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PART – A
[40 MARKS]

CAPITAL MARKET

CHAPTER – 1

Basics of Capital Market

FINANCIAL MARKETS IN INDIA

Indian Financial Market, has been one of the oldest across the globe and is definitely the fastest growing and best among other financial markets of the emerging economies.

Indian Financial market is one of the well-developed markets in the world.



Founded in 1875 in Bombay, after almost eight decades, BSE became the first Stock Exchange to be recognized by the Indian Government on 31st August, 1957 under the SCRA, 1957 and switched to electronic trading system in 1995.

BSE is the world's 7th largest Stock Exchange with an overall market capitalization above US\$2.8 trillion.

Functions of Financial Market

- It facilitates **globalized and channelization of savings** into the most productive uses.
- It **helps in determining the price of the securities**, on the basis of their demand and supply in the market.
- It **provides liquidity to tradable assets**, by facilitating the exchange, as the investors can readily sell their securities and convert assets into cash.
- It **reduces cost by providing valuable information**, regarding the securities traded in the financial market.
- It **facilitates exchange of assets without physical delivery**.

The financial markets are mainly divided into:

a) Money Market

Money Market is a **segment of the financial market where borrowing and lending of short-term funds take place having a maturity of one day to one year**.

In India, this market is **regulated by both RBI (the Reserve bank of India) and SEBI (the Securities and Exchange Board of India)**.

The market consists of **negotiable instruments** having characteristics of **liquidity (quick conversion into money), minimum transaction costs and no loss in value** such as treasury bills, commercial papers, certificate of deposit, etc.

b) Capital Market

Capital Market is a **part of the financial system that is concerned with the industrial securities market, government securities markets, and long-term loan market**.

A market that serves the **medium & long-term liquidity needs of borrowers & lenders**.

This market is **also referred to as the barometer of the Economy**.

It deals with instruments like **shares, stocks, debentures and bonds**.

Functions of the Capital Market

The **major objectives of capital market** are:

- To mobilize resources for investments.
- To facilitate buying and selling of securities.
- To facilitate the process of efficient price discovery.
- To facilitate settlement of transactions in accordance with the predetermined time schedules.

c) Securities Market

Securities Market is a **place where companies can raise funds by issuing securities** such as equity shares, debt securities, derivatives, mutual funds, etc. to the investors (public) and also is a **place where investors can buy or sell various securities** (shares, bonds, etc.)



FUNCTIONS OF SECURITIES MARKET

Securities Market –

- ✓ is a link between investment & savings
- ✓ mobilises & globalized savings
- ✓ provides Liquidity to investors
- ✓ is a market place for purchase and sale of securities.

Securities market has **two inter-dependent & inseparable segments** which are as follows-

Primary Market:

The primary market **deals with the issue of new instruments by the corporate sector** such as equity shares, preference shares and debt instruments.

Central and State Governments, various public sector undertakings (PSUs), statutory and other authorities such as state electricity boards and port trusts also issue bonds/debt instruments.

The primary market in which public issue of securities is made through a prospectus is a retail market and there is no physical location. It is also known as Initial Public Offer (IPO) Market.

Secondary Market:

The secondary market or stock exchange is a market for trading and settlement of securities that have already been issued.

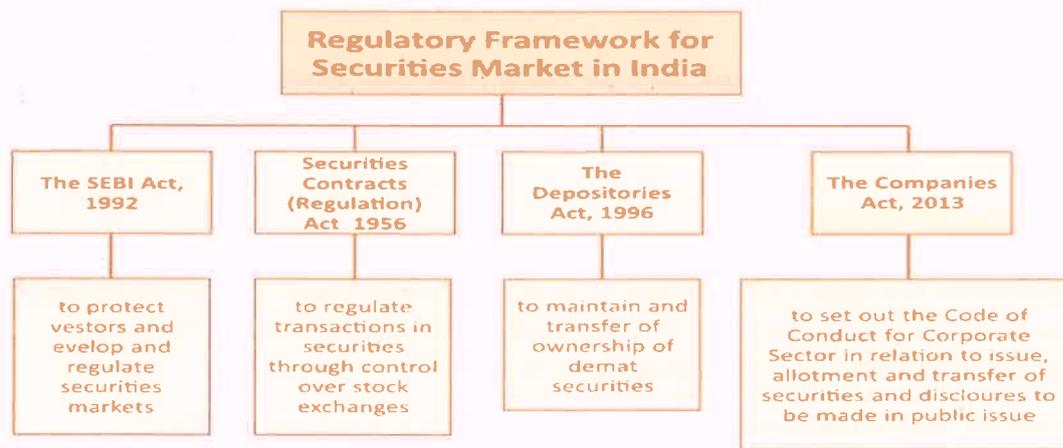
The secondary market provides a trading place for the securities already issued, to be bought and sold. It also provides liquidity to the initial buyers in the primary market to re-offer the securities to any interested buyer at any price, if mutually accepted.

It is also known as Further Public Offer Market (FPO).

Difference between Primary and Secondary Market

Basis for comparison	Primary Market	Secondary Market
Meaning	The market place for issuing fresh securities	The market place for trading already issued securities
Objectives	To raise funds	Capital Appreciation
Scope	Includes issuance of new securities through Initial Public Offer (IPO)	Includes the further trading of securities already offered to the public
Another name	New Issue market / IPO Market	After Issue market / FPO Market
Purchasing of securities	Investors can purchase securities directly from the Company	Purchase and sale of securities is done by the investors among themselves
Financing	Primary market provides funds to new and old companies for their expansion and diversification	It does not provide funding to companies
Parties to transactions	Company and Investors	Investors among themselves
Major Intermediaries	Underwriters	Brokers
Price	Price as given in the offer document / red herring prospectus	Price fluctuates i.e. depends on demand and supply forces
Utilisation of fund	Fund gained from primary market becomes the capital of the company	Fund received from secondary market becomes income of investors

REGULATORY FRAMEWORK FOR SECURITIES MARKET



PARTICIPANTS OF CAPITAL MARKET

Qualified Institutional Buyers

Qualified Institutional Buyers (QIBs) are **investment institutions who buy the shares of a company on a large scale**. QIBs are those institutional investors who are generally perceived to **possess expertise and the financial proficiency** to evaluate and to invest in the Capital Markets.

According to Regulation 2(1)(ss) of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018,

Qualified Institutional Buyer comprises of –

- a) a mutual fund, venture capital fund, Alternative Investment Fund and foreign venture capital investor registered with SEBI
- b) foreign portfolio investor other than individuals, corporate bodies and family offices;
- c) a public financial institution;
- d) a scheduled commercial bank;
- e) a multilateral and bilateral development financial institution;
- f) a state industrial development corporation;
- g) an insurance company registered with the Insurance Regulatory and Development Authority;
- h) a provident fund with minimum corpus of twenty-five crore rupees;
- i) a pension fund with minimum corpus of twenty-five crore rupees;
- j) National Investment Fund set up by the Government of India;

- k) Insurance funds set up and managed by army, navy or air force of the Union of India;
- l) Insurance funds set up and managed by the Department of Posts, India;
- m) Systemically important non-banking financial companies.

Foreign Portfolio Investor

Foreign Portfolio Investor (FPI) means a foreign resident who wishes to invest in India with prior registration with SEBI under the SEBI (Foreign Portfolio Investors) Regulations, 2014 (FPI Regulations).

In other words, an FPI is a person who satisfies the prescribed eligibility criteria and has been registered under the FPI Regulations.

Categories of FPI

Category I FPIs include:

- a) **Government and Government related investors** such as central banks, sovereign wealth funds, international or multilateral organizations or agencies including entities controlled or at least 75% directly or indirectly owned by such Government and Government related investor(s);
- b) **Pension funds and university funds;**
- c) **Appropriately regulated entities** such as insurance or reinsurance entities, banks, asset management companies, investment managers, investment advisors, portfolio managers, broker dealers and swap dealers;
- d) **Entities from the Financial Action Task Force member countries**, or from any country specified by the Central Government by an order or by way of an agreement or treaty with other sovereign Governments, which are–
 - I. **appropriately regulated funds;**
 - II. **Unregulated funds** whose investment manager is appropriately regulated and registered as a Category I foreign portfolio investor. **However, the investment manager undertakes the responsibility** of all the acts of commission or omission of such unregulated fund;
 - III. **University related endowments** of such universities that have been in existence for more than five years.

D) An entity

(A) whose investment manager is from the Financial Action Task Force member country and such an investment manager is registered as a Category I foreign portfolio investor; or

(B) which is at least seventy-five per cent owned, directly or indirectly by another entity, eligible under sub-clause (ii), (iii) and (iv) of clause (a) of this regulation and such an eligible entity is from a Financial Action Task Force member country. However, such an investment manager or eligible entity undertakes the responsibility of all the acts of commission or omission of the applicant's seeking registration under this sub-clause.

Category II FPIs include all the investors not eligible under Category I foreign portfolio investors such as –

- ❖ appropriately regulated funds not eligible as Category-I foreign portfolio investor;
- ❖ endowments and foundations;
- ❖ charitable organisations
- ❖ corporate bodies;
- ❖ family offices;
- ❖ individuals;
- ❖ appropriately regulated entities investing on behalf of their client, as per conditions specified by the Board from time to time;
- ❖ Unregulated funds in the form of limited partnership and trusts.

Alternative Investment Funds

According to SEBI (AIF) Regulations, 2012, "Alternative Investment Fund" means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which –

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

However, the following shall not be considered as Alternative Investment Fund for the purpose of these regulations; -

- i. Family trusts
- ii. ESOP Trusts
- iii. Employee welfare trusts or gratuity trusts
- iv. Holding companies
- v. Other special purpose vehicles
- vi. Funds managed by globalized company or reconstruction company
- vii. Any such pool of funds

Categories of AIF: SEBI has classified three categories of AIF: -

Category I	Category II	Category III
Funds that invest in start-up or early stage ventures or social ventures or Small Medium Enterprises or infrastructure or other sectors which the government or regulators consider as socially or economically desirable which include VCF, SME Funds and such other AIFs as specified in regulations.	Funds that do not fall in Categories I and III of AIF and those that do not undertake leverage or borrowing other than to meet the permitted day to day operational requirement including Private Equity Funds or Debt Funds.	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. SEBI has allowed the Category III of AIFs to participate in the commodity derivatives market.

Venture Capital

“Venture Capital Fund” means an Alternative Investment Fund which invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model and shall include an angel fund.

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.

Private equity is essentially a way to invest in some assets that isn't publicly traded, or to invest in a publicly traded asset with the intention of taking it private.

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.

Types of Private Equity

Private equity investments can be divided into the following categories:

a) Leveraged buyout (LBO):

A leveraged buyout is a financial transaction in which a company is purchased with a combination of equity and debt, such that the company's cash flow is the collateral used to secure and repay the borrowed money.

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 shareholder typically with the use of financial leverage.

b) Venture Capital:

VC is financing that investors provide to start-up companies and small businesses that are believed to have long-term growth potential.

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.

c) 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 fund refers to money pool created by high networth individuals or companies (generally known as Angel Investor), for investing in start up business.

Angel fund is defined in SEBI (Alternate Investment Funds) (amendment) Regulations, 2013 as a sub-category of Venture Capital Fund under category I-AIF that raises funds from angel investors and invests in accordance with regulations specified by SEBI.

An angel investor or angel (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.

Anchor Investors

- Anchor investor means a Qualified Institutional Buyer (QIB) who makes an application for a value of at least 10 crore rupees in a public issue on the main board made through the book building process or makes an application for a value of at least ₹ 2 crore for a public issue on the SME exchange made in accordance with Chapter IX of the SEBI (ICDR) Regulations, 2018.
- Minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹ 2 crore and upto ₹ 25 crore, subject to minimum allotment of ₹ 1 crore per such investor.
- In case of allocation above ₹ 25 crore; a minimum of 5 such investors and a maximum of 15 such investors for allocation upto ₹ 25 crore and an additional 10 such investors for every additional ₹ 25 crore or part thereof, shall be permitted, subject to a minimum allotment of ₹ 1 crore per such investor.
- The bidding for anchor investors shall open one day before the issue opening date allocation to Anchor Investors shall be completed on the same day.
- Shares allotted to the Anchor Investor shall be locked-in for 30 days from the date of allotment in the public issue.
- Upto 60% of the portion available for allocation to QIB shall be available to anchor investor(s) for allocation and one-third of the anchor investor portion shall be reserved for domestic mutual funds.

High Net Worth Individuals

HNI or high net worth individuals is a **class of individuals** who are distinguished from other retail segment **based on their net wealth, assets and investible surplus.**

Individuals with over ` 2 crore investible surplus may be considered to be HNIs while those with investible wealth in the range of ` 25 lac - ` 2 crore may be deemed as Emerging HNIs.

In USA context, HNIs means those individuals who have assets in excess of **US\$1 million**, which includes investable and liquid financial assets and excludes personal assets, real estate and collectibles.

With regard to IPO, if an individual applies in an IPO in excess of Rs. 2 lakhs, such individual shall fall under the HNI category and other investors (under Rs. 2 lakhs), shall be considered as a retail investor.

Pension Fund

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. Pension funds are commonly run by some sort of financial intermediary for the company and its employees like National Pension Scheme (NPS) is managed by UTI AMC although some larger corporations operate their pension funds in-house.

Legislations

There are three defining Acts for pensions in India:

1. **Pensions under the EPF & MP Act 1952:** These include the Employees, Provident Fund, Employees, Pension Scheme, and Employees, Deposit Linked Insurance Scheme.
2. **Pensions under the Coal mines PF & MP Act 1948:** These include Coal mines provident fund, Coal mines pension scheme & Coal mines linked insurance scheme.
3. **gratuity under the Payment of gratuity Act, 1972:** There are other provident funds in India like Assam Tea Plantations PF, J&K PF, and Seamens PF etc.

CAPITAL MARKET INSTRUMENTS

Equity shares

According to **Section 43 of Companies Act, 2013** "equity share capital", with reference to any company limited by shares, means all share capital which is not preference share capital. It further provides for equity share capital (i) with voting rights, or (ii) with differential rights.

RIGHTS OF EQUITY SHAREHOLDERS

- a) right to participate in, and to be sufficiently informed of, decisions concerning fundamental corporate changes,
- b) opportunity to participate effectively and vote in general shareholder meetings,
- c) Being informed of the rules, including voting procedures that govern general shareholder meetings;
- d) opportunity to ask questions to the board of directors, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations,
- e) Effective shareholder participation in key corporate governance decisions, such as the nomination and election of members of board of directors,
- f) exercise of ownership rights by all shareholders, including institutional investors,
- g) adequate mechanism to address the grievances of the shareholders.

Shares with Differential voting Rights

Shares with differential voting rights ("DVR") refer to equity shares holding differential rights as to dividend and/ or voting. **Section 43(2) of the Companies Act 2013 read with Companies (Share Capital & Debenture) Rules, 2013** provides that companies can issue equity shares with differential rights subject to the following conditions including:

- Articles of association of the company must authorize the issue;
- The voting power in respect of shares with differential rights of the Company shall not exceed 74% of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;
- Approval of shareholders by passing ordinary resolution in General Meeting;
- The Company should not have defaulted in:

- a) filing annual returns and financial statements for the last three years;
- b) repayment of matured deposits or declared dividend;
- c) redemption of its preference shares/debentures which are due for redemption;
- d) repayment of term loan taken from any public financial institution or state level financial institution or from a scheduled bank that has become due and payable;
- e) statutory dues of the employees of the company.

Preference Shares

Preference shares are that part of a company's share capital which carry a preferential right to:

- a) dividend at a fixed rate or amount; and
- b) repayment of capital in case of winding-up of the company

Note: No company shall issue preference shares which are irredeemable.

Debentures

Section 2(30) of the Companies Act, 2013 defines debentures. "Debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

The important features of a debenture are:

- 1) It is issued by a company as a certificate of indebtedness.
- 2) It usually indicates the date of redemption and also provides for the repayment of principal and payment of interest at specified date or dates.
- 3) In case of secured debentures, it creates a charge on the undertaking or the assets of the company.
- 4) Debentures holders do not have any voting rights.
- 5) Company shall pay interest, irrespective of profits.

Categories of Debentures

- Fully Convertible Debentures (FCDs):

These are converted into equity shares of the company with or without premium as per the terms of the issue, on the expiry of specified period or periods.

- Non Convertible Debentures (NCDs):

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 (PCDs):

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.

- Optionally Fully Convertible Debenture (OFCD)

The Optionally Fully Convertible Debenture is a kind of debenture which can be converted into shares at the expiry of a certain period at a predetermined price, if the debt holder (investor) wishes to do so.

Bonds

Bonds are the debt security where an issuer is bound to pay a specific rate of interest agreed as per the terms of payment and repay principal amount at a later time.

Characteristics of a bond

- Bond has a **fixed face value**, which is the amount to be returned to the investor upon maturity.
- Fixed maturity date**, which can range from a few days to 20-30 years or even more.
- All bonds **repay the principal amount** after the maturity date.
- Provides **regular payment of interest**, semi-annually or annually.

- e) Interest is calculated as a certain percentage of the face value known as a 'coupon payment'.
- f) Generally considered as less risky investment as compared to equity.
- g) It helps to diversify and grow investor's money.

Types of bonds

Government Bonds	These are the bonds issued either directly by Government of India or by the Public Sector Undertakings (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)

'Foreign Currency Convertible Bond' (FCCB) means a bond issued by an Indian company expressed in foreign currency, and the principal and interest in respect of which is payable in foreign currency.

The FCCBs are unsecured instruments which carry a fixed rate of interest and an option for conversion into a fixed number of equity shares of the issuer company.

In simple words, we can say that it is like a hybrid instrument having features of between bond and stock.

FCCBs shall be denominated in any freely convertible Foreign Currency.

However, it must be kept in mind that FCCB, issue proceeds need to conform to ECB end use requirements.

25% of the FCCB proceeds can be used for general corporate restructuring.

Foreign Currency Exchangeable bonds (FCEBS)

The FCEB is used to raise funds from the international markets against the security and exchangeability of shares of another company. Foreign Currency Exchangeable Bond (FCEB) means –

- a) A bond expressed in foreign currency.
- b) The principal and the interest in respect of which is payable in foreign currency.
- c) Issued by an issuing company, being an Indian company.
- d) Subscribed by a person resident outside India.
- e) Exchangeable into equity shares of another company, being offered company which is an Indian company. Either wholly or partly or on the basis of any equity related warrants attached to debt instruments.

Example: There are two group companies i.e. ABC Ltd. and XYZ Ltd. under the same promoter group. ABC Ltd. is a listed company and issues Foreign Currency Exchangeable Bonds (FCEBs) to the non-resident investors. FCEBs will be exchangeable into shares of company XYZ Ltd.

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

Standard Chartered PLC is only company to offer IDR in the Indian market.

Derivatives

A derivative is a financial instrument that derives its value from an underlying asset. This underlying asset can be stocks, bonds, currency, commodities, metals and even intangible, assets like stock indices.

Derivative includes: -

- a) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;
- b) a contract which derives its value from the prices, or index of prices, of underlying securities;
- c) commodity derivatives; and
- d) such other instruments as may be declared by the Central Government to be derivatives.

Real Estate Investment Trusts ('REITs')

A real estate investment trust ("REIT") is a collective investment scheme that owns, operates or finances income-producing real estate.

REITs are similar to mutual funds and shares and they provide income by way of:

- a) Dividend to its shareholders.
- b) Capital Appreciation as REIT stocks are listed in BSE and NSE.

Benefits of REITs include:

- Direct investment in real estate property is very capital intensive.
- Investing through REITs will eliminate dealing with builders, thereby avoiding potential exposure to big builders.
- REITs stocks are listed in stock market, hence details will be available on public domain.
- REITs generates income in form of dividend.
- Dividend earned by the investors of REIT will be tax free.
- Capital appreciation can be phenomenal.
- Investment in REITs easier than investment in Real Estate properties.

Infrastructure Investment Trusts ('InvITs')

Considering the importance of infrastructure sector with an aim to provide a suitable platform for financing / refinancing infrastructure projects the Government introduced a new investment vehicle named Infrastructure Investment Trusts ('InvITs').

The primary objective of InvITs is to promote the infrastructure sector of India by encouraging more individuals to invest in it.

An InvIT is established as a trust and is registered with the SEBI.

Typically, infrastructure investment trust SEBI comprises 4 elements, namely

- a) **Trustee:** They are required to be registered with SEBI as debenture trustees. Also, they are required to invest at least 80% into infra-assets that generate steady revenue.
- b) **Sponsor:** Typically, a body corporate, LLP, promoter or a company with a net worth of at least 100 crore classifies as a sponsor. Further, they must hold at least 15% of the total InvITs with a minimum lock-in period of 3 years or as notified by any regulatory requirement.
- c) **Investment manager:** As a body corporate or LLP, an investment manager supervises all the operational activities surrounding InvITs.
- d) **Project manager:** The authority is mostly responsible for executing projects. However, in the case of PPP projects, it serves as an entity that also supervises ancillary responsibilities.

Securitized Debt Instruments

Securitized debt instruments are financial securities that are created by securitizing individual loans (debt).

Securitization is a financial process that involves issuing securities that are backed by assets, most commonly debt. The assets are transformed into securities, and the process is called securitization.

Securitized debt instruments come with various advantages over conventional forms of investing and are more valuable to a portfolio.

One of the most common types of securitized debt is mortgage-backed securities.

Municipal Bonds

Municipal bonds are also referred to as 'muni bonds'. The urban local government and agencies issue these bonds. Municipal bonds are issued when a government body wants to raise funds for projects such as infrastructure, roads, airports, railway stations, schools, and so on.

Municipality should meet the following eligibility criteria to issue municipal bonds in India:

- The municipality must not have a negative net worth in each of the three previous years.
- The municipality must have no default in the repayment of debt securities and loans availed from the banks or non-banking financial companies in the last year.
- The municipality, promoter and directors must not be enlisted in the willful defaulters published by the Reserve Bank of India (RBI).

CHAPTER - 2

Secondary Market in India

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 stock exchanges are virtually the nerve center of the capital market and **reflect the health of the country's economy as a whole.**

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

- a) any **body of individuals, whether incorporated or not, constituted before corporatization and demutualization under Sections 4A and 4B, or**
- b) a **body corporate incorporated under the Companies Act, 2013 whether under a scheme of corporatization and demutualization or otherwise, for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.**

Role of Stock Exchanges

- **Acts as a continuous market for securities:** Investors can invest in any securities, but in case of any risk, they can exit from that security and freshly re-enter into whichever security they feel as secure.



- **Mobilizes savings:** Most of the public cannot invest the bulk amount in securities, so they invest in indirect ways such as mutual funds and investment trusts, and these are mobilized by stock exchanges.
- **Enables healthy speculation:** Stock exchange encourages businessmen and provides healthy speculation opportunities to speculate and gain profits from fluctuations in stock prices.
- **Protect investors:** Stock exchange ensures the protection of the funds of investors by allowing only genuine companies to be listed in the stock exchange.
- **Exercise vigilance/control on companies:** Every company listed on an exchange must produce their annual reports and an audited balance sheet to the stock exchange. Such reports being available in public domain promotes transparency.
- **Attracts foreign capital:** Foreign Institutional Investors (FII) are likely to invest in developing economy as the rate of returns will be high in developing economies due to growth opportunities.
- **Stock exchanges ensure Safety of Capital and Fair Dealing:** The transactions made in the stock exchange are made available to the public under well-defined rules and regulations abided by laws.

TRADING MECHANISM

- In the Indian securities market various products are trading like equity shares, warrants, debenture, etc.
The trading in the securities of the company takes place in globalized form in India.
- Dematerialization is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited to the investor's account with his Depository Participant (DP).

- Currently for equity shares the **settlement cycle is (T+2 days)** (T means trading day/Transaction day). Any shares which are traded on the Exchange are required to be **settled by the clearing corporation of the exchange on 2 working day.**
- **Regulation 40 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015** stipulates that except in case of transmission or transposition of securities, requests for effecting transfer of securities shall not be processed unless the securities are held in the dematerialized form with a depository.

TYPES OF SECURITIES

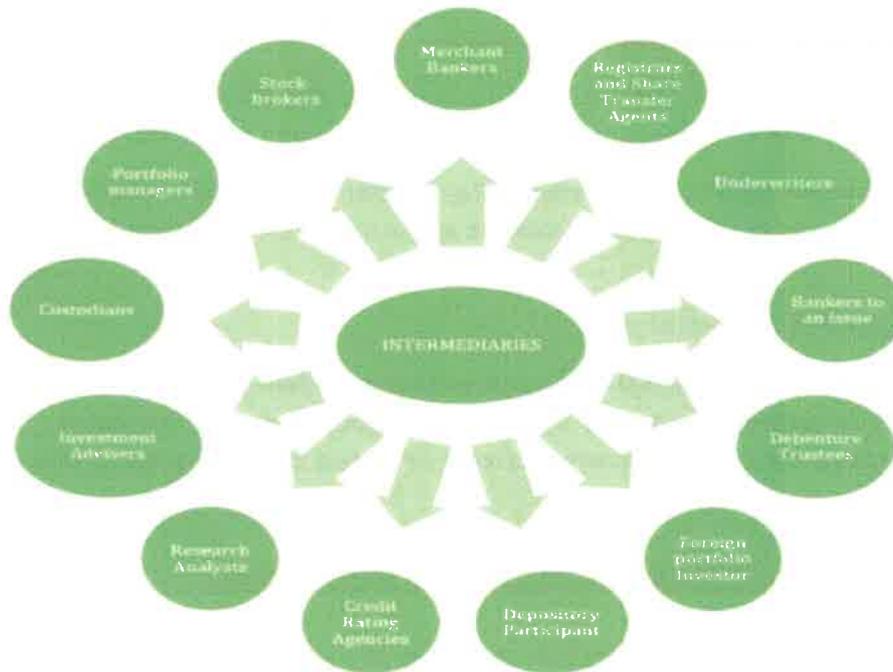
- ❖ **Listed Securities** – The securities of **companies, which have signed the listing agreement with a stock exchange,** are traded as “Listed Securities” in that exchange.
- ❖ **Permitted Securities** – To facilitate the market participants to trade in securities of such companies, which are actively traded at other stock exchanges in India but are not listed on an exchange, trading in such securities is facilitated as “permitted securities” provided they meet the relevant norms specified by the stock exchange.

MARKET PARTICIPANTS

a) Market Intermediaries

Intermediaries are **service providers and are an integral part of any financial system.** The Market Regulator, i.e., SEBI regulates various intermediaries in the primary and secondary markets through its regulations for these respective intermediaries.

SEBI has defined the role of each of the intermediary, the eligibility criteria for granting registration, their functions and responsibilities and the code of conduct to which they are bound.



b) **Stock Exchanges**

Stock Exchanges offer a trading platform for buyers and sellers to carry out transaction in issued securities. Trading occurs on the stock exchanges like NSE, BSE through electronic trading terminals.

c) **Depositories**

Depositories are institutions that hold securities (like shares, debentures, bonds, government securities, mutual fund units) of investors in electronic form.



d) Depository Participant

A Depository Participant (DP) is an agent of the depository through which it interfaces with the investors and provides depository services.

With the approval of SEBI Depository Participants are appointed by the depository. Investors can open a demat account with a registered Depository Participant.

Demat account is essential as:

- ❖ No stocks can be bought or sold without a demat account
- ❖ Direct investment cannot be made without a demat account
- ❖ Mandated by SEBI for transactions of listed company securities.

e) Trading Members/Stock brokers & Sub-brokers

- Trading members or Stock Brokers are registered members of a Stock Exchange, who assist the investors in buying/selling of securities. All secondary market transactions on stock are conducted through registered brokers of the stock exchange. Trading members can be individuals (sole proprietor), Partnership Firms or Corporate bodies, who are permitted to become members of recognized stock exchanges.
- A sub-broker is an entity who is not a member of Stock Exchange but who acts on behalf of a trading member or Stock Broker as an agent for assisting the investors in buying, selling or dealing in securities all the way through such trading member or Stock Broker with whom he is connected.
- Brokers receive a commission for their services, which is called as brokerage. Maximum brokerage chargeable to customers is fixed by individual stock exchanges.

f) Custodians

A Custodian is a body that is charged with the accountability of holding funds and securities of its large clients, characteristically institutions such as banks, insurance companies, and foreign portfolio investors.

A custodian also settles transactions in these securities and keeps record of corporate actions on behalf of its clients and aids in:

- Maintaining a client's securities and funds account
- Collecting the benefits or rights accruing to the client in respect of securities held
- Keeping the client informed of the actions taken or to be taken on their portfolios.

g) Clearing Corporation

Clearing Corporations play a vital role in protecting the interest of investors in the securities market. Clearing agencies ensure that members on the Stock Exchange meet their obligations to deliver funds or securities.

These agencies act as a legal counter party to all trades and guarantee settlement of all transactions on the Stock Exchanges. It can be a part of an exchange or a separate entity.

h) Merchant bankers

Merchant bankers are bodies registered with SEBI and act as issue managers, investment bankers or lead managers. Investors were enabled through depository participants to hold and transact in securities in the dematerialized form. They are single point contact for issuers during a new issue of securities.

EXCHANGE TRADED FUNDS (ETF)

An Exchange traded fund (ETF) is a security that tracks an index, commodity, bonds, or a basket of assets like an index fund and is traded in the securities market. In simple words, ETFs are funds that track indexes such as Sensex, Nifty, etc.

When any investor buy shares/ units of an ETF, he buys shares/ units of a portfolio that tracks the performance of the index. ETFs just reflect the performance of the index they track.

Unlike regular mutual funds, ETFs trade like a common stock on the stock exchange and the price of an ETF changes as per the trading in the market takes place.

The trading value of an ETF depends on the net asset value of the underlying stock that it represents. ETFs, generally, have higher daily liquidity and lower fees than mutual fund schemes.

DERIVATIVES

A derivative is a **financial instrument that derives its value from an underlying asset**. This underlying asset can be stocks, bonds, currency, commodities, metals and even intangible, assets like stock indices.

Currency derivatives:

Currency derivatives are **financial contracts between the buyer and seller involving the exchange of two currencies at a future date, and at a stipulated rate**. Currency Derivative Trading is similar to Stock Futures and Options trading.

However, the **underlying asset are currency pairs (such as USDINR or EURINR) instead of Stocks**. Currency Options and Currency Futures trading is done in the Foreign Exchange markets.

Benefits of currency derivatives include:

- Offers diversification to investments
- Hedging opportunities to importers & exporters, for their future payables and receivables
- Gives trading opportunities because of volatility in currency
- Provides transparent rates to traders as it is exchange-traded.

Commodity Derivatives:

Commodity is a **physical good attributable to a natural resource that is tradable and supplied without substantial differentiation by the general public**. Commodities trade in physical (spot) markets and in futures and forward markets.

Spot markets **involve the physical transfer of goods between buyers and sellers**; prices in these markets reflect current (or very near term) supply and demand conditions.

Future

Future refers to a **future contract which means an exchange traded forward contract to buy or sell a predetermined quantity of an asset on a predetermined future date at a predetermined price**.

There are two positions that one can take in a future contract:

- 1) **Long Position** – This is when a futures contract is purchased and the buyer agrees to receive delivery of the underlying asset.
- 2) **Short Position** – This is when a futures contract is sold and the seller agrees to make delivery of the underlying asset.

Currency Futures:

A currency future, **also known as FX future**, is a **futures contract to exchange one currency for another at a specified date in the future at a price** (exchange rate) that is fixed on the purchase date. Generally, the price of a future contract is in terms of INR per unit of other currency e.g. US Dollars.

Currency Derivatives are **available on four currency pairs** viz. US Dollars (USD), Euro (EUR), Great Britain Pound (GBP) and Japanese Yen (JPY).

Options

Options Contract **give its holder the right, but not the obligation, to take or make delivery on or before a specified date at a stated price**. But this option is given to only one party in the transaction while the other party has an obligation to take or make delivery.

Option contracts are classified into two types on the basis of which party has the option:

- **Call option** – A call option is with the buyer and gives the holder a right to take delivery.
- **Put option** – The put option is with the seller and gives the right to take delivery.

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.

Example

Rajesh purchases 1 lot of Infosys Technologies MAY 3000 Put and pays a premium of ₹ 250. This contract allows Rajesh to sell 100 shares of Infosys at ₹ 3000 per share at any time between the current date and the end of May.

In order to avail this privilege, all Rajesh has to do is pay a premium of ₹ 25,000 (₹ 250 a share for 100 shares).

The buyer of a put has purchased a right to sell. The owner of a put option has the right to sell.

RIGHTS ENTITLEMENTS

Rights Entitlement (RE) is the rights issued by the company to the existing shareholders to subscribe to the new shares / other securities that the shareholder of a company is eligible to apply for under the rights offer. Res is offered to shareholders based on a ratio of existing equity shares held as on the record date.

Eligible Equity Shareholder can:

- apply for their Rights Equity Shares to the full extent of their Rights Entitlements; or
- apply for their Rights Equity Shares to the full extent of their Rights Entitlements and apply for additional Rights Equity Shares; or
- apply for their Rights Equity Shares to the extent of a part of their Rights Entitlements (without renouncing the other part); or
- apply for Rights Equity Shares to the extent of a part of their Rights Entitlements and renounce a part / rest of their Rights Entitlements; or
- renounce their Rights Entitlements in full.

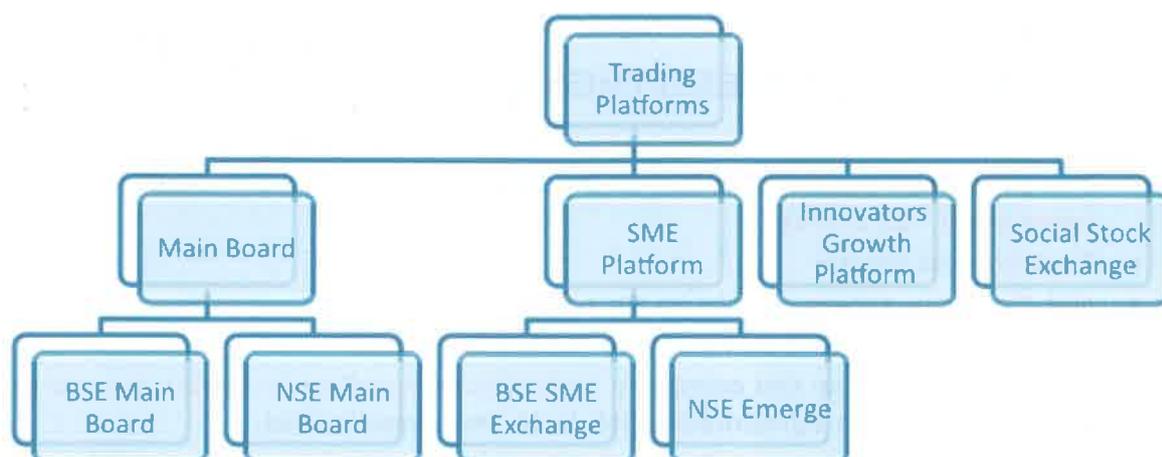
Note: Rights Entitlements (Res) which are neither subscribed nor renounced on or before the Issue Closing Date shall lapse and shall be extinguished after the Issue Closing Date.

Renunciation of Rights Entitlements

- a) **On Market Renunciation** – The Investors may renounce the Rights Entitlements, credited to their respective demat accounts by trading/selling them on the secondary market platform.

- b) **Off Market Renunciation** - The Investors may renounce the Rights Entitlements, credited to their respective demat accounts by way of an off-market transfer through a depository participant.

TRADING PLATFORM IN INDIA



Main Board

An applicant who desires to list its securities with NSE or BSE must fulfill the pre-requisites as defined by respective stock exchange. An Issuer has to take various steps prior to making an application for listing its securities on the stock exchange.

The various steps to be taken include:

- In-principal approval of draft prospectus
- Submission of Application
- IPO registration

Debt – Public Issue

All Non-Convertible Debentures (NCDs) issued through Initial Public Offer gets listed on the Capital Market segment of the Exchange. Every security in the trading system is given a symbol with series representative of the security.

SME Platform



Established in 2012, BSE SME is the market leader amongst the SME platform in India. BSE SME Platform offers an entrepreneur and investor friendly environment, which enables the listing of SMEs from the unorganized sector scattered throughout India, into a regulated and organized sector.

Requirements of Listing at BSE SME Platform

- The Company shall be incorporated under the Companies Act, 2013.
- The post issue paid up capital of the company (face value) shall not be more than ₹ 25 crores.
- Positive Net worth
- Net Tangible Assets should be Rs 1.5 Crore.
- It is mandatory for a company to have a website.
- It is mandatory for the company to facilitate trading in demat securities and enter into an agreement with both the depositories.
- There should not be any change in the promoters of the company in preceding one year from date of filing the application to BSE for listing under SME segment
- The company or the partnership/proprietorship/LLP Firm or the firm which have been converted into the company should have combined track record of at least 3 years.

NOTE -

- 1) In case it has not completed its operation for three years then the company/partnership/ proprietorship/LLP should have been funded by Banks or financial institutions or Central or state government or the group company should be listed for at least two years either on the main board or SME board of the Exchange.
- 2) The company or the firm or the firm which have been converted into the company should have combined positive cash accruals (earnings before depreciation and tax) in any of the year out of last three years and its net worth should be positive.

W) NSE EMERGE Platform

NSE's SME platform "EMERGE", offers emerging businesses a new and viable option for raising equity capital from a diversified set of investors in an efficient manner. These companies have the potential to unlock value and emerge on a bigger stage.

At the same time, this platform will provide investors with exciting opportunities to invest in promising SME's / technology Startups.

Requirements of Listing at NSE Emerging SME Platform

Post-issue paid-up capital (face value)	Less than Rs 25 crore
Minimum number of allottees in the IPO	50
Observations on DRHP	By the Exchange
IPO underwriting	100% underwritten (15% on the books of the merchant banker)
Market capitalization / Issue size	No restriction
IPO application size	Not less than Rs 1,00,000
POST-ISSUE	
Reporting requirements (Financial accounts)	Half-yearly
Market making	Mandatory

Innovators' Growth Platform

"Innovators growth platform" means the trading platform for listing and trading of specified securities of issuers that comply with the eligibility criteria specified in regulation 283 of SEBI (ICDR), 2018.

Applicability

Company with intensive use of technology, information technology, intellectual property, data analytics, bio- technology or nano-technology in their businesses.

Condition :-

As on the **date of filing of draft offer document** with the Board, **25% of the pre-issue capital of the Issuer Company for at least a period of 2 years**, should have been held by:

- **Qualified Institutional Buyers.**
- **Family trust with net-worth of more than INR 500 Cr as per the last audited financial statements.**
- **Accredited Investors (AI)**
- **Category III Foreign Portfolio Investor**
- **An entity meeting all the following criteria:**
 - a) It is a pooled investment fund with minimum assets under management of 150 million USD.
 - b) It is registered with a financial sector regulator in the jurisdiction of which it is a resident.
 - c) It is resident of a country whose securities market regulator is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to Bilateral Memorandum of Understanding with the Board.
 - d) It is not resident in a country identified in the public statement of Financial Action Task Force.

Social Stock Exchange

"Social Stock Exchange" means a **separate segment of a recognized stock exchange having nationwide trading terminals permitted to register Not for Profit Organizations and / or list the securities issued by Not-for-Profit Organizations** in accordance with provisions of these regulations.

Applicability

The provisions of Social Stock Exchange as mentioned in Chapter X-A of SEBI (ICDR) Regulations, 2018 shall **apply to the following:**

- a) A Not-for-Profit Organization seeking to only get registered with a Social Stock Exchange;
- b) A Not-for-Profit Organization seeking to get registered and raise funds through a Social Stock Exchange;
- c) a For Profit Social Enterprise seeking to be identified as a Social Enterprise.

Eligibility conditions for being identified as a Social Enterprise

- a) a Not-for-Profit Organization or a For Profit Social Enterprise, to be identified as a Social Enterprise, shall **establish primacy of its social intent**.
- b) In order to establish the primacy of its social intent, **such Social Enterprise shall meet the following eligibility criteria: -**
- the Social Enterprise shall be **indulged in any of the identified social activities**.
 - the Social Enterprise shall **target underserved or less privileged population segments or regions recording lower performance in the development priorities of central or state governments;**
 - the Social Enterprise shall have **at least 67% of its activities, qualifying as eligible activities to the target population, to be established through one or more of the following:**
 - I. **at least 67% of the immediately preceding 3-year average of revenues comes from providing eligible activities to members of the target population;**
 - II. **at least 67% of the immediately preceding 3-year average of expenditure has been incurred for providing eligible activities to members of the target population;**
 - III. **members of the target population to whom the eligible activities have been provided constitute at least 67% of the immediately preceding 3-year average of the total customer base and/or total number of beneficiaries.**
- c) **Corporate foundations, political or religious organizations or activities, professional or trade associations, infrastructure and housing companies, except affordable housing, shall not be eligible to be identified as a Social Enterprise.**

MARGINS

- An **advance payment of a portion of the value of a stock transaction**. The amount of credit a broker or lender extends to a customer for stock purchase.
- **"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

Book closure is the periodic closure of the Register of Members and Transfer Books of the company, to take a record of the shareholders to determine their entitlement to dividends or to bonus or right shares or any other rights pertaining to shares.

Record date is the date on which the records of a company are closed for the purpose of determining the stock holders to whom dividends, proxy rights etc. are to be sent.

Section 91 of the Companies Act, 2013 a company may close the register of members for a maximum of 45 days in a year and for not more than 30 days at any one time subject to giving of previous notice.

As per SEBI (LODR) Regulations, 2015 the companies are required to give 7 working days advance notice of book closure or record date to stock exchange where the securities of the companies are listed.

BLOCK DEAL

The Exchanges have introduced new block window mechanism for the block trades from January 01, 2018.

- **Session Timings:**
 - Morning Block Deal Window:** This window shall operate between 08:45 AM to 09:00 AM.
 - 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 ₹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 disseminate 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.

The stock broker, who facilitates the trade, is required to reveal to the stock exchange about the bulk deals on a daily basis.

STOCK MARKET INDEX

A stock market index is created by selecting a group of stocks that are representative of the whole market or a specified sector or segment of the market.

Stock market indexes are useful for a variety of reasons. Some of them are:

- They provide a historical comparison of returns on money invested in the stock market against other forms of investments such as gold or debt.
- They can be used as a standard against which to compare the performance of an equity fund.
- It is a lead indicator of the performance of the overall economy or a sector of the economy.
- Stock indexes reflect highly up to date information.
- Modern financial applications such as Index Funds, Index Futures, Index Options play an important role in financial investments and risk management.

BASIS OF SENSEX

Sensitive Index or Sensex is the **stock market index indicator for the BSE**. It is also sometimes referred to as BSE S&P Sensex.

The **calculation of Sensex is done by a Free-Float method**. The level of Sensex is a direct **indication of the performance of 30 stocks in the market**. The free-float method takes into account the proportion of the shares that can be readily traded 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.

BASICS OF INVESTING – A GUIDANCE TO BUDDING INVESTORS

- **Market risk or Systematic Risk**: It means that an investor may experience losses due to factors affecting the overall performance of financial markets and general economy of the country.
- **Unsystematic Risk**: Unsystematic risk can be described as the uncertainty attached with a particular company or industry.
- **Inflation risk**: Inflation risk is also called as purchasing power risk. It is defined as the chance that the cash flows from an investment would lose their value in future because of a decline in its purchasing power due to inflation.
- **Liquidity risk**: Liquidity risk arises when an investment can't be bought or sold quickly enough.

- **Business Risk:** It refers to the risk that a business of a company might be affected or may stop its operations due to any unfavorable operational, market or financial situation.
- **Volatility Risk:** Volatility risk arises as the Companies' stock prices may fluctuate over time.
- **Currency Risk:** It refers to the potential risk of loss from fluctuating foreign exchange rates that an investor may face when he has invested in foreign currency or made foreign currency-traded investments.

