3% 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 41.2 % of the total amount (Table 2-10).

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

Issuer	Issue Amount (Rs mn)			Issue Amount (US $ mn)			% of Issue Amount		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
All India Financial Institutions/Banks	23,61,277	20,35,917	29,04,672	38,384	31,004	43,483	50.7	41.0	41.2
State Financial Institutions	8,832	0	2,751	145	0	41	0.2	0.0	0.0
Public Sector Undertakings	3,12,194	3,22,671	6,71,762	5,090	4,958	10,014	6.7	7.0	9.5
State Level Undertakings	78,219	2,38,479	2,04,889	1,276	3,590	3,068	1.7	5.0	2.9
Private Sector	18,99,459	23,42,046	32,65,472	30,950	35,939	48,790	40.8	48.0	46.3
Total	**46,59,981**	**49,39,112**	**70,49,545**	**75,844**	**75,490**	**1,05,396**	100.0	**100.0**	**100.0**

Source: Prime Database

The sectoral distribution shows that Banking and Financial Services continued to dominate the private placement market, accounting for 66% in 2016–17. Among others, power sector contributed to 10.7% of total private placement in 2016–17 (Table 2-11).

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

Sector	2014-15	2015-16	2016-17
Banking	41.0	28.0	28.7
Financial Services	33.0	36.0	37.3
Power	8.0	12.0	10.7
Housing/ Civil Construction/ Real Estate	4.0	6.0	4.4
Travel/Transportation	-	-	0.8
Others	14.0	18.0	18.2
Total	**100.0**	**100.0**	**100.0**

Source: Prime Database

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 2016–17, the total resources raised by the corporate sector rose by 39% to Rs 7,670 billion, compared to the gross mobilization of Rs 5517 billion in 2015–16. The equity route was used to raise 3.8% of the total resources through public equity shares in 2016-17, slightly higher from 2.7 % used in 2015-16. The share of rights issues was 0.4% in 2016-17. The resources raised through the debt issues (debt public issues and debt private placements) accounted for about 95.8%, which reflects the preference of borrowers for debt capital over equity capital. Among the debt issues, the share of debt public issues declined from 6.1% in 2015-16 to 3.9% in 2016-17. However, the share of debt private placements increased from 89.5% in 2015-16 to 91.9% in 2016-17.

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
2016-17	**2,91,040**	**34,160**	**2,95,470**	**70,49,545**	**76,70,215**	**1,17,804**	**3.8**	**0.4**	**3.9**	**91.9**

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)

3. Collective Investment Vehicles

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.

3.2 Growth and performance of CIVs (2016-17)

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.

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 crores. 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.

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 2002–2003, 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 2003–2004 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 2004–2005. An upward trend was seen in the fiscal year 2005–2006; 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 2005–2006 remained consistent compared to that in the previous year; they mobilised Rs 416 billion.

The highest resource mobilisation was witnessed in 2007–2008: net resources worth Rs 1,587 billion were mobilised from the MF industry, compared to Rs 941 billion attracted by the industry in 2006–2007. Because of the global crisis, the resources mobilised by the industry were quite volatile for the last couple of years. The fiscal year 2008–2009 witnessed a sharp drop in the net resources mobilised compared to the previous year's numbers, aggregating Rs -242 billion, as private sector MFs witnessed a net outflow of Rs 305 billion. The trend was reversed in 2009–2010; the net resources mobilised totalled Rs 785 billion. The year 2010–2011 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 2011–2012; the net resources mobilised during this year were Rs -454 billion. Encouragingly, the trend reversed once again in 2012–2013, with the net resource mobilisation by all the MFs aggregating Rs 788 billion. The year 2013–2014 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 2014–2015, there was a sudden trend reversal in the resource mobilisation pattern of the MF industry. There was a net outflow of funds from UTI MFs, bank-sponsored MFs, and FI-sponsored MFs, but the private sector MFs recorded a manifold increase in the resources mobilised. The net resources mobilised by the MF industry registered a 100% increase in the total resources mobilised, which was driven solely by the increase in resource mobilisation by the private sector MFs. This trend was in sharp contrast to the pattern observed in the previous years, where a rise in the resource mobilisation by the MF industry corresponded to a general increase in the resources mobilised by all the key players. The net resources mobilised by the MF industry in 2014–2015 totalled Rs 1094 billion, compared to Rs 546 billion in 2013–2014.

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 2016-17, net resources mobilised by the MF industry increased substantially by 161% to a record level of Rs 3,434 billion. Notably, net investment in public sector MFs has increased from Rs 875 billion to Rs 2,743 billion which is quite remarkable.

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
2016-17	**201.46**	**425.77**	**64.06**	**2,742.89**	**3,434.18**	**51.77**

Source: RBI

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, 2016, the number of MFs registered with the SEBI was 45. There were 2,420 mutual fund schemes as on March 31, 2016 which declined to 2,281 mutual fund schemes as on March 31, 2017. Of these, 1,575 were income oriented schemes, 420 were equity-oriented schemes, and 30 were balanced schemes. 52 MFs were liquid/money market oriented, 41 were GILT and 64 were ELSS-Equity schemes. In addition, there were 12 gold exchange-traded funds, 51 other ETFs and 29 schemes operating as fund of funds investing overseas. During 2016-17, the aggregate sales of all the schemes amounted to Rs 176,156 billion, and purchases during the year equaled Rs 172,725 billion (Table 3-2).

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 77.3 % of the resource mobilization (sales) by the MF industry in 2016-17. The private sector MFs witnessed a net inflow of Rs 2716.2 billion (US $ 40.9 billion) in 2016-17, registering a massive increase by 193% over the previous year.

In 2016-17, 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 650 billion (US $ 9.8 billion) in 2016–17, as compared to an inflow of Rs 430 billion during the previous year.

Table 3-2: Accretion of Funds with Mutual Funds

		Category	2015-16				2016-17				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-15# (Rs mn)	March-15# (US $ mn)	March-16# (Rs mn)	March-16# (US $ mn)	March-17# (Rs mn)	March-17# (US $ mn)
A		**Bank Sponsored**	**2,82,49,160**	**2,78,19,240**	**4,29,920**	**6,481**	**3,61,87,670**	**3,55,37,720**	**6,49,950**	**9,798**	**19,60,700**	**32,069**	**24,28,360**	**36,609**	**32,87,860**	**49,566**
	i.	Joint Ventures - Predominantly Indian	1,26,41,560	1,23,71,630	2,69,930	4,069	1,39,42,660	1,35,13,960	4,28,700	6,463	8,88,030	14,525	12,00,360	18,096	17,05,170	25,706
	ii.	Joint Ventures- Foreign	18,56,360	18,54,320	2,040	31	25,11,550	24,98,210	13,340	201	71,720	1,173	96,560	1,456	1,03,240	1,556
	iii.	Others	1,37,51,240	1,35,93,290	1,57,950	2,381	1,97,33,460	1,95,25,550	2,07,910	3,134	10,00,950	16,371	11,31,440	17,057	14,79,450	22,303
B		**Institutions**	**23,92,440**	**23,82,350**	**10,090**	**152**	**37,29,090**	**36,64,750**	**64,340**	**970**	**96,440**	**1,577**	**1,35,140**	**2,037**	**2,18,870**	**3,300**
C		**Private Sector (i+ii+iii+iv)**	**10,70,13,950**	**10,61,12,160**	**9,26,700**	**13,970**	**13,62,38,730**	**13,35,22,530**	**27,16,200**	**40,948**	**98,29,760**	**1,60,775**	**1,09,70,930**	**1,65,392**	**1,47,89,110**	**2,22,953**
	i.	Indian	3,69,51,290	3,64,38,800	5,12,490	7,726	2,79,61,000	2,74,54,470	5,06,530	7,636	29,92,200	48,940	33,42,060	50,383	25,15,520	37,923
	ii.	Joint Ventures- Predominantly Indian	6,13,44,820	6,08,38,280	5,06,540	7,636	9,70,45,860	9,50,39,950	20,05,910	30,240	56,71,310	92,759	63,66,920	95,984	1,06,85,920	1,61,095
	iii.	Joint Ventures - Predominantly Foreign	19,66,590	20,46,480	-79,890	-1,204	13,01,280	13,00,600	680	10	3,01,010	4,923	1,89,300	2,854	1,41,590	2,135
	iv	Foreign	22,19,160	22,31,600	-12,440	-188	54,68,240	52,88,100	1,80,140	2,716	8,65,240	14,152	8,12,780	12,253	11,84,910	17,863
	v	Joint Ventures - Others	45,32,090	45,57,000	-24,910	-376	44,62,350	44,39,410	22,940	346			2,59,870	3,918	2,61,170	3,937
		Grand Total (A+B+C)	**13,76,55,550**	**13,63,13,750**	**13,66,710**	**20,604**	**17,61,55,490**	**17,27,25,000**	**34,30,490**	**51,716**	**1,18,86,900**	**1,94,421**	**1,35,34,430**	**2,04,038**	**1,82,95,840**	**2,75,818**

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

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

		Category	April 16 - September 16				April 17 - September 17				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)	June - 14 (Rs mn)	June - 14 (US $ mn)	September - 16 (Rs mn)	September - 16 (US $ mn)	September - 17 (Rs mn)	September - 17 (US $ mn)
A		**Bank Sponsored**	**1,76,70,730**	**1,71,52,700**	**5,18,030**	**7,810**	**1,92,40,560**	**1,89,00,780**	**3,39,780**	**5,122**	**17,59,620**	**29,281**	**29,50,600**	**44,482**	**37,93,490**	**57,189**
	i.	Joint Ventures - Predominantly Indian	72,32,860	69,67,930	2,64,930	3,994	74,99,130	72,67,510	2,31,620	3,492	8,16,030	13,579	14,78,960	22,296	20,42,000	30,784
	ii.	Joint Ventures- Predominantly Foreign	13,84,640	13,61,810	22,830	344	11,36,510	11,22,410	14,100	213	81,760	1,361	1,17,030	1,764	1,11,380	1,679
	ii.	Others	90,53,230	88,22,960	2,30,270	3,471	1,06,04,920	1,05,10,860	94,060	1,418	8,61,830	14,342	13,54,610	20,421	16,40,110	24,725
B		**Institutions**	**16,66,960**	**16,37,400**	**29,560**	**446**	**22,26,960**	**22,26,990**	**-30**	**0**	**97,960**	**1,630**	**1,68,410**	**2,539**	**2,35,040**	**3,543**
C		**Private Sector (i+ii+iii+iv)**	**6,52,79,150**	**6,34,81,100**	**17,98,050**	**27,106**	**7,96,37,570**	**7,79,57,310**	**16,80,260**	**25,331**	**80,14,820**	**1,33,373**	**1,29,88,280**	**1,95,804**	**1,69,19,990**	**2,55,077**
	i.	Indian	1,31,63,890	1,28,70,890	2,93,000	4,417	1,76,08,620	1,71,07,620	5,01,000	7,553	24,90,840	41,450	20,62,530	31,094	29,49,750	44,469
	ii.	Joint Ventures- Predominantly Indian	4,68,13,230	4,54,69,780	13,43,450	20,253	5,55,89,370	5,45,26,640	10,62,730	16,021	45,98,650	76,525	93,47,690	1,40,921	1,21,81,900	1,83,648
	iii.	Joint Ventures - Predominantly Foreign	5,39,340	5,44,880	-5,540	-84	13,66,880	13,43,940	22,940	346	2,82,240	4,697	1,87,040	2,820	1,60,050	2,413
	iv	Foreign	25,79,750	24,44,150	1,35,600	2,044	33,86,140	32,86,100	1,00,040	1,508	6,43,090	10,702	11,46,290	17,281	13,76,380	20,750
	v	Joint Ventures - Others	21,82,940	21,51,400	31,540	475	16,86,560	16,93,010	-6,450	-97			2,44,730	3,689	2,51,910	3,798
		Grand Total (A+B+C)	**8,46,16,840**	**8,22,71,200**	**23,45,640**	**35,362**	**10,11,05,090**	**9,90,85,080**	**20,20,010**	**30,453**	**98,72,400**	**1,64,285**	**1,61,07,290**	**2,42,825**	**2,09,48,520**	**3,15,809**

Source: AMFI Updates

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 2016–17 continued to remain close to 100%. The share of open-ended schemes in the total sales of mutual funds was 99.75 % in 2016–17 as compared to 99.7 % the previous year. Close-ended schemes and interval funds together accounted for a meagre 0.25 % of the total MF sales in 2016–17. Though close-ended schemes witnessed a year-on-year decrease in sales 2016–17 over the previous fiscal year, total sales in the interval funds schemes has nearly doubled over the period. The details of the sales and redemptions of the mutual funds based on their tenor for 2015–16 and 2016-17 are presented in Table 3-4.

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

Scheme	2015-16				2016-17			
	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase
	(Rs mn)		(US $ mn)		(Rs mn)		(US $ mn)	
Open-ended	13,58,67,897	13,72,13,972	20,28,112	20,68,566	17,22,94,155	17,58,72,205	26,46,201	27,01,155
Close-ended	4,24,552	4,31,324	6,337	6,502	3,90,797	2,80,288	6,002	4,305
Interval fund	21,296	10,255	318	155	40,048	2,995	615	46
Total	**13,63,13,745**	**13,76,55,551**	**20,34,767**	**20,75,223**	**17,27,25,000**	**17,61,55,489**	**26,52,818**	**27,05,506**

Source: AMFI Updates

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 94.5% of the gross resource mobilization in 2016–17. Further, the schemes also recorded a net inflow of Rs 958.3 billion (US $ 14.4 billion), as against Rs 171.1 billion (US $ 2.6 billion). However, in terms of net inflow of funds, it was the income-oriented schemes that registered the maximum net inflow of Rs 1,206 billion (US $ 18.2 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 4.3 % of the total sales of all the schemes in 2016–17, which was similar as that in last year. The scheme-wise resource mobilization by MFs for 2015–16 and 2016-17 is depicted in Table 3-5.

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

Scheme	2015-16				2016-17			
	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)	Sale	Purchase	Net Inflow/ (Outflow)	Net Inflow/ (Outflow)
	(Rs mn)			(US $ mn)	(Rs mn)			(US $ mn)
Income	49,35,020	48,86,270	1,47,380	2,222	74,77,168	86,83,501	12,06,330	18,186
Equity	13,98,280	7,17,070	6,76,110	10,193	14,46,561	20,49,264	6,02,700	9,086
Balanced	1,54,170	55,910	1,97,430	2,976	1,40,111	5,06,205	3,66,100	5,519
Liquid/ Money Market	10,40,52,660	10,39,54,840	1,71,090	2,579	16,32,74,266	16,42,32,529	9,58,260	14,446
Gilt	1,31,330	54,210	7,590	114	1,53,126	1,20,072	-33,060	-498
ELSS-Equity	83,430	54,350	64,130	967	45,266	1,46,236	1,00,970	1,522
GOLD ETFs	1,180	15,930	-9,030	-136	8,615	862	-7,750	-117
Other ETFs *	100440	76,050	87,240	1,315	1,72,815	4,13,353	2,40,540	3,626
Funds of Funds Investing Overseas **	6,090	15,090	(4,170)	-63	7,071	3,466	-3,600	-54
Total	**11,08,62,600**	**10,98,29,720**	**13,37,770**	**20,168**	**17,27,16,384**	**17,61,54,627**	**34,30,490**	**51,716**

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

3.2.1.7 Assets under Management

As on March 31, 2017, the MFs have managed assets totaling Rs 17,546 billion (US $ 265 billion) (Table 3-6). The open-ended schemes and the close-ended schemes accounted for 89.7% and 10.1%, respectively, of the total assets under management of MFs (Chart 3-1) as on March 31, 2017.

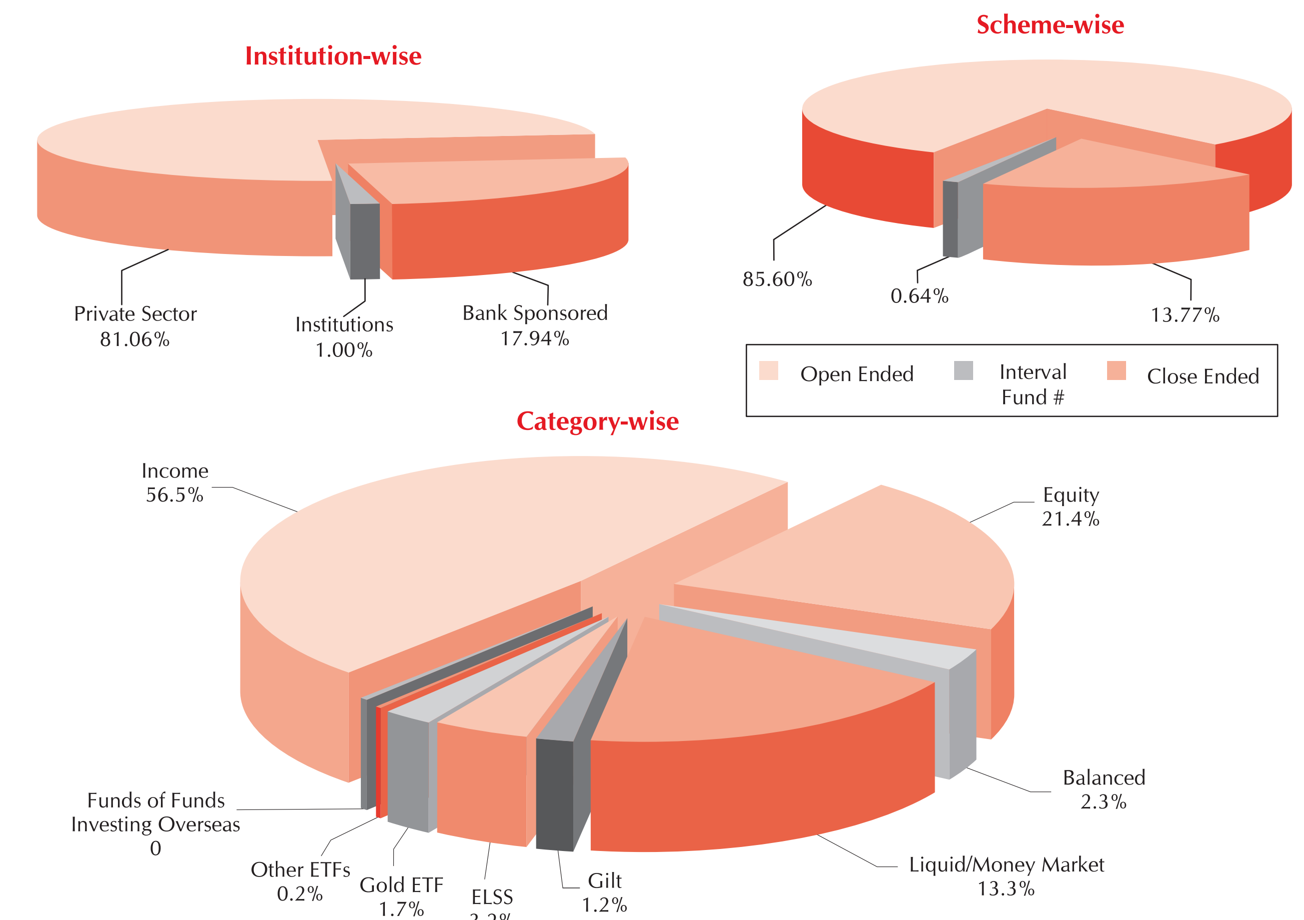
The income-oriented schemes accounted for 42.4 % of the total assets under management at the end of March 2017, followed by the equity schemes with 27.5 %. The liquid/money market schemes accounted for 17.9% of the assets under management of MFs (Chart 3-1).

Table 3-6 Assets under Management

Scheme	As on March 31, 2016						As on March 31, 2017					
	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	40,86,100	14,90,220	78,270	56,54,590	85,246	45.9	59,02,430	14,89,560	45,840	74,37,830	1,12,129	42.4
Equity	32,70,340	1,76,730		34,47,070	51,966	28.0	45,99,580	2,21,800	-	48,21,380	72,685	27.5
Balanced	3,91,460	-		3,91,460	5,901	3.2	8,47,630	-	-	8,47,630	12,778	4.8
Liquid/Money Market	19,94,040	-		19,94,040	30,061	16.2	31,40,860	-	-	31,40,860	47,350	17.9
Gilt	1,63,060	-		1,63,060	2,458	1.3	1,48,750	-	-	1,48,750	2,242	0.8
ELSS	3,88,860	28,100		4,16,960	6,286	3.4	5,77,040	36,990	-	6,14,030	9,257	3.5
Gold ETF	63,460	-		63,460	957	0.5	54,800	-	-	54,800	826	0.3
Other ETFs *	1,60,630	-		1,60,630	2,422	1.3	4,44,360	-	-	4,44,360	6,699	2.5
Funds of Funds Investing Overseas	19,670	-		19,670	297	0.2	17,470	-	-	17,470	263	0.1
Total	**1,05,37,620**	**16,95,050**	**78,270**	**1,23,10,940**	**1,85,593**	**100.0**	**1,57,32,920**	**17,67,430**	**45,840**	**1,75,46,190**	**2,64,517**	**100.0**

*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

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 41 fund houses have joined the NSE MFSS platform as on October 31, 2017. During 2016-17, there were 22,75,843 orders placed for subscriptions worth Rs 100 billion and 4,01,362 orders worth Rs 66 billion were redeemed. The trend moved upwards in the April–September period of 2017–18, when 24,58,255 orders were placed for subscriptions worth Rs 99 billion, and 5,24,091 orders worth Rs 56 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
2016-17	**22,75,843**	**1,00,283**	**4,01,362**	**66,211**	**26,77,205**
April - Sep' 17	**24,58,255**	**98,990**	**5,24,091**	**55,641**	**29,82,346**

Source: NSE

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.

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 96.9% of the total number of investor accounts at the end of March 2017. This category was followed by NRIs/OCBs and corporates/institutions, which constituted a meagre 1.7% and 1.4% of the total number of investor accounts, respectively. The corporates/institutions accounted for 52.2% of the net assets of the MF industry in 2016–17, followed by, "individuals" category which accounted for 44% 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 52% in 2016–17. Net assets holding by individuals and NRIs/OCBs have increased significantly by 34% and 32%, respectively in 2016-17. On the other hand, FPIs witnessed a decline of 17% in 2016–17 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 96.2% of the total portfolios under the private sector-sponsored MFs compared to 98.4% 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 1%, respectively. The net asset value (NAV) of private sector-sponsored MFs witnessed an increase of 42% in 2016–17 over the previous year, whereas the public sector-sponsored MFs registered 84% growth during the same period. Still, private sector-sponsored MFs contributes about 83% of total net asset value in 2016-17.

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
	2015-16				2016-17			
Individuals	4,64,67,881	97	5,75,217	47	5,36,62,401	97	7,71,763	44
NRIs/OCBs	8,01,841	2	44,095	4	9,69,237	2	58,174	3
FPIs	238	0	11,557	1	157	0	9,619	1
Corporates/Institutions/Others	3,93,064	1	6,01,955	49	7,67,836	1	9,15,064	52
Total	**4,76,63,024**	**100**	**12,32,824**	**100**	**5,53,99,631**	**100**	**17,54,620**	**100**

Source: SEBI

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

Category	No. of Folios	Percent-age to Total Folios under Private Sector	NAV (in Rs crore)	Percent-age to Total Net Assets under Private Sector	No. of Folios	Percent-age to Total Folios under Public Sector	NAV (in Rs crore)	Percent-age to Total Net Assets under Public Sector	No. of Folios	Percent-age to Total Folios under Private Sector	NAV (in ₹ crore)	Percent-age to Total Net Assets under Private Sector	No. of Folios	Percent-age to Total Folios under Public Sector	NAV (in ₹ crore)	Percent-age to Total Net Assets under Public Sector
1	2	3	4	5	6	7	8		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			
	2015-16								2016-17							
Individuals	3,04,49,453	97	4,80,474	47	1,60,18,428	99	94,743	45	3,62,63,778	96	6,39,119	44	1,73,98,623	98	1,32,644	44
NRIs/OCBs	6,58,173	2	39,512	4	1,43,668	1	4,583	2	7,93,011	2	51,128	4	1,76,226	1	7,046	2
FPIs	219	0	11,407	1	19	0	150	0	149	0	9,526	1	8	0	93	0
Corporates/ Institutions/ Others	3,33,585	1	4,90,641	48	59,479	0	1,11,314	53	6,58,422	2	7,50,550	52	1,09,414	1	1,64,514	54
Total	**3,14,41,430**	**100**	**10,22,033**	**100**	**1,45,18,325**	**100**	**1,64,995**	**100**	**3,77,15,360**	**100**	**14,50,323**	**100**	**1,76,84,271**	**100**	**3,04,297**	**100**

Source: SEBI

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
Reliance Nippon Life Asset Management Limited	Reliance ETF Junior BeES	JUNIORBEES	NIFTY Next 50	21-Feb-03

Contd.

