



CS Executive

Securities Laws & Capital Markets

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DEPOSITORIES**BASIC CONCEPT OF DEPOSITORIES****Introduction**

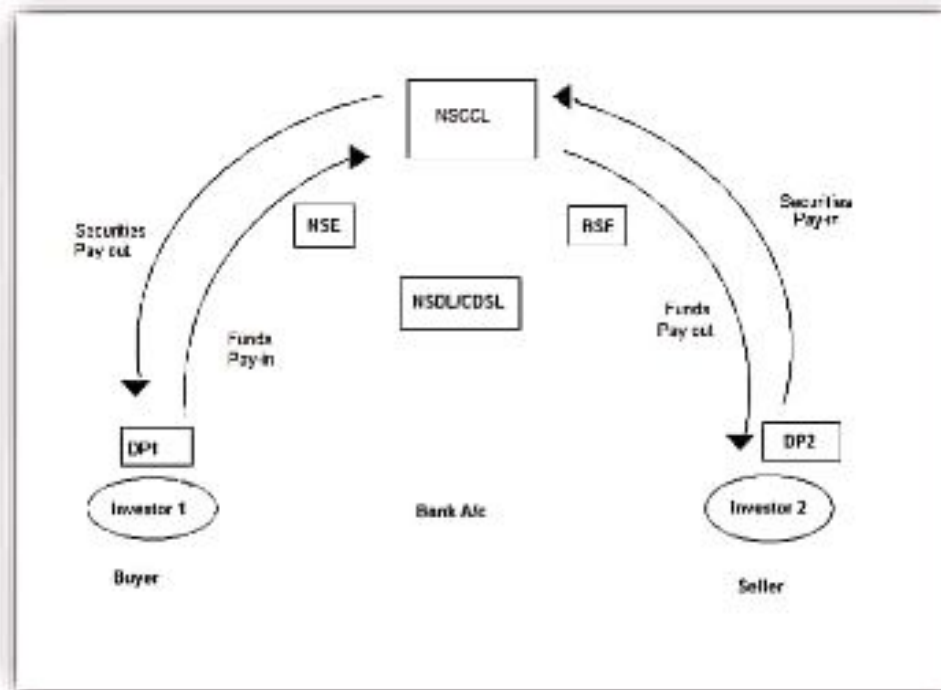
The Depositories Act, 1996 has introduced the system of depositories in India. It has come into force with effect from 20th September, 1995.

A depository is an organization where the securities of an investor are held in the electronic form at his request through a Depository Participant (DP). If the investor wants to utilize the services offered by a Depository, the investor has to open a beneficiary account (popularly called as Demat Account) with the Depository through a DP.

DP is the representative or agent in the depository system and it maintains the investor's securities account balance and intimates to him the status of his holding of any security. For e.g. share and debentures already in the depository mode, the buyer will become owner of the said security in the depository within a day of settlement being made/completed. The buyer is not required to apply to the company for registering the security in his name.

Investors also have the option to keep their securities in the custody of an intermediary called the Custodian. Custodian holds the securities of the investor in physical form. Such hand over of securities to the custodian in physical form is called as Immobilization. While custodians immobilize the physical securities by custodial function, depositories interact with the Investors only through depository participants who are registered with depositories as well as SEBI.

Custodians provide services such as safe keeping of securities, documents of title on behalf of client under a proper system of control including physical custody or maintenance of accounts in depositories manually or in machine readable form etc. Custodial services generally provide clearing services, registration and transfer processing, safe custody, corporate actions and management information services.



DEFINITION AND MEANING OF DEPOSITORY

According to Section 2 (e) of the Depositories Act, 1996, "Depository means a company formed and registered under the Companies Act, 1956/2013 and which has been granted a certificate of registration under Section 12 (1A) of the Securities and Exchange Board of India Act, 1992".

There are two depository players in the market i.e., National Securities Depository Limited (NSDL) and Central Depository Service (India) Limited (CDSL).

Definition and Meaning of Depository Participant

Depository Participant (DP) is the agent of the depository and is the interface between the depository and the investor. According to SEBI Guidelines, financial institutions, banks, custodians, stock brokers etc. can become depository participants.

Stocking Holding Corporation of India Limited (SHCIL) is the first depository participant in India registered with NSDL. Besides SHCIL, a number of new and private and foreign banks like Times Bank, HDFC Bank, ICICI Bank, IDBI Bank, Hong Kong Bank, Standard Chartered Bank are providing shares depository services to its customers from its various branches.

ELIGIBILITY CONDITION FOR DEPOSITORY SERVICES

Any company or other institution to be eligible to provide depository services must:

- be formed and registered as a company under the Companies Act, 2013.
- be registered with SEBI as a depository under SEBI Act, 1992.
- has framed bye-laws with the previous approval of SEBI.
- has one or more participants to render depository services on its behalf.
- has adequate systems and safeguards to prevent manipulation of records and transactions to the satisfaction of SEBI.
- complies with Depositories Act, 1996 and SEBI (Depositories and Participants) Regulations, 2018.
- meets eligibility criteria in terms of constitution, network, etc.

Is dematerialization of securities compulsory?

According to the Depositories Act, 1996, an investor has the option to hold securities either in physical or electronic form. Part of holding can be in physical form and part in demat form. However, SEBI has notified that settlement of market trades in listed securities should take place only in the demat mode.

SEBI has recently amended relevant provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to disallow listed companies from accepting request for transfer of securities which are held in physical form, with effect from April 1, 2019. The shareholders who continue to hold shares and other types of securities of listed companies in physical form even after this date, will not be able to lodge the shares with company / its RTA for further transfer. They will need to convert them to demat form compulsorily if they wish to effect any transfer. Only the requests for transmission and transposition of securities in physical form, will be accepted by the listed companies / their RTAs.

DIFFERENCE BETWEEN DEPOSITORY AND CUSTODIAN

Depository - Share transferred in electronic form.

Custodian - Shares remain in physical form. Depository can legally transfer beneficial ownership which a custodian cannot.

ADVANTAGES OF HOLDING SECURITIES IN THE ELECTRONIC MODE

- No **stamp duty** on transfers.
- Faster **delivery** and fund settlement.
- No **odd lot** - trading is possible in any lot.
- **Eliminates risks** associated with physical deliveries such as loss, theft, forgery etc.
- Eliminates handling of large volumes of **paper**.
- Facilitates **pledge** and hypothecation.
- Faster disbursement of non cash corporate benefits.

DEMATERIALIZATION

The procedure for dematerialization is as under:-

- (i) Submits dematerialization request form (DRF) along with the share certificates (transferred in the name of the investor).
- (ii) Deface share certificates as "surrendered for dematerialization".
- (iii) DP electronically transmits DRF to the depository.
- (iv) DP sends the share certificates and physical DRF to the RTA/Company.
- (v) Depository electronically transmits the demat request to the RTA Company.
- (vi) RTA/ Company checks authenticity of request and confirm the Depository.
- (vii) Depository confirms dematerialization request to DP.
- (viii) Investor's account with DP is credited.
- (ix) DP sends Statement of Transaction to the investor.

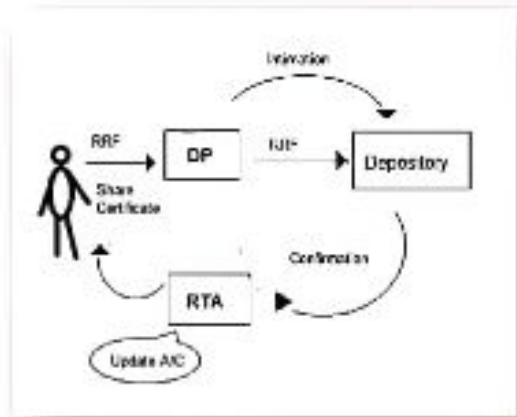
IMMOBILIZATION

Immobilization of securities occurs when physical security certificates are stored or lodged with Depository for safe custody. All subsequent transactions in these securities take place in book entry form (electronic form). The actual owners have the right to withdraw their physical securities as and when they desire. The custodian in turn a Jumbo Certificate representing the entire issue in the name of depository on behalf of the beneficial owner.

REMATRIALISATION

The procedure for Rematerialisation of securities is as follows:-

- (i) The beneficial owner sends the request in Rematerialisation request form (RRF) to DP.
- (ii) DP intimates the Depository of such request electronically.
- (iii) Depository confirms the Rematerialisation request to the RTA/ Company.
- (iv) RTA/ Company updates account and prints certificates and confirm the Depository.
- (v) Depository updates account and download the details to DP.
- (vi) RTA/ Company dispatches the certificates to the holder thereof.
- (vii) DP also sends the intimation about Rematerialisation to its client.

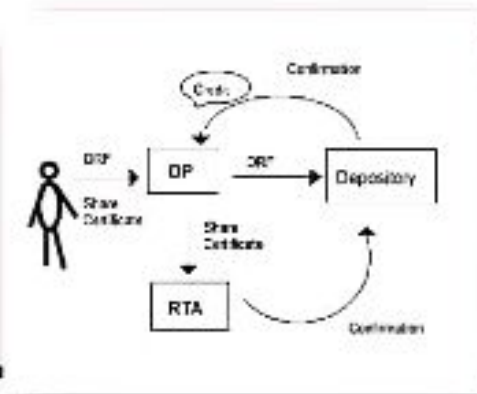


FUNGIBILITY

The Depositories Act, 1996 provides that all securities held in depository shall be fungible, i.e., all certificates of the same security shall become interchangeable. In electronic form, the securities loses its identity exactly like money deposited in a bank account. If a person has a Rs 500 note, it will have a serial number but when the same is deposited in the bank account, its serial number is lost and it is mixed with other currencies in the system. Much like this is the security held in electronic form. Once deposited with a depository in demat form, it also loses its distinctive number, which is there so in case of shares held by an investor in physical form.

PLEDGE OR HYPOTHECATION OF SECURITIES

Pledge or hypothecation means loan obtained by the owner against his shares. If a beneficial owner (owner of securities) intends to create a pledge/hypothecation on a security owned by him,



he shall make an application to the Depository (NSDL/CDSL) through his Depository Participant (Broker).

The Depository, after confirmation from the pledgee (loan provider) that the securities are available from pledge with the pledgor (loan taker), shall, within 15 days of the receipt of application, create and record the pledge and send the intimation of the same to the Depository Participants of the pledgor and the pledge. On receipt of intimation, the Depository Participants of both the pledgor and the pledge shall inform the pledgor and the pledge respectively of the entry of creation of pledge/hypothecation.

The entry of pledge/ hypothecation made may be cancelled by the Depository if the pledgor or pledgee makes an application to the Depository through their Depository Participants. It may be noted that if the application for cancellation of the entry of pledge has been made by the pledgor, then it shall be cancelled by Depository only with the prior concurrence of the pledge.

RIGHTS OF DEPOSITORIES AND BENEFICIAL OWNER

A depository should be deemed to be the registered owner on behalf of a beneficial owner. The depository does not have any voting rights. The beneficial owner is entitled to all the rights and benefits and be subjected to all the liabilities in respect of his securities.

REGISTER OF BENEFICIAL OWNER

Every depository is required to maintain a register and an index of beneficial owners in the manner provided in the Companies Act, 2013.

AUDIT UNDER SEBI (DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 2018

1. SEBI has issued a circular on 31st Dec 2002 that all the issuer listed companies must immediately comply with such Secretarial Audit.
2. This circular provides for **reconciliation of total shares** of a company held in NSDL, CDSL and physical form by the shareholders with the total issued and listed capital of the company.

3. Thus every listed company is required to obtain a certificate on a quarterly basis from a practicing CS or practicing CA, recording of the shares held in electronic form and in physical form with the issued and listed capital of the company.
4. Every listed company is required to submit the aforesaid certificate to the Stock Exchanges where the securities of the company are listed within 21 days of the close of relevant quarter.

INTERNAL AUDIT OF DEPOSITORY PARTICIPANTS

NSDL and CDSL, both the Depositories, have allowed Company Secretaries in Practice and Chartered Accountants in Practice to undertake Internal Audit of the operations of Depository Participants on a quarterly basis. While undertaking the Internal Audit function of a Depository Participant, one has to ensure the following:

1. That the operations of the Depository Participant are in compliance with the requirements of the Depositories Act, SEBI (Depositories and Participants) Regulations, 2018, by laws and rules of depositories and its agreement with the clients and depositories.
2. That there is no threat to business continuity, integrity of data processing system is maintained at all times and methods are put in place to ensure that records are not lost, destroyed or tampered with.
3. That the capacity of computer system, staff strength and internal procedures provides reasonable checks with the business.

CONCURRENT AUDIT

Depository Participants have been advised to appoint a firm of qualified Chartered Accountants or Company Secretary(s) holding a certificate of practice for conducting the concurrent audit. In respect of account opening the auditor should verify all the documents including KYC documents furnished by the Clients and verified by the officials of the Participants. The scope of concurrent audit with respect to control and verification of DIS covers issuance and verification of DIS.

The Concurrent Auditor should conduct the audit in respect of all accounts opened, DIS issued and controls on DIS as mentioned above, during the day, by the next working

day. In case the audit could not be completed within the next working day due to large volume, the auditor should ensure that the audit is completed within a week's time.

Any deviation and/or non-compliance observed in the aforesaid areas should be mentioned in the audit report of the Concurrent Auditor. The Management of the Participant should comment on the observations made by the Concurrent Auditor.

ROLE OF COMPANY SECRETARY

- **Right to Legal Representation:** In case of any decision of SEBI, the aggrieved entity/company (the appellant) may either appear in person or authorise one or more chartered accountants or company secretaries (PCS) or cost accountants or legal practitioners or any of its officers to present his or its case before the Securities Appellate Tribunal (SAT).

- **Internal Audit of Depository Participants:** The 2 (two) Depository services providers in India, viz., National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Limited (CDSL) have allowed Company Secretaries in Whole-time Practice to undertake internal audit of the operations of Depository Participants (DPs).

- **Reconciliation of Share Capital Audit:** Company Secretary is authorised to issue quarterly certificate with regard to reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, details of changes in share capital during the quarter, and in principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital under SEBI (Depositories and Participants) Regulations, 2018.

- **Concurrent Audit of Depository Participants:** Practising Company Secretary is authorized to carry out concurrent audit of Depository Participants which covers audit of the process of demit account opening, control and verification of Delivery Instruction Slips (DIS).

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CAPITAL MARKET INTERMEDIARIES**INTRODUCTION**

Capital Market Intermediaries are the people who help the corporate and the investors to enter into various kinds of transactions in the capital market. They are the experts of various aspects of capital market. For facilitating the transactions, capital market intermediaries charge the professional fees.

KINDS OF CAPITAL MARKET INTERMEDIARIES

Capital Market Intermediaries are classified as follows:

Primary Market

- 1) Merchant Bankers/Lead Managers
- 2) Registrar and Share Transfer Agents
- 3) Underwriters
- 4) Bankers to an Issue
- 5) Debenture Trustees

Secondary Market

1. Stock-Brokers and Sub-Brokers
2. Portfolio Managers
3. Custodian of Securities
4. Foreign Institutional Investors
5. Investment Advisers

MERCHANT BANKERS**Meaning**

Merchant Banker means any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, advisor or rendering corporate advisory services in relation to issue management.

Roles and Responsibilities

It is necessary for an issuer to appoint a merchant banker for:

- (a) Managing of public issue of securities;
- (b) Underwriting connected with the public issue management business;
- (c) Managing/Advising on international offerings of debt/equity i.e. GDR, ADR, bonds and other instruments;
- (d) Private placement of securities;
- (e) Primary or satellite dealership of government securities;
- (f) Corporate advisory services related to securities market including takeovers, acquisition and disinvestment;
- (g) Stock broking;
- (h) Advisory services for projects;
- (i) Syndication of rupee term loans;
- (j) International financial advisory services

Capital Adequacy Requirements

The Regulations prescribes that the capital adequacy requirement shall be a networth of not less than five crore rupees.

REGISTRARS AND SHARE TRANSFER AGENTS (RTA)

Introduction

The expression "Registrar and Share Transfer Agent (RTA)" is the combination of two expressions, namely 'Registrar to an Issue' and 'Share Transfer Agent'.

Registrar to an Issue is related to primary market whereas Share Transfer Agent is related to secondary market. There are two categories of RTAs i.e., Category I, who acts both as the Registrar to an Issue as well as the Share Transfer Agent and Category II, who acts either as the Registrar to an Issue or as the Share Transfer Agent.

Definition of Registrar to an Issue

Registrar to an issue means a person authorized by a body corporate to carry on the following activities on its behalf:

- 1) Collecting applications from investors in respect of an issue;
- 2) Keeping a proper record of applications and moneys received from investors;
- 3) Assisting body corporate in the following:
 - a) Determining the basis of allotment of securities;
 - b) Finalizing the list of persons entitled to allotment of securities; and
 - c) Processing and dispatching allotment letters and refund order.

Definition of Share Transfer Agent

Share Transfer Agent means -

- 1) Any person who, on behalf of anybody corporate, maintains the records of holder of securities issued by such body corporate and deals with all matters connected with the transfer or redemption of its securities;
- 2) A department or division (by whatever name called) of a body corporate performing the activities specified in the above clause, if at any time the total number of the holder of its securities issued exceed 1 lac.

Pre-issue Activities

- Sending instructions to Banks for reporting of collection figures and collection of applications.
- Providing inputs to the Lead Manager and Printers regarding the design of the Bid cum-Application form.

Activities during the Issue

- Collection and Reporting of daily Collection figures.
- Collection of Data and Forms from Banks.
- Liaising with clients and Intermediaries to the Issue.

Post Issue Activities

- Data capturing & validation
- Reconciliation
- Provide Allotment Alternatives in consultation with Client / Merchant Banker and Stock Exchanges
- Facilitating Listing
- Uploading of data to the Depositories for crediting of securities electronically
- Dispatch of Refund orders / Share Certificates / Credit Advise
- Periodic Report submission to Regulatory Authorities
- Reconciliation of Refund payments
- Attending to post issue Investor queries
- Web-based investor enquiry system for allotment / refund details Share Transfer Agent Services

Capital Adequacy Requirements

It provides that it must have a net worth of a minimum of Rupees 50 Lacs for Category I RTA and Rupees 25 Lacs for Category RTA. Here net worth means the sum of paid-up capital and free reserves.

UNDERWRITERS**Definition of Underwriting/ Underwriting Agreement**

Underwriting means an agreement with or without conditions to subscribe to the securities of a body corporate when the existing shareholders of such body corporate or the public do not subscribe to the securities offered to them.

Underwriter means a person who engages in the business of underwriting of an issue of securities of a body corporate. Generally, banks, financial institutions, merchant bankers and stockbrokers do the work of underwriting.

Capital Adequacy Requirements

It provides that it must have a net worth of a minimum of Rupees 20 Lacs. Here net worth means the sum of paid-up capital and free reserves.

BANKERS TO AN ISSUE**Definition**

Banker to an Issue means a scheduled bank (bank specified under the Schedule II to the Reserve Bank of India Act, 1934) carrying on all or any of the following activities, namely:

- 1) Accepting applications and application moneys;
- 2) Acceptance of allotment and calls money;
- 3) Refund of application moneys;
- 4) Payment of dividend or interest warrants.

DEBENTURE TRUSTEE

Definition

Debenture Trustee means a trustee of a Trust Deed for securing any issue of debentures of a body corporate. It may be noted that only the following persons can do the work of debenture trustee:

- a) A scheduled bank carrying on commercial activity;
- b) A public financial institution
- c) An insurance company; and
- d) A body corporate.

Roles and Responsibilities

- Call for periodical reports from the body corporate, i.e., issuer of debentures.
- Take possession of trust property.
- Enforce security in the interest of the debenture holders.
- Ensure on a continuous basis that the property charged to the debenture is available and adequate at all times to discharge the interest and principal amount payable.
- Exercise due diligence to ensure compliance with the provisions of the Companies Act, the listing agreement or the trust deed.
- To take appropriate measures for protecting the interest of the debenture holders as soon as any breach of the trust deed or law comes to his notice.

- To ascertain that the debentures have been converted or redeemed in accordance with the provisions and conditions under which they are offered to the debenture holders.

Capital Adequacy Requirements

The Regulations prescribes that the capital adequacy requirement shall be a networth of not less than two crore rupees.

STOCK BROKERS AND SUB-BROKERS

Meaning and Concept of Stock Broker and Sub-broker

Stock Broker is a person registered with Stock Exchange as a member. He helps both the seller and buyer of securities to enter into a transaction. If a stockbroker has order to buy and sell same kind of securities he may complete the transaction between his clients concerned. Sub-Broker is one who works along with Stock Broker and is not directly registered with Stock Exchange as a member. However, he must be recognized by the Stock Exchange. He acts as an agent of the Stock Broker.

PORTFOLIO MANAGER

Meaning and Concept of Portfolio Manager

Portfolio means the total holdings of securities belonging to a person. Thus, Portfolio Manager means a person who manages the total holdings of securities belonging to a person. He studies the market and adjusts the investment mix for his client on a continuing basis to ensure safety of investment and reasonable returns therefrom. The Portfolio Manager charges a fee from the client for rendering portfolio management services and such fees shall be independent of the return.

There are two types of Portfolio Managers:

- 1) **Discretionary Portfolio Manager:** He manages the funds of his client independently and with full discretion in accordance with the needs of the client.
- 2) **Non-discretionary Portfolio Manager:** He manages the funds of his client without discretion and in accordance with the instructions and directions of the client.

Definition of Portfolio Manager

Portfolio Manager means any person who, pursuant to a contract or arrangement with a client, advises, directs, or undertakes on behalf of the client the management or administration of portfolio of securities or the funds of the clients, as the case may be.

Capital Adequacy Requirements

The Regulations prescribes that the capital adequacy requirement shall be a networth of not less than two crore rupees.

CUSTODIAN OF SECURITIES

Custodian of Securities means any person who carries on or proposes to carry on the business of providing custodial services. The term 'custodial services' in relation to securities means safekeeping of securities of a client and providing related services.

Following are the important functions of Custodian of Securities;

- maintaining accounts of securities of a client;
- collecting the benefits of rights accruing to the client in respect of securities
- keeping the client informed of the action taken or to be taken by the issuer of securities.

Capital Adequacy Requirements

The Regulations prescribes that the capital adequacy requirement shall be a networth of not less than fifty crore rupees.

INVESTMENT ADVISER**Meaning**

"Investment Adviser" means any person, who for consideration, is engaged in the business of providing investment advice to clients or other persons or group of persons and includes any person who holds out himself as an investment adviser, by whatever name called.

Functions

Investment advisers are those, who guide one about his or her financial dealings and investments. Basically Investment adviser give advice and provide services related to the investment management process. The Investment adviser shall done the risk profiling for clients to assess their risks.

Capital Adequacy Requirements

A minimum net worth of Rs. 25 lakh while individuals and partnership firms will require to possess tangible assets worth at least Rs. 1 lakh.

SEBI (RESEARCH ANALYST) REGULATIONS, 2014

SEBI (Research Analyst) Regulations, 2014, were notified by SEBI on 1st September, 2014 in exercise of the powers conferred by section 30 of SEBI Act, 1992, SEBI made these regulations.

Roles and Responsibilities

They study Companies and industries, analyse raw data, and make forecasts or recommendations about whether to buy, hold or sell securities. They analyse information to provide recommendations about investments in securities to their clients. Investors often view analysts as experts and important sources of information about the securities they review and often rely on their advice. There are basically three broad types of analysts, viz. sell-side analysts, buy-side analysts and independent analysts.

Capital Adequacy Requirements

Regulation 8 prescribes the capital adequacy requirement:-

- (1) of research analyst who is body corporate or limited liability partnership firm shall have a net worth of not less than twenty five lakh rupees.
- (2) of research analyst who is individual or partnership firm shall have net tangible assets of value not less than one lakh rupees.

CREDIT RATING AGENCIES

"Credit rating agency" means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue.

Roles and Responsibilities

- Credit rating is extremely important as it not only plays a role in investor protection but also benefits industry as a whole in terms of direct mobilization of savings from individuals.
- Rating also provide a marketing tool to the company and its investment bankers in placing company's debt obligations with an investor base that is aware of, and comfortable with, the level of risk.
- Ratings also encourage discipline amongst corporate borrowers to improve their financial structure and operating risks to obtain a better rating for their debt obligations and thereby lower the cost of borrowing.

Capital Adequacy requirements

Minimum net worth of Rs. 5 crores

DEPOSITORY PARTICIPANT

A DP is an agent of the depository through which it interfaces with the investor and provides depository services.

Roles and Responsibilities

Depository Participant (DP) is described as an Agent (law) of the depository. They are the intermediaries between the depository and the investors. They execute pledge requests and off market transfers and on market transfer request of the investors who hold shares in demat form. Further transmission requests of investors shall also be handled. Demat/Remat requests also handled in consultation with RTI/STAs.

Capital Adequacy requirements

Not less than Rs. one hundred crores.

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MUTUAL FUNDS**CONCEPT, DEFINITION AND MEANING OF MUTUAL FUND**

A mutual fund works on a very simple concept. It raises money from a lot of small investors, creates a pool of such funds and then invests the same money in various financial assets. Over a period of time, any returns generated out of such investments are distributed amongst the investors. As a token of security, the investors are issued unit certificates. The investors have the choice to either transfer, retain or redeem these units depending upon the time of fund.