- **Bank account.**
- **Trading account or broking account** with a SEBI registered stock broker of a recognized Stock Exchange. This account is used to buy and sell securities on the Stock Exchanges.
To open a trading account, you have to fill account opening form and submit the signed Know Your Client (KYC) documents.
- **Demat account** provides the facility of holding of securities in dematerialized form. The demat account can be opened with depository participant (DP) of any of the Depositories.

CLEARING CORPORATION

Clearing corporation is responsible:-

- **for clearing and settlement of all trades** executed on Stock Exchange and deposit and collateral management and risk management functions;
- **to bring and sustain confidence** in clearing and settlement of securities;
- **to promote and maintain**, short and consistent settlement cycles;
- **to provide counter-party risk guarantee;** and
- **to operate a tight risk containment system.**

Every clearing corporation shall, for the purpose of transfer of the duties and functions of a clearing house to a clearing corporation, **make bye-laws and submit the same to the SEBI for its approval.**



MARKET SURVEILLANCE

Market surveillance plays a vital role in ensuring market integrity which is the core objective of regulators.

Market integrity is achieved through combination of surveillance, inspection, investigation and enforcement of relevant laws and rules.

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.

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 practice.
- **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 (value at risk) 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.
- Additional margins have also been specified to address the balance 1% cases.
- Collection of margins from institutional clients on T+1 basis.

IMPACT OF VARIOUS POLICIES ON STOCK MARKETS

1) FED Policy

The **Federal Reserve System** is the central bank of the United States. It performs five general functions to promote the effective operation of the U.S. economy and, more generally, the public interest.

The Federal Reserve:

- conducts the nation's monetary policy to promote maximum employment, stable prices, and moderate long term interest rates in the U.S. economy;
- promotes the stability of the financial system and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- promotes the safety and soundness of individual financial institutions and monitors their impact on the financial system as a whole;
- fosters payment and settlement system safety and efficiency through services to the banking industry and the U.S. government that facilitate U.S. dollar transactions and payments; and
- promotes consumer protection and community development through consumer-focused supervision and examination, research and analysis of emerging consumer issues.

How change in US Fed rate can impact India?

The Fed Funds Rate is the interest rate at which the top US banks borrow overnight money from common reserves.

If the Fed is increasing the interest rates, lending rates for companies and retail borrowers will go up and vice versa.

In the globalised world, markets are connected. An increase in Fed rates will be negative in general for the US stock market and if it leads to another round of sell-offs, it will also have ripple effects on the Indian market.

2) Credit Policy of RBI

The Reserve Bank of India has a credit policy which aims at pursuing higher growth with price stability.

The term monetary policy is also known as RBI's credit policy or money management policy.

The credit policy aims at increasing finance for the agriculture and industrial activities. When credit policy is implemented, the role of other commercial banks is very important.

The significance of the monetary policy is to attain the following objectives.

- **Rapid Economic growth:** It is an important objective as it can play a decisive role in the economic growth of country. It influences the interest rates and thus has an impact on the investment.
- **Exchange Rate Stability:** Another important objective is maintaining the exchange rate of the home currency with respect to foreign currencies. If there is volatility in the exchange rate, then the international community loses confidence in the economy.
- **Price Stability:** The monetary policy is also supposed to keep the inflation of the country in check. Any economy can suffer both inflation and deflation both of which are harmful to the economy.
- **Balance of Payments (BOP) Equilibrium:** Another key objective is to maintain the BOP equilibrium which most of the developing economies don't tend to have. The BOP has two aspects which are 'BOP surplus' and 'BOP deficit'.

- **Neutrality of Money:** RBI's policy should regulate the supply of money. It is possible that the change in money supply causes disequilibrium and the monetary policy should neutralize it.

Various quantitative instrument of Credit Policy

- A) **Bank Rate:** is the rate at which RBI discount bills for commercial banks. This banking system involves commercial and Co-operative Banks, Industrial Development Bank of India, IFC, EXIM Bank and other approved financial institutions. Increase in Bank Rate means tightening of RBI's Monetary Policy.
- B) **Repo Rate:** The rate at which the Commercial Banks borrow money from RBI. Reduction in Repo Rate helps the Commercial Banks to get money at a cheaper rate and an Increase in Repo Rate discourages the Commercial Banks to get money as the rate increases and becomes expensive.
- C) **Cash Reserve Ratio (CRR):** Cash reserve ratio is the amount which the commercial banks have to maintain as cash deposit with the Reserve Bank of India. RBI may increase the CRR if it thinks that there is large amount of money supply in the economy.
- D) **Statutory Liquidity Ratio (SLR):** Statutory Liquidity Ratio is the amount which commercial banks have to keep it with itself. So, SLR is the amount of money which banks have to keep in its custody at all times.
- E) **Reverse Repo Rate (RRR):** is the rate at which the RBI borrows money from the Commercial Banks. An increase in the reverse repo rate will decrease the money supply and vice-versa, other things remaining constant.

3) **Inflation Index**

An inflation index is an **economic tool used to measure the rate of inflation in an economy**. There are several different ways to measure inflation, leading to more than **one inflation index with different economists and investors preferring one method to another, sometimes strongly**.

Inflation Indices

In India, **Consumer Price Index (CPI) and Wholesale Price Index (WPI) are two major indices for measuring inflation**.

Wholesale Price Index

Wholesale Price Index (WPI) is **computed by the Office of the Economic Adviser in Ministry of Commerce & Industry, Government of India**.

It was earlier released on weekly basis currently, it is **released monthly**.

Items

There are total 676 items in WPI and inflation is computed taking 5482 price quotations. These items are divided into three broad categories viz. (1) Primary Articles (2) Fuel & power and (3) Manufactured Products.

Consumer Price Index

Consumer Price Indices (CPI) released at national level are:

- CPI for Industrial Workers (IW)
- CPI for Agricultural Labourers (AL)/ Rural Labourers (RL)
- CPI (Rural/Urban/Combined).

While the first two are compiled and released by the Labour Bureau in the Ministry of Labour and Employment, the third by the Central Statistics Office (CSO) in the Ministry of Statistics and Programme Implementation.

Number of items

The number of items in CPI basket include 448 in rural and 460 in urban. Thus, it makes it clear that CPI basket is broader than WPI basket. The items in CPI are divided into 6 main groups.

Key differences between WPI & CPI

WPI	CPI
Primary use of WPI is to have inflationary trend in the economy as a whole.	CPI is used for adjusting income and expenditure streams for changes in the cost of living.
WPI is based on wholesale prices for primary articles, administered prices for fuel items and ex-factory prices for manufactured products.	CPI is based on retail prices, which include all distribution costs and taxes.
Prices for WPI are collected on voluntary basis.	price data for CPI are collected by investigators by visiting markets.
WPI covers all goods including intermediate goods transacted in the economy.	CPI covers only consumer goods and consumer services.
WPI weights primarily based on national accounts and enterprise survey data.	CPI weights are derived from consumer expenditure survey data.

CHAPTER - 3

Securities Contracts (Regulation) Act, 1956

Introduction

- The Act **extends to the whole of India.**
- It was **enacted by Parliament to prevent undesirable transactions in securities** by regulating the business of dealing therein, and by providing for certain other matters connected therewith.
- Securities Contracts (Regulation) Act, 1956 was **enacted with an intention to prevent undesirable transaction and regulate the working of the Stock Market.**

The Preamble of SCRA reads as under:

An Act to **prevent undesirable transactions in securities by regulating the business of dealing therein**, by providing for certain other matters connected therewith.

Object of the Act

The object of this bill is to **provide for the regulation of stock exchanges, and of transactions in securities dealt in on them with a view to preventing undesirable speculation in them.**

Non-applicability of the Act:

Section 28 provides that the provisions of SCRA shall not apply to –

- a) The Government, the Reserve Bank of India, any local authority or any corporation set up by a special law.
- b) any convertible bond or share warrant or any option or right, in so far as it entitles the person in whose favour any of the foregoing has been issued.
- c) the Central Government, in the interest of trade and commerce or the economic development of the country.

Whether OFCDs (Optionally Fully Convertible Debentures) issued by Sahara's were convertible bonds falling within scope of Section 28(1)(b) of SCR Act?

The Apex Court held that even though the OFCDs were claimed to be in hybrid nature that shall not mean that they are not securities as explained under the SEBI, Companies Act and SCRA (Securities Contract Regulation Act). Even though there has been no such definite definition of the word hybrid instruments under section 2(h) of the SCRA, the hybrid instruments will fall within the ambit of securities.

KEY DEFINITIONS

Securities

Securities include:

- Shares, scripts, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or body corporate.
- Derivative and Security Receipt.
- units or any other instrument issued by any Collective Investment Scheme
- Units or any other instrument issued by any collective investment scheme.
- Units or any such instrument issued to investors under any mutual fund

scheme.

- Government securities.
- Such other instruments as may be declared by Central Government to be securities.
- Rights or interests in securities.

Spot Delivery Contract

Spot delivery contract means a contract which provides for –

- a) **actual delivery of securities and the payment of a price** therefore either on the same day as the date of the contract or on the next day. the actual period taken for the dispatch of the securities or the remittance of money therefor through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality;
- b) **transfer of the securities by the depository from the account of a beneficial owner to the account of another beneficial owner** when such securities are dealt with by a depository.

Stock Exchange

Stock Exchange means –

- a) any body of individuals, whether incorporated or not, constituted before corporatization and demutualization
- b) a body corporate incorporated under the Companies Act, 2013 whether under a scheme of corporatization and demutualization or otherwise,

for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

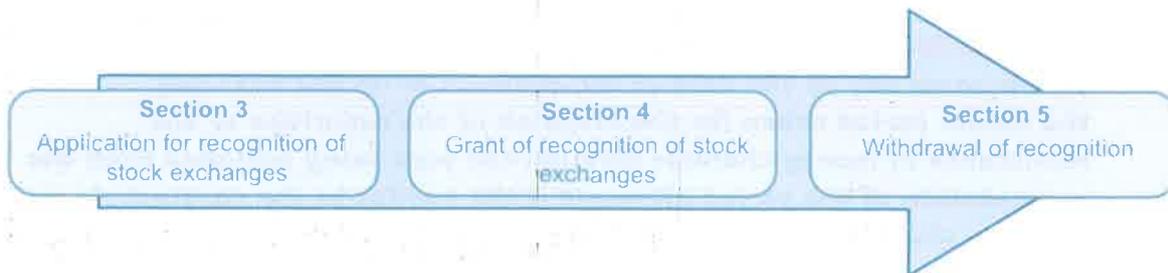
Recognised Stock Exchange

Recognised Stock Exchange means a stock exchange which is for the time being recognised by the Central Government.

Government security

Government security means a security created and issued whether before or after the commencement of this Act, by the Central Government or a State Government for the purpose of raising a public loan and having one of the forms specified in clause (2) of section 2 of the Public Debt Act, 1944.

RECOGNITION OF STOCK EXCHANGES



Application for recognition of stock exchange

Any stock exchange that wants to be recognised for the purposes of this Act must submit an application in the prescribed manner to the Central Government.

Every application shall contain such particulars as may be prescribed, and also a copy of the rules relating in general to the constitution of the stock exchange and in particular to:

- a) Following Basic things:
 - Constitution.
 - The governing body of such stock exchange.
 - Powers of management.
 - The manner of transacting the business.
- b) The powers and duties of the office bearers of the stock exchange.
- c) Details regarding admission of various class of members and details of qualification and any other relevant matter.
- d) The procedure for the registration of partnerships as members of the stock exchanges.

Grant of recognition to stock exchange

SEBI may grant recognition to the stock exchange if it is satisfied after making such inquiry that:

- The rules and bye-laws of a stock exchange applying for registration are as per the prescribed conditions of investor protection;
- The stock exchange is willing to comply with any other conditions; and
- It would be in the interest of the trade and also in the public interest to grant recognition to the stock exchange.

Any stock exchange newly registered with SEBI shall be published in Official Gazette of India as well as the state along with the address of the principal office. And the date of recognition of stock exchange will be that of the date of publication in the Official Gazette.

Withdrawal of recognition

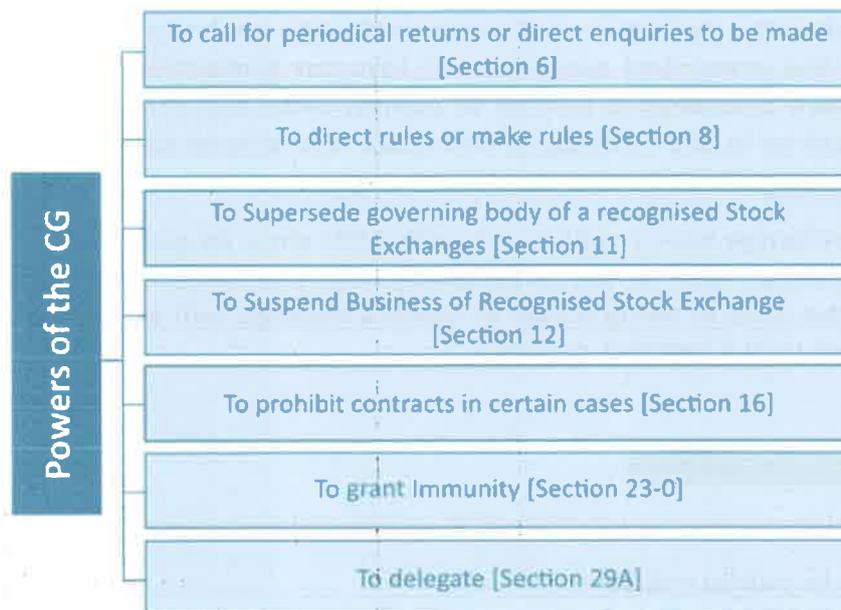
SEBI can withdraw the recognition if & in the following way: -

- If it is in public notice
- Serve a notice to stock exchange and also.
- Give them an opportunity of being heard before declaring it in the official gazette
- However, if any contract has been entered beforehand, it will continue to be valid even after withdrawal of recognition.

POWERS CONFERRED UNDER SCRA



POWERS OF CENTRAL GOVERNMENT



To call for periodical returns and direct enquiries to be made.

- Submit periodical returns relating to its affairs to SEBI.
- Maintain books of accounts for 5 years as SEBI has the right to inspect them (Also applicable to its members)
- Submit a copy of its annual report to the Central Government and to SEBI.

To Direct Rules or make Rules

- CG can issue rules in general for every stock exchange or for a particular stock exchange too.
- Such rules must be brought into effect within effect from 2 months.

To Supersede governing bodies of a recognized stock exchange

- In case the Central Government is of opinion that the governing body of any recognized Stock exchange should be superseded, then, the Central Government may:
 - a) Give them a notice listing the reasons for doing so;
 - b) Give an opportunity to the governing body to be heard in the matter;

- c) Declare the governing body of such stock exchange to be superseded;
 - d) Appoint any person or persons to exercise and perform all the powers and duties of the governing body; and
 - e) Appoint one of such persons to be the chairman and another to be the vice- chairman thereof.
- The order will get effective only after publication in Official Gazette.
 - The members of the governing body shall cease to hold office from the date of notification.
 - The person or persons appointed may exercise and perform all the powers and duties of the governing body which has been superseded.
 - The property of the recognised stock shall vest in such appointed person(s).

To Suspend business of Recognised Stock Exchange

- CG can suo moto suspend a stock exchange for 7 days by serving a notice. This must only be done if the situation demands it and there is no alternative available.
- The period can be extended in public interest.
- Central Government can issue direction to any
 - a) Stock exchange; or
 - b) Clearing Corporation;
 - c) Person or class of persons associated with the securities market;
 - d) company whose securities are listed or proposed to be listed in a recognised stock exchange.

To Prohibit Contracts in Certain Cases:

- Central Government can prohibit certain types of contracts related to securities to prevent undesirable speculation in a particular State or area. The prohibition can be imposed by notification in the Official Gazette.
- CG can impose such prohibition only if it is of opinion that it is necessary to do so. All contracts entered in contravention of the provisions after the date of the notification issued thereunder shall be illegal.

To Grant Immunity

- The Central Government may, on recommendation by the SEBI that any person, who is alleged to have violated any of the provisions of this Act or the rules or the regulations made thereunder, has made a full and true disclosure in respect of alleged violation, grant to such person immunity from prosecution for any offence also from the imposition of any penalty under this Act with respect to the alleged violation.
- **However**, no such immunity shall be granted by the Central Government in cases where the proceedings for the prosecution for any such offence have been instituted.

To Delegate or to Make Rules

- CG has power to make rules for the purpose of carrying out the objects of this Act. The rules so formed shall be notified in the Official Gazette.
- the Central Government may, by order published in the Official Gazette, direct that the powers (except the power under section 30) exercisable by it under any provision of this Act shall be exercisable also by the Securities and Exchange Board of India or the Reserve Bank of India.

POWERS OF RECOGNISED STOCK EXCHANGE

To make Rules restricting Voting Rights

Recognized Stock Exchange **may make rules or amend any existing rules in order to restrict the Voting Rights** of members. The rules may be related to following matters: -

- Only members shall have the voting right in respect of any matter placed before stock exchange at any meeting.
- Each member shall be entitled to only one vote, irrespective of paid-up share capital.
- Members shall not have a right to appoint a proxy.
- Matters that are required to give shape to the above three matters.

To Make Bye-Laws

Any recognised stock exchange may, subject to the previous approval of SEBI, make bye-laws for the regulation and control of contracts.

Contravention of bye-laws by members will attract one or more of the following punishments: -

- Fine.
- Expulsion from membership.
- Suspension from membership for a specified period.
- Any other penalty of a like nature not involving the payment of money.

POWERS OF THE SEBI



Power to make or amend Bye-laws of Recognised Stock Exchanges

Securities Exchange Board of India (SEBI) has **power to make or amend bye-laws of a recognized Stock Exchange**. Following are the requisites to use this power: -

- SEBI can use this power suo moto or on a request made by governing body of stock exchange.
- It can exercise such power if it is satisfied after consultation with the governing body of the stock exchange that it is necessary.
- Such bye-laws should be published in the Official Gazette.
- It will be effective from the date of publication in Official Gazette.
- It will take effect as if the bye-laws are made by the recognised stock exchange.
- The making or the amendment or revision of any bye-laws shall in all cases be
- subject to the condition of previous publication.

Objection by Governing Body

- If governing body has any objection towards amendment of any bye-laws they can file an appeal within 2 months to SEBI and after getting an opportunity of being heard and SEBI may reverse it.

To Issue Directions

If after making or causing to be made an inquiry, the SEBI is satisfied that it is necessary—

- a) in the interest of investors,
- b) to prevent the affairs that is being conducted in a manner detrimental to the interests of investors or securities market;
- c) to secure the proper management of any stock exchange or clearing corporation or agency or person

It may issue such directions –

- to any stock exchange or clearing corporation or agency or person associated with the securities market; or
- to any company whose securities are listed or proposed to be listed in arecognised stock exchange, as may be appropriate in the interests of investors in securities and the securities market.

Power to make Regulations

SEBI may, by notification in the Official Gazette, make regulations consistent with the provisions of this Act and the rules made thereunder to carry out the purposes of this Act.

Adjudicating Power

SEBI may appoint an officer equivalent to Division Chief of SEBI for holding an inquiry in the prescribed manner after giving any person concerned a reasonable opportunity of being heard for the purpose of imposing any penalty.

While carrying out such inspection the adjudicating officer shall have following powers: -

- To summon and enforce the attendance of any person or documents relevant to the subject matter.

- He may impose such penalty as he thinks fit in accordance with the provisions of this Act. While imposing such penalty the adjudicating officer shall consider the following factors: -
 - a) The amount of gain or unfair advantage made.
 - b) The amount of loss caused to an investor or group of investor.
 - c) The repetitive nature of the default.

PUBLIC ISSUE AND LISTING OF SECURITIES

Public Issue

- **Section 17A provides that no securities shall be offered to the public or listed on any recognized stock exchange unless the issuer fulfils such eligibility criteria and complies with such other requirements as may be specified by regulations made by the Securities and Exchange Board of India.**
- **Every issuer intending to offer the certificates or instruments to the public shall make an application, before issuing the offer document to the public, to one or more recognized stock exchanges for permission to be listed on the stock exchange.**
- **Where the permission applied for listing has not been granted by the recognized stock exchanges the issuer shall forthwith repay all moneys, if any, received from applicants within eight days after the expiry of the eighth day, liable to repay that money with interest at the rate of fifteen per cent per annum.**

Listing of Securities

Section 21 of the Act provides that where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations.

RIGHT OF APPEAL

Right of appeal to Central government against refusal of stock exchanges to list securities of public companies

Where a recognized stock exchange refuses to list the securities of any public company the company or scheme shall be make an application to the CG: -

- If Reason for Refusal is received by the Company Within 15 days of receipt of order of refusal
- If Reason for Refusal is not received by the Company Within 15 days of expiry of time specified in Section 40 of the Companies Act, 2013

Extension of 1 month can be granted by central govt if cause of delay is sufficiently explained.

On receipt of application CG should give an opportunity of being heard to the Stock Exchange thereafter CG can pass any of the following order: -

- Vary the order
- Set aside the order
- Confirm the order

Right of appeal to Securities Appellate Tribunal (SAT) against refusal to list securities of public companies by Stock exchanges

Where a recognised stock exchange, acting in pursuance of any power given to it by its bye-laws, refuses to list the securities of any company, the company shall be make an application to SAT: -

- If Reason for Refusal is received by the Company Within 15 days of receipt of order of refusal
- If Reason for Refusal is not received by the Company Within 15 days of expiry of time specified in Section 40 of the Companies Act, 2013

Extension of 1 month can be granted by SAT if cause of delay is sufficiently explained.

On receipt of application SAT should give an opportunity of being heard to the Stock Exchange thereafter SAT can pass any of the following order:-

- Vary the order
- Set aside the order
- Confirm the order

SAT shall deal with the appeal as early as possible and within 6 months.

The Stock Exchange shall act in accordance with the orders of the Securities Appellate Tribunal.

Appeal to Supreme Court

- An aggrieved party can file an appeal to the Supreme Court against the order of SAT within 60 days of receipt of order of SAT.
- Extension of 60 days can be granted by the Supreme Court if sufficient reason is explained.
- Appeal to Supreme Court can be filed only on a question of law.

PENALTIES AND PROCEDURES

OFFENCES/CONTRAVENTION	PENALTIES
<ul style="list-style-type: none"> • RSE fails or neglects to furnish periodical returns to SEBI. • RSE fails or neglects to make or amend its rules or bye-laws as directed by SEBI • Fails to comply direction of SEBI • Failure to comply with provisions of listing/ delisting conditions 	<p>Minimum: RS. 5 Lakh Maximum RS. 25 CR</p>

<ul style="list-style-type: none"> • Penalty for excess dematerialization or delivery of unlisted securities. 	
<ul style="list-style-type: none"> • Any person fails to furnish any information, documents, books, returns or fails to maintain books of account • Failure by any person to enter into an agreement with clients • Failure to redress investor grievances 	<p style="text-align: center;">Minimum: RS. 1 Lakh for each day during which such failure continues Maximum RS.1 CR</p>
<ul style="list-style-type: none"> • Penalty for failure to segregate securities or moneys of client • Penalty for contravention where no separate penalty is imposed 	<p style="text-align: center;">Minimum: RS. 1 Lakh Maximum RS.1 CR</p>

Settlement of administrative and civil proceedings

- any person, against whom **any proceedings have been initiated or may be initiated** may file an application in writing to SEBI proposing for **settlement** of the proceedings initiated or to be initiated for the alleged defaults.
- The SEBI may, **after taking into consideration the nature, gravity and impact of defaults, agree to the proposal for settlement**, on payment of such sum by the defaulter or on such other terms as may be determined by the SEBI.
- **All settlement amounts**, excluding the disgorgement amount and legal costs, realised under this Act shall be **credited to the Consolidated Fund of India**.

Offences

If any person contravenes or attempts to contravene or abets the contravention of the provisions of this Act or of any rules or regulations or bye-laws made thereunder, for which no punishment is provided elsewhere.

Imprisonment: Maximum 10 years, or

Fine: Maximum RS. 25 Crore or Both

If any person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any of his directions or orders.

Imprisonment: Minimum 1 month & Maximum 10 years, or

Fine: Maximum RS. 25 Crore or Both

SECURITIES CONTRACTS (REGULATION) RULES, 1957

The Government promulgated the Securities Contracts (Regulation) Rules, 1957 for carrying into effect the objects of the Securities Contracts (Regulation) Act.

These rules provide among other things, for the-

- Procedure to be followed for recognition of stock exchanges.
- Submission of periodical returns and annual reports by RSE
- Inquiry into the affairs of stock exchanges and their members
- Requirements for listing of securities on a RSE.

REQUIREMENTS OF LISTING OF SECURITIES WITH RECOGNISED STOCK EXCHANGES

A public company desirous of getting its securities listed on a recognised stock exchange, shall apply for the purpose to the stock exchange and forward along with its application the following documents and particulars:

- a) Memorandum and articles of association and, in the case of a debenture issue, a copy of the trust deed.
- b) Copies of all prospectuses or statements in lieu of prospectuses issued by the company at any time.

- c) **Copies of offers for sale and circulars or advertisements** offering any securities for subscription or sale during the last five years.
- d) **Copies of balance sheets and audited accounts for the last five years**, or in the case of new companies, for such shorter period for which accounts have been made up.
- e) **A statement showing –**
- dividends and cash bonuses, if any, paid during the last ten years (or such shorter period as the company has been in existence, whether as a private or public company),
 - dividends or interest in arrears, if any.
- f) **Certified copies of agreements or other documents relating to arrangements with or between –**
- vendors and/or promoters,
 - underwriters and sub-underwriters,
 - brokers and sub-brokers.
- g) **Certified copy of every letter, report, balance sheet, valuation contract, court order or other document**, part of which is reproduced or referred to in any prospectus, offer for sale, circular or advertisement offering securities for subscription or sale, during the last five years.
- h) **A statement containing particulars of any commission, brokerage, discount or other special terms including an option for the issue of any kind of the securities granted to any person.**

The minimum offer and allotment to public in terms of an offer document shall be–

Post Issued Capital Size	Minimum offer to public
Up to RS. 1600 Crore	At least 25% of each class or kind of equity shares or debenture convertible into equity shares issued by the company.
Above RS. 1600 Crore up to RS. 4000 Crore	At least such percentage of each class or kind of equity shares or debentures convertible into equity shares issued by the company which is equivalent to the value of RS. 400 Crore.

Above RS. 4000 Crore up to RS. 1 lakh crore	At least 10% of each class or kind of equity shares or debentures convertible into equity shares issued by the company.
Above RS.1 lakh crore	at least such percentage of each class or kind of equity shares or debentures convertible into equity shares issued by the company equivalent to the value of 5000 crore rupees and at least 5% of each such class or kind of equity shares or debenture convertible into equity shares issued by the company,

However, the **company referred to in sub-clause (ii) or sub-clause (iii)**, shall increase its public shareholding to at least 25% within a period of three years from the date of listing of the securities.

The **company referred to in this sub-clause (iv)** shall increase its public shareholding to at least ten per cent within a period of two years and at least twenty-five per cent. within a period of five years, from the date of listing of the securities.

Application for listing of new securities

an application for listing shall be necessary in respect of the following: -

- a) all new issues of any class or kind of securities of a company to be offered to the public;
- b) all further issues of any class or kind of securities of a company if such class or kind of securities of the company are already listed on a recognised stock exchange.

Suspension or withdrawal of admission to dealings in securities on stock exchange

A Recognized Stock Exchange may suspend or withdraw admissions to dealing in securities of a company.

Reason for Withdrawal

- **Breach/Non-compliance of conditions**
- **Any other reason, to be recorded in writing**

Before such suspension/withdrawal company should be given a reasonable opportunity of being heard and show cause notice.

If the period of suspension exceeds 3 months company may prefer an appeal to SAT.

SAT after giving opportunity of being heard can set aside, confirm or vary the decision of Stock Exchange.

The order of SAT shall be a binding on Stock Exchange.

CHAPTER – 4

Securities and Exchange board of India

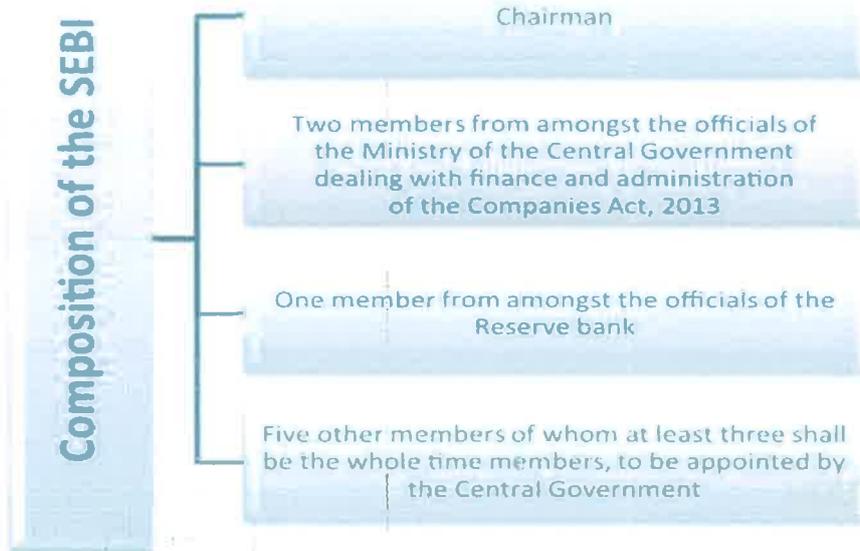
INTRODUCTION

- SEBI is a **body corporate having perpetual succession.**
- It a **common seal** with power to acquire, hold and dispose of property.
- Such **property can be movable and immovable.**
- It can contract, **sue and be sued in its own name.**
- Its **Head Office is at Mumbai** and is empowered to establish its offices at other places in India.
- SEBI presently has **offices also in Ahmedabad, Jaipur, Kolkata, Guwahati, Bhubaneswar, New Delhi, Chennai and Bengaluru.**

OBJECTIVES OF SEBI



COMPOSITION OF SEBI



FUNCTIONS AND POWERS OF THE SEBI

Functions of the SEBI

It is the **duty of SEBI to take such measures for the protection of the interest of the investors and promoting the development of the securities market.**

These measures include:

- **Registering and regulating the work of the Intermediaries;**
- **Regulating the Business in Stock Exchanges and any other securities market;**
- **Registering and Regulating the work of the Depositories, Participants, Files and Credit Rating Agencies;**
- **Registering and Regulating the work of the Venture Capital Funds and Collective Investment Schemes;**
- **Prohibiting the Unfair and Fraudulent Trade Practices;**
- **Prohibiting the Insider Trading in Securities;**

- **Regulating Substantial Acquisition of Shares and Takeover of Companies;**
- **Calling for any required Information, undertaking Inspections and conducting Inquiries and Audits of the Stock Exchanges;**
- **Levying Fees and other charges for carrying out the purposes of this section;**
- **Conducting Research for above purposes;**
- **Performing any other function as may be prescribed.**

Powers with respect to inspection of books and Documents

SEBI may take measures to undertake inspection of any book, or register, or other document or record of any listed public company or a public company which intends to get its securities listed on any recognised stock exchange where SEBI has reasonable grounds to believe that such company has been indulging in insider trading or fraudulent and unfair trade practices relating to securities market.

SEBI has been vested with the same powers as that of a Civil Court

- **The discovery and production of books of accounts and other documents;**
- **Summoning and enforcing the attendance of persons and examining them on oath;**
- **Inspection of books, registers and other related instruments of intermediaries;**
- **Issuing commissions for the examination of the witnesses or documents.**

Power of the SEBI to regulate or prohibit issue of prospectus, offer document or advertisement soliciting money for issue of securities

The SEBI may, for the **protection of investors by general or special order**: -

- Prohibit any company from issuing prospectus, any offer document, or advertisement soliciting money from the public for the issue of securities.
- Specify, the conditions subject to which the prospectus, such offer document or advertisement, if not prohibited, may be issued.

Power to issue directions

- The SEBI has the **power to prohibit any company from issuing any offer document** in the interest of the investors. If SEBI is satisfied after making inquiries that it is necessary.
- In the **interest of the investors**:
 - a) To prevent the activities of any intermediary;
 - b) To secure proper management of such intermediary.
- It **may issue such directions**, as may be necessary to:
 - a) Any person or class of persons;
 - b) To any company for the matters relating to issue of capital, transfer of securities, etc.

Investigations

- if SEBI has reasonable **grounds to believe that**:
 - a) any matter connected with the securities market is being dealt with in such a way that it is detrimental to the interest of investors, it may direct an investigation;
 - b) Any intermediary or any person associated with the securities market has violated any of the provisions of this Act or the rules or the regulations.
- It is the **duty of any authorized person of the company and every intermediary to produce necessary documents** before the investigating authority.
- The **investigating authority has the right to keep** any books, registers, other documents and records **for 6 months** in his custody.

Cease and Desist Proceedings

- If, in the opinion of the Board, any person has **violated or is likely to violate any of the provisions, rules or regulations of the Act**, it may pass an order requiring such person to cease and desist from committing such action.

PROHIBITION OF MANIPULATIVE AND DECEPTIVE DEVICES, INSIDER TRADING ETC.

A person **shall not directly or indirectly**:

- a) use or employ, in connection with the issue, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;
- b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognized stock exchange;
- c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person,
- d) engage in insider trading;
- e) deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person

PENALTIES

Section	Punishment
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Default/Failure		
Failure to furnish information, return, etc	15A	Penalty of at least 1 lakh rupees but may extend to 1 lakh rupees per day during which such failure continues, subject to a maximum of 1 crore rupees.
Failure by any person to enter into agreement with clients.	15B	
Failure to redress investors' grievances.	15C	
Certain defaults in case of mutual funds.	15D	
Failure to observe rules and regulations by an asset management company.	15E	
In case investment adviser and research analyst fails to comply with the regulations made by the SEBI or directions issued by the SEBI.	15EB	
In case of AIF, INVIT, REIT fails to comply with the regulations made by the SEBI.	15EA	
Default in case of stock brokers. If any stock broker-	15F	<ul style="list-style-type: none"> • Penalty of at least 1

<ul style="list-style-type: none"> • fails to issue contract notes in the manner specified by the stock exchange of which such broker is a member. • fails to deliver any security or fails to make payment of the amount due to the investor • charges an amount of brokerage which is in excess of the brokerage 		<p>lakh rupees but which may extend to 1 crore rupees for which the contract note issued.</p> <ul style="list-style-type: none"> • Penalty of at least 1 lakh rupees but may extend to 1 lakh rupees per day during which such failure continues, subject to a maximum of 1 crore rupees. • penalty of at least 1 lakh rupees but which may extend to five times the amount of brokerage charged in excess whichever is higher.
<p>Offence related to Insider Trading</p>	<p>15G</p>	<p>Penalty of at least 10 lakh rupees but which may extend to 25 crore rupees or 3 times the amount of profits made out of insider trading, whichever is higher.</p>
<p>Non-disclosure of acquisition of shares and takeovers.</p>	<p>15H</p>	<p>Penalty of at least 10 lakh rupees but which may extend to 25 crore rupees or 3 times the amount of profits made out of such failure, whichever is higher.</p>
<p>Fraudulent and unfair trade practices.</p>	<p>15HA</p>	<p>Penalty of at least 5 lakh rupees but which may</p>

		<p>extend to 25 crore rupees or 3 times the amount of profits made out of such failure, whichever is higher.</p>
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Adjudicating Power

SEBI shall appoint any officer not below the rank of a Division Chief of SEBI to be an adjudicating officer for holding an inquiry in the prescribed manner after giving any person concerned a reasonable opportunity of being heard for the purpose of imposing any penalty.

While carrying out such inspection the adjudicating officer shall have following powers: -

- To summon and enforce the attendance of any person who may have some evidence documents relevant to the subject matter.
- He may impose such penalty as he thinks fit in accordance with the provisions of this Act.

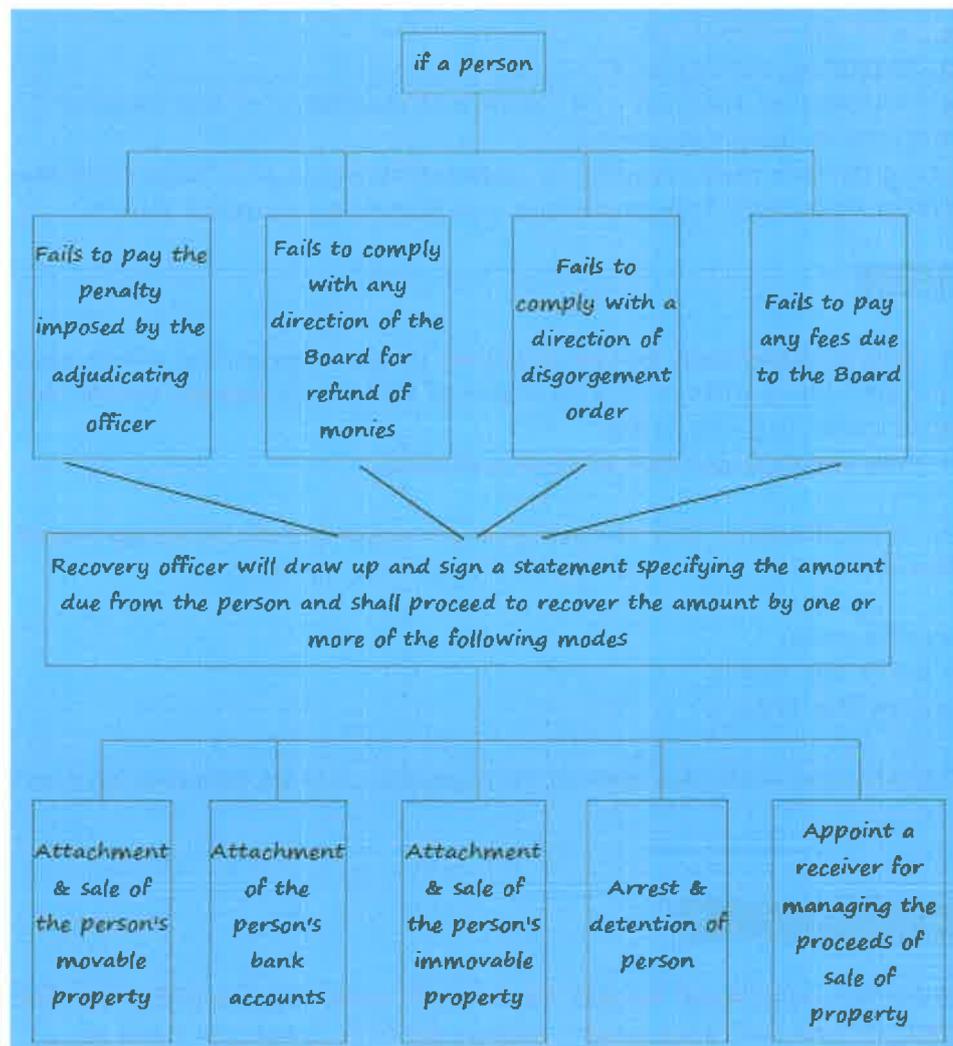
While imposing such penalty the adjudicating officer shall consider the following factors: -

- The amount of gain or unfair advantage made.
- The amount of loss caused to an investor or group of investor.
- The repetitive nature of the default.

Settlement of Administrative and Civil Proceedings

- A) Filing of an application in writing to the SEBI proposing for settlement of proceeding initiated or to be initiated for the alleged defaults.
- B) SEBI may consider for settlements of defaults after taking into consideration the nature, gravity and impact of defaults
- C) Procedure of settlement proceedings shall be conducted in accordance with the procedure specified in the regulations made under this Act.
- D) No appeal shall be made against any order passed by the SEBI or adjudicating officer as the case may be.
- E) Settlement amounts shall be credited to the Consolidated Fund of India

RECOVERY OF AMOUNT



SECURITIES APPELATE TRIBUNAL (SAT)

The Central Government is empowered to establish by notifications one or more Appellate Tribunals, to be known as the Securities Appellate Tribunals. Securities Appellate Tribunal will accept appeals against the SEBI order.

Composition of Securities Appellate Tribunal

SAT consists of the following:

- One Presiding Officer and
- such number of Judicial and Technical Members as the Central Government may determine.

The Presiding Officer may transfer a Judicial Member or a Technical Member of the Securities Appellate Tribunal from one Bench to another Bench.

Appeal to SAT

- Any person aggrieved by the decision of the recognised stock exchange or adjudicating officer or any order of SEBI may appeal to SAT within 45 days of receiving the order.
- SAT may grant extended time if satisfied.

On receipt of application SAT should give an opportunity of being heard to the parties thereafter SAT can pass any of the following order: -

- a) Vary the order
- b) Set aside the order
- c) Confirm the order

Note: SAT shall deal with the appeal as expeditiously as possible and within 6 months.

Appeal to Supreme Court

- Any person aggrieved by any decision or order of the SAT may file an appeal to the Supreme Court within 60 days from the date of communication of the decision or order of the SAT
- Appeal can be on any question of fact or law arising out of such order.
- Extension of 60 days can be granted if sufficient cause for delay is explained.

Procedure in SAT

- SAT not bound by the procedure laid down by the Code of Civil Procedure, 1908
- It shall be guided by the principles of natural justice

- It will be bound by provisions of this Act and of any rules
- The provisions of the Limitations Act, 1963 shall apply to an appeal made to Securities Appellate Tribunal.

Powers of SAT

The Securities Appellate Tribunals shall have the same powers as are vested in a Civil Court under the Code of Civil Procedure, 1908, while trying a suit, in respect of the following matters, namely: -

- Summoning and enforcing the attendance of any person and examining him on oath;
- Requiring the discovery and production of documents;
- Receiving evidence on affidavits;
- Issuing commissions for the examination of witnesses or documents;
- Reviewing its decisions;
- Dismissing an application for default or deciding it ex parte
- Setting aside any order of dismissal of any application for default or any order passed by it ex parte;
- Any other matter which may be prescribed.

Note: No civil court has jurisdiction to entertain any suit or proceeding in respect of any matter which is taken up by SAT.

OFFENCES

If any person contravenes or attempts to contravene or abets the contravention of the provisions of this Act or of any rules or regulations or bye-laws made thereunder, for which no punishment is provided elsewhere.

Imprisonment: Maximum 10 years, or Fine: Maximum Rs. 25 Crore or Both

If any person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any of his directions or orders.

Imprisonment: Minimum 1 month & Maximum 10 years, or Fine: Maximum Rs. 25 Crore or Both

Special Note: The above offences are in addition to the penalties imposed by the Adjudicating Officer.

Establishment of Special Court

The Central Government may establish Special Courts for the purpose of providing speedy trial of offences under this Act;

Composition:

A Special Court shall consist of a single judge who shall be appointed by the Central Government with the concurrence of the Chief Justice of the High Court within whose jurisdiction the judge to be appointed is working.

Qualification:

He should be Sessions Judge or an Additional Sessions Judge.

Triable Offences:

All offences punishable under this Act are triable at Special Courts.

CONTRAVENTION BY COMPANIES

Every person who, at the time when the offence was committed, was in charge of, and was responsible to, the company for the conduct of the business.

Shall be deemed to be guilty of the offence.

However, any such person shall not be liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence.

Offence has been committed with the consent or connivance of, or is attributable to any gross negligence on the part of any director, manager, secretary or other officer of the company.

Deemed to be guilty of that offence.

SCORES (SEBI COMPLAINTS REDRESS SYSTEM)

SCORES (SEBI Complaints Redress System) is an online platform designed to help investors to lodge their complaints, pertaining to securities market, online with SEBI against listed companies and SEBI registered intermediaries.

All complaints received by SEBI against listed companies and SEBI registered intermediaries are dealt through SCORES.