Contd.

Issuer Name	Name	Symbol	Underlying	Launch Date
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

4. Secondary Market

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.

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 2016-17. 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 83.5% of the total turnover in India in 2016–2017. 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.

The trends in the turnover on the NSE and the BSE from 2014–15 to the first half of 2017–18 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 2016-17, the average daily turnover on the NSE stood at Rs 203.9 billion, which marked a significant increase of 19% compared to Rs 171.5 billion in 2015–16. The trend is continued in the first half of 2017–18 as well; the average daily turnover on NSE increased to Rs 267.5 billion. The average daily turnover on the BSE also increased from Rs 30 billion in 2015-16 to Rs 40 billion in 2016-17. During the first half of 2016-17, the average daily turnover on the BSE increased further to Rs 41 billion.

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

Stock Exchanges		Capital Market Turnover				Share in Turnover (percent)	
		2015-16		2016-17			
		(Rs mn)	(US $ mn)	(Rs mn)	(US $ mn)	2015-16	2016-17
1	NSE	4,23,69,830	6,38,745	5,05,59,130	7,75,804	85.1	83.5
2	BSE	74,00,890	1,11,572	99,82,610	1,53,178	14.9	16.5
3	Calcutta	-	0	-	0	0.0	0.0
4	MSEI (MCX-SX)	2060	31	2480	38	0.0	0.0
	Total	**4,97,72,780**	**7,50,348**	**6,05,44,220**	**9,29,020**	**100.0**	**100.0**

Source: BSE, NSE, SEBI

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

Month	Turnover				Average Daily Turnover				Market Capitalisation (end of period)			
	NSE		BSE		NSE		BSE		NSE		BSE	
	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
Oct-16	38,51,630	59,047	6,45,099	9,908	2,02,717	3,108	33,953	521	11,16,10,488	17,11,030	11,40,66,932	17,51,911
Nov-16	47,28,558	72,491	7,01,781	10,778	2,25,169	3,452	33,418	513	10,61,80,118	16,27,780	10,78,87,088	16,56,997
Dec-16	34,27,468	52,544	5,39,054	8,279	1,55,794	2,388	24,502	376	10,43,96,213	16,00,433	10,62,33,471	16,31,600
Jan-17	40,51,187	62,106	6,47,642	9,947	1,92,914	2,957	30,840	474	11,04,73,149	16,93,594	11,25,63,303	17,28,817
Feb-17	47,62,999	73,019	6,83,298	10,495	2,50,684	3,843	35,963	552	11,56,22,098	17,72,529	11,75,93,669	18,06,077
Mar-17	55,62,400	85,274	28,91,067	44,403	2,52,836	3,876	1,31,412	2,018	11,97,84,209	18,36,336	12,15,45,255	18,66,768
2016-17	**5,05,59,133**	**7,75,090**	**99,82,606**	**1,53,319**	**2,03,867**	**3,125**	**40,252**	**618**	**11,97,84,209**	**18,36,336**	**12,15,45,225**	18,66,768
Apr-17	47,21,102	72,376	7,50,704	11,530	2,62,283	4,021	41,706	641	12,30,38,748	18,86,229	12,48,49,629	19,17,518
May-17	58,85,020	90,220	9,11,056	13,993	2,67,501	4,101	41,412	636	12,41,67,889	19,03,540	12,58,01,187	19,32,133
Jun-17	48,63,047	74,552	8,59,345	13,198	2,31,574	3,550	40,921	628	12,43,01,292	19,05,585	12,59,68,120	19,34,697
Jul-17	54,39,445	83,389	8,83,952	13,576	2,59,021	3,971	42,093	646	13,12,14,413	20,11,565	13,26,22,455	20,36,898
Aug-17	55,38,286	84,904	7,90,645	12,143	2,63,728	4,043	37,650	578	13,05,52,080	20,01,412	13,18,97,628	20,25,766
Sep-17	60,00,916	91,996	8,43,491	12,955	2,85,758	4,381	40,166	617	13,04,57,163	19,99,957	13,18,13,531	20,24,474
Apr'17-Sep	**3,24,47,815**	**4,97,437**	**50,39,194**	**77,395**	**2,67,516**	4,101	**40,639**	**624**	**13,04,57,163**	**19,99,957**	**13,18,13,531**	**20,24,474**

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 12,98,294 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 2017, NSE retained the third spot, ranking marginally above NYSE Euronext (US). The trade details of the top-ranked stock exchanges are presented in Table 4-3.

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

Exchange	End September 2014	End September 2015	End September 2016	End September 2017
NYSE Euronext (US)	10,91,855	12,87,295	14,32,374	9,73,756
Shanghai Stock Exchange	8,76,613	41,34,931	17,99,428	18,41,101
NSE	12,98,294	14,37,133	14,33,956	16,51,429
Shenzhen SE	11,35,297	32,97,160	28,04,732	23,40,768
Korea Exchange	8,12,411	13,20,261	13,89,639	14,33,595

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

4.3 Market Movements

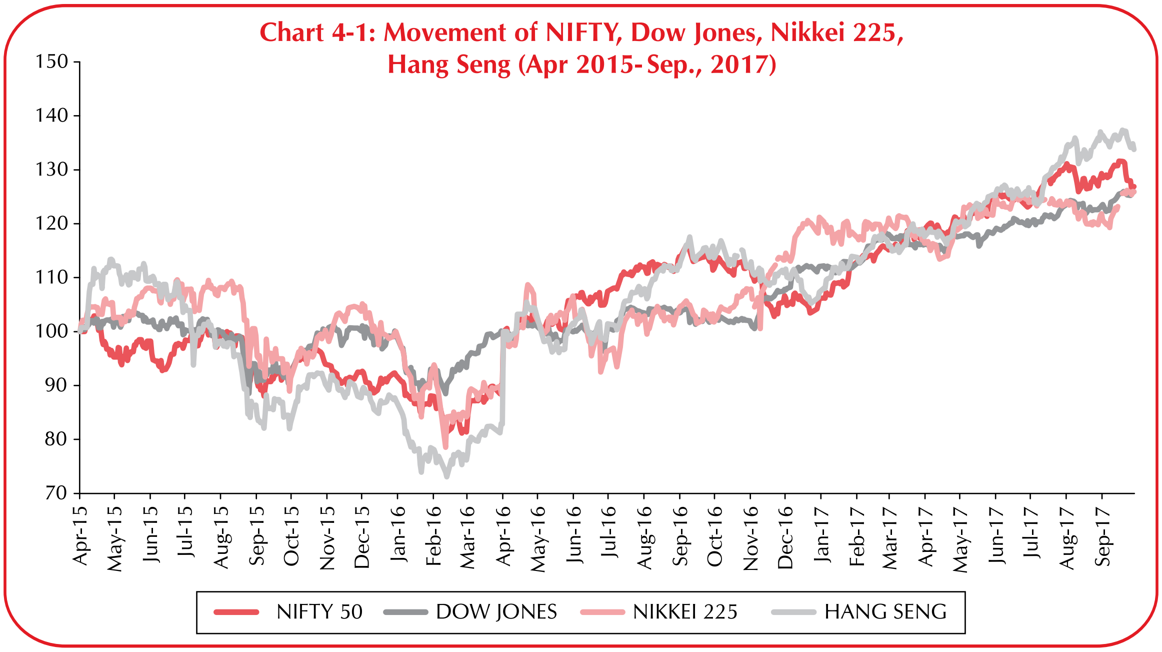
The movement of a few of the selected indices presented in Table 4-4 indicates the trends witnessed in the Indian and foreign markets during 2015–2016 and 2016–2017. A global comparison of the selected indices indicates that in 2016–2017, all the indices witnessed positive growth rates. However, the positive trend is continues in the first half of 2017–2018 (until September 2017). Though FTSE 100- UK experienced a growth rate of about 18.6% in 2016-17, it has declined tremendously over the first half of the current financial year.

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

Region	Index - Country	End March 2015	End March 2016	End March 2017	End Sep 2017	Change during 2014-15 (Percent)	Change during 2015-16 (Percent)	Change during 2016-17 (Percent)	Change during Apr-Sep'17 (Percent)
Americas	Dow Jones	17,976	17,685	20,663	22,405	23.3%	-1.6%	16.8%	8.4%
	Nasdaq	4,901	4,870	5,912	6,496	50.0%	-0.6%	21.4%	9.9%
Europe	FTSE 100- UK	6,773	6,175	7,323	7,373	5.6%	-8.8%	18.6%	0.7%
	CAC 40 - France	5,034	4,385	5,123	5,330	34.9%	-12.9%	16.8%	4.0%
Asia Pacific	Nifty 50 (S&P CNX Nifty)- India	8,491	7,738	9,174	9,789	49.4%	-8.9%	18.5%	6.7%
	BSE Sensex- India	27,976	25,342	29,621	31,284	48.5%	-9.4%	16.9%	5.6%
	Hang Seng- Hong Kong (China)	24,901	20,777	24,112	27,554	11.7%	-16.6%	16.1%	14.3%
	Nikkei- Japan	19,207	16,759	18,909	20,356	54.9%	-12.7%	12.8%	7.7%
	Kospi - South Korea	2,041	1,996	-	-	1.8%	-2.2%	-	-

Source: Yahoo Finance

A comparison of the movement of the Nifty with that of other major global indices over April 2015-September 2017 has been depicted in Chart 4-1.



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

Table 4-5: Stock Market Index, Volatility and P/E Ratio: April '16 to Sep '17

Month/Year	Nifty 50			Sensex		
	Index	Volatility (Percent)**	P/E Ratio*	Index	Volatility (Percent)**	P/E Ratio*
Apr-16	7,850	1.0	21.2	25,607	1.0	19.4
May-16	8,160	0.9	22.6	26,668	1.0	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
Oct-16	8,626	0.6	23.3	27,930	0.7	21.2
Nov-16	8,225	1.1	21.6	26,653	1.1	20.7
Dec-16	8,186	0.8	21.9	26,626	0.8	20.9
Jan-17	8,561	0.6	22.9	27,656	0.6	21.6
Feb-17	8,880	0.4	23.1	28,743	0.5	21.9
Mar-17	9,174	0.6	23.8	29,621	0.6	22.6
Apr-17	9,304	0.5	23.6	29,918	0.6	22.9
May-17	9,621	0.6	24.4	31,146	0.6	22.7
Jun-17	9,521	0.3	24.2	30,922	0.3	22.6
Jul-17	10,077	0.4	25.7	32,515	0.5	23.7
Aug-17	9,918	0.7	25.6	31,730	0.7	23.7
Sep-17	9,789	0.6	25.4	31,284	0.6	23.4

*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

4.4 Returns in Indian Market

The performance of the Nifty 50 and various other indices for the last 1 month to 12 months (as at the end of March

2017 and September 2017) is presented in Table 4-6. Over a 1-year horizon for the period ending March 2017, all the indices showed positive returns. Further, the 1-month, 3-month and the 6-month returns were also positive for all the indices. The trend remains similar during the first half of 2017-18; at the end of September 2017, all the indices were able to maintain positive growth rates in terms of 3-months, 6-months and 12-months returns except NIFTY Smallcap 50 Index for 3-months. However, the 1-month returns as of September 2017 were negative for all the indices.

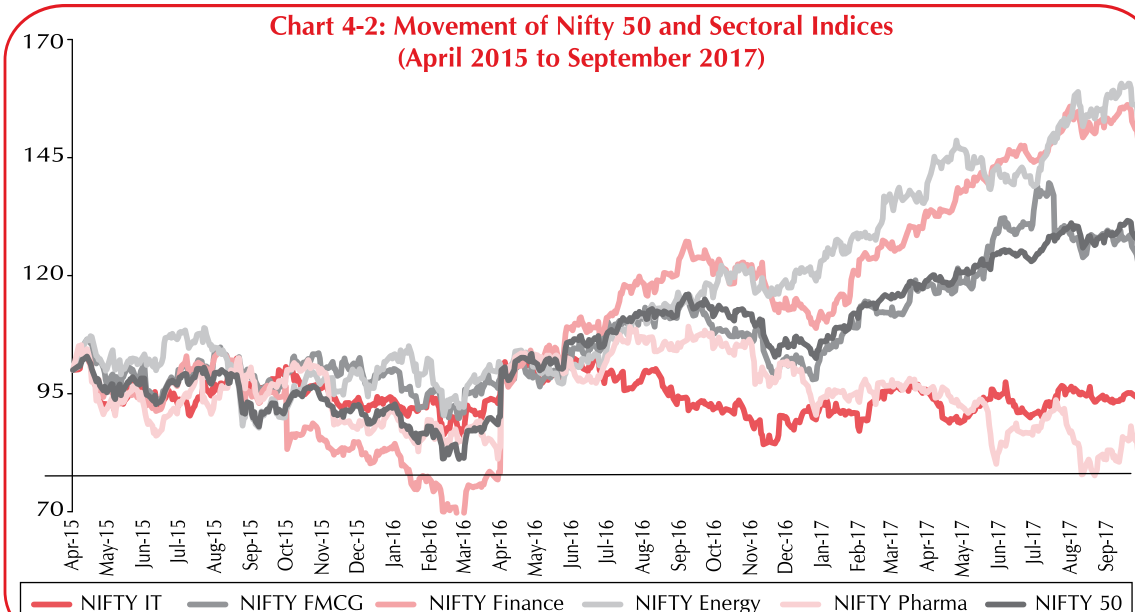
Table 4-6: Performance of Select Indices – NSE

As at end March 2017 - in percent				
	1 month	**3 months**	**6 months**	**1 year**
Nifty 50	3.31	12.07	6.53	18.55
Nifty Next 50	2.85	17.44	9.65	33.92
Nifty 500	3.71	14.5	8.12	23.91
NIFTY Smallcap 50 Index	6.54	24.72	13.72	44.01
NIFTY Full Smallcap 100 Index	5.85	24.79	14.29	43.42
NIFTY Smallcap 250 Index	5.76	21.68	13.67	39.49
As at end Sep 2017 - in per cent				
	1 month	**3 months**	**6 months**	**1 year**
Nifty 50	-1.3	2.81	6.7	13.67
Nifty Next 50	-1.77	4.97	9.71	20.3
Nifty 500	-1.09	3.22	7.57	16.3
NIFTY Smallcap 50 Index	-3	-0.68	7.66	22.44
NIFTY Full Smallcap 100 Index	-2.22	0.27	7.37	22.71
NIFTY Smallcap 250 Index	-0.61	1.86	8.88	23.76

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–October 2017 is depicted in Chart 4-2. This period was marked by high volatility, as indicated in Table 4-7. The Nifty Pharmaceuticals Index has experienced an overall decline October 2016 and Nifty IT has stagnated in current years, whereas NIFTY FMCG, Finance and Energy have shown significant growth after December 2016.

Chart 4-2: Movement of Nifty 50 and Sectoral Indices (April 2015 to September 2017)



Source: NSE

Table 4-7: Performance of NSE Sectoral Indices

Month/ Year	Monthly Index Value*						Average Daily Volatility (Percent)					
	Nifty 50	Nifty FMCG	Nifty IT	Nifty Finance	Nifty Pharmaceuticals	Nifty Energy	Nifty 50	Nifty FMCG	Nifty IT	Nifty Finance	Nifty Pharmaceuticals	Nifty Energy
Apr-16	7,850	19,738	11,196	6,725	11,293	8,405	1.0	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	1.0	1.1	1.0	0.8
Jun-16	8,288	21,608	11,120	7,321	11,142	8,705	0.8	0.9	1.0	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	1.0	1.0	0.9	0.8	1.0
Sep-16	8,611	21,542	10,292	7,953	11,461	9,756	0.8	0.9	0.8	1.0	1.1	0.9
Oct-16	8,626	21,482	10,083	8,043	11,636	10,076	0.7	0.6	0.9	1.1	0.9	1.0
Nov-16	8,225	20,488	10,088	7,591	11,080	9,939	1.1	1.4	1.5	1.3	1.8	1.0
Dec-16	8,186	20,754	10,399	7,407	10,267	10,272	0.8	1.1	0.8	0.8	1.1	0.9
Jan-17	8,561	21,833	9,849	7,917	10,236	10,674	0.6	0.8	1.1	1.0	0.8	0.9
Feb-17	8,880	22,338	10,681	8,287	10,585	11,360	0.5	0.9	1.1	0.8	1.2	1.0
Mar-17	9,174	23,542	10,703	8,734	10,411	11,649	0.6	0.9	0.7	0.8	0.8	1.0
Apr-17	9,304	23,675	9,944	9,066	10,121	12,264	0.5	1.0	0.8	0.6	0.7	0.8
May-17	9,621	25,842	10,549	9,510	9,025	11,926	0.6	1.2	0.8	0.7	1.4	0.8
Jun-17	9,521	26,752	10,155	9,494	9,606	11,600	0.3	0.8	0.9	0.5	0.9	0.7
Jul-17	10,077	25,744	10,756	10,269	9,476	12,829	0.4	1.9	1.0	0.5	1.1	0.8
Aug-17	9,918	25,835	10,558	10,099	8,860	13,150	0.7	0.8	0.8	0.8	1.6	1.1
Sep-17	9,789	24,481	10,475	9,939	9,173	12,773	0.6	0.7	0.4	0.6	1.6	0.7
Oct-17	10,335	25,688	10,838	10,236	9,756	14,511	0.5	0.6	0.5	0.6	1.0	1.0

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

The monthly closing prices of these sectoral indices are presented in Table 4-7. The volatility across different sectoral indices for the period April 2016–September 2017 varied widely, as shown in Table 4-7. The NIFTY Pharmaceuticals index was the most volatile index. The average volatility for the period April 2016–September 2017 was highest for the Pharmaceuticals index, followed by the FMCG index.

4.5 Liquidity

In March 2017, the percentage of companies traded to companies listed on the NSE was 91.6%. In September 2017, 91.4% of the companies traded on the NSE (Table 4-8).

Table 4-8: Trading Frequency on NSE

Month/Year	NSE		
	No. of companies listed	Companies Traded	Percent of Traded to Listed
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
Oct-16	1,836	1,621	88.3
Nov-16	1,833	1,621	88.4
Dec-16	1,840	1,629	88.5
Jan-17	1,847	1,641	88.8
Feb-17	1,850	1,648	89.1
Mar-17	1,817	1,665	91.6
Apr-17	1,831	1,668	91.1
May-17	1,814	1,669	92.0
Jun-17	1,820	1,666	91.5
Jul-17	1,837	1,685	91.7
Aug-17	1,848	1,692	91.6
Sep-17	1,851	1,690	91.3
Oct-17	1,873	1,712	91.4

Source: NSE

The share of companies that traded on the NSE for over 100 days declined from 91.2% in 2015–16 to 91.0% in 2016-17 (Table 4-9). In 2016–17, of the 1,796 stocks that were traded on the NSE, 3.5% witnessed trading for less than 11 days, which was marginally less than the 3.6% reported in 2015–16.

Table 4-9: Trading Frequency of NSE Listed Companies

Trading Frequency (Range of Days)	2015-16		2016-17	
	No. of Companies Traded	Percentage of Total	No. of Companies Traded	Percentage of Total
Above 100	1,554	91.20	1,634	90.98
91-100	9	0.53	9	0.50
71-80	15	0.88	11	0.61
61-70	6	0.35	14	0.78
51-60	6	0.35	6	0.33
41-50	9	0.53	14	0.78
31-40	10	0.59	11	0.61
21-30	8	0.47	11	0.61
11-20	14	0.82	14	0.78
1-10	61	3.58	63	3.51
Total	**1,703**	**100.0**	**1,796**	**100.0**

Source: NSE

4.6 Takeovers

In 2016–17, there were 52 takeovers under the open category, involving Rs 59.2 billion (US$ 0.9 billion), compared to 73 takeovers involving Rs 117.7 billion (US$ 1.8 billion) in the preceding year (2015–16) (Table 4-10). As of September 2017, there were 28 takeovers in 2017–18, involving Rs 12.4 billion (US$ 0.2 billion).

Table 4-10 Substantial Acquisition of Shares and Takeovers

Year	Open Offers								
	Objectives						Total		
	Change in Control of Management		Consolidation of Holdings		Substantial Acquisition				
	Number	Value (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
2016-17	**43**	**53,400**	**6**	**2,190**	**3**	**3,660**	**52**	**59,250**	**910**
Apr-17	9	5,869	-	-	-	-	9	5,869	90
May-17	4	4,381	1	29	-	-	5	4,410	68
Jun-17	5	726	-	-	1	22	6	749	11
Jul-17	3	132	-	-	-	-	3	132	2
Aug-17	1	13	-	-	1	1,238	2	1,250	19
Sep-17	3	8	-	-	-	-	3	8	0
Apr-Sep '17	**25**	**11,128**	**1**	**29**	**2**	**1,260**	**28**	**12,417**	**191**

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
Apr-12	20	1,529	100	11,676	99,162	19,83,244	6,05,92,580
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
Oct-16	19	1,621	150	19,896	2,02,717	38,51,630	11,16,10,488
Nov-16	21	1,621	189	21,590	2,25,169	47,28,558	10,61,80,118
Dec-16	22	1,629	153	16,920	1,55,794	34,27,468	10,43,96,213
Jan-17	21	1,641	161	21,582	1,92,914	40,51,187	11,04,73,149
Feb-17	19	1,648	168	25,455	2,50,684	47,62,999	11,56,22,098
Mar-17	22	1,665	186	26,961	2,52,836	55,62,400	11,97,84,209
2016-17	**248**	**1,698**	**1,976**	**2,62,453**	**2,03,867**	**5,05,59,133**	**11,97,84,209**
Apr-17	18	1,668	167	24,926	2,62,283	47,21,102	12,30,38,748
May-17	22	1,669	209	29,518	2,67,501	58,85,020	12,41,67,889
Jun-17	21	1,666	180	25,414	2,31,574	48,63,047	12,43,01,292
Jul-17	21	1,685	184	31,799	2,59,021	54,39,445	13,12,14,413
Aug-17	21	1,692	191	28,039	2,63,728	55,38,286	13,05,52,080
Sep-17	21	1,690	207	29,660	2,85,758	60,00,916	13,04,57,163
Apr-Sep '17	**124**	**1,741**	**1,139**	**1,69,356**	**2,61,676**	**3,24,47,813**	**13,04,57,163**

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

5. Debt Market

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]

5.2 Resource Mobilisation

In 2016–17, the government and the corporate sector collectively mobilised Rs 18,440 billion (US$ 278 billion) from the primary debt market, year-on-year increase of 18.9% (Table 5-1). Also, there was a significant increase in the share of government borrowings out of the total borrowings. About 60% 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 42% in primary market borrowings. The turnover in the secondary debt market in 2016–17 aggregated Rs 22,401 billion (US$ 338 billion).

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[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*			Turnover in Secondary Market			Amount raised form Primary Market			Turnover in Secondary Market		
	(Rs bn)			(Rs bn)			(US $ bn)			(US $ bn)		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17	2014-15	2015-16	2015-16
Government	9,820	10,336	11,065	6,710	7,153	7,695	161	156	167	2,949	108	116
Corporates/Non-Government	4,659	5,179	7,375	10,913	10,224	14,707	72	78	111	47	154	222
Total	**14,479**	**15,515**	**18,440**	**17,623**	**17,377**	**22,401**	**233**	**234**	**278**	**2,996**	**262**	**338**

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

5.2.1 Government

The net borrowings of the central and the state governments rose by 7.6%, from Rs 7,153 billion in 2015–16 to Rs 7,695 billion in 2016–17. While there was a 6.4% decline in the net borrowings of the central government, the 32% increase in the net borrowing of the state governments was sufficient to offset the decline.

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

Type of Government	2014-15 (Rs bn)	2014-15 (US $ bn)	2015-16 (Rs bn)	2015-16 (US $ bn)	2016-17 (Rs bn)	2016-17 (US $ bn)
Central	4,635	70	4,559	69	4,268	64
State	2,075	31	2,594	39	3,427	52
Total	**6,710**	**101**	**7,153**	**108**	**7,695**	**116**

Source: RBI

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 5-3. Resource mobilisation through the private placement mechanism increased by 40% in 2016–17 as compared to the previous year (Table 5-3a). Resource mobilisation through public issues decreased by 12.6% in 2016–17 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
2016-17	**1,023**	**2,19,721**	**2,177**	**2,54,213**	**177**	**1,66,782**	**3,377**	**6,40,716**
Apr-17	194	24,969	88	20,354	19	18,496	301	63,819
May-17	133	8,226	156	12,433	12	12,729	301	33,389
Jun-17	249	29,707	95	20,831	26	24,800	370	75,337
Jul-17	96	20,891	60	13,995	6	14,147	162	49,033
Aug-17	94	19,796	50	14,841	11	16,915	155	51,552
Sep-17	127	20,926	33	12,050	10	17,845	170	50,821
Apr-Sep 17	**893**	**1,24,516**	**482**	**94,504**	**84**	**1,04,932**	**1,459**	**3,23,951**

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
2013-14	35	42,383
2014-15	25	9,713
2015-16	20	33,812
2016-17	**16**	**29,559**
Apr-Sep 17	**4**	**3,896**

Source: SEBI

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.

