

CAPITAL MARKET AND SECURITIES LAWS

CS VIKAS VOHRA | *Corporate Baba*



HIGHLIGHTS

- Covers all the major concepts of the subject
- Coloured book for better learning
- Important concepts highlighted for quick revision

WIPRO 303.35 ▼ 23 YES ACADEMY 700 ▲ 70 ZEE 124 ▼ 1
59 ▲ 16 ITC 487 ▼ 18 RELIANCE 1240 ▼ 90 TCS 4174 ▲ 14



CS VIKAS VOHRA (FOUNDER)

CSEET	EXECUTIVE	PROFESSIONAL
Legal Aptitude	Company Law & Practice	Drafting, Pleadings & Appearances
	Capital Market & Securities Laws	



CA CS HARISH A. MATHARIYA (FOUNDER)

CSEET	EXECUTIVE	PROFESSIONAL
Business Environment	Corporate Accounting & Financial Management	



ADV CHIRAG CHOTRANI

CSEET	EXECUTIVE	PROFESSIONAL
Legal Aptitude	Setting Up of Business, Industrial & Labour Laws	Environmental, Social & Governance - Principles and Practice
	Jurisprudence, Interpretation & General Laws	Corporate Funding & Listings in Stock Exchanges
	Economic, Commercial & Intellectual Property Laws	



CMA VIPUL SHAH

CSEET	EXECUTIVE	PROFESSIONAL
	Tax Laws & Practice	



CS VAIBHAV CHITLANGIA

CSEET	LAW ENTRANCE	PROFESSIONAL
Logical Reasoning	Logical Reasoning	Strategic Management & Corporate Finance
Quantitative Aptitude	Maths	Corporate Restructuring, Valuation & Insolvency
		Insolvency & Bankruptcy- Law & Practice



CS MUSKAN GUPTA

CSEET	LAW ENTRANCE	PROFESSIONAL
Business Communication	English Language	Compliance Management, Audit & Due Diligence
	Legal Aptitude	CSR & Social Governance
		Intellectual Property Rights- Law & Practice



ADV. VISHISHTA NAYAK

CSEET	LAW ENTRANCE
Current Affairs	Current Affairs
Economics	General Knowledge



CS VIKAS VOHRA



CA CS HARISH A. MATHARIYA

Welcome to YES Family!!

To begin with, we endorse our heartfelt thank you for showing your trust and confidence in YES Academy. We take pride to welcome you to this prestigious Academy, foundations of which are based on commitment, quality education and integrity. It has been our constant endeavor to deliver better and better. In our attempt to achieve mark of excellence and beyond, we would be even more grateful to have received your continued faith and love. We assure you, your trust will not go in vain and as reflected by our Vision Statement, we would continue to produce Best Company Secretaries as we have been doing for almost a decade now.

Combined experience of Team YES is 40 years+ and adding value each day. We have delivered outstanding results in the past with a bouquet of All India Rankers at all the levels of CS Course and with your efforts, we are confident, we will grow together.

Student convenience has always occupied a centre place at YES Academy and we strive to improve ourselves each day as we sincerely believe that improvement always has its own space, no matter what. Any suggestions from you are always welcome. Though Team shares a very good rapport with all of its students and the students feel very comfortable talking to any of their Teachers, still, if you wish to send us a suggestion, please feel free to write to us yesacademypune@gmail.com or get in touch with us at 8888 235 235 / 8888545545.

We assure you the best of success and pride. And yes, its not just a bond of 3 years of your term, but a relationship for life now. We welcome you in advance to this prestigious course of Company Secretaries.

On behalf of TEAM YES

CS VIKAS VOHRA
(Founder)

CA CS HARISH A. MATHARIYA
(Founder)



Whether you like it or not, the inherent question in everyone is – Whats in it for me? It will be your folly to ignore this aspect of life. Some are motivated by money, some by a sense of purpose, some by a learning environment, some need cool environments and some need challenging environments. Nothing works for all. Something works for all. Everybody has a dominant need, which keeps changing as they keep growing. Every heart has a yearning. In that sense, we are all the same and we are all different.

The key is to take others perspective into consideration. Unless you see the world the way other sees it, you cannot empower the world to see it the way you see it. Leadership is to step into others shoes and then empowering them to walk in the direction that's right for them and that's good for all. There is no one way for all the people. Leadership has to be customized.

People relate to you not for what you are with them but for what they can be when they are with you. Deep relationships are not built by making you understand me but in giving you the confidence that I have understood you. Even with children, they find you interesting only if you talk to them about what they are interested in. once they develop that interest in your company, then you can empower them.

The secret is – TO SEE THROUGH OTHERS EYES!!!!

MY LOVE AND RESPECT TO.....

To Rajlaxmi – My Soul. You are around

To my Mummy – You are my source of inspiration, your sacrifices showed me the right path every time I went wrong.

To my Papa – You taught me the ability to bounce back and stand still, come what may.

To every Student – Glad to have found so many teachers in you, my source of happiness, my strength.

To my Competitors – You added meaning and worth to my name – Vikas. Thank you for being so strong and amazing. You bring out the best in me.

To my Entire TEAM at YES – With your work, you set up new benchmarks for me each day, and give me reasons to stride longer. Thank you for being so perfect in every pursuit.

To YES Academy and to every person around, my well wishers, my critics for helping me rise in every walk. Its your blessings, which lets me survive and go far.



Some latest abbreviations at DALAL STREET -

BSE - Bombay Se Exit

NSE - Nation Se Exit

F&O - Future Over

NIFTY - No Income For This Year

FII - Fraudulent International Investors

HNI - Has No Idea

PMS - Pre Mediated Scam

SIP - Suicide by Investing Patiently

EBITDA - Exit Before It Tumbles Down Again

Sandesh....

Dear Reader,

*At the outset, let me first take this opportunity to thank you for spending some of your valuable time with my words. I feel pleased to present to you, notes on 4TH edition of **Capital Market and Securities Laws (New Syllabus)** for CS Executive.*

While writing this book, I have taken every possible effort to cover each and every provision as may be applicable to you and in the most lucid language, so this sums up the entire syllabus. Howsoever, there is always a scope for improvement. I shall highly appreciate any changes, corrections, errors, interpretations suggested by you so that the same can be incorporated in the subsequent editions. You may write to me at vikasvohralectures@gmail.com or get in touch directly on my cell at +91 8888 078 078.

Many a times, while speaking with students, I come across this question about the opportunities for a Company Secretary and their scope in the times to come. I shall be wrong; if I simply quote that life would be simple post completion of the Course. Perhaps, the times ahead poses a lot of challenges and like I always say the only thing, which shall survive in the long run,



shall be the Power of Knowledge and the ability to express the same and apply. Readers, empower yourself so robustly that as and when a challenge arises, it turns its way and says: let's catch hold of a weaker one.

It's said, "Fortune favors the brave". You give your best shot and leave the rest upon god to decide. Realize your strengths, work on your weaknesses, grab the best possible opportunity and overcome your threats. Different people define success differently as it means different to different. Realize your "Being Successful" factors and start chasing them every morning as you get up.

"Do everything no matter how unglamorous, to the best of your ability"

*Because in the end, what shall matter would be quality of life you spent
and the smiles you lent to the people around you !!!!*

With this, I wish you all a happy reading and I hope that you fall in love with this subject. I wish you all good luck and that you achieve what all you work for. Keep working, keep reading, keep spreading love, happiness and smile. You shall be a part of my prayers. I promise to serve you with the best. Someday, we shall once again meet AT THE TOP....