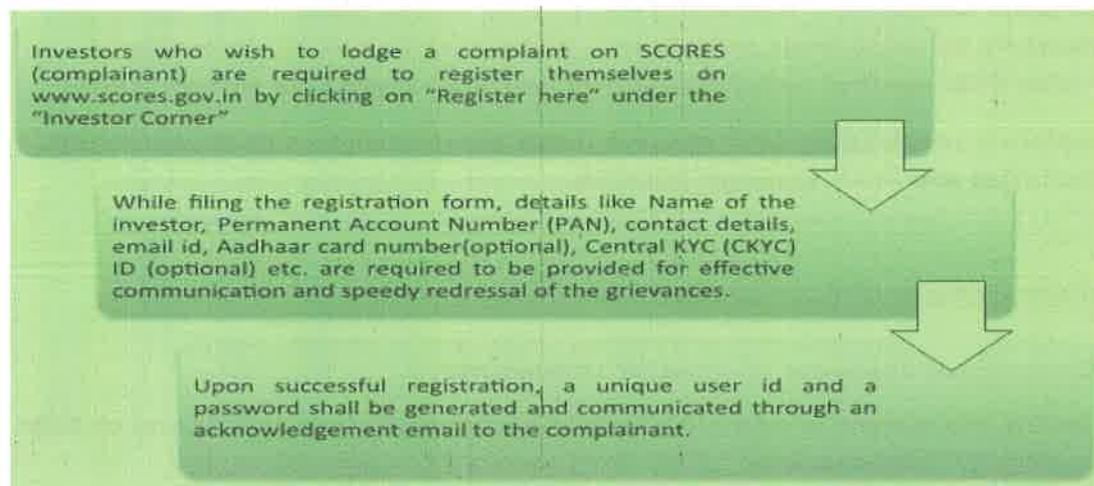
The salient features of SCORES are:

- Centralized database of investor complaints
- Online movement of complaints to the concerned listed company or SEBI registered intermediary
- Online upload of Action Taken Reports (ATRs) by the concerned listed company or SEBI registered intermediary
- Online viewing by investors of actions taken on the complaint and its current status
- SCORES is web enabled and provides online access 24 x7
- Complaints and reminders thereon can be lodged online at the above website at anytime from anywhere
- complaint registration number to the complainant for future reference and tracking
- The complaint forwarded online to the entity concerned for its redressal.

Direct Complaint

- The complainant may use SCORES to submit the complaint or grievance directly to the listed companies / intermediaries / MIs for resolution.
- Such a complaint is called a "Direct Complaint" and shall be redressed by the entity within 30 days without any intervention of SEBI.

Process for lodging online complaint on SCORE by investor



Timeline for lodging complaint on SCORES

To enhance ease, speed and accuracy in the redressal of grievance, **the complaint shall be lodged on SCORES within 1 year from the date of cause of action**, where –

- a) the complainant has approached the listed company or registered intermediary / MII, as the case may be, for redressal of the complaint and,
- b) The concerned listed company or registered intermediary/ MII has rejected the complaint or,
- c) The complainant has not received any communication from the concerned listed company or the registered intermediary / MII or,
- d) The complainant is not satisfied with the reply received or the redressal action taken by the concerned listed company or an intermediary / MII.

SEBI reserves its right to reject a complaint lodged on SCORES, if the date of cause of action is more than one-year-old.

One-time 'Review' option

To enhance investor satisfaction on complaint redressal, a **one-time 'Review' option is also available under SCORES wherein a complainant, if not satisfied with the extent of redressal of grievance by the concerned listed company/ intermediary/ MII, opts for review within 15 days from the date of closure of the complaint on SCORES.**

Thereafter, the complaint shall be escalated to the supervising official of the dealing officer of SEBI.

Types of complaints shall not be dealt through SCORES

The following types of complaints shall not be dealt through SCORES:

- Complaints against companies which are unlisted/delisted and companies on Dissemination Board of Stock Exchanges (except complaints on valuation of securities).
- Complaints relating to cases pending in a court or subject matter of quasi-judicial proceedings, etc.
- Complaints falling under the purview of other regulatory bodies such as RBI, IRDAI, CCI or complaints falling under the purview of other ministries.
- Complaints against a company under resolution under the relevant provisions of the Insolvency and Bankruptcy Code, 2016 (IBC).
- Complaints against the companies where the name of company is struck off from Register of Companies (RoC) or a vanishing company as published by MCA.
- Liquidated Companies or companies under liquidation.

Timelines for handling of complaints and actions in case of non-compliances

Sr. No.	Activity	No of calendar days
1.	Complaint handling:	
a.	Complaint received in SCORES by the listed company	T
b.	Response to be obtained from Listed Company	Within T+30
c.	If no response received, alert to Listed Company in the form of reminder for non-redressal of complaint	T+31

d.	Response to be obtained from Listed Company	Within T+60
2.	Action In case of non-compliances	
a.	Notice to Listed company intimating the fine @ Rs. 1000/- per day, per complaint to be levied for not resolving the complaints within 60 days	T+61
b.	Notice to Promoters for non-resolution of complaints and nonpayment of fine to the stock exchange	T+76
c.	Freezing of promoters shareholdings (i.e. entire shareholding of the promoters in listed company as well as all other securities held in the demat account of the promoters) in demat account	T+86
d.	Stock exchanges may take any other actions, as deemed appropriate	
e.	Once Stock exchange has exhausted all options and if number of pending complaints exceed 20 or the value involved is more than Rs. 10 lakhs, the Exchange to forward the details of such Listed companies to SEBI for further action, if any.	

SEBI MOBILE APPLICATION

- **SCORES is a platform designed to help investors to lodge their complaints online with SEBI**
- **In its efforts to improve the ease of doing business, SEBI launched a Mobile Application for the convenience of investors to lodge their grievances in SEBI Complaints Redress System (SCORES).**
- **The Mobile App will encourage investors to lodge their complaints on SCORES rather than sending letters to SEBI in physical mode.**
- **After mandatory registration on the App, for each grievance lodged, investors will get an acknowledgement via SMS and e-mail on their registered mobile numbers and e-mail ID respectively.**
- **The Mobile App "SEBI SCORES" is available on both iOS and Android platforms.**

SEBI (INFORMAL GUIDANCE) SCHEME, 2003

In the interests of better regulation of and orderly development of the Securities market, SEBI has issued SEBI (Informal Guidance) Scheme 2003.

The following persons may make a request for informal Guidance under the scheme:

- a) any intermediary registered with the SEBI.
- b) any listed company.
- c) any company which intends to get any of its securities listed and which has filed either a listing application with any stock exchange or a draft offer document with the SEBI or the Central Listing authority.
- d) any mutual fund trustee company or asset management company.
- e) any acquirer or prospective acquirer under the SEB Takeover Regulation.

The informal guidance may be sought for and given in two forms:

- **No-action letters:** The SEBI indicates that the Department would or would not recommend any action under any Act, Rules, Regulations, Guidelines, Circulars or other legal provisions administered by SEBI to the Board if the proposed transaction is consummated.
- **Interpretive letters:** The SEBI provides an interpretation of a specific provision of any Act, Rules, Regulations, Guidelines, Circulars or other legal provision being administered by the SEBI in the context of a proposed transaction in securities or a specific factual situation.

TIME FOR DISPOSAL

The SEBI may dispose off the request as early as possible and in any case not later than 60 days after the receipt of the request.

The SEBI may not respond to the following types of requests:

- a) those which are general and those which do not completely and sufficiently describe the factual situation;
- b) those which involve hypothetical situations;
- c) those requests in which the requestor has no direct or proximate interest;
- d) where the applicable legal provisions are not cited;

- e) where a no-action or interpretive letter has already been issued by that or any other Department on a substantially similar question
- f) those cases in which investigation, enquiry or other enforcement action has already been initiated;
- g) those cases where connected issues are pending before any Tribunal or Court and on issues which are subjudice; and
- h) those cases where policy concerns require that the Department does not respond.

Where a request is rejected for non-compliance, the fee, if any, paid by the requestor shall be refunded to him after deducting therefrom a sum of Rs. 5,000/- towards processing charges.

Confidentiality of Request

- Any person submitting a letter or written communication under this scheme may request that it receive confidential treatment for a specified period of time not exceeding 90 days from the date of the Department's response.
- The request shall include a statement of the basis for confidential treatment.
- If the Department determines to grant the request, the letter or written communication will not be available to the public until the expiration of the specified period.
- If it appears to the Department that the request for confidential treatment should be denied, the requestor will be so advised and such person may withdraw the letter or written communication within 30 days of receipt of the advise, in which case the fee, if any, paid by him would be refunded to him.
- In case a request has been withdrawn under clause (c), no response will be given and the letter or written communication will remain with the SEBI but will not be made available to the public.
- If the letter or written communication is not withdrawn, it shall be available to the public together with any written staff response.

CHAPTER – 5

Laws governing to Depositories and Depository Participants

AN OVERVIEW OF DEPOSITORY SYSTEM

- Depositories are institutions that hold securities of investors in dematerialized / electronic form and provide demat services to the investors through their Depository Participants (DP).
- There are two depositories in our country namely, National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).
- Under each Depository, there are registered Depository Participants (DPs), which provide various services to the investors like opening and maintaining of a Demat account, dematerialization of shares, etc.
- A depository is an organization which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors.
- In the depository system, share certificates belonging to the investors are to be dematerialized and their names are required to be entered in the records of depository as beneficial owners.
- The beneficial owner continues to enjoy all the rights and benefits and is subject to all the liabilities in respect of the securities held by a depository.



- A depository cannot act as a depository unless it obtains a certificate of commencement of business from the SEBI.

Role of Depository and its Functions

- Dematerialisation i.e., converting physical certificates to electronic form
- Rematerialisation i.e., conversion of securities in demat form into physical certificates
- Facilitating repurchase / redemption of units of mutual funds
- Electronic settlement of trades in stock exchanges
- Pledging/hypothecation of dematerialised securities against loan
- Electronic credit of securities allotted in public issues, rights issue
- Other facilities viz. holding debt instruments in the same account, availing stock lending/borrowing facility, etc.

Benefits of Depository System

- Elimination of bad deliveries.
- Elimination of all risks associated with the physical certificates.
- It facilitates the immediate transfer and registration of the securities.
- It facilitates faster disbursement of non-cash corporate benefits like rights, bonus, etc.
- It reduces the brokerage for trading in dematerialized securities.
- Elimination of paper work and recording of transactions like transfer of shares.
- Elimination of problems related to change of the address of investor, transmission, etc.
- Elimination of problems related to selling securities on behalf of minor.

Difference between Depository and Custodian

Basis	Depository	Custodian
Function	It is responsible for "safe keeping" of securities but also transfers beneficial ownership to the real owner.	It. is responsible for "safe keeping" of securities but does not transfer beneficial ownership to the real owner.
Act	There is a separate Act i.e. Depositories Act, 1996, apart from SEBI (Depositories and Participant) Reg., 1996.	There is no separate Act and it is regulated by SEBI (Custodian of Securities) Reg., 1996.

DEPOSITORY PARTICIPANT (DP)

- A **depository interfaces with the investors through its agents called Depository Participants (DPs).**
- Depository Participant (DP) is the **representative (agent) of the investor in the depository system providing the link between the Company and investor through the Depository.**
- Public financial institutions, scheduled commercial banks, foreign banks operating in India with the approval of the Reserve Bank of India, state financial corporations, custodians, stock-brokers, clearing corporations / clearing houses, NBFCs and registrar to an issue or share transfer agent complying with the requirements prescribed by SEBI can be registered as DP.

Characteristics of a DP

- Transmission requests/nomination
- Acts as an Agent of Depository
- Customer Interface of Depository
- Functions like Securities Bank
- Account opening
- Facilitates dematerialisation/rematerialisation
- Instant transfer on pay-out
- Enables off market transfers
- Settles trades in electronic segment
- Pledge/enforcement of pledge etc.

ISSUER

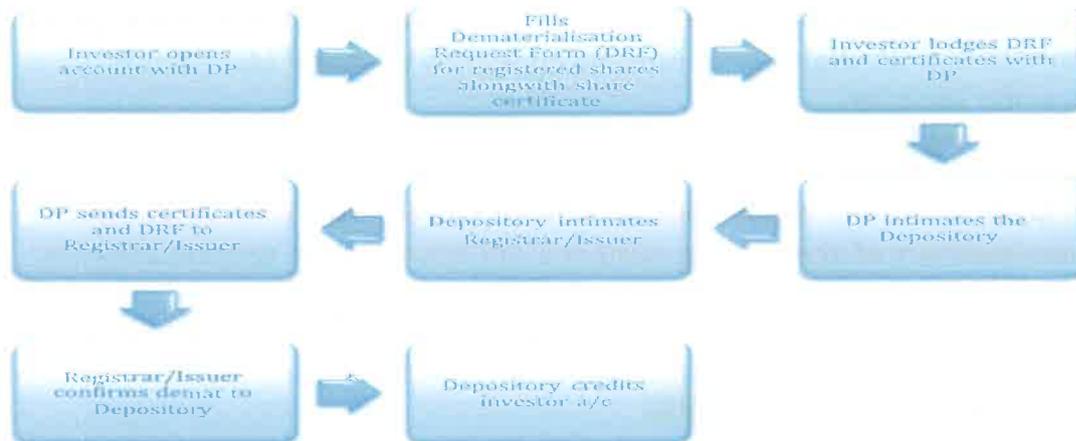
- "Issuer" means any entity such as a corporate/State or Central Government organizations issuing securities which can be held by depository in electronic form
- **FUNCTIONS OF ISSUER**

Functions of Issuer	Dematerialisation
	Confirmation of Beneficiary Holdings
	Corporate Actions – Rights, Bonus, etc.
	Reconciliation of Depository Holdings
	Rematerialisation

DEMATERIALISATION

- Dematerialization is a process by which the physical share certificates of an investor are taken back by the company and an equivalent number of securities are credited in his demat account in electronic form at the request of the investor.
- An investor will have to first open a Demat account with a Depository through the Depository Participant.

PROCEDURE FOR DEMATERIALISATION

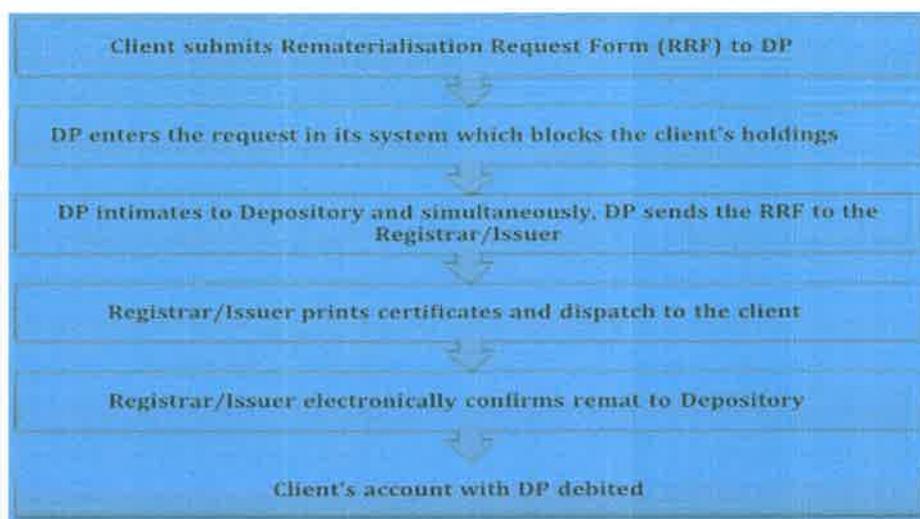


REMATERIALISATION

Rematerialisation is the process of converting securities held in electronic form in a demat account back in physical certificate form.

For the purpose of rematerialisation, the client has to submit the rematerialisation request to the DP with whom he has an account.

Procedure for Rematerialisation



INTERNATIONAL SECURITIES IDENTIFICATION NUMBER (ISIN)

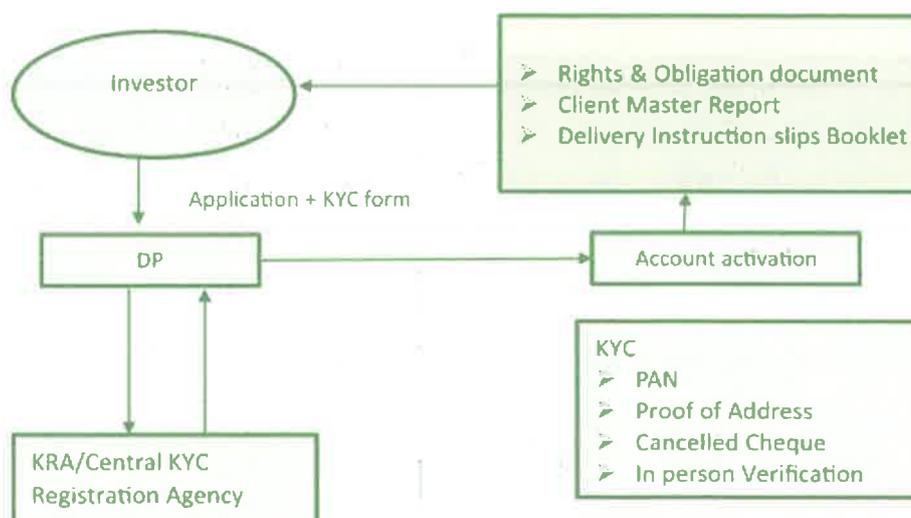
- The ISIN standard is **used worldwide to identify specific securities and assigned to securities to facilitate clearing and settlement procedures.**
- An ISIN is a **12-digit alphanumeric code** that uniquely identifies a specific security.
- It is **issued by the National Numbering Agency**, present in each respective country.
- It is **structured in a way that it includes the country code where the headquarters of the issuing company are present, the specific security identification number, and a check digit.**

ELECTRONIC CREDIT IN NEW ISSUES

- Sometimes a company or issuer directly issues new issue in dematerialised form.
- **Following is the procedure for the same.**
 - (a) Investor opens account with DP;
 - (b) Submits application;
 - (c) Registrar upholds list of allottee's to Depository;
 - (d) Depository credits allottee's account with DP

DEMAT ACCOUNT OPENING PROCESS

Demat Account Opening Process



DEPOSITORIES ACT, 1996

Objectives of the act

- It acts as a legal basis for establishment of depositories;
- Dematerialisation of securities in the depositories mode becomes possible;
- Making the securities fungible;
- Making the shares, debentures and any interest thereon of a public limited company freely transferable;
- Exempting all transfers of shares from the stamp duty.

Certificate of Commencement of business by Depositories

Section 3 of the Depository Act, stipulates that no depository shall act as a depository unless it obtains a certificate of commencement of business from the SEBI in such form as may be specified by the SEBI (Depositories and Participants) Regulations, 2018.

Eligibility Condition for Depository Services

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

- has a net worth of not less than rupees one hundred crores.
- 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.

Rights and Obligations of Depositories, Participants, Issuers and beneficial Owners

- A depository shall enter into an agreement with one or more participants as its agent in such form as may be specified by the bye-laws.
- Any person, through a participant, may enter into an agreement, in such form as may be specified by the bye-laws, with any depository for availing its services.
- Any person who has entered into an agreement through a participant shall surrender the certificate of security, for which he seeks to avail the services of a depository, to the issuer and it enter the name of the person in its records, as the beneficial owner.
- Every depository shall, on receipt of intimation from a participant, register the transfer of security in the name of the transferee.

Eligible securities required to be in Depository mode:

- It is not necessary for all the eligible securities to be in the depository mode.
- In the scheme of the Depositories legislation, the investor has been given supremacy.
- The investor also possesses the choice of holding the physical securities.
- In case of fresh issue of securities where all securities issued have to be indematerialised form the investor will also have the freedom to switch from depository mode to non-depository mode and vice versa.

Fungibility

- Fungibility means interchangeable or exchangeability.
- All securities held in depository shall be fungible i.e. all certificates of the same security shall become interchangeable in the sense that investor loses the right to obtain the exact certificate he surrenders at the time of entry into depository.
- It is like withdrawing money from the bank without bothering about the distinctive numbers of the currencies.

- In short, if a security or commodity is fungible if it is perfectly interchangeable with any other of the same type and class securities or commodities.
- Most financial securities are fungible a share in a particular company is exactly the same as another share in the same company.
- Fungibility is the property of a good or a commodity whose individual units are capable of mutual substitution.

Registered Owners

- A depository should be deemed to be the registered owner in the depository's system who will transfer and hold security on behalf of a beneficial owner.
- The depository as a registered owner should not have any voting rights or any other rights in respect of securities held by it.
- Every depository is required to maintain a register of beneficial owner.
- Every depository shall furnish to the issuer information about the transfer of securities in the name of beneficial owners.

Beneficial Owner

- The Investor is not the registered owner but the beneficial owner in depository system.
- The beneficial owner is entitled to all the rights and benefits.
- He is subject to all the liabilities in respect of his securities held by a depository.
- A beneficial owner may with the previous approval of the depository create a pledge or hypothecation or any other encumbrance in respect of a security owned by him through a depository.

POWERS OF THE SEBI

The powers of SEBI are same as prescribed under the SEBI Act, 1992 (chapter-4).

PENALTIES

- Contravention where no separate penalty has been provided

Shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore Rupees.

- Failure to furnish information/return etc.
- Failure to enter in to agreement
- Failure to redress investor's grievances
- Delay in demat or issue of certificate of securities
- Failure to reconcile records
- Failure to comply with the directions issued by SEBI

Shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.

- Failure to conduct business in a fair manner

shall be liable to penalty which shall not be less than five crore rupees but which may be extend to twenty five crore rupees or three times the amount of gains made out of such failure, whichever is higher.

Adjudication

The adjudication procedure as mentioned under Sections 19H to 19J of the Depositories Act, 1996 is same as the adjudication procedure prescribed under SEBI Act, 1992 (chapter – 4).

Offences

<p>If any person contravenes or attempts to contravene or abets the contravention of the provisions of this Act or of any rules or regulations or bye-laws made thereunder, for which no punishment is provided elsewhere</p>	<p>Imprisonment: Maximum 10 years, or Fine: Maximum Rs. 25 Crore, or Both</p>
<p>If any person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any of his directions or orders</p>	<p>Imprisonment: Minimum 1 month & Maximum 10 years, or Fine: Maximum Rs. 25 Crore, or Both</p>

Contravention by companies

<p>Every person who, at the time when the offence was committed, was in charge of, and was responsible to, the company for: the conduct of the business</p>	<p>Shall be deemed to be guilty of the offence. However, any such person shall not be liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence.</p>
<p>Offence has been committed with the consent or connivance of, or is attributable to any gross negligence on the part of any director, manager, secretary or other officer of the company</p>	<p>Deemed to be guilty of that offence.</p>

SEBI (DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 2018

- The registration of the depository, its participant and the custodian are mandatory with SEBI;
- Requisite fees must also be paid to SEBI in respect of the registration;
- The proper agreement must be entered into by all the parties;
- Drafts of these agreements are to be included in the bye-laws and to be approved by SEBI.

Records to be maintained by Depository & Depository Participant

Depository

Every depository is required to maintain following records & documents which are as follows: -

- Records of securities dematerialised;
- The names of the transferor, transferee, and the dates of the transfer of securities;
- A register and index of beneficial owner;
- The details of holding of securities of the beneficial owner at the end of each day;
- Records of approvals, notices, entries;
- Details of participants;
- Details of securities declared to be eligible for dematerialisation.

Depository Participant

The Participants have to maintain the following Documents for a period of 5 years: -

- Records of all transactions entered into;
- Details of the securities dematerialised;
- Records of instructions received from beneficial owners;
- Records of approvals, notices, entries.

AUDIT UNDER SEBI (DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 2018

- Every issuer shall **submit audit report on a quarterly basis to the concerned stock exchanges** audited by a practicing Company Secretary or a qualified Chartered Accountant or a practicing Cost Accountant.
- The **audit report is required to give the updated status** of the register of members of the issuer and confirm that securities have been dematerialized as per requests **within 21 days from the date of receipt of requests** by the issue.
- Any difference in the records maintained by the issuer shall be reported to the depositories and stock exchanges.

Internal Audit

- The two Depository service 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).
- Every Depository Participant shall **ensure that an internal audit in respect of the operations of the Depository is conducted at intervals of not more than six months by a qualified Chartered Accountant or a Company Secretary holding a Certificate of Practice and a copy of the internal audit report shall be furnished to the Depository.**
- Every Depository Participant shall **ensure that an internal audit shall be conducted** in respect of the participant's operations relating to CDS **by a qualified Chartered Accountant** in accordance with the provisions of the Chartered Accountants Act, 1949 **or by a Company Secretary in practice** in accordance with the provisions of the Company Secretaries Act, 1980, at such intervals as may be specified by CDS from time to time. A copy of Internal Audit **report shall be furnished to CDSL.**

Concurrent Audit

- The process of Demat Account opening, control and verification of Delivery Instructions slips is subject to concurrent audit.
- Depository Participants have been advised to appoint a firm of qualified Chartered Accountant(s) or Company Secretary (ies) holding a certificate of practice for conducting the concurrent audit.
- However, the participants in case they so desire, may entrust the concurrent audit to their Internal Auditors.
- Concurrent audit includes following areas:
 - a) Account opening,
 - b) Delivery Instruction Slip (DIS) book issuance,
 - c) Execution of DIS,
 - d) Power of Attorney modifications,
 - e) Account closure requests initiated by Participant,
 - f) Investor grievances received by Participant,
 - g) Providing Transaction Statements to clearing members (process level)
 - h) Pledge & Hypothecation,
 - i) Margin Pledge / Re-Pledge,
 - j) Online account closure by client,

SEBI'S CYBER SECURITY & CYBER RESILIENCE FRAMEWORK FOR STOCK BROKERS / DEPOSITORY PARTICIPANTS

Cyber security framework includes measures, tools and processes that are intended to prevent cyber-attacks and improve cyber resilience.

The Frameworks inter-alia prescribes the following:

Depository Participants

- are mandated to conduct comprehensive cyber audit at least once in a financial year.
- shall submit with Stock Exchange/Depository a declaration from the MD/ CEO / Partners/ Proprietors certifying compliance with all SEBI Circulars and advisories related to Cyber security from time to time, along with the Cyber audit report.

- shall **identify and classify critical assets** based on their sensitivity and criticality for business operations, services and data management.
- shall **maintain up-to-date inventory of its hardware and systems, software and information assets** (internal and external), details of its network resources, connections to its network and data flows.
- shall **carry out periodic Vulnerability Assessment and Penetration Tests (VAPT)** which inter-alia include critical assets and infrastructure components in order to detect security vulnerabilities in the IT environment and in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks.
- Brokers / Depository Participants shall **conduct VAPT at least once in a financial year.**

Role of a Company Secretary

- A) **Right to Legal Representation:** Any person aggrieved (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).
- B) **Internal Audit of DP's:** The 2 Depository services providers in India, 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).
- C) **Concurrent Audit of DP's:** PCS can carry out concurrent audit of depository participants.
- D) **Reconciliation of Share Capital Audit:** Company Secretary is authorised to issue quarterly certificate on reconciliation of share certificate.

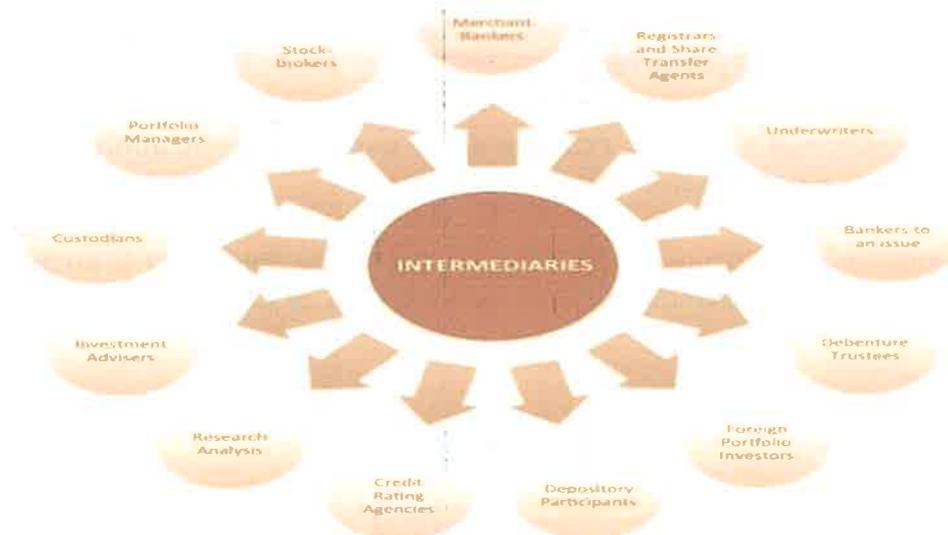
CHAPTER – 6

Securities Market Intermediaries

INTRODUCTION

- **Capital Market Intermediaries are an important link between investor, issuer Company and the regulator.**
- **In other words, we cannot imagine any transaction in the capital market without Capital Market Intermediaries.**
- **They simply connect an investor with the user of funds in pursuance of SEBI regulations.**

SECURITIES MARKET INTERMEDIARIES



REGULATORY FRAMEWORK FOR INTERMEDIARIES

Merchant Banker

'Merchant banker' means any person 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 such issue management.

Net worth Requirement - Not less than RS. 5 crores.

Role and Responsibilities: -

- Managing of public issue of securities
- Underwriting connected with the aforesaid public issue management business
- Managing/Advising on international offerings of debt/ equity i.e. GDR, ADR, bonds and other instruments
- Private placement of securities
- Stock broking
- Advisory services for projects
- Syndication of rupee term loans
- International financial advisory services.

GENERAL OBLIGATIONS AND RESPONSIBILITIES

- Every merchant banker shall abide by the Code of Conduct.
- No merchant banker, shall carry on any business other than that in the securities market.
- Every merchant banker shall keep and maintain the books of account, records and documents.
- Every merchant banker shall furnish to the SEBI half- yearly unaudited financial results.
- The merchant banker shall preserve the books of account and other records and documents for a minimum period of five years.

Registrars and Share Transfer Agents

"Registrar to an Issue"

means the person appointed by a body corporate or any person or group of persons to carry on the following activities on its or his or their behalf:

- a) collecting application for investor in respect of an issue;
- b) keeping a proper record of applications and monies received from investors or paid to the seller of the securities
- c) assisting body corporate or person or group of persons

Pre-issue Activities

- Sending instructions to Banks for reporting of collection figures and collection of applications.
- Providing Practical inputs to the Lead Manager and Printers regarding the design of the Bid cum-Application form.
- Facilitate and establish information flow system between clients, Banks and Managers to the issue.
- Liaisoning with Regulatory Authorities such as SEBI & Stock Exchanges.

Share Transfer Agent

means:

- a) any person who on behalf of any body corporate, maintains the records of holders of securities issued by such body corporate and deals with all matters connected with the transfer and redemption of its securities;
- b) the department or division, by whatever name called, of a body corporate performing the activities as share transfer agents if at any time the total number of holders of its securities issued exceed one lakh.

Activities during the Issue

- Collection and reporting of daily Collection figures.
- Collection of Data and Forms from Banks.
- Liaisoning 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

Bankers to an issue

means a **scheduled bank or such other banking company as may be specified by the SEBI from time to time**, carrying on all or any of the following activities:

- a) Acceptance of application and application monies;
- b) Acceptance of allotment or call monies;
- c) Refund of application monies;
- d) Payment of dividend or interest warrants.

GENERAL OBLIGATIONS AND RESPONSIBILITIES

- Every banker to an issue shall maintain books of account, records and the documents.
- Every banker to an issue shall furnish the information to the SEBI when required.
- Every banker to an issue shall enter into an agreement with the body corporate for whom it is acting as banker to an issue.
- Every banker to an issue shall inform the SEBI forthwith if any disciplinary action is taken by the Reserve Bank against the banker to an issue only in relation to issue payment work.
- Every banker to an issue shall abide by the code of conduct.

Debenture Trustees

"Debenture Trustee" means a trustee appointed in respect of any issue of debentures of a body corporate.

NET WORTH – Not less than 10 crores

Duties of the debenture trustees are: -

- Call for periodical reports from the company, i.e., issuer of debentures.
- Take possession of trust property in accordance with the provisions of the trustdeed.
- Enforce security in the interest of the debenture holders.
- Ensure that the property charged to the debenture is available and adequate at all times to discharge the interest and principal amount payable in respect of the debentures and such property is free from any other encumbrances.
- Exercise due diligence to ensure compliance by the company with the provisions of the Companies Act and the listing agreement or the trust deed.
- To take appropriate measures for protecting interest of the debenture holders in case of any breach comes to notice.
- To ascertain that the debentures have been converted or redeemed as per law.
- Appoint a nominee director on the board of the company, if required.

Stock brokers

"Stock broker" means a person having trading rights in any recognized stock exchange and includes a trading member.

A stock broker plays an important role in the secondary market helping both the seller and the buyer of the securities to enter into a transaction.

When executing an order, the stock broker may on behalf of his client buy or sell securities from his own account i.e., as principal acts, as an agent.

GENERAL OBLIGATIONS AND RESPONSIBILITIES

- Every Stock Broker shall keep and maintain the proper books of account, records and documents.
- Every stock broker shall preserve the books of account and other records maintained for a minimum period of five years.

- Every Stock Broker acting as an underwriter shall not derive any direct or indirect benefit from underwriting the issue.
- Every stock broker shall appoint a compliance officer who shall be responsible for monitoring the compliance.

Portfolio managers

- "Portfolio manager" means a body corporate, which pursuant to a contract with a client, advises or directs or undertakes on behalf of the client the management or administration of a portfolio of securities or goods or funds of the client, as the case may be:
Provided that the Portfolio Manager may deal in goods received in delivery against physical settlement of commodity derivatives.
- A portfolio manager plays an important role in deciding the best investment plan for an individual as per his income, age as well as ability to undertake risks.
- A portfolio manager is responsible for making an individual aware of the various investment tools available in the market and benefits associated with each plan.
- A portfolio manager is responsible for designing customized investment solutions for the clients according to their financial needs.
- Net worth not less than 5 crores.

Custodians

- 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.
- Every custodian should have adequate facilities, sufficient capital and financial strength to manage the custodial services.
- Net worth Minimum 50 crores.

Roles and Responsibilities:

- Administrate and protect the assets of the clients.
- Open a separate custody account and deposit account in the name of each client.
- Record assets.
- Conduct registration of securities.
- Custodial services refer to the safeguarding of securities of a client. The activities relating to custodial services involve collecting the rights benefiting the client in respect of securities, maintaining the securities' account of the client, informing the clients about the actions taken or to be taken, and maintaining records of the services.

Investment Advisers

- "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.
- However, investment advice given through newspaper, magazines, any electronic or broadcasting or telecommunications medium, which is widely available to the public shall not be considered as investment advice for the purpose of these regulations.
- Investment advisers who are non-individuals shall have a net worth of not less than ` 50 lakh
- Investment advisers who are individuals shall have net tangible assets of value not less than ` 5 lakh.
- An investment adviser shall act in a fiduciary capacity towards its clients and shall disclose all conflicts of interests as and when they arise.
- Investment advisers serve as facilitators, making sure that all clients have many opportunities to express their financial concerns and issues.
- Basically, Investment advisers give advice and provide services related to the investment management process.

Research Analysts

“Research analyst” means a person who is primarily responsible for, -

- preparation or publication of the content of the research report; or
- providing research report; or
- making ‘buy/ sell/ hold’ recommendation; or
- giving price target; or
- offering an opinion concerning public offer,

with respect to securities that are listed or to be listed in a stock exchange.

In case of a **Body corporate or limited liability partnership firm** – net worth not less than ` 25 Lakh.

In case of **individual or partnership firm** – net tangible assets of value not less than ` 1 Lakh.

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 that are listed or proposed to be listed on a stock exchange recognized by the SEBI.

Net worth – Minimum ` 25 crores

GENERAL OBLIGATIONS

- Every credit rating agency shall abide by the Code of Conduct.
- Every credit rating agency shall enter into a written agreement with each client whose securities it proposes to rate.
- Every credit rating agency shall, during the lifetime of securities rated by it continuously monitor the rating of such securities.
- Every credit rating agency shall disclose Rating Definitions and Rationale.
- Every credit rating agency shall comply with such guidelines, directives, circulars and instructions as may be issued by the SEBI from time to time.

Depository

- As per section 2(e) of Depository Act, 1996 "Depository" means a company formed and registered under the Companies Act, 2013, and which has been granted a certificate of registration under sub-section (1A) of section 12 of the Securities and Exchange Board of India Act, 1992.
- Depositories are institutions that hold securities of investors in dematerialized / electronic form and provide demat services to the investors through their Depository Participants (DP).
- There are two depositories in our country namely, National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).
- NET WORTH – not less than ₹ 100 crores

Depository Participant (DP)

- A DP is an agent of the depository through which it interfaces with the investor and provides depository services.
- 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.
- In case of a non-banking finance company – net worth of not less than ₹ 50 fifty lakhs.
- In case of a registrar to an issue or share transfer agent - minimum net worth of ₹ 10 crores.

Foreign Portfolio Investor

Foreign Portfolio Investor means a person who buy, sell or otherwise deal in securities as a foreign portfolio investor by obtaining a certificate granted by a designated depository participant on behalf of the SEBI.

GENERAL OBLIGATIONS AND RESPONSIBILITIES

- A foreign portfolio investor shall, at all times, abide by the code of conduct;
- comply with the provisions of these regulations, as far as they may apply, circulars issued thereunder and any other terms and conditions specified by the SEBI from time to time;
- as and when required by the SEBI or any other Government agency in India, submit any information, record or documents in relation to its activities as a foreign portfolio investor;
- obtain a Permanent Account Number from the Income Tax Department
- provide any additional information or documents;
- ensure that securities held by foreign portfolio investors are free from all encumbrances.

INTERNAL AUDIT OF INTERMEDIARIES BY COMPANY SECRETARY IN PRACTICE

- Efficient internal control systems and processes are basis key for good governance.
- In the context of Capital Markets, capital markets intermediaries are an important constituent of overall governance framework.
- Being an important link between regulators, investors and issuers, they are expected to ensure that their internal controls are so efficient that ensure effective investor service at all times and provide regulators comfort as to the compliance of regulatory prescription.
- In this direction, SEBI has authorized practicing Company Secretaries to undertake internal audit of various capital market intermediaries.

CHAPTER – 7

International Financial Services Centers Authority (IFSCA)

INTERNATIONAL FINANCIAL SERVICES CENTRE

IFSC is a jurisdiction with high concentration of financial institutions such as Banks, Stock Markets & related entities, Insurance firms, Fund Managers, FinTech firms, etc., which offer specialized financial services to non-residents and residents, in an environment that promotes financial innovation and facilitates cross border transactions.

IFSC has been designed as a special international financial jurisdiction by virtue of Foreign Exchange Management Act, 2002 ("FEMA"). Under this, the units in IFSC enjoy the benefits of a non-resident under exchange control provisions.

Importance of IFSCs

IFSCs have assumed prominence in the financial services ecosystem primarily because of three reasons-

- A) they have contributed enormously to the growth of international financial transactions,



- B) these Centre's have played a pivotal role in accelerating the pace of financial globalization, and
- C) these Centre's have played an invaluable role in accelerating the socio-economic growth of host countries.

Fiscal benefits and Tax Exemptions for gift-IFSC

The major tax benefits in an IFSC are summarized below: -

Taxes and Duties	Benefits for Units in IFSC	Benefits for Investors
Income-tax	<p>a) 100% tax exemption for 10 consecutive years out of 15 years.</p> <p>b) IFSC Unit has the flexibility to select any 10 years out of 15 years block</p> <p>c) MAT / AMT @ 9% of book profits applies to Company / others setup as a unit in IFSC – MAT not applicable to companies in IFSC opting for new tax regime.</p> <p>d) Dividend paid to shareholders of company in IFSC to be taxed in the hands of the shareholder.</p>	<p>a) Interest income paid to non-residentson:</p> <ul style="list-style-type: none"> • Monies lent to IFSC units not taxable • Long Term Bonds and Rupee Denominated Bonds listed on IFSC exchanges taxable at lower rate of 4%. <p>b) Transfer of specified securities* listed on IFSC exchanges by a non-resident not treated as transfer - Gains accruing thereon not chargeable to tax in India.</p>
Goods and Services Tax	a) a) No GST on services –	No GST on transactions carried out in IFSC

(GST)	<ul style="list-style-type: none"> • received by unit in IFSC; • provided to IFSC / SEZ units, Offshore clients. <p>b) GST applicable on services provided to Domestic Tariff Area.</p>	exchanges.
Other taxes duties	State Subsidies – Lease rental, PF contribution, electricity charges.	Exemption from Securities Transaction Tax, Commodity Transaction Tax, stamp duty in respect of transactions carried out on IFSC exchanges.

Necessity of IFSC for domestic economy

- Onshoring the offshore international financial services:

India had been heavily relying on overseas financial centres for the purchase of international financial services.

Therefore, GIFT-IFSC was set up to transform India from being an importer of international financial services to becoming self-sufficient as well as an exporter of international financial services.

Thus, the vision was of “onshoring the offshore international financial services”.

- India’s economic growth trajectory:

Services offered in an IFSC, including Banking, Asset Management, Insurance and Capital Markets attract huge amounts of global capital inflows, such inflows can be channelized for the social economic development of India as well as to meet the Sustainable Development Goals - 2030.

Therefore, the development of an IFSC was an imperative step in India's economic growth trajectory.

INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

- 1 IFSCA has been established as a unified financial regulator by the Government of India under the IFSCA Act, 2019
- 2 The Authority is mandated to develop and regulate Financial Institutions, Financial Services and Financial Products in the International Financial Services Centre (IFSC) in India
- 3 To develop and regulate IFSC's in India, IFSCA has been vested with powers of four sectoral regulators namely - RBI, SEBI, IRDAI & PFRDA

Functions of the Authority (Section 12 of IFSCA Act, 2019)

- **Section 12 (1) of IFSCA Act**, empowers the Authority to develop and regulate the financial products, financial services and financial institutions in an IFSC, by such measures as it deems fit.
- **Section 12 (2) empowers** the Authority to regulate those financial products, financial services and financial institutions in an IFSC:

- a) which are permitted to operate in IFSC before the commencement of IFSCA Act, by any regulator; and
 - b) those which are notified by Central Government from time to time.
- Further, Section 12 (2) enables IFSCA to recommend to the Central Government to notify other financial products, services and institutions in an IFSC.

Financial Products

Section 3(1)(d) of the IFSCA Act defines "Financial product" as

- a) Securities;
- b) Contracts of insurance;
- c) Deposits;
- d) Credit arrangements;
- e) Foreign currency contracts other than contracts to exchange one currency for another that are to be settled immediately; and
- f) Any other product or instrument that may be notified by the Central Government from time to time.

New Financial Products notified by the Central government:

- a) Aircraft lease including operating and financial lease
- b) bullion spot delivery contract;
- c) bullion depository receipt with underlying bullion;
- d) ship leasing including operating lease, and hybrid of operating and financial lease

Financial Services

Section 3(1)(e) of the IFSCA Act defines "Financial service" as

- a) Buying, selling, or subscribing to a financial product or agreeing to do so;
- b) Acceptance of deposits;
- c) Safeguarding and administering assets consisting of financial products, belonging to another person, or agreeing to do so;
- d) Effecting contracts of insurance;
- e) Offering, managing or agreeing to manage assets consisting of financial products belonging to another person;

- f) Exercising any right associated with a financial product or financial service;
- g) Establishing or operating an investment scheme;
- h) Maintaining or transferring records of ownership of a financial product;
- i) Underwriting the issuance or subscription of a financial product;
- j) Providing information about a person's financial standing or creditworthiness;
- k) Any other service that may be notified by the Central Government from time to time

New Financial Services notified by the Central government:

- a) Global in-House Centres (GIC) as financial service to provide services relating to financial products and financial services
- b) Trading in bullion depository receipts with underlying bullion in relation to bullion spot delivery contracts;
- c) Courses offered in Financial Management, Fin-Tech, Science, Technology, Engineering and Mathematics by foreign universities or foreign institutions in IFSC.