5.3.1 Settlement of Trades in Government Securities

13,40,376 trades in government securities amounting to Rs 1,68,55,741 crores were settled by the Clearing Corporation of India Ltd. (CCIL) in 2016–17 (Table 5-4a). Also, 34,098 repo and 67,419 CBLO transactions amounting to Rs 44,66,529 and 90,19,093 crores respectively were settled in 2016-17.

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
2016-17	**12,76,867**	**1,51,76,479**	**43,243**	**6,03,043**	**20,266**	**10,76,219**	**13,40,376**	**1,68,55,741**
Apr-17	60,475	6,43,574	3,243	41,777	1,195	60,028	64,913	7,45,379
May-17	73,901	8,39,841	2,974	38,338	1,605	97,639	78,480	9,75,818
Jun-17	1,00,879	11,89,364	4,118	72,260	2,250	1,37,891	1,07,247	13,99,515
Jul-17	91,401	11,50,262	3,758	66,491	1,734	1,06,864	96,893	13,23,617
Aug-17	62,637	8,04,172	3,462	54,163	1,717	1,17,096	67,816	9,75,431
Sep-17	78,159	9,56,120	3,671	69,880	1,958	1,13,005	83,788	11,39,005

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
2016-17	**34,098**	**44,66,529**	**67,419**	**90,19,093**
Apr-17	6,810	8,12,542	14,937	21,15,119
May-17	7,783	10,44,335	16,501	21,76,986
Jun-17	8,627	11,63,837	17,108	21,89,228
Jul-17	7,993	10,24,199	16,712	21,73,646
Aug-17	8,474	11,12,114	16,684	22,78,418
Sep-17	9,004	11,66,380	16,915	23,77,802

Source: CCIL

The market share of top five members in settlement of government securities has increased steadily over the years for public, private and foreign banks and primary dealers while for cooperative banks, it has decreased.

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	87.04	75.91	41.44	50.65	59.76	62
2003-04	76.72	75.48	43.88	53.33	55.47	62.96
2004-05	82.3	77.94	51.2	69.12	56.99	61.9
2005-06	75.1	77.91	53.45	71.55	56.49	56.95
2006-07	77.2	76.04	52.57	73.68	68	72.44
2007-08	86.7	74.99	55.29	73.01	70.2	86.2
2008-09	82.16	76.26	52.53	76.79	66.1	86.83
2009-10	72.08	79.86	47.99	79.61	64.19	82.44
2010-11	62.05	83.05	48.99	74.6	66.49	84.8
2011-12	61.15	75.91	51.48	74.43	68.01	82.38
2012-13	55.5	77.32	48.92	83.43	65.36	82.08
2013-14	55.31	81.15	45.68	86.53	65.08	85.35
2014-15	58.68	82.14	47.58	80.35	66.19	87.29
2015-16	60.56	86.1	50.22	83.16	63.9	89.18
2016-17	**56.83**	**87.23**	**45.98**	**79.16**	**62.48**	**93.18**
Apr-17	53.51	78.94	54.08	78.52	57.53	91.11
May-17	49.45	79.64	55.71	79.01	53.83	89.83
Jun-17	55.44	81.22	60.03	78.38	53.94	92.47
Jul-17	60.47	81.15	64.13	80.66	58.85	92.76
Aug-17	56.3	80.92	65.62	77.84	49.89	91.41
Sep-17	57.53	82.89	63.96	75.86	53.85	92.59

Source: CCIL

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 increased by 45% to Rs 11,785 billion (US$ 178 billion) in 2016–2017 from Rs 8,148 billion (US$ 123 billion) in the previous fiscal year. The BSE turnover in 2016–17 was Rs 2,921 billion (US$ 44 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
2016-17	**24,372**	**29,21,540**	**44,044**	**64,123**	**1,17,85,090**	**1,77,666**

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

5.3.3 Settlement of Trades in Corporate Bonds

In 2016–17, 71,444 trades in corporate bonds amounting to Rs 10,845 billion (US$ 116 billion) were settled by the NSCCL and the ICCL (Table 5-7). NSE accounted for 89% of total trading volume settled for the year 2016-17.

Table 5-7: Settlement Statistics of Corporate Bonds

Month	NSE			BSE			MCX-SX*			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
2010-11	30,948	43,26,317	96,894	1,714	1,74,915	3,917	-	-	-	32,662	45,01,232	1,00,304
2011- 12	34,473	38,88,910	76,007	2,948	1,00,861	1,971	-	-	-	37,421	39,89,771	77,979
2012-13	36,902	43,51,138	80,035	7,415	4,29,766	7,905	-	-	-	44,317	47,80,904	87,941
2013-14	39,695	55,46,818	92,543	7,440	6,42,179	10,714	736	2,73,890	4,570	47,871	64,62,887	1,07,827
2014-15	46,107	65,14,225	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
2016-17	**54,814**	**96,84,810**	**98,850**	**16,630**	**11,60,300**	**17,492**	**0**	**0**	**0**	**71,444**	**1,08,45,110**	**1,16,342**

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

Table 5-8: 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
2016-17	**72,416**	**11,24,988**	**300**	**4,668**
Apr-17	5,497	1,07,626	305	5,979
May-17	3,458	89,188	165	4,247
Jun-17	3,917	1,13,500	187	5,405
Jul-17	4,667	1,22,261	222	5,822
Aug-17	3,607	98,767	180	4,938
Sep-17	4,219	1,20,217	201	5,725

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

Source: CCIL

Table 5-9: 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
2016-17	**7,19,406**	**2,55,995**	**39,124**	**7,515**	**1,02,948**	**11,24,988**
17-Apr	69,751	28,194	2,652	-	7,029	1,07,626
17-May	63,073	20,780	1,568	861	2,906	89,188
17-Jun	85,363	22,133	3,050	321	2,633	1,13,500
17-Jul	87,027	26,569	5,644	151	2,870	1,22,261
17-Aug	71,741	18,722	4,164	100	4,039	98,767
17-Sep	71,741	28,586	12,996	30	6,863	1,20,217
17-Oct	74,455	20,065	7,110	100	4,257	1,05,987
17-Nov	82,896	19,385	11,571	403	17,365	1,31,619
17-Dec	73,528	22,434	9,708	72	5,251	1,10,993
2017-18 (upto Dec-17)	**6,79,575**	**2,06,867**	**58,464**	**2,040**	**53,213**	**10,00,159**

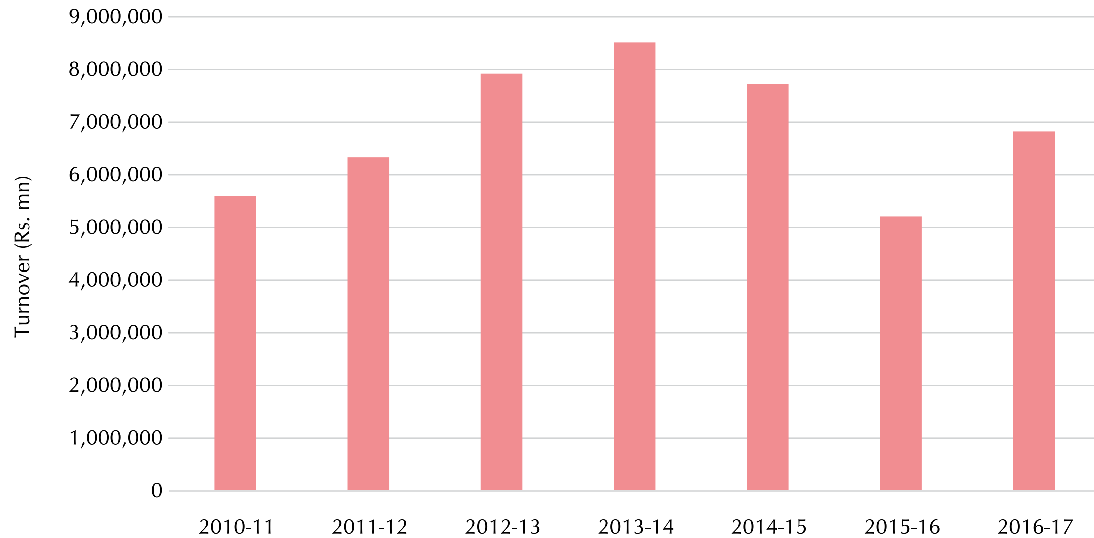
Source: CCIL

Table 5-9: 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	8.9	10,831	5,86,796	4,252	33	723	5.0
2013-14	34,228	16,98,860	7,020	8.9	9,223	5,53,702	2,288	25	1,962	8.0
2014-15	28,958	15,60,787	6,586	8.6	11,687	7,41,289	3,128	64	2,015	9.0
2015-16	22,454	12,72,810	5,281	7.7	14,531	9,04,256	3,741	177	8,378	32.0
2016-17	**16,018**	**9,79,117**	**4,063**	**6.7**	**15,866**	**11,47,138**	**4,760**	**657**	**16,799**	**70.0**
17-Apr	816	57,700	3,206	6.2	1,070	75,507	4,195	102	1,804	100.0
17-May	1,096	85,974	4,094	6.3	1,549	1,32,113	6,291	90	1,556	74.0
17-Jun	865	60,270	2,870	6.4	1,439	1,15,723	5,511	91	2,743	131.0
17-Jul	663	49,031	2,335	6.3	1,335	1,10,210	5,248	94	1,727	82.0
17-Aug	631	47,473	2,374	6.2	1,296	1,02,030	5,102	99	1,752	88.0
17-Sep	900	67,703	3,224	6.2	1,445	1,12,033	5,335	97	2,582	123.0
17-Oct	522	45,737	2,407	6.2	1,086	77,158	4,061	79	1,839	97.0
17-Nov	646	53,378	2,426	6.2	1,419	1,16,823	5,310	99	1,504	68.0
17-Dec	1,100	95,719	5,038	6.4	1,736	1,25,533	6,607	104	2,559	135.0
2017-18 (upto Dec-17)	**7,239**	**5,62,985**	**3,093**	**6.3**	**12,375**	**9,67,129**	**5,314**	**855**	**18,066**	**99.0**

Source: CCIL

Chart 5-1: Business Growth of Debt Segment (NSE)



Source: NSE

6. Derivatives Market

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.

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 2000–2001 to Rs 3,13,497 billion in 2011–2012 and further to Rs 3,82,114 billion in 2013-14. In 2016-17, the figure reached Rs 9,43,703 billion maintaining a continuous upward trend. The average daily turnover in the derivatives segment of NSE was Rs 3,805 billion in 2016–17 as compared to Rs 2,625 billion in 2015-16. Thus, average daily turnover of futures and options segment of NSE increased by 45% in 2016-17.

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 2016–2017 and first half of 2017–2018

Indices	No. of Contracts Traded	Traded Value (Rs mn.)	Traded Value (US $ mn.)	Percent-age of Contracts to total contracts (%)	No. of Contracts Traded	Traded Value (Rs mn.)	Traded Value (US $ mn.)	Percent-age of Contracts to total contracts (%)
	2016-2017				Apr-Sep 2017			
Index Futures								
BANKNIFTY	2,30,63,653	1,59,90,027	2,45,584.8	2.03	95,32,518	89,76,692	1,37,869.6	1.33
NIFTYINFRA	23	11	0.2	0.00	23	16	0.3	0.00
NIFTYIT	75,212	38,727	594.8	0.01	41,229	21,477	329.9	0.01
NIFTYCPSE	3,199	1,986	30.5	0.00	24	15	0.2	0.00
DJIA	56,174	31,720	487.2	0.00	20,290	13,022	200.0	0.00
FTSE100	35	22	0.3	0.00	0	0	0.0	0.00
NIFTYMID50	16	12	0.2	0.00	27	25	0.4	0.00
NIFTY	4,32,55,534	2,72,52,932	4,18,567.5	3.82	1,68,86,956	1,22,48,935	1,88,126.8	2.35
NIFTYPSE	7	5	0.1	0.00	27	22	0.3	0.00
S&P500	81,217	43,967	675.3	0.01	42,693	25,919	398.1	0.01
Index Options								
BANKNIFTY	44,44,77,483	9,29,969	14,283.05	39.20	40,29,62,245	7,19,799	11,055.1	56.15
NIFTYINFRA	0	0	0.00	0.00	0	0	0.0	0.00
NIFTYIT	102	1	0.01	0.00	1	0	0.0	0.00
NIFTYCPSE	5,994	15	0.22	0.00	1,230	4	0.1	0.00
FTSE100	0	0	0.00	0.00	0	0	0.0	0.00
NIFTYMID50	0	0	0.00	0.00	0	0	0.0	0.00
NIFTY	62,27,61,329	25,70,231	39,475.21	54.93	28,81,83,346	11,47,689	17,626.9	40.16
NIFTYPSE	0	0	0.00	0.00	0	0	0.0	0.00
S&P500	8	0	0.00	0.00	0	0	0.0	0.00
Total of all Indices	**1,13,37,79,986**	**4,68,59,623**	**7,19,699.33**	**100.00**	**71,76,70,609**	**2,31,53,617**	**3,55,607.7**	**100.00**
Total of Nifty Index Futures and Options	66,60,16,863	2,98,23,163	4,58,042.74	-	30,50,70,302	1,33,96,624	2,05,753.7	-

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

6.3 Global Derivative Markets

As per the WFE IOMA 2016 derivatives report, the volume of futures and options traded on exchanges around the world grew by 2.2% year-on-year in 2016. Commodity derivatives experienced a remarkable surge in volumes. Trading of currency derivatives grew by 10.4%. The equity derivatives decreased by 11% y-o-y. Total volume of exchange-traded derivatives in 2016 was 24.9 billion contracts, up from 24.4 billion in 2015. It was fourth 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	2015	2016	Change
1.	**Total Equity**	**12,553**	**11,167**	**-11.00%**
1.1	Single Stock Options	3,499	3,328	-4.90%
1.2	Single Stock Futures	1,001	848	-15.30%
1.3	Stock Index Options	3,741	2,765	-26.10%
1.4	Stock Index Futures	2,753	2,552	-7.30%
1.5	ETF Options	1,557	1,671	7.30%
1.6	ETF Futures	2	2	0.60%
2	**Total Interest Rates**	**3,267**	**3,446**	**5.50%**
2.1	STIR Options	341	374	9.90%
2.2	STIR Futures	1,339	1,390	3.80%
2.3	LTIR Options	227	207	-8.50%
2.4	LTIR Futures	1,361	1,475	8.30%
3	**Total Currency**	**2,581**	**2,850**	**10.40%**
3.1	Currency Options	467	650	39.30%
3.2	Currency Futures	2,115	2,199	4.00%
4	**Total Commodity**	**5,392**	**6,876**	**27.50%**
4.1	Commodity Options	238	255	-7.20%
4.2	Commodity Futures	5,154	6,621	28.50%
5	**Total 'other'**	**627**	**620**	**-1.10%**
5.1	Other Options	157	158	0.50%
5.2	Other Futures	470	462	-1.70%
	Grand Total	**24,420**	**24,958**	**2.20%**

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 2016 derivatives report, April 2017

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 2015 and 2016. 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 2016, except in 2015.

Table 6-3: Global Futures and Options Volume

Exchanges	Volume (in million)		Growth
	2015	2016	2016
CME Group	3,530	3,942	12%
Eurex	3,464	3,470	0%
CBOE Futures Exchange	2,766	2,662	-4%
National Stock Exchange of India Limited	3,060	2,135	-30%
Moscow Exchange	1,659	1,963	18%
Shanghai Futures Exchange	1,349	1,938	44%
BM&FBOVESPA S.A.	1,276	1,391	9%
Chicago Board Options Exchange	1,122	1,333	19%
ICE Futures Europe	538	1,118	108%
Zhengzhou Commodity Exchange	1,070	901	-16%
Nasdaq US	945	896	-5%
Korea Exchange	779	692	-11%
NYSE Derivatives	712	685	-4%
International Securities Exchange	600	554	-8%
BSE Limited	610	537	-12%

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 2016

6.4 Indian Derivative Markets

6.4.1 Turnover

The total turnover in equity derivatives at NSE and BSE increased from Rs 6,93,008 billion in 2015-16 to Rs 9,43,772 billion in 2016-17 (Table 6-4). In 2016-17 at NSE, 1,399 million contracts with a turnover of Rs 9,43,703 billion (US$ 14,493 billion) were traded while at BSE only 1,23,538 contracts were traded with trading value of Rs 69.4 billion (US$ 1.1 billion).

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 2016–17 (Table 6-5). In 2016-17, 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 2016-17. During the first half of 2017–18, index options constituted around 80.6% of the total turnover in F&O segment, whereas the turnover of index futures and stock future has further declined to 2.91% and 10.16% 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 (Rsmn.)	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
2016-17	**1,39,97,46,129**	**94,37,03,016**	**1,44,93,980**	**1,23,538**	**69,394**	**1,066**	**1,39,98,69,667**	**94,37,72,410**	**1,44,95,045**
Apr-17	12,00,75,991	9,45,96,816	14,52,877	18,762	13,427	206	12,00,94,753	9,46,10,243	14,53,083
May-17	14,85,21,296	11,88,14,024	18,24,820	14,881	10,860	167	14,85,36,177	11,88,24,884	18,24,987
Jun-17	13,81,06,114	11,43,22,673	17,55,839	6,310	4,714	72	13,81,12,424	11,43,27,387	17,55,911
Jul-17	14,49,85,600	12,19,24,410	18,72,591	4,225	3,217	49	14,49,89,825	12,19,27,627	18,72,641
Aug-17	17,06,87,530	14,73,51,504	22,63,116	278	216	3	17,06,87,808	14,73,51,720	22,63,120
Sep-17	15,84,81,644	13,55,03,607	20,81,149	32	31	0	15,84,81,676	13,55,03,638	20,81,149
Apr-Sep 17	**88,08,58,175**	**73,25,13,033**	**1,12,50,392**	**44,488**	**32,466**	**499**	**88,09,02,663**	**73,25,45,499**	**1,12,50,891**

Source: BSE, NSE

Table 6-5: Product-wise turnover in the equity derivatives 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	Notional Turnover (Rs mn.)	Percentage share in total turnover	No. of contracts	Notional Turnover (Rs mn)	Percentage share in total turnover	No. of contracts	Turnover (Rs mn)	
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	39,92,26,634	71.80	9,14,79,209	3,28,25,523	5.90	183,70,41,131	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	162,35,28,486	48,95,19,306	75.51	10,02,99,174	3,48,81,738	5.38	209,86,10,395	64,82,58,343	26,24,528
2016-17	**6,65,35,071**	**4,33,59,409**	**4.59**	**17,38,60,130**	**11,12,95,872**	**11.79**	**106,72,44,916**	**72,79,72,877**	**77.14**	**9,21,06,012**	**6,10,74,859**	**6.47**	**139,97,46,129**	**94,37,03,016**	**38,05,254**
Apr-17	41,74,077	31,45,799	3.33	1,53,23,013	1,16,06,825	12.27	9,17,30,573	7,28,41,470	77.00	88,48,328	70,02,722	7.40	12,00,75,991	9,45,96,816	52,55,379
May-17	48,16,269	37,59,488	3.16	1,97,24,492	1,40,21,479	11.80	11,25,67,163	9,24,83,061	77.84	1,14,13,372	85,49,996	7.20	14,85,21,296	11,88,14,024	54,00,637
Jun-17	40,52,219	32,21,436	2.82	1,57,18,759	1,11,03,617	9.71	11,00,51,860	9,38,36,931	82.08	82,83,276	61,60,689	5.39	13,81,06,114	11,43,22,673	54,43,937
Jul-17	42,24,510	34,67,317	2.84	1,69,74,717	1,23,43,630	10.12	11,32,02,652	9,81,57,490	80.51	1,05,83,721	79,55,974	6.53	14,49,85,600	12,19,24,410	58,05,924
Aug-17	47,89,537	39,93,175	2.71	1,74,70,818	1,25,79,684	8.54	13,72,57,446	12,24,01,827	83.07	1,11,69,729	83,76,818	5.68	17,06,87,530	14,73,51,504	70,16,738
Sep-17	44,67,175	36,98,911	2.73	1,73,14,055	1,28,03,960	9.45	12,63,37,128	11,07,51,446	81.73	1,03,63,286	82,49,290	6.09	15,84,81,644	13,55,03,607	64,52,553
Apr-Sep 17	**2,65,23,787**	**2,12,86,125**	**2.91**	**10,25,25,854**	**7,44,59,195**	**10.16**	**69,11,46,822**	**59,04,72,224**	**80.61**	**6,06,61,712**	**4,62,95,488**	**6.32**	**88,08,58,175**	**73,25,13,033**	**59,07,363**

Source: NSE

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 2016-17 at NSE was 35,42,404 in terms of number of contracts as compared to 29,08,184 in 2015-16. In terms of value, the figure stood at Rs 2,495 billion at the end of 2016-17 as compared to Rs 1,544 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.)	
	2015-16	2016-17	2015-16	2016-17
Equity Derivatives	29,08,184	35,42,404	1,54,411	2,49,497
Index Futures	3,34,124	4,22,593	18,806	30,190
Stock Futures	10,85,544	13,62,099	50,986	94,331
Index Options	13,93,706	15,58,951	80,161	1,10,812
Stock Options	94,810	1,98,761	4,459	14,164

Source: SEBI Annual Report

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.

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.

6.4.6 Settlement

All derivative contracts are currently cash settled. In 2016–17, cash settlement decreased to Rs 820 billion as compared to Rs 1,057 billion in 2015-16. During the first half of 2017–18, cash settlement amounted to Rs 591 billion. 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	8,37,009	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	5,91,310	9,865
2014-15	6,87,685	15,416	1,33,138	24,989	8,61,227	12,976
2015-16	8,55,838	14,207	1,59,223	28,022	10,57,291	15,939
2016-17	**6,41,169**	**19,414**	**1,35,729**	**23,434**	**8,19,746**	**12,590**
Apr-17	53,569	798	12,783	2,440	69,591	1,069
May-17	1,02,595	3,949	12,395	1,927	1,20,865	1,856
Jun-17	52,298	1,440	13,296	4,077	71,112	1,092
Jul-17	65,522	1,629	16,496	1,438	85,084	1,307
Aug-17	1,15,568	903	15,837	1,696	1,34,004	2,058
Sep-17	92,540	1,452	14,438	1,532	1,09,961	1,689
Apr-Sep 17	**4,82,091**	**10,171**	**85,244**	**13,111**	**5,90,617**	**9,071**

Source: NSE

6.4.7 Business Growth in Currency Futures & Options Segment

The currency futures and options turnover on NSE increased by 8% from Rs 45,019 billion in 2015-16 to Rs 48,571 billion in 2016-17. The trading value for the period April 2017 to September 2017 was Rs 23,686 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 2016-17, number of USD-INR currency future contracts traded stood at 318 million with a traded value of Rs 21,406 billion. The total currency futures and options traded on NSE during 2016-17 stood at 712.5 million contracts with a traded value of Rs 48,570 billion, an 8% increase as compared to 2015-16.

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

Month/Year	Currency Futures		Currency Options		Total	
	No. of contracts	Turnover	No. of contracts	Notional Turnover	No. of contracts	Turnover*
		(Rs mn)		(Rs mn)		(Rs mn)
2010-2011	71,21,81,928	3,27,90,021	3,74,20,147	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	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	1,50,93,593	95,92,43,448	5,27,44,647
2013-2014	47,83,01,579	2,94,08,859	18,18,90,951	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	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	1,75,25,526	67,35,83,164	4,50,18,856
2016-2017	**36,26,15,931**	**2,48,97,789**	**34,98,35,508**	**2,36,72,969**	**71,24,51,439**	**4,85,70,759**
Apr-17	2,76,21,713	18,11,856	3,32,84,239	21,68,187	6,09,05,952	39,80,043
May-17	2,77,52,227	18,29,605	3,23,39,693	21,01,620	6,00,91,920	39,31,225
Jun-17	2,48,83,610	16,56,069	2,44,70,609	15,91,246	4,93,54,219	32,47,315
Jul-17	2,39,04,725	15,89,146	2,51,52,060	16,35,637	4,90,56,785	32,24,783
Aug-17	2,56,88,528	16,95,449	3,14,70,857	20,31,071	5,71,59,385	37,26,520
Sep-17	4,17,99,966	27,74,859	4,30,97,139	28,01,383	8,48,97,105	55,76,242
Apr-Sep 17	**17,16,50,769**	**1,13,56,984**	**18,98,14,597**	**1,23,29,144**	**36,14,65,366**	**2,36,86,128**

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)
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
2016-17	**34,98,35,508**	**2,36,72,969**	**31,79,86,681**	**2,14,06,009**	**1,34,11,335**	**9,91,840**	**1,05,23,836**	**6,62,955**	**2,06,94,079**	**18,36,986**	**71,24,51,439**	**4,85,70,759**
Apr-17	3,32,84,239	21,68,187	2,44,98,799	15,84,057	11,57,159	80,473	5,89,196	34,607	13,76,559	1,12,719	6,09,05,952	39,80,043
May-17	3,23,39,693	21,01,620	2,42,27,942	15,67,101	14,02,979	1,00,631	5,94,380	34,318	15,26,926	1,27,555	6,00,91,920	39,31,225
Jun-17	2,44,70,609	15,91,246	2,05,68,295	13,29,773	14,43,912	1,05,161	6,63,121	38,658	22,08,282	1,82,477	4,93,54,219	32,47,315
Jul-17	2,51,52,060	16,35,637	1,99,43,096	12,89,093	16,09,196	1,20,088	6,64,706	38,221	16,87,727	1,41,745	4,90,56,785	32,24,783
Aug-17	3,14,70,857	20,31,071	2,16,84,387	13,90,895	19,13,230	1,45,495	6,09,913	35,691	14,80,998	1,23,367	5,71,59,385	37,26,520
Sep-17	4,30,97,139	28,01,383	3,72,80,483	24,21,070	18,80,215	1,44,910	6,76,765	39,577	19,62,503	1,69,302	8,48,97,105	55,76,242
April - Sep 17	**18,98,14,597**	**1,23,29,144**	**14,82,03,002**	**95,81,989**	**94,06,691**	**6,96,758**	**37,98,081**	**2,21,072**	**1,02,42,995**	**8,57,165**	**36,14,65,366**	**2,36,86,128**

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

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 2016-17, total turnover of interest rate futures at NSE fell by 42% to Rs 3,07,809 crore from Rs 5,26,425 crore in 2015-16. Total turnover increased in this segment by 13% in 2017-18 (April to September) as compared to 2016-17 during the same time period.