In other words, Mutual Fund means a fund established in the form of a trust to raise money through sale of units to the public under one or more schemes for investing in securities, including money market instruments. The small investors who generally lack expertise to invest on their own in the securities market prefer some kind of collective investment vehicle like mutual fund, which pool their marginal resources, invest in securities, and distribute the returns there from among them on cooperative principles. The investor benefits in terms of reduced risk and higher returns arising from professional expertise of fund manager employed by the Mutual Fund.

Initially only UTI was allowed to do the Mutual Fund business. Thereafter, in the year 1987, public sector banks and insurance companies were also allowed to do this business. Finally, in the year 1993 the mutual fund industry was opened to the private sector as well as foreign institutions.

Every mutual fund is required to have an **Asset Management Company**, a company incorporated in the Companies Act, 2013, to manage the funds of the mutual fund. The Asset Management Company should be approved by SEBI and should enter into an agreement with the trustees of the mutual funds to formulate schemes, raise money against the issue of units, etc.

Trustees of a mutual fund mean the Board of Trustees or the Trustee Company who holds the property of the mutual fund trust for the benefit of the unit holders.

Mutual fund is always accompanied with a sponsor. **Sponsor** means any person who, acting alone or in combination with another body corporate, establishes a mutual fund.

Mutual fund is always accompanied with a Custodian of Securities. Custodian means a person who has been granted a certificate of registration to carry on the business of custody of securities under the SEBI (Custodian of Securities) Regulations, 1996.

ADVANTAGES OF MUTUAL FUNDS

The advantages of investing in a mutual fund are:

1. **Professional Management:** Mutual funds are managed by a team of skilled professionals, who are expert in their areas. They also have a research team, which constantly analyses the performance and prospects of companies and selects suitable investments to achieve the objectives of the scheme.
2. **Diversification:** There is a very famous proverb in English, it says: "***Do not lay all your eggs in one basket***". Mutual funds work on an exact similar concept.

Mutual funds invest in a number of companies across sectors. Even if one

particular sector collapses, the losses are covered by some other investment, which is doing well. Investors achieve this diversification through a Mutual Fund with far less money than one can do on his own.

3. **Convenient Administration:** Investing in a mutual fund reduces paper work and helps investors to avoid many problems such as bad deliveries, deliveries, delayed payments, and unnecessary follow up with brokers and companies. Mutual funds save investors time and make investing easy and convenient.
4. **Return Potential:** Over a medium to long term, mutual funds have the potential to provide a higher return as they invest in a diversified basket of selected securities.
5. **Low Costs:** Mutual funds invest huge sums of money and hence the cost of brokerage is less as compared to a direct investment made by any investor. So the overall brokerage, custodial and other fees translate into lower costs for investors.
6. **Liquidity:** Liquidity means readiness to convert investments into cash. In open-ended schemes, investors can get their money back promptly at net asset value related prices from the mutual fund itself. With close-ended schemes, investors can sell their units on a stock exchange at the prevailing market price or avail of the facility of direct repurchase at net asset value (NAV) related prices.
7. **Transparency:** As per SEBI Regulations, all the mutual funds are compulsorily required to disclose the details of the investments made by them from time to time to all its investors.

BASIC CLASSIFICATION OF MUTUAL FUNDS

All the mutual funds can be broadly classified into

- **open ended mutual funds**
- **close ended mutual funds**

As the name suggests, an **open-ended mutual fund** is a fund wherein, the fund itself buys and sells units from/to the investors. Since the fund itself buys and sells units, its units are non-fixed. The fund itself buys back the units surrendered and is ready to sell new units. Generally, the transaction takes place at the net asset value, which is calculated on a periodical basis.

A **close ended mutual fund** is the fund where mutual fund management sells a limited number of units and does not redeem them ie once the units are issued, they are redeemed only at the time of end of its tenure. In between, the investors have the choice to sell the units in the open market. Primary example of such mutual fund is UTI's Master share. The units of such mutual funds are traded in the secondary market.

Following are the important differences between close ended and open ended mutual funds :

S.No.	Close ended schemes	Open ended schemes
1.	Fixed corpus : no new units can be offered beyond the limit	Variable corpus due to ongoing purchase and redemption
2.	Listed on stock exchange for buying and selling	No listing on exchange, transactions done directly with the fund
3.	Two values available namely NAV and the Market Trading Price	Only one price namely NAV
4.	Mostly liquid	Highly liquid

MUTUAL FUND PLANS

Sr No.	Regular Plans	Direct Plans
1	Sold through a distributor	Sold directly by the AMC
2	Higher Expense Ratio due to commissions paid to distributor	Lower Expense Ratio as no commission is paid to distributor
3	Potentially lower returns to the investor due to higher expenses	Potentially higher returns due to lower expenses

TYPES OF MUTUAL FUNDS

Following are the important types of mutual funds:

Income oriented mutual funds: the fund primarily offers fixed income to investors. Naturally, the main securities in which investments are made by such funds are the fixed yielding ones like bonds.

Growth oriented mutual funds: These funds offer growth potentialities associated with investment in capital market namely:

- High source of income by way of dividend and
- Rapid capital appreciation, both from holding of good quality scrips

These funds, with a view to satisfying the growth needs of investors, primarily concentrate on the low risk and high yielding spectrum of equity scrips of the corporate sector.

High Growth Schemes: An investment in high risk and high return with a high degree of capital appreciation generating securities in which aggressive investors are willing.

Tax Saving Schemes: These schemes offer tax rebates to the investors under tax laws as prescribed from time to time. The Government offers tax incentives for investment in specified avenues e.g. Equity Linked Saving Schemes (ELSS) and Pensions Schemes. It

may be noted that Equity Linked Saving Schemes (ELSS) have the lock-in period of three years.

Hybrid mutual funds: These funds cater to both the investment needs of the prospective investors - namely fixed income as well as growth orientation. Therefore, investment targets of these mutual funds are judicious mix of both the fixed income securities like bonds and debentures and also sound equity scrips. In fact, these funds utilize the concept of balanced investment management. These funds are, thus also known as "balanced funds."

Hedge Funds: There is no exact definition of the term 'Hedge Funds'. In general, Hedge Funds are unregistered private investment partnerships, funds or pools that may invest and trade in many different markets, strategies and instruments. Hedge funds have an investor base comprising wealthy individuals and institution and relatively high minimum investment limits. They normally pay performance fees to their managers.

It may be noted that Hedge Funds are sometimes also known as Rich Man's Mutual Funds.

Leverage Funds: Leverage Funds increase the size and value of portfolio and other benefits to member through excess gains over cost of borrowed funds. They tend to indulge in speculative trading and risky investment.

Money market mutual fund: These funds invest in short term debt securities in the money market like certificates of deposits, commercial papers, government treasury bills etc. owing to their large size, the funds normally get a higher yield on such short-term investments than an individual investor.

Real Estate funds: These are closed ended mutual funds, which invest predominantly in real estate and properties.

Capital protection oriented scheme: This is a mutual fund scheme which is designed as such and which endeavors to protect the capital invested therein through suitable orientation of its portfolio structure.

Fund of Funds: They invest only in units of other mutual funds. Such funds do not operate at present in India.

New Direction Funds: They invest in companies engaged in scientific and technological research such as birth control, anti-pollution, oceanography etc.

Exchange Trade Funds: ETFs are a new variety of mutual funds that first introduced in 1993. ETFs are sometimes described as mere "tax efficient" than traditional equity mutual funds, since in recent years, some large ETFs have made smaller distribution of realized and taxable capital gains than most mutual funds.

Infrastructure Debt Fund: They invest primarily in the debt securities or securitized debt investment of infrastructure companies.

FIVE PRINCIPAL CONSTITUENTS

Sponsor

A sponsor is an *influential investor* who creates demand for a security because of their positive outlook on it. The sponsor brings in capital and creates a mutual fund trust and sets up the AMC. The sponsor makes an application for registration of the mutual fund and contributes at least 40% of the *net worth* of the AMC.

Asset Management Company

An asset management company (AMC) is a company that invests its *clients' pooled funds* into securities that match declared *financial objectives*. Asset management companies provide investors with more *diversification* and *investing options* than they would have

themselves. AMCs manage mutual funds, hedge funds and pension plans, these companies earn income by charging *service fees* or commissions to their clients.

Trustee

A trustee is a person or firm that holds and administers property or assets for the benefit of a *third party*. A trustee may be appointed for a wide variety of purposes, such as in case of bankruptcy, for a charity, for a trust fund or for certain types of retirement plans or pensions.

Unit Holders

A unitholder is an investor who owns the units issued by a trust, like a real estate investment trust or a master limited partnership (MLP). The securities issued by trusts/MF are called *units*, and investors in units are called unitholders. The unit in turn reflect share of the investor in the Net Assets of the fund.

Mutual fund

A mutual fund established under the Indian Trust Act to raise money through, the *sale of units* to the public for investing in the *capital market*. The funds thus collected as per the directions of asset management company for invested. The mutual fund has to be *SEBI* registered.

MARKET INTERMEDIARIES

Custodian

A custodian is a person who carries on the business of providing custodial services to the client. The custodian keeps the custody of the securities of the client. The custodian

also provides incidental services such as maintaining the accounts of securities of the client, collecting the benefits or rights accruing to the client in respect of securities.

Transfer Agents

A transfer agent is a person who has been granted a Certificate of Registration to conduct the business of transfer agent under SEBI Regulations. Transfer agents' services include *issue* and *redemption* of mutual fund units, preparation of transfer documents and maintenance of updated investment records. They also record transfer of units between investors where depository does not function. They also facilitate investors to get customized reports.

Depository

A depository facilitates the smooth *flow of trading* and ensure the investor's about their investment in securities.

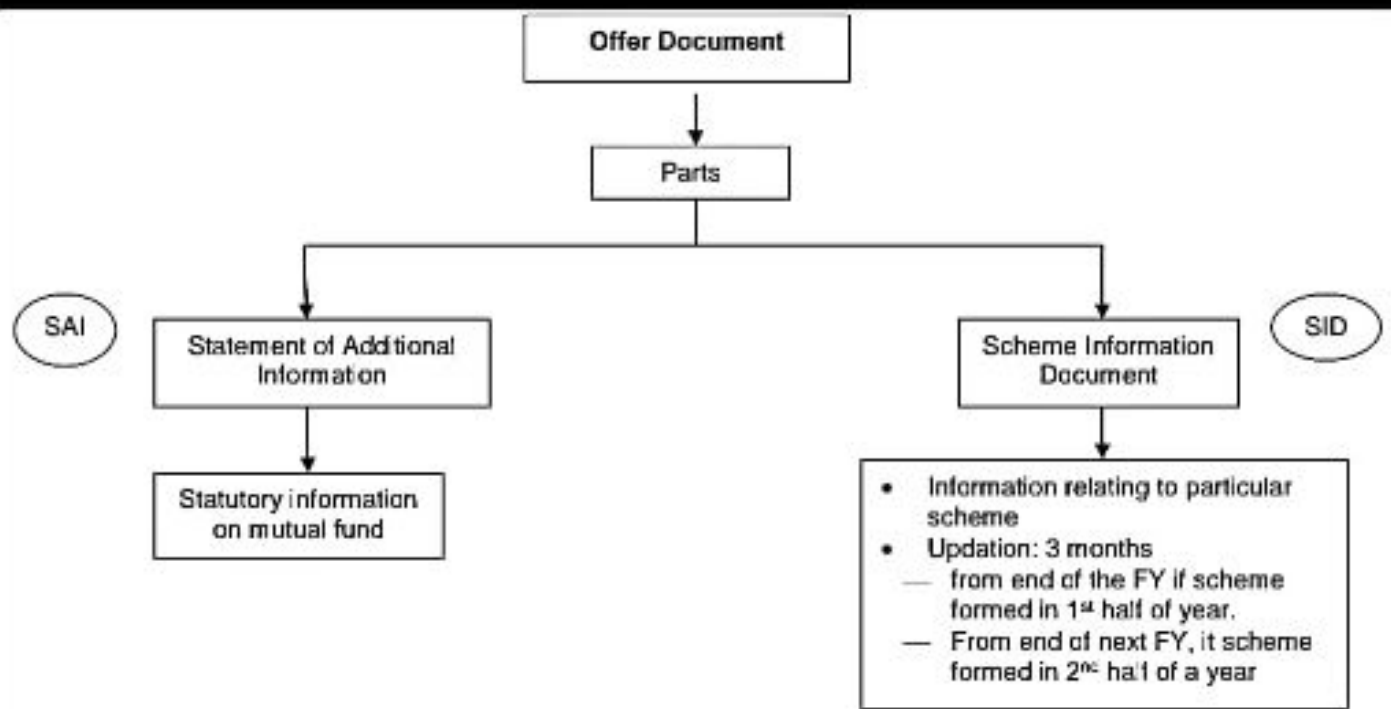
RISKS INVOLVED IN MUTUAL FUNDS

Mutual funds may face the following risks, leading to non-satisfactory performance :

- 1) Excessive diversification of portfolio, losing focus on the securities of the key segments
- 2) Too much concentration on blue chip securities which are high priced and which do not offer more than average return
- 3) Necessity to effect high turnover through liquidation of portfolio resulting in large payments of brokerage and commission
- 4) Poor planning of investment with minimum returns
- 5) Unresearched forecast on income, profits and Government policies
- 6) Fund managers being unaccountable for poor results

7) Failure to identify clearly the risk of the scheme as distinct from risk of the market

OFFER DOCUMENT OF MUTUAL FUND SCHEME



MUTUAL FUND TERMINOLOGY

Offer Document

- AMC raises money in new schemes through New Fund Offer (NFO)
- Offer document contains key details about the NFO - open and close dates, scheme objective, nature of the scheme, etc.
- Filed with SEBI

Two parts:

Scheme Information Document (SID) - A document that contains the details of the scheme. SID has to be updated every year

Key Contents:

- Scheme name on the cover page, along with scheme structure (open / closed-ended) and expected scheme nature (equity / debt / balanced / liquid / ETF)
- Highlights of the scheme

- Risk factors
- Due diligence certificate issued by the AMC
- Fees and expenses
- Rights of unit holders
- Penalties, litigations, etc.

Statement of Additional Information - A document that contains statutory information about the fund house offering the scheme. SAI has to be updated the end of every quarter

Key Contents:

- Information about sponsor, mutual fund, trustees, custodian and registrar & transfer agents
- Condensed financial information for schemes launched in the last three financial years
- Information on how to apply
- Rights of unit holders
- Details of the fund managers
- Tax, legal and other general information

NET ASSET VALUE

Net asset value is the value of the assets of each unit of the scheme. Thus if the NAV is more than the face value of Rs. 10/-, there is an appreciation for the investment. If the NAV is less than the face value, it indicates depreciation of the investment. Every mutual fund shall compute the NAV of each scheme and publish the same at least in two daily newspapers on every working day.

How is it calculated:

NAV = Net Asset of the Scheme / number of outstanding units

Net Asset of the Scheme = Market value of investments + Receivables+ other accrued income+ other assets -Accrued Expenses- Other Payables- Other Liabilities

Foreign Account Tax Compliance Act (FATCA)

- Requires that all financial institutions (including Indian mutual funds) need to report financial transactions of US persons and entities in which US persons hold a substantial ownership.
- Enacted to prevent tax evasion through foreign investments.
- Key details required: Country of birth, Country of citizenship, country of tax residence, TIN from such country.
- Currently made mandatory for all investors (existing and new) in Indian mutual funds.
- For non-individual investors, Ultimate Beneficial Ownership (UBO) details have to be provided.

Modes of Holding

- Single
- Either or Survivor

Signature of any of the applicants is sufficient for making transactions

- Joint

Signature of all the applicants is required for making transactions

Nomination

- Up to 3 nominees can be registered for a folio

- Units get transferred to the nominees (in the proportion specified) in case of the investor's demise
- Nomination can be updated as and when required by the investor
- A minor can also be nominated, provided the guardian is specified
- If nomination is not registered, in case of death of the investor, the legal heir has to produce documents such as Will, Legal Heir Certificate, No-Objection Certificate from other legal heirs, etc.

EXPENSE RATIO

- The fees charged by the scheme to manage investors' money. It includes:
 - Fees paid to service providers like trustees, Registrar & Transfer Agents, Custodian, Auditor, etc.
 - Asset management expenses
 - Commissions paid to distributors
 - Other selling expenses including advertising expenses
 - Expenses on investor communication, account statements, dividend / redemption cheques / warrants
 - Listing fees and Depository fees
 - GST

Under SEBI (Mutual Funds) Regulations, 1996, Mutual Funds are permitted to incur / charge certain operating expenses for managing a mutual fund scheme - such as sales & marketing / advertising expenses, administrative expenses, transaction costs, investment management fees, registrar fees, custodian fees, audit fees - as a percentage of the fund's daily net assets. This is commonly referred to as 'Expense Ratio'.

In short, Expense ratio is the cost of running and managing a mutual fund which is charged to the scheme.

For actively managed equity schemes, the total expense ratio (TER) allowed under the regulations is 2.5 % for the first ₹100 crore of average weekly net assets; 2.25 % for the next ₹300 crore, 2 % for the subsequent ₹300 crore and 1.75 % for the balance AUM.

For debt schemes, the expense ratio permitted is 0.25 % lower than that allowed for equity funds. Information on expense ratio applicable to a MF scheme is mentioned in the Scheme Information Document. For example, an expense ratio of 1% per annum means that each year 1% of a scheme's total assets will be used to cover the expenses managing and operating a scheme.

The expense ratio is calculated as a percentage of the Scheme's average Net Asset Value (NAV). The daily NAV of a mutual fund is disclosed after deducting the expenses. Thus, the TER has a direct bearing on a scheme's NAV - the lower the expense ratio of a scheme, the higher the NAV.

However, while expense ratio is important, it should be borne in mind that it is not the only criterion while selecting mutual fund scheme. A scheme with a consistently decent track record, but a higher expense ratio may be better than the one which lower expense ratio, but gives poor returns.

HOLDING PERIOD RETURN

Holding period return is the total return received from holding an asset or portfolio of assets over a period of time, generally expressed as a percentage.

Holding period return is calculated on the basis of total returns from the asset or portfolio - i.e. income plus changes in value. It is particularly useful for comparing returns between investments held for different periods of time

$$\text{HPR} = \frac{(\text{Income} + (\text{end of period value} - \text{original value}))}{\text{Original Value}} \times 100$$

Sales Charges/ Loads: These costs are directly charged to the investors. Mutual funds use the sales loads for payments of agents' commission and expenses for distribution and marketing. Sales charges or loads are of two types:

- i) **Front end Load (Entry Load) :** Front end Load is a onetime fixed fee, which is paid by an investor while he buys into scheme/buys the units of a scheme of a mutual fund. Front end Load can be calculated in the following manner:

$$\text{Purchase Price} = \frac{\text{Net Asset Value}}{1 - \text{Front End Load}}$$

$$1 - \text{Front End Load}$$

- ii) **Back end Load (Exit Load) :** This is a fixed fee payable by an investor at the time of redemption. Back end Load can be calculated in the following manner:

$$\text{Redemption price} = \frac{\text{Net Asset Value}}{1 + \text{Back End Load}}$$

$$1 + \text{Back End Load}$$

EFFICIENCY OF A MUTUAL FUND

The efficiency of mutual funds may be judged on the factors such as -

- Stability of funds;
- Liquidity of funds (listed on exchanges);
- Increase in NAV, consistent growth in dividend and capital appreciation;
- Whether the investment objectives are clearly laid and implemented;
- Whether the issuer has a proven track record and offers assured return not less than a percentage;
- Whether it observes investment norms to balance risks and profits.

ASSET MANAGEMENT COMPANY (AMC)

Under SEBI Regulations, every mutual fund is required to have an Asset Management Company (AMC) incorporated as per Companies Act, 2013 **to manage the funds of the mutual fund**. The AMC should be approved by SEBI and should enter into an agreement with the trustees of the mutual fund to formulate schemes, raise money against units, invest the funds and after meeting the permissible costs as per norms, distribute income to the shareholders of the funds.

ELIGIBILITY CRITERIA

In order to obtain a certificate of registration, the applicant must meet the following conditions as follows:

- a) The sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions.

The regulations provide that "Sound track record" means the sponsor :-

- i) Is carrying on business in financial services for a period of not less than five years; and
- ii) The networth is positive in all the immediately preceding five years; and
- iii) The networth in the immediately preceding year is more than the capital contribution of the sponsor in the asset management company; and
- iv) The sponsor has profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year;

aa) the applicant is a fit and proper person.

- b) In the case of an existing mutual fund, such fund is in the form of a trust and the trust deed has been approved by SEBI;
- c) The sponsor has contributed or contributes at least 40% to the networth of the asset management company;
- d) The sponsor or any of its directors or the principal officer to be employed by the mutual fund should not have been guilty of fraud or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence;
- e) Appointment of trustees to act as trustees for the mutual fund in accordance with the provisions of the regulations;
- f) Appointment of asset management company to manage the mutual fund and operate the scheme of such funds in accordance with the provisions of these regulations;
- g) Appointment of custodian in order to keep custody of the securities or gold and gold related instrument or other assets of the mutual fund held in terms of these regulations, and provide such other custodial services as may be authorized by the trustees.

11**INSIDER TRADING - AN OVERVIEW****INTRODUCTION**

Insider trading came into existence from the very inception of trading of securities of a company and is now a challenge faced by investors all over the world. U.S. was the first country to formally enact legislation. In India, many committees were formed which made regulations to keep a check on the practice of insider trading.

The Patel Committee in 1986 in India defined Insider Trading as "Insider trading generally means trading in the shares of a company by the persons who are in the management of the company or are close to them on the basis of undisclosed price sensitive information regarding the working of the company, which they possess but which is not available to others."

The previous regulations which were formulated in 1992 - SEBI (Insider Trading) Regulations were punitive and were amended in 2002. The amendment in 2002 came to be known as SEBI (Prohibition of) Insider Trading) Regulations, 1992 and they were preventive in nature.

IMPORTANT DEFINITIONS**Insider**

"Insider" means any person who is:

- i) a connected person; or
- ii) in possession of or having access to unpublished price sensitive information;

Connected person

Connected person" means,-

Any person who is or has during the six months prior to the concerned act been associated with a company, directly or indirectly, in any capacity including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relationship or by being a director, officer or an employee of the company or holds any position including a professional or business relationship between himself and the company whether temporary or permanent, that allows such person, directly or indirectly, access to unpublished price sensitive information or is reasonably expected to allow such access.

Person deemed to be connected person

"Person is deemed to be a connected person", if such person-

- (a) an immediate relative of connected persons specified in clause (i); or
- (b) a holding company or associate company or subsidiary company; or
- (c) an intermediary as specified in section 12 of the Act or an employee or director thereof; or
- (d) an investment company, trustee company, asset management company or an employee or director thereof; or
- (e) an official of a stock exchange or of clearing house or corporation; or
- (f) a member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or
- (g) a member of the board of directors or an employee, of a public financial institution as defined in section 2 (72) of the Companies Act, 2013; or

- (h) an official or an employee of a self-regulatory organization recognised or authorized by SEBI; or
- (i) a banker of the company; or
- (j) a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of a company or his immediate relative or banker of the company, has more than ten per cent of the holding or interest;

Generally available information

"Generally available information" means information that is accessible to the public on a non-discriminatory basis.

Immediate relative

"Immediate relative" means a spouse of a person, and includes parent, sibling, and child of such person or of the spouse, any of whom is either dependent financially on such person, or consults such person in taking decisions relating to trading in securities;

Trading

"trading" means and includes subscribing, buying, selling, dealing, or agreeing to subscribe, buy, sell, deal in any securities, and "trade" shall be construed accordingly ;

Unpublished price sensitive information

"Unpublished price sensitive information" means any information, relating to a company or its securities, directly or indirectly, that is not generally available which upon

becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following: -

- (i) Financial results;
- (ii) Dividends;
- (iii) Change in capital structure;
- (iv) Mergers, de-mergers, acquisitions, delisting, disposals and expansion of business and such other transactions;
- (v) Changes in key managerial personnel; and
- (vi) Material events in accordance with the listing agreement

Compliance officer

Compliance Officer means

- any senior officer, designated so and reporting to the board of directors or head of the organization in case board is not there,
- who is financially literate and is capable of appreciating requirements for legal and regulatory compliance under these regulations and
- who shall be responsible for compliance of policies, procedures, maintenance of records, monitoring adherence to the rules for the preservation of unpublished price sensitive information,
- monitoring of trades and the implementation of the codes specified in these regulations under the overall supervision of the board of directors of the listed company or the head of an organization, as the case may be;

COMMUNICATION OR PROCUREMENT OF UNPUBLISHED PRICE SENSITIVE INFORMATION

Regulation 3 provides that any person shall not communicate, provide, or allow access to any unpublished price sensitive information or procure from any insider of unpublished price sensitive information, relating to a company or securities listed or proposed to be listed except for some genuine purposes or performance of duties.

However, such information may be communicated in the following cases:-

- In case of an open offer under the takeover regulations or
- Where the board of directors of the company is of the opinion that the proposed transaction is in the best interests of the company and

The unpublished price sensitive information shall be disseminated at least 2 trading days prior to the proposed transaction in such form as the board of directors may determine.