*Try to
Reinvent
Yourself*

VIKAS VOHRA (Corporate Baba)

Cell: +91 8888 078 078

INDEX

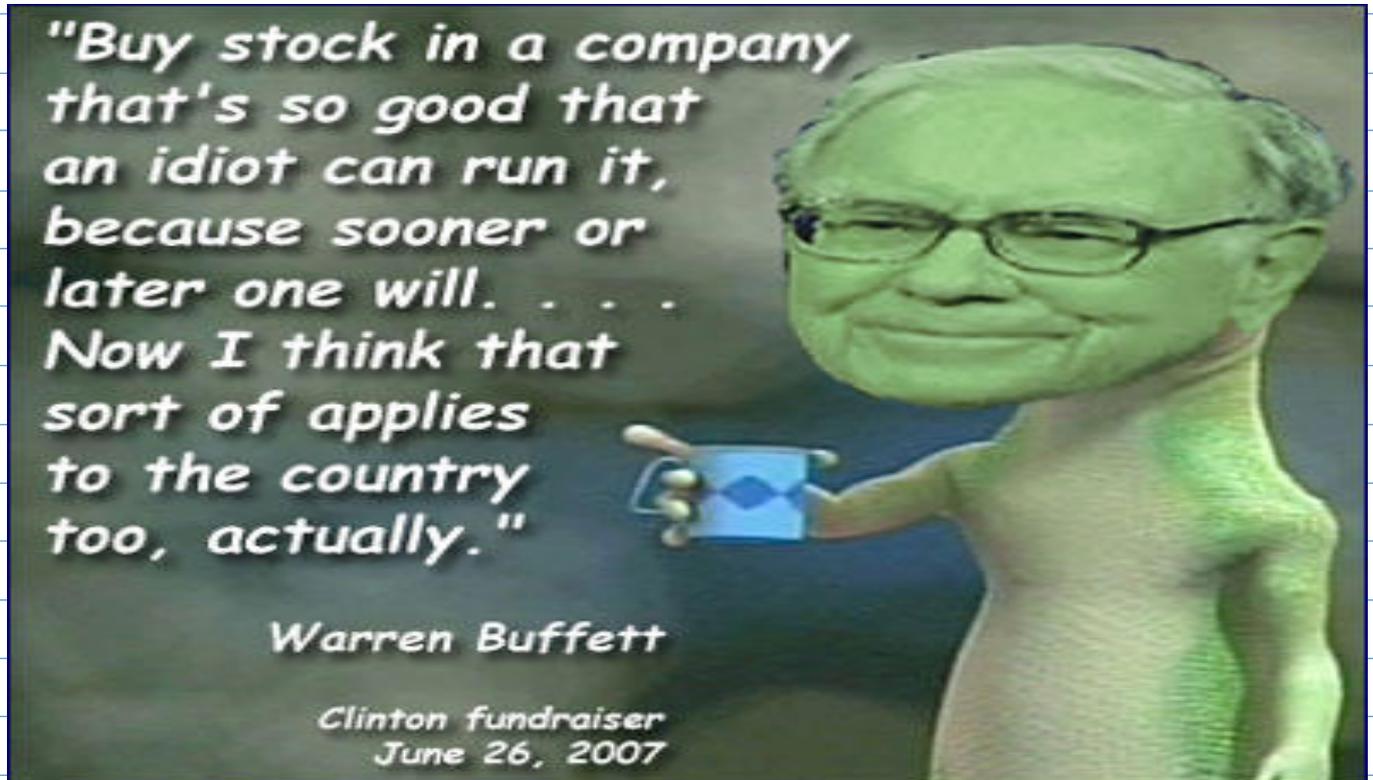
PART A: CAPITAL MARKET (40 MARKS)

SR. NO.	PARTICULARS	PAGE NO.	SEQUENCE WHILE STUDYING	EXPECTED WEIGHTAGE
1.	Basics of Capital Market	1.1 - 1.28		
2.	Secondary Market in India	2.1 - 2.29		
3.	Securities Contracts (Regulation) Act, 1956	3.1 - 3.20		
4.	SEBI	4.1 - 4.31		
5.	Depositories	5.1 - 5.13		
6.	Securities Market Intermediaries	6.1 - 6.25		
7.	IFSCA	7.1 - 7.16		

PART B: SECURITIES LAWS (60 MARKS)

SR. NO.	PARTICULARS	PAGE NO.	SEQUENCE WHILE STUDYING	EXPECTED WEIGHTAGE
8.	Issue of Capital & Disclosure Requirements	8.1 - 8.36		
9.	Share based Employee Benefits & Sweat Equity	9.1 - 9.19		
10.	Issue & Listing of Non Convertible Securities	10.1 - 10.15		
11.	Listing Obligations & Disclosure Requirements	11.1 - 11.53		
12.	Acquisition of Shares & Takeovers	12.1 - 12.24		
13.	Prohibition of Insider Trading	13.1 - 13.22		
14.	Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market	14.1 - 14.10		
15.	Delisting of Equity Shares	15.1 - 15.18		
16.	Buy Back of Securities	16.1 - 16.15		
17.	Mutual Funds	17.1 - 17.29		
18.	Collective Investment Schemes	18.1 - 18.15		
19.	Practical Problems in CMSL	19.1 - 19.75		
20.	Case Laws	20.1 - 20.78		

CHAPTER 1 - BASICS OF CAPITAL MARKET



INTRODUCTION

One of the important constituents of financial system is the financial market instruments, popularly known as financial products. As on date, a wide range of financial products are available in the India Financial Market which will be discussed in the forthcoming topics. As the more variety of financial products are available in the market, it suits the needs of variety of investors, and as a consequence more and more investors are attracted towards the financial market.

Financial Markets in India

A Financial market enables efficient trade of securities, and transfer of funds, between lenders and borrowers and also creates securities for investment. People who have surplus funds invests in these securities to earn return on their investments.



Functions of Financial Market

- It facilitates **mobilisation 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:

Money market

Money Market is a segment of the financial market where **borrowing and lending of short-term funds take place**. The maturity of money market instruments is **from one day to one year**. In India, this market is **regulated by RBI and SEBI**. The nature of transactions in this market is such that they are large in amount and high in volume. Thus, we can say that the entire market is dominated by a small number of large players.

Capital Market

Capital market concerned with the **industrial security market, government securities markets, and long-term loan market**. It supplies long-term and medium-term funds. It deals with shares, stocks debentures and bonds. **Companies turn to capital markets to raise funds** needed to finance for the infrastructure facilities and corporate activities.

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.). Once the shares (or securities) are issued to the public, the **company is required to list the shares (or securities)** on the recognized stock exchanges. Securities Market is a part of the Capital Market.



The primary function of the securities market is to enable allocation of savings from investors to those who need it.

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 industrial units (PSUs), statutory and other authorities such as state electricity boards and port trusts also issue bonds/debt instruments.

Secondary Market : The secondary market or stock exchange is a **market for trading and settlement of securities that have already been issued**. The investors holding securities sell securities through registered brokers/sub-brokers of the stock exchange.

Since 1995, trading in securities is screen-based and Internet-based trading has also made an appearance in India. 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. An active secondary market actually promotes the growth of the primary market and capital formation because investors in the primary market are assured of a continuous market and they can liquidate their investments.

DIFFERENCE BETWEEN PRIMARY AND SECONDARY MARKET

Basis	Primary Market	Secondary Market
Meaning	The market place for issuing fresh securities	The market place for trading 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	After issue 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
Intermediaries	Underwriters	Brokers
Price	Price is fixed	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

SEBI - THE CAPITAL MARKETS REGULATOR

The Securities and Exchange Board of India (SEBI) was established in 1988 through an administrative order, but the Act was passed after about four years and it became a statutory and really powerful Institution only since 1992.

SEBI has following **OBJECTIVES**:

Protection to the investors

The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.

Prevention of malpractices

This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.

Fair and proper functioning

SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.



Functions of SEBI

Protective Functions

As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants, including:

- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

Regulatory Functions

These functions are basically performed to keep a check on the functioning of the business in the financial markets, including:

- Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers etc.
- Levying of fees
- Performing and exercising powers
- Register and regulate credit rating agency

Development Functions

SEBI performs certain development functions also that include but they are not limited to -

- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations
- Buy-sell mutual funds directly from AMC through a broker



Powers of SEBI

Quasi-Judicial (enforcement)

With this authority, SEBI can conduct hearings and pass Orders in cases of unethical and fraudulent trade practices. This ensures transparency, fairness, accountability and reliability in the capital market.

Quasi-Legislative

Powers under this segment allow SEBI to draft rules and regulations for the protection of the interests of the investor. One such regulation is SEBI LODR (Listing Obligation and Disclosure Requirements).

Quasi-Executive

SEBI is authorised to file a case against anyone who violates its rules and regulation. It is empowered to inspect account books and other documents if it finds traces of any suspicious activity.

Power to issue informal guidance : SEBI introduced the SEBI (Informal Guidance) Scheme, 2003, which enables any intermediary registered with SEBI to make a request for informal guidance. The intermediary can be a listed company, a company seeking listing, a mutual fund, a trustee company, an asset management company or an acquirer/prospective acquirer.

PARTICIPANTS OF CAPITAL MARKET

QUALIFIED INSTITUTIONAL BUYERS

Qualified Institutional Buyers (QIBs) shall mean the following:

- (i) a mutual fund, venture capital fund, Alternative Investment Fund and foreign venture capital investor registered with SEBI;
- (ii) a foreign portfolio investor other than individuals, corporate bodies and family offices;
- (iii) a public financial institution as defined in section 4A of the Companies Act, 1956 [now Section 2(72) of the Companies Act, 2013] ;



- (iv) a scheduled commercial bank;
- (v) a multilateral and bilateral development financial institution;
- (vi) a state industrial development corporation;
- (vii) an insurance company registered with the Insurance Regulatory and Development Authority;
- (viii) a provident fund with minimum corpus of twenty five crore rupees;
- (ix) a pension fund with minimum corpus of twenty five crore rupees;
- (x) National Investment Fund set up by the Government of India;
- (xi) insurance funds set up and managed by army, navy or air force of the Union of India;
- (xii) insurance funds set up and managed by the Department of Posts, India;
- (xiii) systemically important non-banking financial companies.