LISTING AND TRADING OF SECURITIES IN IFSC

Listing of securities

- A) The IFSCA (Issuance and Listing of Securities) Regulations, 2021 enables the following types of listing:
 - an initial public offer of specified securities by an unlisted issuer;
 - a follow-on public offer of specified securities by a listed issuer;
 - Listing of specified securities by a start-up company or a SME;
 - Secondary listing;
 - An initial public offer of specified securities by a SPAC;
 - Listing of depository receipts;
 - Listing of debt securities (including SMART City bonds); and
 - Listing of ESG focused debt securities.
- B) The following entities would be eligible for listing of securities on the recognised stock exchanges in IFSC:
 - A company incorporated in an IFSC;

- A company incorporated in India; and
 - A company incorporated in a foreign jurisdiction.
- C) Further, in respect of **listing of debt securities, the following entities are also eligible to list** on the recognised stock exchanges in IFSC:
- any supranational, multilateral or statutory organisation/ institution/agency provided such organization/institution/agency is permitted to issue securities as per its constitution; and
 - any municipality or any Statutory Body or Board or corporation, Authority, Trust or Agency established or notified by any Central or State Act or any Special Purpose Vehicle notified by the State Government or Central Government including for the purpose of raising fund by the issuer to develop SMART city;
 - An entity whose securities are irrevocably guaranteed by a Sovereign (India or a Foreign Jurisdiction).

Listing of specified securities through IPO (including Offer for Sale)

The salient features for raising of capital through IPOs on a recognised stock exchange in IFSC are as follows:

Eligibility:

An issuer shall be eligible to make an initial public offer only if:

- a) the issuer has an **average pre-tax profit**, based on consolidated audited accounts, of **at least USD1 million** during the **preceding three financial years**; or
- b) the issuer has an **operating revenue of at least USD 20 million** in the **preceding financial year**; or
- c) any other eligibility criteria that may be prescribed by IFSCA.

Issue size:

The issue size shall **not be less than USD 15 million** or any other amount as may be specified by IFSCA from time to time.

Minimum subscription:

The minimum **number of subscribers should be 200** and **at least 75% of the offer size should be subscribed** for the offer to be successful.

Lock-up:

The pre-issue shareholding shall be **locked-up** for a period of 180 days from the **date of allotment** in the initial public offer.

Listing of Start-up and Small and Medium Sized Enterprise (SME) Companies

The salient features for the framework for listing of start-up and SME companies are as follows:

Direct Listing:

The **start-ups and SMEs** are also permitted to list on the recognised stock exchanges in IFSC without public offer. This would encourage start-ups (including Fintech companies) to list in IFSC and would be a step towards developing IFSC as a hub for Fintech companies.

Offer size in case of public offer:

Not less than **USD 2 million** or any other amount as may be specified by IFSCA from time to time.

Minimum subscription:

The **minimum number of subscribers** should be 50 and at least 75% of the offer size should be subscribed for the offer to be successful.

The **start-up fulfilling the following criteria shall be eligible to list** on the recognised stock exchanges in IFSC:

- a) Less than 10 years from the date of incorporation;
- b) The turnover of the company for any of the financial years since incorporation should not have exceeded USD 20 million.
- c) The company is working towards innovation, development or improvement of products or processes or services, or it is a scalable business model with a high potential of employment generation or wealth creation.

Listing of SPAC

The salient features of the framework for listing of SPACs are as follows:

Offer size:

Not less than USD 50 million or any other amount as may be specified by the Authority from time to time.

Further, the sponsor shall hold at least 20% of the post issue paid up capital.

Minimum application size:

The minimum application size in an initial public offer of SPAC shall be USD 250,000.

Minimum subscription:

At least 75% of the offer size.

SPAC specific obligations:

Requirements have also been prescribed with respect to maintenance of escrow account, eligible investments pending utilisation, acquisition timeline of 3 years extendable upto 1 year, right of dissenting shareholders, liquidation provisions, etc.

A SPAC shall be eligible to raise capital through IPO of specified securities on the recognised stock exchanges in IFSC, only if:

- a) The primary objective of the issuer is to effect a merger or amalgamation or acquisition of shares or assets of a company having business operations ("business acquisition");
- b) The issuer does not have any operating business.

Listing of Debt Securities

The following categories of debt securities (including ESG focused bonds, SMART City bonds) shall be eligible for listing on recognised stock exchanges in IFSC:

- a) Debt securities issued by issuers incorporated in IFSC;
- b) Debt securities issued by issuers incorporated in India or foreign jurisdiction in any currency other than INR;

- c) Masala Bonds;
- d) Any other debt securities as permitted by relevant authority from time to time.

SEBI (IFSC) GUIDELINES, 2015

Eligibility and shareholding

A) Eligibility and shareholding limit for stock exchanges and clearing corporation desirous of operating in IFSC:

Any Indian recognised stock exchange or clearing corporation or any stock recognised exchange or clearing corporation of a foreign jurisdiction may form a subsidiary to provide the services of stock exchange in IFSC wherein at least fifty-one per cent. of paid-up equity share capital shall be held by such stock exchange and the remaining share capital shall be held by the following:

- any other stock exchange,
- a clearing corporation
- a depository,
- a banking company,
- an insurance company,
- commodity derivatives exchange, whether Indian or of foreign jurisdiction, and
- a public financial institution of Indian jurisdiction.

However, any one of the aforesaid entities may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, up to fifteen per cent of the paid-up equity share capital of such stock exchange.

B) Eligibility and shareholding limit for foreign depositories desirous of operating in IFSC:

- Any regulated depository of a foreign jurisdiction shall form a subsidiary to provide the depository services in IFSC where at least fifty-one per

cent of paid-up capital is held by such depository or recognised stock exchange or clearing corporation, whether Indian or of foreign jurisdiction.

- Any Indian registered depository may set up a branch – IFSC Depository Services (IDS) at IFSC. The interested depositories shall be required to obtain prior approval of the Board for setting up an IDS.

c) **Permissible securities:**

The stock exchanges operating in IFSC may permit dealing in following types of securities and products in such securities in any currency other than Indian rupee, with a specified trading lot size on their trading platform subject to prior approval of the SEBI:

- Equity shares of a company incorporated outside India;
- Depository receipt(s);
- Debt securities issued by eligible issuers;
- Currency and interest rate derivatives;
- Index based derivatives;
- Commodity Derivatives;
- Such other securities as may be specified by the Board.

PART – B
[60 MARKS]

SECURITIES LAWS

CHAPTER – 8

Issue of Capital & Disclosure Requirements

INTRODUCTION

Primary Market provides an opportunity to issuers of securities, Government as well as corporates, to raise financial resources to meet their requirements of investment and/or discharge their obligations. SEBI has issued SEBI (Issue of Capital and Disclosure Requirements) Regulations ['ICDR Regulations'] for regulation several types of issue.

Types of Issues



- **Initial Public Offer:** It means an offer of specified securities by an unlisted issuer to the public for subscription and includes an offer for sale of specified securities to the public by any existing holder of such securities in an unlisted issuer.
- **Further Public Offer (FPO):** It is an offer of specified securities by a listed issuer company to the public for subscription. In other words, another issue to the public other than its existing shareholders or to a select group of persons by the listed persons is referred to as a Further Public offer.
- **Rights Issue:** Rights issue of securities is an issue of specified securities by a company to its existing shareholders as on a record date in a predetermined ratio.
- **Preferential Allotment:** It refers to an issue, where a listed issuer issues shares or convertible securities, to a select group of persons on a private placement basis it is called a preferential allotment.
- **Qualified Institutional Placement (QIP):** It refers to an issue by a listed entity to only qualified institutional buyers in accordance of Chapter VI of the SEBI (ICDR) Regulations, 2018.
- **Bonus Issue:** Bonus issue of shares means additional shares issued by the Company to its existing shareholders to reward for their royalty and is an opportunity to enhance the shareholders wealth.

MEANING

- **Draft Offer Documents**

“Draft Offer document” means the offer document in draft stage. The draft offer documents are filed with the SEBI, at least 30 days prior to the filing of the Offer Document with ROC/Stock Exchanges. The 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.

- **Offer Document**

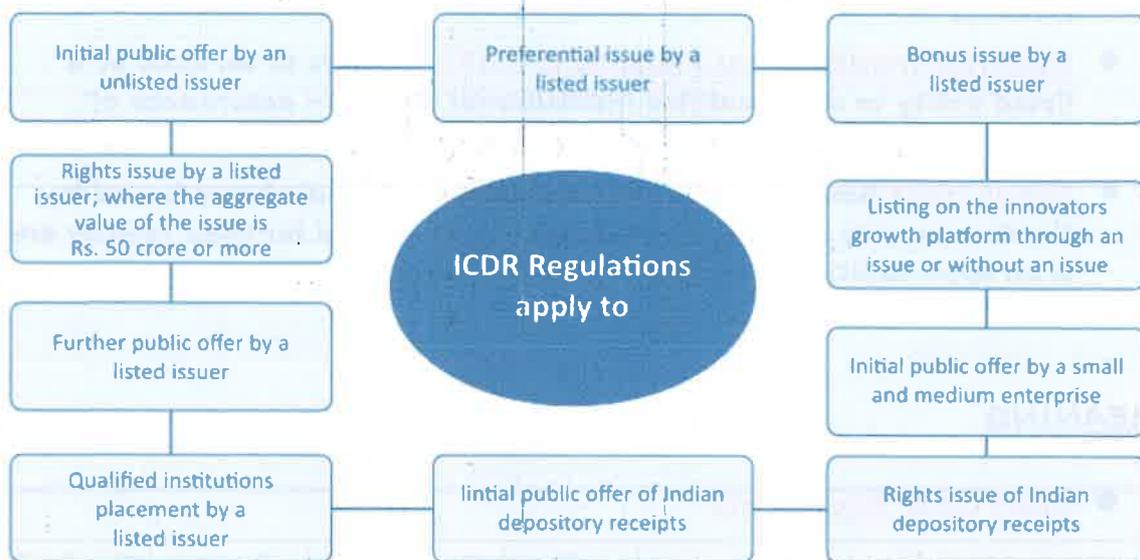
“Offer document” means Prospectus in case of a public issue or offer for sale and Letter of Offer in case of a right issue, which is filed with Registrar

of Companies (ROC) and Stock Exchanges. An offer document covers all the relevant information to help an investor to make his/ her investment decision.

- **Red Herring Prospectus (RHP)**

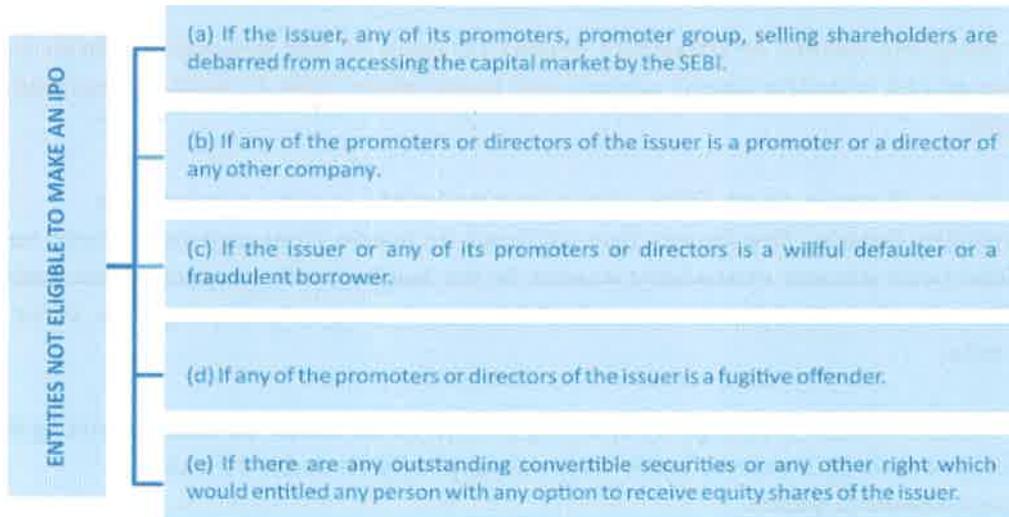
“Red Herring Prospectus” is a prospectus, which does not have details of either price or number of shares being offered, or the amount of issue. This means that in case price is not disclosed, the number of shares and the upper and lower price bands are disclosed.

APPLICABILITY OF THE SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2018 [REGULATION 3]



INITIAL PUBLIC OFFER [IPO] / FURTHER PUBLIC OFFER [FPO]

Entities not eligible to make an initial public offer [Regulation 5(1) & (2)]



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.

Non applicability of Regulation 5(1) & (2)

Outstanding options granted to employees, whether currently an employee or not, pursuant to an ESOS compliance with the Companies Act, 2013, the relevant Guidance Note or accounting standards, if any, issued by ICAI or pursuant to the Companies Act, 2013, in this regard.	Fully paid-up outstanding convertible securities which are required to be converted on or before in the date of filing of the red herring prospectus (in case of book-built issues) or the prospectus (in case of fixed price issues), as the case may be.
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Eligibility requirements for an initial public offer [Regulation 6(1) & 6(2)]

An issuer shall be eligible to make an IPO only if issuer has:

- a) net tangible assets of atleast 3 crores in each of the preceding three full years of (12 months each) 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.

- b) the issuer has an average operating profit of at least 15 crores during the three preceding 3 years, with operating profit in each of the three preceding years.
- c) the issuer has a networth of atleast 1 crore in each of the preceding three full years
- d) In case the issuer has changed its name within the last one year, atleast 50% of the revenue for the preceding one full year has been earned by it from the activity indicated by the new name.

Entities not eligible to make a FPO [Regulation 102]

An issuer shall not be eligible to make a FPO of specified securities:

(a) If the issuer, any of its promoters, promoter group or directors, selling shareholders are debarred from accessing the capital market

(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 capital market by the SEBI

(c) If the issuer or any of its promoters or directors is a willful defaulter or a fraudulent borrower

(d) If any of the promoters or directors of the issuer is a fugitive offender

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.

Eligibility requirements for FPO [Regulation 103]

An issuer shall be eligible to make a further public offer, if it has **not changed its name in the last one-year period immediately preceding the date of filing the relevant offer document.**

However, changed its name in the last one year period immediately preceding the date of filing at least 50% of the revenue for the preceding one full year has been earned by it from the activity indicated by its new name.

In case the Eligibility conditions are not met-

An issuer not satisfying the above-mentioned conditions shall be eligible to make an initial public offer and further public offer only if the issue is **made through the book-building process and the issuer undertakes to allot at least 75% of the net offer to qualified institutional buyers (QIBs) and to refund the full subscription money if it fails to do so.**

General Conditions for IPO & FPO

- it has **made an application to one or more stock exchanges** to seek an in-principle approval for listing of its specified securities on such stock exchanges and has chosen one of them as the designated stock exchange;
- it has **entered into an agreement with a depository for dematerialisation of the specified securities already issued and proposed to be issued;**
- 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;**
- it has **made firm arrangements of finance through verifiable means towards 75% 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.

- The **amount for general corporate purposes**, as mentioned in objects of the issue in the draft offer document and the offer document **shall not exceed 25%** of the amount being raised by the issuer.

IMP NOTE -

The amount for:

- general corporate purposes, and
- such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 35% of the amount being raised by the issuer.

However, the amount raised for such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 25% of the amount being raised by the issuer.

Provided that such limits shall not apply if the proposed acquisition or strategic investment object has been identified and suitable specific disclosures about such acquisitions or investments are made in the draft offer document and the offer document at the time of filing of offer documents.

Additional conditions for an offer for sale

OFS is Sale of specified securities to the public by any existing holders of such securities:

- shares must be fully paid-up
- In case of IPO by way of OFS, the equity shares proposed to be sold are required to be held by the sellers for at least 1 year prior to the filing of draft offer document with SEBI.

Non - applicability

The aforesaid requirement of 1 year does not apply to OFS of specified securities:

- Of a government company or statutory authority or corporation or any SPV set up or controlled by any of them, which is engaged in infrastructure sector; or
- Acquired pursuant to any scheme of compromise/arrangement approved by a High Court, in lieu of business and invested capital which had been in existence for a period of more than one year prior to such approval; or
- Issued under a bonus issue on securities held for a period of at least one year prior to the filing of draft offer document with SEBI, such bonus securities being issued out of free reserves and share premium existing in the books at the end of the previous financial year.

Issue of Warrants

An issuer shall be eligible to issue warrants in a further public offer subject to the following conditions:

- the **tenure of such warrants shall not exceed eighteen months** from the date of their allotment in the public issue;
- a **specified security may have one or more warrants** attached to it;
- the **price or formula for determination** of exercise price of the warrants shall be **determined upfront and at least 25% 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% consideration amount based on the cap price of the price band determined for the linked equity shares or convertible securities shall be received upfront;
- 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.

PROMOTERS' CONTRIBUTION

In Case of IPO [Regulation 14]

- The promoters of the issuer shall hold at least 20% of the post-issue capital.
- However, in case the post-issue shareholding of the promoters is less than 20%, 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).
- The requirement of minimum promoters' contribution shall not apply in case an issuer does not have any identifiable promoter.

In Case of FPO [Regulation 113]

- The promoters shall contribute in the public issue as follows:
 - a) either to the extent of 20% of the proposed issue size or to the extent of 20% 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 20% of the proposed issue size or to the extent of 20% of the post-issue capital excluding the rights issue component.
- For FPO the requirement of minimum promoters' contribution shall not apply in case of:
 - a) An issuer which does not have any identifiable promoter;
 - b) where the equity shares of the issuer are frequently traded on a stock exchange for a period of at least three years immediately preceding the reference date, and;
 - c) 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,

- d) the issuer has been in compliance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for a minimum period of three years immediately preceding the reference date.

LOCK-IN REQUIREMENTS

For Securities Held by Promoters [Regulations 16 & 115]

In a public issue, the specified securities held by promoters shall be locked-in for the period stipulated hereunder:

Promoters Contribution

The promoters contribution including contribution made by AIFs or FVCIs or scheduled commercial banks or PFIs or insurance companies registered with IRDA, shall be locked-in for a period of 18 months from the date allotment in the IPO/FPO. However, lock-in period shall be 3 years in case the majority of the issue proceeds excluding the portion of offer for sale is proposed to be utilized for capital expenditure.

Promoters' holding in excess of minimum promoters' contribution

Promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of 6 months from the date of allotment in the initial public offer. However, lock-in period shall be 1 year in case the majority of the issue proceeds excluding the portion of offer for sale is proposed to be utilized for capital expenditure.

In case of SR Equity Shares

SR equity shares shall be under lock-in until conversion into equity shares having voting rights same as that of ordinary shares or shall be locked-in for a period specified above, whichever is later. In case of FPO, the SR equity shares shall be under lock-in until their conversion to equity shares having voting rights same as that of ordinary shares, provided they are in compliance with the other provisions of these regulations.

Securities held by persons other than Promoters [Regulation 17]

The entire pre-issue share capital, held by persons other than the promoters, shall be locked-in for a period of 6 months from the date of allotment in the initial public offer.

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

- Equity shares allotted to employees under employee stock option or employee stock purchase scheme prior to initial public offer, if the issuer has made full disclosures with respect to such option.
- 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,
- 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 6 months from the date of purchase by the venture capital or AIF or FVCI.

OTHER REQUIREMENTS FOR IPO & FPO

Appointment of Lead Managers, Other Intermediaries and Compliance Officer

- The issuer shall appoint one or more merchant bankers, which are registered with the SEBI, as lead manager(s) to the issue.
- The issuer shall, in consultation with the lead manager(s), appoint other intermediaries which are registered with the SEBI.
- The issuer shall, in case of an issue made through the book building process, appoint syndicate member and in the case of any other issue, appoint bankers to issue.
- The issuer shall appoint a registrar to the issue, registered with the SEBI which has connectivity with all the depositories.
- The issuer shall appoint a compliance officer who shall be responsible for monitoring the compliance of the securities laws and for redressal of investors' grievances.

Disclosures and Filing of Offer Documents

- The draft offer document and offer document shall contain all material disclosures which are true and adequate to enable the applicants to take an informed investment decision.
- Prior to making an IPO/FPO, the issuer shall file 3 copies of the draft offer document with the concerned regional office of the SEBI under the jurisdiction of which the registered office of the issuer company is located.

- The SEBI may specify changes or issue observations, if any, on the draft offer document within 30 days.
- The issuer shall also file the draft offer document with the stock exchange where the specified securities are proposed to be listed.
- If the SEBI specifies any changes or issues observations on the draft offer document, the issuer and lead manager shall carry out such changes in the draft offer document and shall submit to the SEBI an updated draft offer document complying with the observations issued by SEBI and before filing the offer documents with the Registrar of Companies.
- The draft offer document filed with the SEBI shall be made public for comments for a period of at least 21 days from the date of filing, by hosting it on the websites of the SEBI, stock exchange and lead manager associated with the issue.
- The issuer shall within 2 days of filing the draft offer document with the SEBI, make a public announcement in one English national daily newspaper, one Hindi national daily newspaper and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated inviting the public to provide their comments to the SEBI.
- Copy of the offer documents shall also be filed with the SEBI and the stock exchange through the lead manager promptly after filing the offer documents with Registrar of Companies.

Issuance Conditions and Procedure

- **ASBA:**

The issuer shall accept bids using only the ASBA facility in the manner specified by the Board. ASBA means an application for subscribing to a public issue or rights issue, along with an authorization to self-certified syndicate bank to block the application money in a bank account.

- **IPO grading:**

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

- Underwriting:

If the issuer making an IPO/FPO, other than through the book building process, desire to have the issue underwritten, it shall appoint merchant bankers or stock brokers, registered with the SEBI, to act as underwriters.

However, if the issuer makes a public issue through the book building process, the issue shall be underwritten by lead manager(s) and syndicate member(s).

- Monitoring agency:

If the issue size exceeds ` 100 crore rupees, the issuer shall make arrangements for the use of proceeds of the issue to be monitored by a credit rating agency registered with the SEBI.

- Pre-issue advertisement:

The issuer shall, after filing the red herring prospectus (in case of a bookbuilt issue) or prospectus (in case of fixed price issue) with the Registrar of Companies, make a pre-issue advertisement in one English national daily newspaper, Hindi national daily newspaper and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated.

- Opening of the issue:

A public issue may be opened within 12 months from the date of issuance of the observations by the SEBI.

- Minimum subscription:

The minimum subscription to be received in the issue shall be at least 90% of the offer through the offer document.

In the event of non-receipt of minimum subscription, all application monies received shall be refunded to the applicants forthwith, but not later than 4 days from the closure of the issue.

- Period of subscription:

An IPO/FPO shall be kept open for at least 3 working days and not more than 10 working days.

- Minimum application value:

The minimum sum payable on application per specified security shall be at least 25% of the issue price.

- Post-issue Advertisements:

The lead manager shall ensure that an advertisement giving details relating to all post – issue information is released within 10 days from the date of completion of the various activities in at least one English national daily newspaper, one Hindi national daily newspaper and one regional language daily newspaper with wide circulation at the place where registered office of the issuer is situated.

- Release of subscription money:

The lead manager 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.

FAST TRACK FPO [REGULATION 155]

An Issuer Company need not file the draft offer document with SEBI and obtain observations from SEBI, if it satisfies the following conditions for making a further public offer through fast-track route: -

A) Listing

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) Demat form

Entire shareholding of the promoter group of the issuer is held in dematerialised form on the reference date.

C) Market Capitalisation

Average market capitalisation of public shareholding of the issuer is at least `1000 crores in case of public.

D) Trading Turnover

Annualized trading turnover of the equity shares of the issuer during 6 calendar months immediately preceding the month of the reference date has been at least 2% of the weighted average number of equity shares listed.

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 2% of the weighted average number of equity shares available as free float during such six months' period.

E) Delivery based trading

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 10% of the annualised trading turnover of the equity shares during such six months period.

F) Compliance with SEBI (LODR) Regulations, 2015

The issuer has been in compliance with the equity listing agreement or SEBI (LODR) Regulations, 2015, as applicable, for a period of at least three years immediately preceding the reference date.

However, if the issuer has not complied with the provisions relating to composition of board of directors, for any quarter during the last three years immediately preceding the reference date, but is compliant with such provisions at the time of filing of RHP, and adequate disclosures are made in the RHP about such non-compliances it shall be deemed as compliance with the condition.

G) Investor Complaints

Issuer has redressed at least 95% 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

No show-cause notices, excluding proceedings for imposition of penalty, have been issued by the Board and pending against the issuer or its promoters or whole time directors as on the reference date.

I) Disciplinary measures

Equity shares of the issuer have not been suspended from trading as a disciplinary measure during last three years immediately preceding the reference date.

J) Conflict of interest

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.

RIGHTS ISSUE

- "Rights issue" means an offer of specified securities by a listed issuer to the shareholders of the issuer as on the record date fixed for the said purpose.
- The shareholders who are offered may or may not subscribe to the same. They may subscribe partly or fully the offer.
- They have a power to renounce the shares offered to any other person who need not be an existing shareholder of the company.
- An issuer offering specified securities of aggregate value of fifty crore rupees or more, through a rights issue shall satisfy the conditions of Chapter III of SEBI (ICDR) Regulations, 2018 at the time of filing the draft letter of offer with the SEBI and also at the time of filing the final letter of offer with the stock exchanges.

Entities not eligible to make a rights issue [Regulation 61]

(a) if the issuer, any of its promoters, promoter group or directors of the issuer 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 director of any other company which is debarred from accessing the capital market by the SEBI

(c) if any of its promoters or directors is a fugitive economic offender

PREFERENTIAL ISSUE

"Preferential issue" means an issue of specified securities by a listed issuer to any select person or group of persons on a private placement basis in accordance with Chapter V of these regulations.

It does not include an offer of specified securities made through employee stock option scheme, employee stock purchase scheme or an issue of sweat equity shares or depository receipts issued in a country outside India or foreign securities.

Issuers ineligible to make a Preferential Issue [Regulation 159]

an issuer shall not be eligible to make preferential issue if:

- a) any of its promoters / directors is a **fugitive economic offender**;
- b) if it has **outstanding dues** to SEBI, stock exchange(s) or the depositories
- c) a person shall not be eligible to subscribe to securities of an issuer whose specified securities are listed on stock exchange(s) under preferential allotment, if such person has: **sold / transferred any equity shares of the issuer during 90 trading days** preceding the relevant date.
- d) where any **person belonging to promoter(s) or the promoter group has previously subscribed to warrants of an issuer but has failed to exercise the warrants**, the promoter(s) and promoter group shall be **ineligible for issue** of specified securities of such issuer on preferential basis for a **period of one year** from:

- the date of expiry of the tenure of the warrants due to non-exercise of the option to convert; or
- the date of cancellation of the warrants, as the case may be.

Conditions for preferential issue [Regulation 160]

- All equity shares allotted by way of preferential issue shall be made **fully paid up** at the time of the allotment.
- A **special resolution has been passed** by its shareholders.
- All **equity shares held by the proposed allottees in the issuer are in dematerialised form** before an application seeking in-principle approval is made by the issuer to the stock exchange(s) where its equity shares are listed.
- The issuer is in **compliance with the conditions for continuous listing** of equity shares as specified in the listing agreement with the stock exchange where the equity shares of the issuer are listed **and SEBI (LODR) Regulations, 2015**.
- The issuer has **obtained the Permanent Account Numbers (PAN) of the proposed allottees, except those allottees which may be exempt from specifying** their PAN for transacting in the securities market by the SEBI before an application seeking in-principle approval is made by the issuer to the stock exchange(s).

QUALIFIED INSTITUTIONS PLACEMENT

“Qualified institutions placement” **means issue of eligible securities by a listed issuer to qualified institutional buyers on a private placement basis and includes an offer for sale of specified securities by the promoters and/ or promoter group on a private placement basis, in terms of these regulations.**

Conditions for qualified Institutions Placement [Regulation 172]

- a) a special resolution approving the QIP has been passed by its shareholders,
Provided that no shareholders' resolution will be required in case the qualified institutions placement is through an offer for sale by

promoters or promoter group for compliance with minimum public shareholding requirements.

Provided further that allotment pursuant to the special resolution shall be completed within a period of 365 days from the date of passing of the resolution.

- b) the equity shares of the same class, which are proposed to be allotted through qualified institutions placement have been listed on a stock exchange for a period of at least one year prior to the date of issuance of notice to its shareholders for convening the meeting
- Provided that** where an issuer, being a transferee company in a scheme of compromise, arrangement and amalgamation sanctioned by a High Court or approved by a Tribunal or the Central Government under sections 230 to 234 of the Companies Act, 2013, whichever is applicable makes qualified institutions placement, the period for which the equity shares of the same class of the transferor company were listed on a stock exchange having nation-wide trading terminals shall also be considered for the purpose of computation of the period of one year
- Provided further that** this clause shall not be applicable to an issuer proposing to undertake qualified institutional placement for complying with the minimum public shareholding requirements
- c) An issuer shall be eligible to make a qualified institutions placement if any of its promoters or directors is not a fugitive economic offender.
- d) All eligible securities issued through a qualified institutions placement shall be listed on the recognised stock exchange where the equity shares of the issuer are listed.
- e) The issuer shall not make any subsequent qualified institutions placement until the expiry of [two weeks] from the date of the prior qualified institutions placement made pursuant to one or more special resolutions.

INITIAL PUBLIC OFFER OF INDIAN DEPOSITORY RECEIPTS

Eligibility conditions [Regulation 183]

Eligibility

- Issuing company is listed in its home country for at least three immediately preceding years;
- Issuer is not prohibited to issue securities by any regulatory body;
- Issuer has a track record of compliance with the securities market regulations in its home country;
- Any of its promoters or directors is not a fugitive economic offender.

('Home Country' means the country where the issuer is incorporated or listed)

Conditions

- issue size shall not be less than Rs.50 crore;
- at any given time, there shall be only one denomination of IDRs of the issuer;
- issuer shall ensure that the underlying equity shares against which IDRs are issued have been or will be listed in its home country before listing of IDRs in stock exchange(s);
- issuer shall ensure that the underlying shares of IDRs shall rank pari passu with the existing shares of the same class.

INITIAL PUBLIC OFFER BY SMALL AND MEDIUM ENTERPRISES

Eligibility requirements for an initial public offer

- if **post issue paid-up capital is \leq Rs.10 crores** – list only on SME
- if **post issue paid-up capital is $>$ Rs.10 crores but up to Rs.25 crores** – option to list either on SME or on MAIN board.
- SEBI does **not issue any observation** on the offer document
- The lead manager **shall submit a due-diligence certificate** to SEBI
- IPO **shall be 100% underwritten**. The lead manager shall underwrite at least 15% compulsory market making **for a minimum period of 3 years** from the date of listing
- Minimum **application size in IPO & Trading lot shall be 1 lakh rupees**
- May migrate to main board if SR is passed through postal ballot.

NOTE – In case of an issuer formed out of merger or a division of an existing company, the track record of the resulting issuer shall be considered only if the requirements regarding financial statements as specified above are complied with.

Entities not eligible to make an initial public offer [Regulation 228]

- a) if the issuer, any of its promoters, promoter group or directors or 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 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 or a fraudulent borrower
- d) if any of its promoters or directors is a fugitive economic offender

INNOVATORS GROWTH PLATFORM

“Innovators growth platform” means the trading platform for listing and trading of specified securities of issuers that comply with the eligibility criteria specified in regulation 283 of SEBI (ICDR) Regulations, 2018.

Listing on Innovators growth Platform (IGP)

- Aimed to list startups which are intensive in the use of technology, information technology, intellectual property, data analytics, bio-technology, nano-technology to provide products, services or business platform.
- At least 25% of pre-issue capital is held by QIBs, IGP investors any other class of investors as specified by SEBI for at least a 1 year
- Listing is allowed with or without IPO. SEBI will issue observations in both the cases
- The minimum offer size shall be 10 crore rupees in case of IPO
- Minimum application size shall be 2 lakh rupees and in multiples thereof
- Number of allottees in the IPO shall be 50
- Minimum trading lot shall be 2 lakh rupees and multiples

BONUS ISSUE

When an issuer makes an **issue of shares to its existing shareholders without any consideration based on the number of shares already held by them as on a record date** it is called a bonus issue.

The shares are issued **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.

Conditions for a bonus issue [Regulation 293]

Subject to the provisions of the Companies Act, 2013 or any other applicable law, **a listed issuer shall be eligible to issue bonus shares to its members if:**

it is authorised by its articles of association for issue of bonus shares, capitalisation of reserves, etc.

If there is no such provision in the articles of association, the issuer shall pass a resolution at its general body meeting making provisions in the articles of associations for capitalisation of reserve

it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it

it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus

any outstanding partly paid shares on the date of the allotment of the bonus shares, are made fully paid-up

any of its promoters or directors is not a fugitive economic offender

Restrictions on a bonus issue [Regulation 294]

- **An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof.**

- The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments or warrants at the time of conversion of such convertible debt instruments, optionally convertible instruments, warrants.
- A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalised for this purpose.
- Bonus shares shall not be issued in lieu of dividends.
- If an issuer has issued SR equity shares to its promoters or founders, any bonus issue on the SR equity shares shall carry the same ratio of voting rights compared to ordinary shares and the SR equity shares issued in a bonus issue shall also be converted to equity shares having voting rights same as that of ordinary equity shares along with existing SR equity shares.

Completion of a bonus issue [Regulation 295]

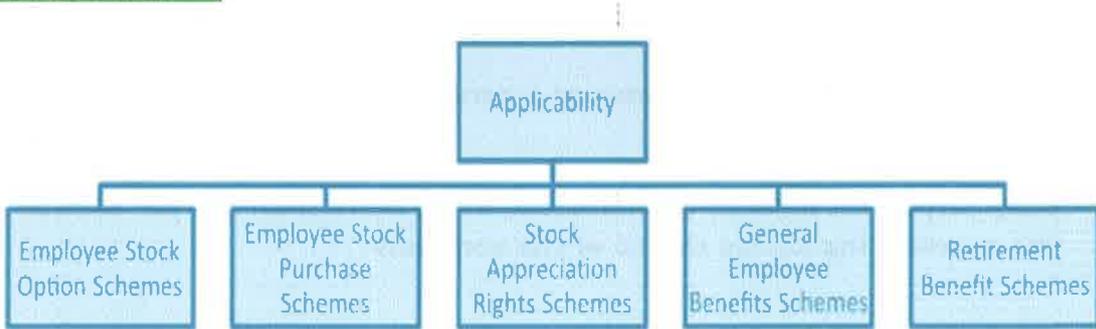
- An issuer, announcing a bonus issue after approval by its board of directors and not requiring shareholders' approval for capitalisation of profits or reserves for making the bonus issue, shall implement the bonus issue within fifteen days from the date of approval of the issue by its board of directors.
- Where the issuer is required to seek shareholders' approval for capitalisation of profits or reserves for making the bonus issue, the bonus issue shall be implemented within two months from the date of the meeting of its board of directors wherein the decision to announce the bonus issue was taken subject to shareholders' approval.
- A bonus issue, once announced, shall not be withdrawn

CHAPTER – 9

Share Based Employee Benefits and Sweat Equity

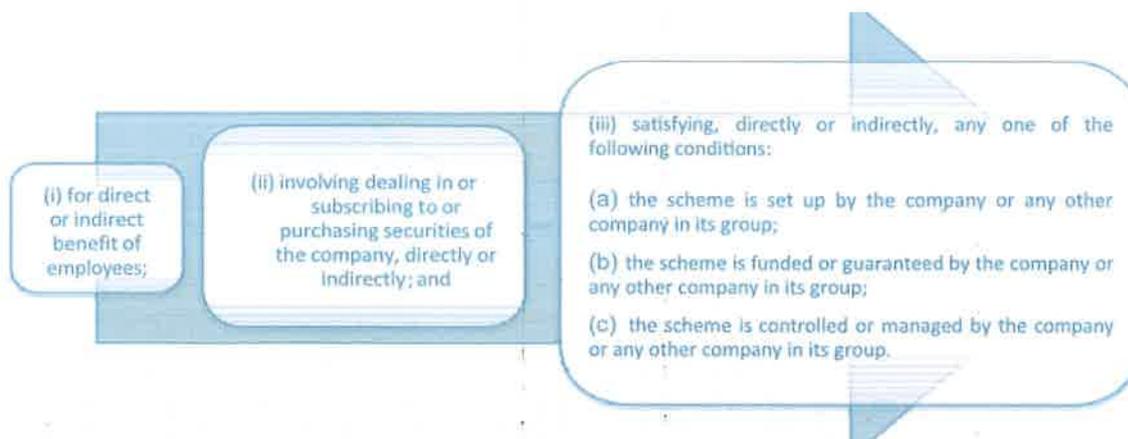
SEBI (SHARE BASED EMPLOYEE BENEFITS AND SWEAT EQUITY) REGULATIONS, 2021

Applicability



Companies Covered

The provisions of these regulations shall apply to any company whose shares are listed on a recognised stock in India and who seeks to issue sweat equity shares or has a scheme: -



"Employee",

except in relation to issue of sweat equity shares, means, -

- a) an employee as designated by the company, who is exclusively working in India or outside India;
- b) a director of the company, whether a whole-time director or not, including a nonexecutive director who is not a promoter or member of the promoter group, but excluding an independent director;
- c) an employee as defined in sub-clauses (i) or (ii), of a group company including subsidiary or its associate company, in India or outside India, or of a holding company of the company,

but does not include -

- a) an employee who is a promoter or a person belonging to the promoter group;
- b) a director who, either himself or through his relative or through any body corporate, directly or indirectly, holds more than ten per cent of the outstanding equity shares of the company.

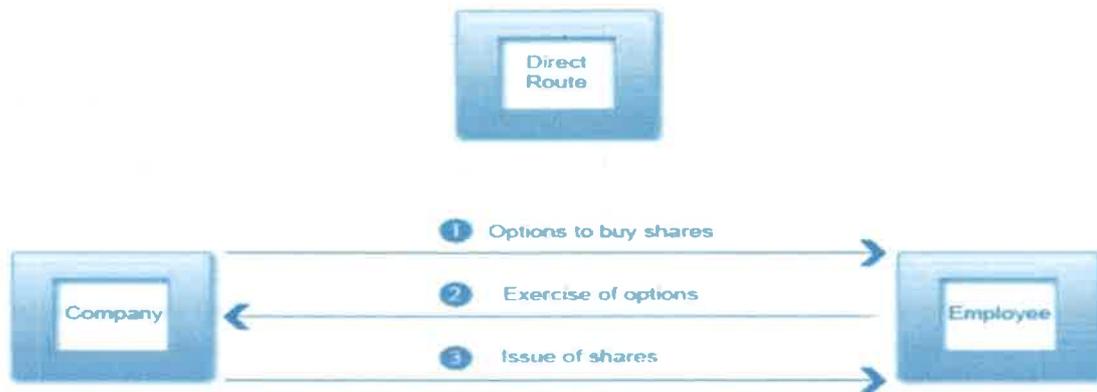
Whether contractual employees are eligible to receive benefits under Share Based Employee Benefits schemes?

Yes, contractual employees are also eligible to receive benefits under the Share Based Employee Benefits schemes provided they are designated as employees by their employers and are exclusively working with such company or its group company including subsidiary or its associate company or its holding company.

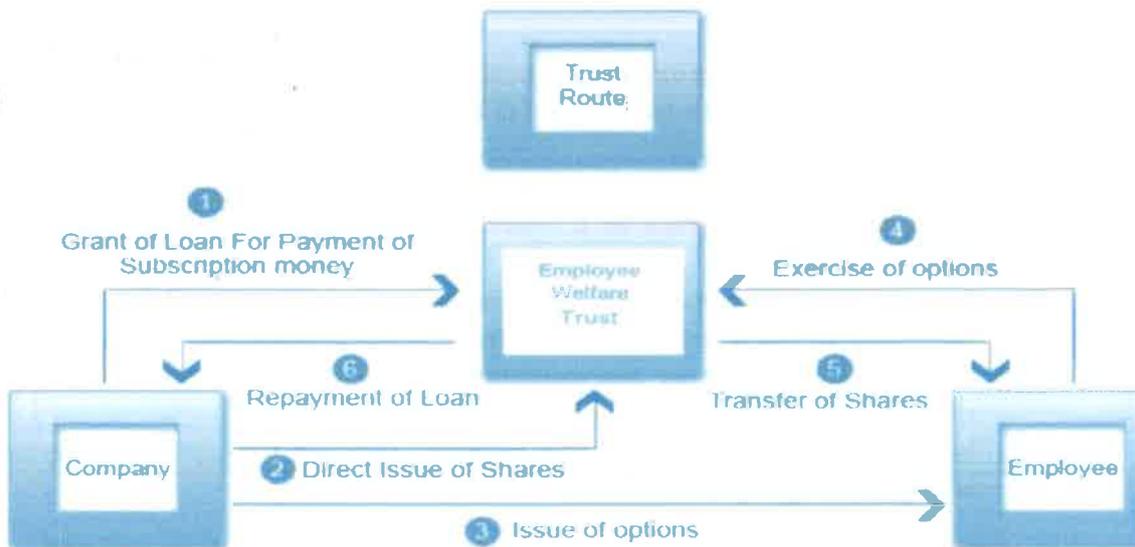
SCHEMES - IMPLEMENTATION AND PROCESS

A company may implement a scheme(s) either-

Direct Route



Implementation of Schemes through Trust



Procedure for Implementation of Schemes through Trust

- 1) If the scheme is to be implemented through a trust, the same has to be decided upfront at the time of taking approval of the shareholders for setting up the scheme(s).

However, if prevailing circumstances so warrant, the company may change the mode of implementation of the scheme subject to the condition that a fresh approval of the shareholders by a special resolution is obtained prior to implementing such a change and that such a change is not prejudicial to the interests of the employees.

Further provided that, if the scheme(s) involves secondary acquisition or gift or both, then it shall be mandatory for the company to implement such scheme(s) through a trust(s).

- 2) A company may implement several schemes as permitted under these regulations through a single trust. **However, such single trust shall keep and maintain**

- proper books of account;
- records and documents

for each such scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of each scheme.

- 3) The **trust deed and any modifications thereto shall be mandatorily** filed with the recognised stock exchange(s) in India where the shares of the company are listed.

- 4) **Any person can be appointed as a trustee of the trust, except** in cases where such person –

- is a director, key managerial personnel or promoter of the company or its group company including its holding, subsidiary or associate company or any relative of such director, key managerial personnel or promoter;
- beneficially holds ten percent or more of the paid-up share capital or the voting rights of the company.

However, where individual(s) or “one person company” as defined under the Companies Act, 2013 is appointed as trustee(s), there shall be a minimum of two such trustees, and in case a corporate entity is appointed as a trustee, then it may be the sole trustee.

- 5) The trustees of a trust, which is governed under these regulations, **shall not vote in respect of the shares held by such trust**, so as to avoid any misuse arising out of exercising such voting rights.
- 6) The trustee **should ensure that the requisite approval from the shareholders has been obtained** by the company in order to enable the trust to implement the scheme(s) and undertake secondary acquisition for the purposes of the scheme(s).
- 7) The trust shall **not deal in derivatives and shall undertake only delivery-based transactions** for the purposes of secondary acquisition as permitted by these regulations.
- 8) Subject to the requirements of the Companies Act, 2013 the company **may lend monies to the trust on appropriate terms and conditions** to acquire the shares either through new issue or secondary acquisition, for the purpose of implementation of the scheme(s).
- 9) For the purpose of disclosures to the recognised stock exchange, the **shareholding of the trust shall be shown as "non-promoter and non-public" shareholding**.

Note - The shares held by the trust shall not form part of the public shareholding which needs to be maintained at a minimum of twenty five per cent as prescribed under the Securities Contracts (Regulation) Rules, 1957.