The board of directors shall require the parties to execute agreements to contract confidentiality and non-disclosure obligations and such parties shall keep information so received confidential, except for the purpose specified above and shall not otherwise trade in securities of the company when in possession of unpublished price sensitive information.

TRADING WHEN IN POSSESSION OF UNPUBLISHED PRICE SENSITIVE INFORMATION

Regulation 4 prescribes that insider shall not trade in securities which are listed or proposed to be listed on stock exchange when in possession of unpublished price sensitive information.

However there are certain exemptions:

- when there is an off-market transfer between **promoters** who are aware of price sensitive information and both parties had made a conscious and informed trade decision;
- In the case of **non-individual insiders**, the individuals who were in possession of such unpublished price sensitive information were different from the individuals taking trading decisions and such decision-making individuals were not in possession of such unpublished price sensitive information when they took the decision to trade; with an assurance that no unpublished price sensitive information was communicated by the individuals possessing the information to the individuals taking trading decisions;
- The trades were pursuant to a trading plan.

In the case of connected persons, the onus of establishing, that they were not in possession of unpublished price sensitive information, shall be on such connected persons and in other cases, the onus would be on SEBI. SEBI may specify such standards and requirements, from time to time, as it may deem necessary for the purpose of these regulations.

TRADING PLANS

Regulation 5 states that an insider would be required to submit trading plan in advance to the compliance officer for his approval. The compliance officer is also empowered to take additional undertakings from the insiders for approval of the trading plan. Such trading plan on approval will also be disclosed to the Stock Exchanges, where the securities of the company are listed.

The trading plan shall comply with requirements as follows:

- It shall be submitted for a minimum period of 12 months.
- No overlapping of plan with the existing plan submitted by Insider.
- It shall set out either the value of trades to be effected or the number of securities to be traded along with the nature of the trade and the intervals at, or dates on which such trades shall be effected.
- Trading can commence only after 6 months from public disclosure of plan.
- No trading between 20th day prior to closure of financial period and 2nd trading day after disclosure of financial results.
- Compliance officer to approve the plan.

The trading plan once approved shall be irrevocable and the insider shall mandatorily have to implement the plan, without being entitled to either deviate from it or to execute any trade in the securities outside the scope of the trading plan.

Upon approval of the trading plan, the compliance officer shall notify the plan to the stock exchanges on which the securities are listed.

DISCLOSURES OF TRADING BY INSIDERS**Regulations 6 (2)**

The disclosures to be made by any person shall include those relating to trading by such person's immediate relatives, and by any other person for whom such person takes trading decisions.

It is intended that disclosure of trades would need to be of not only those executed by the person concerned but also by the immediate relatives and of other persons for whom the person concerned takes trading decisions. These regulations are primarily aimed at preventing abuse by trading when in possession of unpublished price sensitive information and therefore, what matters is whether the person who takes trading decisions is in possession of such information rather than whether the person who has title to the trades is in such possession.

Regulations 6(3)

The disclosures of trading in securities shall also include trading in derivatives of securities and the traded value of the derivatives shall be taken into account for purposes of this Chapter, provided that trading in derivatives of securities is permitted by any law for the time being in force.

Regulations 6(4)

The disclosures made shall be maintained by the company, for a minimum period of five years, in such form as may be specified.

DISCLOSURES BY CERTAIN PERSONS**Initial Disclosure [Regulation 7 (1)]**

- (a) Every promoter, key managerial personnel and director of every company whose securities are listed on any recognised stock exchange shall disclose his holding of securities of the company as on the date of these regulations taking effect, to the company within thirty days of these regulations taking effect;
- (b) Every person on appointment as a key managerial personnel or a director of the company or upon becoming a promoter shall disclose his holding of securities of the company as on the date of appointment or becoming a promoter, to the company within seven days of such appointment or becoming a promoter.

Continual Disclosures [Regulation 7(2)]

- (a) Every promoter, employee and director of every company shall disclose to the company the number of such securities acquired or disposed of within two trading days of such transaction if the value of the securities traded, whether in one transaction or a series of transactions over any calendar quarter, aggregates to a traded value in excess of ten lakh rupees or such other value as may be specified;
- (b) Every company shall notify the particulars of such trading to the stock exchange on which the securities are listed within two trading days of receipt of the disclosure or from becoming aware of such information.

DISCLOSURES BY OTHER CONNECTED PERSONS

Any company whose securities are listed on a stock exchange may require any other connected person or class of connected persons to make disclosures of holdings and

trading in securities of the company in such form and at such frequency as may be determined by the company.

This is an enabling provision for listed companies to seek information from those to whom it has to provide unpublished price sensitive information. This provision confers discretion on any company to seek such information. For example, a listed company may ask that a management consultant who would advise it on corporate strategy and would need to review unpublished price sensitive information, should make disclosures of his trades to the company.

CODE OF FAIR DISCLOSURE (REGULATION 8)

(1) The board of directors of every company, whose securities are listed on a stock exchange, shall formulate and publish on its official website, a code of practices and procedures for fair disclosure of unpublished price sensitive information that it would follow in order to adhere to each of the principles set out in Schedule A to these regulations, without diluting the provisions of these regulations in any manner.

(2) Every such code of practices and procedures for fair disclosure of unpublished price sensitive information and every amendment thereto shall be promptly intimated to the stock exchanges where the securities are listed.

Principles of Fair Disclosure for purposes of Code of Practices and Procedures for Fair Disclosure of Unpublished Price Sensitive Information - SCHEDULE A [Sub-regulation (1) of regulation 8]:

1. Prompt public disclosure of unpublished price sensitive information that would impact price discovery.
2. Uniform dissemination of unpublished price sensitive information to avoid selective disclosure.
3. Designation of a senior officer as a chief investor relations officer to deal with dissemination of information and disclosure of unpublished price sensitive information.
4. Appropriate and fair response to queries on news reports and requests for verification of market rumours by regulatory authorities.
5. Ensuring that information shared with analysts and research personnel is not unpublished price sensitive information.
6. Developing best practices to make transcripts or records of proceedings of meetings with analysts and other investor relations conferences on the official website to ensure official confirmation and documentation of disclosures made.
7. Handling of all unpublished price sensitive information on a need-to-know basis.

MINIMUM STANDARDS FOR CODE OF CONDUCT

The regulations lay down the following minimum standards for Code of Conduct to regulate, monitor and report trading by insiders :-

1. The compliance officer shall report to the board of directors and in particular, shall provide reports to the Chairman of the Audit Committee, if any, or to the Chairman of the board of directors at such frequency as may be stipulated by the board of directors.

2. All information shall be handled within the organisation on a need-to-know basis and no unpublished price sensitive information shall be communicated to any person except in furtherance of the insider's legitimate purposes, performance of duties or discharge of his legal obligations.
3. The code of conduct shall contain norms for appropriate Chinese Walls procedures, and processes for permitting any designated person to "cross the wall".
4. Employees and connected persons designated on the basis of their functional role ("designated persons") in the organisation shall be governed by an internal code of conduct governing dealing in securities.
5. The trading window shall be closed when the compliance officer determines that a designated person or class of designated persons can reasonably be expected to have possession of unpublished price sensitive information. Such closure shall be imposed in relation to such securities to which such unpublished price sensitive information relates.
6. Designated persons and their immediate relatives shall not trade in securities when the trading window is closed.
7. The timing for re-opening of the trading window shall be determined by the compliance officer taking into account various factors including the unpublished price sensitive information in question becoming generally available and being capable of assimilation by the market, which in any event shall not be earlier than forty-eight hours after the information becomes generally available.
8. The trading window shall also be applicable to any person having contractual or fiduciary relation with the company, such as auditors,

accountancy firms, law firms, analysts, consultants etc., assisting, or advising the company.

9. When the trading window is open, trading by designated persons shall be subject to pre-clearance by the compliance officer, if the value of the proposed trades is above such thresholds as the board of directors may stipulate. No designated person shall apply for pre-clearance of any proposed trade if such designated person is in possession of unpublished price sensitive information even if the trading window is not closed.
10. The compliance officer shall confidentially maintain a list of such securities as a "restricted list" which shall be used as the basis for approving or rejecting applications for pre-clearance of trades.
11. Prior to approving any trades, the compliance officer shall be entitled to seek declarations to the effect that the applicant for pre-clearance is not in possession of any unpublished price sensitive information. He shall also have regard to whether any such declaration is reasonably capable of being rendered inaccurate.
12. The code of conduct shall specify any reasonable timeframe, which in any event shall not be more than seven trading days, within which trades that have been pre-cleared have to be executed by the designated person, failing which fresh pre-clearance would be needed for the trades to be executed.
13. The code of conduct shall specify the period, which in any event shall not be less than six months, within which a designated person who is permitted to trade shall not execute a contra trade. The compliance officer may be empowered to grant relaxation from strict application of such restriction for reasons to be recorded in writing provided that such relaxation does not violate these regulations. Should a contra trade be executed, inadvertently or

otherwise, in violation of such a restriction, the profits from such trade shall be liable to be disgorged for remittance to SEBI for credit to the Investor Protection and Education Fund administered by SEBI under the Act.

PENALTY FOR INSIDER TRADING UNDER SECTION 15G OF SEBI ACT

If any Insider who either on his own behalf or on behalf of any other person, deals in securities of a body corporate listed on any stock exchange on the basis of any unpublished price sensitive information; or communicates any unpublished price sensitive information to any person, he shall be liable to a penalty of **twenty-five crore rupees or three times the amount of profits made out of insider trading, whichever is higher.**

ROLE OF COMPANY SECRETARY IN COMPLIANCE REQUIREMENTS

- The Company Secretary shall act as Compliance Officer and ensure compliance with SEBI (Prohibition of insider Trading) Regulations, 2015 including maintenance of various documents.
- To frame a code of fair disclosure and conduct in line with the model code specified in the Schedule A of the regulations and get the same approved by the board of directors of the company.
- To place before the board the "minimum standards for Code of Conduct" to regulate, monitor and report trading by insiders as enumerated in the Schedule B of the regulations.
- To receive initial disclosure from every Promoter, KMP and director or every person on appointment as KMP or director or becoming a Promoter

- To receive from every Promoter, employee and director, continual disclosures of the number of securities acquired or disposed of and changes therein, even if the value of the securities traded, exceeds Rs 10 lakh with single or series of transaction in any calendar quarter in prescribed form.
- To ensure that no trading shall between 20th day prior to closure of financial period and 2nd trading day after disclosure of financial results.
- The compliance officer shall approve the trading plan and after the approval of the trading plan, the compliance officer shall notify the plan to the stock exchanges on which the securities are listed.
- The Compliance Officer shall maintain records of all the declarations given by the directors/designated employees/partners in the appropriate form for a minimum period of three years.

6**TAKEOVER CODE - AN OVERVIEW****MEANING AND CONCEPT OF TAKEOVER**

The term takeover is not defined in the Companies Act, 2013. Broadly speaking, *takeover refers to acquisition of company by another company.*

Takeover is an acquisition of shares carrying voting rights in a company in order to gain control over the management of the company. It takes place when an individual or a group of individuals or a company acquires control over the assets of a company either by acquiring majority of its shares or by obtaining control of the management of the business and affairs of the company.

KINDS OF TAKEOVER**FRIENDLY TAKEOVER**

Friendly takeover means a takeover done with the consent of board of directors of both the parties i.e. the Acquirer and the Target Company. In friendly takeover, there is an agreement between the management of two companies through negotiations and the takeover bid may be with the consent of majority or all the shareholders of the target company. This kind of takeover is done through negotiations between two groups. Therefore, it is also called negotiated takeover.

HOSTILE TAKEOVER

The word hostile means without the will and intention of the management of the Target Company. When an acquirer company does not offer the target company the proposal to

acquire its undertaking but silently takes efforts to gain control against the wishes of existing management, such acts of acquirer are known as 'hostile takeover'. Such takeovers are hostile on management and are thus called hostile takeover. Hostile takeovers directly made to the shareholders of Target Company has resulted in a multiple defensive strategies-by corporate from being taken over by the company

BAILOUT TAKEOVER

Takeover of a financially sick company by a profit earning company to bail out the weak company is known as bail out takeover. A bail out takeover takes place with the approval of the Financial Institutions and banks since the objective is to revive the financially weak company and banks normally have a charge on the assets of the company.

LEGAL ASPECTS OF TAKEOVER

The legislations/regulations that mainly govern takeover is as under:

1. SEBI (SAST) Regulations 2011
2. Companies Act, 2013
3. Listing Agreement

IMPORTANT DEFINITIONS [REGULATION 2]

ACQUIRER [REG. 2(1) (A)]

"Acquirer" means any person who, directly or indirectly, acquires or agrees to acquire whether by himself, or through, or with persons acting in concert with him, shares or voting rights in, or control over a target company.

Thus, acquirer may be "any person" -even a foreign company-i.e. company incorporated outside India. If a foreign company acquires shares of its listed Indian subsidiary company, the acquirer (foreign company) is bound to -make open offer by way of Public announcement before acquiring shares or voting rights in the listed Indian subsidiary company.

Further, the term 'any person' will encompass natural persons as well as artificial persons.

The mere fact that a person is a promoter does not make him an acquirer, unless it is shown that he either intends to acquire or is acting in concert with the acquirer for the acquisition of shares of the target company. The definition of acquirer does not include a promoter, but includes persons acting in concert with an acquirer. The question as to whether a person is acting in concert with the acquirer is essentially a question of fact. A promoter may not act in concert with the acquirer, whereas a stranger might

ACQUISITION [REG. 2(1)(B)]

"Acquisition" means, directly or indirectly, acquiring or agreeing to acquire shares or voting rights in, or control over, a target company.

CONTROL [REG. 2(1) (E)]

"Control" includes the right to appoint majority of the directors or to control the management or policy decisions exercisable -by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner:

Provided that a director or officer of a target company shall not be considered to be in control over such target company, merely by virtue of holding such position.

FREQUENTLY TRADED SHARES [REG. 2(1)(J)]

"Frequently Traded Shares" means shares of a target company, in which the traded turnover on any stock exchange during the twelve calendar months preceding the * calendar month in which the public announcement is made, is at least *en per cent of the total number of shares of such class of the target company:

Provided that where the share capital of a particular class of shares of the target company is not identical throughout such period, the weighted average number of total shares of such class of the target company shall represent the total number of shares.

IDENTIFIED DATE [REG. 2(1)(K)]

"Identified Date" means the date falling on the 4th working day prior to the commencement of the tendering period, for the purposes of determining the shareholders to whom the letter of offer shall be sent.

IMMEDIATE RELATIVE [REG. 2(1)(L)]

"Immediate Relative" means any spouse of a person, and includes parent, brother, sister or child of such person or of the spouse.

It may be noted that grant-parents, father-in-law/mother-in-law/brother-in-law, uncles, nephews, grandparents, great grandparents, etc. are not "immediate relatives".

PERSON ACTING IN CONCERT [REG. 2(1)(G)]**"Person acting in concert" means.—**

Persons who, with a common objective or purpose of acquisition of shares or voting rights in, or exercising control over a target company, pursuant to an agreement or understanding, formal or informal, directly or indirectly co-operate for acquisition of shares or voting rights' in, or exercise of control over the target company.

Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be persons acting in concert with other persons within the same category, unless the contrary is established,-

- A company, its holding company, subsidiary company and any company under the same management or control;
- A company, its directors, and any person entrusted with the management of the company;
- Directors of companies referred to in items (i) and (ii) of this sub-clause and associates of such directors;
- Promoters and members of the promoter group;
- A mutual fund, its sponsor, trustees, trustee company, and asset management company;
- A collective investment scheme and its collective investment management company, trustees and trustee company;
- A venture capital fund and its sponsor, trustees, trustee company and asset management company;
- A foreign institutional investor and its subaccounts;
- A merchant banker and its client, who is an acquirer;
- A portfolio manager and its client, who is an acquirer;

- Banks, financial advisors and stock brokers of the acquirer, or of any company which is a holding company or subsidiary of the acquirer, and where the acquirer is an individual, of the immediate relative of such individual:

TARGET COMPANY [REG. 2(1)(Z)]

"Target Company" means a LISTED INDIAN company/ LISTED INDIAN BODY CORPORATE OR corporation established under a Central legislation, State legislation or Provincial legislation.

TENDERING PERIOD [REG. 2(1)(ZA)]

"Tendering Period" means the period within which shareholders may tender their shares in acceptance of an open offer to acquire shares made under these regulations.

VOLUME WEIGHTED AVERAGE MARKET PRICE [REG 2(1)(ZB)]

"Volume Weighted Average Market Price" means the product of the number of equity shares traded on a stock exchange and the price of each equity share divided by the total number of equity shares traded on the stock exchange.

VOLUME WEIGHTED AVERAGE PRICE [REG. 2(1)(ZC)]

"Volume Weighted Average Price" means the product of the number of equity shares bought and price of each such equity share divided by the total number of equity shares bought.

WEIGHTED AVERAGE NUMBER OF TOTAL SHARES [REG. 2(1)(ZD)]

"Weighted Average Number of Total Shares" means the number of shares at the beginning of a period, adjusted for shares cancelled, bought back or issued during the aforesaid period* multiplied by a time-weighting factor.

SUBSTANTIAL ACQUISITION OF SHARES, VOTING RIGHTS OR CONTROL OR INITIAL TRIGGER THRESHOLD [REGULATIONS 3-9]

- 1) Without giving a public announcement for open offer, no acquirer shall acquire shares or voting rights in a target company along with shares or voting rights, if any, held by him in person or with persons acting in concert, entitle them to exercise **twenty-five per cent or more** of the voting rights of such target company.
- 2) Without giving a public announcement for open offer, any acquirer along with his PAC's, who already holds twenty-five per cent or more of the voting rights in the target company but less than the maximum permissible non-public shareholding (75% or 90%), shall **not** acquire any shares or voting rights **more than five percent** within any financial year in such target company.

CREEPING ACQUISITION TRIGGER [REG. 3(2)]

CREEPING ACQUISITION MEANS SLOW AND STEADY ACQUISITION OF SHARES BY THE ACQUIRER IN TARGET COMPANY. IN CREEPING ACQUISITION ACQUIRER CAN ACQUIRE MAX 5% VOTING RIGHTS OF TARGET CO IN EACH FINANCIAL YEAR.

The creeping acquisition route is meant to facilitate consolidation by persons already in control or holding substantial number of shares.

An acquirer who (together with PACs) holds 25% or more voting rights in a target company, but less than the maximum permissible non-public shareholding [i.e., Maximum Permissible Non-Public (Promoters') Shareholding is 75% and Minimum Permissible Public shareholding is 25%], is allowed to acquire additional voting rights in the target company to the extent of upto 5% within a financial year ending on 31st

March, without making an open offer [Regulation 3(2)]. If he acquires more than 5% additional voting rights in a financial year ending on 31st March, he will have to make an open offer. This is subject to their (acquirer and PACs) aggregate post acquisition shareholding not exceeding the maximum permissible non-public shareholding.

Thus, creeping acquisition can be made at the maximum rate of 5% in any one financial year without complying with the requirement of mandatory public offer by way of public announcement, provided that the post-acquisition shareholding of acquirer together with persons acting in concert with him shall not increase beyond 75%.

The open offer obligation would also apply to acquisition of shares by any person from other persons acting in concert with him such that the individual shareholding of the person acquiring shares equals or exceeds the stipulated threshold of 5% although the aggregate shareholding along with persons acting in concert may remain unchanged.

[Reg. 3(3)]

It may be noted that Regulations 3(1) and 3(2) are mutually exclusive so that an acquisition can trigger either regulation 3(1) or (but not and) regulation 3(2). It is the percentage of the acquirer's shareholding before and after an acquisition that determines whether the acquisition triggers regulation 3(1) or regulation 3(2).

ACQUISITION OF CONTROL [REGULATION 4]

Regulation 4 provides the following:

Irrespective of acquisition or holding of shares or voting rights in a target company, no acquirer shall acquire, directly or indirectly, control over such target company unless the

acquirer makes a public announcement of an open offer for acquiring shares of such target, company, in accordance with these-regulations.

EXPLANATION

If any acquirer wants to acquire control over a target company, he has to make public announcement to acquire shares from the shareholders of the target company.

As per Reg. 2(1) (e), Control includes acquisition, directly or indirectly, of any of the following rights by the acquirer:

- 1) Right to appoint majority of the directors;
- 2) Right to control the management;
- 3) Right to control the policy decisions.

VOLUNTARY OFFER [REGULATION 6]

Shareholders holding shares entitling them to exercise 25% or more of the voting rights in the target company may, without breaching minimum public shareholding requirements under the listing agreement, voluntarily make an open offer to consolidate their shareholding subject to their aggregate shareholding after completion of the open offer not exceeding the maximum permissible non-public shareholding. [Regulation 6(1)]

The facility to voluntarily make an open offer shall not be available if in the proximate past (preceding 52 weeks), such persons (acquire to and PACs holding 25% or more voting rights) have made acquisitions without open offer within the creeping acquisition limit of 5%. [The first proviso to Regulation 6(1)]

Such an acquirer is prohibited from making acquisitions outside the open offer during the offer period and also prohibited from any further acquisitions for six months after the open offer except pursuant to another voluntary open offer. [Regulation 6(2)]

OFFER SIZE [REGULATION 7]

Regulation 7 provides the following:

Any mandatory open offer would be for **at least 26%**, of total shares of the target company, as of tenth working day from the closure of the tendering period [Regulation 7(1)].

A voluntary open offer can be made for the acquisition of shares representing **at least 10%** but shall not exceed 'such number of shares which will take the holding of the acquirer and PACs to beyond maximum non-public shareholding permitted under the listing agreement. [Reg. 7(2)] Upon a competing offer being made, such an acquirer would be permitted to increase his offer size to a normal full-sized open offer within fifteen working days. [Proviso to Reg. 7(2)].

DISCLOSURE OF ACQUISITION AND DISPOSAL [REGULATION 29]

Regulation 29(1) provides that any acquirer along with any PAC, who acquires shares or voting rights in a target company entitle them to 5% cent or more of the voting rights in such target company shall disclose their aggregate shareholding and voting rights in such target company in a specified form.

Regulation 29(2) provides that any acquirer, who together with PACs holds 5% or more of the voting rights in a target -company, shall disclose every acquisition or disposal of

shares of such target company representing 2% or more change of the voting rights in such target company along with their aggregate shareholding and voting rights.

Shares taken by way of encumbrance shall be treated as an acquisition; shares given upon release of encumbrance pledge shall be treated as a disposal. However, this requirement shall not apply to a scheduled commercial bank or public financial institution in connection with a pledge of shares for securing indebtedness in the ordinary course of business. The word encumbrance means taking loan against such shares.

Regulation 29(3) provides that the above disclosures shall be made within two working days of the receipt of intimation of allotment of shares, or the acquisition of shares or voting rights in the target company to,-

- a. every stock exchange where the shares of the target company are listed; and
- b. The target company at its registered office.

CONTINUAL DISCLOSURES [REGULATION 30]

Regulation 30(1) provides that every person, who together with PACs holds 25% shares or voting rights them to exercise of the voting rights in a target company (substantial shareholder), shall disclose their aggregate shareholding as of 31st of March, in such target company in such form as may be specified. Disclosure shall be made within 7 working days from the end of each financial year to,-

- a. every stock exchange where the shares of the target company are listed; and
- b. The target company at its registered office.

Regulation 30(2) provides that the promoter of every target company shall together with persons acting in concert with him, disclose their aggregate shareholding and voting rights as of the 31st day of March, in such target company in such form as may be specified. Disclosure shall be made within 7 working days from the end of each financial year to,-

- a. every stock exchange where the shares of the target company are listed; and
- b. The target company at its registered office.

DISCLOSURE OF ENCUMBERED SHARES [REGULATION 31]

The word encumbrance means loan against a particular asset. Here it means loan obtained or repaid against shares. The promoter of every target company shall disclose the following:

- details of shares in such -target company encumbered by him or by persons acting in concert with him;
- details of any invocation of such encumbrance; and
- Details of release of such encumbrance.

The disclosures required as above shall be made within **seven working days** from the creation or invocation or release of encumbrance, as the case may be to,-

- a. every stock exchange where the shares of the target company are listed; and
- b. The target company at its registered office.

OPEN OFFER PROCESS [REGULATIONS 12-23]**MANAGER TO THE OPEN OFFER [REGULATION 12]**

Before making any public announcement of mandatory public offer, the acquirer shall appoint a Merchant Banker, who is not directly or indirectly connected with the acquirer.

The public announcement of the open offer for acquiring shares, required under these regulations shall be made by the acquirer through such manager to the open offer.

TIMING OF PUBLIC ANNOUNCEMENT AND DETAILED PUBLIC STATEMENT [REGULATION 13]

A short public announcement should be made on the same date as the date of transaction which triggered the open offer. A detailed public statement should be made within a period of 5 working days thereafter, so as to accord the acquirer sufficient time to actually work out the logistics of the offer obligations.

PUBLICATION OF PUBLIC ANNOUNCEMENT (PA) AND DETAILED PUBLIC STATEMENT (DPS) [REG. 14]

Regulation 14(1) provides that the PA shall be sent to all the stock exchanges on which the shares of the target company are listed, and the stock exchanges shall forthwith disseminate such information to the public. Regulation 14 (2) provides that a copy of the PA shall be sent to SEBI and to the target company at its registered office within one working day of the date of the PA.