FOREIGN PORTFOLIO INVESTOR

Foreign Portfolio Investor (FPI) means a person who satisfies the eligibility criteria prescribed under SEBI (Foreign Portfolio Investors) Regulations, 2019 and has been registered under Chapter II of these regulations, which shall be deemed to be an intermediary in terms of the provisions of the SEBI Act, 1992.

Categories of FPI

Category I FPIs include:

- (i) 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);
- (ii) Pension funds and university funds;
- (iii) Appropriately regulated entities such as insurance or reinsurance entities, banks, asset management companies, investment managers, investment advisors, portfolio managers, broker dealers and swap dealers;
- (iv) Entities from the Financial Action Task Force member countries which are -
 1. 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;

(v) 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 applicants seeking registration under this sub-clause.

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

(i) appropriately regulated funds not eligible as Category-I foreign portfolio investor;

(ii) endowments and foundations;

(iii) charitable organisations;

(iv) corporate bodies;

(v) family offices;

(vi) Individuals;

(vii) appropriately regulated entities investing on behalf of their client, as per conditions specified by the Board from time to time;

(viii) Unregulated funds in the form of limited partnership and trusts;

Explanation: An applicant incorporated or established in an International Financial Services Centre shall be deemed to be appropriately regulated.

SEBI (Foreign Portfolio Investors) (Amendment) Regulations, 2022 enable SEBI to generate **unique registration numbers** of Foreign Portfolio Investors on receiving the basic details of the applicants seeking FPI registration from either of SEBI registered Depositories.

ALTERNATIVE INVESTMENT FUND

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

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

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

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

CATEGORIES OF AIF

SEBI has classified AIF into the following broad categories:

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

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



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

PRIVATE EQUITY

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

Types of private equity

- **Leveraged Buyout (LBO)**: This refers to a strategy of making equity investments as part of a transaction in which **a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage.** The companies involved in these type of transactions that are typically more mature and generate operating cash flows.
- **Venture Capital**: It is a broad **sub-category of private equity** that refers to equity investments made, **typically in less mature companies, for the launch, early development, or expansion of a business.**



- **Growth Capital:** This refers to equity investments, mostly minority investments, in the companies that are looking for capital to **expand or restructure operations**, enter new markets or finance a major acquisition without a change of control of the business.

ANGEL FUND

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

HIGH NET WORTH INDIVIDUALS

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

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

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

VENTURE CAPITAL

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

ANCHOR INVESTOR

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

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

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



g) Shares allotted to the Anchor Investor shall be locked-in for 30 days from the date of allotment in the public issue.

In case of public issue on the **SME exchange**, through the book building process:

- **maximum of 2** such investors shall be permitted for allocation **up to two crore rupees**.
- **minimum of 2 and maximum of 15** such investors shall be permitted for allocation **above two crore rupees and up to twenty five crore rupees**, subject to minimum allotment of one crore rupees per such investor;
- in case of **allocation above 25 crore rupees**; a **minimum of 5** such investors and a **maximum of 15** such investors for allocation **up to 25 crore rupees** and an **additional 10** such investors for every **additional 25 crore rupees** or part thereof, shall be permitted, subject to a minimum allotment of 1 crore rupees per such investor.

PENSION FUNDS

- Pension Fund means a **fund established by an employer to facilitate and organize the investment of employees retirement funds which is contributed by the employer and employees**.
- The pension fund provide pensions for employees when they reach the end of their working years and commence retirement.
- Pension funds are commonly run by some sort of financial intermediary for the company and its employees like N.P.S. scheme is managed by UTIAMC (Retirement Solutions), although some larger corporations operate their pension funds in-house.

Pensions broadly divided into two sector:

A-Formal sector Pensions

Formal sector pensions in India can be divided into three categories; viz pensions under an Act or Statute, Government pensions and voluntary pensions



B- Informal sector Pensions

This scheme will cover unorganized workers who are working or engaged as home based workers, street vendors, cobblers, rag pickers, rickshaw pullers, agriculture workers, construction workers, among others.

Legislations

There are three defining Acts for pensions in India.

1. Pensions under the EPF & MP Act 1952
2. Pensions under the Coal mines PF & MP Act 1948
3. Gratuity under the Payment of Gratuity Act, 1972

ATAL PENSION YOJANA (APY)

Government of India (GoI) is concerned about the **old age income security of the working poor** and is focused on encouraging and enabling them to save for their retirement. To address the longevity risks among the workers in unorganized sector and to encourage the workers in unorganized sector to voluntarily save for their retirement.

The GoI has therefore announced a new scheme called Atal Pension Yojana (APY) in 2015-16 budget. **The APY is focused on all citizens in the unorganized sector. The scheme is administered by the Pension Fund Regulatory and Development Authority (PFRDA) through NPS architecture.** Under the APY, there is **guaranteed minimum monthly pension for the subscribers ranging between Rs. 1000 and Rs. 5000 per month.** The benefit of minimum pension would be guaranteed by the GoI.

GOVERNMENT PENSION

Government pensions in India are **referred under the Directive Principles of State Policy** and are therefore not covered under a Statute. The Government amended the regulations to put in place the new pension system.



The old scheme continues for the existing employees (i.e. those who joined service prior to January 1, 2004). Pensions for government employees would include employees of the central as well as the state governments.

(A) Central Government Pensions like Civil servants pensions, Defences, Railways, Posts.

(B) State Government Pensions, Bank pensions like Reserve Bank of India (RBI), Public Sector Banks, National Bank for Agriculture and Rural Development (NABARD) and other banks pensions. Superannuation schemes are also sold in the market. These are typically the retirement plans sold by Mutual funds and Insurance companies (Life Insurance & Postal Life Insurance).

KINDS OF CAPITAL MARKET INSTRUMENTS

1. SHARES

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

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

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

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

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

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

Following are the various types of preference shares :

Redeemable and Irredeemable Preference Shares : The Companies Act, 2013 provides that a company, if so authorized by its articles of association, may issue redeemable preference shares.



However, a company cannot issue preference shares which is redeemable after the expiry of twenty years from the date of its issue.

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

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

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

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

Convertible Preference Shares : According to Section 55 of the Companies Act, 2013, a convertible preference share is that preference share, which shall be converted after a specified period of time.

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

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

Important characteristics of equity shares are given below:



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

EQUITY SHARES WITH DIFFERENTIAL RIGHTS

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

- 1) It is authorized by its **Articles of Association**.
- 2) The issue is authorized by an **ordinary resolution**. In case of listed companies it shall be passed through postal ballot.
- 3) Shares with differential rights shall not exceed **seventy four per cent of total voting power** including voting power in respect of equity shares with differential rights issued at any point of time
- 4) The Company has **not defaulted in filing financial statements and annual returns** in the last **3 preceding financial years**.
- 5) The company has **not defaulted in payment of declared dividend** to its shareholders or redemption or payment of **interest** on deposits or debentures or any bank loan.
- 6) The company has **not been penalized** by any court or tribunal during the last 3 years for any offence under RBI Act, SEBI Act, SCRA or FEMA.

DEBENTURES

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

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

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

The usual features of a debenture are as follows:-

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

Debenture may be of different kinds as follows:-

Redeemable and Perpetual or Irredeemable Debentures : Debentures are generally redeemable, that is to say, they are issued on the terms that the company is bound to repay the amount of debentures, either at a fixed date, or upon demand, or after notice, or under a system of periodical drawings. Redeemable debentures can be re-issued. A debenture in which no time is fixed for the company to pay back the money, although it may pay back at any time it chooses, is an irredeemable debenture. The debenture holder cannot demand payment as long as the company is a going concern and does not make default in making payment of the interest.



Registered and Bearer Debentures : Registered debentures are made out in the name of a particular person, whose name appears on the debenture certificate and who is registered by the company holder in the register of debenture holders. Such debentures are transferable in the same manner as shares. Bearer debentures, on the other hand, are made out to bearer, and are negotiable instruments, and so transferable by mere delivery like share warrants.

Secured and Unsecured or Naked Debentures : Where debentures are secured by a mortgage or a charge on the property of the company, they are called secured debentures. Where they are not secured by any mortgage or charge on any property of the company, they are said to be naked or unsecured.