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)
2013-14	81	15,02,148	30,173	55,710	1,113
2014-15	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
2016-17	**242**	**1,48,07,039**	**3,07,809**	**1,20,422**	**2,482**
Apr-17	18	15,96,049	32,824	88,000	1,804
May-17	21	10,82,509	22,208	91,173	1,871
Jun-17	21	12,98,346	26,852	87,169	1,797
Jul-17	21	10,94,905	22,437	88,671	1,824
Aug-17	20	10,57,191	21,573	94,787	1,939
Sep-17	21	11,95,149	24,201	98,710	1,997
April - Sep 17	**122**	**73,24,149**	**1,50,096**	**5,48,510**	**11,232**

Source: SEBI

Box 4.1: 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.

SEBI issued several Amendments in the above Guidelines which are as follows,

1. According to the Amendment on July 27, 2017, any Indian recognised stock exchange or any recognised stock exchange of a foreign jurisdiction can form a subsidiary to provide the services of stock exchange in IFSC wherein at least 51 per cent of paid up equity share capital should be held by such stock exchange and the remaining share capital should be held by the following: i) any other stock exchange, ii) a depository, iii) a banking company, iv) an insurance company, v) commodity derivatives exchange, whether Indian or of foreign jurisdiction and vi) a public financial institution of Indian jurisdiction, provided that any one of the aforesaid entities may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent of the paid up equity share capital of such stock exchange.
2. Any Indian registered depository may set up a branch – IFSC Depository Services (IDS) at IFSC after getting a prior approval of the Board for setting up an IDS. Such Indian depository shall be required to ring fence its domestic operations, financially, operationally and technologically, from its operations at IFSC.
3. Cross-currency futures and options contracts (not involving Indian Rupee) on exchanges in IFSC were specified as permissible securities on May 17, 2017. The participation would be limited to the derivatives contracts in non-agricultural commodities and should be denominated in foreign currency only.
4. SEBI registered FPIs ("FPIs") can operate in IFSC without undergoing any additional documentation and/or prior approval process.
5. According to the SEBI Circular on April 13, 2017, the stock exchanges operating in IFSC are permitted to deal with derivatives on equity shares of a company incorporated in India.
6. On May 13, 2017, SEBI has given permission to a portfolio manager operating in IFSC to invest in securities which are listed in IFSC; securities issued by companies incorporated in IFSC; securities issued by companies incorporated in India or companies belonging to foreign jurisdiction.
7. Now, any alternative investment fund or mutual fund operating in IFSC shall be permitted to invest in the following: (a) Securities which are listed in IFSC; (b) Securities issued by companies incorporated in IFSC; (c) Securities issued by companies incorporated in India or companies belonging to foreign jurisdiction.

Gujarat International Finance Tec-City (GIFT City)'s International Financial Services Centre (IFSC): The GIFT IFSC has bagged the 10th spot ahead of Luxembourg, Seoul, Abu Dhabi, Toronto and Beijing in the latest edition of Global Financial Centres Index (GFCI), London in September 2017. Currently, GIFT IFSC is operational with approximately 10 leading banks, 8 insurance companies and participating brokers, and 2 International Exchanges (India INX and NSE IFSC) along with around 100 capital market players have established their base at GIFT IFSC.

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. BSE's India International Exchange witnessed an all-time high turnover of over Rs 2,100 crore ($319.58 million) in daily trading turnover on January 12, 2018. This is the highest volume recorded by the exchange since inception, accounting for 70% of the total trading volumes in Gift City.

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.

7. Foreign Investments in India

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.

7.2 FII investments in India

Foreign institutional investors hold a significant share of Indian equity shares (about 19%[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 FII flows seen from FY12 to FY15 (see Table 7-1). Macro stabilization, high hopes from Modi Government and a raise in FII debt limit largely led to the rise in inflows during this period. However, inflows turned negative in FY16 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 FIIs entered Indian markets that they became net sellers for the year. The first time was seen in FY99 during the Asian crisis (Rs -16 bn), while the second time was during the Global Financial Crisis in FY09 (Rs -458 bn). Surprisingly, there was no crisis in FY16, and even then FIIs had begun withdrawing from emerging markets with India no exception. In the subsequent years, FIIs have been net buyers so far as seen below.

1 FII ownership for all NSE listed companies as of December 2017

Table 7-1: Trends in FPI Investment

Period	Purchases (Rs mn)	Sales (Rs mn)	Net Investment (Rs mn)	Net Investment (US$ mn)
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**	**-1,81,751**	**(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
Oct-16	9,85,873	10,88,936	-1,03,062	(1,543)
Nov-16	13,05,400	16,99,361	-3,93,961	(5,786)
Dec-16	11,16,223	13,87,338	-2,71,115	(3,989)
Jan-17	9,73,994	10,08,952	(34,958)	(512)
Feb-17	12,73,841	11,15,217	1,58,624	2,363
Mar-17	20,41,917	14,79,308	5,62,609	8,577
2016-17	**1,50,70,277**	**1,45,86,167**	**4,84,110**	**7,600**
Apr-17	12,16,305	9,88,722	2,27,582	3,513
May-17	14,81,773	12,13,111	2,68,662	4,170
Jun-17	16,94,843	14,01,824	2,93,019	4,548
Jul-17	14,38,799	11,98,520	2,40,279	3,732
Aug-17	12,48,459	12,21,690	26,768	427
Sep-17	12,78,480	13,78,914	-1,00,434	(1,533)
Oct-17	1,455,190	1,264,000	191,190	2,933
Nov-17	1,623,770	1,421,190	202,580	3,118
Dec-17	1,414,610	1,450,040	(35,440)	(552)
Apr-Dec 2017	**11,437,620**	**10,087,970**	**1,349,650**	**20,909**

Source: SEBI Bulletin

7.2.1 Category wise: Equity and Debt investments

In 2016-17, FII investments were largely dominated by equity inflows at Rs 516bn vs. debt outflows of Rs 104bn (Table 7-2). However, this trend has reversed in the current fiscal year with FII investments largely concentrated in the debt segment (Rs 1.3trn) compared to lower inflows in the equity segment (Rs116bn). The global turmoil has deeply impact equity markets, especially emerging markets. On the other hand, higher bond yields, improved economic sentiment and a stable rupee have attracted FII investors towards the bond market. Apart from this, investor confidence was also renewed after rating agency, S&P upgraded India's sovereign rating from negative to stable in September. Usually, FIIs prefer government bonds, as 98% of the upper cap limit for Govt. bonds was already utilized in November 2017.

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

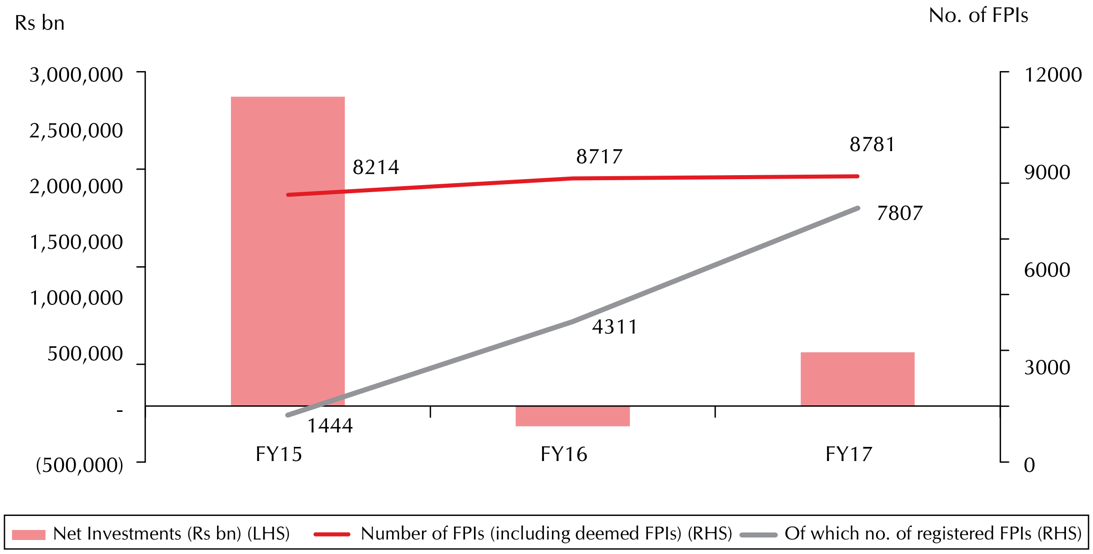
Year	FPIs			
	Net Investment in Equity (Rs mn)	Net Investment in Debt (Rs mn)	Net Investment in Equity (US$ mn)	Net Investment in Debt (US$ mn)
2015-16	**(108,088)**	**(11,048)**	**(1,625)**	**(166)**
Apr-16	38,904	36,455	585	548
May-16	25,786	(51,714)	386	(770)
Jun-16	51,748	(65,056)	771	(964)
Jul-16	113,390	69,652	1,690	1,037
Aug-16	97,856	(29,491)	1,463	(441)
Sep-16	93,364	105,770	1,401	1,589
Oct-16	(49,901)	(71,519)	(746)	(1,072)
Nov-16	(177,370)	(196,031)	(2,611)	(2,867)
Dec-16	(84,948)	(189,025)	(1,250)	(2,781)
Jan-17	(467)	(26,114)	(6)	(382)
Feb-17	99,020	59,600	1,564	891
Mar-17	309,060	253,550	5,141	3,995
2016-17	**516,442**	**(103,923)**	**8,388**	**(1,217)**
Apr-17	23,940	203,640	(345)	2,998
May-17	77,110	191,550	1,542	3,138
Jun-17	36,170	256,850	610	3,977
Jul-17	51,610	188,670	389	2,893
Aug-17	(127,700)	154,470	(1,732)	2,380
Sep-17	(113,920)	13,490	(1,656)	164
Oct-17	30,550	160,640	296	2,757
Nov-17	197,280	5,310	2,952	(221)
Dec-17	(58,830)	23,500	(739)	379
Apr-Dec 2017	**116,210**	**1,198,120**	**1,316**	**18,466**

Source: NSDL, Bloomberg

7.2.2 Number of FPIs

The number of SEBI-registered FPIs increased significantly from 4,311 in FY16 to 7,807 in FY17, but total number of FPIs (including deemed FPIs) increased only marginally from 8,717 to 8,781 over the same period. This was led by a large drop in number of deemed FIIs and sub-accounts as seen by the reducing gap between the total FPIs and registered FPIs. (Chart 7-1).

Chart 7-1: Number of FPIs and Net Investment



Source: SEBI

7.3 Turnover of FPIs: Equity and Derivatives

7.3.1 Equity Market

In FY17, the gross turnover of FPIs in the equity market segment on the major Indian stock exchanges (NSE and the BSE) was Rs 20.8trn , a drop of 5% from the previous year. And, the ratio of FII equity turnover to total turnover for both the exchanges (NSE and BSE) was down to 20.6 percent in FY17, reflecting a slight decline from 22.0 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 Turn-over on Exchanges (US$ mn)	FPI turnover to total turnover (%)
2010-11	7,715,649	172,803	6,614,442	148,140	14,330,091	320,943	93,648,733	2,097,396	15
2011-12	6,370,594	124,531	5,933,226	115,982	12,324,747	240,922	69,567,816	1,359,902	18
2012-13	6,985,370	128,490	5,585,052	102,732	12,396,042	228,015	65,141,071	1,198,215	19
2013-14	7,741,739	129,163	6,944,656	115,865	13,687,624	228,365	66,603,060	1,111,207	21
2014-15	11,461,929	187,470	10,348,472	169,259	21,810,401	356,729	103,690,007	1,695,944	21
2015-16	**10,867,624**	**163,835**	**11,009,340**	**165,971**	**21,916,315**	**330,399**	**99,545,560**	**1,500,697**	**22**
2016-17	**10,550,266**	**162,038**	**10,284,176**	**157,951**	**20,834,443**	**319,988**	**101,140,216**	**1,553,375**	**21**

Source: SEBI

7.3.2 Derivative Market

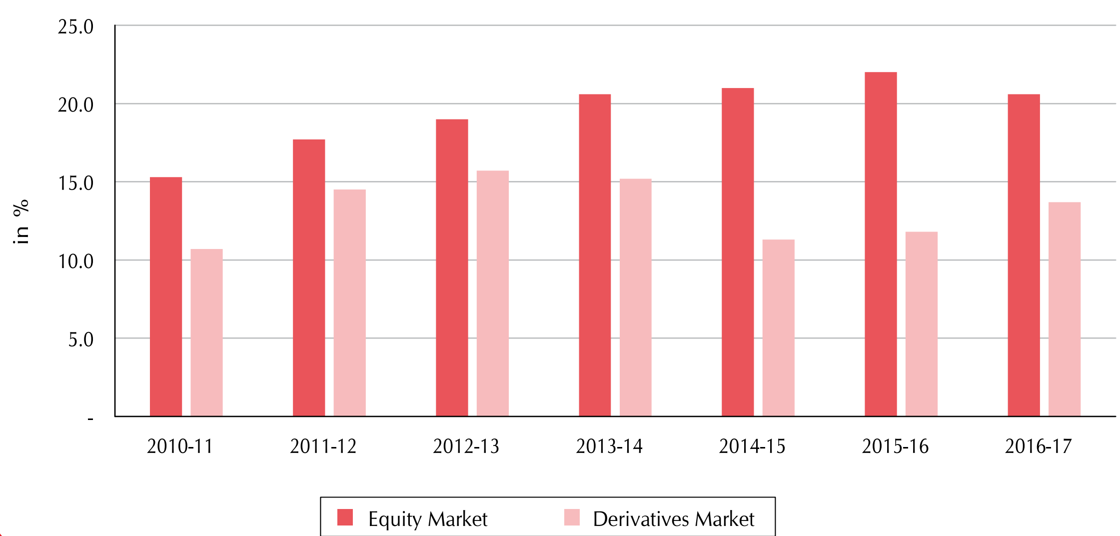
On the other hand, the turnover for derivatives rose sharply by 70% yoy, with FII turnover at Rs 260 trn in FY17. The FPI turnover constituted 13.7 percent of the total turnover in the F&O segment in the Indian capital markets during the same period. (Table 7-4 and Chart 7-2).

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

Year	Buy Side			Sell side			Gross No. of contracts traded	Gross Turnover of FHs		F&O Turnover		FII Turnover to total F& O turnover
	No. of Con-tracts (mn)	Amount (Rs mn)	Amount (US$ mn)	No. of Con-tracts (mn)	Amount (Rs mn)	Amount (US$ mn)	No. of Contracts (mn)	Amount (Rs mn)	Amount (US$mn)	Amount (Rs mn)	Amount (US$ mn)	
2012-13	181	49,902	918	177	49,108	903	358	99,010	139	63,066	11,600	15.7
2013-14	198	58,397	974	196	57,787	964	395	116,184	163	764,228	12,752	15.2
2014-15	202	63,287	1,035	199	62,511	1,022	401	125,798	177	1,112,129	18,190	11.3
2015-16	225	77,236	1,164	220	75,837	1,143	446	153,072	2,308	1,296,517	19,546	11.8
2016-17	197	130,170	1,999	196	122,996	1,986	393	259,466	3,985	1,887,406	28,988	13.7

Source: NSE

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



Source: SEBI

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. In a recent move, SEBI has banned P-notes on derivatives with the exception that the P-note would be used for hedging purpose and underlying shares are held by FPIs. Where the said underlying derivatives position are not for purpose of hedging the equity shares held by it, the ODI issuing FPI has to liquidate such ODIs latest by the date of maturity of the ODI instrument or by December 31, 2020. In the case of issuance of fresh ODIs with derivatives as underlying, a certificate has to be issued by the compliance officer (or equivalent) of the ODI issuing FPI, certifying that the derivatives position, on which the ODI is being issued, is only for hedging the equity shares held by it, on a one to one basis.

As of December 2017, the total value of ODIs with underlying Indian securities as a percentage of assets under custody of FPIs has declined to 4.6 percent from 10 percent in March 2016 (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**	**10.0**	**7.6**
2016-17	**17,84,370**	**12,42,770**	**2,70,57,290**	**6.6**	**4.6**
2017-18$	**1,52,24,30**	**14,92,430**	**3,28,02,830**	**4.1**	**3.8**
Apr-17	16,85,450	12,83,800	2,78,60,830	6.0	4.6
May-17	18,07,180	13,30,450	2,85,66,370	6.3	4.7
Jun-17	16,52,410	13,27,850	2,88,31,040	5.7	4.6
Jul-17	13,52,970	12,70,750	3,05,59,840	4.4	4.2
Aug-17	12,50,370	11,63,930	3,03,55,090	4.1	3.8
Sep-17	12,26,840	11,37,060	3,00,34,760	4.1	3.8
Oct-17	13,10,060	12,06,290	3,17,01,940	4.1	3.8
Nov-17	12,86,390	12,35,670	3,18,83,540	4.0	3.9
Dec-17	1,52,24,30	14,92,430	3,28,02,830	4.6	4.5

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.$ indicates as on December 31, 2017

Further, among major economies, US has the highest assets under custody in the equity segment for the year 2017, while Singapore has the highest number of assets in debt and hybrid securities. However, on an overall basis, US has the highest assets under custody.

Table 7-6: Assets under Custody 2017: Top 10 Countries

Sr. No.	Country	AUC (Rs mn)				
		Equity	Debt	Hybrid	Total	Share (%)
1	US	9,820,550	637,230	3,160	10,460,940	31.9
2	Mauritus	4,969,560	503,980	1,610	5,475,150	16.7
3	Luxembourg	2,485,550	682,890	150	3,168,580	9.7
4	Singapore	1,997,580	1,245,480	10,540	3,253,600	9.9
5	UK	1,462,860	43,290	1,950	1,508,100	4.6
6	Japan	902,060	228,210	-	1,130,280	3.4
7	Canada	846,550	65,920	-	912,470	2.8
8	Ireland	874,550	49,100	-	923,650	2.8
9	France	646,600	26,250	2,700	675,540	2.1
10	Netherlands	530,300	208,600	-	738,900	2.3
11	Others	3,707,690	841,730	6,190	4,555,620	13.9
	Total	28,243,860	4,532,670	26,300	32,802,830	100.0

Source: NSDL

B. Policy Developments

Policy Developments

With the objectives of promoting investor protection, maintaining fair, transparent and efficient markets, systemic risk minimization, developing new products, improving the securities market arena, enhancing operational efficiencies, encouraging small investors, and attracting new players, various regulatory changes in the Indian securities market were made by the regulators in India—the Ministry of Finance, the Securities and Exchange Board of India (SEBI), and the Reserve Bank of India (RBI).

The policies and programmes initiated by the regulators for the period January 2017–November 2017 are discussed in this section under five major heads: *issuer related reforms, investor related reforms, stock exchange related reforms, International Financial Services Centre (IFSC) related reforms and foreign institutional investor related reforms*. Since the regulatory changes are typically made through circulars issued by different regulatory agencies, some key circulars issued during the aforementioned period in these four areas are discussed below.

1. Issuer Related Circulars

A guidance note on Board Evaluation (SEBI: January 05, 2017)

The Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR") contain broad provisions on Board Evaluation i.e. evaluation of the performance of: (i) the Board as a whole, (ii) individual directors (including independent directors and Chairperson) and (iii) various Committees of the Board. The provisions also specify responsibilities of various persons / committees for conduct of such evaluation and certain disclosure requirements as a part of the listed entity's corporate governance obligations. However, the concept of Board evaluation in India is still at a nascent stage.

The purpose of the Guidance Note is to educate the listed entities and their Board of Directors about various aspects involved in the Board Evaluation process. This would serve as a guide for listed entities and may be adopted by them as considered appropriate. Anything mentioned in the Guidance Note shall not be construed as interpretation of provisions of SEBI LODR or any other law.

The guidance note covers all major aspects of Board Evaluation including the following:

a) Subject of Evaluation i.e. who is to be evaluated;

b) Process of Evaluation including laying down of objectives and criteria to be adopted for evaluation of different persons;

c) Feedback to the persons being evaluated;

d) Action Plan based on the results of the evaluation process;

e) Disclosure to stakeholders on various aspects;

f) Frequency of Board Evaluation;

g) Responsibility of Board Evaluation and

h) Review of the entire evaluation process periodically.

Integrated Reporting by Listed Entities (SEBI: February 6, 2017)

SEBI has mandated the requirement of submission of Business Responsibility Report ('BRR') for top 500 listed entities under Regulation 34(2)(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 ("SEBI LODR"). The key principles which are required to be reported by the entities pertain to areas such as environment, governance, stakeholder's relationships, etc.

An investor needs both financial as well as non-financial information to take a well-informed investment decision. An integrated report aims to provide a concise communication about how an organisation's strategy, governance, performance and prospects create value over time. The purpose of integrated reporting is to provide shareholders and other interested stakeholders with relevant information that is useful for making investment decisions.

The International Integrated Reporting Council ('IIRC') has prescribed following Guiding Principles which underpin the preparation of an integrated report, specifying the content of the report and how information is to be presented:

1. Strategic focus and future orientation: An integrated report should provide insight into the organization's strategy and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on capital.
2. Connectivity of information: An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.
3. Stakeholder relationships: An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.
4. Materiality: An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.
5. Conciseness: An integrated report should be concise.
6. Reliability and completeness: An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.
7. Consistency and comparability: The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

All organizations depend on various forms of capital for their success. It is important that all such forms of capital are disclosed to stakeholders to enable informed investment decision making. IIRC has categorized the forms of capital as follows: Financial capital, Manufactured capital, Intellectual capital, Human capital, Social and relationship capital and Natural capital.

The listed entities are advised to adhere to the following:

a) Integrated Reporting may be adopted on a voluntary basis from the financial year 2017-18 by top 500 companies which are required to prepare BRR.

b) The information related to Integrated Reporting may be provided in the annual report separately or by incorporating in Management Discussion & Analysis or by preparing a separate report (annual report prepared as per IR framework).

c) In case the company has already provided the relevant information in any other report prepared in accordance with national/international requirement / framework, it may provide appropriate reference to the same in its Integrated Report so as to avoid duplication of information.

d) As a green initiative, the companies may host the Integrated Report on their website and provide appropriate reference to the same in their Annual Report.

Schemes of Arrangement by Listed Entities (SEBI: March 10, 2017)[1]

Regulation 11 of the listing regulations, inter-alia, provides that any scheme of arrangement / amalgamation / merger / reconstruction / reduction of capital etc. to be presented to any Court or Tribunal does not in any way violate, override or limit the provisions of securities laws or requirements of the Stock Exchanges. Regulation 37 of listing regulations provides that the listed entities desirous of undertaking scheme of arrangement or involved in a scheme of arrangement shall file the draft scheme with Stock Exchange(s) for obtaining Observation Letter or No-objection Letter, before filing such scheme with any court or Tribunal. Regulation 94 of the listing regulations requires Stock Exchanges to forward such draft schemes to SEBI in the manner prescribed by SEBI.

SEBI Circular No. CIR/CFD/CMD/16/2015 dated November 30, 2015 lays down the detailed requirements to be complied with by listed entities while undertaking schemes of arrangements. Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957 (hereinafter referred to as "the SCRR") provides that SEBI may, at its own discretion or on the recommendation of a recognised Stock Exchange, waive or relax the strict enforcement of any or all of the requirements with respect to listing prescribed by these rules.