Regulation 44(3) requires that the DPS shall be published in all editions of any one English national daily with wide circulation, any one Hindi national daily with wide

circulation, and any one regional language daily with wide circulation, at the place where the registered office of the target company is situated and one regional language daily at the place of the stock exchange where the maximum volume of trading in the shares of the target company are recorded during the 60 trading days preceding the date of the PA. Regulation 14(4) requires that simultaneously with publication of such DPS to the newspapers, a copy of the same shall be sent to,-

- i. the SEBI through the manager to the open offer;
- ii. all the stock exchanges on which the shares of the target company are listed, and the stock exchanges shall forthwith disseminate such information to the public; and
- iii. The target company at its registered office and the target company shall forthwith place the same before the board of directors of the target company.

CONTENTS OF PUBLIC ANNOUNCEMENT OF OFFER [REGULATION 15]

Regulation 15 specifies the contents of the public announcement and detailed public statement.

The public announcement and detailed public announcement of the offer or any other advertisement, circular, brochure, publicity material or letter of offer issued in relation to the acquisition of shares shall not contain any misleading information.

FILING OF LETTER OF OFFER TO SEBI [REGULATION 16]

Within 5 working days from the date of the detailed public statement, the acquirer shall, through the manager to the open offer, file with SEBI the draft letter of offer in the format prescribed by SEBI along with prescribed fees.

SEBI shall give its comments on the draft letter of offer as soon as possible but not later than fifteen working days of the receipt of the draft letter of offer. However, in the event SEBI has sought clarifications or additional information from the manager to the open offer, the period for issuance of comments shall be extended to the fifth working day from the date of receipt of satisfactory reply to the clarification or additional information sought.

In the event SEBI specifies any changes, the manager to the open offer and the acquirer shall carry out such changes in the letter of offer before it is dispatched to the shareholders.

A letter of offer is a document addressed to the shareholders of the target company containing disclosures of the acquirer/PACs, target company, their financials, justification of the offer price, the offer price, number of shares to be acquired from the public, purpose of acquisition, future plans of acquirer, if any, regarding the target company, change in control over the target company, if any, the procedure to be followed by acquirer in accepting the shares tendered by the shareholders and the period within which all the formalities pertaining to the offer would be completed.

ESCROW ACCOUNT [REGULATION 17]

At least 2 days prior to the date "of the detailed public statement, the acquirer shall, as and by way of security for performance of its obligations, open an escrow account which shall consist of cash deposit with a scheduled commercial bank or bank guarantee in favor of the merchant banker or deposit of acceptable securities with appropriate margin with the merchant banker or a combination of the above.

The escrow amount shall be calculated in the following manner:

a. For consideration payable under the open offer up to Rs. 500 crores	25% of consideration payable
b. For consideration payable under the open offer exceeding Rs. 500 crores	25% of Rs. 500 crores and 10% of the balance amount

ACQUIRERS OBLIGATIONS [REGULATION 18]

The acquirer's other obligations are as under:

- Simultaneously with the filing of the draft letter of offer with SEBI, the acquirer shall send a copy of the draft letter of offer to the target company at its registered office address and to all stock exchanges where the shares of the target company are listed.
- The letter of offer shall be dispatched to the shareholders whose names appear on the register of members of the target company -as of the identified date, not later than 7 working days from the receipt of communication of comments from SEBI or where no comments are offered by the Board, within 7 working days from the expiry of the period of 15 working-days.
- The acquirer and PACs shall not acquire or sell any shares of the target company during, the period between three working days prior to the commencement of the tendering period and until the expiry of the tendering period.
- The acquirer shall issue an advertisement in such form as may be specified, one business day before the commencement of the tendering period, announcing the schedule of activities for the open offer and such other material detail as may be specified. Such advertisement shall be,-

- a. published in all the newspapers in which the DPS was made; and
 - b. simultaneously sent to SEBI, all the stock exchanges on which the shares of the target company are listed, and the target company at its registered office.
- The acquirer shall, within 10 working days from the last date of the tendering period, complete all requirements under these regulations and other applicable law relating to the open offer including payment of consideration to the shareholders who have accepted the open offer;
 - The acquirer shall be 'responsible to pursue all statutory approvals required by the acquirer in order to complete the open offer without any default, neglect or delay.
 - Where the acquirer is unable to make the payment to the shareholders who have accepted the open offer within such period owing to non-receipt of statutory approvals required by the acquirer, SEBI may grant extension of time for making payments, subject to the acquirer agreeing to pay interest to the shareholders for the delay at such rate as may be specified by the Board.

REVISION OF OPEN OFFER

An acquirer may make upward revisions to the offer price to the number of shares sought to be acquired under the open offer, at any time prior to the commencement of the last three working days prior to the commencement of the tendering period, to the event of any revision of the open offer, whether by way of an upward revision in offer price, or of the offer size, the acquirer shall,-

- a. make corresponding increases to the amount kept in escrow prior to such revision;
- b. make an announcement in respect of such revisions in all the newspapers in which the detailed public statement pursuant to the public

announcement was made;

- c. simultaneously with the issue of such an announcement, inform SEBI, all the stock exchanges on which the shares of the target company are listed, and the target company, at its registered office;

TENDERING PERIOD

The tendering period shall start not later than 12 working days from date of receipt of comments from the SEBI and shall remain open for 10 working days. Shareholders who have tendered shares in acceptance of the open offer shall not be entitled to withdraw such acceptance during the tendering period.

CONDITIONAL OFFER [REGULATION 19]

An acquirer may make an open offer conditional as to the minimum level of acceptance. Where the open offer is pursuant to an agreement, such agreement shall contain a condition to the effect that in the event the desired level of acceptance of the open offer is not received the acquirer shall not acquire any shares under the open offer and the agreement attracting the obligation to make the open offer shall stand rescinded.

BUT Regulation 8(11) PROVIDES THAT - Where the open offer is subject to a minimum level of acceptances, the acquirer may indicate a lower price for acquiring all the acceptances despite the acceptance falling short of the indicated threshold, in the event the open offer does not receive the minimum acceptance.

COMPETING OFFERS [REGULATION 20]

Upon a Public Announcement of an open offer for acquiring shares of a target company being made, any person other than the acquirer who has made such public announcement, shall be entitled to make a public announcement of an open offer within 15 working days of the date of the detailed public statement made by such acquirer who has made the first public announcement for such target company.

Upon public announcement of a competing offer, an acquirer who had made a preceding "competing offer shall be entitled to revise the -terms of his open offer-provided the revised terms are more favourable to the shareholders of the target company. The acquirers making the competing offers shall be entitled to make upward revisions of the offer price at any time up to 10 working days prior to the commencement of the tendering period.

PAYMENT OF CONSIDERATION [REGULATION 21]

For the amount of consideration payable in cash, the acquirer shall open a special account with a Banker to an Issue and deposit therein such sum as would together with 90% of the amount lying in the escrow account make up the entire sum due and payable to the shareholders as consideration.

The acquirer shall, within a period of 10 working days from the expiry of the tendering period, complete all procedures relating to the offer including payment of consideration to the shareholders who have accepted the offer.

Unclaimed balances in special account shall be transferred to the SEBI Investor Protection and Education Fund at the end of 7 years.

It may be noted that the balance of **10%** of the escrow account shall be released to the acquirer, on the expiry of 30 days from the completion of payment of consideration to shareholders who have tendered their shares in acceptance of the open offer, as certified by the manager to the open offer;

COMPLETION OF ACQUISITION [REGULATION 22]

The agreement that attracts an open offer obligation may be acted upon during the pendency of the open offer only if **100%** of the consideration payable under the open offer is placed in escrow.

An agreement that triggered an open offer obligation would have to be completed within 26 weeks after, the offer period. However, in the event of any extraordinary and supervening circumstances rendering it impossible to complete such acquisition within such period of 26 weeks, SEBI may for reasons to be published, may grant an extension of time by such period as it may deem fit in the interests of investors in securities and the securities market.

WITHDRAWAL OF THE OPEN OFFER [REGULATION 23]

An offer shall be withdrawn in the following cases:

1. The statutory approvals required have been refused. The statutory approvals would include approval of shareholders as required by -the Regulation or the approval for foreign investment by FBPB or RBI and the like.
2. Where the sole acquirer, being an individual has died.
3. Any condition stipulated in the agreement for acquisition attracting the

obligation to make the -open offer is not met for reasons outside the reasonable control of the acquirer.

4. Such circumstance as in the opinion of SEBI merits/requires withdrawal.

An offer can be withdrawn subject to the following conditions:

1. The acquirer will have to make a public announcement in respect of such withdrawal of offer in all the newspapers in which the original public announcement was made.
2. The acquirer shall also simultaneously inform the withdrawal of offer to the SEBI, all the Stock Exchanges where the shares of the company are listed and the target company at its registered office.

OFFER PRICE [REGULATION 8]

Minimum offer price for *direct acquisitions* and *indirect acquisitions deemed to be direct acquisitions*

Regulation 8(2) of the 2011 code provides that in the case of direct acquisition of shares or voting rights in, or control over the target company, and indirect acquisition of shares or voting rights in, or control over the target company where the parameters referred to in sub-regulation (2) of regulation 5 are met, the offer price shall be the highest of,-

- a. the highest negotiated price per share of the target company for any acquisition under the agreement attracting the obligation to make public announcement of an open offer,

- b. the-volume-weighted average price paid or payable for acquisitions, whether by the acquirer or by any person acting in concert with him, -during the fifty-two weeks immediately preceding the date of the public announcement;
- c. the highest price paid or payable for any acquisition, whether by the acquirer or by any person acting in concert with him, during the twenty six weeks immediately preceding the date of the public announcement;
- d. the volume-weighted average market price of such shares for a period of sixty trading days immediately preceding -the date of the public announcement as traded on the stock exchange where the maximum volume of trading in the shares of the target company are recorded during such period, provided such shares are frequently traded;
- e. where the shares are not frequently traded, the price determined by the acquirer and the manager to the open offer taking into account valuation parameters including, book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies; and

EXEMPTIONS [REGULATIONS 10-11]

GENERAL EXEMPTIONS [REGULATION 10]

Sub-regulation (I) of Regulation 10 exempts the following, categories of acquisitions from open offer obligations under Regulations 3 & 4 (but not from disclosure obligations under Regulations 28/20) without SEBI's approval:

- Transfers between qualifying parties such as immediate relatives, group companies, promoters, etc. [Regulation 10(1)(3)]
- Certain acquisitions in the ordinary course of business-of stock broker, underwriter, merchant banker, scheduled commercial bank, etc.

[Regulation 10(l)(b)]

- Acquisition pursuant to disinvestment in a Government Company. [Reg. 10(l)(c)]
- Acquisitions pursuant to Scheme made under section 18 of SICA, 1985 or scheme of arrangement involving transferor company pursuant to order of Court or other statutory authority under any Indian or foreign law [Regulation 10(l)(d)]
- Acquisition pursuant to SARFAESI Act, 2002 [Regulation 10(l)(e)]
Acquisition under SEBI
- Acquisition under SEBI (Delisting of Equity Shares) Regulations [Reg. 10(l)(f)]
- Acquisition by way of transmission, succession or inheritance [Regulation 10(l)(g)]
- Voting rights on preference shares under the Companies Act, 1956 [Reg. 10(l)(h)]
- Acquisition under Corporate Debt Restructuring (as per scheme notified by RBI) not involving change of control provided such scheme authorized by special resolution by postal ballot. [Regulation 10(2)]
- Increase of voting rights to 25% through buy-back provided shareholder reduces his holding below 25% within 90 days from the date of increase, [Reg. 10(3)].
- Acquisition through Rights issue, subject to certain conditions. [Reg. 10(4)(a)&(b)]
- Increase of voting rights through buy-back in excess of threshold under Regulation 3(2), subject to certain conditions. [Regulation 10(4)(c)]

- Acquisition of shares in a target company by any person in exchange for shares of another target company tendered pursuant to an open offer for acquiring shares under these regulations. [Regulation 10(4)(d)]
- Acquisition of shares in Target Company from state-level financial institutions by promoters of the target company. [Regulation 10(4)(e)]
- Acquisition of shares in Target Company by promoters from venture capital fund or foreign venture capital investor. [Regulation 10(4)(f)]

EXEMPTIONS BY THE SEBI [REGULATION 11]

Power of SEBI to grant exemption from open offer obligations in individual cases

Regulation 11(1) provides that SEBI may, on the application made by the acquirer, for reasons recorded in writing, grant exemption from the obligation to make an open offer for acquiring shares under these regulations subject to such conditions as SEBI deems fit to impose in the interests of investors in securities and the securities market.

DELISTING OFFER

(1) Notwithstanding anything contained in these regulations, in the event the acquirer makes a public announcement of an open offer for acquiring shares of a target company in terms of regulations 3, 4 or 5, he may delist the company in accordance with provisions of the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009. Provided that the acquirer shall have declared upfront his intention to so delist at the time of making the detailed public statement and a subsequent declaration of delisting for the purpose of the offer proposed to be made under sub regulation (1) will not suffice.

(2) Where an offer made under sub-regulation (1) is not successful,-

- (i) on account of non-receipt of prior approval of shareholders in terms of clause (b) of sub-regulation (1) of regulation 8 of Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; or
- (ii) in terms of regulation 17 of Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; or
- (iii) on account of the acquirer rejecting the discovered price determined by the book building process in terms of sub-regulation (1) of regulation 16 of Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009, the acquirer shall make an announcement within two working days in respect of such failure in all the newspapers in which the detailed public statement was made and shall comply with all applicable provisions of these regulations.

(3) In the event of failure of the delisting offer made under sub-regulation (1), the open offer obligations shall be fulfilled by the acquirer in the following manner:

- (i) the acquirer, through the manager to the open offer, shall within five working days from the date of the announcement under sub-regulation (2), file with the Board, a draft of the letter of offer as specified in sub-regulation (1) of regulation 16; and
- (ii) shall comply with all other applicable provisions of these regulations.

Provided that the offer price shall stand enhanced by an amount equal to a sum determined at the rate of ten per cent per annum for the period between the scheduled date of payment of consideration to the shareholders and the actual date of payment of consideration to the shareholders.

(4) Where a competing offer is made in terms of sub-regulation (1) of regulation 20,-

- (a) the acquirer shall not be entitled to delist the company;
 - (b) the acquirer shall not be liable to pay interest to the shareholders on account of delay due to competing offer;
 - (c) the acquirer shall comply with all the applicable provisions of these regulations and make an announcement in this regard, within two working days from the date of public announcement made in terms of sub-regulation (1) of regulation 20, in all the newspapers in which the detailed public statement was made.
- (5) Shareholders who have tendered shares in acceptance of the offer made under sub-regulation (1), shall be entitled to withdraw such shares tendered, within 10 working days from the date of the announcement under sub-regulation(2)
- (6) Shareholders who have not tendered their shares in acceptance of the offer made under sub-regulation (1) shall be entitled to tender their shares in acceptance of the offer made under these regulations.

FUGITIVE ECONOMIC OFFENDER

Notwithstanding anything contained in these regulations, no person who is a fugitive economic offender shall make a public announcement of an open offer or make a competing offer for acquiring shares or enter into any transaction, either directly or indirectly, for acquiring any shares or voting rights or control of a target company.

DISPATCH OF LETTER OF OFFER

The Acquirer shall ensure that the letter of offer is dispatched to the shareholders whose names appear on the register of members of the Target Company as of the identified

date, and to the custodian of shares underlying depository receipts, if any, of the Company, within maximum 7 working days from the date of receipt of communication of comments from SEBI or where no comments are offered by SEBI, within 7 working days from the expiry of 15 working days from the date of receipt of draft letter of offer by SEBI.

However, it is provided that where a shareholder holding less than 5% of the voting rights of the Target Company is resident outside India and local laws or regulations of such jurisdiction may expose the acquirer or the target company to material risk of civil, regulatory or criminal liabilities in the event the letter of offer in its final form were to be sent without material amendments or modifications into such jurisdiction, then the acquirer may refrain from dispatch of the letter of offer into such jurisdiction.

Explanation:

- (i) Letter of offer may also be dispatched through electronic mode in accordance with the provisions of Companies Act, 2013.
- (ii) On receipt of a request from any shareholder to receive a copy of the letter of offer in physical format, the same shall be provided.
- (iii) The aforesaid shall be disclosed in the letter of offer;

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SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS), REGULATIONS, 2015**SEBI (LISTING OBLIGATIONS AND DISCLOSURES REQUIREMENTS) REGULATIONS, 2015**

Unless otherwise provided, these regulations shall apply to the listed entity which has listed any of the following designated securities on recognised stock exchange(s):

- (a) specified securities listed on main board or SME Exchange or institutional trading platform;
- (b) non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares;
- (c) Indian depository receipts;
- (d) securitised debt instruments;
- (e) units issued by mutual funds;
- (f) any other securities as may be specified by SEBI.

Company desirous of listing its securities shall enter into a listing agreement with the stock exchange. Existing listed entities are required to execute a fresh listing agreement within 6 months from date of notification of SEBI Listing Regulations.

According to Section 2 (52) of the Companies Act, 2013, listed company means a company which has any of its securities listed on any recognised stock exchange. This means that if a private limited company has its debt securities listed on any recognised stock exchange, then such company is under the ambit of listed company category for complying with the Companies Act, 2013 and rules and regulation made thereunder.

According to SEBI (LODR) Regulations, 2015 "listed entity" means an entity which has listed, on a recognised stock exchange(s), the designated securities issued by it or designated securities issued under schemes managed by it, in accordance with the listing agreement entered into between the entity and the recognised stock exchange(s).

REGULATIONS

One Time Compliances

Regulations	Particulars
6(1)	A listed entity shall appoint a CS as the Compliance Officer
7(1)	The listed entity shall appoint a share transfer agent or the listed entity registered with SEBI as Category II share transfer agent in case of share transfer facility in house.
9	The listed entity shall have a policy for preservation of documents, approved by its Board of Directors.

Quarterly Compliances

Regulation	Particulars	Time Limit
13(3)	The listed entity shall file with the recognised stock exchange, a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter	within 21 days from end of quarter

27	The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by SEBI from time to time to the recognized stock exchanges.	within 15 days from close of the quarter
31(1)(b)	The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities, in the format specified by SEBI from time to time	within 21 days from the end of each quarter
32(1)	The listed entity shall submit to the stock exchange a statement of deviation or variation in the utilization of issue proceeds as stated on the objects clause of the offer document and the actual utilization of those funds.	-
33(3)	The listed entity shall submit quarterly and year-to-date financial results to the stock exchange	within forty-five days of end of each quarter, other than the last quarter.

Half Yearly Compliances

Regulation	Particulars	Time Limit
7(3)	The listed entity shall submit a compliance certificate to the exchange, duly signed by both the compliance officer of the listed entity and the authorized representative of the share transfer agent	Within one month of end of each half of the financial year.
40(9)	The listed entity shall ensure that the share transfer agent and/or the in-house share transfer facility, as the case may be, produces a certificate from a practicing company secretary	within one month of the end of each half of the financial year

Yearly Compliances

Regulation	Particulars	Time Limit
14	The listed entity shall pay all such fees or charges, as applicable, to the recognised stock exchange(s), in the manner specified by SEBI or the recognised stock Exchanges.	within 30 days of the end of financial year

33(3)	The listed entity shall submit annual audited standalone financial results with audit report and Statement on Impact of Audit Qualifications applicable only for audit report with modified opinion to the stock exchange	within 60 days from the end of the financial year
34	The listed entity shall submit the annual report to the stock exchange	within twenty one working days of it being approved and adopted in the annual general meeting

Event Based Compliances

Regulation	Particulars	Due date
7(5)	The listed entity shall intimate the appointment of Share Transfer Agent, to the stock exchange(s)	Within 7 days of Agreement with RTA
28(1)	The listed entity shall obtain In-principle approval from recognised stock exchange	Prior to issuance of Security
29(1)(a) read along with proviso to 29 (2)	Prior Intimations of Board Meeting for financial Result viz. quarterly, half yearly or annual, to the stock exchange(s)	At least 5 clear days in advance (excluding the date of the intimation and the date of the meeting)

<p>29(1) (b), (c),(d), (e) & (f) read along with 29 (2)</p>	<p>Prior Intimations of Board Meeting for Buyback, Voluntary delisting, Fund raising by way of FPO, Rights Issue, ADR, GDR, QIP, FCCB, Preferential issue, debt issue or any other method, Declaration/recommendation of dividend, issue of convertible securities carrying a right to subscribe to equity shares or the passing over of dividend, proposal for declaration of Bonus securities etc., to the stock exchange(s)</p>	<p>At least 2 working days in advance</p>
<p>29(3)</p>	<p>Prior Intimations of Board Meeting for alteration in nature of Securities, alteration in the date on which interest on debentures/bonds/redemption amount, etc. shall be payable to the stock exchange(s)</p>	<p>At least 11 clear working days in Advance</p>
<p>30(6)</p>	<p>Disclosure of Price Sensitive Information to the stock exchange(s)</p>	<p>Not later than twenty four hours as per Part A of Schedule III</p>

31(1)(a)	The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities prior to listing of securities	One day prior to listing of Securities
31(1)(c)	The listed entity shall submit to the stock exchange(s)	Within 10 days of any change in capital
37(2)	The listed entity shall file draft Scheme of Arrangement to the stock exchange(s)	Prior approval before filing with Court
42(2)	The listed entity shall intimate the record date or date of closure of transfer books to all the stock exchange(s)	At least 7 clear working days in advance
42(3)	The listed entity shall give notice to stock exchange(s) of Record date for declaring dividend and/or cash Bonus	At least 5 clear working days in advance
44(3)	The listed entity shall submit to the stock exchange details regarding voting results by Shareholders	Within 48 Hours of conclusion of its General Meeting
45(3)	The listed entity shall allowed to change its name	Prior approval from Stock Exchange(s)

CORPORATE GOVERNANCE UNDER SEBI (LODR) REGULATIONS, 2015

The listed entities which has listed its specified securities on any recognised stock exchange(s) either on the main board or on SME Exchange or on institutional trading platform has to comply with certain corporate governance provisions which are specified in Regulations 17 to 27 & 34(3) of the Listing Regulations.

Sl.	Particulars	Listing
1.	Related Party	Clause 2(zb)
2.	Board Composition	17(1)
3.	Appointment of Woman Director	17(1)(a)
4.	Size of the Board	17(1)(a)
5.	Succession planning	17(4)
6.	Code of Conduct of Board of Directors & Senior	17(5)
7.	Prohibited Stock options for IDs	17(6)(d)
8.	Performance evaluation of IDs	17 (10)
9.	Constitution of Audit Committee	18
10.	Constitution of Nomination & Remuneration	19
11.	Constitution of Stakeholders Relationship	20
12.	Constitution of Risk management Committee	21
13.	Formulation of Vigil mechanism	22
14.	Related party transactions	23(1)
15.	Maximum number of directorship of IDs.	25(1)
16.	Maximum tenure of IDs	25(2)
17.	Separate meeting of IDs	25(3)
18.	Liability of IDs	25(5)
19.	Filing of Casual Vacancy of IDs	25(6)
20.	Familiarisation Programme for Independent	25(7)
21.	Disclosure of RPTs	27(2) (a)
22.	Disclosure of different Accounting standard	34 (3)
23.	Disclosure on Remuneration	34 (3)

Exceptions

Regulation 15(2) of the Listing Regulations, the compliance with the corporate governance provisions as specified in Regulations 17 to 27 and clauses (b) to (i) of Regulation 46(2) and para C, D and E of Schedule V shall not apply, in respect of following -

1. The listed entity having paid up equity share capital not exceeding rupees 10 crore and net worth not exceeding rupees 25 crore, as on the last day of the previous financial year.

If the provisions of the regulations become applicable to a listed entity at a later date, such listed entity shall comply with the requirements those regulations within six months from the date on which the provisions became applicable to the listed entity.

2. The listed entity which has listed its specified securities on the SME Exchange. *For other listed entities which are not companies, but body corporate or are governed by other statutes, the provisions shall apply only to the extent that it does not violate their respective statutes and guidelines.*

BOARD COMMITTEES UNDER LODR REGULATIONS

Audit Committee

Stakeholders Relationship Committee

Nomination and Remuneration Committee

Risk Management Committee

VIGIL MECHANISM

- The listed entity shall formulate a vigil mechanism for directors and employees to report genuine concerns.
- The vigil mechanism shall provide for adequate safeguards against victimization of director(s) or employee(s) or any other person who avail the mechanism.
- The vigil mechanism shall also provide for direct access to the chairperson of the audit committee in appropriate or exceptional cases.

RELATED PARTY TRANSACTIONS***Under Listing Regulations, 2015***

Regulation 2(1) (zb) defines "related party" means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards.

Under Companies Act, 2013

According to section 2 (76) "related party", with reference to a company, means —

- (i) a director or his relative;
- (ii) a key managerial personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is a partner;
- (iv) a private company in which a director or manager or his relative is a member or director;
- (v) a public company in which a director and manager is a director and holds along with his relatives, more than two per cent of its paid-up share capital;
- (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act;
- (viii) Any body corporate which is -
 - (A) a holding, subsidiary or an associate company of such company;
 - (B) a subsidiary of a holding company to which it is also a subsidiary; or
 - (C) an investing company or the venturer of the company;"
- (ix) such other person as may be prescribed.