Convertible and Non-Convertible Debentures : Convertible debentures are those in which an option is given to the debenture holders to exchange a part or whole of their debentures for shares in the company under certain conditions and limitations imposed regarding the period during which the option may be exercised. This enables the investor to change his position financially and begins to make profit. When the full debenture is convertible into equity shares, they are known as fully convertible debentures. When only a portion of debenture is convertible into equity shares, they are known as partly convertible debentures. Here, non-convertible portion is redeemed at the expiry of the stipulated period. Non-convertible debenture do not carry the option of conversion into equity shares and hence are redeemed on the expiry of the specified period.

Third Party Convertible Debentures: These are debt instruments with warrant attached which gives an option to subscribe to the equity shares of company at a price lower than the market price. These are similar to convertible debenture with warrant option except that these debentures give an option to the investor to subscribe for shares in another company.

Fully convertible debentures with interest (optional): In this case there is no interest payment involved for certain period. Then the holder of this instrument can exercise option and apply for securities without paying additional amount.



Non convertible debentures: These debentures do not carry the option of conversion into equity shares and are therefore redeemed on the expiry of the specified period or periods.

Partly convertible debentures: These may consist of two kinds namely -convertible and non-convertible. The convertible portion is to be converted into equity shares at the expiry of specified period. However, the non convertible portion is redeemed at the expiry of the stipulated period. If the conversion takes place at or after 18 months, the conversion is optional at the discretion of the debenture holder.

BONDS

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

Characteristics of a Bond

1. Bond has a **fixed face value**, which is the amount to be returned to the investor upon maturity.
2. **Fixed maturity date**, which can range from a few days to 20-30 years or even more.
3. All bonds **repay the principal** amount after the maturity date.
4. Provides **regular payment of interest**, semi-annually or annually.
5. **Interest** is calculated as a certain **percentage of the face value** known as a coupon payment.
6. Generally considered as **less risky** investment as compared to equity.
7. It helps **to diversify and grow investors money**.

Bond may be of different kinds as follows:-

Government Bonds

These are the bonds **issued either directly by Government of India or by the Public Sector Units (PSU's)** in India. These bonds are secured as they are backed up with security



from Government. These are generally offered with low rate of interest compared to other types of bonds.

Corporate Bonds

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

Banks and other financial institutions bonds

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

Tax saving bonds

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

FOREIGN CURRENCY CONVERTIBLE BONDS (FCCBS)

Definition of FCCB:

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

Meaning and Concept of FCCBs:

Foreign Currency Convertible Bonds are unsecured borrowings. They carry a fixed rate of interest. Foreign Currency Convertible Bonds are attached with an option for conversion into a fixed number of equity shares of the issuer company. Interest and redemption price where



conversion option is not exercised is payable in dollars. Interest rates are very low by Indian domestic standards. Foreign Currency Convertible Bonds are **denominated in any freely convertible foreign currency.**

Example

Suppose a company 'A' issues bonds with following terms -

Issue Price of the Bond Rs. 1000

Coupon rate 2%

Maturity 2 years

Convertible into equity shares @ Rs.800 per share

Now suppose an investor subscribes to 4 of these bonds. Thus the total investment is Rs.4000. On this investment, he is entitled to get an interest @ 2% for 2 years. On the maturity date, i.e. after 2 years, the investor will have an option - to either claim full redemption of the amount from the company or get the bonds converted into fully paid equity shares @ Rs. 800 per share. Thus if he goes for the conversion he will be entitled to 5 (4000/800) equity shares. The choice he makes will depend on the market price of the share on the date of conversion.

If the shares of the company 'A' is trading at lower than Rs.800, let's say Rs.500, the investor will be better off by claiming full redemption of his bonds and buying the shares from the market. In this case, he will get 8 (4000/ 500) equity shares as against 5 which he was getting on conversion. Similarly if the market price of the share is higher than Rs. 800, the investor will benefit by getting its shares converted. Thus, on the day of maturity, an investor will seek full redemption if the conversion price is higher than the current market price, and will go for conversion if the conversion price is less than the current market price.

FOREIGN CURRENCY EXCHANGEABLE BONDS

An FCEB involves three parties -

- (i) The **issuer company** (issuer),
- (ii) The **offered company** (OC) and

**(iii) Investor.**

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

Conditions for issue of FCEB's

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

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

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

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

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

INDIAN DEPOSITORY RECEIPTS

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

An IDR is an instrument *denominated in Indian Rupee* in the form of a *depository receipt* created by a domestic depository (Custodian of securities registered with SEBI) against the underlying equity of issuing company to *enable foreign companies to raise funds from Indian Securities Markets*.

DERIVATIVES TRADING

Introduction

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

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.

WARRANT

Warrant means an option issued by a company whereby the *buyer is granted the right to purchase a number of shares (usually one) of its equity share capital at a given exercise price during a given period*.



The holder of a warrant has the **right but not the obligation to convert them into equity shares**. Thus in the true sense, a **warrant signifies optional conversion**. In case the investor benefits by conversion of warrant, then he will convert the warrants, else he may simply let the warrant lapse.

For example if the conversion price of the warrant is Rs. 70/- and the current market price is Rs.110/-, then the investor will convert the warrant and enjoy the capital gain of Rs.40/-. In case the conversion is at Rs.70/- and the current market price is Rs.40/-, then the investor will simply let the warrant lapse without conversion.

REAL ESTATE INVESTMENT TRUST ('REIT')

A real estate investment trust ("REIT") is a company that **owns, operates or finances income-producing real estate**. REITs provide all investors the chance to own valuable real estate, present the opportunity to access dividend-based income and total returns, and help communities grow, thrive, and revitalize.

The stockholders of a REIT earn a share of the income produced through real estate investment without buying any finance property. Benefits of REITs include:

- **Less Capital Intensive:** Direct investment in real estate property is very capital intensive. But each shares of REITs will be comparatively more affordable (it will not require large capital outflows).
- **Suitable for small Investors:** Investing through REITs will eliminate dealing with builders, thereby avoiding potential exposure to big builders
- **Transparency:** REITs stocks are listed in stock market, hence details will be available on public domain
- **Assured Dividends:** REITs generates income in form of dividend. REITs dividend payment is relatively assured as most of their income is in the form of rental (lease) income.
- **Tax Free:** Dividend earned by the investors of REIT will be tax free.
- **Fast Capital Appreciation:** capital appreciation can be phenomenal.
- **Easy to buy:** Investment in REITS easier than investment in Real Estate properties



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

- **Dividend:** REITs pay dividends to its shareholders.
- **Capital Appreciation:** As REIT stocks are listed in BSE and NSE, price appreciation of its shares will also make money.

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**. Typically, such a tool is designed to pool money from several investors to be invested in income generating assets. The cash flow thus generated is distributed among investors as dividend income. When compared to Real Estate Investment Trust or REITs, the structure and operation of both are quite similar.

An InvIT is established as a trust and is registered with the SEBI. Typically, infrastructure investment trust SEBI comprises 4 elements, namely -

- **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.
- **Sponsor :** Typically, a body corporate, LLP, promoter or a company with a net worth of at least Rs. 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. When it comes to a public-private partnership or PPP projects, sponsors serve as a Special Purpose Vehicle (SPV).
- **Investment manager :** As a body corporate or LLP, an investment manager supervises all the operational activities surrounding InvITs.
- **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

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. *The owner of the securities receives an income from the underlying assets; hence, the term asset-backed securities.*

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.*

Securitized debts can lower interest rates and free up capital for the bank, but they can also encourage lending for reasons other than making a profit. A few privately placed SDIs have already been listed on exchanges.

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.* SEBI issued guidelines in 2015 for the urban local bodies to raise funds by issuing municipal bonds. Municipal bonds exist in India since the year 1997. *Bangalore Municipal Corporation is the first urban local body to issue municipal bonds in India.* Ahmedabad followed Bangalore in the succeeding years. The municipal bonds lost the ground after the initial investors' attraction it received and failed to raise the desired amount of funds. To revive the municipal bonds, SEBI came up with guidelines for the issue of municipal bonds in 2015.

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). The municipality should have no record of default in the payment of interest and repayment of principal with respect to debt instruments.

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 you buy shares/ units of an ETF, you actually buy 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.

CHAPTER 2 - SECONDARY MARKET IN INDIA

SECONDARY MARKET

Stock exchange

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

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

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

ROLE OF STOCK EXCHANGES

- Acts as a continuous market for securities
- Responsible for Securities Evaluation
- Mobilizes savings
- Enables healthy speculation
- Protect investors
- Ensures Liquidity
- Acts as an economic barometer
- Exercise vigilance /Control on companies
- Attracts foreign capital
- Stock exchanges ensure Safety of Capital and Fair Dealing
- Regulate company management



INDIAN STOCK EXCHANGES

Trading in the Indian stock market majorly takes place in the below two stock exchanges -

- BSE - Bombay stock exchange
- NSE - National Stock exchange of India

The Bombay Stock Exchange (BSE) has been in existence since 1875, whereas the National Stock Exchange (NSE), on the other hand, was founded in 1992 and started trading in 1994.