- 10) **Secondary acquisition** in a financial year by the trust shall **not exceed two per cent of the paid up equity capital** of the company as at the end of the previous financial year.
- 11) **The total number of shares under secondary acquisition held by the trust shall at no point of time exceed the below mentioned limits as a percentage of the paid up equity capital** of the company as at the end of the financial year immediately prior to the year in which the shareholders' approval is obtained for such secondary acquisition:

SL No.	Particulars	Limit
A	For the schemes enumerated in Part A, Part B or Part C of Chapter III of these regulations	5%
B	For the schemes enumerated in Part D, or Part E of Chapter III of these regulations	2%
C	For all the schemes in aggregate	5%

- 12) The trust shall be required to hold the shares acquired through secondary acquisition for a minimum period of six months except where they are required to be transferred in the circumstances enumerated in these regulations, whether off-market or on the platform of recognised stock exchange.
- 13) The trust shall be permitted to undertake off-market transfer of shares only under the following circumstances: -
- transfer to the employees pursuant to scheme(s);
 - while participating in an open offer under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 or while participating in a buy-back, delisting or any other exit offered by the company generally to its shareholders.
- 14) The trust shall not become a mechanism for trading in shares and hence shall not sell the shares in secondary market except under the following circumstances:
- to enable the employee to fund the payment of the exercise price, the amount necessary to meet his/her tax obligations and other related expenses pursuant to exercise of options granted under the ESOS;
 - on vesting or exercise, as the case may be, of SAR under the scheme covered by Part C of Chapter III of these regulations;

- c) participation in buy-back or open offers or delisting offers or any other exit offered by the company generally to its shareholders, if required;
- d) for repaying the loan, if the unappropriated inventory of shares held by the trust is not appropriated within the timeline as provided above;
- e) winding up of the scheme(s); and
- f) based on approval granted by the Board to an applicant, for the reasons recorded in writing in respect of the schemes covered by Part A or Part B or Part C of Chapter III of these regulations, upon payment of a non-refundable fee of rupees one lakh to the Board along with the application by way of direct credit in the bank account through NEFT/RTGS/IMPS or any other mode allowed by the Reserve Bank of India.

Eligibility Criteria

An employee shall be eligible to participate in the schemes of the company as determined by the compensation committee.

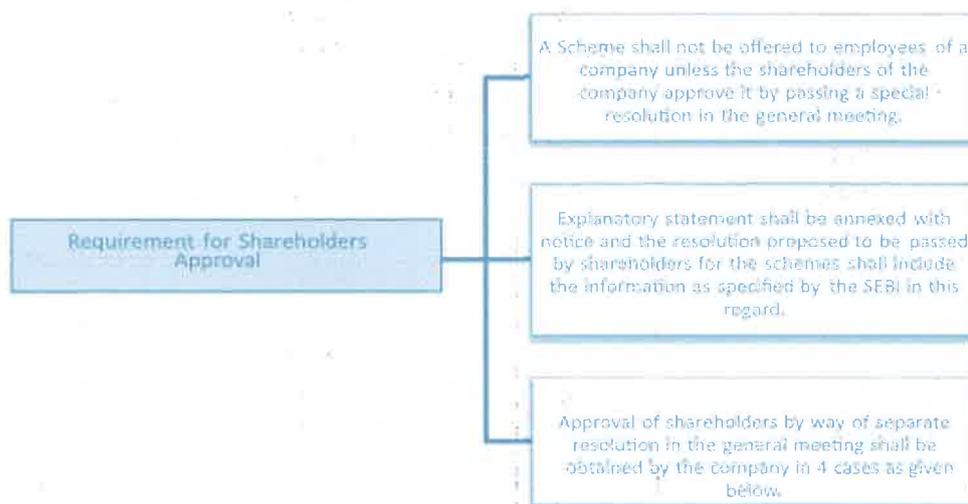
Compensation Committee

- 1) A company shall constitute a compensation committee for administration and superintendence of the schemes.
- 2) Where the scheme is being implemented through a trust the compensation committee shall delegate the administration of such scheme(s) to the trust.
- 3) The compensation committee shall be a committee of such members of the Board of Directors of the company as provided under regulation 19 of the SEBI (LODR) Regulations, 2015.

However, a company may also opt to designate its nomination and remuneration committee as the compensation committee for the purposes of these regulations.

- 4) The compensation committee shall, inter alia, formulate the detailed terms and conditions of the schemes.
- 5) The compensation committee shall frame suitable policies and procedures to ensure that there is no violation of securities laws by the trust, the company and its employees.

Shareholders' Approval



Approval of shareholders by way of separate resolution in the general meeting shall be obtained by the company in case of:

- Secondary acquisition for implementation of the schemes. Such approval shall mention the percentage of secondary acquisition that could be undertaken;
- Secondary acquisition by the trust in case the share capital expands due to capital expansion undertaken by the company including preferential allotment of shares or qualified institutions placement, to maintain the five percent cap as prescribed in these regulations of such increased capital of the company;
- Grant of option, SAR, shares or other benefits, as the case may be, to employees of subsidiary or holding company;
- Grant of option, SAR, shares or benefits, to identified employees, during any one year, equal to or exceeding one per cent. of the issued capital

(excluding outstanding warrants and conversions) of the company at the time of grant of option, SAR, shares or incentive.

Variation of Terms of the Schemes

- A company may by special resolution of its shareholders **vary the terms** of the schemes offered if such schemes is not yet exercised by the employees and **variation is not prejudicial to the interests** of the employees.
- A company shall be **entitled to vary** the terms of the schemes to meet any regulatory requirement **without seeking shareholders' approval** by special resolution.
- The Shareholders' Approval shall apply to such variation of terms as they apply to the original grant of option, SAR, shares or other benefits.
- The notice for passing a special resolution for variation of terms of the schemes shall disclose full details of the variation, the rationale therefor, and the details of the employees who are beneficiaries of such variation.
- A company **may reprice the options**, SAR or shares, which are not exercised, whether or not they have been vested, **if the schemes were rendered unattractive** due to fall in the price of the shares in the stock market.

Winding up of the Schemes

In case of **winding up of the schemes being implemented by a company**, the **excess monies or shares remaining with the trust** after meeting all the obligations, if any, shall be **utilised for repayment of loan or by way of distribution to employees** or subject to approval of the shareholders, be **transferred to another scheme** under these regulations, as recommended by the compensation committee.

Non-Transferability

- Option, SAR or any other benefit granted to an employee under the regulations shall **not be transferable to any person**.
- **No person, other than the employee** to whom the option, SAR or other benefit is granted, shall be **entitled to the benefit** arising out of such option, SAR or other benefit.
- The option, SAR, or any other benefit granted to the employee shall **not be pledged, hypothecated, mortgaged or otherwise alienated** in any other manner.
- In the **event of death of the employee** while in employment, all the options, SAR or any other **benefit granted** under a scheme to him/her till his/her death shall vest, with effect from the date of his/her death, in the **legal heirs or nominees of the deceased employee**, as the case may be.
- In case the employee **suffers a permanent incapacity** while in employment, all the options, SAR or any other benefit granted to him/her under a scheme as on the date of permanent incapacitation, **shall vest in him/her on that day**.
- In the event of **resignation or termination of an employee**, all the options, SAR or any other benefit which are granted and yet not vested as on that day, **shall expire**.

Listing

In case of the existing shares are listed, following conditions need to be fulfilled :-		
Scheme is in compliance with these regulations	A statement specified by the SEBI in this regard, is filed and the company has obtained an in-principle approval from the stock exchanges	As and when an exercise is made, the company notifies the concerned stock exchange as per the statement as specified by the SEBI in this regard

Certificate from Auditors

In the case of every company which has passed a resolution for the scheme(s) under these regulations, the **Board of Directors shall at each annual general meeting place before the shareholders a certificate from the secretarial auditors** of the company that the scheme(s) has been implemented in accordance with these regulations.

ADMINISTRATION OF SPECIFIC SCHEMES

Employee Stock Option Scheme (ESOS)

means a scheme under which a company grants employee stock options to employees directly or through a trust.

Administration and Implementation	<ul style="list-style-type: none"> • An ESOS shall contain the details of the manner in which the scheme will be implemented and operated. ESOS shall not be offered unless the disclosures, as specified by SEBI in this regard, are made by the company to the prospective option grantees.
Pricing	<ul style="list-style-type: none"> • The company granting options to its employees pursuant to an ESOS shall be free to determine the exercise price subject to conforming to the accounting policies specified in these regulation.
Vesting Period	<ul style="list-style-type: none"> • There shall be a minimum vesting period of one year in case of ESOS. • The company may specify the lock-in period for the shares issued pursuant to exercise of option.
Rights of the option holder	<ul style="list-style-type: none"> • An employee shall not have right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to him/her, till shares are issued upon exercise of option.
Rights of the option holder	<ul style="list-style-type: none"> • An employee shall not have right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to him/her, till shares are issued upon exercise of option.
Consequence of failure to exercise option	<ul style="list-style-type: none"> • The amount paid by the employee, if any, at the time of grant, vesting or exercise of option; - <ul style="list-style-type: none"> • may be forfeited by the company if the option is not exercised by the employee within the exercise period; or • may be refunded to the employee if the options are not vested due to non-fulfilment of conditions relating to vesting of option as per the ESOS.

Employee Stock Purchase Scheme (ESPS)

means a scheme under which a company offers shares to employees, as part of public issue or otherwise, or through a trust where the trust may undertake secondary acquisition for the purposes of the scheme.

Administration and Implementation Pricing and Lock-In

- An ESPS scheme shall contain the details of the manner in which the scheme will be implemented and operated.
- A company may determine the price of shares to be issued under an ESPS, provided they conform to the provisions of accounting policies under this regulation.
- Shares issued under an ESPS shall be locked-in for a minimum period of one year from the date of allotment.
- If ESPS is part of a public issue and the shares are issued to employees at the same price as in the public issue, the shares issued to employees pursuant to ESPS shall not be subject to lock-in.

Stock Appreciation Rights Scheme (SAR Scheme)

means a scheme under which a company grants SAR to employees.

Administration and Implementation	Vesting	Rights of the SAR holder
<p>ASAR scheme shall contain the details of the manner in which the scheme will be implemented and operated.</p> <p>A company shall have the freedom to implement cash settled or equity settled SAR scheme. However, for the purpose of these regulations, reference to SAR shall mean equity settled SARs only.</p> <p>No SAR shall be offered unless the disclosures, as specified by SEBI in this regard, are made by the company to the prospective SAR grantees.</p>	<p>There shall be a minimum vesting period of one year in case of SAR scheme.</p>	<p>The employee shall not have right to receive dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of SAR granted to him/her.</p>

General Employee Benefits Scheme (GEBS)

means any **scheme of a company** framed in accordance with these regulations, dealing in shares of the company or the shares of its listed holding company, for the purpose of **employee welfare including healthcare benefits, hospital care or benefits**, or such other benefit as specified by such company.

Administration and Implementation

- 1) GEBS shall contain the details of the scheme and the manner in which the scheme shall be implemented and operated.
- 2) The shares of the company or shares of its listed holding company shall not exceed ten per cent of the book value or market value or fair value of the total assets of the scheme, whichever is lower, as appearing in its latest balance sheet for the purposes of GEBS.
- 3) The secretarial auditor of the company shall certify the above mentioned point (2) compliance at the time of adoption of such balance sheet by the company.

Retirement benefit scheme (RBS)

means a **scheme of a company** framed in accordance with these regulations, dealing in shares of the company or the shares of its listed holding company, for providing **retirement benefits to the employees subject to compliance with existing rules and regulations** as applicable under laws relevant to retirement benefits in India.

Administration and Implementation

- 1) RBS may be implemented by a company subject to compliance with these regulations and provisions of any other law in force in relation to retirement benefits.
- 2) The RBS shall contain the details of the benefits under the scheme and the manner in which the scheme shall be implemented and operated.
- 3) The shares of the company or shares of its listed holding company shall not exceed ten per cent of the book value or market value or fair value of the total assets of the scheme, whichever is lower.
- 4) The secretarial auditor of the company shall certify compliance with above mentioned point (3) at the time of adoption of such balance sheet by the company.

ISSUE OF SWEAT EQUITY BY A LISTED COMPANY – CHAPTER IV OF SEBI (SHARE BASED EMPLOYEE BENEFITS AND SWEAT EQUITY) REGULATIONS, 2021

Sweat equity shares are **such equity shares, which are issued by a Company to its directors or employees at a discount or for consideration, other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.**

Applicability

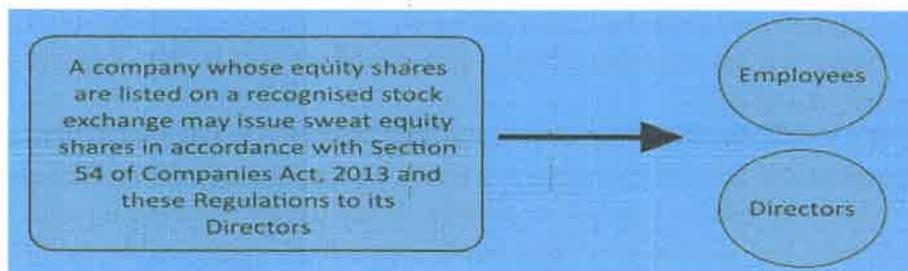
The provisions contained in this chapter shall **not apply to an unlisted company.**

However, an unlisted company coming out with initial public offer and seeking listing of its securities on the recognized stock exchange, pursuant to issue of sweat equity shares, is required to comply with the SEBI (ICDR) Regulations, 2018.

Definition of employee in relation to issue of sweat equity shares

The term 'employee' means,

- a) an employee of the company working in India or abroad; or
- b) a director of the company whether a whole time director or not



Maximum quantum of sweat equity shares

- A company shall **not issue sweat equity shares for more than 15% of the existing paid up equity share capital in a year.** However, the issuance of sweat equity shares in the company shall **not exceed 25% of the paid up equity share capital of the company at any time.**

- a company listed on IGP shall be permitted to issue not more than 15% of the paid up equity share capital in a financial year subject to overall limit not exceeding 50% of the paid up equity share capital of the company, up to 10 years from the date of its incorporation or registration.

Special Resolution

- For the purposes of passing a special resolution, the explanatory statement to be annexed to the notice for the general meeting
- The issue of sweat equity shares to employees who belong to promoter or promoter group shall be approved by way of a resolution passed by a simple majority of the shareholders in general meeting.

However, for passing such a resolution, voting through postal ballot and/or e-voting shall also be adopted.

Further, provided that the promoters/promoter group shall not participate in such resolution.

- Each issue of sweat equity shares shall be voted by a separate resolution.
- The resolution for issue of sweat equity shares shall be valid for a period of not more than twelve months from the date of passing of the resolution.

Pricing of sweat equity shares

The price of sweat equity shares shall be determined in accordance with the pricing requirements stipulated for a preferential issue to a person other than a qualified institutional buyer under the SEBI (ICDR) Regulations, 2018.

Valuation

- The valuation of the know-how or intellectual property rights or value addition shall be carried out by a merchant banker.
- The merchant banker may consult such experts and valuers, as it may deem fit, having regard to the nature of the industry and the nature of

the valuation of know-how or intellectual property rights or value addition.

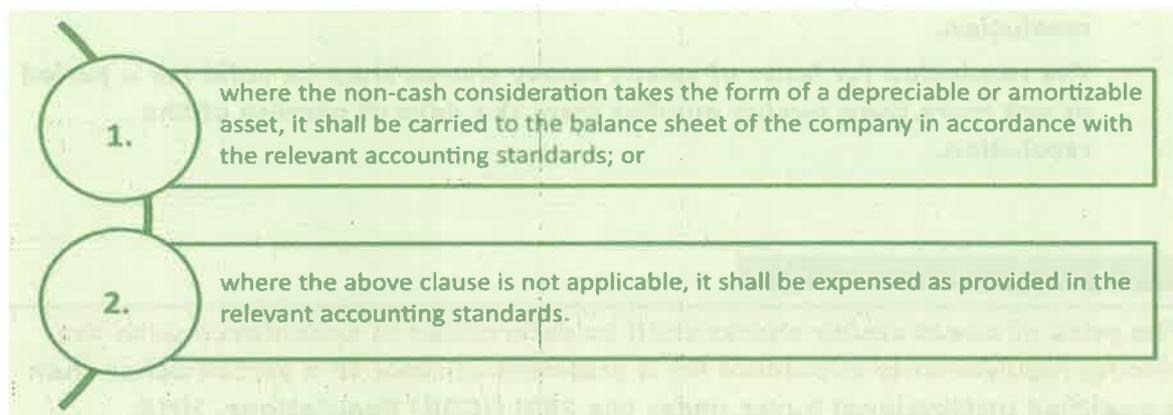
- The merchant banker shall obtain a certificate from an independent chartered accountant certifying that the valuation of the know-how or intellectual property rights or value addition is in accordance with the relevant accounting standards

Placing of auditor's certificate before annual general meeting

In the general meeting subsequent to the issue of sweat equity shares, the Board of Directors shall place before the shareholders, a certificate from the secretarial auditor of the company that the issue of sweat equity shares has been made in accordance with these regulations.

Accounting Treatment

Where the sweat equity shares are issued for a non-cash consideration, such non-cash consideration shall be treated in the following manner in the books of account of the company: -



Ceiling on managerial remuneration

The amount of sweat equity shares issued shall be treated as part of managerial remuneration if the following conditions are fulfilled:

- the sweat equity shares are issued to any director or manager; and
- the sweat equity shares are issued for non-cash consideration, which does not take the form of an asset which can be carried to the balance

sheet of the company in accordance with the relevant accounting standards.

Lock-in of sweat equity shares

The sweat equity shares shall be locked in for such period of time **as specified in relation to a preferential issue under the SEBI (ICDR) Regulations, 2018.**

Listing

The sweat equity shares issued by a listed company **shall be eligible for listing subject to their issuance being in accordance with these regulations.**

General Obligations

The company shall ensure that –

- a) the **explanatory statement** to the notice for general meeting contains the disclosures specified.
- b) the **secretarial auditor's certificate** is placed in the general meeting of the shareholders.
- c) the company, **within seven days of the issue of sweat equity shares, sends a statement to the recognized stock exchange, disclosing:**
 - number of sweat equity shares issued;
 - price at which the sweat equity shares are issued;
 - total amount received towards sweat equity shares;
 - details of the persons to whom sweat equity shares have been issued;
 - the consequent changes in the capital structure and the shareholding pattern before and after the issue of sweat equity shares.

CHAPTER – 10

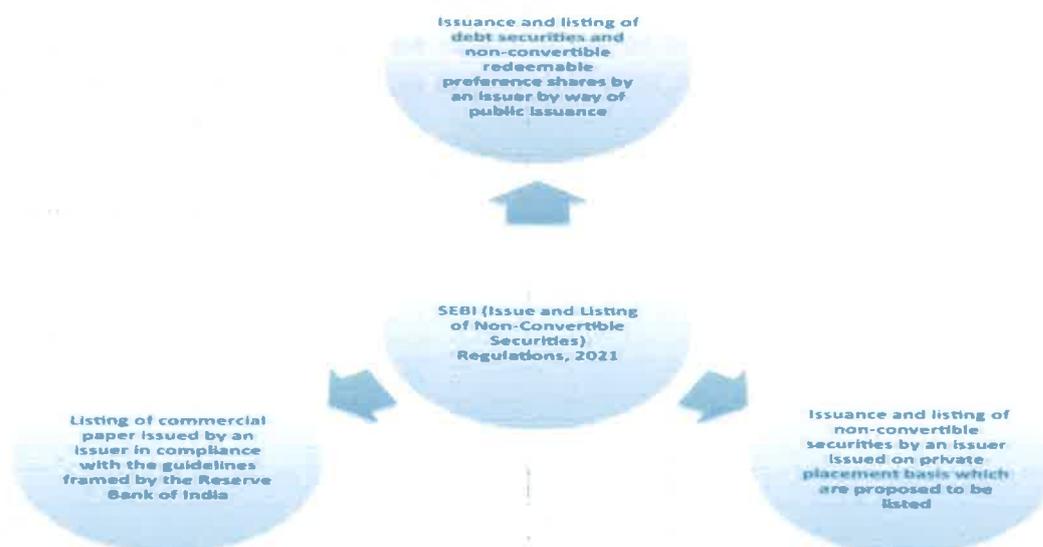
Issue and Listing of Non-Convertible Securities

INTRODUCTION

The new NCS Regulations provides for issuance and/or listing of the following securities

- a) Debt securities;
- b) Non-Convertible redeemable preference shares;
- c) Perpetual debt instruments or Perpetual Non-cumulative preference
- d) Commercial Paper.

APPLICABILITY [REGULATION 3]



GENERAL CONDITIONS AND ELIGIBILITY CRITERIA [CHAPTER II]

Applicability of this chapter (Regulation 4)

This chapter shall apply to the issuance and listing of:

- a) debt securities and non-convertible redeemable preference shares by an issuer **by way of public issuance;**
- b) non-convertible securities by an issuer **on private placement basis.**

Eligible issuers (Regulation 5)

1) The issuer shall **not make an issue of non-convertible securities if as on the date of filing of draft offer document or offer document:**

- The issuer, any of its promoters, promoter group or directors are **debarred from accessing the securities market or dealing in securities** by the SEBI;
- Any of the **promoters or directors of the issuer is a promoter or director of another company which is debarred** from accessing the securities market or dealing in securities by the SEBI;
- The issuer or any of its promoters or directors is a **wilful defaulter;**
- Any of the **promoters or whole-time directors of the issuer is a promoter or whole-time director of another company which is a wilful defaulter;**
- Any of its promoters or directors is a **fugitive economic offender;**
or
- Any **fine or penalties levied by the SEBI/Stock Exchanges is pending** to be paid by the issuer at the time of filing the offer document.
- the issuer is in default of payment of interest or repayment of principal amount in respect of non-convertible securities, if any, for a period of more than six months.

However, the:

- a) Restrictions mentioned at (b) and (d) above shall not be applicable in case of a person who was appointed as a director only by virtue of nomination by a debenture trustee in other company.
- b) Restrictions mentioned in (a) and (b) above shall not be applicable if the period of debarment is over as on date of filing of the draft offer document with the SEBI.
- c) Restrictions mentioned at (c) and (d) shall not be applicable in case of private placement of non-convertible securities.

In-principle approval(Regulation 6)

The issuer shall **make an application to one or more stock exchange(s) and obtain an in-principle approval for listing** of its non-convertible securities from the stock exchange(s) where such securities are proposed to be listed and **choose one among them as the designated stock exchange.**

Depositories(Regulation 7)

The issuer shall enter into an arrangement with a depository for dematerialization of the non-convertible securities.

Debenture Trustee(Regulation 8)

The issuer shall appoint a debenture trustee in case of an issue of debt securities.

Registrar to the Issue(Regulation 9)

The issuer shall appoint a Registrar to the Issue, registered with the SEBI, which has established connectivity with all the depositories.

However, if the issuer itself is a Registrar to the Issue, it shall not appoint itself as a Registrar to the Issue.

Provided further that the lead manager shall not act as a Registrar to the Issue in which is also handling the post-issue responsibilities.

Credit rating (Regulation 10)

The issuer shall obtain credit rating from at least one credit rating agency, which shall be disclosed in the offer document.

However, where the credit ratings are obtained from more than one credit rating agency for the issue, all the ratings, including the unaccepted ratings, shall be disclosed in the offer document.

Creation of Recovery Expense Fund (Regulation 11)

The issuer shall create a recovery expense fund with the designated stock exchange, by depositing such amount and in such form and manner as may be specified in the regulations.

Electronic Issuances (Regulation 12)

An issuer proposing to **issue non-convertible securities through the on-line system of the stock exchange and depositories** shall comply with the relevant applicable requirements as may be specified in the regulations.

Regulatory fees (Regulation 13)

In **case of public issue of debt securities and/or non-convertible redeemable preference shares**, the issuer shall while filing a draft offer document with the stock exchange **forward a soft copy of the draft offer document to SEBI for its records along with regulatory fees**.

In case of **non-convertible securities issued on a private placement basis**, the designated stock exchange shall collect a regulatory fee.

Right to recall or redeem prior to maturity (Regulation 15)

An issuer **making issuance of non-convertible securities shall:**

- a) have the right to recall such securities prior to the maturity date (call option);
- b) shall have a right to provide such right of redemption of debt securities prior to the maturity date (put option) to all the investors or only to retail investors.

Such right to recall non-convertible securities or redeem debt securities prior to the maturity date shall be exercised and detailed disclosure in this regard shall be made in offer document including date from which such right is exercisable, period of exercise (which shall not be less than three working days) and redemption amount (including the premium or discount at which such redemption shall take place).

In case of partial exercise of such right of the issue by the issuer, it shall be done on proportionate basis only.

No such right shall be exercisable before the expiry of one year from the date of issue of such non-convertible securities.

Issuer shall send notice to all the eligible holders of such non-convertible securities and debenture trustee at least twenty-one days before the date from which such right is exercisable.

Debenture Redemption Reserve/ Capital Redemption Reserve (Regulation 16)

The issuer shall create a debenture redemption reserve or capital redemption reserve.

International Securities Identification Number (Regulation 17)

An issuer issuing non-convertible securities shall comply with the conditions relating to the issue of International Securities Identification Number, as may be specified by the SEBI from time to time.

Trust Deed (Regulation 18)

The issuer and the debenture trustee shall execute the trust deed if fails to execute the deed pay interest of at least 2 percent per annum or such other rate, as specified by the SEBI to the holder of debt securities, over and above the agreed coupon rate, till the execution of the trust deed.

Such trust deed shall consist of two parts:

- a) Part A containing statutory/standard information pertaining to the debt issue.
- b) Part B containing details specific to the particular debt issue.

The trust deed shall not contain any clause which has the effect of:

- a) Limiting or extinguishing the obligations and liabilities of the debenture trustees or the issuer in relation to any rights or interests of the holders of the debt securities.
- b) Limiting or restricting or waiving the provisions of the Act, these regulations and circulars or guidelines issued by the SEBI.
- c) Indemnifying the debenture trustees or the issuer for loss or damage caused by their act of negligence or commission or omission.

Listing Agreement(Regulation 19)

Every issuer desirous of listing its non-convertible securities on a recognised stock exchange shall execute an agreement with such stock exchange.

Continuous Listing Conditions(Regulation 20)

All the issuers of non-convertible securities which are listed on stock exchange shall comply with the listing regulations and/or such other conditions and disclosure requirements.

Trading of Non-Convertible Securities(Regulation 21)

The trades in non-convertible securities listed on stock exchange shall be cleared and settled through clearing corporation of stock exchange. In case of trades of non-convertible securities which have been traded over the counter, such trades shall be reported on any one of the reporting platforms of a recognized stock exchange having a nation-wide trading terminal or such other platform.

Distribution of Dividend in case of default in payment of interest or redemption of debt securities(Regulation 22)

Where the issuer has defaulted in payment of interest or redemption of debt securities or in creation of security in accordance with the terms of the offer document, any distribution of dividend shall require approval of the debenture trustee.

Obligations of the Issuer (Regulation 23)

- The issuer shall treat all applicants to an issue of non-convertible securities in a fair and equitable manner.
- The issuer shall not employ any device, scheme, or artifice to defraud in connection with issue or subscription or distribution of non-convertible securities which are listed or proposed to be listed on the recognized stock exchange.
- The issuer shall apply for Securities and Exchange Board of India Complaints Redress System (SCORES) authentication and shall use the same for all issuance of non-convertible securities.
- In case of a public issue, the issuer shall provide all required information/ documents to the lead managers for conducting the due diligence.
- The issuer shall ensure that the secured debt securities are secured by 100% security cover or higher security cover sufficient to discharge the principal amount and the interest thereon at all times for the issued debt securities.

Obligations of Debenture Trustee (Regulation 24)

- The debenture trustee shall be vested with the requisite powers for protecting the interest of holders of debt securities including a right to appoint a nominee director on the Board of the issuer in consultation with holders of such debt securities.
- The debenture trustees shall supervise the implementation of the conditions regarding creation of security for the debt securities, creation of recovery expense fund and debenture redemption reserve.
- The debenture trustee shall monitor the security cover in relation to secured debt securities.

PUBLIC ISSUE AND LISTING OF DEBT SECURITIES AND NON CONVERTIBLE REDEEMABLE PREFERENCE SHARES [CHAPTER III]

Conditions for public issue:

- The issuer shall appoint one or more merchant bankers registered with the SEBI, as lead manager to the issue.
- Where the issue is managed by more than one lead manager, the rights, obligations and responsibilities, relating to disclosures, allotment, refund and underwriting obligations, if any, of each lead manager shall be predetermined and disclosed in the draft offer document and the offer document.
- Where there is only one lead manager it shall not be an associate of the issuer in case the lead manager is an associate, it shall disclose itself as an associate of the issuer and its role shall be limited to marketing of the issue.
- The issuers shall not make a public issue of debt securities and non-convertible redeemable preference shares for providing loan to or acquisition of shares of any entity who is part of the promoter group or group companies.

Filing of draft offer document

- Issuer shall not make a public issue unless a draft offer document has been filed with all the stock exchanges on which such securities are proposed to be listed, through the lead manager.
- The draft offer document filed with the stock exchange shall be made public by posting the same on the website of the stock exchange for seeking public comments for a period of 7 working days from the date of filing the draft offer document with stock exchange.
- The draft offer document shall also be displayed on the website of the issuer and the lead manager.
- The lead manager shall ensure that the draft offer document clearly specifies the who shall be a Compliance officer (company secretary) of the issuer.

- The lead manager shall ensure that all comments received on the draft offer document are suitably addressed prior to the filing of the offer document with the Registrar of Companies.
- The lead manager shall, prior to filing of the offer document with the Registrar of Companies, furnish to the SEBI a due diligence certificate in the format as per the regulations.

Disclosures in the offer document:

The offer document shall contain all material true, fair and adequate disclosures which are necessary for the subscribers of the debt securities and non-convertible redeemable preference shares to take an informed investment decision and shall not omit/ include any material fact.

Mode of Disclosure of the offer document:

The offer document shall be displayed on the websites of stockexchange, issuer and lead manager which shall be available for download in PDF or any other format as maybe specified by the SEBI.

Advertisements for Public issues:

The issuer shall make an advertisement in an english national daily and regional daily with wide circulation at the place where the registered office of the issuer is situated, on or before the issue opening date.

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 issue, except for fees or commission for services rendered in relation to the issue.

Abridged Prospectus and application forms:

The issuer and lead manager shall ensure that every application form and the abridged prospectus is in the format as specified by the SEBI and the abridged

prospectus shall not contain matters which are extraneous to the contents of the offer document.

Price Discovery and book building:

The issuer may determine the price and/or coupon of debt securities and non-convertible redeemable preference shares in consultation with the lead manager.

The issue of debt securities and non-convertible redeemable preference shares may be at fixed price and fixed coupon or the issuer may determine the demand.

Minimum subscription:

Minimum subscription for a public issue shall not be less than 75% of the base issue size or as may be specified by the SEBI.

In the event of non-receipt of minimum subscription, all blocked application money shall be unblocked forthwith, but not later than 8 working days from the date of closure of the issue.

Allotment of securities and payment of interest:

The issuer shall ensure that in case of listing of debt securities and non-convertible redeemable preference shares issued to public, allotment of securities offered to public shall be made in specified time.

Not allotted and/or application monies are not unblocked within the period stipulated, the issuer shall undertake to pay interest at the rate of 15% per annum to the investors.

Underwriting:

A public issue of debt securities and non-convertible redeemable preference shares may be underwritten by eligible intermediaries, either in full or part.

Due Diligence by Debenture trustee

The debenture trustee shall, at the time of filing the draft offer document with the stock exchange and prior to opening of the public issue of debt securities, furnish to the SEBI and stock exchange, a due diligence certificate.

LISTING OF PRIVATE PLACEMENT OF DEBT SECURITIES AND NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARES [CHAPTER IV]

Listing Application:

Where the issuer has disclosed the intention to seek listing of debt securities and non-convertible redeemable preference shares issued on private placement basis, the issuer shall forward the listing application along with the disclosures to the stock exchange within such days from the date of closure of the issue.

Allotment of securities:

The issuer shall ensure allotment of debt securities and non-convertible redeemable preference shares issued on a private placement basis and credit to the dematerialised account of the investor.

ISSUANCE AND LISTING OF PERPETUAL DEBT INSTRUMENTS, PERPETUAL NON-CUMULATIVE PREFERENCE SHARES AND SIMILAR INSTRUMENTS [CHAPTER V]

General Conditions:

An issuer may issue perpetual debt instruments, perpetual non-cumulative preference shares and instruments of similar nature in compliance with the guidelines issued by the Reserve Bank of India and/or any other relevant laws applicable to them.

LISTING OF COMMERCIAL PAPER [CHAPTER VI]

- Issuers desirous of listing of commercial paper shall comply with the conditions as may be specified by the SEBI from time to time.
- The designated stock exchange shall collect a regulatory fee from an issuer of commercial paper at the time of their listing.
- The issuer shall apply for Securities and Exchange Board of India Complaints Redress System (SCORES) authentication in the format

specified by the Board and shall use the same for issuance and listing of commercial paper.

ROLE OF A COMPANY SECRETARY

- A Company Secretary is a **vital link between the company and its Board of Directors, shareholders, government and regulatory authorities and all other stakeholders.**
- A Company Secretary **can play an important role in fulfilling the role as a governance professional for companies with listed debt securities.**
- The Company Secretary **monitors, manages the information updates and conducts regular assessment to ensure that company remains abreast of the regulatory standards.**

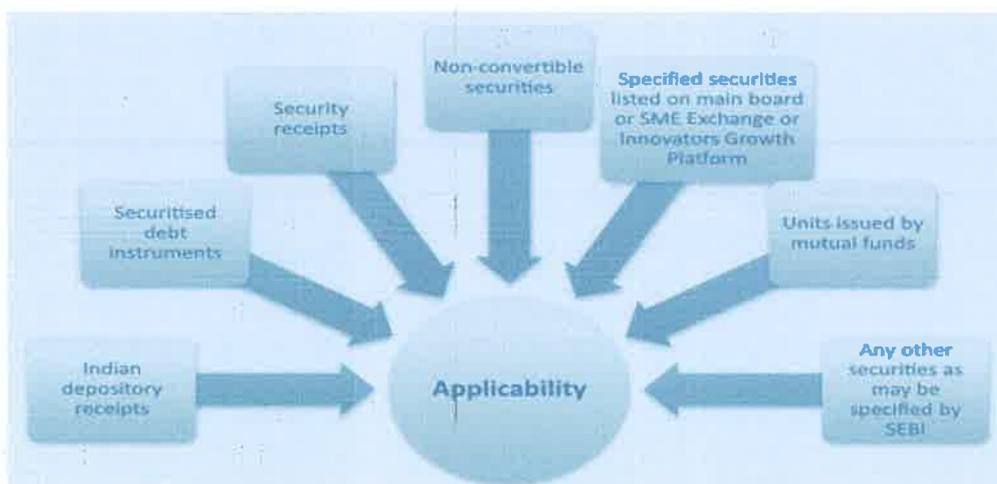
CHAPTER – 11

Listing Obligations and Disclosure Requirements

SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

APPLICABILITY

These regulations shall **apply to a listed entity which has listed any of the following designated securities on recognised stock exchange(s):**



OBLIGATIONS OF LISTED ENTITIES

Common obligations (Applicable for all listed entities)

Obligations of Listed entity which has listed its Specified Securities and non-convertible debt securities

Obligations of Listed entity which has listed its Non-Convertible Securities

Obligations of Listed entity which has listed its Specified Securities and either Non-Convertible Debt Securities or Non-Convertible Redeemable Preference Shares or both

Obligations of Listed entity which has listed its Indian depository receipts

Obligations of Listed entity which has listed its securitised debt instruments

Obligations of Listed entity which has listed its Security Receipts

Obligations of Listed entity which has listed its units issued by mutual funds

COMMON OBLIGATIONS OF LISTED ENTITIES

Compliance officer and his/her obligations:

A listed company shall appoint a qualified Company Secretary as the Compliance officer who shall be responsible for:

- a) **Ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit;**

- b) Co-ordination and reporting to Board, recognised stock exchange(s) and depositories;
- c) Ensuring correct procedures are followed and reports are filed;
- d) Monitoring email address of grievance redressal division.

Whether a director of a listed company who is a qualified company secretary can be appointed as a compliance officer in the same listed company?

As per Reg. 6(1) of SEBI (LODR) Regulations, 2015, a compliance officer shall be a qualified company secretary. There is no restriction prescribed under these regulations which prohibits the director of the listed company to act as a compliance officer of the listed entity.

Share-transfer agent:

The listed entity shall appoint a share transfer agent or manage the share transfer facility in house.

Co-operation with intermediaries registered with the SEBI:

Wherever applicable the listed entity shall co-operate with and submit correct and adequate information to the intermediaries registered with the SEBI such as credit rating agencies, registrar to an issue and share transfer agent etc.

Preservation of documents:

The listed entity shall have a policy for preservation of documents, approved by its board of directors, classifying them in at least two categories as follows-

- documents whose preservation shall be permanent in nature;
- documents with preservation period of not less than eight years after completion of the relevant transactions.
- However, the listed entity may keep documents in electronic mode.

Filing of information:

The listed entity shall file the reports, statements, documents, filings and any other information with the recognised stock exchange(s) on the electronic platform as specified by the SEBI or the recognised stock exchange(s).

Scheme of Arrangement:

The listed entity shall ensure that any scheme of arrangement /amalgamation/ merger /reconstruction /reduction of capital etc. to be presented to any Court or Tribunal does not in any way violate, override or limit the provisions of securities laws or requirements of the stock exchange(s).

Payment of dividend or interest or redemption or repayment:

The listed entity shall use any of the electronic mode of payment facility approved by the Reserve Bank of India, in the manner specified in Schedule I, for the payment of dividends, interest, redemption or repayment amounts.

Grievance Redressal Mechanism:

The listed entity shall ensure that adequate steps are taken for expeditious redressal of investor complaints. The listed entity shall ensure that it is registered on the SCORES platform or such other electronic platform or system of the SEBI as shall be mandated from time to time.

Fees and other charges to be paid to the recognized stock exchange(s):

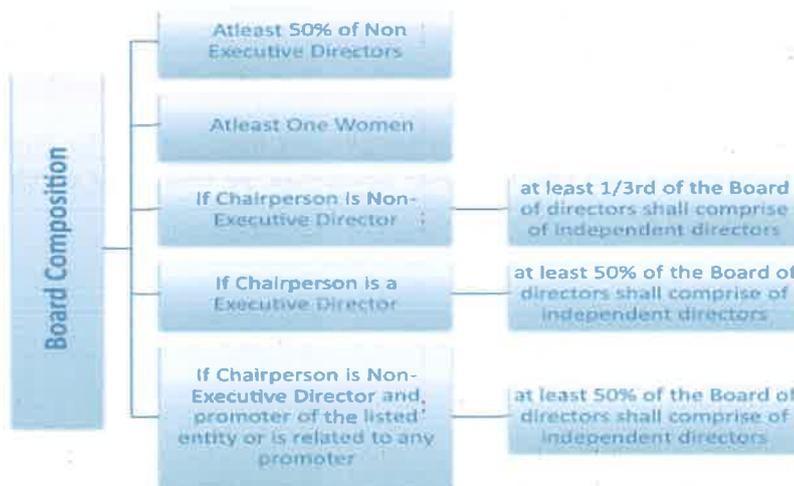
The listed entity shall pay all such fees or charges, as applicable, to the recognised stock exchange(s), in the manner specified by the SEBI or the recognised stock exchange(s).

KEY PROVISIONS PERTAINING TO CORPORATE GOVERNANCE UNDER SEBI (LODR) REGULATIONS, 2015



Composition of Board of Directors [Regulation 17]

- Board of Directors shall have optimum combination of executive and non-executive directors with at least one-woman director and not less than fifty per cent. of the board of directors shall comprise of non-executive directors.
- However, the Board of directors of the top 1000 listed entities shall have at least one independent woman director by April 1, 2020.
- The composition of board of directors are as follows: -



- Where the listed company has outstanding SR equity shares, atleast half of the board of directors shall comprise of independent directors.

Minimum Directors Requirement

The board of directors of the **top 2000 listed entities** shall comprise of **not less than six directors**.

Meetings of Board

The Board shall **meet at least four times a year, with a maximum time gap of one hundred and twenty days** between any two meetings.

Maximum age of non-executive directors

No listed entity shall **appoint a person or continue the directorship** of any person as a non-executive director **who has attained the age of 75 years unless a special resolution is passed** to that effect.

The listed entity shall ensure that approval of shareholders for appointment of a person on the Board of Directors or as a manager is taken at the next general meeting or within a time period of three months from the date of appointment, whichever is earlier.

Quorum of board meeting

The quorum for every meeting of the board of directors shall be **one-third of its total strength or three directors, whichever is higher**, including at least one independent director.

Board Committee



Audit Committee [REGULATION 18]

Composition

- The committee shall comprise of **at least three directors**.
- At least **Two- thirds** of the members of audit committee shall be **independent directors**.
- In case of a listed entity having **outstanding SR equity shares**, the audit committee shall **only comprise of independent directors**.
- All members of audit committee shall be **financially literate and at least one member shall have accounting or related financial management expertise**.

Chairperson

- The chairperson shall be **an independent director**.
- The Chairperson shall be **present at Annual general meeting to answer shareholder queries**.

Meetings

- The committee shall **meet at least four times in a year and not more than one hundred and twenty days shall elapse between two meetings**.

Quorum

- The quorum for audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors.

Role of Committee

- The role of the audit committee and the information to be reviewed by the audit committee shall be as specified in Part C of Schedule II.

Nomination & Remuneration Committee [REGULATION 19]

Composition

- The committee shall comprise of at least three directors.
- All directors of the committee shall be non-executive directors.
- At least two-thirds of the directors shall be independent directors.

Chairperson

- The Chairperson shall be an independent director.
Provided that the chairperson of the listed entity, whether executive or non-executive, may be appointed as a member of the Committee and shall not chair such Committee.
- The Chairperson may be present at the annual general meeting, to answer the shareholders' queries.
However, it shall be up to the chairperson to decide who shall answer the queries.

Meetings

- The committee shall meet at least once in a year.

Quorum

- The quorum for a meeting of the nomination and remuneration committee shall be either two members or one third of the members of the committee, whichever is greater, including at least one independent director in attendance.

Role of Committee

- The role of the nomination and remuneration committee shall be as specified as in Part D of the Schedule II.

Stakeholders Relationship Committee [REGULATION 20]

Composition

- The committee shall comprise of at least three directors.
- The committee shall have at least one independent director.
- In case of a listed entity having outstanding S Equity shares, at least two thirds of the Stakeholders Relationship Committee shall comprise of independent directors.

Chairperson

- The chairperson of this committee shall be a non-executive director.
- The Chairperson of the Stakeholders Relationship Committee shall be present at the annual general meetings to answer queries of the security holders.

Meetings

- The committee shall meet at least once in a year.

Role of Committee

- The role of the Stakeholders Relationship Committee shall be as specified as in Part D of the Schedule II.

Risk Management Committee [REGULATION 21]

Composition

- The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director.

- In case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise independent directors.

Chairperson

- The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.

Meetings

- The committee shall meet at least twice in a year.

Quorum

- The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.
- The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than one hundred and eighty days shall elapse between any two consecutive meetings.

Role of Committee

- The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit (such function shall specifically cover cybersecurity).
- The role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II.

Note:

- The Company Secretary shall act as the secretary to the audit committee.
- The provisions of Risk Management Committee shall be applicable to top 1000 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year.
- The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

Maximum Number of Directorships / Committee Membership & Chairpersonship

- A person shall not be a director in more than seven listed entities with effect from April 1, 2020. However, a person shall not serve as an independent director in more than seven listed entities.
- Any person who is serving as a whole-time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities.
- A director shall not be a member in more than ten committees or act as chairperson of more than five committees across all listed entities in which he / she is a director which shall be determined as follows:
 - a) the limit of the committees on which a director may serve in all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies, high value debt listed entities and companies under Section 8 of the Companies Act, 2013 shall be excluded;
 - b) for the purpose of determination of limit, chairpersonship and membership of the audit committee and the Stakeholders' Relationship Committee alone shall be considered.

Related Party

As per Regulation 2(1) (zb) "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.

Deemed related party

- a) any person or entity forming a part of the promoter or promoter group of the listed entity;
- b) any person or any entity, holding equity shares of 20% or more; or 10% or more, with effect from April 1, 2023; in the listed entity either directly or on a beneficial interest basis at any time, during the immediately preceding financial year, shall be deemed to be a related party.