Policy on materiality of related party transactions

The listed entity shall formulate a policy on materiality of related party transactions and on dealing with related party transactions.

When will a transaction with a related party be material?

A transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

Approval of Audit Committee

All related party transactions shall require prior approval of the audit committee

Omnibus Approval: Audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions-

- (a) the audit committee shall lay down the criteria for granting the omnibus approval and such approval shall be applicable in respect of transactions which are repetitive in nature;
- (b) the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;
- (c) the omnibus approval shall specify as much details as possible. However, where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

- (d) the audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.
- (e) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

Approval of the shareholders

All material related party transactions shall require approval of the shareholders through resolution and the related parties shall abstain from voting on such resolutions whether the entity is a related party to the particular transaction or not.

Exceptions

The approval of Audit committee and shareholders shall not be required in the following cases:

- (a) transactions entered into between two government companies;
- (b) transactions entered into between a holding company and its wholly owned subsidiary.

ROLE OF COMPANY SECRETARY

The compliance officer of the listed entity shall be responsible for -

- ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit.
- co-ordination with and reporting to SEBI, recognised stock exchange(s) and depositories with respect to compliance with rules and regulations.

- ensuring that the correct procedures have been followed that would result in the correctness, authenticity of the information, statements and reports filed by the listed entity.
- monitoring email address of grievance redressal division as designated by the listed entity for the purpose of registering complaints by investors.

REGULATION 31A OF SEBI (LODR) REGULATIONS, 2015 - RECLASSIFICATION OF PROMOTER & PROMOTER GROUP SHAREHOLDERS

1. Promoter shall apply to Company for reclassification along with the supporting documents, if any.
2. Intimation to Exchange about receipt of such request from the promoter has to be made by the Company within 24 hours of receipt of such application.
3. The Board of Directors of the listed entity shall analyse the request and place the same before the shareholders in a general meeting for approval along with their views. There shall be a time gap of at least three months but not exceeding six months between the date of board meeting and the shareholders meeting considering the request for reclassification.
4. Outcome of board meeting shall be submitted to the Exchange within 24 hours of the conclusion of board meeting in which resolution regarding reclassification is approved.
5. The request of the promoter(s) seeking re-classification is required to be approved in the general meeting by an ordinary resolution in which the promoter(s) seeking reclassification and persons related to the promoter(s) seeking re-classification shall not vote to approve such re-classification request. The Outcome of the General Meeting shall be submitted to the Exchange as required under regulations applicable to the General Meetings.

6. After obtaining shareholders' approval in General Meeting, Company will submit the application for reclassification within 30 days from the date of approval by shareholders in the General Meeting, to the Stock Exchange.
7. Additionally, disclosure of the fact that such application has been filed with the Exchanges shall be submitted to the Exchange as intimation of material event within 24 hours of the filing of such application.
8. Exchange shall process the application subject to the application being complete in all respects and compliant with all applicable regulations.
9. In case of incomplete applications, company shall be provided opportunity to rectify the deficiencies. If the deficiencies are not rectified within 30 days of intimation of the same to the Company, the application shall be liable to be rejected and the processing fee paid by the company will be forfeited.
10. Letter of acceptance shall be issued to the company by the Exchange to effect the reclassification in the shareholding pattern subject to compliance with applicable SEBI regulations.
11. After Exchange approval / rejection of the reclassification application, same is also required to be disclosed as material event within 24 hours of communication of decision of the Exchange.

OBLIGATIONS OF LISTED ENTITY WHICH HAS LISTED ITS SECURITY RECEIPTS

CONCEPT

INTIMATIONS & DISCLOSURES OF EVENTS OR INFORMATION TO STOCK EXCHANGE

- (1) The listed entity shall first disclose to stock exchange(s) of all events or information, as soon as reasonably possible but not later than twenty four hours from occurrence of the event or information. In case the disclosure is made after

twenty four hours of occurrence of the event or information, the listed entity shall, along with such disclosures provide explanation for the delay.

- (2) The listed entity with respect to disclosures referred to in this regulation, shall provide updates related to such disclosures on a regular basis, till such time the event is resolved/closed, with relevant explanations.
- (3) The listed entity shall provide specific and adequate reply to all queries raised by stock exchange(s) with respect to any events or information.
- (4) The listed entity, suo moto, may confirm or deny any reported event or information to stock exchange(s).
- (5) The listed entity shall disclose on its website or on the website of the sponsor all such events or information which has been disclosed to stock exchange(s) under this regulation, and such disclosures shall be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.

DISCLOSURE OF EVENTS OR INFORMATION TO STOCK EXCHANGES

The following events/information shall be disclosed by the listed entity without any application of guidelines of materiality as soon as reasonably possible but not later than twenty four hours from occurrence of event or information:

- periodic Net Asset Value;
- periodic rating obtained from credit rating agency or any revision in the rating or any expected revision in rating;
- any proposal to change or change of credit rating agency or Valuer;
- any proposal for acquisition of assets including terms of acquisition;
- any proposal to change or any change in terms of security receipts including rights or privileges or nature or form etc.;

- any breach of covenant(s) under the terms of security receipts;
- any change in the general character or nature of business/activities, disruption of operation due to natural calamity etc. of the listed entity;
- any change in value of cash-flows as disclosed if any;
- any delay or expected delay in cash flows from the due date or pre-agreed date if any;
- any receipt of cash flow or expected cash flow along with quantum so received;
- any change in percentage holding of non-performing loans across other banks;

RATING, VALUATION & NAV DISCLOSURE

- (1) An issuer whose security receipts are listed on a stock exchange shall ensure that:
- (i) the listed security receipts are valued at the end of each quarter i.e. as on March 31, June 30, September 30 and December 31 of every year;
 - (ii) valuation is conducted by an independent valuer; and
 - (iii) the net asset value is calculated on the basis of such independent valuation and the same is declared by the asset reconstruction company within fifteen days of the end of the quarter.
- (2) The issuer shall also comply with the extant Reserve Bank of India requirement of obtaining credit rating of security receipts at half yearly interval and declaration of the net asset value thereafter and/or any other requirement as prescribed by the Reserve Bank of India from time to time. In those two quarters in a year, where both external valuation and credit rating are required, issuer shall disclose lower of the two calculated Net Asset Value.

TERMS OF SECURITY RECEIPTS

- (1) Any security receipt issued would be transferable only in favour of qualified buyers in terms of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
- (2) Unless the terms of issue provide otherwise, the listed entity shall not select any of its listed security receipts for payments otherwise than on pro rata basis or by lot and shall promptly submit to the stock exchange(s) the details thereof.

RECORD DATE

- (1) The listed entity shall fix a record date for payment to holders of security receipts or for such other purposes as specified by the stock exchange(s).
- (2) The listed entity shall give notice in advance of at least seven working days (excluding the date of intimation and the record date) to the stock exchange(s) of the record date or of as many days as the stock exchange may agree to or require specifying the purpose of the record date;

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SEBI (ICDR) REGULATIONS, 2018**SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2018****METHODS OF RAISING FUNDS FROM PRIMARY MARKET**

PUBLIC ISSUE: When an offer is made to new investors (general public) for becoming shareholders of the issuer Company it is called a public issue.

- **Initial Public Offer (IPO):** When an unlisted public company offers its securities for sale for the first time to the General public, it is known as an IPO.
- **Further Public Offer (FPO) or follow on offer:** When a listed company offers a fresh issue of securities to the general public for sale, it is known as a FPO.

RIGHTS ISSUE: When a listed company offers or issues securities to the existing shareholders on a particular date fixed by the issuer company (i. e. record date), it is called a rights issue. The rights issue is always issued at price not like bonus shares.

BONUS ISSUE: When an issuer makes an issue of securities to its existing shareholders as on a record date, without any consideration from them, it is called a bonus issue. The shares are issue out of the Company's free reserve or share premium account in a particular ratio to the number of securities held on a record date.

PRIVATE PLACEMENT: When an issuer makes an issue of securities to a select group of persons not exceeding 49%, and which is neither a rights issue nor a public issue, it is called a private placement.

Private placement of shares or convertible securities by listed issuer can be of two types:

- (i) **Preferential Allotment:** When a listed company issues shares or convertible securities, to a select group of persons in terms of SEBI (ICDR)

Regulations, 2018, it is called a preferential allotment. The issuer is required to comply with various provisions which inter alia include pricing, disclosures in notice etc., in addition to requirements specified in Companies Act.

- (ii) **Qualified Institutions Placement (QIP):** When a listed Company issues equity shares or securities convertible into equity shares to QIBs only, it is called a QIP.
- (iii) **Institutional Placement Programme (IPP):** When a listed issuer makes a further public offer of equity shares, or offer for sale of shares by promoter/ promoter group of listed issuer in which, the offer allocation and allotment of such shares is made only to QIBs in terms of SEB (ICDR) Regulations, 2018 for the purpose of achieving minimum public shareholding it is called an IPP.

ALLOCATION OF NET OFFER TO PUBLIC

(1) In an issue made through the book building process the allocation in the net offer to public category should be made as follows:

- (a) not less than 35% to retail individual investors;
- (b) not less than 15% to non-institutional investors;
- (c) not more than 50% to qualified institutional buyers, five per cent of which shall be allocated to mutual funds. However, in addition to five per cent allocation available, mutual funds shall be eligible for allocation under the balance available for qualified institutional buyers.

In an issue made through the book building process and following the **alternative eligibility norms** provided by SEBI for public issue, the allocation in the net offer to public category shall be as follows:

- (a) not more than 10 % to retail individual investors;
- (b) not more than 15 % to non-institutional investors;
- (c) not less than 75 % to qualified institutional buyers, 5 % of which shall be allocated to mutual funds. However, in addition to the 5% allocation available, mutual funds shall also be eligible for allocation under the balance available for qualified institutional buyers.

The issuer may allocate upto 30% of the portion available for allocation to qualified institutional buyers to an anchor investor.

FACE VALUE OF EQUITY SHARES

The disclosure about the face value of equity shares shall be made in the draft offer document, offer document, advertisements and application forms, along with the price band or the issue price in identical font size.

PRICE AND PRICE BAND

For Book Building Process:

The issuer company has to announce price band in place of fixed price for the issue of securities. The price band shall be included in the red herring prospectus of the Company.

For Other than Book Building Process:

The issuer company has to fix price of issue of securities before submitting prospectus with the Registrar of Companies.

- (1) The issuer company can mention a price 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 fixed built issue) and determine the price at a later date before registering the prospectus with the Registrar of Companies. However, the final prospectus registered with the Registrar of Companies should contain only one price.
- (2) The cap on the price band shall be less than or equal to 120% of the floor price.
- (3) The floor price or the final price should not be less than the face value of the securities.
- (4) If the floor price or price band is not mentioned in the red herring prospectus, the issuer company should announce the floor price or price band in all the newspapers in which the pre - issue advertisement was released atleast 2 working days before the opening of the bid.

Draft Offer Document	Red Herring Prospectus	Offer Document
<p>“Draft Offer document” means the offer document in draft stage. The draft offer documents are filed with SEBI, atleast 30 days prior to the filing of</p>	<p>“Red Herring Prospectus” is a prospectus, which does not have details of either price or number of shares being offered, or the amount of issue. This</p>	<p>“Offer document” means Prospectus in case of a public issue or offer for sale and Letter of Offer in case of a right issue, which is filed with Registrar of</p>

<p>the Offer Document with ROC/SEs. SEBI may specify changes, if any, in the Draft Offer Document and the Issuer or the Lead Merchant banker shall carry out such changes in the draft offer document before filing the Offer Document with ROC/SEs. The Draft Offer document is available on the SEBI website for public comments for a period of 21 days from the filing of the Draft Offer Document with SEBI.</p>	<p>means that in case price is not disclosed, the number of shares and the upper and lower price bands are disclosed. In the case of book-built issues, it is a process of price discovery and the price cannot be determined until the bidding process is completed. Only on completion of the bidding process, the details of the final price are included in the offer document. The offer document filed thereafter with ROC is called a prospectus.</p>	<p>Companies (ROC) and Stock Exchanges. An offer document covers all the relevant information to help an investor to make his/her investment decision.</p>
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ENTRY/ELIGIBILITY NORMS

Unlisted Company

An unlisted company may make an initial public offering (IPO) of equity shares or any other security which may be converted into or exchanged with equity shares at a later date, only if it meets all the following conditions:

1. The company has net tangible assets of atleast Rs. 3 crores on a restated and consolidated basis, in each of the preceding 3 full years (of 12 months each), of

which not more than 50% is held in monetary assets. However, if more than 50% of the net tangible assets are held in monetary assets, the issuer has utilized or made firm commitments to utilize such excess monetary assets in its business or project. This limit of 50% shall not apply in case of IPO is made entirely through an offer for sale.

2. The company has average operating profit of at least Rs.15 crores, calculated on a restated and consolidated basis, during the 3 most profitable years out of the immediately preceding three years;
3. The company has a net worth of at least Rs. 1 crore in each of the preceding 3 full years (of 12 months each), calculated on a restated and consolidated basis;
4. In case the company has changed its name within the last 1 year, at least 50% of the revenue calculated on a restated and consolidated basis for the preceding 1 full year is earned by the company from the activity suggested by the new name;

Example

In case the issuer is proposing to file its draft offer document with the SEBI in August 2018, then the net tangible assets for the last 3 full years of 12 months each shall be atleast Rs.3 crores and not more than 50% of the same shall be held in monetary assets. In the following table, it is seen that the net tangible assets is more than Rs. 3 crores in the year ended March 31, 2014, March 31, 2015 and March 31, 2016. Further monetary assets constitute less than 50% of the net tangible assets in each of the three previous financial years:

(Rs. in lacs)

Year Ended March 31	2014	2015	2016	2017	2018
Net Tangible Assets	1448.56	2275.53	2532.60	3510.33	4657.50
Monetary Assets	292.76	61.97	108.25	302.33	288.17

Monetary Assets as a percentage of Net Tangible Assets	20.21	2.72	4.27	8.61	6.19
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“Net Tangible Assets” mean the sum of all net assets of the issuer, excluding intangible assets as defined in Accounting Standard 26 (AS 26) or Indian Accounting Standard (Ind AS) 38, as applicable, issued by the Institute of Chartered Accountants of India.

Example

In case the issuer proposes to file its draft offer document with the SEBI in August 2018, then the average operating profit for three preceding years shall be atleast Rs 15 crores. Further, the company shall have operating profit in each of the three years. The average of the profits for the 3 preceding years is Rs.15.75 crores which is more than the prescribed average of Rs.15 crores.

Year Ended March 31	2016	2017	2018
Operating Profit	1630.31	1232.65	1864.63

GENERAL CONDITIONS

An issuer making an initial public offer shall ensure that:

- it has made an application to one or more stock exchanges to seek an in-principle approval for listing;
- it has entered into an agreement with a depository for dematerialisation of the specified securities;
- all its specified securities held by the promoters are in dematerialised form prior to filing of the offer document;
- all its existing partly paid-up equity shares have either been fully paid-up or have been forfeited;

- e) it has made firm arrangements of finance through verifiable means towards seventy five percent of the stated means of finance for a specific project proposed to be funded from the issue proceeds, excluding the amount to be raised through the proposed public issue or through existing identifiable internal accruals.

ALTERNATIVE ENTRY/ELIGIBILITY NORMS FOR BOTH UNLISTED AS WELL AS LISTED COMPANY [REG. 26(2)]

An unlisted company or a listed company, not satisfying the aforesaid conditions, shall be eligible to make a public issue of shares, if the issue is made through book-building process, with at least 75% (seventy-five percent) of the net offer to the public being allotted to Qualified Institutional Buyers (QIBs).

Here, **Qualified Institutional Buyers (QIBs)** shall mean the following:

- a) Public Financial Institutions;
- b) Scheduled Commercial Banks;
- c) Mutual Funds;
- d) Foreign Institutional Investors;
- e) Multilateral and Bilateral Development Financial Institutions;
- f) State Industrial Development Financial Institutions;
- g) Insurance Companies;
- h) Provident Funds with minimum corpus of Rs 25 Crores;
- i) Pension Funds with minimum corpus of Rs 25 Crores; and
- j) National Investment Fund;
- k) Insurance Funds set up and managed by Army, Navy and Air Force; and
- l) Insurance Funds set up and managed by Department of Posts.

ENTITIES NOT ELIGIBLE TO MAKE AN IPO

An issuer shall not make an initial public offer:

- a. If the issuer, any of its promoters, promoter group, selling shareholders are debarred from accessing the capital market by the SEBI.
- b. If any of the promoters or directors of the issuer is a promoter or a director of any other company which is debarred from accessing the capital market by the SEBI.
- c. If the issuer or any of its promoters or directors is a willful defaulter.
- d. If any of the promoters or directors of the issuer is a fugitive offender.
- e. If there are any outstanding convertible securities, which would entitle any person option to receive equity shares of the issuer except ESOP or fully paid-up outstanding convertible securities which are required to be converted on or before the date of filing of the Red Herring Prospectus or the Prospectus.

Note: The restrictions under (a) and (b) above shall not apply to the persons or entities mentioned therein, who were debarred in the past by the SEBI and the period of debarment is already over as on the date of filing of the draft offer document with the SEBI.

ISSUE OPENING DATE

A public issue (both IPO and FPO) may subject to compliance of Section 26(4) of the Companies Act, 2013 may be opened within 12 months from the date of issuance of the observations by the SEBI.

In case of a fast track issue, the issue shall open within the period specifically stipulated under the Companies Act, 2013. In case the issuer has filed a shelf prospectus, the first issue may be opened within 3 months of the issuance of observations by the SEBI.

An IPO and an FPO shall be opened after at least 3 working days from the date of registering the red herring prospectus in case of a book built issue or the prospectus in case of a fixed price issue with the Registrar of Companies.

PERIOD OF SUBSCRIPTION

A public issue shall be kept open for **at least three working days but not more than ten working days** including the days for which the issue is kept open in case of revision in price band.

In case the price band in a public issue made through the book building process is revised, the bidding (issue) period disclosed in the red herring prospectus shall be extended for a minimum period of three working days;

Provided that the total bidding period shall not exceed ten working days.

The issuer may decide to close the bidding by qualified institutional buyers one day prior to the closure of the issue subject to the following conditions:

- Bidding shall be kept open for a minimum of three days for all categories of applicants; and
- Disclosures are made in the red herring prospectus regarding the issuer's decision to close the bidding by qualified institutional buyers one day prior to closure of issue.

SECURITY DEPOSIT

The issuer shall, before the opening of the subscription list, deposit with the stock exchange or stock exchanges an amount calculated at the rate of 1% of the amount of

the issue size available for subscription to the public as may be specified by SEBI and the amount so deposited shall be refundable or forfeitable in the manner specified by SEBI.

IPO GRADING

The issuer may obtain grading for its initial public offer from one or more credit rating agencies registered with the SEBI.

ISSUE OF SECURITIES IN DEMATERIALIZED FORM

No company shall make public issue of shares, unless the company enters into an agreement with a depository for dematerialization of shares already issued or proposed to be issued to the public.

PARTLY PAID-UP SHARES

No company shall make a public issue of equity shares, unless all the existing partly-paid up shares have been fully paid or forfeited.

DRAFT OFFER DOCUMENT & OFFER DOCUMENT TO BE AVAILABLE TO PUBLIC

- 1) The draft offer document filed with the Board shall be made public for comments, if any, for a period of at least twenty one days from the date of filing, by hosting it on the websites of the Board, stock exchanges where specified securities are proposed to be listed and lead manager(s) associated with the issue.
- 2) The issuer shall, within two days of filing the draft offer document with the Board, make a public announcement in one English national daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation

and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated, disclosing the fact of filing of the draft offer document with the Board and inviting the public to provide their comments to the Board, the issuer or the lead manager(s) in respect of the disclosures made in the draft offer document.

- 3) The lead manager(s) shall, after expiry of the period, file with the Board, details of the comments received by them or the issuer from the public, on the draft offer document, during that period and the consequential changes that are required to be made in the draft offer document.
- 4) The issuer and the lead manager(s) shall ensure that the offer documents are hosted on the websites and its contents are the same as the versions as filed with the Registrar of Companies, Board and the stock exchanges.
- 5) The lead manager(s) and the stock exchanges shall provide copies of the offer document to the public as and when requested and may charge a reasonable sum for providing a copy of the same.

MINIMUM OFFER TO PUBLIC

The minimum offer to the public shall be subject to the provisions of clause (b) of sub-rule (2) of rule 19 of Securities Contracts (Regulations) Rules, 1957;

Rule 19(2)(b):

At least 10 per cent of each class or kind of securities issued by a company was offered to the public for subscription through advertisement in newspapers for a period not less than two days and that applications received in pursuance of such offer were allotted subject to the following conditions:

- (a) minimum 20 lakh securities (excluding reservations, firm allotment and

- promoters" contribution) was offered to the public;
- (b) the size of the offer to the public, i.e., the offer price multiplied by the number of securities offered to the public was minimum Rs. 100 crores; and
 - (c) the issue was made only through book building method with allocation of 60 percent of the issue size to the qualified institutional buyers as specified by SEBI;

AVAILABILITY OF ISSUE MATERIAL

The lead manager(s) shall ensure availability of the offer document and other issue material including application forms to stock exchanges, syndicate members, registrar to issue, registrar and share transfer agents, depository participants, stock brokers, underwriters, bankers to the issue, and self-certified syndicate banks before the opening of the issue.

PROHIBITION ON PAYMENT OF INCENTIVES

Any person connected with the issue shall not offer any incentive, whether direct or indirect, in any manner, whether in cash or kind or services or otherwise to any person for making an application in the initial public offer, except for fees or commission for services rendered in relation to the issue.

DIFFERENTIAL PRICING

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

- (a) Retail individual investors or retail individual shareholders or employees of the issuer may be offered specified securities at a price lower than the price at which net offer is made to other categories of applicants. However, such difference shall

not be more than 10% of the price at which specified securities are offered to other categories of applicants;

- (b) In case of a book built issue, the price of the specified securities offered to an anchor investor shall not be lower than the price offered to other applicants;
- (c) 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;
- (d) In Alternate Method of Book-Building, the price of the specified securities offered to the employees may be at a price lower than the floor price, provided that such difference shall not be more than 10% of the floor price.

MINIMUM PROMOTERS' CONTRIBUTION IN CASE OF IPO

The promoters of the issuer shall hold at least twenty percent of the post-issue capital. However, in case the post-issue shareholding of the promoters is less than twenty per cent, alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with IRDA may contribute to meet the shortfall in minimum contribution as specified for the promoters, subject to a maximum of ten percent of the post-issue capital without being identified as promoter(s).

Minimum promoters contribution shall be as follows:

- a) the promoters shall contribute twenty percent either by way of equity shares or by way of subscription to convertible securities. However, if the price of the equity shares allotted pursuant to conversion is not pre-determined and not disclosed in the offer document, the promoters shall 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 shall 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 shall bring in a contribution of at least twenty percent of the project cost in the form of equity shares, subject to contributing at least twenty percent of the issue size from their own funds in the form of equity shares. However, if the project is to be implemented in stages, the promoters' contribution shall be with respect to total equity participation till the respective stage vis-à-vis the debt raised or proposed to be raised through the public issue.

PROMOTERS' CONTRIBUTION TO BE BROUGHT IN BEFORE PUBLIC ISSUE OPENS

The promoters shall bring full amount of the promoters' contribution including premium at least one day prior to the date of opening of the issue. In case the promoters have to subscribe to equity shares or convertible securities towards minimum promoters' contribution, the amount of promoters' shall be kept in an escrow account with a scheduled commercial bank, which shall be released to the issuer along with the release of the issue proceeds.

Further, where the minimum promoters' contribution is more than one hundred crore rupees and the initial public offer is for partly paid shares, the promoters shall bring in

at least one hundred crore rupees before the date of opening of the issue and the remaining amount may be brought on a pro-rata basis before the calls are made to the public. Promoters' contribution shall be computed on the basis of the post-issue expanded capital:

- (a) assuming full proposed conversion of convertible securities into equity shares;
- (b) assuming exercise of all vested options, where any employee stock options are outstanding at the time of initial public offer.

SECURITIES INELIGIBLE FOR MINIMUM PROMOTERS' CONTRIBUTION

- (a) Specified securities acquired during the preceding three years, if these are acquired for consideration other than cash and revaluation of assets or capitalisation of intangible assets is involved in such transaction; or resulting from a bonus issue by utilisation of revaluation reserves /unrealised profits of the issuer/from bonus issue against equity shares which are ineligible for minimum promoters' contribution.
- (b) specified securities acquired by promoters and AIFs/FVCIs/scheduled commercial banks/ PFIs/ insurance companies 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.
- (c) specified securities allotted to promoters and AIFs 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/LLPs, where the partners of the erstwhile partnership firms/LLPs are the promoters of the issuer and there is no change in the management.
- (d) specified securities pledged with any creditor.

MINIMUM PROMOTERS' CONTRIBUTION IN CASE OF FPO

The promoters shall contribute in the public issue as follows:

- a) either to the extent of twenty percent of the proposed issue size or to the extent of twenty per cent of the post-issue capital;
- b) in case of a composite issue (i.e. further public offer cum rights issue), either to the extent of twenty percent of the proposed issue size or to the extent of twenty percent of the post-issue capital excluding the rights issue component.