However, both BSE and NSE exchanges follow the same trading mechanism, trading hours, settlement process, etc.

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.

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

BSE 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

Incorporation The Company shall be incorporated under the Companies Act, 2013.

Post Issue Paid up Capital The post issue paid up capital of the company (face value) shall not be more than Rs 25 crores.

Networth Positive Networth.

Tangible Asset Net Tangible Assets should be Rs 1.5 Crore.

Track Record 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. Or

- 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.
- 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.

Other Requirements

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.

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. EMERGE can play the critical role of significantly improving access to risk capital for emerging companies. At the same time, **this platform will provide investors with exciting opportunities to invest in promising SME's / technology Startups.** It offers opportunities to informed investors to invest in emerging



businesses with exciting growth plans, innovative business models and commitment towards good governance and investor interest.

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.

Company with intensive use of technology, information technology, intellectual property, data analytics, biotechnology or nano-technology in their businesses can get their securities listed at IGP.

As on the date of filing of draft information document or draft offer document with the Board, as the case may be, 25% (twenty five per cent) of the pre-issue capital of the Issuer Company for at least a period of 1 (one) year, should have been held by:

1. Qualified Institutional Buyers
2. Innovators Growth Platform Investors for the purpose of Innovators Growth Platform
3. The following regulated entities:
 - a. Foreign Portfolio Investor.
 - b. An entity meeting all the following criteria:
 - i. It is a pooled investment fund with minimum assets under management of one hundred and fifty million USD.
 - ii. It is registered with a financial sector regulator in the jurisdiction of which it is a resident.
 - iii. 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.
 - iv. It is not resident in a country identified in the public statement of Financial Action Task Force as:
 - a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or



- a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.
4. Any other class of investors as specified by SEBI from time to time.

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 of the Chapter:

These provisions shall apply to:

- a Not for Profit Organization seeking to **only get registered** with a Social Stock Exchange;
- a Not for Profit Organization seeking **to get registered and raise funds** through a Social Stock Exchange; and
- a For Profit Social Enterprise **seeking to be identified as a Social Enterprise** under the provisions.

Access to Social Stock Exchange:

A Social Stock Exchange shall be **accessible only to institutional investors and non-institutional investors**. However, SEBI **may permit other class(es) of investors**, as it deems fit, for the purpose of accessing Social Stock Exchange.

Social Stock Exchange Governing Council:

Every Social Stock Exchange shall **constitute a Social Stock Exchange Governing Council** to have an oversight on its functioning.

Eligibility conditions for being identified as a Social Enterprise:

1. 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**.



2. In order to establish the primacy of its social intent, such Social Enterprise shall meet the prescribed eligibility criteria and shall be indulged in at least one of the activities such as eradicating hunger, poverty, malnutrition and inequality; promoting health care including mental healthcare, sanitation and making available safe drinking water; promoting education, employability and livelihoods; protection of national heritage, art and culture etc.
3. 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;
4. 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.
5. 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.

Requirements relating to registration for a Not for Profit Organization:

- a. A Not for Profit Organization shall mandatorily seek registration with a Social Stock Exchange before it raises funds through a Social Stock Exchange. Provided that a Not for Profit Organization may choose to register on a Social Stock Exchange and not raise funds through it.
- b. The minimum requirements for registration of a Not for Profit Organization on a Social Stock Exchange shall be specified by SEBI.
- c. The Social Stock Exchange may specify the eligibility requirements for registration of a Not for Profit Organization in addition to the minimum requirements specified by the SEBI.



Fund raising by Social Enterprises:

A **Not for Profit Organization** may raise funds on a Social Stock Exchange through:

- a. issuance of **Zero Coupon Zero Principal Instruments** to institutional investors and/or non-institutional investors in accordance with the applicable provisions of this Chapter;
- b. **donations through Mutual Fund** schemes as specified by the SEBI;
- c. any other means as specified by the SEBI from time to time.

A **For Profit Social Enterprise** may raise funds through:

- a. issuance of equity shares on the main board, SME platform or innovators growth platform or equity shares issued to an Alternative Investment Fund including a Social Impact Fund;
- b. issuance of debt securities;
- c. any other means as specified by the SEBI from time to time.

Governing Council for Social Stock Exchange

1. Every SSE is required to constitute a Social Stock Exchange Governing Council (SGC) which will have an **oversight on the functioning of the Board**.
2. The SGC shall **comprise of individuals with relevant experience** who can contribute to the development of the Social Stock Exchange.
3. SGC will have a **minimum of 7 members having representation from non-profit organisations, Stock exchange, Social impact investors, Philanthropic and social sectors, Information Repositories, Social Audit Profession and Capacity Building Fund**. The same shall be supported by the administrative staff from SSE.
4. The SGC is expected to provide oversight and guidance to **facilitate the smooth functioning of the operations of the Social Stock Exchange**, with regard to registration, fund raising and disclosures by Social Enterprises.

SOCIAL STOCK EXCHANGE

AMENDMENT

1. The words "Social Auditor" and "Social Audit Firm" is substituted with the words "**Social Impact Assessor**" and "**Social Impact Assessment Firm**" respectively.



2. Social Stock Exchange shall be *accessible to institutional investors, non-institutional investors and retail investors.*
3. A Not for Profit Organization may raise funds on a Social Stock Exchange through *issuance of Zero Coupon Zero Principal Instruments to eligible investors.*
4. The procedure and other conditions in respect of public issuance of Zero Coupon Zero Principal Instruments by a Not for Profit Organization shall be as specified by SEBI.
5. The contents of the fund raising document shall be as specified by SEBI.
6. The other conditions relating to issuance of Zero Coupon Zero Principal Instruments has been omitted.

STOCK MARKET INDEX

An Index is used to give information about the price movements of products in the financial, commodities or any other markets. Financial indexes are constructed to measure price movements of stocks, bonds, T-bills and other forms of investments. Stock market indexes are meant to capture the overall behaviour of equity markets.

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. An Index is calculated with reference to a base period and a base index value.

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

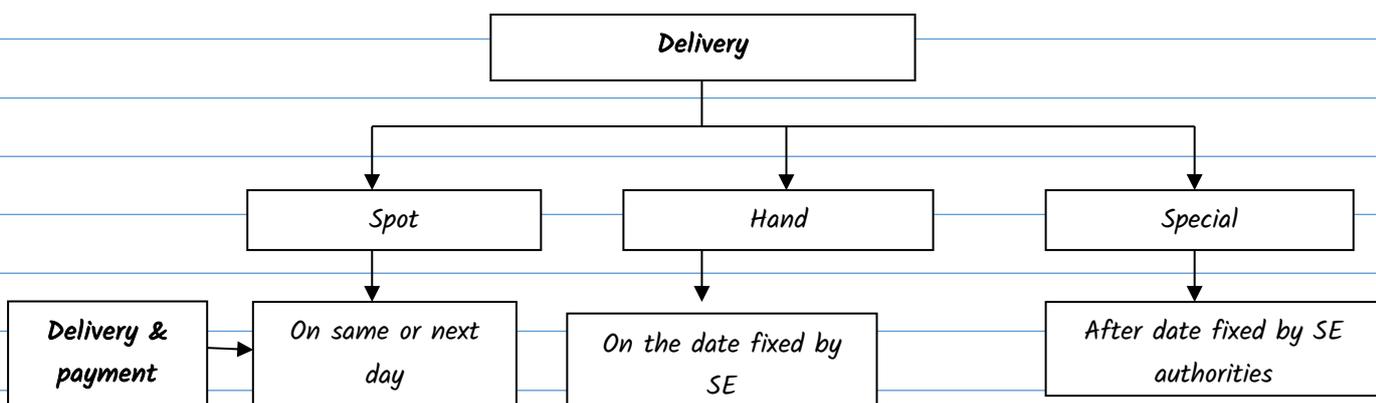
- They provide a *historical comparison of returns* on money invested in the stock market against other forms of investments such as gold or debt.
- They can be used as a *standard against which to compare the performance* of an equity fund.
- In It is a lead indicator of the performance of the overall 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.*