However, this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s).

Related Party Transactions(Regulation 23)

As per Regulation 2(1)(zc), related party transaction means a transaction involving a transfer of resources, services or obligations between:

- a) a listed entity or any of its subsidiaries and a related party of the listed entity or any of its subsidiaries or
- b) a listed entity or any of its subsidiaries and any other person or entity the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract:

Following shall not be a related party transaction:

- a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- b) the following corporate actions by the listed entity which are uniformly applicable to all shareholders in proportion to their shareholding:
 - payment of dividend;
 - subdivision or consolidation of securities;
 - issuance of securities by way of a rights issue or a bonus issue;

- buy-back of securities.
- c) **acceptance of fixed deposits by banks/NBFC at the terms uniformly applicable to all shareholders subject to disclosure of the same along with related party transactions every 6 months to the stock exchange.**

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 rupees one thousand crore or 10 % of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.



With effect from July 01, 2019 a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed five percent 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 and subsequent material modifications **shall require prior approval of the audit committee of the listed entity.**

However, only those members of the audit committee, who are **independent directors, shall approve related party transactions.**

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** in line with the policy on related party transactions of the listed entity 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:
 - I. the name(s) of the related party, nature of transaction, period of transaction, maximum number of transactions that shall be entered into;
 - II. the indicative base price / current contracted price and the formula for variation in the price if any;
 - III. such other conditions as the audit committee may deem fit.

However, where the 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 and subsequent material modifications as defined by the audit committee shall require prior approval of the shareholders through resolution and no related party shall vote to approve 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 whose accounts are consolidated and placed before the shareholders at the general meeting for approval;
- c) transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated and placed before the shareholders at the general meeting for approval.

Corporate governance requirements related to Subsidiary [Regulation 24]

- "Material Subsidiary" shall mean a subsidiary, whose income or net worth exceeds 20% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.
- At least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not.
- The audit committee of the listed entity shall review the financial statements, in particular, the investments made by the unlisted subsidiary.
- The minutes of the meetings of the board of directors of the unlisted subsidiary shall be placed at the meeting of the board of directors of the listed entity.
- The management of the unlisted subsidiary shall periodically bring to the notice of the board of directors of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary.

Secretarial Audit and Secretarial Compliance Report [Regulation 24A]

- Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex a secretarial audit report given by a company secretary in practice with the annual report of the listed entity.
- Every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within sixty days from end of each financial year.

Exceptions for Listed Entity which has listed its Specified Securities

As per Regulation 15(2) of the SEBI (LODR) Regulations, 2015 the compliance with the corporate governance provisions as specified in Regulations 17 to 27 and clauses (b) to (i) and Regulation 46(2) and para C, D and E of Schedule V shall not apply, in respect of following –

1) A listed entity having: -

- a) paid up equity share capital not exceeding rupees 10 crore;
- b) net worth not exceeding rupees 25 crore, as on the last day of the previous financial year.

Provided that once the above regulations become applicable to a listed entity, they shall continue to remain applicable till such time the equity share capital or the networth of such entity reduces and remains below the specified threshold for a period of three consecutive financial years.

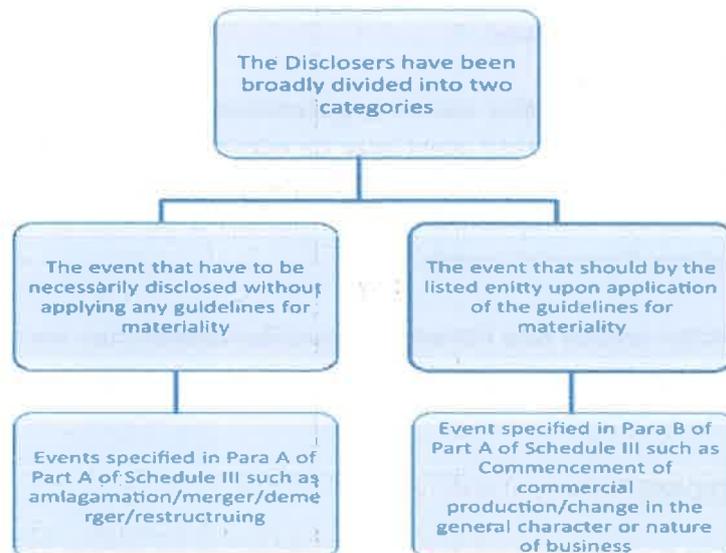
2) A listed entity which has listed its specified securities on the SME Exchange.

PRIOR INTIMATIONS[REGULATION 29]

The listed entity is **required to give prior intimation to stock exchange about the meeting of the board of directors in which any of the following proposals is due to be considered** to ensure a complete transparency and to maintain the volatility of the market price of the shares of the Company.

At least 5 Clear Days In advance	At least 2 Working Days In advance	At least 11 Working Days In advance
<ul style="list-style-type: none"> • financial results viz. quarterly, half yearly, or annual, as the case may be. 	<ul style="list-style-type: none"> • proposal for buyback of securities; • proposal for voluntary delisting; • fund raising by way of FPO, rights Issue, ADR/GDR/FCCB, QIP, debt issue, preferential issue or any other method and for determination of issue price; • declaration/ recommendation of dividend, issue of convertible securities including convertible debentures; • declaration of bonus securities. 	<ul style="list-style-type: none"> • any alteration in the form or nature of any of its listed securities or in the rights or privileges of the holders thereof; • any alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.

DISCLOSURE OF EVENTS OR INFORMATION [REGULATION 30]



- The listed entity shall frame a policy for determination of materiality, based on criteria duly approved by its board of directors, which shall be disclosed on its website.
- The board of directors of the listed entity shall authorize one or more KMP for the purpose of determining materiality making disclosures to stock exchange and disclosed the contact details of such personnel to the stock exchange and as well as on the listed entity's website.
- The listed entity shall first disclose to stock exchange of all events or information not later than 24 hours from the occurrence of event or information.

Outcome of Meetings of the board of directors

(to be disclosed to the Exchange within 30 minutes of the closure of the meeting)

- dividends and/or cash bonuses recommended or declared or the decision to pass any dividend and the date on which dividend shall be paid/dispatched
- any cancellation of dividend with reasons thereof;

- the decision on buyback of securities;
- the decision with respect to fund raising proposed to be undertaken;
- increase in capital by issue of bonus shares through capitalization including the date on which such bonus shares shall be credited/dispatched;
- reissue of forfeited shares or securities, or the issue of shares or securities held in reserve for future issue
- short particulars of any other alterations of capital, including calls;
- financial results;
- decision on voluntary delisting by the listed entity from stock exchange(s).

DOCUMENTS & INFORMATION TO SHAREHOLDERS [REGULATION 36]

The listed entity shall **send the annual report to the shareholders not less than 21 days before the annual general meeting** in the following manner:

- a) Soft copies of full annual report to all those shareholders who have registered their email address either with the listed entity or with any depository;
- b) Hard copy of statement containing the salient features of all the documents, to those shareholders who have not so registered;
- c) Hard copies of full annual reports to those shareholders, who request for the same.

MEETINGS OF SHAREHOLDERS AND VOTING [REGULATION 44]

- The **top 100 listed entities** by market capitalization, determined as on March 31st of every financial year, **shall hold their annual general meetings within a period of five months** from the date of closing of the financial year.
- The top 100 listed entities shall **provide one-way live webcast of the proceedings of the annual general meetings**.
- The listed entity shall **provide the facility of remote e-voting to its shareholders** and submit to the stock exchange, within 2 working days of conclusion of its General Meeting, details regarding the voting results

POLICIES AND PROCESSES UNDER SEBI (LODR) REGULATIONS

Regulation	Title of Policy	Requirements
9	Preservation of documents Policy	To be classified into two categories:- <ol style="list-style-type: none"> 1. documents whose preservation shall be permanent in nature. 2. documents with preservation period of not less than eight years after completion of the relevant transactions.
16(1)(c)	Policy on determining "material subsidiary"	The listed entity shall formulate a policy for determining 'material' subsidiary.
17(5)	Code of Conduct	The board of directors shall lay down a code of conduct for all members of board of directors and senior management of the listed entity. The code of conduct shall suitably incorporate the duties of independent directors as laid down in the Companies Act, 2013.
17(9)(b)	Risk Management Policy	The board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity.
22	Vigil Mechanism	<ul style="list-style-type: none"> • The listed entity shall formulate a vigil mechanism/whistle blower policy 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.
23(f)	Materiality of related party transactions and on dealing with related party transactions	The listed entity shall formulate a policy on materiality of related party transactions and on dealing with related party transactions, including clear threshold limits duly approved by the board of directors and such policy shall be reviewed by the board of directors at least once every three years and updated accordingly.
30	Policy on determination of materiality of events/ information	The listed entity shall frame a policy for determination of materiality, based on criteria specified in this sub-regulation, duly approved by its board of directors, which shall be disclosed on its website.
43A	Dividend Distribution Policy	The top 1000 listed entities based on market capitalization shall formulate a dividend distribution policy which shall be disclosed on the website of the listed entity and a web link shall also be provided in their annual reports.
Part D of Schedule II	Board Diversity Policy	The Nomination and Remuneration Committee shall devise a policy on diversity of board of directors.

COMPLIANCES UNDER SEBI (LODR) REGULATIONS WHICH HAS LISTED ITS SPECIFIED SECURITIES

- One Time Compliances
- Quarterly Compliances
- Half yearly Compliances
- Yearly Compliances
- Event based Compliances

One-time Compliances

Regulation	Particulars
6(1)	A listed entity shall appoint a Company Secretary as the Compliance Officer
7(1)	The listed entity shall appoint a share transfer agent or manage the share transfer facility in house. However, in the case of In-house share transfer facility, as and when the total number of holders of securities of the listed entity exceeds one lakh, the listed entity shall either register with the SEBI as a Category II share transfer agent or appoint Registrar to an issue and share transfer agent registered with the SEBI
9	The listed entity shall have a policy for preservation of documents, approved by its Board of Directors

Quarterly Compliances

Regulation	Title	Particulars	Time Limit
13(3)	Investor complaints Statement	<p>The listed entity shall file with the recognized stock exchange, a statement giving the number of investor complaints</p> <ul style="list-style-type: none"> • pending at the beginning of the quarter • those received during the quarter, • disposed of during the 	within 21 days from end of quarter

		<p>quarter</p> <ul style="list-style-type: none"> those remaining unresolved at the end of the quarter 	
27(2)	Quarterly Compliance report	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 exchange(s).	within 21 days from the end of each quarter.
31(1)(b)	Shareholding pattern	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)	Statement of deviation(s) or Variation(s)	The listed entity shall submit to the stock exchange a statement of deviation or variation (for public issue, rights issue, preferential issue etc.)	Quarterly Basis till such time the issue proceeds have been fully utilized or the purpose for which these proceeds were raised has been achieved.
32(6)	Monitoring Agency Report	Where the listed entity has appointed a monitoring agency to monitor utilisation of proceeds of a public or rights issue, the listed entity shall submit to the stock exchange(s) any comments or report received from the monitoring agency.	within 45 days from the end of each quarter.
33(3)	Financial results	The listed entity shall submit quarterly and year-to-date	within 45 days of end of each

		<p>standalone financial results to the stock exchange.</p> <p>In case the listed entity has subsidiaries, the listed entity shall also submit consolidated financial results.</p>	<p>quarter, other than the last quarter.</p>
47	Advertisements in Newspapers	<p>Financial results, along-with the modified opinion(s) or reservation(s), if any, expressed by the auditor.</p>	<p>within 48 hours of conclusion of the meeting of board of directors.</p>

Half Yearly Compliances

Regulation	Title	Particular	Time Limit
23(9)	Related Party disclosures	The listed entity shall submit to the stock exchange, disclosures of related party transactions in the format as specified by the SEBI from time to time	The listed entity is required to publish the same on its website
33(3)	Statement of Assets and Liabilities/ Cashflow	The listed entity shall also submit as part of its standalone or consolidated financial results for the half year a statement of assets and liabilities and a statement of cash flows by way of a note	Half-yearly basis

Yearly Compliances

<i>Regulation</i>	<i>Title</i>	<i>Particulars</i>	<i>Time Limit</i>
7(3)	Compliance Certificate	The listed entity shall submit a compliance certificate to the exchange, duly signed by both the compliance officer of the listed entity and the authorised representative of the share transfer agent certifying that all activities in relation to share transfer facility of the listed entity are maintained either in house or by Registrar to an issue and share transfer agent registered with the SEBI	Within 30 from the end of the financial year
14	Annual Listing Fees	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 Exchange(s)	Within 30 days of the end of financial year
33(3)	Annual Financial results	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	Annual Report	The listed entity shall submit and publish on its website the annual report along with the Notice of the Annual General Meeting to the stock exchange	Not later than the day of commencement or dispatch to its shareholders
34(1)(b)	Changes to annual report	In case any changes to the annual report, the revised copy along with the details of and explanation for the changes shall be sent	Not later than 48 hours after the annual general meeting

36	Annual reports to securities holders	The listed entity shall send annual report to the holders of securities	Not less than 21 days before the annual general meeting, (in soft or hard copy)
40(9)	Certificate	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 practising company secretary certifying that all certificates have been issued within thirty days of the date of lodgment for transfer, subdivision, consolidation, renewal, exchange or endorsement of calls/ allotment monies	Within 30 days from the end of the financial year

Event based Compliances

Regulation	Title	Particulars	Time Limit
7(5)	Share-transfer agent	The listed entity shall intimate the appointment of Share Transfer Agent, to the stock exchange(s)	Within 7 days of Agreement with RTA
31(1)(a)	Holding of Specified securities	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)	Shareholding pattern	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 case of Capital Restructuring	Within 10 days of any capital restructuring exceeding 2% of the total paid-up share capital
31A(8)	Disclosure of material events in case for reclassification of any person as promoter/public	The listed entity shall disclose to the stock exchange the deemed material events i.e., receipt of request for re-classification by the listed entity from the promoter(s) seeking re-classification, Minutes of the board meeting considering such request which would include the views of the board on the request, etc.	within 24 hours from the occurrence of the event
37(1)	Scheme of arrangement	The listed entity shall file draft Scheme of Arrangement to the stock exchange(s)	Prior approval before filing with Court or Tribunal

39(2)	Issue of Certificate	The listed entity shall effect issuance of certificates or receipts or advices, as applicable, of subdivision, split, consolidation, renewal, exchanges, endorsements, issuance of duplicates thereof or issuance of new certificates or receipts or advices, as applicable, in cases of loss or old decrepit or worn out certificates or receipts or advices, as applicable, in dematerialised form	Within 30 days from the date of such lodgment
39(3)	Information relating loss of securities	The listed entity shall submit information with respect to loss of share certificates and issue of the duplicate certificates to the stock exchange	Within 2 days of getting information
40(3)	Registering the transfer of securities	The listed entity shall register transfers of its securities in the name of the transferee(s) and issue certificates or receipts or advices, as applicable, of transfers, or issue any valid objection or intimation to the transferee or transferor, as the case may be	Within 15 days from the date of such receipt of request for transfer
	Transmission request	The listed entity shall ensure that transmission requests are processed	Within 7, after receipt of the specified documents
42(2)	Record Date / Book Closure	The listed entity shall intimate the record date or date of closure of transfer books to all the stock exchange(s) specifying the purpose of the record date where it is listed or where stock derivatives are available on the stock of the listed entity or where listed entity's stock form part of an index on which derivatives are available. The listed entity shall intimate the following events: <ul style="list-style-type: none"> (a) declaration of dividend (b) issue of right or bonus shares (c) issue of shares for conversion of debentures or any other convertible security (d) shares arising out of rights attached to debentures or any other convertible security (e) corporate actions like mergers, demergers, splits, etc. 	In case of Right Issue, at least 3 working days in advance (excluding the date of intimation and record date) Other than Right Issue, at least 7 working days in advance (excluding the date of intimation and record date)

46	Maintenance of website	The listed entity shall maintain a functional website containing the basic information about the listed entity and update any change in the content of its website	Within 2 working days from the date of change in content
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REGULATIONS APPLICABLE ON TOP 500, TOP 1000 AND TOP 2000 LISTED ENTITIES**TOP 1000 LISTED ENTITIES**

- Board of directors shall have at least one independent woman director
- With effect from January 1, 2022, entities shall undertake Directors and Officers insurance ('D and O insurance') for all their independent directors of such quantum and for such risks as may be determined by its board of directors.
- The provisions of Risk Management Committee shall be applicable to top 1000 listed entities.
- The top 1000 listed entities shall formulate a dividend distribution policy which shall be disclosed on the website of the listed entity and a web-link shall also be provided in their annual reports.

TOP 2000 LISTED ENTITIES

- The board of directors shall comprise of not less than six directors.
- The quorum for every meeting of the board of directors shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.

COMPLIANCES UNDER SEBI (LODR) REGULATIONS FOR THE LISTED ENTITY WHICH HAS LISTED ITS NON-CONVERTIBLE SECURITIES

Regulation	Title	Intimation to Stock Exchanges	Time Limit
50(1)	Intimation to stock exchanges	The listed entity shall give prior intimation to the stock exchange about the Board meeting in which any of the following proposals is to be considered: (a) an alteration in the form or nature of non-convertible securities that are listed on the stock exchange or in the rights or privileges of the holders thereof; (b) an alteration in the date of the interest/ dividend/ redemption payment of non-convertible securities; (c) financial results viz. quarterly or annual, as the case may be; (d) fund raising by way of issuance of non-convertible securities; or (b) any matter affecting the rights or interests of holders of non-convertible securities.	At least two working days in advance, excluding the date of the intimation and the date of the meeting of the board of directors
50(2)	Intimation to Stock-exchanges	The listed entity shall also intimate the stock exchange, in case of: (a) any annual general meeting or extraordinary general meeting that	Not later than the date of commencement of dispatch of notices

		is proposed to be held for obtaining shareholder approval for the proposals in relation to financial results viz. quarterly or annual, as the case may be or fund raising by way of issuance of non-convertible securities; (b) any meeting of the holders of non-convertible securities in relation to any matter affecting the rights or interests of holders of non-convertible securities.	
52(1)	Quarterly Financial results	The listed entity shall prepare and submit unaudited or audited quarterly and year to date standalone financial results on a quarterly basis in the format as specified by the Board.	Within 45 days from the end of the quarter, other than last quarter
Proviso to 52(1)	Copy of financial results to Debenture Trustee	The listed entities which have listed their debt securities, a copy of the financial results submitted to stock exchanges shall be provided to Debenture Trustees	On the same day on which the information is submitted to the stock exchange
52(2)	Annual Financial Results	The listed entity shall prepare and submit Annual audited standalone and consolidated financial results	Within 60 days from the end of the financial year
54(2)	Disclosure of Security Cover	The listed entity shall disclose to the stock exchange the extent and nature of security created and maintained with respect to its secured listed non-convertible debt securities.	Quarterly, half-yearly, year-to-date and annual financial statements as applicable
55	Credit Ratings	Each rating obtained by the listed entity with respect to non-convertible securities shall be reviewed by a credit rating agency registered by the SEBI	At least once a year
57(1)	Certificate	The listed entity shall submit a certificate to the stock exchange regarding status of payment in case of non-convertible securities.	Within one working day of the interest or dividend or principal becoming due

LIABILITY OF A LISTED ENTITY FOR CONTRAVENTION

The listed entity or any other person thereof who contravenes any of the provisions of these SEBI (LODR) regulations, shall, in addition to liability for action in terms of the securities laws, be liable for the following actions by the respective stock exchange(s), in the manner specified in circulars or guidelines issued by the SEBI:

- a) imposition of fines
- b) suspension of trading
- c) freezing of promoter/promoter group holding of designated securities, as may be applicable, in coordination with depositories;
- d) any other action as may be specified by the SEBI from time to time.

ROLE OF COMPANY SECRETARY

For Company Secretary in Employment

- A listed entity shall appoint a Qualified Company Secretary as the Compliance Officer.
- The compliance officer of the listed entity shall be responsible for –
 - a) ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit.
 - b) co-ordination with and reporting to SEBI, recognised stock exchange(s) and depositories with respect to compliance with rules, regulations and other directives of these authorities.
 - c) ensuring that the correct procedures have been followed that would result in the correctness, authenticity and comprehensiveness of the information, statements and reports filed by the listed entity.
 - d) monitoring email address of grievance redressal division as designated by the listed entity for the purpose of registering complaints by investors.
- The listed entity shall submit a compliance certificate to the exchange, duly signed by both the compliance officer of the listed entity and the authorised representative of the share transfer agent, wherever applicable, within one month of end of each half of the financial year, certifying that all activities in relation to both physical and electronic share transfer facility are maintained either in house or by Registrar to an issue and share transfer agent registered with SEBI.

For Company Secretary in Practice

The following are the recognition to Company Secretary under the SEBI Listing Regulations, 2015: -

a) **Certificate regarding Transfer of Securities:**

Certification to the effect that all transfers have been completed within the stipulated time.

b) **Certificate Regarding Compliance of Conditions of Corporate governance under SEBI Listing Regulations:**

SEBI listing regulations authorizes Company Secretary in Practice to issue certificate regarding compliance of conditions of Corporate Governance.

c) **Secretarial Audit and Secretarial Compliance Report:**

Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity.

d) **Certification regarding Director's Disqualification:**

A certificate from a Company Secretary in Practice that none of the directors on the board of the company have been debarred or disqualified from being appointed or continuing as Directors of Companies by the Board/ Ministry of Corporate Affairs or any such Statutory Authority.

CHAPTER – 12

Acquisition of Shares and Takeovers – Concepts

INTRODUCTION

- Takeover is an **arrangement whereby one company acquires control over another company**, usually by purchasing all or a majority of its shares, voting rights, or control.
- Ordinarily, a larger company takes over a smaller company.
- But in a reverse takeover, a smaller company acquires control over a larger company.
- SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 aims at protecting interest of the investors in securities of a listed company providing amongst others, an opportunity for the public shareholders to exit where there is a substantial acquisition of shares or voting rights or control over a listed company.

Important Definition

Acquirer

“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.

Acquisition

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

Control

“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.

However, 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.

Enterprise value

Enterprise value means the value calculated as market capitalization of a company plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

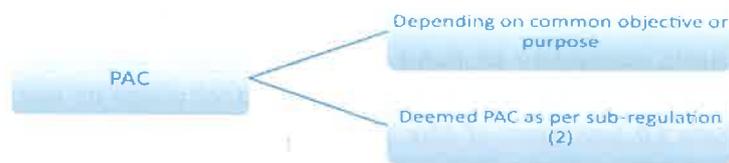
$$\text{Enterprise Value} = \text{Market capitalization} + \text{Debt} + \text{Minority Interest} + \text{Preferred Shares} - \text{Total Cash and Cash Equivalents}$$
Frequently traded shares

“Frequently traded shares” means shares of a target company, in which the traded turnover on any stock exchange during the 12 calendar months preceding the calendar month in which the public announcement is required to be made under these regulations, is at least 10% of the total number of shares of such class of the target company.

However, 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.

Persons Acting in Concert

"Person acting in concert" may be classified in two categories as follows:



"Persons 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.

Deemed to be persons acting in concert:

- 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 item (i) and (ii) of this sub-clause and associates of such directors;
- promoters and members of the promoter group;
- immediate relatives;
- 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
- an alternate investment fund and its sponsor, trustees, trustee company and manager
- 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.

However, this shall not apply to a bank whose sole role is that of providing normal commercial banking services or activities in relation to an open offer under these regulations;

- an investment company or fund and any person who has an interest in such investment company or fund as a shareholder or unitholder having not less than 10 per cent of the paid-up capital of the investment company or unit capital of the fund, and any other investment company or fund in which such person or his associate holds not less than 10 per cent of the paid-up capital of that investment company or unit capital of that fund. However, this shall not be applicable to holding of units of mutual funds registered with the SEBI.

APPLICABILITY & EXCEPTION

These regulations shall apply to direct and indirect acquisition of shares or voting rights, in or control over Target Company.

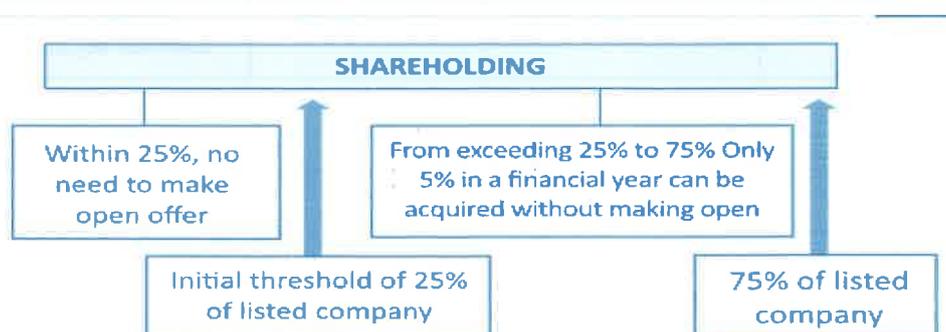
The Regulations therefore, gets triggered on the following event (on case basis): -

- Direct acquisition of shares / voting rights
- Indirect acquisition of shares / voting rights
- Control

Further, it may be triggered by Acquirer alone OR along with Person acting in concert.

However, these regulations shall not apply to direct and indirect acquisition of shares or voting rights in, or control over a company listed without making a public issue, on the Innovators Growth platform of a recognized stock exchange.

TRIGGER POINT FOR MAKING AN OPEN OFFER BY AN ACQUIRER



25% Shares or Voting Rights

An acquirer, along with Persons acting in concert (PAC), if any, who intends to acquire shares which along with his existing shareholding would entitle him to exercise 25% or more voting rights, can acquire such additional shares only after making a Public Announcement (PA) to acquire minimum twenty six percent shares of then Target Company from the shareholders through an Open Offer.

For example –

Mr. A is presently holding 1% in Ram Enterprises Limited, a listed entity and he further desires to acquire the shares as tabulated below:

Case	Pre Holding	Proposed Acquisition	Post Holding	Applicability of SEBI Takeover Regulation, 2011
1	1%	26%	27%	Open offer required
2	1%	23%	24%	Open offer NOT required

Creeping Acquisition Limit

An acquirer who holds 25% or more but less than maximum permissible non-public shareholding of the Target Company, can acquire such additional shares as would entitle him to exercise more than 5% of the voting rights in any financial year ending March 31 only after making a Public Announcement to acquire minimum 26% shares of Target Company from the shareholders through an Open Offer.

Name	Per Holding	Creeping Acquisition	Post Holding	Applicability of SEBI Takeover Regulation, 2011
A	26%	3%	29%	Open offer NOT required
B	26%	6%	32%	Open Offer required

OPEN OFFER

SEBI Takeover Regulations, 2011 provides certain trigger events wherein the Acquirer is required to give Open Offer to the shareholders of the Target Company to provide them exit opportunity. However, it also allows the Acquirer to make voluntary offer as well.



Mandatory Open Offer

Acquisition of Shares (Regulation 3)

The regulations provide that whenever an acquirer acquires the shares in excess of the threshold limit (i.e., 25%), then the acquirer is required to make a public announcement of offer to the shareholders of the Target Company. The acquirer to give an open offer to the shareholders of Target Company on the acquisition of shares or voting rights entitling the acquirer along with the persons acting in concert with him to exercise 25% or more voting rights in the Target Company.

Further, any acquirer who holds shares between 25%-75%, together with PAC can acquire further 5% shares as creeping acquisition without giving an Open Offer to the shareholders of the Target Company up to a maximum of 75%.

The quantum of acquisition of additional voting rights shall be calculated after considering the following: -

- No Netting off allowed: -

For the purpose of determining the quantum of acquisition of additional voting rights, the gross acquisitions without considering the disposal of shares or dilution of voting rights owing to fresh issue of shares by the target company shall be taken into account.

- Incremental voting rights in case of fresh issue: -

In the case of acquisition of by way of issue of new shares by the target company, the difference between the pre-allotment and the post-allotment percentage voting rights shall be regarded as the quantum of additional acquisition.

Acquisition of shares by any person, such that the individual shareholding of such person acquiring shares exceed the stipulated thresholds, shall also be attracting the obligation to make an open offer for acquiring shares of the target company irrespective of where there is a change in the aggregate shareholding with persons action in concert.

This entire Regulation shall not apply to acquisition of shares or voting rights of a company by the promoters or shareholders in control, in terms of the provisions of Schedule XX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Acquisition of Control (Regulation 4)

if any acquirer acquires, directly or indirectly, control over the Target Company irrespective of the fact whether there has been any acquisition of shares or not, then he has to give public announcement to acquire shares from shareholders of the Target Company.

Indirect Acquisition of Shares or control (Regulation 5)

Indirect acquisition as the acquisition of shares, voting rights or control over any other company which would enable the acquirer of shares, voting rights or control to exercise such percentage of voting rights, which would otherwise have triggered an open offer process over which would enable the acquirer to exercise control over a company.

Certain indirect acquisitions are regarded as 'deemed direct acquisitions' if such indirect acquisition satisfy the following conditions such as:

proportionate NAV of the target company as % of the consolidated NAV of the entity or business being acquired exceeds 80 %

proportionate sales turnover of the target company as % of the consolidated sales turnover of the entity or business being acquired exceeds 80 %

proportionate market cap. of the target company as % of the enterprise value of the entity or business being acquired exceeds 80 %

Voluntary Offer (Regulation 6)

Voluntary Open Offer means the Open Offer given by the acquirer voluntarily without triggering the mandatory Open Offer obligations as envisaged under the regulations.

Voluntary Offers are an important means for substantial shareholders to consolidate their stake and therefore recognized the need to introduce a specific framework for such Open Offers.

Limits and Conditions for Voluntary Open Offer:

Threshold limits and conditions for making the Voluntary Open Offer which are detailed below: -

- **Eligibility prior holding of at least 25% Shares:**

To be eligible for making a Voluntary Open Offer, the regulations mandate the prior holding of at least 25% stake in the Target Company by the Acquirer along with the PACs.

- **Acquisition of shares prior to the Voluntary Open Offer:**

The Acquirer shall become ineligible to make a Voluntary Open Offer if during the preceding 52 weeks, the Acquirer or PACs with him has acquired shares of the Target Company without attracting the obligation to make a Public Announcement of an Open Offer.

- **Shareholding of the Acquirer and PACs post completion of Open Offer:**

Post completion of the Open Offer, the shareholding of the Acquirer along with PACs shall not exceed the maximum permissible non-public shareholding.

- **Prohibition on the acquisition of shares during the Offer Period:**

SEBI Takeover Regulations, 2011 prohibit the acquirer who has made a Voluntary Open Offer from further acquiring the shares during the Offer Period otherwise than under the Open Offer.

- **Restriction of the acquisition of shares after completion of open offer**

An acquirer and persons acting in concert with him, who have made a public announcement under this regulation to acquire shares of a target company shall not be entitled to acquire any shares of the target company for a period of six months after completion of the open offer except pursuant to another voluntary open offer.

- **Wilful Defaulter**

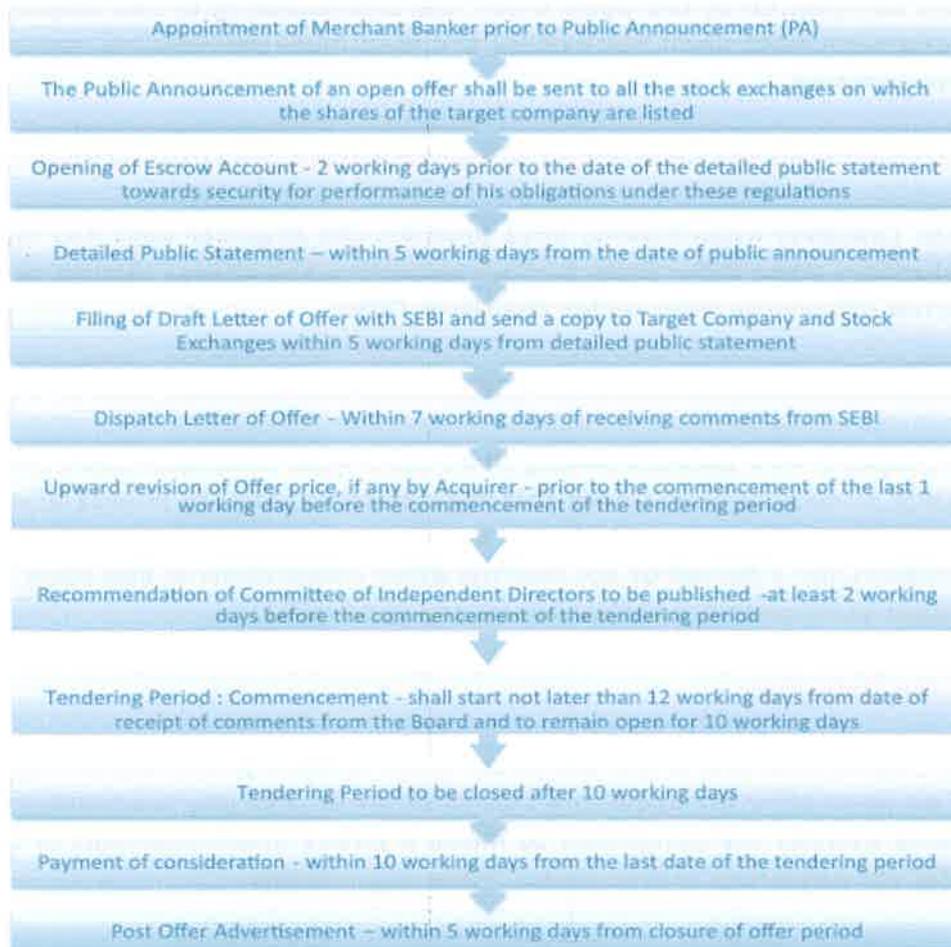
No person who is a wilful defaulter shall make a public announcement of an open offer for acquiring shares or enter into any transaction that would attract the obligation to make a public announcement of an open offer for acquiring shares under these regulations.

MINIMUM OFFER SIZE

The minimum offer size for an open offer is as under:

<i>Open offer when triggered</i>	<i>Minimum open offer size</i>
Direct acquisition under Regulation 3 & 4 or Indirect acquisition under Regulation 5	26% of the total shares of the Target Company as on the 10th working day from the closure of the tendering period.
Voluntary under Regulation 6	10% of the voting rights in the Target Company of the company. The post offer shareholding of the Acquirer and PACs in such case shall not exceed the maximum permissible non-public shareholding.

PROCESS AT GLANCE



DISCLOSURES

The acquirer should do the following disclosures to the target company and concerned stock exchanges which such target company is listed: –

EVENT BASED DISCLOSURES

Regulation	Triggering Point	To and by whom	Time Period
29(1)	Acquisition of 5% or more shares or voting rights	To the Target Company and Stock Exchange by the Acquirer	Within 2 working days of: a) Receipt of intimation of allotment of shares; or b) Acquisition of shares or voting rights.
29(2)	Acquirer already holding 5% or more shares or voting rights On acquisition/disposal of 2% or more shares or voting rights.	To the Target Company and Stock Exchange by the Acquirer/Seller	Within 2 working days of such acquisition/disposal

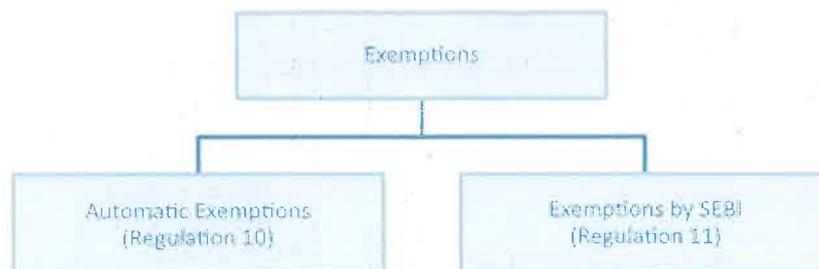
DISCLOSURES OF ENCUMBERED SHARES

Regulation	Who will make	Trigger	Time Period	Made to
Regulation 31(1)	Promoter	Promoter + PAC creating encumbrance on the shares of the target company.	Within 7 working days from the creation or invocation or release of encumbrance as the case may be.	Every Stock exchange where the shares.

Regulation 31(2)	Promoter	Invocation of such encumbrance or release of such encumbrances of the shares of the target company.	Within 7 working days from the creation or invocation or release of encumbrance as the case may be.	Every Stock exchange where the shares.
Regulation 31(4)	Promoter	Promoter + PAC shall declare on a yearly basis that he, along with persons acting in concert, has not made any encumbrance, directly or indirectly, other than those already disclosed during the financial year.	Within 7 working days from the financial year ending 31st March every year.	Every Stock exchange where the shares are listed and the Audit Committee of the Target Company.

EXEMPTIONS

- **Regulation 10 of the SEBI Takeover Regulations, 2011 provides the Acquirer automatic exemptions from the applicability of making Open Offer to the shareholders of the Target Company in respect of certain acquisitions subject to the compliance of certain conditions specified therein.**
- **Further Regulation 11 of SEBI Takeover Regulations, 2011 provides the provisions whereby the acquirer can apply to SEBI for availing the exemption from the Open Offer obligations and the Target Company can apply for relaxation from strict compliance with any procedural requirement relating to Open Offer as provided under Chapters III and IV of the regulations.**



Automatic Exemptions [Regulation 10]

The following acquisitions shall be exempt from the obligation to make an open offer

- a) acquisition of shares by any shareholder of a target company, upto his entitlement, pursuant to a rights issue
- b) acquisition of shares by any shareholder of a target company, beyond his entitlement, pursuant to a rights issue
- c) increase in voting rights in a target company of any shareholder pursuant to buy-back of shares
- d) 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
- e) acquisition of shares in a target company from state-level financial institutions or their subsidiaries or companies promoted by them, by promoters of the target company pursuant to an agreement between such transferors and such promoter
- f) acquisition of shares in a target company from a venture capital fund or Category I Alternative Investment Fund or a foreign venture capital investor registered with the SEBI, by promoters of the target company pursuant to an agreement between such venture capital fund or category I Alternative Investment Fund or foreign venture capital investor and such promoters.

However, certain exemptions require PRIOR disclosures / intimation to stock exchanges as tabulated below: -

Regulation 10(1):

- a) acquisition pursuant to inter se transfer of shares amongst qualifying persons, being, -
 - immediate relatives;
 - persons named as promoters in the shareholding pattern filed by the target company in terms of the listing regulations or as the case may be, the listing agreement or these regulations for not less than three years prior to the proposed acquisition;
 - a company, its subsidiaries, its holding company, other subsidiaries of such – holding company, persons holding not less than fifty per cent of the equity shares of such company, other companies in which such persons hold not

less than fifty per cent of the equity shares, and their subsidiaries subject to control over such qualifying persons being exclusively held by the same persons;

- persons acting in concert for not less than three years prior to the proposed acquisition, and disclosed as such pursuant to filings under the listing regulations or as the case may be, the listing agreement;
- shareholders of a target company who have been persons acting in concert for a period of not less than three years prior to the proposed acquisition and are disclosed as such pursuant to filings under the listing regulations or as the case may be, the listing agreement, and any company in which the entire equity share capital is owned by such shareholders in the same proportion as their holdings in the target company without any differential

At least four working days prior to the proposed acquisition, intimate the Stock Exchanges and the Target company with details of proposed acquisition.

Regulation 10(4):

- acquisition of shares in a target company from state-level financial institutions or their subsidiaries or companies promoted by them, by promoters of the target company pursuant to an agreement between such transferors and such promoter;
- acquisition of shares in a target company from a venture capital fund or Category I Alternative Investment Fund or a foreign venture capital investor registered with the SEBI, by promoters of the target company pursuant to an agreement between such venture capital fund or category I Alternative Investment Fund or foreign venture capital investor and such promoters.

At least four working days prior to the proposed acquisition, intimate the Stock Exchanges and the Target company with details of proposed acquisition.

Exemption by SEBI Regulation 11

On an application being made by the acquirer in writing giving the details of the proposed acquisition and grounds on which the exemption is sought along with duly sworn affidavit, SEBI may grant exemption to the acquirer from the Open Offer obligations subject to the compliance with such conditions as it deems fit.

However, it is to be noted that the Acquirer is not exempted from making other compliances related to the disclosure requirements.

CHAPTER – 13

Prohibition of Insider Trading

INTRODUCTION

With an intention of bringing the Insider Trading practices with parity to the global scenario and to fill the loopholes in the existing regulations SEBI introduced the new SEBI (Prohibition of Insider Trading) Regulations, 2015 which replaced and repealed the SEBI (Prohibition of Insider Trading) Regulations, 1992.

KEY DEFINITIONS

Insider

“Insider” means any person who is:

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

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.

Connected person

Connected person means:

- a) any person who is or has during six months prior to the concerned Act has been associated with a company, directly or indirectly'
- b) in any capacity (including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relation); or
- c) is 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; or

that allows such person, directly or indirectly, access to unpublished price-sensitive information or reasonably expected to allow such access.

Person deemed to be connected person

"Person is deemed to be a connected person" unless the contrary is established, if such person is –

- a) an immediate relative of connected person(s)
- b) a holding company or associate company or subsidiary company
- c) an intermediary as specified in Section 12 of the SEBI Act or an employee or director thereof
- d) an investment company, trustee company, asset management company or an employee or director thereof
- e) an official of a stock exchange or of clearing house or corporation
- 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
- 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
- h) an official or an employee of a self-regulatory organization recognised or authorized by the SEBI
- i) a banker of the company
- 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 percent of the holding or interest.

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: –

- a) Financial results
- b) Dividends;
- c) Change in capital structure;
- d) Mergers, de-mergers, acquisitions, delisting, disposals and expansion of business and such other transactions;
- e) Changes in key managerial personnel

RESTRICTION ON COMMUNICATION OR PROCUREMENT OF UNPUBLISHED PRICE SENSITIVE INFORMATION (UPSI) (REGULATION 3)**No insider to communicate UPSI (Regulation 3 [1])**

No insider shall communicate, provide, or allow access to any UPSI relating to a company or securities listed or proposed to be listed, to any person including other insiders **except** where such communication is in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

No person shall procure from or cause the communication by any insider of unpublished price sensitive information [Regulation 3(2)]

No person shall procure from or cause the communication by any insider of unpublished price sensitive information, relating to a company or securities listed or proposed to be listed, **except** in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

Exceptions: [Regulation 3(3)]

an unpublished price sensitive information **may be communicated, provided, allowed access to or procured, in connection with a transaction** that would: –

- a) entail an obligation to make an open offer under the takeover regulations where the board of directors of the listed company is of

informed opinion that sharing of such information is in the best interests of the company

- b) not attract the obligation to make an open offer under the takeover regulations but where the board of directors of the listed company is of informed opinion that sharing of such information is in the best interests of the company and the information that constitute UPSI is disseminated to be made generally available at least two trading days prior to the proposed transaction being effected in such form as the board of directors may determine to be adequate and fair to cover all relevant and material facts.

Execution of confidentiality agreement: [Regulation 3(4)]

The board of directors shall require the parties to execute agreements to contract confidentiality and non-disclosure obligations on the part of such parties and such parties shall keep information so received confidential, except for the purpose of sub-regulation (3), and shall not otherwise trade in securities of the company when in possession of unpublished price sensitive information.

Maintenance of structured database with names of persons with whom UPSI is shared and names of persons who shared the same [Regulation 3(5)(6)]

- The Board of Directors or head(s) of the organisation of every person required to handle UPSI shall ensure that **a structured digital database is maintained internally with adequate internal controls and checks such as time stamping and audit trails to ensure non-tampering of the database** containing the nature of UPSI and the names of such persons who have shared the information along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available.
- The board of directors or head(s) of the organisation of every person required to handle UPSI shall ensure that the structured digital database is **preserved for a period of not less than eight years** and in the event of receipt of any information regarding any investigation or enforcement proceedings, shall be preserved till the completion of such proceedings.