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

- a) the promoters shall contribute twenty percent, as the case may be, either by way of equity shares or by way of subscription to the convertible securities. However, if the price of the equity shares allotted pursuant to conversion is not pre-determined and not disclosed in the offer document, the promoters shall 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 shall not be at a price lower than the weighted average price of the equity share capital arising out of conversion of such securities.

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 shall be made at a price determined in terms of the provisions relating to pricing of frequently trading shares or the issue price, whichever is higher.

In case the promoters have to subscribe to equity shares or convertible securities towards promoters' contribution, the promoters shall satisfy the requirements of at least one day prior to the date of opening of the issue and the amount of promoters' contribution shall 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:

Further, where the minimum promoters' contribution is more than one hundred crore rupees and the further public offer is for partly paid shares, the promoters shall bring in at least one hundred crore rupees before the date of opening of the issue and the remaining amount may be brought on a pro-rata basis before the calls are made to the public.

"Weighted average price":

- (a) "weight" means the number of equity shares arising out of conversion of such specified securities into equity shares at various stages;
- (b) "price" means the price of equity shares on conversion arrived at after taking into account predetermined conversion price at various stages

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 these 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 pledged with any creditor other than those for borrowings by the issuer or its subsidiaries.

Specified securities referred shall be eligible for the computation of promoters' contribution, if such securities are acquired pursuant to a scheme which has been approved by the High Court under section 391 to 394 of the Companies Act, 1956 or approved by a tribunal or the Central Government under section 230 to 234 of the Companies Act, 2013.

IN CASE OF FPO

EXEMPTION FROM REQUIREMENT OF PROMOTERS' CONTRIBUTION

The requirements of minimum promoters' contribution shall not apply in case of:

- (a) An issuer which does not have any identifiable promoter
- (b) In case of a further public offer, where the equity shares of the issuer are frequently traded on a recognised stock exchange for a period of at least three years and the issuer has a track record of dividend payment for at least three immediately preceding years

However, where the promoters propose to subscribe to the specified securities offered to the extent greater than higher of the two options available in clause (a), the subscription in excess of such percentage shall be made at a price determined in terms of the provisions of Pricing of frequently traded shares or the issue price, whichever is higher.

Reference date for the purpose of computing the annualised trading turnover referred to in the said Explanation shall be the date of filing the draft offer document with the Board and in case of a fast track issue, the date of filing the offer document with the Registrar of Companies, and before opening of the issue

LOCK IN PERIOD UNDER VARIOUS CIRCUMSTANCES

The promoter's minimum contribution (20%) shall be locked - in for a period of:

- (i) 3 years from the date of commencement of commercial production; or
- (ii) The date of allotment in the public issue, whichever is later.

The excess promoters' contribution over the required minimum contribution shall be locked in for a period of:

- (i) 1 year from the date of commencement of commercial production; or
- (ii) The date of allotment in the public issue, whichever is later.

For the purposes of this clause, the expression 'date of commencement of commercial production' means the last date of the month in which commercial production of the project in respect of which the funds raised are proposed to be utilised as stated in the offer document, is expected to commence.

LOCK IN OF SPECIFIED SECURITIES HELD BY PERSONS OTHER THAN PROMOTERS

The entire pre-issue capital held by persons other than the promoters shall be locked-in for a period of one year from the date of allotment in the initial public offer:

The provisions of this regulation shall not apply, in case of:

- (i) Equity shares allotted to employees under employee stock option prior to initial public offer, if the issuer has made full disclosures with respect to such option; and
- (ii) Equity shares held by an employee stock option trust or transferred to the employees by an employee stock option trust pursuant to exercise of options by the employees, in accordance with the employee stock option plan or employee stock purchase scheme.
- (iii) Equity shares held by a venture capital fund or AIF of category I & II or a FVCI and such equity shares shall be locked-in for a period of at least one-year from the date of purchase by the venture capital or AIF or FVCI.

There is no such requirements as mentioned above in case of a FPO.

INSCRIPTION OR RECORDING OF NON-TRANSFERABILITY

The certificates of specified securities which are subject to lock-in shall contain the inscription non-transferable and specify the lock-in period and in case such specified securities are dematerialised, the issuer shall ensure that the lock-in is recorded by the depository.

TRANSFERABILITY OF LOCKED-IN SPECIFIED SECURITIES

Subject to the provisions of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, the specified securities held by the promoters and locked-in (promoters locked in shares), may be transferred to another promoter or any person of the promoter group or a new promoter.

The specified securities held by persons other than the promoters and locked-in as per regulation 17 (lock in of securities held by persons other than promoters), may be transferred to any other person holding the specified securities which are locked-in along with the securities proposed to be transferred.

Lock-in on such specified securities shall continue for the remaining period with the transferee and such transferee shall not be eligible to transfer them till the lock-in period stipulated in these regulations has expired.

PLEDGE OF LOCKED IN SHARES

Specified securities held by the promoters and locked in may be pledged as collateral security for a loan granted by a scheduled commercial bank or a public financial institution or a systemically important non-banking finance company or a housing finance company, subject to the following:

- a) if the specified securities are locked-in in terms of *clause (a) of Lock-in of specified securities held by the promoters*, the loan has been granted to the issuer company or its subsidiary/subsidiaries for the purpose of financing one or more of the objects of the issue and pledge of specified securities is one of the terms of sanction of the loan

- b) if the specified securities are locked-in in terms of *clause (b) of Lock-in of specified securities held by the promoters* and the pledge of specified securities is one of the terms of sanction of the loan.

RESERVATION

According to the SEBI (ICDR) Regulations, 2018, there are certain persons eligible for reservation on competitive basis

- (1) The issuer may make reservation on a competitive basis out of the issue size excluding promoters' contribution and net offer to public in favour of the following categories of persons:

- Employees;
- Shareholders (other than promoters and promoter group) of listed subsidiaries or listed promoter companies.

However, the issuer shall not make any reservation for the lead manager(s), registrar, syndicate member(s), their promoters, directors and employees and for the group or associate companies of the lead manager(s), registrar and syndicate member(s) and their promoters, directors and employees.

- (2) In case of an FPO, other than in a composite issue, the issuer may make a reservation on a competitive basis out of the issue size excluding promoters' contribution to the existing retail individual shareholders of the issuer.
- (3) The reservation on competitive basis shall be subject to following conditions:
 - o the aggregate of reservations for **employees** shall not exceed **five per cent** of the post issue capital of the issuer and the value of allotment to any employee shall not exceed two lakhs rupees. However, in the event of under-subscription in the employee reservation portion, the unsubscribed portion may be allotted on proportionate basis, for a value in excess of two lakh rupees, subject to the total allotment to an employee not exceeding five lakh rupees.
 - o reservation for **shareholders** shall not exceed **ten per cent** of the issue size;

- o no further application for subscription in the net offer can be made by persons (except an employee and retail individual shareholder of the listed issuer and retail individual shareholders of listed subsidiaries of listed promoter companies) in favour of whom reservation on a competitive basis is made;
 - o any unsubscribed portion in any reserved category may be added to any other reserved category and the unsubscribed portion, if any, after such inter-se adjustments among the reserved categories shall be added to the net offer category;
 - o in case of under-subscription in the net offer category, spill-over to the extent of under-subscription shall be permitted from the reserved category to the net public offer category;
- (4) An applicant in any reserved category may make an application for any member of specified securities, but not exceeding the reserved portion for that category.

UNDERWRITING

Underwriting means an agreement with or without conditions to subscribe to the securities of a body corporate when the existing shareholders of such body corporate or the public do not subscribe to the securities offered to them.

If the issuer makes a public issue through a book building process,

- a) the issue shall be underwritten by lead managers and syndicate members.
However, at least 75% of the net offer to the public is proposed to be compulsorily allotted to the QIBs, and such portion cannot be underwritten.
- b) the issuer shall, prior to filing the prospectus, enter into an underwriting agreement with the lead manager(s) and syndicate member(s) which shall indicate

the number of specified securities which they shall subscribe to at the predetermined price in the event of under-subscription in the issue.

- c) if the syndicate member(s) fail to fulfill their underwriting obligations, the lead manager(s) shall fulfill the underwriting obligations.
- d) the lead manager(s) and syndicate member(s) shall not subscribe to the issue in any manner except for fulfilling their underwriting obligations.
- e) in case of every underwriting issue, the lead manager(s) shall undertake minimum underwriting obligation as specified in the SEBI (Merchant Bankers) Regulations, 1992.
- f) where the issue is required to be underwritten, the underwriting obligations should at least to the extent of minimum subscription.

MINIMUM SUBSCRIPTION

The minimum subscription to be received in an issue shall not be less than 90% of the offer through offer document.

In case of an IPO, the minimum subscription to be received shall be subject to allotment of minimum number of specified securities, rule 19 (2) (b) of the Securities Contracts (Regulation) Rules, 1957, which stipulates that atleast twenty five per cent of each class or kind of equity shares or debentures convertible into equity shares issued by the company was offered and allotted to public in terms of an offer document. In other words, the issue is said have received minimum subscription in an IPO if it receives 90% of the offer through offer document and 25% of the post issue capital from the public.

In the event of non-receipt of minimum subscription, all application monies received shall be refunded to the applicants forthwith, but not later than fifteen days from the closure of the issue.

MONITORING AGENCY

If the issue size excluding the size of offer for sale by selling shareholders, exceeds Rs.100 crores, the issuer shall ensure that the use of the proceeds of the issue is monitored by a public financial institutions or by one of the scheduled commercial banks named in the offer document as a banker to the issuer.

The monitoring agency shall submit its report to the issuer in the format specified in the ICDR Regulations, 2018 on a quarterly basis, till at least ninety five per cent of the proceeds of the issue excluding the proceeds raised for general corporate purposes, have been utilized.

The Board of Directors and the management of the issuer shall provide their comments on the findings of the monitoring agency.

The issuer shall, within forty five days from the end of each quarter, publicly disseminate the report of the monitoring agency by uploading the same on its website as well as submitting the same to the stock exchange(s) on which its equity shares are listed.

APPLICATION AND MINIMUM APPLICATION VALUE

The issuer shall stipulate in the offer document the minimum application size in terms of number of specified securities which shall fall within the range of minimum application value of Rs 10,000 to Rs 15,000.

The issuer shall invite applications in multiples of the minimum application value. The minimum sum payable on application per specified security shall be at least twenty five percent of the issue price.

“Minimum application value” shall be with reference to the issue price of the specified securities and not with reference to the amount payable on application.

ALLOTMENT PROCEDURE & BASIS OF ALLOTMENT

- (1) There must be minimum 1000 Prospective Allottees.
- (2) The issuer shall not make any allotment in excess of the specified securities offered through the offer document except in case of oversubscription for the purpose of rounding off to make allotment, in consultation with the designated stock exchange.
- (3) The allotment of specified securities to applicants other than to the retail individual investors and anchor investors shall be on a ***proportionate basis within the respective investor categories*** and the number of securities allotted shall be rounded off to the nearest integer, subject to minimum allotment being equal to the minimum application size as determined and disclosed in the offer document. Provided that the value of specified securities allotted to any person, except in case of ***employees shall not exceed two lakhs rupees for retail investors or up to five lakhs rupees for eligible employees.***

Example A

- (1) Total number of specified securities on offer @ Rs. 600 per share: 1 crore specified securities.
- (2) Specified securities on offer for retail individual investors' category: 35 lakh specified securities.
- (3) The issue is over-all subscribed by 2.5 times, whereas the retail individual investors' category is oversubscribed 4 times.
- (4) The issuer has fixed the minimum application/bid size as 20 specified securities (falling within the range of ten thousand to fifteen thousand rupees) and in multiples thereof.
- (5) A total of one lakh retail individual investors have applied in the issue, in varying number of bid lots ie between 1 - 16 bid lots, based on the maximum application size of up to two lakh rupees.
- (6) Out of the one lakh investors, there are five retail individual investors A, B, C, D and E who have applied as follows:

A has applied for 320 specified securities. B has applied for 220 specified securities. C has applied for 120 specified securities. D has applied for 60 specified securities and E has applied for 20 specified securities.

- (7) As the allotment to a retail individual investor cannot be less than the minimum bid lot, subject to availability of shares, the remaining available shares, if any, shall be allotted on a proportionate basis. The actual entitlement shall be as follows:

Sr. No.	Name of Investor	Total no of specified securities	Total number of specified securities eligible to be allotted

1.	A	320	20 specified securities (i.e. the minimum bid lot) + 38 specified securities $\{[(35,00,000 - (1,00,000 * 20)) / (140,00,000 - (1,00,000 * 20))] * 300\}$ (i.e. 320-20)
2.	B	220	20 specified securities (i.e. the minimum bid lot) + 25 specified securities $\{[(35,00,000 - (1,00,000 * 20)) / (140,00,000 - (1,00,000 * 20))] * 200\}$ (i.e. 220-20)
3.	C	120	20 specified securities (i.e. the minimum bid lot) + 13 specified securities $\{[(35,00,000 - (1,00,000 * 20)) / (140,00,000 - (1,00,000 * 20))] * 100\}$ (i.e. 120-20)
4.	D	60	20 specified securities (i.e. the minimum bid lot) + 5 specified securities $\{[(35,00,000 - 1,00,000 * 20) / (140,00,000 - (1,00,000 * 20))] * 40\}$ (i.e. 60-20)
5.	E	20	20 specified securities (i.e. the minimum bid lot)

Example B

- (1) Total number of specified securities on offer @ Rs. 600 per share: 1 crore specified securities.
- (2) Specified securities on offer for retail individual investors' category: 35 lakh specified securities.
- (3) The issue is overall subscribed by 7 times, whereas the retail individual investors' category is over-subscribed 9.37 times.
- (4) The issuer has decided the minimum application/bid size as 20 specified securities (falling within the range of ten thousand to fifteen thousand rupees) and in multiples thereof.
- (5) A total of two lakh retail individual investors have applied in the issue, in varying number of bid lots i.e. between 1-16 bid lots, based on the maximum application size of up to two lakh rupees.
- (6) As per the allotment procedure, the allotment to retail individual investors shall not be less than the minimum bid lot, subject to availability of shares.
- (7) Since the total number of shares on offer to the retail individual investors is 35,00,000 and the minimum bid lot is 20 shares, the maximum number of investors who can be allotted this minimum bid lot should be 1,75,000. In other words, 1,75,000 retail applicants shall get the minimum bid lot and the remaining 25,000 retail applicants will not get any allotment.

The details of the allotment shall be as follows:

No of lots	No of shares at each lot	No. of retail investors applying at each lot	Total no of shares applied for at each lot	No of investors who shall receive minimum bid-lot (to be selected by a lottery)
A	B	C	D= (B*C)	E
1.	20	10,000	2,00,000	$8,750=(1,75,000/2,00,000)*10,000$
2.	40	10,000	4,00,000	8,750
3.	60	10,000	6,00,000	8,750
4.	80	10,000	8,00,000	8,750
5.	100	20,000	20,00,000	17,500
6.	120	20,000	24,00,000	17,500
7.	140	15,000	21,00,000	13,125
8.	160	20,000	32,00,000	17,500
9.	180	10,000	18,00,000	8,750
10.	200	15,000	30,00,000	13,125
11.	220	10,000	22,00,000	8,750
12.	240	10,000	24,00,000	8,750
13.	260	10,000	26,00,000	8,750
14.	280	5,000	14,00,000	4,375
15.	300	15,000	45,00,000	13,125
16.	320	10,000	32,00,000	8,750
Total		2,00,000	328,00,000	1,75,000

ALLOTMENT, REFUND & PAYMENT OF INTEREST

- (1) The issuer and lead manager(s) shall ensure that the specified securities are allotted and/or application monies are refunded or unblocked within such period as may be specified by the Board.
- (2) The lead manager(s) shall ensure that the allotment, credit of dematerialised securities and refund or unblocking of application monies are done electronically.
- (3) Where the specified securities are not allotted and/or application monies are not refunded or unblocked within the period stipulated, the issuer shall undertake to pay interest at the rate of fifteen per cent per annum.
- (4) The SEBI vide Circular dated November 01, 2018 has made an endeavor to reduce listing time to 3 working days from the date of closure of issue and accordingly mandated that the retail individual investors use the Unified Payments Interface (UPI).

POST-ISSUE RESPONSIBILITIES OF THE LEAD MANAGER

- The responsibility of the lead manager(s) shall continue until completion of the issue process and for any issue related matter thereafter.
- The lead manager(s) shall regularly monitor redressal of investor grievances arising from any issue related activities.
- The lead manager(s) shall continue to be responsible for post-issue activities till the applicants have received the securities certificates, credit to their demat account or refund of application monies and the listing agreement is entered into by the issuer with the stock exchange and listing or trading permission is obtained.

- The lead manager(s) shall be responsible for and co-ordinate with the registrars to the issue and with various intermediaries at regular intervals after the closure of the issue to monitor the flow of applications from syndicate member(s) or collecting bank branches and/ or self-certified syndicate banks, processing of the applications including application form for ASBA and other matters till the basis of allotment is finalised, credit of the specified securities to the demat accounts of the allottees and unblocking of ASBA accounts/ dispatch of refund orders are completed and securities are listed, as applicable.
- Any act of omission or commission on the part of any of the intermediaries noticed by the lead manager(s) shall be duly reported by them to SEBI.
- In case there is a devolvement on the underwriters, the lead manager(s) shall ensure that the notice for devolvement containing the obligation of the underwriters is issued within ten days from the date of closure of the issue.
- In the case of undersubscribed issues that are underwritten, the lead manager(s) shall furnish information in respect of underwriters who have failed to meet their underwriting devolvement to SEBI.

RELEASE OF SUBSCRIPTION MONEY

- The lead manager(s) shall confirm to the bankers to the issue by way of copies of listing and trading approvals that all formalities in connection with the issue have been completed and that the banker is free to release the money to the issuer or release the money for refund in case of failure of the issue.
- In case the issuer fails to obtain listing or trading permission from the stock exchanges, it shall refund through verifiable means the entire monies received within seven days of receipt of intimation from stock exchanges rejecting the application for listing of specified securities, and if any such money is not repaid

within eight days after the issuer becomes liable to repay it, the issuer and every director of the company who is an officer in default shall, on and from the expiry of the eighth day, be jointly and severally liable to repay that money with interest at the rate of fifteen percent per annum.

- The lead manager(s) shall ensure that the monies received in respect of the issue are released to the issuer in compliance with the provisions of Section 40 (3) of the Companies Act, 2013, as applicable.

REPORTING OF TRANSACTIONS OF THE PROMOTERS AND PROMOTER GROUP

The issuer shall ensure that all transactions in securities by the promoter and promoter group between the date of filing of the draft offer document or offer document, as the case may be, and the date of closure of the issue shall be reported to the stock exchange(s), within twenty four hours of such transactions.

POST-ISSUE REPORTS

The lead manager(s) shall submit a final post-issue report, along with a due diligence certificate as, within seven days of the date of finalization of basis of allotment or within seven days of refund of money in case of failure of issue.

TRADING PERMISSION

The company shall make an application to one or more recognized stock exchanges for listing of specified securities on such stock exchanges and has chosen one of them as the designated stock exchange. However, in case of an initial public offer, the issuer shall make an application for listing of the specified securities in at least one recognized stock exchange having nationwide trading terminals.

RESTRICTION OF FURTHER ISSUE

The company shall not make any further issue of capital in any manner whether by way of issue of bonus shares, rights issue, public issue, etc. during the period commencing from the date of filing the draft prospectus with SEBI till the securities have been listed or application moneys refunded on account of non-listing or under-subscription.

However, a company can make further issue of shares before listing of shares issued earlier, provided full disclosure is made regarding total capital to be raised in the offer document.

DUE DILIGENCE

- Due Diligence includes all the activities that are connected with evaluating a proposal. In relation to public issue of securities, due diligence is carried out by a merchant banker.
- The Lead Merchant Banker is responsible for verification of the contents of a prospectus or the letter of offer in respect of an issue of securities and reasonableness
- He submits to SEBI at least 2 weeks prior to the opening of issue for subscription, a due diligence certificate in the prescribed form.
- In process of due diligence, the Merchant Banker examines various documents including those relating to litigation like commercial disputes, patent disputes, disputes with collaborators etc. and also discuss with the company its directors and other officers and other agencies on matters including objects of the issue, projected profitability, price justification etc. before giving the Due Diligence Certificate.

PRE-ISSUE ADVERTISEMENT

The issuer company shall soon after receiving final observations, if any, on the offer document from SEBI, make an advertisement in an English National daily with wide circulation, one Hindi National newspaper and a regional language newspaper with wide circulation at the place where the registered office of the issuer is situated. In case of a fast track issue, the advertisement shall be made before the issue opening date.

FAST TRACK ISSUES

An Issuer Company need not file the draft offer document with SEBI and obtain observations from SEBI, or make a security Deposit with the Stock Exchanges if it satisfies the following conditions:

- (a) the equity shares of the issuer have been listed on any stock exchange for a period of at least three years immediately preceding the reference date;
- (b) entire shareholding of the promoter group of the issuer is held in dematerialised form on the reference date;
- (c) the average market capitalisation of public shareholding of the issuer is at least one thousand crore rupees in case of public issue and two hundred and fifty crore rupees in case of rights issue.
- (d) the annualised trading turnover of the equity shares of the issuer during six calendar months immediately preceding the month of the reference date has been at least 2% of the weighted average number of equity shares listed during such six months' period. However if the public shareholding is less than fifteen per cent of its issued equity capital, the annualised trading turnover of its equity shares has been at least two per cent of the weighted

- average number of equity shares available as free float during such six months' period;
- (e) annualized delivery-based trading turnover of the equity shares during six calendar months immediately preceding the month of the reference date has been at least ten per cent of the annualised trading turnover of the equity shares during such six months' period;
 - (f) The issuer has been in compliance with the equity listing agreement or SEBI Listing Regulations, 2015, as applicable, for a period of at least three years immediately preceding the reference date. Further, imposition of monetary fines by stock exchange on the issuer shall not be a ground for ineligibility for undertaking issuances under these regulations.
 - (g) the issuer has redressed at least ninety five per cent of the complaints received from the investors till the end of the quarter immediately preceding the month of the reference date;
 - (h) no show-cause notices have been issued or prosecution proceedings have been initiated by the SEBI and pending against the issuer or its promoters or whole-time directors as on the reference date;
 - (i) issuer or promoter or promoter group or director of the issuer has not settled any alleged violation of securities laws through the consent or settlement mechanism with the SEBI during three years immediately preceding the reference date;
 - (j) equity shares of the issuer have not been suspended from trading as a disciplinary measure during last three years immediately preceding the reference date;
 - (k) There shall be no conflict of interest between the lead merchant banker(s) and the issuer or its group or associate company in accordance with applicable

regulations.

- (l) impact of audit qualifications, if any and where quantifiable, on the audited accounts of the issuer in respect of those financial years for which such accounts are disclosed in the letter of offer does not exceed five per cent of the net profit or loss after tax of the issuer for the respective years.

“Average Market Capitalisation of Public Shareholding” means the sum of daily market capitalisation of public shareholding for a period of one year up to the end of the quarter preceding the month in which the proposed issue was approved by the shareholders or the board of the issuer, as the case may be, divided by the number of trading days.

RIGHTS ISSUE OF SHARES

Earlier, the provisions of rights issue were applicable to those cases, where the issue size was more than 50 lakhs. Now as per SEBI (ICDR) Regulations, 2018, the said limits have been revised to Rs 10 crores.

EXIT OPPORTUNITY TO DISSENTING SHAREHOLDERS

“Dissenting Shareholders” mean those shareholders who have voted against the resolution for change in Objects or variation in terms of a contract, referred to in the offer document of the issuer.

The promoters or shareholders in control shall make the exit offer to the dissenting shareholders, in cases only if a public issue has opened after April 1, 2014; if :

- the proposal for change in objects or variation in terms of a contract, referred to in the offer document is dissented by at least 10 per cent of the shareholders who voted in the general meeting; and
- the amount to be utilized for the objects for which the offer document was issued is less than 75 % of the amount raised.

Only those dissenting shareholders of the issuer who are holding shares as on the relevant date shall be eligible to avail the exit offer.

EXIT OFFER PRICE

The 'exit price' payable to the dissenting shareholders shall be the highest of the following:

- a) the volume-weighted average price paid or payable for acquisitions, whether by the promoters or shareholders having control or by any person acting in concert with them, during the fifty-two weeks immediately preceding the relevant date;
- b) the highest price paid or payable for any acquisition, whether by the promoters or shareholders having control or by any person acting in concert with them, during the twenty-six weeks immediately preceding the relevant date;
- c) the volume-weighted average market price of such shares for a period of sixty trading days immediately preceding the relevant date as traded on the recognised stock exchange where the maximum volume of trading in the shares of the issuer are recorded during such period, provided such shares are frequently traded;
- d) where the shares are not frequently traded, the price determined by the promoters or shareholders having control and the merchant banker taking into account valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such issuers

MANNER OF PROVIDING EXIT TO DISSENTING SHAREHOLDERS

- The notice proposing the passing of special resolution for changing the objects of the issue and varying the terms of contract, referred to in the prospectus shall also contain information about the exit offer to the dissenting shareholders.
- In addition to the disclosures required under the Companies Act, 2013, a statement to the effect that the promoters or the shareholders having control shall provide an exit opportunity to the dissenting shareholders shall also be included in the explanatory statement.
- After passing of the special resolution, the issuer shall submit the voting results to the recognised stock exchange(s).
- The issuer shall also submit the list of dissenting shareholders, as certified by its compliance officer, to the recognised stock exchange(s).
- The promoters or shareholders in control, shall appoint a merchant banker registered with SEBI and finalize the exit offer price.
- The issuer shall intimate the recognised stock exchange(s) about the exit offer to dissenting shareholders and the price at which such offer is being given.
- The recognised stock exchange(s) shall immediately on receipt of such intimation disseminate the same to public within one working day.
- To ensure security for performance of their obligations, the promoters or shareholders having control shall create an escrow account which may be interest bearing and deposit the aggregate consideration in the account at least two working days prior to opening of the tendering period.
- The tendering period shall start not later than seven working days from the passing of the special resolution and shall remain open for ten working days.