TYPES OF SECURITIES

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

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

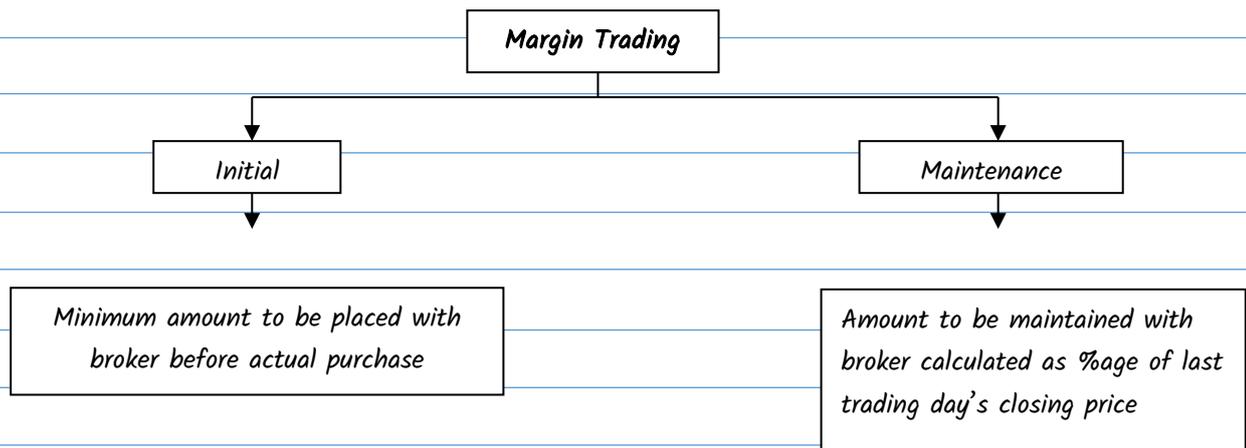
TYPES OF DELIVERY



MARGINS

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

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



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

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

BOOK CLOSURE AND RECORD DATE

In order to determine the name of shareholders entitled to

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

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

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

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



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

BLOCK DEAL

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

SESSION TIMINGS

a) Morning Block Deal Window: This window shall operate between 08:45 AM to 09:00 AM.

b) Afternoon Block Deal Window: This window shall operate between 02:05 PM to 2:20 PM.

- In the block deal the minimum order size for execution of trades in the Block deal window shall be Rs.10 Crore.*
- The orders placed shall be within $\pm 1\%$ of the applicable reference price in the respective windows as stated above.*
- The stock exchanges disseminates the information on block deals such as the name of the scrip, name of the client, quantity of shares bought/sold, traded price, etc to the general public on the same day, after the market hours.*

BULK DEAL

- Bulk deal is a trade, where total quantity bought or sold is more than 0.5% of the number of equity shares of a listed company.*
- Bulk deal can be transacted by the normal trading window provided by brokers throughout the trading hours in a day.*
- Bulk deals are market driven and take place throughout the trading day.*
- The stock broker, who facilitates the trade, is required to reveal to the stock exchange about the bulk deals on a daily basis.*



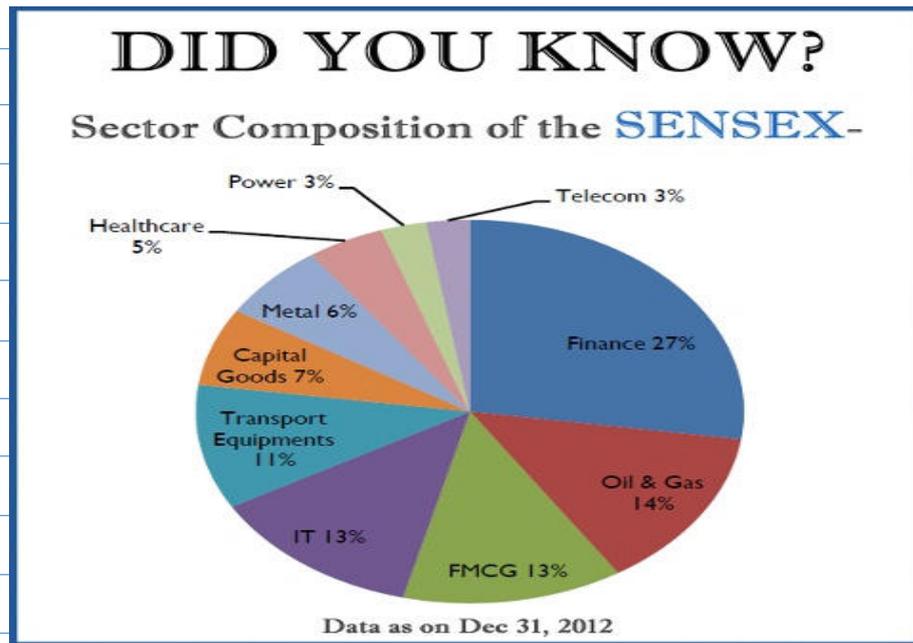
- *Bulk orders are visible to everyone.* If the bulk deal happens through a single trade, it should be notified to the exchange immediately upon the execution of the order. If it happens through multiple trades, it should be notified to the exchange within one hour from the closure of the trading.

BASIS OF SENSEX

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

Steps to calculate Sensex:

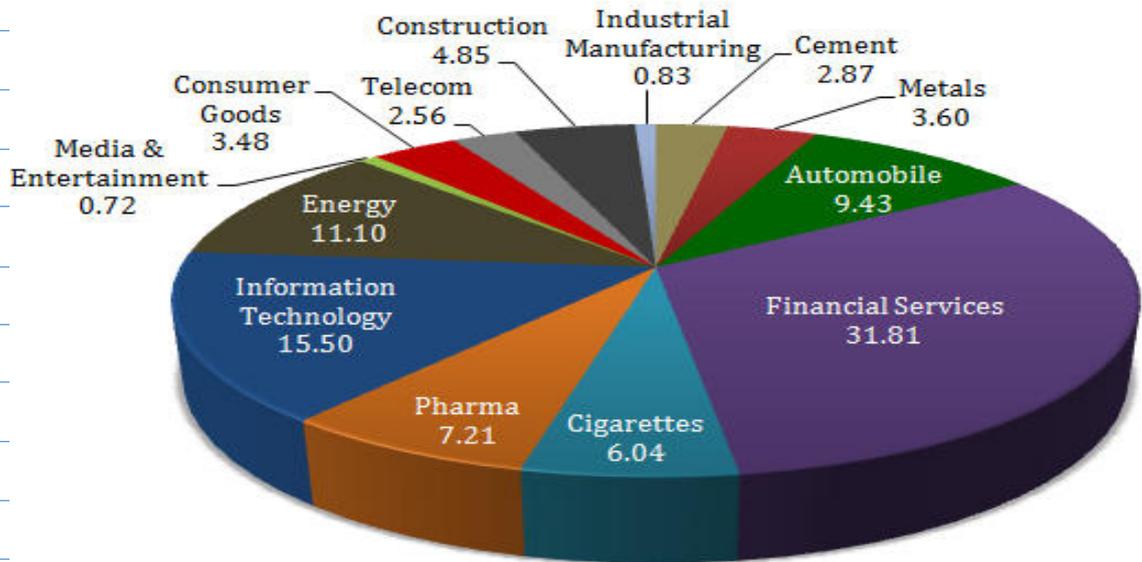
- The market capitalization is taken into account. This is done by multiplying all the shares issued by the company with the price of its stock.
- BSE determines a Free-float factor that is a multiple of the market capitalization of the company. This helps in determining the free-float market capitalization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



NIFTY

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

Nifty 50 Companies - Sectorwise Weightage (%)



BASICS OF INVESTING

Key risks in investing in securities market:

- **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.



Pre-requisites for investing in securities market:

- Bank account.
- Trading account or broking account with a SEBI registered stock broker of a recognized Stock Exchange.

ROLE OF CLEARING CORPORATION

- 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.

MARKET SURVEILLANCE

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

Market Surveillance is broadly categorised in 2 parts viz,

- Preventive Surveillance and
- Post trade Surveillance

A. Preventive Surveillance -

- **Stringent on boarding norms for Trading Members** - Stringent net worth, back ground, viability etc. checks while on boarding Trading Members.
- **Index circuit filters** - It brings coordinated trading halt in all equity and equity derivative markets at 3 stages of the index movement, either way viz., at 10%, 15% and 20% based on previous day closing index value.



- **Trade Execution Range** - Orders are matched and trades take place only if the trade price is within the reference price and execution range.
- **Order Value Limitation** - Maximum Order Value limit allowed per order.
- **Cancel on logout** - All outstanding orders are cancelled, if the enabled user logs out.
- **Kill switch** - All outstanding orders of that trading member are cancelled if trading member executes kill switch.
- **Risk reduction mode** - Limits beyond which orders level risk management shall be initiated instead of trade level.
- **Compulsory close out** - Incoming order, if it results in member crossing the margins available with the exchange, such order will be partially or fully cancelled, and further disallow the trading member to create fresh positions.
- **Capital adequacy check** - Refers to monitoring of trading member's performance and track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached.
- **Fixed Price Band / Dynamic Price band** - Limits applied within which securities shall move; so that volatility is curbed orderliness is brought about. For non-derivative securities price band is 5%, 10% & 20%. For Derivative products an operating range of 10% is set and subsequently flexed based on market conditions.
- **Trade for Trade Settlement** - The settlement of scrip's available in this segment is done on a trade for trade basis and no netting off is allowed.
- **Periodic call auction** - Shifting the security form continuous to call auction method



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

B. Post trade surveillance

- **End of day alert** - Alerts generated using statistical tools. The tool highlights stocks which have behaved abnormally from its past behaviour
- **Pattern recognition model** - Models designed using high end tools and trading patterns which itself identifies suspects involving in unfair trading practise.
- **Transaction alerts for member** - As part of surveillance obligation of members the alerts are downloaded to members under 14 different heads.