In consultation with the stock exchanges and market participants, it has been decided to revise the regulatory framework for such schemes of arrangement. Certain regulations as mentioned in this circular have been amended.

The Provisions of this circular shall not apply to schemes which solely provides for merger of a wholly owned subsidiary with the parent company. However, such draft schemes shall be filed with the Stock Exchanges for the purpose of disclosures and the Stock Exchanges shall disseminate the scheme documents on their websites. An amendment to listing regulations in this regard has already been notified on February 15, 2017.

The issuance of shares under schemes in case of allotment of shares only to a select group of shareholders or shareholders of unlisted companies pursuant to such schemes shall follow the pricing provisions of Chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (hereinafter referred to as "the ICDR Regulations"). Relevant amendment to ICDR Regulations in this regard has been notified on February 15, 2017.

The listed entity shall pay a fee to SEBI at the rate of 0.1% of the paid-up share capital of the listed / transferee / resulting company, whichever is higher, post sanction of the proposed scheme, subject to a cap of Rs 5,00,000. Relevant amendment to Listing Regulations in this regard has been notified on March 06, 2017.

- Requirements before the Scheme of arrangement is submitted for sanction by the National Company Law Tribunal (NCLT) that include
  - listed entities shall choose one of the Stock Exchanges having nationwide trading terminals,
  - all listed entities are required to submit a valuation report from an Independent Chartered Accountant, however, Valuation Report is not required in cases where there is no change in the shareholding pattern of the listed entity / resultant company,
  - the Listed entity shall submit to Stock Exchanges a 'Report on Complaints' which shall contain the details of complaints/comments received by it on the Draft Scheme from various sources,
  - the listed entity shall disclose the Draft Scheme of arrangement and other required documents,
  - The Listed entities shall ensure that the Scheme of Arrangement submitted with the NCLT for sanction, provides for voting by public shareholders through e-voting, after disclosure of all material facts in the explanatory statement sent to the shareholders in relation to such resolution.
  - The designated Stock Exchange after receiving the Draft Scheme of Arrangement and documents has to forward the same to SEBI within three working days.
  - Upon receipt of Observation Letter' or 'No-Objection' letter from the Stock Exchanges, SEBI has to provide its comments on the Draft Scheme of arrangement to the Stock Exchanges.

[1] http://www.sebi.gov.in/sebi_data/attachdocs/1489148947403.pdf#pdfjs.action=download

- Requirements to be fulfilled by Listed Entity for Listing of Equity Shares are also mentioned in this Circular.

Another Circular was issued on March 23, 2017 related to the pricing provisions of the ICDR Regulations, 2009 in case of issuance of shares to a select group of shareholders or shareholders of unlisted companies pursuant to such schemes, it is now clarified that the 'relevant date' for the purpose of computing pricing shall be the date of Board meeting in which the scheme is approved.[2]

2. Investor Related Circulars

Participation in derivatives market by Mutual Funds (SEBI: February 20, 2017)

In terms of SEBI circular no. DNPD/Cir-29/2005 dated September 14, 2005, existing schemes of the Mutual Funds, whose Scheme Information Documents (SIDs) do not envisage investments in derivatives, are required to obtain positive consent from majority of the unit holders before commencing investment in derivatives. An exit option has to be provided to the dissenting unit holders and such option is to be kept open for a period of one month prior to the scheme commencing trading in derivatives.

SEBI has received representations that for existing schemes' whose SIDs do not currently envisage investments in derivatives, obtaining positive consent from majority of unit holders as mandated above is challenging on account of vast geographical spread of unit holders and hence the request for doing away with such requirements. This matter was discussed in Mutual Fund Advisory Committee, wherein it was recommended that for participation in derivatives market by such schemes, the requirement of obtaining positive consent should be dispensed with and all investors of the scheme should be given exit option with no exit load, in line with the guidelines for changes in any other fundamental attribute of the scheme.

Based on the above considerations and in view of prudent investment norms that are in place for investment in derivatives by Mutual Funds, it has been decided that for introduction of derivative investments in an existing scheme, whose SIDs do not currently envisage such investments, the requirement of obtaining positive consent from majority of unit holders shall no longer be applicable. However, prior to the scheme commencing participation in derivatives, all investors of such schemes shall be given exit option with no exit load for 30 days, as against exit option to only dissenting unit holders mandated earlier.

"Existing schemes of Mutual Funds, whose SIDs do not envisage investments in derivatives, may participate in derivatives market subject to the following conditions:

- The extent and the manner of the proposed participation in derivatives shall be disclosed to the unit holders.
- The risks associated with such participation shall be disclosed and explained by suitable numerical examples.
- Prior to commencing participation in derivatives, the scheme shall comply with the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996 and all unit holders shall be given at least 30 days to exercise option to exit at prevailing NAV without charging of exit load."

Prudential limits in sector exposure for Housing Finance Companies (HFCs) (SEBI: February 22, 2017)

The guidelines for sectoral exposure in debt oriented mutual fund schemes put a limit of 25% at the sector level and an additional exposure not exceeding 10% (over and above the limit of 25%) in financial services sector, specifically to HFCs only. In light of the role of HFCs, especially in affordable housing and to further enhance the Government's goal under Pradhan Mantri Aawas Yojana (PMAY), it has now been decided to increase additional exposure limits provided for HFCs in financial services sector from 10% to 15%.

2 http://www.sebi.gov.in/legal/circulars/mar-2017/circular-on-schemes-of-arrangement-by-listed-entities-and-ii-relaxation-under-sub-rule-7-of-rule-19-of-the-securities-contracts-regulation-rules-1957-clarification_34415.html

Mutual Funds/AMCs have to ensure that total exposure of debt schemes of mutual funds in a particular sector (excluding investments in Bank CDs, CBLO, G-Secs, TBills, short term deposits of Scheduled Commercial Banks and AAA rated securities issued by Public Financial Institutions and Public Sector Banks) does not exceed 25% of the net assets of the scheme;

- An additional exposure to financial services sector (over and above the limit of 25%) not exceeding 15% of the net assets of the scheme is allowed only by way of increase in exposure to Housing Finance Companies (HFCs);
- The additional exposure to such securities issued by HFCs has to be rated AA and above and registered with National Housing Bank (NHB). Total investment/exposure in HFCs should not exceed 25% of the net assets of the scheme.
- Appropriate disclosures are required to be made in Scheme Information Document (SID) and Key Information Memorandum (KIM) of debt schemes.

Circular on Mutual Funds (SEBI: February 28, 2017)

Amendments to SEBI (Mutual Funds) Regulations, 1996 relate to investments by Mutual Funds in hybrid securities such as units of REITs/InvITs. The investment restrictions mentioned at Clause 13 in the Seventh Schedule of SEBI (Mutual Funds) Regulations, 1996 should be applicable to all fresh investments by all schemes, including an existing scheme. Any existing scheme intending to invest in units of REITs/InvITs should allow the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996. For investment in units of REITs/InvITs by an existing Mutual Fund scheme, unit holders of the scheme should give a time period of at least 15 days for the purpose of exercising the exit option.

Review of advertisement guidelines for Mutual Funds (SEBI: March 15, 2017) [3]

With an objective to disclose Mutual Fund scheme's performance related information in a more effective and simple manner in advertisements, it has been decided that:

a) Performance of Mutual Fund schemes shall be required to be advertised in terms of CAGR for the past 1 year, 3 years, 5 years and since inception; in place of current requirement to publish scheme's returns for as many twelve month periods as possible for the past 3 years.

b) Performance advertisement of Mutual Fund schemes should provide information based on period computed from last day of month-end preceding the date of advertisement, instead of current requirement of publishing such information based on last day of preceding quarter-end.

c) Performance of other schemes managed by the fund manager shall be disclosed in a summarized manner, by providing performance of such other schemes managed by the concerned fund manager in terms of CAGR for the past of 1 year, 3 years and 5 years along-with the respective scheme's benchmark. Further, for advertisement published in internet-enabled media, Mutual Funds shall be permitted to provide an exact website link to such summarized information on performance of other schemes managed by the concerned fund manager.

Following amendments are made in SEBI circular dated August 22, 2011:

- <u>In performance advertisements of Mutual Fund schemes</u>:
  - o Performance of the Mutual Fund scheme shall be advertised in terms of CAGR for the past 1 year, 3 years, 5 years and since inception.
  - o In order to provide ease of understanding to retail investors, point-to-point returns on a standard investment of Rs 10,000/- shall also be provided in addition to CAGR of the scheme.
  - o Performance advertisements of Mutual Fund schemes should provide information based on period computed from the last day of month-end preceding the date of advertisement.

[3] http://www.sebi.gov.in/legal/circulars/mar-2017/review-of-advertisement-guidelines-for-mutual-funds_34367.html

- o It should be specifically mentioned whether performance disclosed, is of regular or direct plan of the Mutual Fund scheme along-with a footnote mentioning that different plans have a different expense structure.
- o If a Mutual Fund scheme has not been managed by the same fund manager for the full period of the information being published in the advertisement, the same should be disclosed in a footnote.

- When a scheme has been in existence for more than 1 year but less than 3 years or 5 years, the same shall be mentioned as a footnote in the performance advertisement of the Mutual Fund scheme.
- If the scheme has been in existence for less than one year, past performance shall not be provided.
- When the performance of a particular Mutual Fund scheme is advertised, the advertisement shall also include the performance data of all the other schemes managed by the fund manager/s of that particular scheme.
- It has been decided to permit celebrity endorsements at industry level, for the purpose of increasing awareness of Mutual Funds as a financial product category with some conditions.

Instant Access Facility (IAF) and Use of e-wallet for investment in Mutual Funds (SEBI: May 8, 2017)

IAF facilitates credit of redemption proceeds in the bank account of the investor on the same day of redemption request. In order to further enhance the reach of Mutual Funds (MFs) towards the retail investors, it has been decided to issue guidelines for extending IAF.

1. MFs/ AMCs may offer IAF subject to the following conditions:

   a. **Eligibility**

   IAF shall be allowed through online mechanism and only for resident individual investors.

   b. **Applicability:**

   i. **NAV**: Under IAF, the lower of NAV of previous calendar day and NAV of calendar day on which application is received will be applied, if the IAF application is received up to 3.00 pm. If the IAF application is received after 3.00 pm, the lower of NAV of calendar day on which such application is received and NAV of the next calendar day will be applied.

   ii. **Scheme**: MFs/ AMCs can offer IAF only in Liquid schemes of the MF.

   iii. **Monetary Limit:** The monetary limit under IAF is INR 50,000/- or 90% of latest value of investment in the scheme, whichever is lower. This limit is applicable per day per scheme per investor.

   c. **Liquidity:**

   i. Liquidity for IAF has to be provided out of the available funds with the scheme and MFs/ AMCs should put in place a mechanism so that adequate balance is available in the bank account of the scheme to meet liquidity/ redemption requirements under IAF. Such mechanism may be based on historical trends of instant access. For example, AMCs offering IAF may set aside in cash at least 3 times of – the higher of, last one month's or three month's daily average of redemptions under instant access on a rolling day basis. AMCs should also lay down robust processes for continuous monitoring and for funding the redemptions under the IAF.

   ii. MFs/ AMCs cannot borrow to meet the redemption requirements under IAF.

   d. **Disclosures**

   i. AMCs shall make appropriate disclosures in the scheme related documents about IAF and ensure that no mis-selling is done on the pretext of instant availability of funds to the investors.

ii. Appropriate disclosures will be made to the investors mentioning the scenarios under which IAF may be suspended and that IAF request would be processed as a normal redemption request in such circumstances.

e. Approvals and Controls

i. MFs/ AMCs should offer IAF only after obtaining approvals from the AMC Board and the Trustees and keep in place adequate safeguards in the system to implement this facility.

ii. IAF should also be considered while carrying out stress testing of the schemes.

MFs/ AMCs offering this facility in any of their schemes shall reduce the limit to INR 50,000/- with immediate effect and schemes other than liquid schemes having this facility shall discontinue this facility within one month from the date of this circular.

2. Use of e-wallet for investment in MFs

With an objective to promote digitalization, MFs/ AMCs can accept investment by an investor through e-wallets (Prepaid Payment Instruments (PPIs)) subject to the following:

a. MFs/ AMCs should ensure that extant regulations such as cut-off timings, time stamping, etc., are complied with for investment in MFs using e-wallets.

b. MFs/ AMCs should enter into an agreement / arrangement with issuers of PPIs for facilitating payment from e-wallets to MF schemes.

c. Redemption proceeds should be made only to the bank account of the investor/ unit holder as required under SEBI Circular dated September 30, 2002.

d. MFs/ AMCs should ensure that total subscription through e-wallets for an investor is restricted to INR 50,000/- per MF per financial year. Further, in partial modification to the Circular dated May 22, 2014, the limit of INR 50,000/- would be an umbrella limit for investments by an investor through both e-wallet and/or cash, per MF per financial year.

e. MFs/ AMCs should ensure that e-wallet issuers shall not offer any incentives such as cashback, vouchers, etc., directly or indirectly for investing in MF schemes.

f. MFs/ AMCs should ensure that only amounts loaded into e-wallet through cash or debit card or net banking, can be used for subscription to MF schemes.

g. MFs/ AMCs should ensure that amount loaded into e-wallet through credit card, cash back, promotional scheme etc. should not be allowed for subscription to MF schemes.

h. MFs/ AMCs should also comply with the requirement of no third party payment norm for investment made using e-wallets.

Participation of Category III Alternative Investment Funds (AIFs) in the commodity derivatives market (SEBI: June 21, 2017)

SEBI has decided to allow the Category-III Alternative Investment Funds (AIFs) to participate in the commodity derivatives market, subject to the following conditions:

1. Category III AIFs may participate in all commodity derivatives products that are being traded on the commodity derivatives exchanges as 'clients' and shall be subjected to all the rules, regulations and instructions, position limit norms as may be applicable to clients, issued by SEBI and Exchanges from time to time.

2. Category III AIFs shall invest not more than ten percent of the investable funds in one underlying commodity.

3. Category III AIFs may engage in leverage or borrow subject to consent from the investors in the fund and subject to a maximum limit, as specified by the Board from time to time.

4. Category III AIFs shall make disclosure in private placement memorandum issued to the investors about investment in commodity derivatives. Consent of existing investor(s) shall be taken by AIFs if they intend to invest in commodity derivatives and exit opportunity should be provided to dissenting investor(s).

5. If applicable, AIF shall also comply with RBI notification No. FEMA. 355/2015- RB dated November 16, 2015 and all other guidelines issued by the RBI under Foreign Exchange Management Act, 1999 from time to time.

6. Category III AIF shall be subject to the reporting requirements as may be specified by SEBI.

7. The participation of Category III AIF in the commodity derivatives market shall be subject to the compliance of the provisions of SEBI (Alternative Investment Funds) Regulations, 2012 and circulars issued thereunder.

Review of norms for participation in derivatives by Mutual Funds (SEBI: September 27, 2017)

In order to enable mutual funds to hedge the debt portfolio from interest rate volatility, SEBI held a series of meetings with various stakeholders of the mutual fund industry. Accordingly, it has been decided to implement the following:

*Exposure Limits***:** In addition to the existing provisions of SEBI circular No. IMD/DF/11/2010 dated August 18, 2010, the following are prescribed:

i. To reduce interest rate risk in a debt portfolio, mutual funds may hedge the portfolio or part of the portfolio (including one or more securities) on weighted average modified duration basis by using Interest Rate Futures (IRFs).

ii. In case the IRF used for hedging the interest rate risk has different underlying security(s) than the existing position being hedged, it would result in imperfect hedging.

iii. Imperfect hedging using IRFs may be considered to be exempted from the gross exposure, upto maximum of 20% of the net assets of the scheme with some conditions.

iv. The basic characteristics of the scheme should not be affected by hedging the portfolio or part of the portfolio (including one or more securities) based on the weighted average modified duration.

v. The interest rate hedging of the portfolio should be in the interest of the investors.

Mutual Fund schemes may imperfectly hedge their portfolio or part of their portfolio using IRFs, subject to the following conditions:

i. Prior to commencement of imperfect hedging, existing schemes shall comply with the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996 and all unit holders shall be given a time period of at least 30 days to exercise the option to exit at prevailing NAV without charging of exit load. The risks associated with imperfect hedging shall be disclosed and explained by suitable numerical examples in the offer documents and also needs to be communicated to the investors through public notice or any other form of correspondence.

ii. In case of new schemes, the risks associated with imperfect hedging shall be disclosed and explained by suitable numerical examples.

Enhancing fund governance for Mutual Funds (SEBI: November 30, 2017)[4]

In order to strengthen the governance structure for Mutual Funds (MFs), it has been decided to implement the following:

1. With respect to tenure of independent trustees and independent directors, it has been decided that:

    i. An independent trustee and independent director shall hold office for a maximum of 2 terms with each term not exceeding a period of 5 consecutive years.

[4] http://www.sebi.gov.in/legal/circulars/nov-2017/enhancing-fund-governance-for-mutual-funds_36778.html

ii. No independent trustee or independent director shall hold office for more than two consecutive terms, however such individuals shall be eligible for re-appointment after a cooling-off period of 3 years. During the cooling-off period, such individuals should not be associated with the concerned MF, AMC & its subsidiaries and / or sponsor of AMC in any manner whatsoever.

iii. Existing independent trustees and independent directors shall hold office for a maximum of 10 years (including all preceding years for which such individual has held office). In this respect, the following may be noted:

a. Individuals who have held office for less than 9 years (as on date of issuance of this circular) may continue for the residual period of service.

b. Individuals who have held office for 9 years or more (as on date of issuance of this circular) may continue for a maximum of 1 year from date of issuance of this circular.

c. Such individuals shall subsequently be eligible for re-appointment after a cooling-off period of 3 years.

2. *Auditors of Mutual Funds*: The auditor of a MF, appointed in terms of Regulation 55 (1) of SEBI (MFs) Regulations shall be a firm, including a limited liability firm, constituted under the LLP Act, 2008. With respect to appointment of auditors in terms of Regulation 55 (1) of SEBI (MFs) Regulation, 1996, it has been decided that:

a. No MF shall appoint an auditor for more than 2 terms of maximum five consecutive years. Such auditor may be re-appointed after cooling off period of 5 years.

b. Further, during the cooling-off period of five years, the incoming auditor may not include: any firm that has common partner(s) with the outgoing audit firm and any associate / affiliate firm(s) of the outgoing audit firm which are under the same network of audit firms wherein the term “same network” includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

3. Existing auditors may be appointed for a maximum of 10 years.

Categorization and Rationalization of Mutual Fund Schemes (SEBI: October 6, 2017) [5]

On October 6, 2017, SEBI has published a Circular to categorize and define the MF schemes which are given below;

The Schemes would be broadly classified in the five groups: a. Equity Schemes, b. Debt Schemes, c. Hybrid Schemes, d. Solution Oriented Schemes, e. Other Schemes.

The details of the scheme categories under each of the aforesaid groups along with their characteristics and uniform description are given in the Circular. As per the Circular, the existing ‘type of scheme’ (presently mentioned below the scheme name in the offer documents/ advertisements/ marketing material/etc.) would be replaced with the type of scheme (given in the third column of the tables in the Circular) as applicable to each category of scheme. This will enhance the existing disclosure. Hence, for the purpose of alignment of the existing schemes with the provisions of this circular, change in “type of scheme” alone, would not be considered as a change in fundamental attribute.

In case of Solution oriented schemes, there will be specified period of lock-in as stated in the Circular. However, the said lock-in period would not be applicable to any existing investment by an investor, registered SIPs and incoming STPs in the existing solution oriented schemes as on the date on which such scheme is getting realigned with the provisions of this circular.

The investment objective, investment strategy and benchmark of each scheme shall be suitably modified (wherever applicable) to bring it in line with the categories of schemes listed above.

[5] http://www.sebi.gov.in/legal/circulars/oct-2017/categorization-and-rationalization-of-mutual-fund-schemes_36199.html

Definition of Large Cap, Mid Cap and Small Cap: In order to ensure uniformity in respect of the investment universe for equity schemes, it has been decided to define large cap, mid cap and small cap as follows:

a. Large Cap: 1st -100th company in terms of full market capitalization

b. Mid Cap: 101st -250th company in terms of full market capitalization

c. Small Cap: 251st company onwards in terms of full market capitalization

Mutual Funds would be required to adopt the list of stocks prepared by AMFI in this regard and AMFI would adhere to the following points while preparing the list:

a. If a stock is listed on more than one recognized stock exchange, an average of full market capitalization of the stock on all such stock exchanges, will be computed;

b. In case a stock is listed on only one of the recognized stock exchanges, the full market capitalization of that stock on such an exchange will be considered.

c. This list would be uploaded on the AMFI website and the same would be updated every six months based on the data as on the end of June and December of each year. The data shall be available on the AMFI website within 5 calendar days from the end of the 6 months period.

Subsequent to any updation in the list, Mutual Funds would have to rebalance their portfolios (if required) in line with updated list, within a period of one month.

Process to be followed for categorization and rationalization of schemes:

a. Only one scheme per category would be permitted, except: i. Index Funds/ ETFs replicating/ tracking different indices; ii. Fund of Funds having different underlying schemes; and iii. Sectoral/ thematic funds investing in different sectors/ themes

b. Mutual Funds would be required to analyze each of their existing schemes in light of the list of categories stated herein and submit their proposals to SEBI after obtaining due approvals from their Trustees as early as possible but not later than 2 months from the date of this circular.

The Circular is applicable for a) all existing open ended schemes of all Mutual Funds, b) all such open ended schemes where SEBI has issued final observations but have not yet been launched, C) all open ended schemes in respect of which draft scheme documents have been filed with SEBI as on date and d) all open ended schemes for which a mutual fund would file draft scheme document.

3. Exchange Related Circulars

Exclusively listed companies (ELCs) of De-recognized/Non-operational/exited Stock Exchanges placed in the Dissemination Board (DB) (SEBI: January 05, 2017)

In a circular dated October 10, 2016, SEBI provided a period of three months to the ELCs on the DB to submit an action plan to list or to provide exit to shareholders to the designated stock exchanges. The circular clarified the process of raising further capital and the process of exit of ELCs from the DB.

- The ELCs on the DB are allowed to raise capital for meeting the listing requirements through preferential allotment route in terms of the provisions under the Issue of Capital and Disclosure Requirements Regulations, 2009.
- The Circular had also prescribed the exit mechanism to investors of such ELCs.
- The oversight and monitoring of such exit mechanism shall be carried out by the designated stock exchange.

In light of representation received seeking extension of time to submit plan of action, it was decided to extend the time till March 31, 2017.

Fair and transparent access to data feeds of the stock exchanges (SEBI: January 20, 2017)

SEBI has directed the stock exchanges to formulate a comprehensive policy document for providing stock market related data to the market participants in a fair and transparent manner, irrespective of the type of mechanism used by the stock exchanges for broadcasting of data.

The stock exchanges have to ensure

- the quality of the data,
- appropriate mechanism to manage load across systems disseminating data in order to ensure consistent response time to all market participants, and
- all communication to the market participants, especially on all technology related matters such as Monitoring Tool, Load Balancer, Randomisation etc., are abundantly clear and precise providing all necessary details related to the concerned facility / service, including information on features, benefits, risks, etc. of the concerned facility / service, particularly for participants who have opted for colocation facility.

SEBI defined the criteria for Eligibility, Retention and re-introduction of derivative contracts on Commodities (SEBI: January 20, 2017)

As the nature/properties of one commodity differs from another, all commodities may not be suitable for the commodity derivatives trading. Thus appropriateness / usefulness of commencing futures trading in products (not necessarily of just commodities) needs to be ascertained before allowing any derivatives contract on any commodity. It is also important that the contracts available for trading in the commodity derivatives market are liquid enough for the contracts to trade smoothly.

Based on the recommendation of CDAC and in consultation with the stakeholders, SEBI has decided that all national commodity derivatives exchanges should follow the following eligibility criteria for allowing derivative contracts on commodities.

a) Commodity Fundamentals

- <u>Size of the market / Volume of the market</u>: The total supply value of the commodity in each year is taken as a measure of the physical market size of that commodity in that year. A higher physical market size could create higher futures trading volume by attracting more hedgers and speculators into the futures market.
- <u>Homogeneity/Standardization</u>: The commodity should be either Homogeneous or should be conducive to standardization. This is required so that participants trading the commodity on exchange platform should be able to unambiguously understand exactly what they are trading as on exchange only standardized contracts can be traded.
- <u>Durable/Storable</u>: The commodity should be durable and storable for better price discovery. Durability i.e. higher shelf life makes commodity conducive for storage, which creates opportunity for cash and carry and hence would attract arbitragers thus make it more suitable for derivatives trading.

b) Trade Factors

- <u>Global</u>: Global market in a commodity could be a positive indicator as internationally linked commodity prices are influenced by various global factors and thus create multiple reference points for price discovery which may make it conducive for derivatives trading.
- <u>Value chain</u>: The term ''value chain'' describes the full range of value adding activities required to bring a product or service through the different phases of production, including procurement of raw materials and other inputs", connected along a chain of producing, transforming and bringing goods and services to end-consumers through a sequenced set of activities and a strategic network among a number of business organizations". Larger is the value chain larger would be the number of participants interested

in derivatives trading of such commodity.