TRADING WHEN IN POSSESSION OF UNPUBLISHED PRICE SENSITIVE INFORMATION (UPSI): PERMISSION & LIMITATION [Regulation 4]

an 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,

Except in the following situations:

a) Off-market Transaction between Promoters:

Promoters possessing UPSI can trade in securities if all the following conditions are satisfied: —

- They have acquired such price sensitive information without breaching regulation 3.
- Both parties had made a conscious and informed trade decision.

b) If Insiders are Non – Individual

A non-individual insider like Banks/Depositories of the company etc. can trade in securities if ALL the following conditions are satisfied:

- The individual possessing such UPSI is different from individual taking decision of trading.
- The individual who took decision of trading did not had any UPSI at the time of decision making.
- Appropriate and adequate arrangements were in place to ensure that these regulations are not violated

c) Any other Case

Trading is permitted if the trades were pursuant to a trading plan set up in accordance with regulation 5.

TRADING PLAN(Regulation 5)

If an Insider wants to trade in securities of a company of which he possesses UPSI he is required to submit trading plan in advance to the compliance officer for his approval.

Following are the important compliances related to trading plan: —

- a) Such trading plan on approval by the compliance officer will also be disclosed to the stock exchanges, where the securities of the company are listed.
- b) Trading plan shall be for a minimum period of 12 months.
- c) No overlapping of plan with the existing plan submitted by Insider.
- d) It shall contain the following details: —
 - Value of trades to be affected or the number of securities to be trade.
 - Nature of the trade
 - Intervals of date or dates on which such trades shall be affected.
- e) Trading shall commence only after the expiry of 6 months from the public disclosure of plan.
- f) Trading shall close 20 days before the closure of the financial period till the 2nd trading day after the disclosure of such financial results.

Example: If the financial period is 1st quarter (April to June) then the trading will be closed from twentieth trading day before 30 June to the second trading day after the disclosure of financial results for first quarter (result is declared in BM as per LODR).

- g) The trading plan once approved by the Compliance Officer shall be irrevocable and the insider shall mandatorily have to implement the plan.

DISCLOSURES OF TRADING BY INSIDERS - General Disclosure (Regulation 6)

- **Specific form for disclosure: Reg. 6(1):** Every public disclosure shall be made in a specified form.
- **Disclosure by any person: Reg. 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.

- **Disclosure includes derivative: Reg. 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.
- **Maintenance of Record: Reg. 6(4):** The disclosures made shall be maintained by the company, for a minimum period of 5 years, in the specified form.

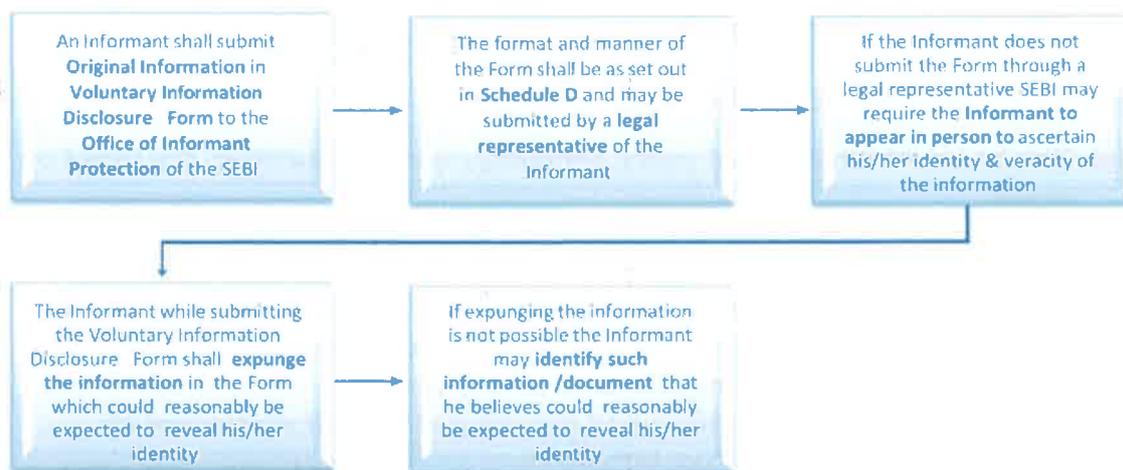
DISCLOSURE ON INTEREST BY CERTAIN PERSON (Regulation 7)

Regulation 7, covering initial, continual disclosures and disclosures by connected persons are given below: -

Who	What	When
Promoter/member of Promoter Group	Initial disclosure	Within 7 days from the date of their appointment/becoming promoter or member of promoter Group
	Continual Disclosure	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
Director	Initial disclosure	Within 7 days from the date of their appointment
	Continual Disclosure	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
Key Managerial personnel	Initial disclosure	Within 7 days from the date of their appointment
	Continual Disclosure (as Designated Person)	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
Designated Person	Continual Disclosure	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

Other Connected persons	Any company whose securities are listed on a stock exchange may, at its discretion 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 in order to monitor compliance with these regulations.
Company	Company to notify to the exchange within 2 trading days of receipt of disclosure.

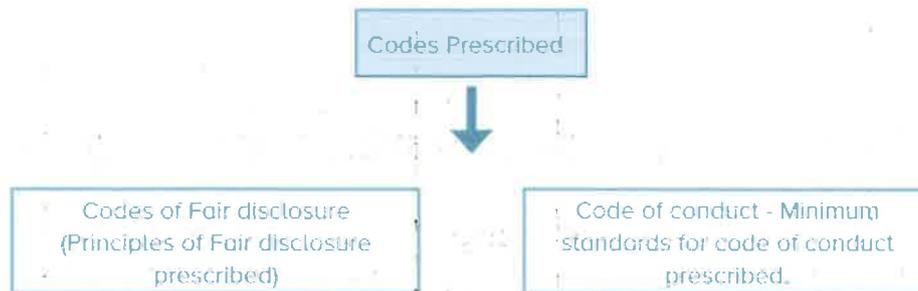
Brief process flow of submission to the SEBI [Regulation 7 (B)]



INFORMANT INCENTIVES AND REWARDS

SEBI (Prohibition of Insider Trading (Third Amendment) Regulations, 2019
Incentive and reward for the informants who submits to the SEBI a Voluntary Information Disclosure relating to any alleged violation of insider trading laws that has occurred, in occurring or has a reasonable belief that it is about to occur.

CODES OF FAIR DISCLOSURE AND CONDUCT [REGULATION 8 & REGULATION 9]



Code of Fair Disclosure (Regulation 8)

- a) **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.**
- b) **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.**
- c) **Some important contents of this Code are:**
 - **Uniform & universal dissemination of UPSI to avoid selective disclosure.**
 - **Designation of a senior officer as a chief investor relations officer to deal with dissemination of information & disclosure of UPSI**
 - **Appropriate & fair response to queries on new reports & requests for verification of market rumors by regulatory authority**
 - **Ensuring that information shared with analysts & research personnel is not UPSI.**

Code of Conduct(Regulation 9)

- a) The board of directors of every listed company and market intermediary shall formulate a code of conduct to regulate, monitor and report trading by its employees and other connected persons towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule B to these regulations, without diluting the provisions of these regulations in any manner.
- b) Every other person who is required to handle unpublished price sensitive information in the course of business operations shall formulate a code of conduct to regulate, monitor and report trading by employees and other connected persons towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule B to these regulations, without diluting the provisions of these regulations in any manner.
- c) Every listed company, market intermediary and other persons formulating a code of conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under these regulations.
- d) Some important contents of this Code are:
- All information shall be handled within the organization on a need-to-know basis
 - The BOD shall, in consultation with the Compliance Officer, specify the designated persons to be covered by such code
 - A notional trading window shall be used as an instrument of monitoring trading by designated persons. Trading window shall be closed designated persons is expected to be in possession of UPSI
 - Compliance officer shall determine timing for re-opening of the trading window, which shall not be less than 48 hrs. when the information becomes publically available
 - Designated persons shall be subject to pre-clearance by compliance officer
 - Code of conduct shall stipulate such formats as the BOD deems fit for making applications for pre-clearance etc.

PENALTY PROVISIONS FOR VIOLATIONS OF THE REGULATIONS

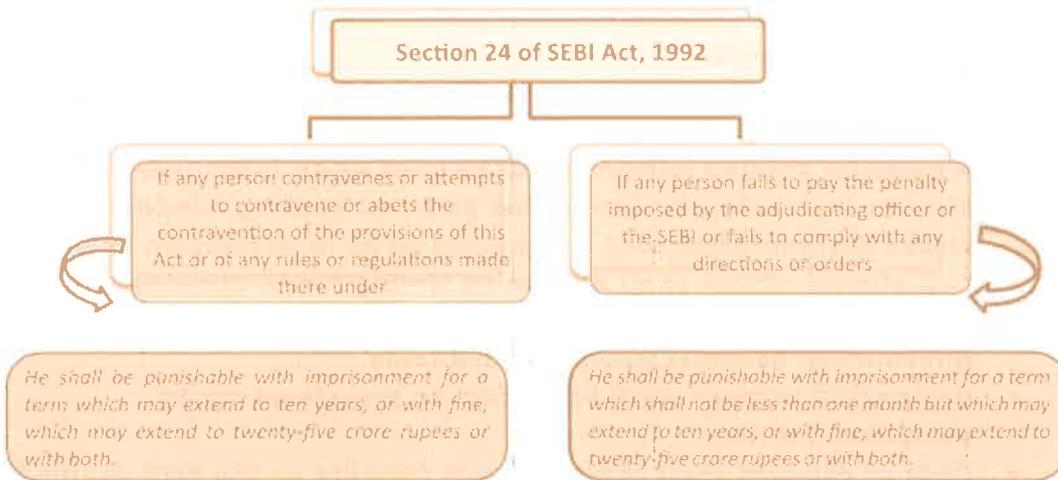
Penalty for insider trading under section 15G of the SEBI Act, 1992

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, with or without his request for such information except as required in the ordinary course of business or under any law; or
- counsels, or procures for any other person to deal in any securities of any.

shall be liable to a penalty which shall not be less than ten lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of insider trading, whichever is higher.

Penalty for insider trading under Section 24 of SEBI Act:



ROLE OF COMPANY SECRETARY FOR INSIDER TRADING COMPLIANCES

The following obligations cast upon the Company Secretary with regard to Compliances of Insider trading regulations: -

a) **Compliances with Insider Trading Regulations:**

Ensure compliance of SEBI (Prohibition of Insider Trading) Regulations, 2015 including maintenance of various registers/records/documents.

b) **Framing of Code of Conduct:**

CS shall frame a code of fair disclosure and conduct in line with the model code as specified under the insider trading regulations and get it approved by the board of directors of the company.

c) **Place before SEBI:**

CS should place before SEBI the "minimum standards for Code of Conduct" to regulate, monitor and report trading by insiders as enumerated in the Schedule B of the regulations.

d) **One time Disclosures:**

CS should receive initial disclosure from every Promoter, KMP and director or every person on appointment as KMP or director or becoming a Promoter, about their shareholding within:

- 30 days from the effect of insider regulations,
- 7 days of such appointment or becoming a promoter

e) **Continual Disclosures:**

CS should receive from every Promoter, employee and director, continual disclosures of the number of securities acquired or disposed of, if the value of the securities traded, exceeds Rs. 10 lakh in any calendar quarter within 2 trading days of:

- Receipt of the disclosure, or
- From becoming aware of such information.

f) **No Trading Period:**

CS should ensure that no trading shall happen between 20th day prior to closure of financial period and 2nd trading day after disclosure of financial results.

g) **Approval of Trading Plan:**

Approve the trading plan and after the approval of the trading plan, as compliance officer shall notify the plan to the stock exchange on which the securities are listed.

h) **Maintain the records:**

Maintain the records of all the declarations given by the directors/ designated employees/partners for a minimum period of 3 years.

i) **Monitoring of Trades:**

Monitor of trades and the implementation of the code of conduct under the overall supervision of the Board of Directors of the listed company.

CHAPTER – 14

Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market

INTRODUCTION

The SEBI (Prohibition of Fraudulent and Unfair Trade Practices in relation to the Securities Market) Regulations, 2003 enable SEBI to investigate into cases of market manipulation and fraudulent and unfair trade practices.

These regulations empower SEBI to investigate into violations committed by any person, including an investor, issuer or an intermediary associated with the securities market.

Important Definitions

Dealing in Securities

Dealing in Securities includes:

- a) an act of buying, selling or subscribing pursuant to any issue of any security or agreeing to buy, sell or subscribe to any issue of any security or otherwise transacting in any way in any security by any persons including as principal, agent, or intermediary referred to in section 12 of the SEBI Act;
- b) such acts which may be knowingly designed to influence the decision of investors in securities; and
- c) any act of providing assistance to carry out the aforementioned acts.

Fraud

"Fraud" includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person with his connivance or by his agent while dealing in securities in order to induce another person or his agent to deal in securities, whether or not there is any wrongful gain or avoidance of any loss, and shall also include –

Misrepresentation	Concealment of material facts or truth
Suggestion	Of facts which are not true
Active Concealment	By a person who knows the facts
Promise	Without intention of performing it
Representation	Made in a reckless & careless manner
Omission	Which law specifically declares fraudulent
Deceptive Behavior	Deprive people informed consent, full participation
False Statement	Without reasonable ground of being true
Misinformation	Affecting the market price of securities

Exceptions to 'Fraud'

'Fraud' states that nothing contained in the clause shall apply to any general comments made in good faith in regard to-

- a) the economic policy of the government
- b) the economic situation of the country
- c) trends in the securities market or
- d) any other matter of a like nature

whether such comments are made in public or in private.

PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO THE SECURITIES MARKET

Prohibition of certain dealings in securities [Regulation 3]

No person shall directly or indirectly –

- a) buy, sell or otherwise deal in securities in a fraudulent manner
- b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the SEBI Act or the rules or the regulations made there under
- c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;
- d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the SEBI Act or the rules and the regulations made there under.

Prohibition of Manipulative, Fraudulent and Unfair Trade Practices [Regulation 4]

- a) no person shall indulge in a fraudulent or an unfair trade practice in securities.
- b) Further, any dealing in securities shall be deemed to be a manipulative, fraudulent or an unfair trade practice if it involves any of the following:
 - knowingly indulging in an act which creates false or misleading appearance of trading in the securities market;
 - dealing in a security not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in the price of such security for wrongful gain or avoidance of loss;
 - inducing any person to subscribe to an issue of the securities for fraudulently securing the minimum subscription to such issue of

securities, by advancing or agreeing to advance any money to any other person or through any other means;

- inducing any person for dealing in any securities for artificially inflating, depressing, maintaining or causing fluctuation in the price of securities through any means including by paying, offering or agreeing to pay or offer any money or money's worth, directly or indirectly, to any person;
- any act or omission amounting to manipulation of the price of a security including, influencing or manipulating the reference price or bench mark price of any securities;
- fraudulent inducement of any person by a market participant to deal in securities with the objective of enhancing his brokerage or commission or income;
- an intermediary predating or otherwise falsifying records including contract notes, client instructions, balance of securities statement, client account statements;
- Knowingly planting false or misleading news which may induce sale or purchase of securities;

INVESTIGATION

Power of the SEBI to order investigation [Regulation 5]

Where the SEBI, the Chairman, the member or the Executive Director (hereinafter referred to as "appointing authority") has reasonable ground to believe that—

- a) the transactions in securities are being dealt with in a manner detrimental to the investors or thesecurities market in violation of these regulations;
- b) any intermediary or any person associated with the securities market has violated any of the provisions of the Act or the rules or the regulations,

it may, at any time by order in writing, direct any person specified in the order to investigate the affairs of such intermediary or persons associated with the securitiesmarket or any other person and to report thereon to the SEBI in the manner provided in section 11C of the SEBI Act.

Powers of Investigating Authority [Regulation 6]

Without prejudice to the powers conferred under the SEBI Act, the Investigating Authority shall have the following powers for the conduct of investigation, namely: –

- to call for information or records from any person.
- to undertake inspection of any book, or register, or other document or record of any listed public company or a public company which intends to get its securities listed on any recognized stock exchange where the Investigating Authority has reasonable grounds to believe that such company has been conducting its activities in violation of these regulations.
- to require any intermediary or any person associated with securities market in any manner to furnish such information to, or produce such books, or registers, or other documents, or record before him or any person authorized by him in this behalf.
- to keep in his custody any books, registers, other documents and record produced for a maximum period of six months.
- to examine orally and to record the statement of the person concerned or any director, partner, member or employee of such person and to take notes of such oral examination to be used as evidence against such person.
- to call for information and record from any person including any bank or any other authority or board or corporation established or constituted by or under any Central, State or Provincial Act in respect of any transaction in securities which are under investigation
- every search or seizure made under this regulation shall be carried out in accordance with the provisions of the Code of Criminal Procedure, 1973 relating to searches or seizures made under that Code.

Duty to co-operate, etc. [Regulation 8]

- 1) It shall be the duty of every person in respect of whom an investigation has been ordered and every manager, managing director, officer and other employee of the company and every intermediary–

- a) to produce to the Investigating Authority or any person authorized by him such books, accounts and other documents and record in his custody or control and to furnish such statements and information
- b) to appear before the Investigating Authority personally when required to do so by him to answer any question which is put to him by the Investigating Authority.

2) Such person shall—

- a) allow the Investigating Authority or any person authorized by him in this behalf to have access to the premises occupied by such person at all reasonable times for the purpose of investigation;
- b) extend to the Investigating Authority or any person authorized by him in this behalf reasonable facilities for examining any books, accounts and other documents in his custody or control
- c) provide to such Investigating Authority or any person authorized by him in this behalf any such books, accounts and records which, in the opinion of the Investigating Authority, are relevant to the investigation.

Submission of report to SEBI [Regulation 9]

The Investigating Authority shall, on completion of investigation, after taking into account all relevant facts, submit a report to the appointing authority.

However, the Investigating Authority may submit an interim report pending completion of investigations if he considers necessary in the interest of investors and the securities market or as directed by the appointing authority.

Enforcement by the SEBI [Regulation 10 and 11]

SEBI may, by an order, for reasons to be recorded in writing, in the interests of investors and securities market, issue or take any of the following actions or directions, either pending investigation or enquiry or on completion of such investigation or enquiry; namely: —

- a) suspend the trading of the security found to be or prima facie found to be involved in fraudulent and unfair trade practice in a recognized stock exchange;

- b) restrain persons from accessing the securities market and prohibit any person associated with securities market to buy, sell or deal in securities;
- c) suspend any office-bearer of any stock exchange or self-regulatory organization from holding such position;
- d) impound and retain the proceeds or securities in respect of any transaction which is in violation or prima facie in violation of these regulations;
- e) direct an intermediary or any person associated with the securities market in any manner not to dispose of or alienate an asset forming part of a fraudulent and unfair transaction;
- f) require the person concerned to call upon any of its officers, other employees or representatives to refrain from dealing in securities in any particular manner;
- g) prohibit the person concerned from disposing of any of the securities acquired in contravention of these regulations;
- h) direct the person concerned to dispose of any such securities acquired in contravention of these regulations

Any final order passed under sub-regulation (1) shall be put on the website of the SEBI.

Manner of service of summons and notices issued by the SEBI [Regulation 11A]

A summons or notice issued by the SEBI shall be served on the person through any of the following modes, namely: -

- a) by delivering or tendering it to that person or his duly authorised agent;
- b) by sending it to the person by fax or electronic mail or electronic instant messaging services along with electronic mail or by courier or speed post or registered post:

Suspension or cancellation of registration [Regulation 12]

The SEBI may, **without prejudice to any action under the securities laws or directions or circulars issued thereunder**, by an order, for reasons to be recorded in writing, in the interests of investors and securities market take the following action against an intermediary:

- a) issue a warning or censure;
- b) suspend the registration of the intermediary; or

c) cancel of the registration of the intermediary.

However, no final order of suspension or cancellation of an intermediary for violation of these regulations shall be passed unless the procedure specified in the regulations applicable to such intermediary under the SEBI [(Intermediaries) Regulations, 2008] is complied with.

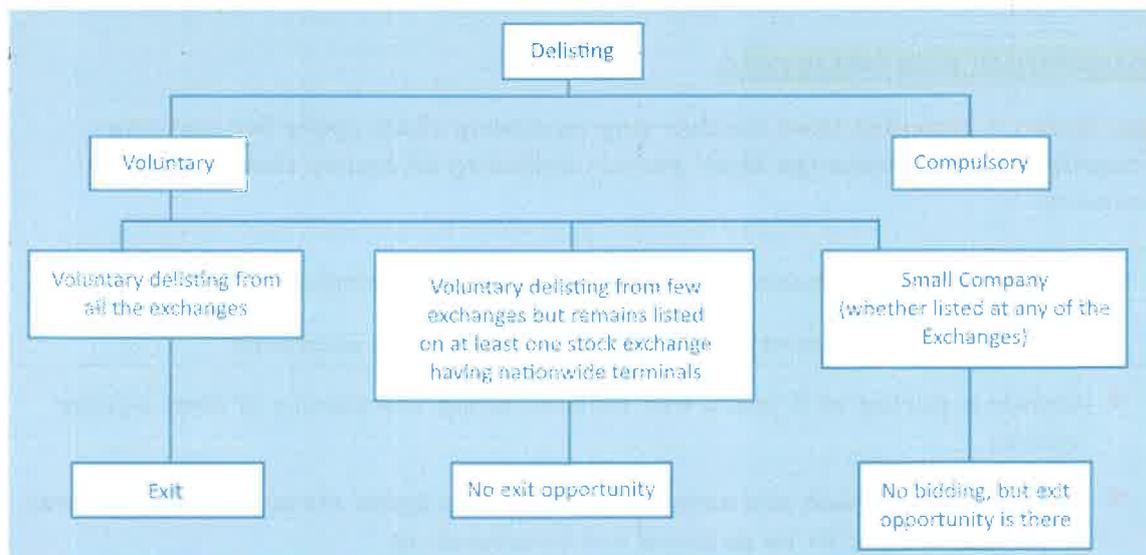
CHAPTER - 15

Delisting of Equity Shares

INTRODUCTION

The term "delisting" of securities means removal of securities of a listed company from a stock exchange. As a consequence of delisting, the securities of that company would no longer be traded at that stock exchange.

Delisting of securities can be done either by company voluntarily or by the stock exchange, compulsorily.



APPLICABILITY (REGULATION 3)

These regulations shall be applicable to delisting of equity shares of a company including equity shares having superior voting rights from all or any of the recognized stock exchanges where such shares are listed.

NON-APPLICABILITY

This regulation shall not be applicable to: –

- securities listed and traded on the innovators growth platform of a recognised stock exchange, without making a public issue;
- any delisting of equity shares of a listed entity made pursuant to a resolution plan approved under section 31 of the Insolvency Code, if such plan, –
 - a) provides for delisting of such share; or
 - b) provides an exit opportunity to the existing public shareholders at a specified price.

However, the existing public shareholders shall be provided an exit opportunity at a price which shall not be less than the price, by whatever name called, at which a promoter or any entity belonging to the promoter group or any other shareholder, directly or indirectly, is provided an exit opportunity.

CONDITIONS FOR DELISTING

Regulation 4 provides that neither any company shall apply for nor any recognised stock exchange shall permit delisting of equity shares of a company–

- Pursuant to buy-back of equity shares by the company
- Pursuant to preferential allotment made by the company
- Unless a period of 3 years has elapsed since the listing of that equity shares
- Instruments which are convertible into the same class of equity shares that are sought to be delisted are outstanding.

- No acquirer shall directly or indirectly employ the funds of the company to finance an exit opportunity or an acquisition of shares made pursuant to delisting provided under this regulation.
- An acquirer shall not propose delisting of equity shares of a company, if the acquirer had sold equity shares of the company during the a period of six months prior to the date of the initial public announcement.
- No acquirer shall, directly or indirectly-
 - a) Employ any device, scheme or artifice to defraud any shareholder or other person; or
 - b) Engage in any transaction or practice that operates as a fraud or deceit upon any shareholder or other person; or
 - c) Engage in any act or practice that is fraudulent, deceptive or manipulative in connection with any delisting of equity shares

VOLUNTARY DELISTING

“Voluntary Delisting” means the delisting of equity shares of a company voluntarily on an application made by the company under Chapter III of these regulations.

In voluntary delisting, the promoters of the listed company decides on their own to permanently remove its securities from a stock exchange.

Voluntary listing done in two ways: -



Conditions for delisting where exit opportunity is not required

A company may delist its equity shares from one or more of the recognised stock exchanges on which it is listed without providing an exit opportunity to the public shareholders, if after the proposed delisting, the equity shares remain listed on any recognised stock exchange that has nationwide trading terminals.

Procedure for delisting where exit opportunity is not required

Any company desirous of delisting its equity shares where no exit opportunity is required shall: -

- a) Obtain the prior approval of its board of directors.
- b) Make an application to the relevant recognized stock exchange for delisting of its equity shares
- c) Issue a public notice of the proposed delisting in at least one English national newspaper, one Hindi national newspaper with wide circulation and one vernacular newspaper of the region where stock exchange is situated.

The following details shall be provided in the above-mentioned public notice: -

- The names of the recognized stock exchanges from where the equity shares of the company are intended to be delisted.
 - The reasons for such delisting.
 - The fact of continuation of listing of equity shares on recognized stock exchange having nationwide trading terminals.
- d) Disclose the fact of delisting in its first annual report post delisting
 - e) An application for delisting shall be disposed of by the recognised stock exchange within a period not exceeding thirty working days from the date of receipt of such application that is complete in all respects.

Conditions for delisting where exit opportunity is required

Regulation 7 provides that the equity shares of a company may be delisted from all the recognised stock exchanges having nationwide trading terminals on which they are listed, after an exit opportunity has been provided by the acquirer to all the public shareholders holding the equity shares sought to be delisted, in accordance with Chapter IV of these regulations.

Procedure for delisting where exit opportunity is required

a) Initial public announcement

On the date when the acquirer decides to voluntarily delist the equity shares of the company, it shall make an initial public announcement to all the stock exchanges on which the shares of the company are listed and the stock exchanges shall forthwith disseminate the same to the public.

A copy of the initial public announcement shall also be sent to the company at its registered office not later than one working day from the date of the initial public announcement.

b) Appointment of the manager to the offer

Prior to making an initial public announcement, the acquirer shall appoint a merchant banker registered with the SEBI as the Manager to the offer. The Manager to the offer shall not be an associate of the acquirer.

c) Approval by the board of Directors

The company shall obtain the approval of its Board of Directors in respect of the proposal, not later than 21 days from the date of the initial public announcement.

The Board of Directors of the company, before considering the proposal of delisting, shall appoint a Peer Reviewer Company Secretary for carrying out due-diligence.

The Company Secretary shall carry out the due-diligence and submit a report to the Board of Directors of the company certifying that the buying, selling and dealing in the equity shares of the company carried out by the acquirer or its related entities and the top 25 shareholders is in compliance with the applicable provisions of securities laws including these regulations.

d) Approval by shareholders

The company shall obtain the approval of the shareholders through a special resolution, not later than 45 days from the date of obtaining the approval of Board of Directors.

The special resolution shall be passed through postal ballot and / or e-voting as per the applicable provisions of the Companies Act, 2013 and the rules made thereunder.

e) In-principle approval of the stock exchange

The company shall make an application to the recognized stock exchange for in-principle approval for delisting accompanied by an audit report and due diligence report prepared by the company secretary within 15 days from the date of passing special resolution.

The stock exchange shall dispose of the application within 15 (fifteen) days of receipt of such application.

f) Escrow account

The acquirer/ promoter shall open an interest-bearing escrow account with a scheduled commercial bank and deposit therein an amount equivalent to 25% of the total consideration, calculated on the basis of the number of equity shares outstanding with the public shareholders multiplied with the floor price or indicative price (the price offered by the acquirer/ promoter, which is higher than the floor price) within 7 working days of obtaining shareholders approval.

For the purposes of opening an escrow account, the acquirer/ promoter shall enter into a tripartite agreement with the bank and the manager to the offer.

g) Detailed public announcement

The acquirer shall, within one working day from the date of receipt of in-principle approval for delisting of equity shares from the recognised stock exchange, make a detailed public announcement in at least one English national newspaper with wide circulation, one Hindi national newspaper with wide circulation in their allIndia editions and one vernacular newspaper of the region where the relevant recognised stock exchange is located.

h) Letter of offer

The acquirer shall dispatch the letter of offer to the public shareholders not later than two working days from the date of the detailed public announcement made.

A copy of the letter of offer shall also be made available on the websites of the company and the Manager to the offer for the benefit of the public shareholders.

i) Bidding mechanism

The bidding period shall start not later than 7 working days from the date of the detailed public announcement and shall remain open for 5 working days.

The Manager to the offer shall ensure that the outcome of the reverse book building process is announced within two hours of the closure of the bidding period.

j) Public announcement

A public announcement shall be made in the same newspapers in which the DPA was made regarding the success or failure of the reverse book building process along with the discovered price accepted by the acquirer/ promoter, in case of success of the process within 2 working days of closing of bidding period.

k) Discovered price

The discovered price shall be determined through the reverse book building process and the Manager to the offer shall disclose the same in the detailed public announcement and the letter of offer.

l) Minimum number of equity shares to be acquired

A delisting process shall be deemed successful if the post-offer shareholding of the acquirer/ promoter, along with the shares tendered/offered by public shareholders accepted as eligible bids at the discovered price or the counter-offer price, as the case may be, reaches 90% (ninety percent) of the total issued shares excluding the following:

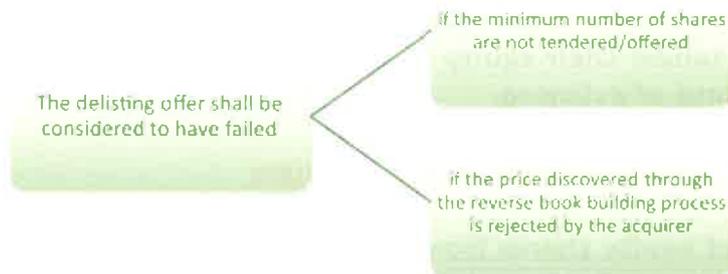
- shares which are held by a custodian and against which depository receipts have been issued overseas.
- shares held by a Trust set up for implementing an Employee Benefit scheme
- shares held by inactive shareholders such as vanishing companies and struck off companies, shares transferred to the Investor Education and Protection Fund's account.

m) Option to accept or reject the discovered price or counter offer

The acquirer shall be bound to accept the equity shares tendered or offered in the delisting offer, if the discovered price determined through the reverse book building process is equal to the floor price or the indicative price or if discovered price is higher than the floor price but less than the indicative price.

In case the discovered price is not acceptable to the acquirer, a counter offer may be made by the acquirer to the public shareholders within two working days of the closure of bidding period.

n) Failure of offer



Where the delisting offer fails-

- The expenses relating to the offer for delisting shall be borne by the acquirer.
- The acquirer, whose delisting offer has failed, shall not make another delisting offer until the expiry of six months.

o) Payment upon success of the offer

Payment upon the success of the offer in the following manner –

- if the discovered price is equal to the floor price or indicative price the payment shall be made through the secondary market settlement mechanism
- if the discovered price is higher than floor price or indicative price the payment shall be made within five working days from the date of the public announcement.

The acquirer shall be liable to pay interest at the rate of ten percent per annum to all the shareholders if the price payable is not paid to all the shareholders within the time specified thereunder.

p) Final application to the stock exchange after successful delisting

Within 5 working days from the date of making the payment to the public shareholders, the acquirer shall make the final application for delisting to the relevant recognised stock exchange in the Form specified by such stock exchange from time to time.

q) Right of the remaining public shareholders to tender equity shares

The remaining public shareholders, whose shares were either not accepted or were not tendered at all during the bidding period, shall have a right to tender their equity shares for a minimum period of 1 year from the date of delisting.

r) Cancellation of outstanding depository receipts

After delisting of equity shares from all the recognized stock exchanges having nationwide trading terminals, the company shall be required to compulsorily cancel all the outstanding depository receipts issued overseas and change them into the underlying equity shares in the home jurisdiction after termination of the depository receipts program(s), within 1 year of such delisting.

COMPULSORY DELISTING

Compulsory delisting refers to permanent removal of securities of a listed company from a stock exchange as a penalizing measure at the behest of the stock exchange for not making submissions/comply with various requirements set out in the Listing agreement within the time frames prescribed.

Constitution of Panel

The decision regarding compulsory delisting shall be taken by a panel to be constituted by the recognized stock exchange consisting of –

- a) Two Directors of the recognized stock exchange (one of whom shall be a public representative);
- b) One representative of an investor association recognised by the SEBI;
- c) One representative of the Ministry of Corporate Affairs or Registrar of Companies; and
- d) The Executive Director or Secretary of the recognized stock exchange.

Public notice before delisting order

Before passing an order, the recognised stock exchange shall give a notice in at least one English national newspaper, one Hindi national newspaper and one vernacular newspaper of the region where the relevant recognised stock exchange is located, of the proposed delisting, giving a time period of not less than fifteen working days within which representations, if any, may be made to the recognised stock exchange by any person aggrieved by the proposed delisting and shall also display such notice on its trading systems and website.

Delisting Order by the Recognised Stock Exchange

The recognised stock exchange shall, while passing any order of compulsory delisting, consider the representation, if any, made by the company and also any representation received in response to the notice.

Public notice after Delisting Order

Where the recognized stock exchange passes the delisting order, it shall, -

- a) forthwith publish a notice in one English, one Hindi national newspaper and one vernacular newspaper of the region where the relevant recognised stock exchange is located.
- b) inform all other stock exchanges where the equity shares of the company are listed, about such delisting; and
- c) upload a copy of the said order on its website.

Rights of public shareholders in case of compulsory delisting

Where the equity shares of a company are compulsorily delisted by a recognised stock exchange, the recognised stock exchange shall appoint an independent valuer who shall determine the fair value of the delisted equity shares.

CONSEQUENCES OF COMPULSORY DELISTING

Where a company has been compulsorily delisted, the company, its whole-time directors, persons responsible for ensuring compliance with the securities laws, its promoters and the companies which are promoted by any of them shall not directly or indirectly access the securities market or seek listing of any equity shares or act as an intermediary in the securities market for a period of 10 years from the date of such delisting.

GUIDELINES FOR COMPULSORY DELISTING

The recognised stock exchange shall take into account the grounds prescribed in the rules made under the Securities Contracts (Regulation) Act, 1956 while compulsorily delisting the equity shares of the company.

The recognised stock exchange shall take all reasonable steps to trace the promoters of a company whose equity shares are proposed to be delisted.

The recognised stock exchange shall consider the nature and extent of the alleged non-compliance by the company and the number and percentage of public shareholders who may be affected by such non-compliance.

The recognised stock exchange shall take reasonable efforts to verify the status of compliance with the provisions of the Companies Act, 2013 and the rules and regulations made thereunder, by the company with the office of the concerned Registrar of Companies.

The names of the companies whose equity shares are proposed to be delisted and their promoters shall be displayed in a separate section on the website of the recognised stock exchange. If delisted, the names shall be shifted to another separate section on the website.

The recognised stock exchange shall in appropriate cases file prosecutions under relevant provisions of the Securities Contracts (Regulation) Act, 1956 or any other law for the time being in force against identifiable promoters and directors of the company for the alleged non-compliances.

The recognised stock exchange shall, in appropriate cases, under the applicable provisions of the Companies Act, 2013, file a petition for winding up the company or make a request to the Registrar of Companies to strike off the name of the company from the register.

Delisting of equity shares of small Companies

Conditions for delisting

the company has a paid up capital not exceeding 10 crore rupees and net worth not exceeding 25 crore rupees as on the last date of preceding financial year

the number of equity shares of the company traded on each such recognised stock exchange during the 12 calendar months immediately preceding the date of board meeting held for consideration of the proposal of delisting, is less than 10% of the total number of shares of the company

the company has not been suspended by any of the recognised stock exchanges having nationwide trading terminals for any non-compliance in the preceding one year

Procedure for delisting

- a) acquirer **appoints a Manager** to the offer and **decides an exit price** after consultation.
- b) the **exit price offered to the public shareholders** shall not be less than the floor price.
- c) the **acquirer writes individually to all the public shareholders** of the company **informing them of its intention** to get the equity shares delisted, the exit price together with the justification therefor and seeking their consent for the proposal for delisting;
- d) the **public shareholders holding 90% or more of the public shareholding give their consent in writing** to the proposal for delisting, and consent either to sell their equity shares at the price offered by the acquirer or to continue to hold the equity shares even if they are delisted
- e) the **acquirer completes the process of inviting the positive consent and finalisation of the proposal** for delisting of equity shares **within 75 working days** of the first communication made.
- f) the acquirer **makes payment of consideration in cash within 15 working days**.
- g) The relevant recognised stock exchange may delist such equity shares upon satisfying itself of compliance with this regulation.

Delisting of Equity Shares of Companies Listed on Innovators growth Platform after making an Initial Public Offer

A company whose equity shares are listed and traded on the innovators growth platform pursuant to an initial public offer may be delisted from the innovators growth platform, if: -

- a) such delisting is approved by the Board of Directors of the company;
- b) such delisting is approved by the shareholders of the company by a special resolution passed through postal ballot or e-voting, after disclosure of all material facts in the explanatory statement sent to the shareholders in relation to such resolution.
- c) delisting price is based on a floor price determined in terms of regulation 8 of Takeover Regulations, and an additional delisting premium justified by the acquirer;
- d) the post offer shareholding of the acquirer along with the persons acting in concert with it, taken together with the shares tendered reaches 75% of the total issued shares of that class and at least 50% shares of the public shareholders as on date of the board meeting are tendered and accepted;
- e) the recognised stock exchange, on which its shares are listed, approves of such delisting.

PROVISIONS PERTAINING TO DELISTING UNDER THE SECURITIES CONTRACT (REGULATION) ACT, 1956

Delisting of securities

A recognized stock exchange may, without prejudice to any other action that may be taken under the Act or under any other law for the time being in force, delist any securities listed thereon on any of the following grounds in accordance with the regulations made by the SEBI, namely: -

- a) the company has incurred losses during the preceding three consecutive years and it has negative networth;

- b) trading in the securities of the company has remained suspended for a period of more than six months;
- c) the securities of the company have remained infrequently traded during the preceding three years;
- d) the company or any of its promoters or any of its director has been convicted for failure to comply with any of the provisions of the Act or the SEBI Act, 1992 or the Depositories Act, 1996 or rules, regulations, agreements made thereunder, as the case may be and awarded a penalty of not less than rupees one crore or imprisonment of not less than three years;
- e) the addresses of the company or any of its promoter or any of its directors, are not known or false addresses have been furnished or the company has changed its registered office in contravention of the provisions of the Companies Act, 2013; or
- f) shareholding of the company held by the public has come below the minimum level applicable to the company as per the SEBI (LODR) Regulations, 2015 and the company has failed to raise public holding to the required level within the time specified.

However, no securities shall be delisted unless the company concerned has been given a reasonable opportunity of being heard.

A listed company or an aggrieved investor may file an appeal before the Securities Appellate Tribunal against the decision of the recognised stock exchange delisting the securities within 15 days from the date of the decision of the recognised stock exchange delisting the securities.

However, the Securities Appellate Tribunal may, if it is satisfied that the company was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding one month.

Penalty for failure to comply with provision of delisting conditions or grounds

If a company or any person fails to comply with the delisting conditions or grounds or commits a breach thereof, it or he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees.

CHAPTER – 16

Buy-Back of Securities

INTRODUCTION

- Buy-back of share means purchase of its own shares by the company.
- In short, buy-back is a process when a company makes an offer to buy-back its own issued shares.
- It is one of the tools which is adopted by the Company for capital restructuring.

OBJECTIVES OF BUY-BACK

1. To strategically increase promoters' shareholding subject to compliance with SEBI (SAST) Regulations, 2011;
2. To improve earnings per share;
3. To improve return on capital, return on net worth and to enhance the long-term shareholder value;
4. To enhance consolidation of stake in the company;
5. To prevent unwelcome takeover bids;
6. To return surplus cash to shareholder and allow profitable deployment of cash surplus;
7. To achieve optimum capital structure;
8. To support share price during periods of sluggish market conditions;
9. To service the equity more efficient; and
10. To provide an additional exit route to shareholders when shares are under valued or are thinly traded.

PROVISIONS OF THE COMPANIES ACT, 2013

Pursuant to Section 68(1) of the Companies Act, 2013, a company done buy-back of shares or other specified securities out of –

- a) its free reserves;
- b) the securities premium account;
- c) the proceeds of the issue of any shares or other specified securities:

However, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

Conditions for Buy-Back [section 68(2) of the Companies Act, 2013]

- The buy-back is **authorised by its articles**.
- Buy back must be **authorized by a Special Resolution**.

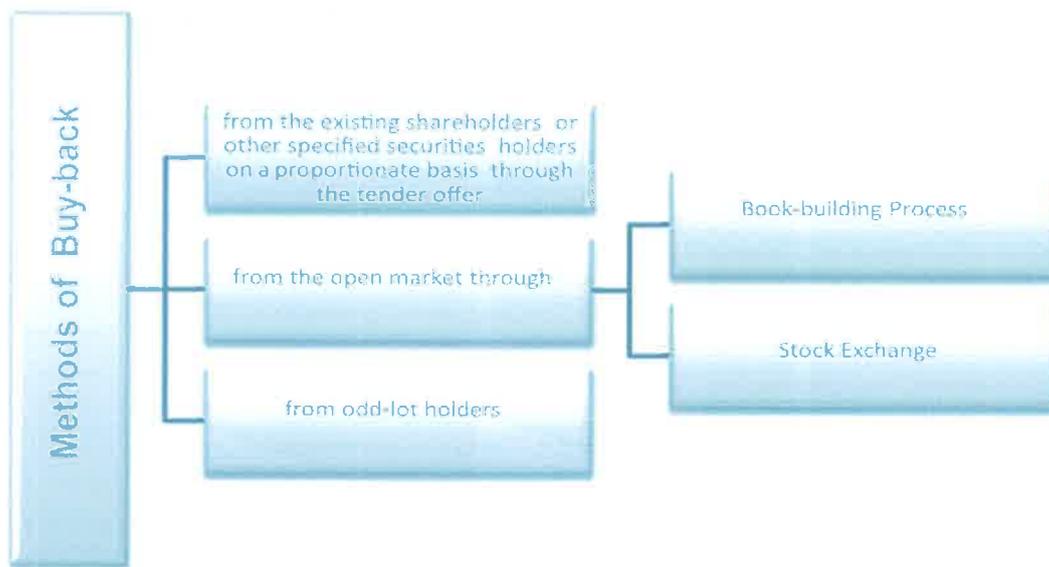
But if the **buy-back amounts to 10% or less of the total paid-up equity capital and free reserves** of the company then the **Board resolution is enough** not required to pass any special resolution.

- The buy-back is **limited upto twenty-five per cent or less of the aggregate of paid-up capital and free reserves** of the company.
- The ratio of the **aggregate of secured and unsecured debts** owed by the company after buy-back is **not more than twice the paid-up capital** and its free reserves.
- All the shares or other specified securities for buy-back are fully paid-up.
- Every buy-back shall be **completed within a period of one year** from the date of passing of the special resolution or Board Resolution as the case may be.
- The notice of the meeting at which the special resolution is proposed to be passed shall be accompanied by an explanatory statement.
- A company shall not make any offer of buy-back within a period of one year reckoned from the date of expiry of buy-back period of the preceding offer of buy-back, if any.
- A company shall not allow buy-back of its shares unless the consequent reduction of its share capital is effected.

- A company shall not buy-back its shares or other specified securities so as to delist its shares or other specified securities from the stock exchange.

METHODS OF BUY-BACK

A company may buy-back its shares or other specified securities by any one of the following methods:



NOTE - No offer of buy-back for 15% or more of the paid up capital and free reserves of the company, shall be made from the open market.