- The dissenting shareholders who have tendered their shares in acceptance of the exit offer shall have the option to withdraw such acceptance till the date of closure of the tendering period.
- The promoters or shareholders having control shall facilitate tendering of shares by the shareholders and settlement of the same through the recognised stock exchange mechanism as specified by SEBI for the purpose of takeover, buy-back and delisting.
- The promoters or shareholders having control shall, within a period of ten working days from the last date of the tendering period, make payment of consideration to the dissenting shareholders who have accepted the exit offer.
- Within a period of two working days from the payment of consideration, the issuer shall furnish to the recognised stock exchange(s), disclosures giving details of aggregate number of shares tendered, accepted, payment of consideration and the post-offer shareholding pattern of the issuer and a report by the merchant banker that the payment has been duly made to all the dissenting shareholders whose shares have been accepted in the exit offer.

ISSUE OF WARRANTS

An issuer shall be eligible to issue warrants in an initial public offer subject to the following:

- a) the tenure of such warrants shall not exceed eighteen months from the date of their allotment in the initial public offer;
- b) a specified security may have one or more warrants attached to it;
- c) the price or formula for determination of exercise price of the warrants shall be determined upfront and disclosed in the offer document and at least 25 per cent

of the consideration amount based on the exercise price shall also be received upfront;

However, in case the exercise price of warrants is based on a formula, 25 per cent consideration amount based on the cap price of the price band determined for the linked equity shares or convertible securities shall be received upfront.

- d) in case the warrant holder does not exercise the option to take equity shares against any of the warrants held by the warrant holder, within three months from the date of payment of consideration, such consideration made in respect of such warrants shall be forfeited by the issuer.

ROLE OF A COMPANY SECRETARY

For listing of an IPO

A certificate from a Practising Company Secretary stating that:

- Allotment has been made as per the basis of allotment approved by the Designated Stock Exchange.
- The share certificates corresponding to equity Securities under lock in have been encased with non-transferability condition.
- In case of Employee reservation in the issue, Allotment of shares from the employees' quota has been made to permanent/regular employees of the company and of the promoter companies.

For In-principle approval for issue of securities issued on a preferential basis:

- A Certificate from a Practising Company Secretary confirming that:
 - a) None of the proposed allottee(s) has/ have sold any equity shares of the company during the six months period preceding the relevant date.
 - b) The pre-preferential shareholding of each of proposed allottee(s) has been locked in. Further, there is no sale/ pledge of pre-preferential holding from Relevant Date till date of lock-in.
 - c) None of the proposed allottees belonging to promoter(s) or the promoter group is ineligible for allotment.
 - d) The company will comply with all legal and statutory formalities and no statutory authority has restrained the company from issuing these proposed securities.
 - e) A certificate from a practising Company Secretary confirming the relevant date for the purpose of said minimum issue price for the proposed preferential issue.

For granting listing approvals, for the equity shares issued on a preferential basis:

A Certificate from a practising Company Secretary with respect to the proposed preferential allotment certifying that:

- a) The company has complied with all the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, Companies Act, 2013.
- b) Allotment of shares has been made only to such persons to whom offer / invitation was made.
- c) No statutory/regulatory authorities has restrained the company for issuing equity shares to the company on preferential basis.
- d) In the case of convertible instruments, the allottees have exercised the option to convert the instrument within a period of 18 months from the date of allotment of the instrument.

- e) The pre-preferential shareholding of the allottees are under lock for the period starting from relevant date up to a period immediately prior to allotment.
- f) At the time of allotment the pre-preferential shareholding (if any) of all the allottees were held in dematerialized form only.
- g) No allotment has been made to an allottee who did not have PAN at the time of allotment, unless the entity is exempt from PAN.
- h) None of the allottee has breached investment limit prescribed by any regulator.

15**STRUCTURE OF CAPITAL MARKET****National Level Institutions**

- All India Development Banks
- Industrial Development Bank of India
- Industrial Finance Corporation of India
- Small Industries Development Bank of India
- Industrial Investment Bank of India Limited

Specialised Financial Institution of India (SFIs)

- IFCI Venture Capital Funds Limited
- ICICI Venture Funds Limited
- Tourism Finance Corporation of India Limited (TFCI)

Investment Institutions

- Life Insurance Corporation of India (LIC)
- Unit Trust of India (UTI)
- General Insurance Corporation of India (GIC)

State Level Institutions

- State Financial Corporations (SFCs)
- State Industrial Development Corporations (SIDCs)

QUALIFIED INSTITUTIONAL BUYERS

Qualified Institutional Buyers (QIBs) shall mean the following:

- m) Public Financial Institutions;
- n) Scheduled Commercial Banks;
- o) Mutual Funds;
- p) Foreign Institutional Investors;
- q) Multilateral and Bilateral Development Financial Institutions;
- r) State Industrial Development Financial Institutions;
- s) Insurance Companies;
- t) Provident Funds with minimum corpus of Rs 25 Crores;
- u) Pension Funds with minimum corpus of Rs 25 Crores; and
- v) National Investment Fund;
- w) Insurance Funds set up and managed by Army, Navy and Air Force; and
- x) Insurance Funds set up and managed by Department of Posts.

FOREIGN PORTFOLIO INVESTOR

Foreign Portfolio Investor (FPI) means a person who satisfies the eligibility criteria prescribed under SEBI (Foreign Portfolio Investors) Regulations, 2014. All existing Foreign Institutional Investors (FIIs) and QFIs are to be merged into one category called FPI.

Category of FPIs**• Category I:**

Government and Government-related investors such as central banks, Governmental agencies, sovereign wealth funds and international or multilateral organisations or agencies.

• Category II:

- 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.
- university funds and pension funds; and
- university-related endowments already registered with SEBI as FIIs or subaccounts.

• Category III:

It includes all other FPIs which not eligible under Category I and II of FPIs such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts, individuals and family offices.

ALTERNATIVE INVESTMENT FUND

AIF means any fund established in India in the form of a trust, company, limited liability partnership or a body corporate which:-

- is a privately pooled investment vehicle that collects funds from investors, whether Indian or Foreign, for investing it in accordance with a defined investment policy; and
- is not covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of SEBI, which aims to regulate fund management activities.

The following are specifically excluded from the purview of AIF Regulations (subject to conditions in certain cases):

- 1) Family Trusts;
- 2) ESOP Trusts;
- 3) Employee welfare Trusts;
- 4) Holding Companies;
- 5) Other Special Purpose Vehicle not established by fund managers, including securitization trusts, regulated under a specific regulatory framework;
- 6) Funds managed by registered securitization company or reconstruction company; and
- 7) Any such pool of funds which is directly regulated by any other Indian regulator.

CATEGORIES OF AIF

SEBI has classified AIF into the following broad categories:

Category I : Funds that invest in start-up or early stage ventures or social ventures or Small Medium Enterprises (SMEs) or infrastructure or other sectors which the government consider as socially or economically desirable. For example: VCF, SME Funds, Social Venture Funds (SVF), Infra Funds.

Category II : Funds that do not fall in Category I and III AIF and those that do not undertake borrowing for example Private Equity Funds or Debt Funds.

Category III : Funds that employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives, for e.g. Hedge Funds.

PRIVATE EQUITY

- Private equity is a type of equity (finance) and one of the asset classes who takes securities and debt in operating companies that are not publicly traded on a stock exchange.
- Unlike stocks, mutual funds, and bonds, private equity funds usually invest in more illiquid assets, i.e. companies. By purchasing companies, the firms gain access to those assets and revenue sources of the company, which can lead to very high returns on investments.
- Private equity consists of investors and funds that make investments directly into private companies. Capital for private equity is raised from retail and institutional investors, and can be used to fund new technologies, expand working capital within an owned company, make acquisitions, or to strengthen a balance sheet.
- The major of private equity consists of institutional investors and accredited investors who can commit large sums of money for long periods of time.
- Generally, the private equity fund raise money from investors like Angel investors, Institutions with diversified investment portfolio like - pension funds, insurance companies, banks, funds of funds etc.

Types of Private Equity

- **Leveraged Buyout (LBO):** This refers to a strategy of making equity investments as part of a transaction in which a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage. The companies involved in these type of transactions that are typically more mature and generate operating cash flows.

- **Venture Capital:** It is a broad sub-category of private equity that refers to equity investments made, typically in less mature companies, for the launch, early development, or expansion of a business.
- **Growth Capital:** This refers to equity investments, mostly minority investments, in the companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business.

ANGEL FUND

- Angel investments are typically the earliest equity investments made in start-up companies.
- These networks are based on regional, industry or investor or academic affiliation.
- Angel Investors are often former entrepreneurs themselves, and enjoy working with companies at the earliest stages of business formation.
- As per SEBI (Alternative Investment Fund) Regulations, 2012, angel fund is a sub-category of venture capital.

HIGH NET WORTH INDIVIDUALS

Though there is no specific definition, generally in the Indian context, individuals with over Rs. 2 crore investible surplus may be considered to be HNIs while those with investible wealth in the range of Rs. 25 lac - Rs. 2 crore may be deemed as Emerging HNIs.

If you are applying for an IPO of equity shares in an Indian company, generally, if you apply for amounts in excess of Rs. 2 lakhs, you fall under the HNI category. On the other

hand, if you apply for amounts under Rs. 2 lakhs, you are considered as a retail investor.

SEBI has laid down certain criteria in SEBI (ICDR) Regulations, 2018, under which an HNI is entitled to get the shares not less than 15% of the issue, if the issue is in accordance with regulation 26(1) with SEBI (ICDR) Regulation 2018 or not more than 15% of the issue if the issue is in accordance with regulation 26(2) of SEBI (ICDR) Regulation 2018.

VENTURE CAPITAL

- Venture Capital is one of the innovative financing resource for a company in which the promoter has to give up some level of ownership and control of business in exchange for capital for a limited period, say, 3-5 years.
- Venture Capital is an equity investment made at an early stage in privately held companies, having potential to provide a high rate of return on their investments.
- The participants in venture capital firms can be institutional investors like pension funds, insurance companies, foundations, corporations or individuals but these are high risk investments which may give high returns or high loss.

PENSION FUNDS

- Pension Fund means a fund established by an employer to facilitate and organize the investment of employees retirement funds which is contributed by the employer and employees.
- The pension fund provide pensions for employees when they reach the end of their working years and commence retirement.

- Pension funds are commonly run by some sort of financial intermediary for the company and its employees like N.P.S. scheme is managed by UTIAMC (Retirement Solutions), although some larger corporations operate their pension funds in-house.

KINDS OF CAPITAL MARKET INSTRUMENTS

Following are the various kinds of financial market instruments:

1. Shares

According to Companies Act, 2013 defines the term "share". As per this, share means share in the share capital of a company; and includes stock, except where a distinction between stock and share is expressed or implied.

By its nature, a share is not a sum of money but a bundle of rights and liabilities. A share is a right to participate in the profits of a company, while it is a going concern and declares dividend; and a right to participate in the assets of the company, when it is wound up.

There are two types of shares : Preference share and Equity share.

i) **Preference Share** : A preference share is a share which fulfills the following two conditions

- It carries preferential right in respect of payment of dividend; and
- It also carries preferential right in regard to repayment of capital.

In simple terms, preference share capital must have priority both regards to dividend as well as capital.

Following are the various types of preference shares :

Redeemable and Irredeemable Preference Shares : The Companies Act, 2013 provides that a company, if so authorized by its articles of association, may issue redeemable preference shares. However, a company cannot issue preference shares which is redeemable after the expiry of twenty years from the date of its issue.

It may be noted that on and after the commencement of Companies (Amendment) Act, 1996, with effect from 1st March, 1997, a company cannot issue irredeemable preference shares.

Participating and Non-Participating Preference Shares : A participating preference share is one which is entitled with a right to participate further in the profits after payment of a certain rate of dividend on equity shares. A non-participating preference share is one which does not have such right to further participate in the profits of the company.

Preference shares are always non-participating, unless expressly stated to be participating.

Convertible and Non-Cumulative Preference shares : Cumulative preference shares give the right to demand the unpaid dividend of any year during the subsequent year(s) when the profits are available for distribution. But in the case of non-cumulative preference shares, it is not so.

Preference shares are always cumulative, unless expressly stated to be participating.

Convertible Preference Shares : According to Section 55 of the Companies Act, 2013, a Company cannot issue preference shares which are irredeemable. If Article of

association permits, the Company can issue preference shares which are redeemable not later than 20 years. Companies engaged in infrastructure projects can issue shares redeemable exceeding 20 years.

Fully convertible cumulative preferences share (Equipref) : this instrument is in two parts i.e. part A and part B. Part A is convertible into equity shares automatically and compulsorily on the date of allotment without any application by the allottee. Part B is redeemed at par or converted into equity after the lock-in-period, at the option of the investor, at a price 30% lower than average market price.

ii) **Equity Share :** Equity share means share which is not preference share. There are two kinds of equity shares : Equity shares with equal rights and Equity shares with differential rights. There is another variant of equity shares called Sweat Equity Share.

Important characteristics of equity shares are given below:

- Equity shares, have voting rights at all general meetings of the company. These votes have the affect of the controlling the management of the company.
- Equity shares have the right to share the profits of the company in the form of dividend (cash) and bonus shares.
- However, even equity shareholders cannot demand declaration of dividend by the company which is left to the discretion of the Board of Directors.
- When the company is wound up, payment towards the equity share capital will be made to the respective shareholders only after payment of the claims of all the creditors and the preference share capital.

EQUITY SHARES WITH DIFFERENTIAL RIGHTS

No company shall issue equity with differential rights as to dividend or voting unless it complies with the following conditions :

- 1) It is authorized by its Articles of Association.
- 2) The issue is authorized by an ordinary Resolution. In case of listed companies it shall be passed through postal ballot.
- 3) Shares with differential rights shall not exceed 26% of post issue paid up equity capital of the company.
- 4) It shall have a track record of distributable profits in the past 3 years.
- 5) The Company has not defaulted in filing financial statements and annual returns in the last 3 preceding financial years.
- 6) The company has not defaulted in payment of declared dividend to its shareholders or redemption or payment of interest on deposits or debentures or any bank loan.
- 7) The company has not been penalized by any court or tribunal during the last 3 years for any offence under RBI Act, SEBI Act, SCRA or FEMA.

DEBENTURES

Section 2 (30) of the Companies Act, 2013 defines a debenture as:

"Debenture includes debenture stock, bonds and any other securities of a company, whether constituting a charge on the company's assets or not".

However, this definition is not clear. In simple terms, a debenture may be defined as an instrument acknowledging a debt by a company to some person or persons.

The usual features of a debenture are as follows:-

1. A debenture is usually in the form of a certificate (like a share certificate) issued under the common seal of the company.

2. The certificate is an acknowledgement by the company of indebtedness to a holder.
3. A debenture usually provides for the payment of a specified sum at a specified date. But that is not essential. A company may issue perpetual or irredeemable debentures with no undertaking to pay.
4. A debenture usually provides for payment of interest until the principal sum is paid back. But again, this is not essential. Interest may be made payable subject to contingencies of uncertain nature.
5. A debenture is, as a rule, one of a series, although a single debenture is not uncommon. There may be a single debenture issued to one person.

Debenture may be of different kinds as follows:-

- **Redeemable and Perpetual or Irredeemable Debentures** : Debentures are generally redeemable, that is to say, they are issued on the terms that the company is bound to repay the amount of debentures, either at a fixed date, or upon demand, or after notice, or under a system of periodical drawings. Redeemable debentures can be re-issued. A debenture in which no time is fixed for the company to pay back the money, although it may pay back at any time it chooses, is an irredeemable debenture. The debenture holder cannot demand payment as long as the company is a going concern and does not make default in making payment of the interest.
- **Registered and Bearer Debentures** : Registered debentures are made out in the name of a particular person, whose name appears on the debenture certificate and who is registered by the company holder in the register of debenture holders. Such debentures are transferable in the same manner as shares. Bearer debentures, on

the other hand, are made out to bearer, and are negotiable instruments, and so transferable by mere delivery like share warrants.

- **Secured and Unsecured or Naked Debentures** : Where debentures are secured by a mortgage or a charge on the property of the company, they are called secured debentures. Where they are not secured by any mortgage or charge on any property of the company, they are said to be naked or unsecured.
- **Convertible and Non-Convertible Debentures** : Convertible debentures are those in which an option is given to the debenture holders to exchange a part or whole of their debentures for shares in the company under certain conditions and limitations imposed regarding the period during which the option may be exercised. This enables the investor to change his position financially and begins to make profit. When the full debenture is convertible into equity shares, they are known as fully convertible debentures. When only a portion of debenture is convertible into equity shares, they are known as partly convertible debentures. Here, non-convertible portion is redeemed at the expiry of the stipulated period. Non-convertible debenture do not carry the option of conversion into equity shares and hence are redeemed on the expiry of the specified period.
- **Third Party Convertible Debentures:** These are debt instruments with warrant attached which gives an option to subscribe to the equity shares of company at a price lower than the market price. These are similar to convertible debenture with warrant option except that these debentures give an option to the investor to subscribe for shares in another company.
- **Fully convertible debentures with interest (optional):** In this case there is no interest payment involved for certain period. Then the holder of this instrument can exercise option and apply for securities without paying additional amount.

- **Non convertible debentures:** These debentures do not carry the option of conversion into equity shares and are therefore redeemed on the expiry of the specified period or periods.
- **Partly convertible debentures:** These may consist of two kinds namely - convertible and non-convertible. The convertible portion is to be converted into equity shares at the expiry of specified period. However, the non convertible portion is redeemed at the expiry of the stipulated period. If the conversion takes place at or after 18 months, the conversion is optional at the discretion of the debenture holder.

BONDS

Bond is a negotiable certificate evidencing indebtedness. It is normally unsecured. A debt security is generally issued by a company, municipality or government. A Bond investor lends money to the issuer and in exchange, the issuer promises to repay the loan amount on a specified maturity date. The issuer usually pays the bond holder periodic interest payments over the life of the bond.

Bond may be of different kinds as follows:-

Government Bonds

These are the bonds issued either directly by Government of India or by the Public Sector Units (PSU's) in India. These bonds are secured as they are backed up with security from Government. These are generally offered with low rate of interest compared to other types of bonds.

Corporate Bonds

These are the bonds issued by the private corporate companies. Indian corporates issue secured or non secured bonds. However care to be taken to consider the credit rating given by Credit Rating Agencies before investing in these bonds.

Banks and other financial institutions bonds

These bonds are issued by banks or any financial institution. The financial market is well regulated and the majority of the bond markets are from this segment.

Tax saving bonds

In India, the tax saving bonds are issued by the Government of India for providing benefit to investors in the form of tax savings. Along with getting normal interest, the bond holder would also get tax benefit. In India, all these bonds are listed in National Stock Exchange and Bombay Stock Exchange in India, hence they can be easily liquidated and sold in the open market.

FOREIGN CURRENCY CONVERTIBLE BONDS (FCCBS)**Definition of FCCB:**

Foreign Currency Convertible Bonds mean bonds issued in accordance with the Government's Guidelines and subscribed by non-resident in foreign currency and convertible into ordinary shares of the issuing company, wholly or partly, based on any equity-linked warrants attached to debt instruments.

Meaning and Concept of FCCBs:

Foreign Currency Convertible Bonds are unsecured borrowings. They carry a fixed rate of interest. Foreign Currency Convertible Bonds are attached with an option for conversion into a fixed number of equity shares of the issuer company. Interest and redemption price where conversion option is not exercised is payable in dollars. Interest rates are very low by Indian domestic standards. Foreign Currency Convertible Bonds are denominated in any freely convertible foreign currency.

FOREIGN CURRENCY EXCHANGEABLE BONDS

An FCEB involves three parties -

- (i) The issuer company (issuer),
- (ii) The offered company (OC) and
- (iii) Investor.

1. Under this option, an issuer company may issue FCEBs in foreign currency, and these FCEBs are convertible into shares of another company (offered company) that forms part of the same promoter group as the issuer company.
2. For Example, company ABC Ltd. issues FCEBs, then the FCEBs will be convertible into shares of company XYZ Ltd. that are held by company ABC Ltd. and where companies ABC Ltd. and XYZ Ltd. form part of the same promoter group.
3. Unlike FCCBs that convert into shares of issuer itself, FCEBs are exchangeable into shares of OC. Also, relatively, FCEB has an inherent advantage that it does not result in dilution of shareholding at the OC level.

Conditions for issue of FCEB's

Eligible Issuer: The Issuing Company shall be part of the promoter group of the Offered Company and shall hold the equity share/s being offered at the time of issuance of FCEB.

Offered Company: The Offered Company shall be a listed company, which is engaged in a sector eligible to receive Foreign Direct Investment and eligible to issue or avail of Foreign Currency Convertible Bond (FCCB) or External Commercial Borrowings (ECB).

Entities not eligible to issue FCEB: An Indian company, which is not eligible to raise funds from the Indian securities market, including a company which has been restrained from accessing the securities market by the SEBI shall not be eligible to issue FCEB.

Eligible subscriber: Entities complying with the Foreign Direct Investment policy and adhering to the sectoral caps at the time of issue of FCEB can subscribe to FCEB. Prior approval of the Foreign Investment Promotion Board, wherever required under the Foreign Direct Investment policy, should be obtained.

Entities not eligible to subscribe to FCEB: Entities prohibited to buy, sell or deal in securities by the SEBI will not be eligible to subscribe to FCEB.

INDIAN DEPOSITORY RECEIPTS

According to Section 2(48) of the Companies Act, 2013 "Indian Depository Receipt" means any instrument in the form of a depository receipt created by a domestic depository in India and authorised by a company incorporated outside India making an issue of such depository receipts.

An IDR is an instrument denominated in Indian Rupee in the form of a depository receipt created by a domestic depository (Custodian of securities registered with SEBI)

against the underlying equity of issuing company to enable foreign companies to raise funds from Indian Securities Markets.

DERIVATIVES TRADING

Introduction

Derivatives are contracts which derive their values from the value of one or more of other assets, known as underlying assets. For example, Futures, Options, etc.

Futures Trading-Mechanism

A future contract is an arrangement by which a buyer/seller agrees to take/give delivery of the securities on a specified future date at a fixed price and make payment on the delivery date. Such contracts are zero-sum games where the gain equals loss.

The clearing house is the counterparty in such contracts. A buyer is called the 'long' and the seller 'short'. A margin is deposited at the clearing house for futures.

Futures Contract

Futures is a contract between two parties to buy or sell a underlying asset of standardized quantity and quality for a price agreed upon today with delivery and payment occurring at a specified future date. Underlying assets for the purpose include equities, foreign exchange, interest bearing securities and commodities. The idea behind financial futures contract is to transfer future changes in security prices from one party in the contract to the other. Every futures contract entered into has two side willing buyer and a willing seller. If one side of contract makes a profit, the other side must make a loss.

Options Contract

An option contract conveys the right, but not the obligation, to buy or sell a specific security or commodity at specified price within a specified period of time. The right to buy is referred to as a call option whereas the right to sell is known as a put option. An option contract comprises of its type a put or call, underlying security or commodity expiry date, strike price at which it may be exercised.

Generally two type of options namely :

- European option - an option that may only be exercised on expiration.
- American option - an option that may be exercised on any trading day on or before expiry.

Option Trading-Mechanism

An option is a contract between two parties in which the maker of the option (option writer) agrees to buy or sell a specified number of shares at later date for an agreed price (strike price) to the holder of the option (option buyer) on a due date and time, when and if the latter so desires, in consideration of a sum of money (premium). The premium is the price which is required to be paid for purchase of right to buy or sell.

The terms of contract allow the holder, not the maker, to cancel the option.

Types of Option

Options are of two types: Call Option and Put Option.

In call option, an investor has a right to buy. An investor takes a call option, if he expects that the market price will be higher than the strike price to earn the difference as his profit.

In put option, an investor has a right to sell. An investor takes a put option if he expects that the market price will be lower than the strike price. The lower the market price than the strike price, the higher will be the profit for the investor.

An investor can simultaneously buy call and put option, if he is uncertain about the market conditions.

Option Contracts are classified into two types on the basis of time at which the option can be exercised:-

- **European Option** - European style options are those contracts where the option can be exercised only on the expiration date. Options traded on Indian stock exchanges are of European Style.
- **American Option** - American style options are those contracts where the option can be exercised on or before the expiration date.