- Geographical coverage: The commodity should ideally have a vast distribution across the country. The coverage can be in the form of production of commodity or the distribution of the commodity across the country. Higher coverage would attract higher number of participants to the derivatives.

c) Ease-of-doing-business

- Price Control: Price controls are government mandated minimum or maximum prices that can be charged for specified goods. Government sometimes implements price controls when prices on essential items, such as food grain or oil are rising rapidly. Such goods which are prone to price control may be less conducive for derivatives markets.
- Applicability of other laws: The Food control Regulation Act, Essential commodities Act, APMC Act etc., may have an impact on the commodities to be introduced for derivatives trading. Commodities which have excessive restrictions may be less conducive for derivatives markets.

d) Risk Management

- Correlation with International Market: Commodities which have a strong correlation with the global market have higher need for price risk management. Such commodities are conducive for derivatives trading.
- Seasonality: The Indian commodity sphere is characterized by seasonality. The prices fluctuate with the supply season and the off season. The derivatives market is necessary to even out this fluctuation and facilitate better price discovery. Thus the commodities with higher seasonality are conducive for derivatives trading.
- Price Volatility: Commodities with high volatility of prices have high need for hedging. Such commodities are conducive for Derivatives trading.

e) The exchanges has to decide upon the specific numerical weightages as approved by their oversight committee for 'Product Design'.

The Circular has also described the criteria for retention and reintroduction of derivative contracts on commodities which are as follows;

a) For any commodity to continue to be eligible for Futures trading on Exchange, it should have annual turnover of more than Rs 500 Crore across all National Commodity Derivatives Exchanges in at least one of the last three financial years. For validating this criteria, gestation period of three years is provided for commodities from the launch date/relaunch date, as may be applicable.

b) Once, a commodity becomes ineligible for derivatives trading due to not satisfying the retention criteria, the exchanges shall not reconsider such commodity for re-launching contract for a minimum period of one year.

c) Further, a commodity which is discontinued/suspended by the exchange from derivatives trading on its platform, will not be re-considered by the concerned exchange for re-launching of derivatives contract on such commodity at least for a minimum period of one year.

Procedures for Exchange Listing Control Mechanism (SEBI: January 27, 2017)

The Circular is issued to address any conflict arising out of aforesaid provisions of listing of a stock exchange on any recognised stock exchange and also to ensure effective compliance with the applicable laws. It has following guidelines;

a) The Listing Department of the listing stock exchange (i.e. a stock exchange on which the listing is done) will monitor the compliance of the listed stock exchange (i.e. a stock exchange which is getting listed) as in the case of listed companies.

b) The Independent Oversight Committee of the listing stock exchange will exercise oversight at the second level to deal with the conflicts, if any. The listed stock exchange may appeal to the Independent Oversight Committee of the listing stock exchange, if aggrieved, with the decision on disclosure of the listing stock exchange.

c) An independent Conflict Resolution Committee (CRC) constituted by SEBI, with an objective for independent oversight and review, will monitor potential conflicts between listed and listing stock exchange on a regular basis. The listed stock exchange aggrieved by the decision of the Independent Oversight Committee of the listing exchange may appeal to the CRC.

Review of financial close out and auction framework for corporate bonds traded on the stock exchange's platform (SEBI: February 10, 2017)

SEBI vide circulars no. CIR/MRD/DP/03/2013 January 24, 2013, and no CIR/MRD/DP/ 27 /2013 dated September 12, 2013 issued guidelines for providing dedicated debt segment in the stock exchange for trading, clearing and settlement of debt securities including trading, clearing and settlement of corporate bonds.

Report of the Working Group on Development of Corporate Bond Market in India chaired by Shri H R Khan recommended rationalization of the penalty for financial close out in case of the shortage of delivery in the corporate bonds that are traded in the exchange platform. Based on the recommendation of the said committee and the feedback received from stock exchanges, it has been decided to review extant penalty structure for financial closeout in cases of short delivery and to put in place a feasible auction mechanism to deal with settlement shortages.

- In case of shortage of delivery, stock exchanges/clearing corporations may conduct financial close-out. The financial close out shall take place at highest price on Trade date (which becomes the trade price) with a 1% mark-up on trade price.
- Further, Exchanges/Clearing Corporation are suggested to introduce a uniform auction mechanism to deal with settlement shortages by March 31, 2017.

Review of the framework of position limits for Interest Rate Futures contracts (SEBI: April 18, 2017)

With a view to ease trading requirements in the Interest Rate Futures contracts, it is clarified that the position limit linked to open interest are applicable at the time of opening a position. Such positions are not required to be unwound immediately by the market participants in the event of a drop of total open interest in Interest Rate Futures contracts within the respective maturity bucket.

However, in the aforementioned scenario, such market participants are not allowed to increase their existing positions or create new positions in the Interest Rate Futures contracts of the respective maturity bucket till they comply with the applicable position limits.

Notwithstanding the above, in view of risk management or surveillance concerns with regard to the positions of such market participants, stock exchanges may direct them to bring down their positions to comply with the applicable position limits within the time period prescribed by the stock exchanges.

Stock exchanges and clearing corporations are directed to:

a) take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations;

b) bring the provisions of this circular to the notice of their members and also disseminate the same on their websites; and

c) communicate to SEBI, the status of implementation of the provisions of this circular in the Monthly Report.

Listing of Non-Convertible Redeemable Preference Shares (NCRPS) / Non-Convertible Debentures (NCDs) through a Scheme of Arrangement (SEBI: May 26, 2017)[6]

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as "listing regulations") place obligations with respect to Scheme of Arrangement on Listed Entities and Stock Exchange(s) in Regulation 11, 37 and 94.

Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957 (hereinafter referred to as "the SCRR") gives power to Securities and Exchange Board of India (SEBI) to relax provision of Rule 19 at its discretion and accordingly SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 laid down the detailed requirement to be complied with by listed entities while undertaking schemes of arrangement for listing of Equity or Warrants pursuant to the Scheme.

Such corporate restructuring may result in issuance of NCRPS or NCDs, in lieu of specified securities (specified securities as defined in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009). However it is observed that the abovementioned SEBI Circular does not cover guidance for listing of such NCRPS/NCDs. The same is being addressed in this circular.

In cases where NCRPS/NCDs are issued, in lieu of specified securities, vide a scheme of arrangement; and where such NCRPS/NCDs are proposed to be listed on recognized Stock Exchanges, the listed entity shall additionally comply with the requirements stated at Paragraph 5 below, in addition to compliance with SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017, as amended from time to time.

Additional conditions to be complied before the Scheme of arrangement is submitted for sanction by the National Company Law Tribunal (NCLT).

A listed entity, which has listed its specified securities, may seek listing of NCRPS/NCDs issued pursuant to a scheme of arrangement provided that it has complied with the following provisions.

i. *Eligibility for seeking listing of NCRPS/ NCDs*: A listed entity which has listed its specified securities may seek listing of NCRPS/NCDs issued pursuant to a scheme of arrangement only in case where the listed entity is a part of such scheme of arrangement and such NCRPS/NCDs are issued to the holders of specified securities of such listed entity. Such scenarios may broadly include the following:

   a) A listed entity, which has listed its specified securities, (demerged entity) demerges a unit and transfers the same to another entity (resultant entity), and the resultant entity issues NCRPS/NCDs to the holders of the specified securities of listed entity (i.e. demerged entity) as a consideration under the scheme of arrangement.

   b) A listed entity, which has listed its specified securities, (amalgamating entity) is merged with another entity (amalgamated entity), and the amalgamated entity issues NCRPS/NCDs to the holders of the specified securities of listed entity (i.e. amalgamating entity) as a consideration under the scheme of arrangement.

It is clarified that only the NCRPS/NCDs issued to the holders of listed specified securities, vide the scheme of arrangement would be eligible for seeking listing.

However, if the same series/class of NCRPS/NCDs are also allotted to other investors, other than the allotment done to the holders of listed specified securities as per the scheme of arrangement, then such NCRPS/NCDs would not be eligible for seeking listing.

i. *Tenure/ Maturity*: The minimum tenure of the NCRPS/NCDs shall be one year.

[6] http://www.sebi.gov.in/sebi_data/attachdocs/may-2017/1495795976860.pdf#pdfjs.action=download

ii. *Credit Rating*: The NCRPS/NCDs have been assigned minimum such credit rating, if any, specified for public issue of NCRPS under SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 or for public issue of NCDs in terms of SEBI (Issue and Listing of Debt Securities) Regulations, 2008, as the case may be by a credit rating agency registered with the Board.

iii. *Valuation Report*: The Valuation Report, referred in Para (I)(A)(4) of Annexure I of SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017, shall also include valuation of the underlying NCRPS/ NCDs to be issued pursuant to the scheme of arrangement.

iv. *Disclosures in the Scheme of Arrangement*: The following should be clearly disclosed in Draft Scheme of Arrangement, (a) Face Value & Price (b) Dividend/Coupon: The terms of payment of dividends/Coupon including frequency etc (c) Credit Rating (d) Tenure/ Maturity (e) Redemption: The terms of redemption, amount, date, redemption premium/discount,, and early redemption scenarios, if any (f) Other embedded features (put option, call option, dates, notification times, etc) (g) Other terms of instruments (i.e. term sheet) (h) Any other information/details pertinent for the investors

v. *The listed entity has to ensure the following compliance*:

(a) The captioned issue of NCRPS/NCDs shall be in compliance with all the applicable provisions of the Companies Act, 2013 including the provisions related to creation and maintenance of Capital Redemption Reserve/Debenture Redemption Reserve.

(b) All such NCRPS/NCDs shall be issued in dematerialised form only.

(c) In case of NCDs, the issuer has appointed/ shall appoint Debenture Trustee in compliance with SEBI (Issue and Listing of Debt Securities) Regulations, 2008 and Companies Act, 2013.

(d) In case of NCDs, the issuer has created/ shall create an appropriate charge or security, wherever applicable, in compliance with SEBI (Issue and Listing of Debt Securities) Regulations, 2008 and Companies Act, 2013.

(e) All the provisions of SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 and SEBI (Issue and Listing of Debt Securities) Regulations, 2008 have been/ shall be complied with except the provisions related to making a public issue, or making a private placement, or filing of offer document, etc.

Non-compliance with certain provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ("ICDR Regulations") (SEBI: June 15, 2017)[7]

Stock exchanges shall impose fines on the companies for non-compliance with certain provisions of ICDR Regulations as under:

Regulation	Violation	Fine
95(1)	Delay in completion of bonus issue.	Rs 20,000 per day of non-compliance till the date of compliance. If non-compliance continues for more than 15 days, additional fine of 0.01 % of paid up capital of the entity or Rs 1 crore, whichever is less. Paid-up capital for this purpose shall be the paid up capital as on first day of the financial year in which the non-compliance occurs.
75	Companies not allotting the shares on conversion of convertible securities within 18 months.	Same as above.

7 http://www.sebi.gov.in/legal/circulars/jun-2017/non-compliance-with-certain-provisions-of-sebi-issue-of-capital-and-disclosure-requirements-regulations-2009_35112.html

108(2)	Issuer not approaching the exchange for listing of equity shares within 20 days from date of allotment.	Same as above.

The amount of fine realized as per the above structure shall be credited to the "Investor Protection Fund" of the concerned recognized stock exchange.

Review of Securities Lending and Borrowing (SLB) Framework (SEBI: November 17, 2017)[8]

The SLB framework has been revised based on the feedback received from the market participants. SEBI allows the Approved Intermediaries (AI) to decide the tenure of the contract subject to the condition that the maximum period of the contract is not more than 12 months. In this regard, it is clarified that AIs can introduce contracts of different tenures ranging from 1 day to 12 months based on the need of the market participants.

The market wide position limit for SLB transactions shall be 10% of the free-float capital of the company in terms of number of shares; no clearing member shall have open position of more than 10% of the market-wide position limit. The position limit for an Institutional Investor shall be the same as that for a clearing member; the client level position limit shall not be more than 1% of the market-wide position limit.

Details of treatment of corporate actions during the contract tenure are specified below:

i. *Dividend*: The dividend amount would be worked out and recovered from the borrower on the book closure/ record date and passed on to the lender.

ii. *Stock split*: The positions of the borrower would be proportionately adjusted so that the lender receives the revised quantity of shares.

iii. *Other corporate actions such as bonus/ merger/ amalgamation / open offer, etc*: The contacts would be foreclosed on the Ex-date. The lending fee would be recovered on a pro-rata basis from the lender and returned to the borrower.

iv. *AGM/EGM*: In the event of the corporate actions which is in nature of AGM/EGM, presently the AIs are mandatorily foreclosing the contracts. It has been represented by market participants that mandatory foreclosure during the life of the contract may not be necessary as, all lenders may not be interested in taking part in the AGM/EGM. It has therefore been decided that the AIs shall provide the following facilities to the market participants:

   a. Contracts which shall continue to be mandatorily foreclosed in the event of AGM/EGM.

   b. Contracts which shall not be foreclosed in the event of AGM/EGM.

Introduction of roll-over facility stands modified as under

i. Any lender or borrower who wishes to extend an existing lent or borrow position shall be permitted to roll-over such positions i.e. a lender who is due to receive securities in the pay out of an SLB session, may extend the period of lending. Similarly, a borrower who has to return borrowed securities in the pay-in of an SLB session, may, through the same SLB session, extend the period of borrowing. The roll-over shall be conducted as part of the SLB session.

ii. The total duration of the contract after taking into account rollovers shall not exceed 12 months from the date of the original contract. It is clarified that multiple rollovers of a contract by the lender or borrower is permitted.

iii. Rollover shall not permit netting of counter positions, i.e. netting between the 'borrowed' and 'lent' positions of a client.

[8] http://www.sebi.gov.in/legal/circulars/nov-2017/circular-on-review-of-securities-lending-and-borrowing-mechanism_36609.html

Stock Exchanges, Clearing Corporations and Depositories have to:

i. Take necessary steps to put necessary systems in place for the implementation of the above provisions of this circular.

ii. Make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.

iii. Bring the provisions of this circular to the notice of the stock brokers/trading members, clearing members and depositories participants and disseminate the same on their website.

Comprehensive guidelines for Investor Protection Fund, Investor Service Fund and its related matters at National Commodity Derivatives Exchanges (SEBI: June13, 2017)[9]

The IPF Trust of the exchange shall have maximum 5 trustees. The IPF Trust shall consist of three public interest directors, one representative from investor associations recognized by SEBI and the compliance officer of the exchange. The maximum tenure of a trustee (excluding the compliance officer of the exchange, whose trusteeship would be co-terminus with the service) shall be five years or as specified by SEBI. All the penalties levied and collected by the exchange, except for the settlement related penalties (including penalties from delivery default), shall be credited of the IPF. 1% of the turnover fee charged by the exchange from its members/brokers or ten lakh whichever is higher in a financial year.

The Exchanges are free to fix suitable compensation limits, in consultation with IPF trust. However, the amount of compensation available against a single claim of an investor arising out of defaulter by a member broker shall not be less than Rs 1 lakh.

The exchange may utilize income earned on the corpus of IPF towards promotion of investor education and awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programs etc. to enhance literacy and to promote participation in the commodity derivatives market or any other mandated purpose. Capital expenditure would be permissible only w.r.t. setting up of Investor Service Centre. However, no expenditure to be incurred on product promotion in any manner. However, in case of non-utilization of the said income in the same financial year for the mandated purpose, the same shall be ploughed back to IPF. In addition to above, the income earned on the IPF corpus may be utilized in other manner as prescribed/permitted by SEBI in the interest of investors from time to time.

At initial stage, the exchange shall contribute a minimum of Rs 10 lakhs towards setting up of Investor Service Fund (ISF). Subsequently, onwards, the Exchanges shall transfer the 1% percent of the turnover fees charged by the exchange from its members on monthly basis towards ISF within 7 days of the end of the month, subject to minimum of Rs 10 lakh in a financial year.

Options on Commodity Futures- Product Design and Risk Management Framework (SEBI: June 13, 2017)

Eligibility criteria for selection of underlying Commodity Futures for Options: Options would be permitted for trading on a commodity derivatives exchange only on those commodity futures as underlying, which are traded on its platform and satisfy both the criteria specified below on the respective exchange:

a. The underlying 'Futures contracts' on the corresponding commodity shall be amongst the top five futures contracts in terms of total trading turnover value of previous twelve months;

b. The average daily turnover of underlying futures contracts of the corresponding commodity during the previous twelve months, shall be at least:

    i. INR 200 crore for agricultural and agri-processed commodities

    ii. INR 1000 crore for other commodities.

9 http://www.sebi.gov.in/legal/circulars/jun-2017/comprehensive-guidelines-for-investor-protection-fund-investor-service-fund-and-its-related-matters_35095.html

Comprehensive Review of Margin Trading Facility (SEBI: June 13, 2017)

Securities Eligible for Margin Trading: Equity Shares that are classified as 'Group I security' as per SEBI Master circular No. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016, shall be eligible for margin trading facility.

Margin Requirement: In order to avail margin trading facility, initial margin required shall be as under;

Category of Stock	Applicable margin
Group I stocks available for trading in the F & O Segment	VaR + 3 times of applicable ELM*
Group I stocks other than F&O stocks	VaR + 5 times of applicable ELM*

*For aforesaid purpose the applicable VaR and ELM shall be as in the cash segment for a particular stock.

The initial margin payable by the client to the Stock Broker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in SEBI Master circular no. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016.

a. The Stock brokers shall be required to comply with the following conditions:

b. The stocks deposited as collateral with the stock broker for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded stocks) shall be identifiable separately and no comingling shall be permitted for the purpose of computing funding amount;

c. Collateral and Funded stocks shall be marked to market on a daily basis;

d. In case of increase in the value of Collaterals, stock brokers may have the option of granting further exposure to their clients subject to applicable haircuts;

e. However, no such exposure shall be permitted on the increased value of funded stocks.

Liquidation of Securities by the Stock Broker in Case of Default by the Client: The stock broker shall list out situations/conditions in which the securities may be liquidated and such situations/conditions shall be included in the "Rights and Obligations Document". The broker shall liquidate the securities, if the client fails to meet the margin call to comply with the conditions as mentioned in this circular or specified in the "Rights and Obligations Document" specified by exchange. However, the broker shall not liquidate or use in any manner the securities of the client in any situation other than the conditions stipulated at para-9 above.

Eligibility Requirements for Stock Brokers to Provide Margin Trading Facility to Clients: Only corporate stock brokers with a net worth of at least Rs 3.00 crore shall be eligible to offer margin trading facility to their clients. The "net worth" for the purpose of margin trading facility shall be as specified in SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992. The stock brokers shall submit to the stock exchange a half-yearly certificate, as on 31st March and 30th September of each year, from an auditor confirming the net worth. Such a certificate shall be submitted not later than 30th April and 31st October of every year.

Source of Funds: For the purpose of providing the margin trading facility, a stock broker may use own funds or borrow funds from scheduled commercial banks and/or NBFCs regulated by RBI. A stock broker shall not be permitted to borrow funds from any other source. The stock broker shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client.

Leverage and Exposure Limits: At any point of time, the total indebtedness of a stock broker for the purpose of margin trading shall not exceed 5 times of its net worth. The maximum allowable exposure of the broker towards the margin trading facility shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his "net worth".

While providing the margin trading facility, the broker shall ensure that:

a. exposure to any single client at any point of time shall not exceed 10% of the broker's maximum allowable exposure, as specified in para 17 above.

b. exposure towards stocks purchased under margin trading facility and collateral kept in the form of stocks are well diversified. Stock brokers shall have appropriate Board approved policy in this regard.

Disclosure Requirement: The stock broker shall disclose to the stock exchanges details on gross exposure towards margin trading facility including name of the client, Category of holding (Promoter/promoter group or Non-promoter), clients' Permanent Account Number ("PAN"), name of the scrips (Collateral stocks and Funded stocks) and if the stock broker has borrowed funds for the purpose of providing margin trading facility, name of the lender and amount borrowed, on or before 12 noon on the following trading day.

Position Limits for Agricultural Commodity Derivatives (SEBI: July 25, 2017)

SEBI has received feedback from the stakeholders that current numerical limits applicable for agricultural commodity derivatives are inadequate and not in consonance with the deliverable supply of the commodity. This circular is hereby issued in continuation of the abovementioned SEBI circular with an objective to outline a principle based methodology for revising the commodity-wise numerical value of overall client level open position limits for agricultural commodities with reference to the 'deliverable supply' of the such commodity available in the country during any specific year.

After due consultation with various stakeholders and on the basis of recommendations of CDAC (Commodity Derivatives Advisory Committee), following framework is hereby being prescribed for determination of numerical value of overall client level open position limits for agricultural commodities:

Categorization of commodities: In any given year, based on the average of production data and import data of past five years on a rolling basis and keeping in view various extraneous factors that affect the trading in derivatives, the agricultural commodities shall be classified into three categories viz., sensitive, broad and narrow as below:-

Sensitive Commodity: An agricultural commodity shall be classified as a sensitive commodity if it is prone to frequent Government/External interventions. These interventions may be in the nature of stock limits, import/export restrictions or any other trade related barriers; or it has observed frequent instances of price manipulation in past five years of derivatives trading.

Broad Commodity: An agricultural commodity shall be classified as 'Broad Commodity' if it is not 'Sensitive Commodity' and average deliverable supply for past five year is at least 10 lakh Metric Ton (MT) in quantitative term and is at least INR 5,000 Crore in monetary term.

Narrow Commodity: An agricultural commodity which is not falling in either of the above two categories, viz 'Sensitive' or 'Broad' commodity, shall be classified as 'Narrow Commodity'.

Clarification on Exchange Traded Cross Currency Derivatives contracts on EUR-USD, GBP-USD and USD-JPY currency pairs (SEBI: September 13, 2017)

On August 31, 2017, a Circular was published to clarify on the dynamic price bands for currency options contracts (including cross-currency options contracts).

a. Stock exchanges shall implement a dynamic price band mechanism based on theoretical price of contracts to determine price bands for currency options.

b. Stock exchanges shall implement uniform mechanism for computation and relaxation of dynamic price bands for currency options contracts.

c. Stock exchanges shall take into consideration factors such as movement in the underlying price, volatility in the price of the underlying, any news on concerned foreign currency and its likely impact, movement of the price of the underlying at other stock exchanges, etc. while relaxing such price bands.

d. Stock exchanges shall ensure that the mechanism for relaxation of dynamic price bands are not misused by market participants for manipulation in options contracts.

SEBI has further clarified on 13 September 2017 that the Stock Brokers (bank and non-bank) shall ensure that all proprietary positions created in FCY-INR pairs (USD-INR, EUR-INR, GBP-INR and JPY-INR) is within the following consolidated position limits:

Single INR limit for proprietary position for bank stock brokers	Single INR limit for proprietary position for non-bank stock brokers
Higher of 15 % of Total OI across all FCY -INR pairs or USD 200 million.	Higher of 15 % of Total OI across all FCY -INR pairs or USD 100 million.

Stock exchanges, in consultation with each other, shall implement a uniform methodology for computing and monitoring of the aforementioned proprietary positions limits in INR.

Non-compliance with the Minimum Public Shareholding (MPS) requirements (SEBI: October 10, 2017)[10]

The recognized stock exchanges shall review compliance with MPS requirements based on shareholding pattern/ other filings made with them by the listed entities from time to time. Within 15 days from date of observation of non-compliance, the stock exchanges shall issue notices to such entities intimating all actions taken/ being taken as per this circular and advise the entities to ensure compliance.

On observing non-compliance, the recognized stock exchange shall impose a fine of Rs5,000/- per day of non-compliance on the listed entity and such fine shall continue to be imposed till the date of compliance by such listed entity. The recognized stock exchange shall intimate the depositories to freeze the entire shareholding of the promoter and promoter group in such listed entity till the date of compliance by such entity. The above restriction shall not be an impediment for the entity for compliance with the minimum public shareholding norms through the methods specified/ approved by SEBI. The promoters, promoter group and directors of the listed entity shall not hold any new position as director in any other listed entity till the date of compliance by such entity. An intimation to this effect shall be provided to the listed entity by the recognized stock exchange and the listed entity shall subsequently intimate the same to its promoters, promoter group and directors.

In cases where the listed entity continues to be non-compliant for a period more than one year; the recognized stock exchange shall impose an increased fine of Rs10,000/- per day of non-compliance on the listed entity and such fine shall continue to be imposed till the date of compliance by such listed entity. The recognized stock exchange shall intimate the depositories to freeze all the securities held in the Demat account of the promoter and promoter group till the date of compliance by such entity. The above restriction shall not be an impediment for the entity with respect to compliance with the minimum public shareholding norms through the methods specified/approved by SEBI.