RISK MANAGEMENT IN SECONDARY MARKET

The key risk management measures initiated by SEBI include:-

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

VARIOUS QUANTITATIVE INSTRUMENT OF CREDIT POLICY

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. The increase in the Repo Rate will increase the cost of borrowing and lending of the banks which will discourage the public to borrow money and encourages them to deposit.

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. Conversely, it will decrease the CRR if it is of the opinion that inflation is in control and the industry needs a monetary boost up. The reduction in CRR will provide more money in the hands of commercial banks which it will pass it on to the industry. More money in the hands of industry will boost up production, consumption and employment.

Statutory Liquidity Ratio (SLR) : Statutory Liquidity Ratio is the **amount which commercial banks have to keep it with itself**. SLR is also a very powerful tool to control liquidity in the economy. To encourage industries to boost up their production, SLR may be decreased to put more money in the hands of commercial banks. An increase in SLR is used as an inflation control measure to control price rise.

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. An increase in Reverse Repo Rate means that Commercial Banks will get more incentives to park their funds with the RBI, therefore decreasing the supply of money in Market. An increase in the Repo Rate and the Reverse Repo rate indicates strengthening of RBI's Monetary Policy.



Inflation Index

An index is just a collection of data that serves as a baseline for future reference. We use the index model in all areas of life, from the stock market, to inflation. We index wage levels, corporate profits as a percentage of GDP, and almost anything else that can be measured. We do this to compare where we are now to where we have been in the past. 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. In United States, CPI and PPI (Producer Price Index) are two major indices. The Wholesale Price Index (WPI) was main index for measurement of inflation in India till April 2014 when RBI adopted new Consumer Price Index (CPI) (combined) as the key measure of 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 for Primary Articles and Fuel Group. However, since 2012, this practice has been discontinued. Currently, WPI is released monthly.

Salient notes on WPI are as follows:

Base Year

Current WPI Base year is 2004-05=100. It's worth note that the base year for CPI is 2012 currently. This is one reason for increasing difference between CPI and WPI in recent times.

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. WPI does not take into consideration the retail prices or prices of the services.



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. In India, RBI uses CPI (combined) released by CSO for inflation purpose. Important notes on this index are as follows

Base Year

Base year for CPI (Rural, Urban, Combined) is 2012=100.

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

- Primary use of WPI is to have inflationary trend in the economy as a whole. However, 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. On the other hand, CPI is based on retail prices, which include all distribution costs and taxes.
- Prices for WPI are collected on voluntary basis while price data for CPI are collected by investigators by visiting markets.
- CPI covers only consumer goods and consumer services while WPI covers all goods including intermediate goods transacted in the economy.
- WPI weights primarily based on national accounts and enterprise survey data and CPI weights are derived from consumer expenditure survey data.



IMPACT OF VARIOUS POLICIES ON STOCK MARKETS

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 and trends, community economic development activities, and the administration of consumer laws and regulations.

How change in US Fed rate can impact India?

1. The Fed Funds Rate is the interest rate at which the top US banks borrow overnight money from common reserves.
2. All American banks are required to park a portion of their deposits with the Federal Reserve in cash, as a statutory requirement. Actually, fed fund rate gives the direction in which US interest rates should be heading at any given point of time.
3. If the Fed is increasing the interest rates, lending rates for companies and retail borrowers will go up and vice versa.
4. In India, hike in repo rate may not impact the countries outside India. On the other hand, US interest rates matter a lot to global capital flows.
5. Some of the world's richest institutions and investors have their base in USA. They constantly compare Fed rates with interest rates across the world to make their allocation decisions.



6. 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.
7. Any changes in the Fed Fund Rates impact the domestic borrowing market to a large extent. For instance, if the Fed rates go up, it will make the RBI hesitant in cutting rates at that time. The reason is that if RBI cut rates it will lead to heavy pullout of foreign investors from the Indian bond market.

DERIVATIVES TRADING

Introduction

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

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.

FUTURES

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. Contracts are standardized and there's centralized trading ensuring liquidity.

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

- **Long Position** - This is when a futures contract is purchased and the buyer agrees to receive delivery of the underlying asset. (Stock/Indices/Commodities)
- **Short Position** - This is when a futures contract is sold and the seller agrees to make delivery of the underlying asset. (stock/Indices/Commodities)



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 future contracts allow investors to hedge against foreign exchange risk. Currency Derivatives are available on four currency pairs viz. US Dollars (USD), Euro (EUR), Great Britain Pound (GBP) and Japanese Yen (JPY). Cross Currency Futures & Options contracts on EUR-USD, GBP-USD and USD-JPY are also available for trading in Currency Derivatives segment.

OPTIONS CONTRACT

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

OPTION TRADING-MECHANISM

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

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

Types of Option

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

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



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

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

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

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

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. Forex rates are the value of a foreign currency relative to domestic currency. The major participants of Currency Trading in India are banks, corporations, exporters and importers. 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.*

Commodity derivatives are financial instruments whose value is *based on underlying commodities, such as oil, gas, metals, agricultural products and minerals.* Other assets such as emissions trading credits, freight rates and even the weather can also underlie commodity derivatives. Commodity Derivatives markets are a good source of critical information and indicator of market sentiments. Since, commodities are frequently used as input in the production of goods or services, uncertainty and volatility in commodity prices and raw materials makes the business environment erratic, unpredictable and subject to unforeseeable risks.

Ability to manage or mitigate risks by using suitable hedging in commodity derivative products, can positively affect business performance.

INVESTMENT STRATEGIES

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

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

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

DIFFERENCE BETWEEN FORWARD CONTRACT AND FUTURES CONTRACT

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



Difference between futures and options



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

IIFL Training Team

Example

Case 1

Rajesh purchases 1 lot of Infosys Technologies MAY 3000 Put and pays a premium of Rs. 250. This contract allows Rajesh to sell 100 shares of Infosys at Rs. 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 Rs. 25,000 (Rs. 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.



Case 2

If an investor is of the opinion that a particular stock say "Ray Technologies" is currently overpriced in the month of February and hence expect that there will be price corrections in the future. However he doesn't want to take a chance, just in case the prices rise. So the best option for the investor would be to take a Put option on the stock.

Lets assume the quotes for the stock are as under:

Spot Rs. 1040

May Put at 1050 Rs.10

May Put at 1070 Rs. 30

So the investor purchases 1000 "Ray Technologies" Put at strike price of Rs. 1070 and Put price of Rs. 30/-. The investor pay Rs. 30,000 as Put premium.

The position of investor in two different scenarios have been discussed below:

1. May Spot price of Ray Technologies = Rs 1020
2. May Spot price of Ray Technologies = Rs 1080

In the first situation you have the right to sell 1000 "Ray Technologies" shares at Rs.1,070/- the price of which is Rs. 1020/-.

By exercising the option the investor earn Rs. $(1070-1020) = \text{Rs.}50$ per Put, which amounts to Rs. 50,000/-. The net income in this case is Rs. $(50000-30000) = \text{Rs.} 20,000$.

In the second price situation, the price is more in the spot market, so the investor will not sell at a lower price by exercising the Put. He will have to allow the Put option to expire unexercised. In the process the investor only lose the premium paid which is Rs. 30,000.

While buyer of an options has limited risk (Premium Amount), seller of an option has very high risk (Market Price- Strike Price or Strike Price - Market Price), as the case may be, depending on whether it is an call or put option.



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 are offered to shareholders *based on a ratio of existing equity shares held as on the record date*. Rights Entitlements (REs) are *issued in dematerialised form under a separate ISIN* created by the Company.

Options available to an Eligible Equity Shareholder in rights Issue

Eligible Equity Shareholder can:

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

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 of the Stock Exchanges through a registered stock broker in the same manner as trading / selling Equity Shares of the Company.



- 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.

INTRODUCTION OF BETA VERSION OF T+0 ROLLING SETTLEMENT CYCLE ON OPTIONAL BASIS IN ADDITION TO THE EXISTING T+1 SETTLEMENT CYCLE IN EQUITY CASH MARKETS

ADDITION

1. SEBI has issued a framework to introduce the **beta version of the T+0 trade settlement cycle** on an optional basis with effect from March 28, 2024.
2. This will be in **addition to the existing T+1 settlement cycle** in the equity cash market.
3. The beta version of T+0 settlement will be **introduced for a limited set of 25 scrips and with a limited number of brokers.**
4. All investors are eligible to participate in the segment for T+0 settlement cycle, if they are able to meet the timelines, process and risk requirements as prescribed by the MIs, during 09:15 AM to 1:30 PM continuous trading session.