Investment Strategies

Straddle: Combination of one put and one call option is known as straddle. Here, the investor is insured against any movement on either side and has opportunity to gain from upward move and down move.

Strap: Combination of one put and two call option is known as strap. Here, the investor is confident that scrip price will change, but it is more likely to go up.

Strip: Combination of two puts and one call option is known as strip. Here, the investor is confident that scrip price will change, but it is more likely to go down.

Difference between Forward Contract and Futures Contract

Features	Forward Contract	Futures Contract
Mechanism	Not traded on an exchange	Traded on a exchange
Contract Terms	Differs from trade to trade	Standardized contracts
Liquidity	Poor	Very high
Price discovery	Poor	Better
Counter Party Risk	Exists	Does not exist



Difference between futures and options



Futures	Options
Futures is a pure trading tool	Options is a risk limiting tool
Both parties share the risk	Risk is borne by one party
Futures can be bought and sold in the derivatives market	Options can also be bought and sold in the derivatives market
The amount of loss or profit that one can make in a futures contract depends on the price at the time of execution of the contract	The amount of loss is restricted to the option premium paid.

IIFL Training Team

ASPECTS OF PRIMARY MARKET**Book Building**

Book building means a process undertaken to elicit demand and to assess the price for determination of the quantum or value of specified securities.

Process

- Appoints Lead Book Runners/Co Book Runners, Lead Merchant Banker (LMB) to act as Lead Book Runner. If more than one LBM/LBR, inter-se, allocation of responsibilities to be decided.
- Filing of draft offer document with SEBI for obtaining observation and, Exchanges for in-principle approval for listing.
- Filing of Red herring prospectus with SEBI, Exchange and Registrar of Companies (RHP).
- The company shall enter into agreement with stock exchange for online offer of securities and make application for In-principle approval.
- Lead Book Runners (LBR) appoints an underwriter.
- Merchant Banker to finalise bidding/collection centres who are either:
 - (a) SEBI Registered stock broker
 - (b) Self-certified Syndicate Bank (for ASBA facility)
- Pre issue advertisement shall be made.
- Bidding and allocation for anchor investors one day before opening of issue.
- Issue opens and Investor submits forms at bidding centres.
- Electronic Bidding Process and determination of price.
- Registration of final prospectus with ROC.
- Allocation/Manner of Allotment.

- In case of Book Built Issue, the issuer in consultation with merchant banker, fixes the Price band.
- In case of Fixed Price Issue, the issuer in consultation with merchant banker, fixes the price of the shares to be offered (Face Value + Share Premium) and makes an offer. If the investors subscribe minimum 90% of the offer, the issue will succeed.

ANCHOR INVESTOR

Anchor Investor means a Qualified Institutional Buyer who makes an application for a value of ten crore rupees or more in a public issue made through the book-building process in accordance with SEBI (ICDR) Regulations, 2018.

Out of the portion available for allocation to QIBs, allocation to Anchor Investors may be made subject to following conditions:

- a) Maximum of 2 such investors shall be permitted for allocation upto Rs.10 crore.
- b) Minimum of 2 and maximum of 15 such investors shall be permitted for allocation above Rs.10 crore and upto Rs. 250 crore, subject to minimum allotment of Rs. 5 crore per such investor.
- c) In case of allocation above Rs.250 crore; a minimum of 5 such investors and a maximum of 15 such investors for allocation upto Rs.250 crore and an additional 10 such investors for every additional Rs. 250 crore or part thereof, shall be permitted, subject to a minimum allotment of Rs.5 crore per such investor.
- d) The bidding for Anchor Investors shall open one day before the issue opening date.
- e) Upto 60% of the portion available for allocation to qualified institutional buyers shall be available to anchor investor(s) for allocation/allotment ("anchor investor portion");

- f) One-third of the anchor investor portion shall be reserved for domestic mutual funds;

APPLICATION SUPPORTED BY BLOCKED AMOUNT (ASBA)

- ASBA is an application for subscribing to an issue, containing an authorization to block the application money in a bank account.
- Advantages of ASBA is that the investor continues to receive the interest for amount blocked, until allotment only when shares are allotted, the money moves from the investors accounts.
- If the concerned investor didn't get allotment, the block is removed hence, there is no concern regarding non receipt or delay in refund, in case of allotment which was the major issue when made of payment was through cheque/DD etc.
- The ASBA process is mandatory in all public issues made through the book building route.

ASBA Process

- An ASBA investor submits an ASBA physically or electronically through the internet banking facility, to the SCSB with whom the bank account to be blocked is maintained.
- The SCSB blocks the application money in the bank account specified in the ASBA.
- The application money remains blocked in the bank account till finalisation of the basis of allotment in the issue or till withdrawal/failure of the issue or till withdrawal/rejection of the application.
- The application data shall thereafter be uploaded by the SCSB in the electronic bidding system.

- Once the basis of allotment of finalized, the Registrar to the Issue sends an appropriate request to the SCSB for unblocking the relevant bank accounts and for transferring the requisite amount to the issuer's account.
- In case of withdrawal/failure of the issue, the amount shall be unblocked by the SCSB on receipt of information from the pre-issue merchant bankers.
- The ASBA process has also helped to reduce the listing time for IPO to 6 working days from the date of the closure of the equity shares public issue.

SELF CERTIFIED SYNDICATE BANK (SCSB)

Self Certified Syndicate Bank (SCSB) is a bank which offers the facility of applying through the ASBA process. A bank desirous of offering ASBA facility shall submit a certificate to SEBI as per the prescribed format for inclusion of its name in SEBI's list of SCSBs. A SCSB shall identify its Designed Branches (DBs) at which shall act as a coordinating branch for the Registrar of the issue, Stock Exchanges and Merchant bankers.

USE OF UNIFIED PAYMENTS INTERFACE (UPI) WITH ASBA IN PUBLIC ISSUE PROCESS

UPI is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI regulated entity. UPI is built over the IMPS (Immediate Payment Service) infrastructure and allows you to instantly transfer money between any two parties' bank accounts. UPI as a payment mechanism is available for all public issues for which Red Herring Prospectus is filed after January 01, 2019

How is public issue application using UPI different from public issue application using ASBA submitted with intermediaries?

Public issue application using UPI is a step towards digitizing the offline processes involved in the application process by moving the same online. This requires you to have to create a UPI ID and PIN using any of the UPI enabled mobile application. The UPI ID can be used for blocking of funds and making payment in the public issue process. One can accept the request to block the funds for the amount they have bid by entering their UPI PIN in the mobile application.

The money shall be blocked and shall be automatically remitted to the Escrow Bank, in case of allotment. UPI in public issue process shall essentially bring in comfort, ease of use and reduce the listing time for public issues.

“UPI as a payment option” can be used in the public issue process”?

1. UPI as part of bidding :

- Investor will fill in the bid details in the application form as per the existing process along with his UPI ID.
- As per the existing process, investor may submit the application with any of the intermediary (Syndicate Member / Registered Stock Brokers / Registrar and Transfer Agents / Depository Participants), who, on receipt of application will upload the bid details along with UPI id in the stock exchange bidding platform.
- The stock exchange will electronically share the bid details, along with investors UPI id, with the Escrow/ Sponsor Bank appointed by the issuer company.

2. UPI as part of blocking:

- The Escrow / Sponsor Bank will initiate a mandate request on the investor i.e. request the investor to authorize blocking of funds equivalent to applicant amount and subsequent debit of funds in case of allotment.

- The request raised by the Escrow/Sponsor Bank, would be electronically received by the investor as SMS/intimation on his / her bank provided mobile no. linked to UPI ID.
- Upon validation of block request by the investor, the said information would be electronically received by the investors' bank, where the funds, equivalent to application amount, would get blocked in investors account. Intimation regarding confirmation of such block of funds in investors account would also be received by the investor.

3. UPI as part of payment for shares post allocation process:

- The registrar to the issue, based on information of bidding and blocking received from stock exchange, would undertake reconciliation and prepare the basis of allotment.
- Upon approval of such basis the instructions would be sent to sponsor bank to initiate process for credit of funds in the public issue escrow account and unblocking excess money.
- Based on authorisation given by investor using UPI PIN at the time of blocking, the funds, equivalent to the allotment, would be debited from investors account and remaining funds, if any, would be unblocked.

Whether use of UPI, as a payment mechanism in public issues, is mandatory?

The applicability of UPI as a payment mechanism has been prescribed in a Phased manner as under:

Phase I: From January 01, 2019, the UPI mechanism for retail individual investors through intermediaries will be made effective along with the existing process and existing timeline of T+6 days. The same will continue, for a period of 3 months or floating of 5 main board public issues, whichever is later.

Phase II: Thereafter, for applications by retail individual investors through intermediaries, the existing process of physical movement of forms from intermediaries to Self-Certified Syndicate Banks (SCSBs) for blocking of funds will be discontinued and

only the UPI mechanism with existing timeline of T+6 days will continue, for a period of 3 months or floating of 5 main board public issues, whichever is later.

Phase III: Subsequently, final reduced timeline will be made effective using the UPI mechanism. Up to what limit one can apply for a public issue in UPI?

The limit for IPO application is 2 Lakhs per transaction on UPI.

Are all category of investors eligible to apply in public issues using UPI for payment?

No. Only retail individual investors are allowed to use UPI for payment in public issues. Qualified Institutional Buyers and High Net-worth Individuals shall continue to apply as per the existing process.

GREEN SHOE OPTION

Meaning of Green Shoe Option

Green shoe option means an option of allocating shares in excess of the shares included in the public issue and operating a post listing price stabilizing mechanism in accordance with the provisions of SEBI (ICDR) Regulations, 2018, which is granted to a company to be exercised through a Stabilizing Agent.

Green Shoe Option is available both in Initial Public Offering by an unlisted company as well as in Further Public Offering by a listed company, whether by fixed price method (i.e., Traditional Method) or price discovery method (i.e., Book Building Method).

Purpose of Green Shoe Option

The basic purpose of 'green shoe option' is not to make available additional share capital to company, but to act as stabilizing force, if issue is over subscribed. The share held by promoters or pre-issue shareholders are lent to Stabilizing Agent (SA). Such lending up to 15% of issue is permissible. These are returned to promoters or pre-issue shareholders, as the case may be, do not get any profit in this transaction.

The idea is that due to excess supply of shares (permitted up to 15%) market price will not shoot up to abnormally high level.

ILLUSTRATION

Consider a company planning an IPO of say, 100,000 shares, at a book-built price of Rs. 100/-, resulting in an IPO size of Rs 1,00,00,000. As per the ICDR Regulations, the over-allotment component under the Green Shoe mechanism could be up to 15% of the IPO, i.e. up to 15,000 shares, i.e. Green Shoe shares. Prior to the IPO, the stabilising agent would borrow such number of shares to the extent of the proposed Green Shoe shares from the pre-issue shareholders. These shares are then allotted to investors along with the IPO shares. The total shares issued in the IPO therefore stands at 115,000 shares. IPO proceeds received from the investors for the IPO shares, i.e. Rs. 100,00,000 (100,000 shares at the rate of Rs.100 each), are remitted to the Issuer Company, while the proceeds from the Green Shoe Shares Rs.15,00,000/- (15,000 shares x Rs.100/-) are parked in a special escrow bank account, i.e. Green Shoe Escrow Account. During the price stabilisation period, if the share price drops below Rs.100, the stabilising agent would utilise the funds lying in the Green Shoe Escrow Account to buy these back shares from the open market. This gives rise to the following three situations:

Situation 1 - where the stabilising agent manages to buyback all of the Green Shoe Shares, i.e., 15,000 shares;

Situation 2 - where the stabilising agent manages to buyback none of the Green Shoe Shares

Situation 3 - where the stabilising agent manages to buy-back some of the Green Shoe Shares, say 10,000 shares.

Let us examine each of these situations separately:

Situation 1 - Where all Green Shoe Shares are bought back: In this situation, funds in the Green Shoe Escrow Account (Rs. 15,00,000, in this case) would be deployed by the stabilising agent towards buying up shares from the open market. Given that the prices prevalent in the market would be less than the issue price of Rs. 100, the stabilising agent would have sufficient funds lying at his disposal to complete this operation. Having bought back all of the 15,000 shares, these shares would be temporarily held in a special depository account with the depository participant (Green Shoe Demat Account), and would then be returned back to the lender shareholders, within a maximum period of two days after the stabilisation period.

Situation 2 - Where none of the Green Shoe Shares are bought back: This situation would arise in the (very unlikely) event that the share prices have fallen below the Issue Price, but the stabilising agent is unable to find any sellers in the open market, or in an event where the share prices continue to trade above the listing price, and therefore there is no need for the stabilising agent to indulge in price stabilisation activities.

In either of the above-said situations, the stabilising agent is under a contractual obligation to return the 15,000 shares that had initially been borrowed from the lending shareholder(s). Towards meeting this obligation, the issuer company would allot 15,000 shares to the stabilising agent into the Green Shoe Demat Account (the consideration being the funds lying in the Green Shoe Escrow Account), and these shares would then be returned by the stabilising agent to the lending shareholder(s), thereby squaring off his responsibilities.

Situation 3 - Where some of the Green Shoe Shares are bought back, say 10,000 shares: This situation could arise in an event where the share prices witness a drop in the initial stages of the price stabilisation period, but recover towards the latter stages.

In this situation, the stabilising agent has a responsibility to return 15,000 shares to the lending shareholder(s), whereas the stabilising activities have yielded only 10,000 shares.

Similar to the instance mentioned in Situation #2 above, the issuer company would allot the differential 5,000 shares into the Green Shoe Demat Account to cover up the shortfall, and the Stabilising Agent would discharge his obligation to the lending shareholder(s) by returning the 15,000 shares that had been borrowed from them.

Both in Situation 2 and 3, the issuer company would need to apply to the exchanges for obtaining listing/ trading permissions for the incremental shares allotted by them, pursuant to the Green Shoe mechanism.

Any surplus lying in the Green Shoe Escrow Account would then be transferred to the Investor Protection and Education Fund established by SEBI, as required under ICDR Regulations and the account shall be closed thereafter.

SECONDARY MARKET

STOCK EXCHANGE

Stock exchange is a market place for buying and selling of securities and ensuring liquidity to them in the interest of the investors.

The Securities Contracts (Regulation) Act, 1956, has defined Stock Exchange :

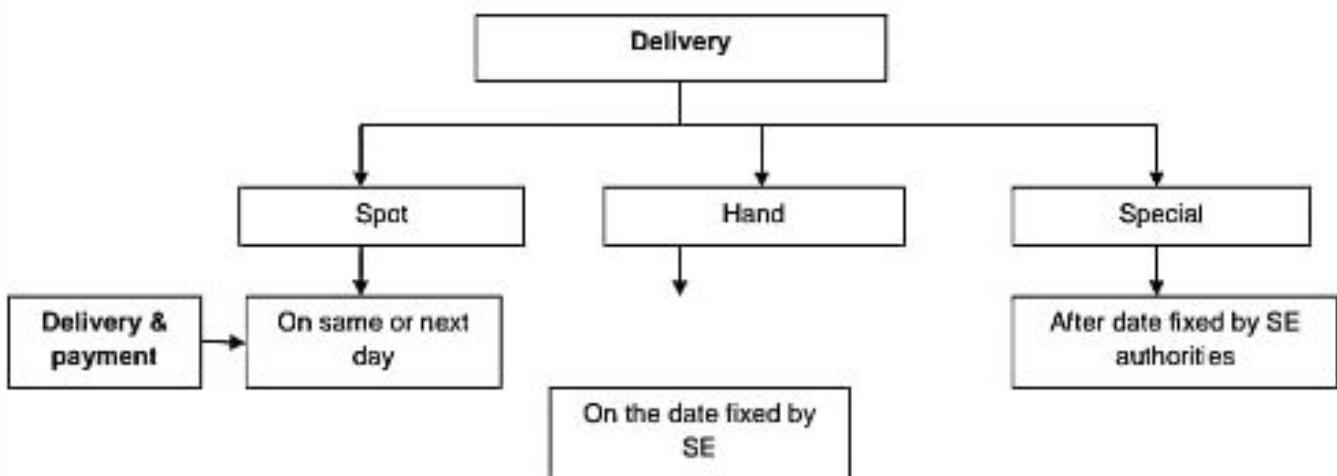
- (a) any body of individuals, whether incorporated or not, constituted before corporatisation and demutualisation or
- (b) a body corporate incorporated under the Companies Act, 2013 whether under a scheme of corporatisation and demutualisation, for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

TYPES OF SECURITIES

Listed Securities: The securities of companies, which have signed the listing agreement with a stock exchange, are traded as Listed Securities in that exchange.

Permitted Securities: To facilitate the market participants to trade in securities of such companies, which are actively traded at other stock exchanges in India but are not listed on an exchange, trading in such securities is facilitated as permitted securities.

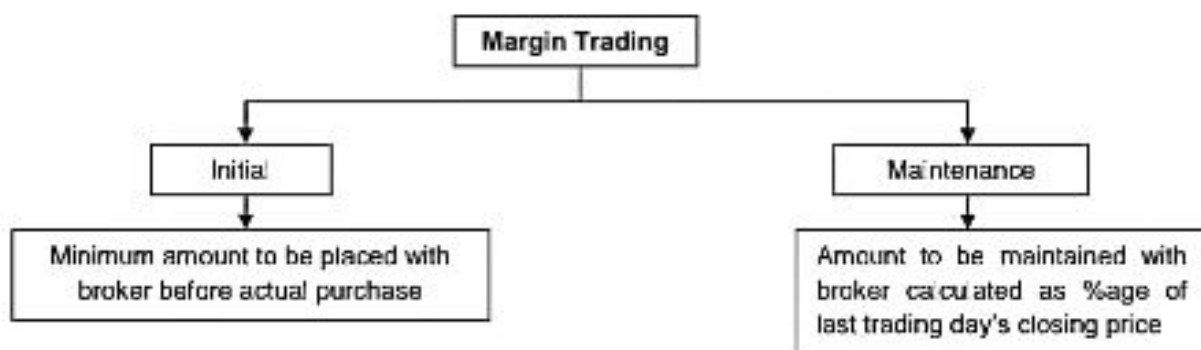
TYPES OF DELIVERY



MARGINS

Margin trading means limit provided by the Broker to its clients in order to boost trading. For example: if an investor deposits Rs. 10,000 in his account and his broker provides him a margin of 10 times on the investment, he can trade upto an amount of Rs. 1,00,000 from his account.

The margin money is to be deposited by the stockbroker with the Stock Exchange. The amount to be deposited is calculated with reference to the number of shares transacted on forward basis both in respect of purchase and sales, i.e., on long as well as short positions.



"Initial margin" in this context means the minimum amount, calculated as a percentage of the transaction value, to be placed by the client, with the broker, before the actual purchase. The broker may advance the balance amount to meet full settlement obligations.

"Maintenance margin" means the minimum amount, calculated as a percentage of market value of the securities, calculated with respect to last trading day's closing price, to be maintained by client with the broker.

BOOK CLOSURE AND RECORD DATE

In order to determine the name of shareholders entitled to

- Dividend
- Bonus
- Right share
- Any other right pertaining to shares

Book like Register of Members and Transfer Books are closed and it is called as Book Closure.

Record Date is the date on which records of a company are closed for determining the entitlement to dividends, proxies rights etc.

Duration: pursuant to the provisions of section 91 of the Companies Act, 2013, a Company can close books for a maximum period of 45 days in year and for 30 days at one time

Notice: 7 days prior notice in newspapers is required to be given before such book closure period.

BLOCK DEAL

SEBI provided guidelines outlining a facility of allowing Stock Exchanges to provide separate trading window to facilitate execution of large trades. The Exchanges have introduced new block window mechanism for the block trades from January 01, 2018.

Session Timings:

- a) Morning Block Deal Window: This window shall operate between 08:45 AM to 09:00 AM.
 - b) Afternoon Block Deal Window: This window shall operate between 02:05 PM to 2:20 PM.
- In the block deal the minimum order size for execution of trades in the Block deal window shall be Rs.10 Crore.
 - The orders placed shall be within $\pm 1\%$ of the applicable reference price in the respective windows as stated above.
 - The stock exchanges disseminates the information on block deals such as the name of the scrip, name of the client, quantity of shares bought/sold, traded price, etc to the general public on the same day, after the market hours.

BULK DEAL

- Bulk deal is a trade, where total quantity bought or sold is more than 0.5% of the number of equity shares of a listed company.
- Bulk deal can be transacted by the normal trading window provided by brokers throughout the trading hours in a day.
- Bulk deals are market driven and take place throughout the trading day.
- The stock broker, who facilitates the trade, is required to reveal to the stock exchange about the bulk deals on a daily basis.
- Bulk orders are visible to everyone. If the bulk deal happens through a single trade, it should be notified to the exchange immediately upon the execution of the order. If it happens through multiple trades, it should be notified to the exchange within one hour from the closure of the trading.

BASIS OF SENSEX

- Sensitive Index or Sensex is the stock market index indicator for the BSE. It is sometimes referred as BSE S&P Sensex. It was first published in 1986 and is based on the market weighed stock index of 30 companies based on the financial performance. The large, established companies that represent various industrial sectors are a part of this.
- The calculation of Sensex is done by a Free-Float method that came into existence from September 1, 2003.
- The free-float method takes into account the proportion of the shares that can be readily traded in the market. This does not include the ones held by various shareholders and promoters or other locked-in shares not available in the market.

Steps to calculate Sensex:

- The market capitalization is taken into account. This is done by multiplying all the shares issued by the company with the price of its stock.
- BSE determines a Free-float factor that is a multiple of the market capitalization of the company. This helps in determining the free-float market capitalization based on the details submitted by the company.
- Ratio and Proportion are used based on the base index of 100. This helps to determine the Sensex.

NIFTY

- National Stock Exchange Fifty or Nifty is the market indicator of NSE. It is a collection of 50 stocks. It is also referred to as Nifty 50. It is owned and managed by India Index Services and Products Ltd. (IISL).
- Nifty is calculated through the free-float market capitalization weighted method. It multiplies the Equity capital with a price to derive the market capitalization.
- The Index is determined on a daily basis by taking into consideration the current market value (free float market capitalization) divided by base market capital and then multiplied by the Base Index Value of 1000.

MARKET SURVEILLANCE

Market surveillance is either conducted by the Regulators or Exchanges or both. In India, the primary responsibility of market surveillance has been entrusted to Stock exchanges and is being closely monitored by SEBI.

Market Surveillance is broadly categorised in 2 parts viz,

- Preventive Surveillance and
- Post trade Surveillance

A. Preventive Surveillance -

- Stringent on boarding norms for Trading Members - Stringent net worth, back ground, viability etc. checks while on boarding Trading Members.
- Index circuit filters - It brings coordinated trading halt in all equity and equity derivative markets at 3 stages of the index movement, either way viz., at 10%, 15% and 20% based on previous day closing index value.
- Trade Execution Range - Orders are matched and trades take place only if the trade price is within the reference price and execution range.
- Order Value Limitation - Maximum Order Value limit allowed per order.
- Cancel on logout - All outstanding orders are cancelled, if the enabled user logs out.
- Kill switch - All outstanding orders of that trading member are cancelled if trading member executes kill switch.
- Risk reduction mode - Limits beyond which orders level risk management shall be initiated instead of trade level.

- Compulsory close out - Incoming order, if it results in member crossing the margins available with the exchange, such order will be partially or fully cancelled, and further disallow the trading member to create fresh positions.

- Capital adequacy check - Refers to monitoring of trading member's performance and track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached.

- Fixed Price Band / Dynamic Price band - Limits applied within which securities shall move; so that volatility is curbed orderliness is brought about. For non-derivative securities price band is 5%, 10% & 20%. For Derivative products an operating range of 10% is set and subsequently flexed based on market conditions.

- Trade for Trade Settlement - The settlement of scrip's available in this segment is done on a trade for trade basis and no netting off is allowed.

- Periodic call auction - Shifting the security from continuous to call auction method

- Rumour Verification - Any unannounced news about listed companies is tracked on online basis and letter seeking clarification is sent to the companies and the reply received is disseminated.

B. Post trade surveillance -

- End of day alert - Alerts generated using statistical tools. The tool highlights stocks which have behaved abnormally from its past behaviour

- Pattern recognition model - Models designed using high end tools and trading patterns which itself identifies suspects involving in unfair trading practise.

-Transaction alerts for member - As part of surveillance obligation of members the alerts are downloaded to members under 14 different heads.

RISK MANAGEMENT IN SECONDARY MARKET

The key risk management measures initiated by SEBI include:-

- Categorization of securities into groups 1, 2 and 3 for imposition of margins based on their liquidity and volatility.
- VaR based margining system.
- Specification of Mark to Market margins.
- Specification of Intra-day trading limits and Gross Exposure Limits.
- Real time monitoring of the Intra-day trading limits and Gross Exposure Limits by the Stock Exchanges.
- Specification of time limits of payment of margins.
- Collection of margins on upfront basis.
- Index based market wide circuit breakers.
- Automatic de-activation of trading terminals in case of breach of exposure limits.
- VaR based margining system has been put in place based on the categorization of stocks based on the liquidity of stocks depending on its impact cost and volatility.
- Additional margins have also been specified to address the balance 1% cases.
- Collection of margins from institutional clients on T+1 basis.