The recognized stock exchange may also consider compulsory delisting of the non-compliant listed entity in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956, the Securities Contracts (Regulation) Rules, 1957 and the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 as amended from time to time.

The amount of fine realized as per the above structure shall be credited to the "Investor Protection Fund" of the concerned recognized stock exchange. If any non-compliant listed entity fails to pay the fine despite receipt of the notice as stated above, the recognized stock exchange may initiate appropriate action.

Criteria for Settlement Mode of Commodity Derivative Contracts (SEBI: October 17, 2017)[11]

In order to effectively discharge the hedging function, commodity derivative contracts must be anchored to their respective underlying physical markets. An appropriate settlement mode and/or presence of other supporting conditions play a crucial role in ensuring convergence of prices between the derivatives market and the spot market. In consultation with the Commodity Derivatives Advisory Committee (CDAC) the following broad guidelines are being specified for deciding appropriate settlement mode for commodity derivatives contracts:

1. The first preference of settlement type shall always be by the way of physical delivery.

[10] http://www.sebi.gov.in/legal/circulars/oct-2017/non-compliance-with-the-minimum-public-shareholding-mps-requirements_36216.html
[11] http://www.sebi.gov.in/legal/circulars/oct-2017/criteria-for-settlement-mode-of-commodity-derivative-contracts_36281.html

2. Any exemption from the above i.e. cash settlement of commodity derivatives contract, may be considered only in following scenarios with a proper justification –

   a. Physical delivery is difficult to implement due to any reason, which may inter-alia include i) intangible commodity, ii) commodity which is difficult to store may be due to low shelf life or inadequate storage infrastructure; or iii) it is difficult to physically handle and transport the commodity due to inadequate logistics and transport infrastructure.

   b. There is availability of reliable benchmark price of the commodity which can be used as reference for settlement price. Exchanges shall satisfy themselves that the reference spot price is robust – fair indicator of prevailing prices and not susceptible to any distortion/manipulation.

3. Both cash settled and physically settled derivative contracts on the same commodity may also be considered for trading, in case basis of price discovery of the proposed contracts is different.

4. Circulars Related to IFSC

SEBI issues guidelines for participation / functioning of Eligible Foreign Investors (EFIs) and FPIs in International Financial Services Centre (IFSC) (SEBI: January 04, 2017)

Pursuant to announcement made in the Union Budget 2015-16 on Gujarat International Finance Tec-City (GIFT), SEBI, in consultation with stakeholders, is laying down requisite regulatory framework for facilitating and regulating financial services relating to securities market in an International Financial Services Centre (IFSC). Accordingly, SEBI issued IFSC Guidelines, 2015 on March 27, 2015 and also issued further guidelines for functioning of Stock Exchanges and Clearing Corporations in IFSC on November 28, 2016.

Based on consultations held with the stakeholders on the proposed regulatory framework on participation of Eligible Foreign Investors (EFIs), in partial modification to SEBI (IFSC) Guidelines, 2015, it has been decided as follows:

a. SEBI registered FPIs ("FPIs") can operate in IFSC without undergoing any additional documentation and/or prior approval process.

b. In case of participation of FPIs in IFSC, a trading member of the recognized stock exchange in IFSC, may rely upon the due diligence process already carried out by a SEBI registered intermediary during the course of registration and account opening process in India.

c. In case of participation of an EFI, not registered with SEBI as an FPI, but desirous of operating in IFSC, a trading member of the recognized stock exchange in IFSC, may rely upon the due diligence carried out by a bank, which is permitted by RBI to operate in IFSC, during the account opening process of EFI.

d. FPIs, who presently operate in Indian securities market and propose to operate in IFSC also, shall be required to ensure clear segregation of funds and securities. Custodians shall, in turn, monitor compliance of this provision for their respective FPI clients. Such FPIs shall keep their respective custodians informed about their participation in IFSC.

Inclusion of "Derivatives on Equity shares" – IFSC (SEBI: April 13, 2017)[12]

Based on the recommendations of the Risk Management Review Committee of SEBI, it has been decided to specify "Derivatives on equity shares of a company incorporated in India" as permissible security under sub-clause of Clause 7 of SEBI (IFSC) Guidelines, 2015. Accordingly, the recognized stock exchanges operating in IFSC may permit dealing in 'Derivatives on equity shares', subject to prior approval of SEBI.

SEBI registered Foreign Portfolio Investors (FPIs), operating in IFSC and eligible entities which are incorporated and operating in IFSC are eligible to trade in 'derivatives on equity shares'.

[12] http://www.sebi.gov.in/legal/circulars/apr-2017/inclusion-of-derivatives-on-equity-shares-ifsc_34638.html

The Market Wide Position Limit (MWPL) for 'derivatives on equity shares' should be equal to ten percent of the number of shares held by non-promoters in the relevant underlying security (i.e. free-float holding). Further, the MWPL for 'derivatives on equity shares' in recognized stock exchanges in IFSC should be reckoned separately from that in recognized stock exchanges in domestic market and the MWPL (in value terms), in no circumstances, should exceed the fifty percent of the MWPL (in value terms) in recognized stock exchanges in domestic market.

SEBI (International Financial Services Centres) Guidelines, 2015 - IFSC Banking Units (IBUs) acting as Trading Member or Professional Clearing Member on stock exchanges/clearing corporations in IFSC (SEBI: April 27, 2017)

Clause 8 of SEBI (IFSC) Guidelines, 2015 provides that "Any recognised entity or entities desirous of operating in IFSC as an intermediary, may form a company to provide such financial services relating to securities market, as permitted by the Board".

Based on the representations received from the market participants and Reserve Bank of India (RBI) circular dated April 10, 2017, it is clarified that an IFSC Banking Unit (IBU) set up in IFSC shall be permitted to act as a Trading Member of an exchange or a Professional Clearing Member of a clearing corporation in IFSC, without forming a separate company, subject to the conditions mentioned in the aforesaid RBI circular.

SEBI (International Financial Services Centres) Guidelines, 2015 - Permissible investments by Portfolio Managers, Alternate Investment Funds and Mutual Funds operating in IFSC (SEBI: May 13, 2017)[13]

SEBI (IFSC) Guidelines, 2015 (Clause 9 (4) and Clause 22 (3)) specified the securities in which portfolio managers and alternative investment fund or mutual fund respectively, operating in IFSC are permitted to invest in. Based on the consultations held with the stakeholders, it has been decided to amend Clauses 9 (4) and 22 (3) of the Guidelines. The amended Clauses shall read as follows:

A. Clause 9 (4) of SEBI (IFSC) Guidelines, 2015 is amended to read as follows:

"A portfolio manager operating in IFSC shall be permitted to invest in the following: (a) Securities which are listed in IFSC; (b) Securities issued by companies incorporated in IFSC; (c) Securities issued by companies incorporated in India or companies belonging to foreign jurisdiction, subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and Government of India from time to time".

B. Clause 22 (3) of SEBI (IFSC) Guidelines, 2015 is amended to read as follows:

"Any alternative investment fund or mutual fund operating in IFSC shall be permitted to invest in the following: (a) Securities which are listed in IFSC; (b) Securities issued by companies incorporated in IFSC; (c) Securities issued by companies incorporated in India or companies belonging to foreign jurisdiction, subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and Government of India from time to time".

Further, it has clarified that such portfolio manager, alternative investment fund or mutual fund shall invest in India through the foreign portfolio investor route.

Position limits for cross-currency futures and options contracts (not involving Indian Rupee) on exchanges in International Financial Services Centres (IFSC) (SEBI: May 17, 2017)

According to the SEBI (International Financial Services Centres) Guidelines, 2015 were notified on March 27, 2015, which came into force on April 01, 2015 wherein currency derivatives were specified as permissible securities in which dealing may be permitted by stock exchanges in IFSC.

It has been decided that for cross-currency futures and options contracts (not involving Indian Rupee), the position limits for eligible market participants, per currency pair per stock exchange, are as follows:

[13] http://www.sebi.gov.in/legal/circulars/may-2017/securities-and-exchange-board-of-india-international-financial-services-centres-guidelines-2015-permissible-investments-by-portfolio-managers-alternate-investment-funds-and-mutual-funds-operatin-_34951.html

a. Gross open position across all contracts not to exceed 15% of the total open interest or USD 1 billion equivalent, whichever is higher for Trading Members (positions on proprietary basis as well as clients' position), Institutional Investors and Eligible Foreign Investors.

b. Other Clients – Gross open position across all contracts not to exceed 6% of the total open interest or USD 100 million equivalent, whichever is higher.

Stock exchanges have to impose appropriate penalties for violation of position limits by eligible market participants.

Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 – Amendments (SEBI: July 27, 2017)

Eligibility and shareholding limit for stock exchanges desirous of operating in IFSC: Any Indian recognised stock exchange or any recognised stock exchange of a foreign jurisdiction shall form a subsidiary to provide the services of stock exchange in IFSC wherein at least fifty one percent of paid up equity share capital shall be held by such stock exchange and the remaining share capital shall be held by the following: i) any other stock exchange, ii) a depository, iii) a banking company, iv) an insurance company, v) commodity derivatives exchange, whether Indian or of foreign jurisdiction and vi) a public financial institution of Indian jurisdiction, provided that any one of the aforesaid entities may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, up to fifteen per cent of the paid up equity share capital of such stock exchange.

Eligibility and shareholding limit for clearing corporations desirous of operating in IFSC: Any Indian recognised stock exchange or clearing corporation, or, any recognized stock exchange or clearing corporation of a foreign jurisdiction shall form a subsidiary to provide the services of clearing corporation in IFSC wherein at least fifty one per cent of paid up equity share capital shall be held by such stock exchange or clearing corporation, and the remaining share capital shall be held by the following: i) any other stock exchange, ii) a clearing corporation, iii) a depository, iv) a banking company, v) an insurance company, whether Indian or of foreign jurisdiction and vi) a public financial institution of Indian jurisdiction, provided that any one of the aforesaid entities may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, up to fifteen per cent of the paid up equity share capital of such clearing corporation.

Eligibility and shareholding limit for foreign depositories desirous of operating in IFSC: Any regulated depository of a foreign jurisdiction shall form a subsidiary to provide the depository services in IFSC where at least fifty one per cent of paid up equity share capital is held by such depository and remaining shares may be offered to any other registered depository or recognised stock exchange or clearing corporation, whether Indian or of foreign jurisdiction

Setting up of IFSC Depositories Services by Indian registered depositories: Any Indian registered depository may set up a branch – IFSC Depository Services (IDS) at IFSC. The interested depositories shall be required to obtain prior approval of the Board for setting up an IDS. Such Indian depository shall be required to ring fence its domestic operations, financially, operationally and technologically, from its operations at IFSC.

Participation of Foreign Portfolio Investors (FPIs) in Commodity Derivatives in IFSC (SEBI: September 26, 2017)

FPIs are permitted to participate in commodity derivatives contracts traded in stock exchanges in IFSC subject to following conditions:-

a. The participation would be limited to the derivatives contracts in non-agricultural commodities only.

b. Contracts would be cash settled on the settlement price determined on overseas exchanges.

c. All the transactions shall be denominated in foreign currency only.

5. Circulars Related to Foreign Portfolio Investors (FPIs)

Investments by FPIs in corporate debt securities (SEBI: February 28, 2017; July 20, 2017; September 29, 2017)

RBI on October 24, 2016, had amended the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) (Twelfth Amendment) Regulations, 2016 through a Gazette notification to permit FPIs to invest in unlisted corporate debt and securitised debt instruments. Thereafter, RBI vide circular RBI/2016-17/138 dated November 17, 2016 had enhanced the list of eligible instruments for investment by FPIs under the Corporate debt route along with certain terms and conditions. Accordingly, the SEBI (Foreign Portfolio Investors) (Second Amendment) Regulations, 2017 were notified on February 27, 2017. It has been decided to permit FPIs to invest in the following:

- Unlisted corporate debt securities in the form of non-convertible debentures/bonds issued by public or private Indian companies subject to the guidelines issued by the Ministry of Corporate Affairs, Government of India from time to time and also subject to minimum residual maturity of three years and end use-restriction on investment in real estate business, capital market and purchase of land. The expression 'Real Estate Business' shall have the same meaning as assigned to it in Foreign Exchange Management (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000 Notification No.FEMA.362/2016-RB dated February 15, 2016. The custodians of the FPIs should put in place an appropriate mechanism to ensure compliance with these conditions as prescribed by RBI from time to time.
- Securitised debt instruments as under 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 any certificate or instrument issued and listed in terms of the SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008.
- Investment by FPIs in the unlisted corporate debt securities and securitised debt instruments should not exceed INR 35,000 cr. within the extant corporate debt limit which currently is INR 2,44,323 cr.
- Further, investment by FPIs in securitised debt instruments should not be subject to the minimum 3-year residual maturity requirement.

In the July 20, 2017 circular, SEBI notified that the CCDL shall be available on tap for investment by foreign investors till the overall investment reaches 95%, after which, the auction mechanism shall be initiated for allocation of the remaining limits.

In the event the overall FPI investment in CCDL exceeds 95% (as indicated by the debt utilisation status updated daily on the websites of NSDL and CDSL), the following procedure shall be followed:

a. The depositories (NSDL and CDSL) shall direct the custodians to halt all FPI purchases in corporate debt securities.

b. The depositories shall then inform the exchanges (NSE and BSE) regarding the unutilised debt limits for conduct of auction. Upon receipt of information from the depositories, the exchange (starting with BSE) shall conduct an auction for the allocation of unutilised debt limits on the second trading day from the date of receipt of intimation from the depositories. Thereafter, the auction shall be conducted alternately on NSE and BSE.

c. The auction shall be held only if the free limit is greater than or equal to INR 100 cr. However, if the free limit remains less than 100 cr for 15 consecutive trading days, then an auction shall be conducted on the sixteenth trading day to allocate the free limits.

The subsequent auction would be held 12 trading days after the previous auction, subject to the fulfilment of the condition mentioned at Point (3c) above.

As Rupee denominated bonds issued by Indian corporates overseas are covered under CCDL, issuance of such bonds overseas shall temporarily cease, until the limit utilisation falls back to below 92%.

The auction mechanism shall be discontinued and the limits shall be once again available for investment on tap when the debt limit utilisation falls below 92%. It is clarified that in such a scenario, the reinvestment facility mentioned at

Point (3f) shall be terminated and cannot be availed for the same limits when the utilisation crosses 95% again. The custodians shall monitor and report the reinvestment facility availed by the FPIs to the depositories.

Further, with effect from October 03, 2017, foreign investments in RDB shall no longer be reckoned against the CCDL. Further, the CCDL shall be renamed as the Corporate Debt Investment Limits (CDIL) for FPIs. The upper limit for CDIL shall, henceforth, be stated only in Rupee terms.

As on September 22, 2017, foreign investments in RDB was INR 32,381 cr while the undrawn amount against RDB was INR 11,620 cr. Thus, a total of INR 44,001 cr has been reckoned against RDB within the CCDL of INR 244,323 cr. This amount shall be carved out of erstwhile CCDL and will be added to the new limit of CDIL as under:-

All figures are in Rs cr	October 02, 2017	October 03, 2017	January 01, 2018
CCDL*	244,323	0	0
CDIL	0	227,322	244,323
Sub-Limit for investment by Long Term FPIs in the infrastructure sector	NA	9,500	19,000

**includes RDB of Rs 44,001cr*

A sub-limit exclusively for investments by Long Term FPIs (Sovereign Wealth Funds (SWFs), Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks) in the infrastructure sector shall be created within the overall CDIL. The term 'Infrastructure' shall be as defined under the Master Direction on External Commercial Borrowings issued by the Reserve Bank of India. However, Long term FPIs will continue to be eligible to invest in sectors other than infrastructure, as hitherto.

The sub-limit for Long Term FPIs shall include their investment in both listed and unlisted corporate debt issued by companies in the infrastructure sector. As prescribed in the SEBI circular SEBI/HO/IMD/FPIC/CIR/P/2017/16 dated February 28, 2017, investments by FPIs in the unlisted corporate debt securities and securitised debt instruments shall not exceed INR 35,000 cr within the extant CDIL.

Investments by FPIs in Government Securities (SEBI: April 03, 2017)[14]

RBI in its Fourth Bi-monthly Policy Statement for the year 2015-16, dated September 29, 2015 had announced a Medium Term Framework (MTF) for FPI limits in Government securities in consultation with the Government of India. Accordingly, SEBI had issued circulars CIR/IMD/FPIC/8/2015 dated October 06, 2015, IMD/FPIC/CIR/P/2016/45 dated March 29, 2016 and IMD/FPIC/CIR/P/2016/107 dated October 03, 2016 regarding the allocation and monitoring of FPI debt investment limits in Government securities.

As indicated in the A.P. (DIR Series) Circular No. 43 dated March 31, 2017 of RBI, it has been decided to revise the limit for investment by FPIs in Government Securities, for the April – June 2017 quarter, as follows:

a. Limit for FPIs in Central Government securities shall be enhanced to INR 184,901 cr.

b. Limit for Long Term FPIs (Sovereign Wealth Funds (SWFs), Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks) in Central Government securities shall be revised to INR 46,099 cr.

c. The limit for investment by all FPIs in State Development Loans (SDL) shall be enhanced to INR 27,000 cr.

[14] http://www.sebi.gov.in/legal/circulars/apr-2017/investments-by-fpis-in-government-securities_34530.html

The revised FPI debt limits would be as follows;

Type of Instrument	Upper Cap as on March 31, 2017 (Rs cr.)	Revised Upper Cap with effect from April 03, 2017 (Rs cr.)
Government Debt	152,000	184,901
Government Debt – Long Term	68,000	46,099
State Development Loans	21,000	27,000
Total	**241,000**	**258,000**

Guidelines for issuance of ODIs, with derivative as underlying, by the ODI issuing FPIs. (SEBI: July 7, 2017)

The ODI issuing FPIs shall not be allowed to issue ODIs with derivative as underlying, with the exception of those derivative positions that are taken by the ODI issuing FPI for hedging the equity shares held by it, on a one to one basis.

In the case of the existing ODIs which have been issued by the ODI issuing FPIs with derivatives as underlying, where the said underlying derivatives position are not for purpose of hedging the equity shares held by it, the ODI issuing FPI has to liquidate such ODIs latest by the date of maturity of the ODI instrument or by December 31, 2020, whichever is earlier. However, ODI issuing FPIs should endeavor to liquidate such ODI instruments prior to the said timeline.

In the case of issuance of fresh ODIs with derivatives as underlying, a certificate has to be issued by the compliance officer (or equivalent) of the ODI issuing FPI, certifying that the derivatives position, on which the ODI is being issued, is only for hedging the equity shares held by it, on a one to one basis. The said certificate shall be submitted along with the monthly ODI reports.

It is clarified that the term "hedging of equity shares" means taking a one-to-one position in only those derivatives which have the same underlying as the equity share.

Investments by FPIs in Hybrid Securities (SEBI: November 15, 2017)[15]

This has reference to the daily FPI net investment data and the FPI Assets Under Custody (AUC) data being disseminated by the depositories (NSDL and CDSL). Presently, FPI investments are classified as either debt or equity depending on the type of the security in which the FPIs transact.

FPIs are permitted to invest in REITs and InvITs, which are classified as hybrid securities and presently, the said investments are not reflected in the daily FPI net investment data or the monthly/fortnightly FPI AUC data. In order to capture FPI investment data in hybrid securities, a third category termed as "Hybrid Security" shall be created for the purpose of capturing and disseminating FPI investment data in hybrid securities. 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 AUC of the FPIs in debt, equity and hybrid securities.

6. Circulars Related to Other Stakeholders

Disclosures relating to regulatory orders and arbitration matters on websites of Clearing Corporations (SEBI: March 16, 2017)

In order to improve transparency in disclosing the regulatory orders and arbitration awards issued by clearing corporations, it has been decided that all regulatory orders i.e. orders against clearing members and arbitration / appellate awards by arbitrators need to be made available to investors.

Accordingly, it has been decided that the Clearing Corporations shall post all regulatory orders and arbitration / appellate awards issued since June 20, 2012, on their websites within 30 days. Further, all regulatory orders and arbitration / appellate awards as and when issued by Clearing Corporations from the date of this circular shall be posted on their website immediately.

15 http://www.sebi.gov.in/legal/circulars/nov-2017/investments-by-fpis-in-hybrid-securities_36597.html

In addition to the above, Clearing Corporations shall disseminate information with respect to brief profile, qualification, areas of experience / expertise, number of arbitration matters handled, pre-arbitration experience, etc. of the arbitrators on their website.

The Clearing Corporations are also advised to:

a. disseminate the provisions of this circular on the website;

b. communicate to SEBI, the status of the implementation of the provisions of this circular in the Monthly Development Report.

Enhanced Standards for Credit Rating Agencies (CRAs) – Clarifications (SEBI: March 31, 2017)

SEBI has clarified the previous Circular dated November 01, 2016 on Enhanced Standards for Credit Rating Agencies (CRAs) on several aspects which are as follows;

1. Considering the nature of instruments, following details may not be provided under the head "Details of Instruments";
   - Interest rate/ coupon rate for all types of bank loan facilities.
   - Maturity details for working capital facilities (including cash credit facilities).
   - Tranche-wise interest rate and maturity details for money market instruments such as Commercial Papers, Certificate of Deposit and short-term NCDs which are reissued frequently. However, the range of duration of these instruments (e.g. 7 - 90 days) shall be provided in the press release.
2. Under the head "Standardization of Press Release for Rating Actions, rating outlooks may not be assigned for:
   - Short term ratings,
   - Ratings in the C and D categories,
   - Ratings on watch,
   - Ratings of securitization transactions backed by pool of loans, as CRAs are already mandated to disclose at least once in every six months the performance of the rated pool, as per provisions of CIR/MIRSD/CRA/6/2010 dated May 03, 2010,
   - Credit quality ratings of mutual fund schemes, provided surveillance of the fund's holdings is carried out by the CRAs on a monthly basis.
3. Policy in respect of non-co-operation by the issuer should be mentioned as "Issuer Not Cooperating" by the credit analyst.
4. It has also clarified that
   - Bank loans/ facilities generally being non-transferable in nature and their only user being banks, withdrawal of ratings is permitted. All norms/ standards prescribed in this regard vide Circular dated March 01, 2012 shall continue to apply.
   - Open ended Mutual Fund schemes being perpetual in nature and having no specified maturity, withdrawal of rating of such schemes is permitted. However, as units of such schemes are held by many investors, such ratings shall be placed on notice of withdrawal for at least 30 days, which shall be publicly available on the CRAs website.
   - Ratings of the aforementioned facilities/ securities can be withdrawn after receiving request for withdrawal from the Asset Management Company (AMC) in case of mutual funds; or request for withdrawal from the Borrower along with No Objection from the lending bank(s) in case of Bank facilities.
   - At the time of withdrawal, the CRA shall assign a rating to such facility/security and issue a press release as

per the format prescribed vide Circular dated November 01, 2016. The Press Release shall also mention the reason(s) for withdrawal.

Circular on Capacity Planning Framework for the Depositories (SEBI: April 03, 2017)[16]

The capacity planning framework of the Stock Exchanges and Clearing Corporations was reviewed by Technical Advisory Committee (TAC) of SEBI. Based on recommendations of the committee, circular no. CIR/MRD/DP/17/2015 dated October 08, 2015 was issued to the Stock Exchanges and Clearing Corporations with regard to their capacity planning.

Depositories have been identified as Financial Market Infrastructure Institutions which facilitate and perform systemically critical functions in the securities market. In view of their importance in the smooth functioning of the securities market, the framework for capacity planning of the Depositories was also discussed in TAC. Based on recommendations of the committee, it has been decided to put in place following requirements for Depositories while planning capacities for their operations:

- The installed capacity shall be at least 1.5 times (1.5x) of the projected peak load.
- The projected peak load shall be calculated for the next 60 days based on the per hour peak load trend of the past 180 days.
- The Depositories shall ensure that the utilisation of resources in such a manner so as to achieve work completion in 70% of the allocated time.
- All systems pertaining to Depository operations shall be considered in this process including all technical components such as network, hardware, software, etc., and shall be adequately sized to meet the capacity requirements.
- In case the actual capacity utilisation exceeds 75% of the installed capacity for a period of 15 days on a rolling basis, immediate action shall be taken to enhance the capacity.
- The actual capacity utilisation shall be monitored especially during the period of the day in which pay-in and pay-out of securities takes place for meeting settlement obligations.

Depositories should implement suitable mechanisms, including generation of appropriate alerts, to monitor capacity utilisation on a real-time basis and proactively address issues pertaining to their capacity needs.

Depositories are directed to:

- take necessary steps and put in place necessary systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations, within three months from the date of this circular,
- bring the provisions of this circular to the notice of the depository participants and also disseminate the same on its website; and
- communicate to SEBI the status of implementation of the provisions of this circular.