PROHIBITIONS FOR BUY-BACK

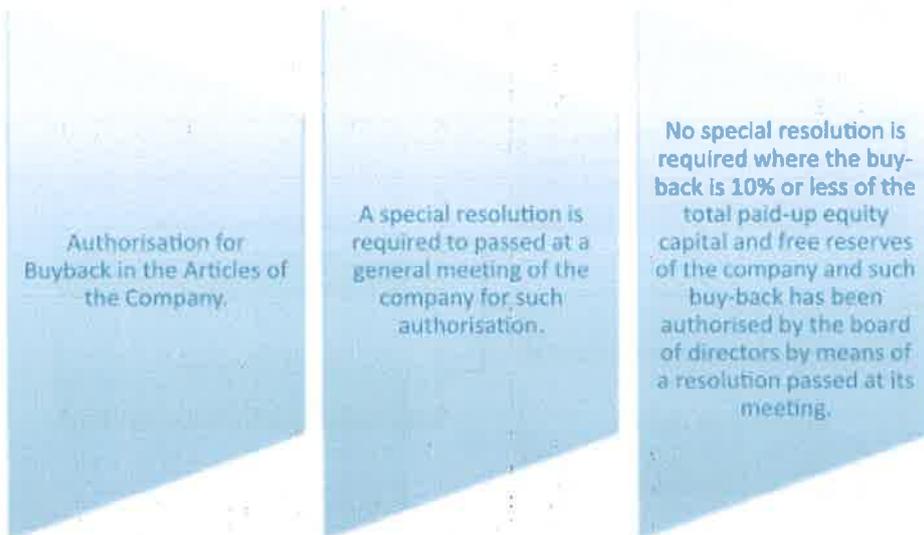
The Company shall not directly or indirectly purchase its own shares or other specified securities:

- a) through any subsidiary company including its own subsidiary companies
- b) through any investment company or group of investment companies;
- c) if a default is made by the company in the repayment of deposits accepted, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company.

NOTE – The buy-back is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist.

AUTHORISATION FOR BUY-BACK

- The company shall not authorize for any buy-back whether by way of tender offer or from open market or odd lot unless:



- In case of Special Resolution, a copy of the resolution passed at the general meeting shall be filed with SEBI and the stock exchanges where the shares or other specified securities of the company are listed, within seven days from the date of passing of the resolution.
- In case of only Board Resolution, a copy of Board Resolution passed in the meeting of the Board of Directors, shall file with SEBI and the stock exchanges, where the shares or other specified securities of the company are listed, within two working days of the date of the passing of the resolution.
- The company shall, after expiry of the buy-back period, file with the Registrar of Companies and SEBI, a return containing such particulars relating to the buy-back within thirty days of such expiry.
- No insider shall deal in shares or other specified securities of the company on the basis of unpublished price sensitive information relating to buy-back of shares or other specified securities of the company.

An explanatory statement as per Schedule II Part A should be annexed to the notice containing following details: -

- **Date of the Board meeting** at which the proposal for buy-back was approved
- **Necessity** for the buy-back;
- **Maximum amount required** under the buy-back and its percentage of the total paid up capital and free reserves;
- **Maximum price** at which the shares or other specified securities are proposed be bought back
- **Maximum number of securities** that the company proposes to buy-back;
- **Method** to be adopted for buy-back
- **Details regarding:**
 - a) the **aggregate shareholding** of the promoter or of the director of promoter (in case the promoter is another company)
 - b) details regarding **aggregate number of shares or securities purchased** by (a) from 6 months prior to date of BOD meeting where buyback was approved until the date of notice of AGM;
 - c) the **maximum and minimum price at which purchases and sales** referred to in (b) above were made along with the relevant dates
- **Intention of the promoters and persons in control** of the company to tender shares or other specified securities for buy-back indicating the number of shares or other specified securities, **details of acquisition with dates and price**
- A **confirmation that there are no defaults** subsisting in repayment of deposits, redemption of debentures or preference shares or repayment of term loans to any financial institutions or banks;
- A **confirmation that the Board of Directors has made a full enquiry into the affairs and prospects of the company and that they have formed the opinion:**
 - a) that **immediately following the date on which the General Meeting or the meeting of the Board of Directors is convened** there will be no grounds on which the company could be found unable to pay its debts;
 - b) as regards **its prospects for the year immediately following that date** having regard to their intentions with respect to the management of

the company's business during that year and to the amount and character of the financial resources which will in their view be available to the company during that year, the company will be able to meet its liabilities as and when they fall due and **will not be rendered insolvent within a period of one year** from that date

c) in forming their opinion for the above purposes, the **directors shall take into account the liabilities as if the company were being wound up** under the provisions of the Companies Act, 1956 or Companies Act, 2013

- **A report addressed to the Board of Directors by the company's auditors stating that-**

- a) they have inquired into the company's state of affairs;
- b) the amount of the permissible capital payment for the securities in question is in their view properly determined
- c) the Board of Directors have formed the opinion as specified in clause (x) on reasonable grounds and that the company will not, having regard to its state of affairs, will not be rendered insolvent within a period of one year from that date.

BUY-BACK THROUGH TENDER OFFER

A company may **buy-back its shares or other specified securities from its existing securities holders** on a proportionate basis.

However, fifteen percent of the number of securities which the company proposes to buy-back or number of securities entitled as per their shareholding, whichever is higher, shall be reserved for small shareholders.

Procedure for filing of offer

Public Announcement

- The Company shall make a public announcement within 2 working days from the date of resolution (SR/BR) in Newspaper one English National Daily, one Hindi National Daily, and a regional language daily all with wide circulation at the place where the Registered office.
- A copy of the public announcement shall also be submitted to SEBI simultaneously through a merchant banker.

Filing with SEBI

- The company shall within 5 working days of the public announcement file with SEBI a draft-letter of offer, and a declaration of solvency and prescribed fees as specified.
- SEBI may provide its comments on the draft letter of offer within seven working days of the receipt of the draft letter of offer. Letter of Offer shall be dispatch to the shareholders after making changes suggested by SEBI, if any.

Record Date

- The Company will announce a record date for the purpose of the security holders who are eligible to participate in the proposed buy-back offer.

Dispatch letter of offer

- The letter of offer along with the tender form shall be dispatched to the security holders within 5 working days from the receipt of communication of comments from SEBI.
- Letter of offer may be dispatched in electronic mode as well. If a shareholder to whom electronic letter of offer is served demands physical copy, the same shall be provided.
- If case an eligible public shareholder does not receive the tender offer/off form, even though he can participate in the buy-back off and tender shares.
- An unregistered shareholder can also participate in buy back by submitting executed transfer deed along with letter of offer.

Opening of Escrow Account:

- The Company should on or before the opening of the offer, deposit in an escrow account the following sum of money: -
 - ✓ If the consideration payable is upto 100 Crore: 25% of the consideration payable;
 - ✓ If the consideration payable exceeds Rs. 100 Crores: 25% upto Rs. 100 Crores and 10% thereafter.

Opening of Offer:

The offer shall open within 5 working days from dispatch of letter. The offer for buy back shall remain open for a period of 10 working days.

Opening of Special Bank Account:

Immediately after closing the offer Total Consideration (together with the money kept in escrow account) should be deposited in a special bank account.

Closure and Payment to Securities Holders

The company shall complete the verifications of offers received and make payment of consideration within 7 working days of the closure of the offer.

Extinguishment of Certificate and other Closure Compliances

The company shall extinguish and physically destroy the security certificates so bought back in the presence of a Registrar to issue or the Merchant Banker and the Statutory Auditor:

- Within 15 days of the date of acceptance of the shares or other specified securities.

AND

- Within 7 days of the last date of completion of buy-back.

Certificate to the SEBI

The company shall furnish a certificate to the SEBI within 7 days extinguishment and destruction of the certificates, certifying compliance as specified above, and duly certified and verified by:

- a) Registrar and whenever there is no registrar, by the merchant banker;
- b) Two directors of the company, one of whom shall be a managing director, where there is one; and
- c) the statutory auditor of the company

ODD LOT BUY BACK

The provisions mentioned above from existing security holders shall be as it is applicable in odd lot buy back.

Important Point: Odd lot is where the lots of securities of a listed company is smaller than the marketable lots as may be specified by the stock exchange.

BUY-BACK FROM THE OPEN MARKET

The company may buy-back of shares or other specified securities from the Open Market may be in any of the following methods:



The company shall ensure that at least 50% of the amount earmarked for buy-back, as specified in the resolution of the board of directors or the special resolution, as the case may be, is utilized for buying-back shares or other specified securities.

Buy-Back of Shares Through Stock Exchange

The buy-back of securities should not be from the promoters or persons in control of the company.

Procedure

- The Special resolution/Board Resolution, should specify the maximum price at which the buyback will be made.
- The company should appoint a merchant banker.
- The public announcement shall be made within 2 working days from the date of passing resolution.

Simultaneously file a copy with SEBI and also updated in the website of the Company.

- The company shall, before opening of the offer, create an escrow account and shall deposit 25% of the amount earmarked for the buy-back in such escrow account.

Important point: Where part of the escrow account is in the form of a bank guarantee, the company shall deposit with a scheduled commercial bank, in cash, a sum of at least 2.5 per cent of the total amount kept for buyback.

- The period of offer must open within 7 days of public announcement and close within 6 months from opening of offer.

Important point: The buy-back should be made only on stock exchanges having Nationwide Trading Terminal facility and only through the order matching mechanism.

- The company shall submit the information regarding the shares or other specified securities bought back, to the stock exchange on a daily basis.

Simultaneously this should be updated on the official website of the company.

- Separate window for buyback in physical form on stock exchange
 - a) A separate window shall be created by the stock exchange, which shall remain open during the buy-back period.
 - b) Verification of the identity proof and address proof needs to be undertaken in case of physical form buy back through stock exchange.
 - c) The price at which the shares will be bought back shall be the volume weighted average price of the shares or other specified securities bought back, other than in the physical form, during the calendar week in which such shares or other specified securities were received by the broker.

Important Point: In case no shares or other specified securities were bought back in the normal market during calendar week, the preceding week when the company has last bought back the shares or other specified securities may be considered.

- The company shall extinguish and physically destroy the security certificates so bought back in the presence of a Registrar to issue or the Merchant Banker and the Statutory Auditor on or before 15th day of the succeeding month.

- Further, the company shall ensure that all the securities bought-back are extinguished within 7 days of the last date of completion of buyback.

Important Point: If the securities are in dematerialized form, it shall be extinguished and destroyed in the manner specified under SEBI (Depositories and Participants) Regulations, 1996, and the bye-laws framed thereunder.

Buy-Back through book building

- The Special Resolution/Board Resolution, should specify the maximum price at which the buy-back will be made.
- The company should appoint a merchant banker.
- The deposit in the escrow account should be made before the date of the public announcement.

Important Point: The amount to be deposited in the escrow account should be determined with reference to the maximum price as specified in the public announcement.
- The public announcement shall be made at least 7 working days prior to the commencement of Buy-Back. The Public announcement shall also contain the detailed methodology of the book building process.
- A copy of the public announcement must be filed with SEBI within 2 days of the announcement.
- Bidding:
 - a) The book-building process should be made through an electronically linked transparent facility.
 - b) There should be at least 30 bidding centres & there should be at least one electronically linked computer terminal at all the bidding centres.
- The offer for buy-back should be kept open to the security-holders as follows: - Minimum: 15 days Maximum: 30 days

- The company and merchant banker will determine the price at the end of offer period.
- The company shall complete the verifications of offers received and make payment of consideration within 7 working days of the closure of the offer.
- The company shall extinguish and physically destroy the security certificates so bought back in the presence of a Registrar to issue or the Merchant Banker and the Statutory Auditor:

Within 15 days of the date of acceptance of the shares or other specified securities.

AND

Within 7 days of the last date of completion of buy-back.

OBLIGATION OF COMPANY

- a) The letter of offer, the public announcement of the offer or any other advertisement, circular, brochure, publicity material **contains true, factual and material information** and does not contain any misleading information.
- b) The directors of the company **should accept the responsibility for the information** contained in such documents.
- c) The Company **shall not issue any specified securities including by way of bonus till the date of closure of the offer is made under these Regulations.**
- d) The Company shall **pay consideration only by cash.**
- e) The Company **shall not withdraw the offer to buy-back** after the draft letter of offer is filed with the SEBI or public announcement of the offer to buy-back is made.
- f) Tire promoter or the person shall **not deal in the specified securities of the company in the stock exchange or off market, including inter-se**

transfer of shares among the promoters during the period "from the date of passing the resolution till the closing of the offer.

- g) The Company shall **not raise further capital for a period of one year** from the closure of buy-back offer, except in discharge of its subsisting obligations.
- h) The Company **should nominate a compliance officer and investors service centre** for compliance with the buy-back regulations and to redress the grievances of the investors.
- i) The particulars of the said security **certificates extinguished and destroyed should be furnished by the company** to the stock exchanges where the securities of the company are listed, **within 7 days of extinguishment and destruction** of the certificates.
- j) The company **should issue, within two days of the completion of buy-back, a public advertisement in a national daily, inter alia, disclosing the following:**
- number of securities bought;
 - price at which the securities were bought;
 - total amount invested in the buy-back;
 - details of the security-holders from whom securities exceeding one per cent of the total securities were bought-back;
 - The consequent changes in the capital structure and the shareholding pattern after and before the buy-back.

OBLIGATION OF MERCHANT BANKER

- The company is **able to implement the offer;**
- The **provision relating to escrow account** has been made;
- Firm arrangements for monies for payment to **fulfil the obligations** under the offer are in place;
- The **public announcement of buy-back is made** and the letter of offer has been filed in terms of the Regulations;
- The merchant banker **should furnish to SEBI, a due diligence certificate** which should accompany the draft letter of offer;

- The merchant banker **should ensure that the contents of the public announcement of offer as well as the letter of offer are true, fair and adequate** and quoting the source wherever necessary.
- The merchant banker **should ensure compliance** of Section 68 and Section 70 of the Companies Act, 2013 and any other applicable laws or rules in this regard

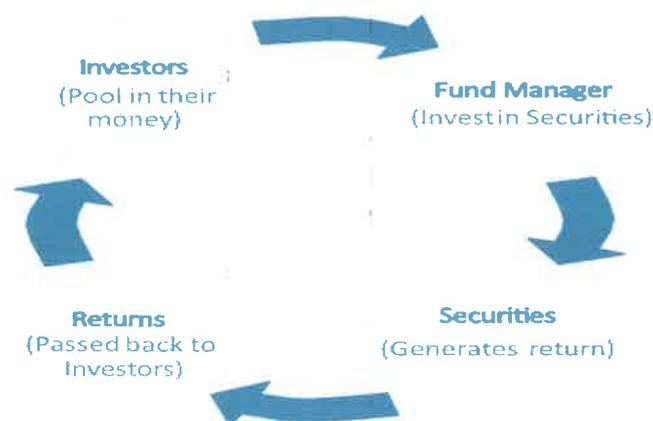
CHAPTER – 17

Mutual Funds

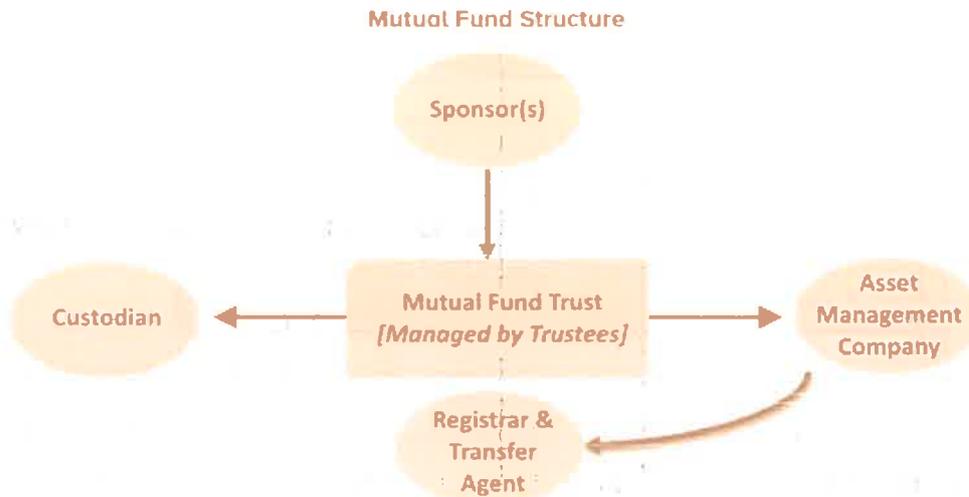
INTRODUCTION

- Mutual fund is a process of pooling resources from the investors and investing funds in securities.
- The process of pooling the resources together and issuing units to the investors and then investing funds in securities is known as the scheme of "Mutual Funds"
- In other words, it works like a trust which pools the savings of investors and invests these in capital and money market instruments.
- Mutual funds offer good investment opportunities to the investors. Like all investments, they also carry certain risks.

MUTUAL FUND OF CYCLE



STRUCTURE OF A MUTUAL FUND



Mutual fund must consist of five important entities:

- 1) **Sponsor**- Sponsor is the principal body, who brings the capital as per the guideline issued by SEBI to start a mutual fund.
- 2) **Trust & Trustee**- Trust is created by sponsor and trustees are appointed to manage the operations of a trust. The trustees' job is to ensure that all the funds are managed as per the defined objective and investors' interest is protected.
- 3) **Asset Management Company (AMC)**- The Trustee appoints AMC to manage the funds of the investors and, in return, get the fee to manage the fund.
- 4) **Custodian** - Custodian job is to the safekeeping of the investors' fund and securities and to ensure that it would be used for intended purpose only.
- 5) **Registrar and Transfer Agent (RTA)** - RTAs job is to manage the backend operation of the mutual fund and managing investors' transaction request and other related services.

CLASSIFICATION OF MUTUAL FUNDS

Open-ended Mutual Funds:

- It is a mutual fund scheme where investors invest and redeem their investment throughout the year.
- It gives flexibility to an investor to purchase and redeem the units of mutual funds at any time at a fixed NAV during the life time of funds.
- **Example:** Unit Trust of India's US 64 Scheme and State Bank of India Mutual Fund's SBI Magnum Mutual Fund
- Key features of such scheme are liquidity and its free entry and exit from the fund.
- It is a never-ending fund and can be used it as systematic investment platform.
- The listing of open-ended mutual fund is not required and the corpus of this fund is flexible and always varies.

Close-ended Mutual Funds:

- It is a fund which opens for limited period for subscription.
- The investors can invest directly in the fund at the time of initial offer.
- After initial offer, an investor can buy units of this type of mutual funds from tire market like equity shares of any company.
- The listing of Close-ended mutual funds is mandatory on the recognized stock exchanges (i.e. BSE & NSE or others).
- **Example:** ICICI Prudential Fusion Fund - Growth, Principal PNB Long Term Fund 3-year Series II - Growth, Reliance Fixed Horizon Fund - V 3 Yrs Plan - Dividend
- In other words, a close-ended scheme has fixed corpus and stipulated maturity period ranging between 2 and 5 years.

Difference between Open-ended & Close-ended Mutual Funds:

<i>Open Ended</i>	<i>Close Ended</i>
<ul style="list-style-type: none"> • Can be purchased on any transaction day 	<ul style="list-style-type: none"> • Can be purchased only during NFO
<ul style="list-style-type: none"> • Can be redeemed on any transaction day [Except when units are locked-in in the case of Equity-Linked Savings Scheme (ELSS) funds] 	<ul style="list-style-type: none"> • Can be redeemed only at maturity
<ul style="list-style-type: none"> • High liquidity 	<ul style="list-style-type: none"> • Low on liquidity

MUTUAL FUND SCHEMES BASED ON INVESTMENT OBJECTIVE

There are other types of mutual funds also to meet the investment needs of several groups of investors. Some of them include the following: -

a) **Income Oriented Schemes:**

The fund primarily offers fixed income to investors. Naturally enough, the main securities in which investments are made by such funds are the fixed income yielding ones like bonds, corporate debentures, Government securities and money market instruments, etc.

b) **Growth Oriented Schemes:**

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.

c) **Hybrid Schemes:**

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 utilise the concept of balanced investment management.

These funds are, thus, also known as "balanced funds".

d) **High growth Schemes:**

As the nomenclature depicts, these funds primarily invest in high risk and high return volatile securities in the market and induce the investors with a high degree of capital appreciation.

e) **Capital Protection Oriented Scheme:**

It is a scheme which endeavours to protect the capital invested in the mutual fund through suitable orientation of its portfolio structure.

f) **Tax Saving Schemes:**

These schemes offer tax rebates to the investors under tax laws as prescribed from time to time. This is made possible because the Government offers tax incentive for investment in specified avenues. For example, Equity Linked Saving Schemes (ELSS) and pensions schemes.

g) **Special Schemes:**

This category includes index schemes that attempt to replicate the performance of particular index such as the BSE, Sensex or the NSE-50 or industry specific schemes (which invest in specific industries) or sectoral schemes (which invest exclusively in segment such as 'A' Group or initial public offering).

Index fund schemes are ideal for investors who are satisfied with a return approximately equal to that of an index. Sectoral fund schemes are ideal for investors who have already decided to invest in particular sector or segment.

h) **Real Estate Funds:**

These are close ended mutual funds which invest predominantly in real estate and properties.

i) **Off-shore Funds:**

Such funds invest in securities of foreign companies with RBI permission.

j) **Leverage Funds:**

Such funds, also known as borrowed funds, increase the size and value of portfolio and offer benefits to members from out of the excess of gains over cost of borrowed funds. They tend to indulge in speculative trading and risky investments.

k) **Hedge Funds:**

They employ their funds for speculative trading, i.e. for buying shares whose prices are likely to rise and for selling shares whose prices are likely to fall.

l) **Fund of Funds:**

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

m) **New Direction Funds:**

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

n) **Exchange Trade Funds (ETFs)**

are a new variety of mutual funds that first introduced in 1993. ETFs are sometimes described as more "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.

o) **Money Market Mutual Funds:**

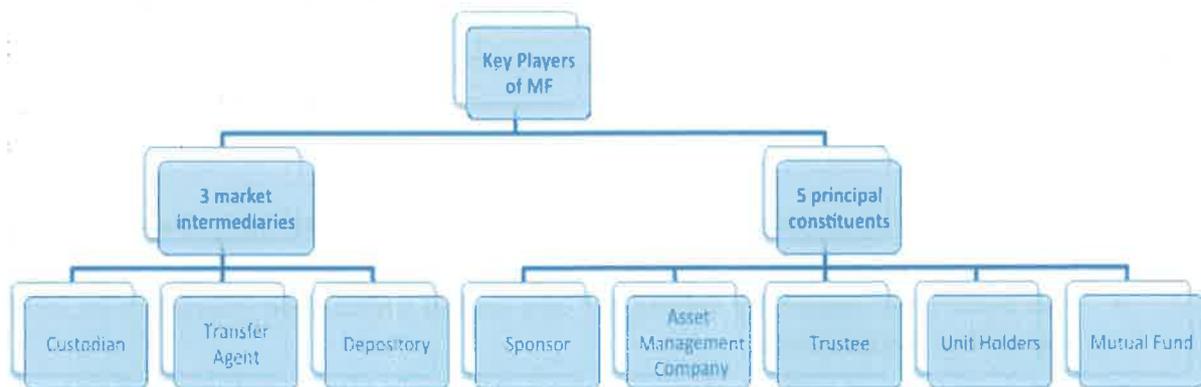
These funds invest in short-term debt securities in the money market like certificates of deposits, commercial papers, government treasury bills etc. Owing to their large size, the funds normally get a higher yield on such short term investments than an individual investor.

p) **Infrastructure Debt Fund:**

They invest primarily in the debt securities or securitized debt investment of infrastructure companies.

KEY PLAYERS IN MUTUAL FUND

There are **five principal constituents** and **three market intermediaries** in the formation and functioning of mutual fund:



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.
- 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.

Three market intermediaries are:

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 the SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993.

- Transfer agents' services include issue and redemption of mutual fund units, preparation of transfer documents and maintenance of updated investment records.

Depository

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

Systematic Investment Plan (SIP) in Mutual Fund

- Systematic Investment Plan (SIP) is an **investment plan (methodology) offered by Mutual Funds wherein one could invest a fixed amount in a mutual fund scheme periodically, at fixed intervals – say once a month, instead of making a lump-sum investment.**
- The SIP instalment amount could be as little as Rs.500 per month.
- SIP is similar to a recurring deposit where you deposit a small /fixed amount every month.
- SIP has been gaining popularity among Indian MF investors, as it helps in investing in a disciplined manner.
- **To illustrate**, a small amount of `1000 invested every month at an interest rate of 8% for 25 years would give 9.57 Lakh. That means investment of just ` 3 Lakh would have grown three times over.

NET ASSET VALUE

- Mutual funds **raise money by selling their shares to public and redeeming them at current 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, 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 by dividing the net asset of the scheme by the number of units of that scheme outstanding on the date of valuation and publish the same at least in two daily newspapers at intervals not exceeding one week.
- However, the net asset value of any scheme for special target segment or any monthly scheme which are not mandatorily required to be listed in the stock exchange may publish the NAV at monthly or quarterly intervals as permitted by SEBI.

- The **Net Asset Value (NAV)** of a mutual fund is the price at which units of a mutual fund are bought or sold. It is the market value of the fund after deducting its liabilities.

How is it calculated?

$$\text{Net Asset Value} = \frac{\text{Net Asset of the Scheme}}{\text{Number of units outstanding}}$$

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

Net Asset value (NAV) – Cut-off Timeline

Type of Scheme	Transaction type	Cut-off timings
Liquid Funds & Overnight Funds	Subscription (including Switch-in from other schemes)	1:30 p.m.
	Redemption (including Switch-in from other schemes)	3:00 p.m.
All other schemes (other than Liquid Funds / Overnight Funds)	Subscription (including Switch-in from other schemes)	3:00 p.m.
	Redemption (including Switch-in from other schemes)	3:00 p.m.

EXPENSE RATIO

Expense Ratio is the annual fee charged by the mutual fund scheme to manage money on your behalf.

It covers the fund manager's fee along with other expenses required to run the fund administration. It includes the following: –

- 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
- Service tax

The lower the Expense Ratio the higher the NAV.

Front End & Back End Load

- A front-end load is a commission or sales charge applied at the time of the initial purchase of units of mutual fund.
- A back-end load is a fee (sales charge or load) that investors pay when selling mutual fund shares.

➤ $\text{Expenses Ratio} = (\text{Expenses} \times 100) / (\text{NAV}_1 + \text{NAV}_0) / 2$

➤ Where, $\text{NAV}_1 = \text{NAV at Year End}$
 $\text{NAV}_0 = \text{NAV at beginning of Year}$

➤ $\text{Purchase Price OR Public offer Price} = \text{NAV} / (1 - \text{front end load})$

➤ $\text{Redemption Price} = \text{NAV} / (1 + \text{back end load})$

Illustration:

1. Name of the Scheme	XYZ
Size of the Scheme	Rs.100 Lakh
Face Value of the Share	Rs.10
Number of the outstanding shares	10 Lakhs
Market value of the fund's investments Receivables	Rs.180 Lakhs
Accrued Income	Rs.1 Lakhs
Receivables	Rs.1 Lakh
Liabilities	Rs.50,000
Accrued expenses	Rs.50,000

Find NAV per unit?

Solution

$\text{NAV per unit} = (\text{Investment} + \text{Recoverable} + \text{Accrued Income} - \text{Liabilities} - \text{Accrued expenses}) / \text{No of units (mutual fund)}$

$= (180 \text{ Lakhs} + 1 \text{ Lakh} + 1 - 0.50 \text{ Lakh} - 0.50 \text{ Lakh}) / 10 \text{ Lakhs}$

NAV = Rs.18.10 per unit

3. The redemption price of mutual fund unit is ₹ 48 while the front end load and back end load charges are 2% and 3% respectively. Compute:

- i) NAV per unit
- ii) Public offer price of the unit.

Solution:

Redemption Price = NAV (1+ Back End Load) 48 = NAV (1+0.03) = 48x1.03 NAV= ₹ 49.44	Public Offer Price = N A V (1- Front End Load) = 49.44 (1-0.02) = 49.44 0.98 Public Offer Price = ₹ 50.45
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HOLDING PERIOD RETURN (HPR)

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.

Calculation of HPR

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

Illustration: 2 Calculate HPR for a unit holder who bought a unit at ₹ 17.60 and received a dividend of ₹ 2 per unit during the period. Face value of the unit is ₹ 10 and current unit price is ₹ 19.875

$$\begin{aligned} \text{HPR} &= \frac{\text{Dividend} + (\text{NAV at present} - \text{NAV at purchase}) \times 100}{\text{NAV at purchase}} \\ &= \frac{2 + (19.875 - 17.60) \times 100}{17.60} \\ \text{HPR} &= 24.29\% \end{aligned}$$

ADVANTAGES OF MUTUAL FUNDS

- A) **Professional Management:** Investors avail the services of experienced and skilled professionals who are backed by a dedicated investment research team which analyses the performance and prospects of companies and selects suitable investments to achieve the objectives of the scheme.
- B) **Diversification:** Mutual funds invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk because seldom do all stocks decline at the same time and in the same proportion.
- C) **Convenient Administration:** Investing in a mutual fund reduces paper work and helps investors to avoid many problems. Mutual funds save investors time and make investing easy and convenient.
- D) **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.
- E) **Low Costs:** Mutual funds are a relatively less expensive way to invest compared to directly investing in the capital markets because the benefits of scale in brokerage, custodial and other fees translate into lower costs for investors.
- F) **Transparency:** Investors get regular information on the value of their investment in addition to disclosure on the specific investments made by scheme, the proportion invested in each class of assets and the fund manager's investment strategy and outlook.

DISADVANTAGES OF MUTUAL FUND

- Excessive diversification of portfolio, losing focus on the securities of the key segments.
- Too much concentration on blue-chip securities which are high priced and which do not offer more than average return.
- Necessity to effect high turnover through liquidation of portfolio resulting in large payments of brokerage and commission.
- Poor planning of investment returns.

- Un-researched forecast on income, profits and Government policies.
- Fund managers being unaccountable for poor results.
- Failure to identify clearly the risk of the scheme as distinct from risk of the market.
- Under performance in comparison to peers.

RISKS INVOLVED IN MUTUAL FUNDS

<i>Types of Risks</i>	<i>Cause of Risk</i>
Volatility risk	Typically, equity-based funds invest in the shares of companies that are listed on stock exchanges. The value of such funds is based on companies' performance, which often gets affected due to the prevalent microeconomic factors.
Credit risk	Credit risk in mutual fund investment often results from a situation, wherein, the issuer of the scheme fails to pay the promised interest. In case of debt funds, typically, fund managers include investment-grade securities with high credit ratings.
Liquidity risk	Mutual funds with a long-term and rigid lock-in period like ELSS often come with liquidity risk. Such a risk signifies that investors often find it challenging to redeem their investments without incurring a loss.
Concentrated risk	This mutual fund risk is also prevalent among investors. It can be described as the situation when investors tend to put all their money into a single investment scheme or in one sector. For instance, investing entirely in just one company's stocks often bears a substantial risk of losing capital if caught amidst bad market situations.
Inflation risk	It can be best described as the risk of losing one's purchasing power, mainly due to the rising inflation rate. Typically, investors are exposed to the impact of this risk when the rate of returns earned on investments fails to keep up with the increasing inflationary rate.

SEBI (MUTUAL FUNDS) REGULATIONS, 1996

Eligibility Criteria for Registration of Mutual Funds

For the purpose of grant of a certificate of registration, the applicant has to fulfill the following, namely: –

- The sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions.
- The applicant is a fit and proper person.
- 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 the Board.

- The sponsor has contributed or contributes at least 40% to the net worth of the asset management company.
However, any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor.
- 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.
- Appointment of trustees to act as trustees for the mutual fund in accordance with the provisions of the regulations.
- Appointment of asset management company to manage the mutual fund and operate the scheme of such funds.

Norms for Shareholding & governance in Mutual Funds

No sponsor of a mutual fund, its associate or group company including the asset management company of the fund, through the schemes of the mutual fund or otherwise, individually or collectively, directly or indirectly, have -

- a) 10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or
- b) representation on the board of the asset management company or the trustee company of any other mutual fund.

Any shareholder holding 10% or more of the share-holding or voting rights in the asset management company or the trustee company of a mutual fund, shall not have, directly or indirectly, -

- a) 10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or
- b) representation on the board of the asset management company or the trustee company of any other mutual fund.

Disqualification from being Appointed as Trustees

- A mutual fund shall appoint trustees in accordance with these regulations. A person shall not be eligible to be appointed as a trustee unless: –
 - a) he is a person of ability, integrity and standing;
 - b) has not been found guilty of moral turpitude;
 - c) has not been convicted of any economic offence or violation of any securities laws;
 - d) has furnished particulars as specified in Form C.
- No asset management company and no director (including independent director), officer or employee of an asset management company shall be eligible to be appointed as a trustee of any mutual fund.
- No person who is appointed as a trustee of a mutual fund shall be eligible to be appointed as a trustee of any other mutual fund.
- Two-thirds of the trustees shall be independent persons and shall not be associated with the sponsors or be associated with them in any manner whatsoever.
- In case a company is appointed as a trustee then its directors can act as trustees of any other trust provided that the object of the trust is not in conflict with the object of the mutual fund.

CONSTITUTION AND MANAGEMENT OF ASSET MANAGEMENT COMPANY AND CUSTODIAN

Appointment of an Asset Management Company

- The sponsor or, if so authorised by the trust deed, the trustee, shall appoint an asset management company, which has been approved by the SEBI.
- The appointment of an asset management company can be terminated by majority of the trustees or by seventy-five per cent of the unitholders of the scheme.

- Any change in the appointment of the asset management company shall be subject to prior approval of the SEBI and the unitholders.

Appointment of Custodian

- The mutual fund shall appoint a Custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to the Board within fifteen days of the appointment of the Custodian.
- However, in case of a gold exchange traded fund scheme, the assets of the scheme being gold or gold related instruments may be kept in the custody of a custodian registered with the SEBI.
- However, in case of a silver exchange traded fund scheme, the assets of the scheme being silver or silver related instruments and in case of a real estate mutual fund scheme may be kept in the custody of a custodian registered with the SEBI.

Procedure for Launching of Schemes of mutual fund

- No scheme shall be launched by the asset management company unless such scheme is approved by the trustees and a copy of the offer document has been filed with the SEBI.
- The offer documents shall contain adequate disclosures to enable the investors to make informed decisions.
- The mutual fund, which intends to list units of its scheme on the recognised stock exchange(s), shall obtain 'in-principle' approval from recognised stock exchange(s)
- Every mutual fund desirous of listing units of its schemes on a recognised stock exchange shall execute an agreement with such stock exchange.
- The listing of close-ended schemes is mandatory and these should be listed on a recognised stock exchange
- No scheme other than equity-linked saving scheme can be opened for subscription for more than 15 days.
- In the case of over-subscription, all applicants applying up to 5,000 units must be given full allotment subject to over subscription.

- The AMC is required to refund the application money if minimum subscription is not received, and also the excess over subscription within five working days of closure of subscription.

RESTRICTION ON INVESTMENT BY MUTUAL FUNDS

- The schemes shall not invest more than 10% of its NAV in debt instruments issued by a single issuer which are rated not below investment grade by a Credit Rating Agency. However, such limit can be increased to 12% of its NAV with prior approval of Board of Trustee and Board of Directors of AMC.
- A mutual fund scheme shall not invest in unlisted debt instruments including commercial papers, except Government Securities and other money market instruments. However, Mutual Fund Schemes may invest in unlisted non-convertible debentures up to a maximum of 10% of the debt portfolio of the scheme.
- Mutual fund shall not own more than 10% of company's paid-up capital carrying voting rights.
- The transfer of investments from one scheme to another shall be done only at the prevailing market price & the securities so transferred shall be in conformity with the investment objective of the scheme
- A scheme may invest in another scheme under the same asset management company or any other mutual fund without charging any fees.
However, the aggregate inter-scheme investments made by all schemes shall not exceed 5% of the NAV of the mutual fund.
- The buy and sell by all the mutual funds shall be made on the basis of the deliveries.
- All securities shall be purchase or transferred in the name of the mutual fund scheme.
- **No mutual fund scheme shall make any investment in:**
 - a) any unlisted security of an Associate or Group Company of the Sponsor;

- b) any security issued by way of private placement by an associate or group company of the sponsor;
 - c) the listed securities of group companies of the sponsor which is in excess of 25 per cent of the net Assets.
- No mutual fund shall make any investment in the funds of fund scheme.
 - No mutual fund shall invest more than 10% of its NAV in the equity shares or equity related instruments of any company.

CODE OF CONDUCT OF MUTUAL FUNDS

- The schemes should not be organized, operated and managed in the interest of sponsors or the directors of AMC or special class of unit holders;
- It shall ensure the adequate dissemination of adequate, fair, accurate and timely information of all the stake holders;
- The excessive concentration of business with the broking firm or associates should be avoided;
- The scheme - wise segregation of bank accounts and securities accounts must be ensured;
- The investment should be made in accordance with the investment objectives stated on the offer documents;
- It must not use any unethical means to sell, market or induce any investor to buy their schemes;
- The high standards of integrity and fairness in all the dealings should be maintained by the trustees and AMCs;
- The AMCs shall not make any exaggerated statements.

ADVERTISEMENT CODE

- Advertisement shall be accurate, true, fair, clear, complete, unambiguous and concise.

- Advertisement shall not contain statement which are false, misleading, biased or deceptive, based on assumptions and shall not contain any testimonials or any ranking based on any criteria.
- No celebrities shall form part of advertisement.
- No advertisement shall directly or indirectly discredit other advertisements or make unfair comparisons.
- Advertisements shall be accompanied by a standard warning in legible fonts which states **"Mutual fund investments are subject to market risks, read all schemes related document carefully."**
- In audio visual media based advertisements, the standard warning in visual and accompanying voice over reiteration shall be audible in a clear and understandable manner.

PROVISIONS PERTAINING TO MUTUAL FUNDS UNDER THE SEBI (LODR) REGULATIONS, 2015

The provisions of **chapter IX of the SEBI LODR Regulations, 2015** applies to the **asset management company managing** the mutual fund scheme whose units are listed on the recognised stock exchange(s).

The listed entity shall submit such information and documents, which are required to be disseminated on the listed entity's website in terms of SEBI (Mutual Funds) Regulations, 1996 and directions issued thereunder, to the recognized stock exchange for dissemination.

CHAPTER – 18

Collective Investment Schemes

INTRODUCTION

- A collective investment scheme is a trust based scheme that comprises a pool of assets that is managed by a collective investment scheme manager and is governed by the Collective Investment Schemes Regulations given by SEBI.
- The sums of money that are exchanged on the Stock Exchange and in the money markets make them too pricy for most people.
- With a CIS, the money or funds from a group of investors are pooled or collected together to form a CIS portfolio.

COLLECTIVE INVESTMENT SCHEME

- A collective investment scheme is a scheme that comprises a pool of assets that is managed by a collective investment scheme manager and is governed by the Collective Investment Schemes Regulations given by SEBI.
- The investor holds a portion of the scheme known as Units of CIS.
- Investors do not have day-to-day control over the management and operation of such scheme or arrangement.

Definition of Collective Investment Scheme

refers to any scheme under which: -

- a) the contributions are pooled and utilized for the purposes of the scheme or arrangement;
- b) the contributions are made to such scheme by the investors with a view to receive profits, income, produce or property, whether movable or immovable;
- c) the property, contribution or investment forming part of scheme, is managed on behalf of the investors;
- d) the investors do not have day-to-day control over the management of the scheme.

The following shall not be Collective Investment Scheme (CIS):

- made or offered by a co-operative society or a society
- under which deposits are accepted by non-banking financial companies
- being a contract of insurance to which the Insurance Act, 1938, applies;
- providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provisions Act, 1952;
- under which deposits are accepted under section 74 of the Companies Act, 2013;
- under which deposits are accepted by a company declared as a Nidhi or a mutual benefit society under section 406 of the Companies Act, 2013;
- falling within the meaning of Chit business
- under which contributions made are in the nature of subscription to a mutual fund;
- such other scheme or arrangement which the Central Government may, in consultation with SEBI, notify, shall not be a collective investment scheme.

SEBI (COLLECTIVE INVESTMENT SCHEMES) REGULATIONS, 1999 – AN OVERVIEW

Definition of Collective Investment Management Company

"Collective Investment Management Company mean a company incorporated under the Companies Act, 2013 and registered with SEBI under these regulations, whose object is to organize, operate and manage a collective investment."

Certificate of Registration to carry on CIS business

No person other than a Collective Investment Management Company which has obtained a certificate under the regulations should carry on or sponsor or launch a collective investment scheme.

Collective Investment Scheme Property

"Collective investment scheme property" includes:

- Subscription of money or money's worth (including bank deposits) to the collective investment scheme;
- Property acquired, directly or indirectly, with, or with the proceeds of, subscription of money; or
- Income arising, directly or indirectly from, subscription money or property above.

Restriction on Business Activities

Collective Investment Management Company should not:

- undertake any activity other than that of managing the scheme;
- act as a trustee of any scheme;
- launch any scheme for the purpose of investing in securities;
- Invest in any schemes floated by it.

However, it has been provided that a CIMC may invest in its own scheme, if it makes a disclosure of its intention to invest in the offer document of the scheme, and does not charge any fees on its investment in that scheme.

Obligations of Collective Investment Management Company

Every Collective Investment Management Company should:

- be responsible for managing funds or properties of scheme on behalf of the unitholders;
- exercise due diligence and care in managing assets and funds of the scheme;
- also be responsible for the acts of commissions and omissions by its employees or the persons whose services have been availed by it;
- appoint registrar and share transfer agents and should also abide by their respective Code of Conducts as specified by SEBI;
- give monthly receipts for all monies received and report of receipts & payments to SEBI;
- hold a meeting of Board of Directors to consider the affairs of scheme, at least twice in every 3 months and also ensure that its officers or employees do not make improper use of their position or information to gain an advantage for themselves or for any other person or to cause detriment to the scheme;
- obtain adequate insurance against the properties of the schemes and comply with such guidelines, directives, circulars and instructions as may be issued by SEBI.

Penal Provisions

If, a registered collective investment management company violates certain provisions of the regulations, then following will be the consequences: –

- Suspension/cancellation of certificate.
- SEBI may initiate criminal prosecution in the interests of the securities market and the investors passing of following directions such as:
 - requiring the person concerned not to collect any money from investor or to launch any scheme;

- prohibiting the person concerned from disposing of any of the properties of the scheme acquired in violation of the Regulations;
- requiring the person concerned to dispose off the assets of the scheme in a manner as may be specified in the directions;
- requiring the person concerned to refund any money or the assets to the concerned investors along with the requisite interest or otherwise, collected under the scheme;
- Prohibiting the person concerned from operating in the capital market or from accessing the capital market for a specified period.

ROLE OF COMPANY SECRETARY

The Company Secretary shall ensure that the money mobilization carried out by the company will not trigger the parameters of CIS Regulations.

Our Rankers



Pulak Bansal



Sidra Khan



Albiya Shaikh



Khushi Dubey



Kushal Todi



Richa Chokhani



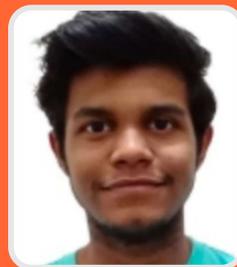
Isha Shah



Kartiki Tulaskar



Mansi Rawat



Deep Patel



Aditya Dakh



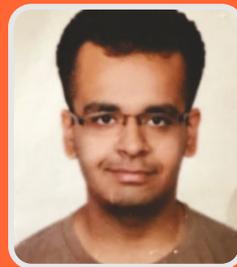
Aditi Menon



Femi Jain



Ibrat Khan



Rahul Lakhwani



Kausha Sheth



Kimaya Sonawdekar



Suyash Kasat



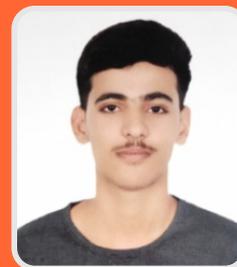
Siddharth Nair



Anjali Vishwakarma



Kedar More



Raj Singh



Dhruvi Patel



Vaibhavi Palkar



Kinjal Solanki

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