Acceptance of Central Government Securities by Clearing Corporations towards Core Settlement Guarantee Fund (SGF) Contribution by Clearing Members (SEBI: April 26, 2017)

Based on the feedback received from the market participants and the recommendation of the Risk Management Review Committee of SEBI on the Circular related to the guidelines for Core Settlement Guarantee Fund, Default Waterfall and Stress Test for Clearing Corporations, it has been decided that the clearing members are permitted to bring their contribution towards Core Settlement Guarantee Fund, in the form of Central Government Securities, in addition to Cash and Bank Fixed Deposits.

16 http://www.sebi.gov.in/legal/circulars/apr-2017/circular-on-capacity-planning-framework-for-the-depositories_34529.html

Clearing Corporations are directed to:

a. take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations;

b. bring the provisions of this circular to the notice of their members and also disseminate the same on its website; and

c. communicate to SEBI, the status of implementation of the provisions of this circular in the Monthly Report.

Introduction of Legal Entity Identifier for OTC derivatives markets (RBI: June 01, 2017)

The Legal Entity Identifier (LEI) code has been conceived of as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. The LEI is a 20-character unique identity code assigned to entities who are parties to a financial transaction.

It has been decided to implement the LEI system for all participants in the Over-the-Counter (OTC) markets for Rupee Interest Rate derivatives, foreign currency derivatives and credit derivatives in India, in a phased manner. Accordingly, all current and future participants would be required to obtain the unique LEI code as per time lines indicated in the attached schedule. Entities without an LEI code would not be eligible to participate in the OTC derivative markets, after the date specified in the schedule.

Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support the implementation and use of the LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd. (LEIL) which has been recognised by the Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI.

Issuance of Rupee Denominated Bonds (RDBs) Overseas (RBI: September 22, 2017)

The attention of Authorized Dealer Category - I (AD Category - I) banks is drawn to the provisions contained in paragraphs 2 and 8 of A.P. (DIR Series) Circular No.60 dated April 13, 2016 on issuance of Rupee denominated bonds overseas. The paragraphs 3.2 and 3.3.9 of Master Direction No.5 dated January 1, 2016 on "External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than Authorised Dealers" is amended from time to time.

It has been decided, in consultation with the Government of India, to exclude issuances of RDBs from the limit for investments by FPIs in corporate bonds with effect from October 3, 2017 vide A. P. (DIR Series) Circular No. 05 dated September 22, 2017.

Consequently, reporting requirement in terms of paragraph 8 (additional email reporting of RDB transactions for onward reporting to depositories) of A.P. (DIR Series) Circular No. 60 dated April 13, 2016 has been dispensed. However, it should be noted that the reporting of RDBs will continue as per the extant ECB norms.

All other aspects of the ECB policy remain unchanged. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers.

C. Corporate Governance Developments

Corporate Governance in India: Developments and Policies

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 35.6 billion in 2016-17 (RBI, Handbook of Statistics on Indian Economy, 2017). 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.

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 2018, India has jumped 30 positions higher, achieving a rank of 100 among 190 countries in 2017. With eight reforms making it easier to do business in 2016/17, India was the only economy in South Asia to join the list of the 10 top improvers. India's relative ranking in all the above stated components for last three years is given below:

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

Sr. No	Indicator	2016	2017	2018
1	Ease of doing business	131	130	100
2	Starting a business	151	155	156
3	Dealing with construction permits	184	185	181
4	Getting electricity	51	26	29
5	Registering property	140	138	154
6	Getting credit	42	44	29
7	Protecting minority investors	10	13	4
8	Paying taxes	172	172	119
9	Trading across borders	142	143	146
10	Enforcing contracts	178	172	164
11	Resolving insolvency	135	136	103

Source: World Bank's Doing Business 2018

The improvements made across different areas of ease of doing business include:

- **Starting a business:** India made starting a business faster by merging the applications for the Permanent Account Number (PAN) and the Tax Account Number (TAN) and by improving the online application system. This reform applies to both Delhi and Mumbai. Mumbai also made starting a business faster by merging the applications for value added tax and the Profession Tax.
- **Dealing with construction permits:** India reduced the number of procedures and time required to obtain a

building permit by implementing an online system that has streamlined the process at the Municipality of New Delhi and Municipality of Greater Mumbai.

- **Getting credit**: India strengthened access to credit by amending the rules on priority of secured creditors outside reorganization proceedings and by adopting a new law on insolvency that provides a time limit and clear grounds for relief to the automatic stay for secured creditors during reorganization proceedings.
- **Protecting minority investors**: India strengthened minority investor protections by increasing the remedies available in cases of prejudicial transactions between interested parties.
- **Paying taxes**: India made paying taxes easier by requiring that payments be made electronically and introducing a set of administrative measures easing compliance with corporate income tax.
- **Trading across borders**: India reduced import border compliance time in Mumbai by improving infrastructure at the Nhava Sheva Port. Export and import border compliance costs were also reduced in both Delhi and Mumbai by eliminating merchant overtime fees and through the increased use of electronic and mobile platforms.
- **Enforcing contracts**: India made enforcing contracts easier by introducing the National Judicial Data Grid, which makes it possible to generate case management reports on local courts.
- **Resolving insolvency:** India made resolving insolvency easier by adopting a new insolvency and bankruptcy code that introduced a reorganization procedure for corporate debtors and facilitated continuation of the debtor's business during insolvency proceedings.
- **Labour market regulation**: India increased the mandatory length of paid maternity leave

Notably, India's ranking has improved mainly due to improvements in three indicators; viz., getting credit, protecting minority investors, taxes reforms and resolving insolvency. Table 2 shows that in terms of "protecting minority investors", India has performed better than not just the other BRICS countries but also an advanced economy like the United States of America (USA) and UK. In terms of "getting electricity", India is doing better than Brazil, China, South Africa and USA. India's ranking in "getting credit" is far better than Brazil, China and South Africa, and as good as Russia and UK.

Table 2: India's comparison with selected advanced countries, 2018

Parameters (Rank)	India	Brazil	Russia	China	S.Africa	USA	UK
Getting electricity	29	45	10	98	112	49	9
Getting credit	29	105	29	68	68	2	29
Protecting minority investors	4	43	51	119	24	42	10
Paying taxes	119	184	52	130	46	36	23

Source: World Bank's Doing Business 2018

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 March 2016 – September 2017 are summarised as follows.

3.1 The Companies (Amendment) Bill, 2017

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. This was then further referred to the Standing Committee on Finance for review, after which the 2016 Bill was renamed to Companies (Amendment) Bill, 2017 and reintroduced in the Lok Sabha. The bill was passed by Lok Sabha on July 27, 2017 and Rajya Sabha on December 19, 2017.

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 (currently 7) 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]

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.

[1] http://www.nfcg.in/UserFiles/ca-amendment-bill.pdf

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.

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.

iii. On January 4, 2017, the title of regulation 26 "Obligations with respect to directors and senior management" was substituted by "Obligations with respect to employees including senior management, key managerial persons, directors and promoters". According to the amendment, a new sub-regulation was included namely, no employee including key managerial personnel or director or promoter of a listed entity was allowed to enter into any agreement for himself or on behalf of any other person, with any shareholder or any other third party with regard to compensation or profit sharing in connection with dealings in the securities of such listed entity. The same was permitted if a prior approval was obtained from the Board of Directors as well as public shareholders by way of an ordinary resolution, with some exceptions.

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

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

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 2,96,061cr) 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.

5. Kotak Committee report on Corporate Governance[3]

The SEBI Committee on corporate governance was formed on June 2, 2017 under the Chairmanship of Mr. Uday Kotak with the aim of improving standards of corporate governance of listed companies in India. The Committee was requested to submit its report to SEBI within four months. With the aim of improving standards of corporate governance of listed companies in India, the Committee was requested to make recommendations to SEBI on the following issues:

i. ensuring independence in spirit of Independent Directors and their active participation in functioning of the company;

ii. improving safeguards and disclosures pertaining to Related Party Transactions;

iii. issues in accounting and auditing practices by listed companies;

iv. improving effectiveness of Board Evaluation practices;

v. addressing issues faced by investors on voting and participation in general meetings;

vi. disclosure and transparency related issues, if any;

vii. any other matter, as the Committee deems fit pertaining to corporate governance in India.

The report was submitted on October 5, 2017.

Some of the key recommendations of the Committee included:

1. For any listed entity, a minimum of six directors should be required on the board of directors

2. every listed entity should have at least one independent woman director on its board of directors to further improve gender diversity on corporate boards

[3] https://www.sebi.gov.in/reports/reports/oct-2017/report-of-the-committee-on-corporate-governance_36177.html

3. if a director does not attend at least half of the total number of board meetings over two financial years on a rolling basis, his/her continuance on the board should be ratified by the shareholders at the next annual general meeting

4. the board of directors of every listed entity should be required to list the competencies/expertise that it believes its directors should possess. It should also be required to disclose the list of competencies/expertise that its board members actually possess

5. no listed entity shall appoint a person or continue the directorship of any person as a nonexecutive director who has attained the age of seventy five years unless a special resolution is passed to that effect, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person

6. the minimum number of meetings of board of directors to be increased to five every year

7. at least once every year, an interaction should be required between the Non-executive Directors and senior management

8. listed entities with more than 40% public shareholding should separate the roles of Chairperson and MD/CEO with effect from April 1, 2020

Subsequently, the Committee recognises that SEBI has worked on investigations in coordination with other regulatory agencies, and believes that there is substantial scope to develop cross-regulator coordination to ensure effective enforcement.

6. Corporate governance initiatives undertaken by NSE

6.1 NSE-IGIDR Conference on Corporate Governance

The NSE-IGIDR Conference on Corporate Governance was held on March 23-24, 2017 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 topic chosen for panel discussion in this year's conference is 'Moving Ahead with Corporate Social Responsibility' -- a topic of increasing interest among policy makers. How has corporate social responsibility (CSR) evolved over time in India? What has been the corporate experience since CSR has become mandatory? Are there any implementation issues? What is the road ahead for CSR in India? These were some of the questions that were discussed.

The other highlight of the conference was the keynote speech, which was delivered by Prof. Krishnamurthy Subramanian of Indian School of Business, Hyderabad. Prof. Krishnamurthy, who was a member of the P.J. Nayak committee on governance of bank boards, focussed on governance issues in the Indian banking sector in his speech. On the second day of the conference (March 24), key findings of some of the selected research papers related to corporate governance were presented and reviewed.

6.2 NSE-ECGI Roundtable on 'Long-term impact of institutional ownership on governance and sustainable investment'

The NSE-ECGI Roundtable on 'Long-term impact of institutional ownership on governance and sustainable investment' took place on November 13, 2017 at the NSE premises. This was the first collaboration between NSE and the European Corporate Governance Institute (ECGI). ECGI is an international scientific non-profit association providing a forum for debate and dialogue between academics, legislators and practitioners, focusing on major corporate governance issues and thereby promoting best practices. The NSE-ECGI event focused on the role of foreign institutional investors and proxy advisory firms in promoting corporate governance and sustainable investment.

6.3 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 2017, the Centre has brought out four issues of the 'Quarterly Briefing' on the following topics:

a) Board and Audit Committee Meetings under Regulations – Compliance in Letter or Compliance in Spirit,

b) The Insolvency and Bankruptcy Code: Implications for Corporate Governance,

c) Board and Director Independence in Controlled Companies,

d) An Indian Stewardship Code: Imperatives and Challenges.

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

D. EMERGE: SME PLATFORM

EMERGE: SME PLATFORM

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 120 million people through over 36.1 million enterprises producing over 6000 products. The sector contributed about 6.1% to India's manufacturing GDP, 33.4% of the manufacturing output and 45% 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.

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.

3. NSE SME Platform: EMERGE

NSE launched its SME platform, EMERGE, in September 2012. Since its launch, there have been 124 listings on the

EMERGE platform till February 2018, of which 2 have migrated to the main board, with an approximate fund raising of Rs 1348cr. 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.

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 1,783 in September 2016 to 28,832 in October 2017. Further, the average daily turnover increased significantly from Rs 2.45cr to Rs 31.38cr over the same period. Currently two companies, Veto Switchgear Cable Ltd and Sanco Industries 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 September 2016 - October 2017, 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)
Sep-16	18	1783	88.10	48.94	20	1,047.98	0.03
Oct-16	27	3337	143.01	80.47	19	1,457.56	0.02
Nov-16	28	1719	85.94	41.38	21	1,349.73	0.02
Dec-16	27	1201	45.22	26.07	20	1,410.55	0.02
Jan-17	31	4046	127.91	85.11	21	1,680.99	0.02
Feb-17	33	5104	160.30	89.07	19	1,850.83	0.02
Mar-17	42	9402	283.15	187.13	22	2,411.26	0.02
Apr-17	48	7958	242.34	163.00	18	2,932.60	0.02
May-17	52	13124	286.20	229.93	22	3,494.03	0.02
Jun-17	53	8280	285.44	201.39	21	3,803.79	0.02
Jul-17	63	10595	344.02	215.15	21	4,299.18	0.02
Aug-17	69	11334	389.92	253.30	21	4,839.75	0.02
Sep-17	76	10914	368.97	290.79	21	5,376.62	0.03
Oct-17	93	28832	903.18	627.57	20	7,256.35	0.02

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 Sep 2016 - Oct 2017

Company Name	Total Traded Quantity (lakhs)	Total Traded Value (Rs crore)	Market Cap (Rs crore)
AARVI	19.62	12.37	109.40
ACCORD	23.08	17.16	21.18
ACEINTEG	10.38	3.84	20.09
AGROPHOS	183.42	41.71	53.83
AHIMSA	0.84	0.22	14.34
AIRAN	93.70	80.77	242.54
AIROLAM	53.52	26.40	71.33
AKASH	63.38	68.28	54.29
ARTNIRMAN	14.34	4.08	23.57
ASLIND	41.20	13.94	27.08
AURDIS	43.30	24.57	28.78
AVSL	1.44	0.47	14.39
BANSAL	72.84	37.81	55.20
BETA	46.45	48.02	112.62
BOHRA	50.20	27.91	53.04
CADSYS	29.54	28.97	85.53
CKPPRODUCT	18.81	9.50	20.16
CMMIPL	48.12	21.85	75.47
CREATIVE	22.80	23.63	62.21
CROWN	4.93	5.05	17.45
DEVIT	38.52	22.21	32.29
DPABHUSHAN	86.08	29.42	73.33
DPWIRES	7.78	5.75	101.69
DRL	9.69	3.78	14.08
EIFFL	19.15	22.32	362.82
EMKAYTOOLS	1.29	5.19	85.37
FOCUS	24.33	28.16	36.27
FORGE	21.72	7.52	23.25
FOURTHDIM	66.26	66.65	99.99
GEEKAYWIRE	27.00	8.98	27.70
GICL	23.76	5.91	20.66
GLOBAL	18.42	41.07	54.32
GLOBE	21.82	11.02	45.34
GOLDSTAR	12.72	3.33	27.81
GRETEX	19.26	3.49	6.15
HECPROJECT	2.27	2.38	19.26
HITECH	51.35	79.33	224.05
HUSYSLTD	6.58	3.07	7.98
INFOBEAN	113.56	77.16	150.46
INNOVATIVE	61.56	29.49	82.13
JALAN	28.35	11.21	56.70

Contd.

Contd.

Company Name	Total Traded Quantity (lakhs)	Total Traded Value (Rs crore)	Market Cap (Rs crore)
JASH	35.21	53.30	205.60
JETFREIGHT	27.26	17.72	63.44
JETKNIT	20.22	14.67	30.83
KEERTI	6.84	3.29	11.49
KKVAPOW	0.27	0.94	13.06
KRISHANA	115.00	40.90	87.15
LAXMICOT	44.52	8.20	27.35
LEXUS	145.95	132.84	225.20
LIBAS	43.74	31.55	68.55
MAHESHWARI	79.77	78.46	174.77
MANAV	9.72	2.14	12.99
MBAPL	88.83	33.34	111.72
MCL	14.60	21.58	61.61
MILTON	60.44	21.71	48.74
MITCON	38.48	25.82	84.70
MKPL	8.84	6.41	31.07
MOMAI	92.78	115.56	209.44
MPTODAY	46.40	39.83	46.27
NANDANI	16.76	7.62	15.04
NITIRAJ	11.35	9.50	56.59
OMFURN	4.08	0.91	14.65
OPAL	0.01	0.01	33.59
PANACHE	29.42	28.77	57.60
PANSARI	25.86	5.81	35.33
PASHUPATI	21.98	16.46	76.00
PERFECT	44.70	12.92	20.62
PROLIFE	19.44	7.91	16.27
PUSHPREALM	55.06	34.11	76.58
RELIABLE	45.32	28.95	55.26
RKEC	92.64	84.10	308.64
RMDRIP	19.50	12.54	52.52
SAGARDEEP	0.36	0.08	23.88
SAKAR	36.27	19.57	65.55
SANCO	38.02	31.37	108.39
SANGINITA	42.30	11.76	94.97
SERVOTECH	39.52	13.93	64.27
SHAIVAL	1.02	1.13	36.63
SHANTI	26.88	11.20	27.95
SHRENIK	109.53	88.63	485.01
SIIL	4.10	2.76	28.35
SIKKO	25.36	9.33	19.15

Contd.

Contd.

Company Name	Total Traded Quantity (lakhs)	Total Traded Value (Rs crore)	Market Cap (Rs crore)
SKML	0.94	0.43	60.94
SRIRAM	64.32	16.40	16.02
STEELCITY	153.54	113.93	203.95
SUREVIN	9.51	3.86	12.16
THEJO	5.08	14.29	139.06
TIRUPATI	19.44	8.65	46.50
TOTAL	57.18	30.39	71.82
TRANSWIND	34.44	12.78	23.75
UNITEDPOLY	15.84	4.10	13.58
UNIVASTU	19.20	8.04	27.28
VAISHALI	13.36	8.99	38.56
VSCL	101.79	96.33	166.81
WEALTH	2.31	1.32	48.59
WORTH	87.09	64.12	120.10
ZOTA	77.94	104.03	374.64

Source: NSE

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

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. It was last amended on February 12, 20187.

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;

[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 all existing partly paid-up equity shares of the issuer have either been fully paid up or forfeited;
- 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.

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:

[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.

- 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
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 (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. *Annual subscription charges:*

Charges	**Amount (Rs)**
*Annual Subscription charges for Professional Clearing Members in Cash segment	2,50,000/- per annum

3. *The professional clearing member (PCM) is required to bring in an IFSD of 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 (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 (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 will be applicable. The charges will be adjusted towards actual transaction charges.

2. Banks can trade on the Debt segment either as clients of registered trading members or directly as trading member on proprietary basis only (i.e own-account trades only). Such institutions desirous of trading on own account only shall be given trading membership under SEBI (Stock Broker and Sub-Broker) Regulations, 1992 as proprietary trading member. For obtaining membership in Debt segment, the requirements as mentioned above for corporate entities may be referred.

Fees/Eligibility Criteria

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

Corporatisation of Brokers and Sub-Brokers

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

Listing of Securities

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

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

Listing Fees in the CM Segment

The stock exchanges levy listing fees on the companies whose securities are listed with them. The listing fee has two components—an initial fee and an annual fee. 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. Up to Rs 5 crore	2,00,000
	c. Above Rs 50 crore and up to Rs 100 crore	2,55,000
	e. Above Rs 100 crore and up to Rs 200 crore	3,30,000
	g. Above Rs 200 crore and up to Rs 300 crore	4,15,000
	i. Above Rs 300 crore and up to Rs 400 crore	5,10,000
	k. Above Rs 450 crore and up to Rs 500 crore	6,70,000

Trading Mechanism

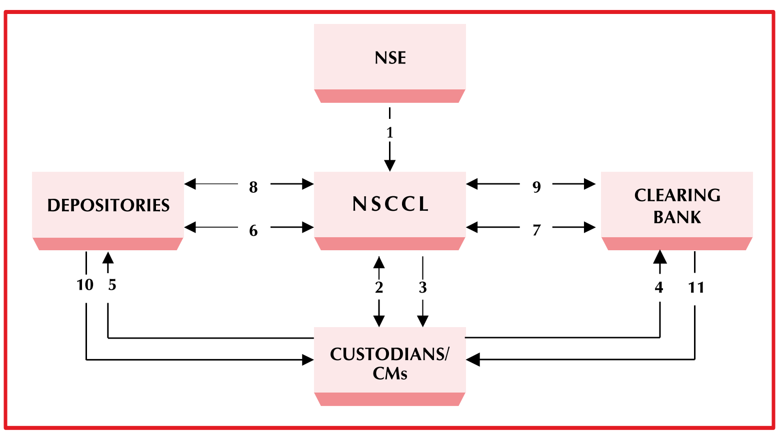
The National Exchange for Automated Trading (NEAT) is the trading system of the NSE. The NEAT facilitates an online, fully automated, nation-wide, anonymous, order-driven, screen-based trading system. In this system, a member can enter the quantities of securities and the prices at which he/she would 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.

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

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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.

(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 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 is T+1, whereas that for T-bill auctions is T+2. On the settlement date, the fund accounts of the participants are debited by their respective consideration amounts and their securities accounts (SGL accounts) are credited with the amount of securities that they were allotted.

Secondary Market

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

Clearing Corporation of India Limited (CCIL)

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

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

5. Corporate Bond Market

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

General Conditions for Issuance of Corporate Bonds

No issuer can make any public issue of debt securities if (as on the date of filing of the draft offer document and the final offer document) the issuer, or the person in control of the issuer, or its promoter, has been restrained or prohibited or debarred by the SEBI from accessing the securities market or dealing in securities, and such direction or order is in force.

No issuer can make a public issue of debt securities unless the following conditions are satisfied (on the date of filing the draft offer document and the final offer document):

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

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

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

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

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

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

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

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.

[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.

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

To further streamline the procedure of private placement of debt securities, SEBI has issued a revised EBP framework (effective from 1 April 2018) and has also allowed private placement of other classes of securities like Commercial Papers, Certificate of Deposits, Municipal Bonds and Non-Convertible Redeemable Preference Shares.

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.

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

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.

(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

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

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.

Further amendments in SCRR and SEBI Stock Broker Regulation notified in July 2017, removed restriction on stock brokers dealing in securities (other than commodity derivatives) to deal in commodity derivatives. Similarly, restriction on stock brokers dealing in commodity derivatives to deal in other securities has also been done away with. This enables stock broker to deal in commodity derivatives and other securities under a single entity.

In the 2017-18 Union Budget speech Hon'ble Union Finance Minister announced that the commodities and securities derivative markets will be further integrated by integrating participants, brokers and operational frameworks. In fulfilment of this policy initiative, SEBI Board in December 2017 approved integration of commodity derivatives with other segments of securities market at the exchange level. Proposed amendments to SECC Regulations effective October 01, 2018 shall enable NSE to launch commodity derivatives contract subject to regulatory approvals.

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. Accordingly, NSE's international exchange, NSE IFSC launched futures contracts in Precious Metals i.e. Gold and Silver in June 2017. The US Dollar denominated Gold and Silver futures contracts at NSE IFSC settle on LBMA's Gold and Silver prices respectively.

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

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

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.

Securities Transaction Tax

Taxable Securities Transactions	Rate (percent)	Taxable Value	Payable by
Sale of an option in securities	0.017	Optionpremium	Seller
Sale of an option in securities, where option is exercised	0.125	Settlementprice	Purchaser
Sale of a futures in securities	0.01	Price at which such futures are traded	Seller

Clearing and Settlement

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

Eligibility Criteria for Stocks for F&O Trading

- The stock is chosen from amongst the top 500 stocks in terms of average daily market capitalisation and average daily traded value in the previous six months on a rolling basis.
- The stock's median quarter-sigma order size over the last six months should be not less than 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 Rs100 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.

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.

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

Contract Specifications for Equity Derivatives (As of December 2017)

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 CPSE NIFTY INFRA NIFTY MIDCAP 50		211 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 and NIFTY CPSE**
****- 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 Rs 1814.75.
- # As of December 2017

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 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	684GS2022	679GS2029	679GS2027	668GS2031	717GS2028
	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	Futures contracts based on 6.84% Central Government Security having maturity on December 19, 2022	Futures contracts based on 6.79% Central Government Security having maturity on December 26, 2029	Futures contracts based on 6.79% Central Government Security having maturity on May 15, 2027	Futures contracts based on 6.68% Central Government Security having maturity on September 17, 2031	Futures contracts based on 7.17% Central Government Security having maturity on January 08, 2028
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 **Delivery settlement:** Last business day of the expiry month
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)
  - Government of India Securities (Central and State)
  - Corporate bonds
- Derivatives instruments
  - Equity F&O
  - Currency Derivatives
  - Interest rate derivatives
- Securities Lending & Borrowing
- Reporting requirements
  - SEBI
  - RBI
- Taxation
  - 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.

May prosperity always bloom

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