CHAPTER 3 - SECURITIES CONTRACTS (REGULATION) ACT, 1956



YourSelf
Quotes

**MONEY IS NOT
EVERYTHING. MAKE
SURE YOU EARN A LOT
BEFORE SPEAKING SUCH
NONSENSE**

— Warren Buffett

SECURITIES CONTRACTS (REGULATION) ACT, 1956

Securities

Securities include

- (i) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or a pooled investment vehicle or other body corporate;
- (ii) derivative;
- (iii) units or any other instrument issued by any Collective Investment Scheme to the Investors in such schemes;
- (iv) security receipt as defined in clause (zg) of Section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
- (v) units or any other such instrument issued to the investors under any mutual fund scheme;



- (vi) units or any other instrument issued by any pooled investment vehicle;
- (vii) any certificate or instrument (by whatever name called) issued to an investor by any issuer being a special purpose distinct entity which possess any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debt or receivable, including mortgage debt, as the case may be;
- (viii) government securities;
- (ix) such other instruments as may be declared by the Central Government to be securities; and
- (x) rights or interests in securities.

DECLARATION OF ZERO COUPON ZERO PRINCIPAL INSTRUMENTS AS SECURITIES UNDER THE SECURITIES CONTRACTS (REGULATION) ACT, 1956

The Central Government declares "zero coupon zero principal instruments" as securities.

"Zero coupon zero principal instrument" means an instrument issued by a Not for Profit Organisation which shall be registered with Social Stock Exchange segment of a recognised Stock Exchange in accordance with the regulations made by SEBI.

WHETHER THE HYBRID OPTIONALLY FULLY CONVERTIBLE DEBENTURES OF THE COMPANY FALL WITHIN THE DEFINITION OF "SECURITIES" WITHIN THE MEANING OF COMPANIES ACT, SEBI ACT AND SCRA?

It was held by the apex Court that although the OFCDs issued by the two companies are in the nature of 'hybrid' instruments, it does not cease to be a "Security" within the meaning of Companies Act, SEBI Act and SCRA. The definition of "Securities" under section 2(h) of SCRA does not contain the term "hybrid instruments", the definition provided in the Act is an inclusive one and covers all "Marketable securities"

(Sahara India Real Estate v. Securities & Exchange Board of India).



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 therefore 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 under SCRA; or
- b) **A body corporate** incorporated under the Companies Act, 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.

STOCK EXCHANGE

Concept of Stock Exchange

Stock Exchanges constitute the **primary institution of secondary market**. Stock Exchanges represent the **market place for buying and selling of securities** and ensuring liquidity to them in the interest of the investors.

There are **23 Regional Stock Exchanges** in India. All of them are regulated in terms of Securities Contracts (Regulation) Act, 1956 and the SEBI Act, 1992 and the rules and regulations made there under. The Stock Exchanges are managed by the Board of Directors or Council of



Management consisting of elected brokers and representatives of Government and public appointed by SEBI.

RECOGNIZED STOCK EXCHANGE

Definition of Recognized Stock Exchange

Recognized Stock Exchange means a Stock Exchange, which is for the time being **recognized by the Central Government**.

Application for Recognition (Sections 3, 4 & of SCRA)

Any Stock Exchange, desirous of being recognized for the purposes of Securities Contracts (Regulation) Act, 1956, shall make an application to the Central Government in the prescribed manner. The application shall be accompanied with the following documents:

- a) A **copy of bye-laws** of the Stock Exchange; and
- b) A copy of the rules relating to the **constitution of a Stock Exchange**.

The Central Government shall make such enquiry as may be necessary in this behalf and if it is satisfied in all the respects, it may grant recognition to the Stock Exchange. The Central Government shall take into account the following considerations while granting the recognition:

- 1) That the **rules and bye-laws** of the Stock Exchange are such that they ensure **fair dealing and investor protection**;
- 2) That the Stock Exchange is **willing to comply with any conditions** which the Central government may impose; and
- 3) That **grant of recognition** on Stock Exchange is in the **interest of securities trade and public interest**.

Grant of recognition shall be published in the Gazette of India and also the Official Gazette of the State in which the principal office of the Stock Exchanges is situated.

In the interest of securities trade or public interest, if the Central Government is of the **opinion that recognition granted to a Stock Exchange should be withdrawn**, it shall serve a **written notice** on the governing body of the Stock Exchange. The Governing Body shall be given a



reasonable opportunity of being heard. Thereafter if the Central Government is satisfied, it shall withdraw the recognition granted to the Stock Exchange, by way of notification in the Official Gazette. It may be noted that such withdrawal of recognition shall not affect the validity of any contract entered into before the date of examination.

CORPORATISATION OF STOCK EXCHANGE

Corporatisation of Stock Exchange is *the process of converting the organizational structure of the Stock Exchange from a non-corporate structure to a corporate structure*. Traditionally, some of the stock exchanges in India were established as association of persons such as Bombay Stock Exchange. Corporatisation of such exchanges is a process of converting them into incorporated companies.

DEMUTUALISATION OF STOCK EXCHANGE

Demutualisation refers to *transition process of an Exchange from mutually owned association to a company owned by shareholders*. In other words, transforming the legal structure of an exchange from a mutual form to a business corporation form is referred to as demutualization.

The above, in effect, means that after demutualization, the ownership, the management and the trading rights at the Exchange are segregated from one another.

DEMUTUALISATION OF STOCK EXCHANGES

The process of demutualization is to convert the traditional *"not for-profit" stock exchanges into a "for profit" company* and this process is to transform the legal structure from a mutual form to a business corporation form. The important features of the demutualisation exercise are as follows :

- 1) The *board* of a stock exchange should consist of *75% public interest/ shareholder directors* and only *25% broker directors*, and



- 2) *51% shareholding* of the stock exchange should be divested to *public/* investors and only *49%* of shareholding can remain with the *trading member brokers*.

The options prescribed for divestment/dilution of brokers' shareholding in a stock exchange are as follows:

- 1) *Offer for sale*, by issue of prospectus, of shares held by trading member brokers.
- 2) *Private placement* of shares
- 3) *Fresh issue* of shares to the public through an IPO.

MEMBERSHIP OF STOCK EXCHANGE

Membership of Stock Exchanges is generally given to persons who are financially sound and who have adequate experience and training in the stock market. Their enrolment as member is regulated and controlled by SBI to whom they have to pay an annual charge. A member of the Stock Exchange is called broker who can transact on behalf of his clients as well as on his own behalf. He can also take the assistance of sub-broker, whom he can appoint under the procedure of registration.

Trading procedure at Stock Exchanges

The trading procedure involves the following steps:

- 1) *Placing of the order by the client*
- 2) *Entry in order book by the broker*
- 3) *Execution of order or contract*
- 4) *Preparation of contract note*
- 5) *Entry in client register and settlement register*
- 6) *Actual delivery of the securities by the broker or by the client*
- 7) *Preparation of bill or deliver note*
- 8) *Entry in client register*
- 9) *Payment.*

Trading takes place regularly on each weekday, except Saturdays, Sundays and notified holidays.

Stock Exchange used to have extra sessions for special occasions like Diwali, budget, etc.

LISTING OF SECURITIES

Every company issuing shares or debentures to the public by issue of prospectus shall make an application to one or more Stock Exchange for permission for enlistment of shares. (Sec. 73(1) of Companies Act, 1956)

Where a prospectus states that an application has been made for the share or debentures to be dealt in on one or more recognized Stock Exchange, such allotment will be void, if the permission has not been granted by the Stock Exchange or each such Stock Exchange, as the case may be, before the expiry of ten weeks from the date of the closing of the subscription list. (Sec. 73(1A) of Companies Act, 1956)

Sec. 73(1A) implies that if an application has been made to two or more Stock Exchange then the permission should be granted by all these Stock Exchange, for the allotment to be valid. Otherwise, the allotment will be void.

However, where a Stock Exchange refuses to grant permission or fails to dispose the application within ten weeks of the date of closing of the subscription list the company may appeal to the Securities Appellate Tribunal within 15 days of the date of refusal/expiry of the said ten weeks. In case an appeal is preferred, the allotment shall not be void until the appeal is decided. Thus, the allotment will be void only if the appeal is negotiated.

Where the permission has not been applied or such permission having been applied has not been granted, the company shall repay the entire amount, without interest, within 8 days from the date the company becomes liable to repay it. Beyond 8 days, the company and every director of the company who is an officer in default shall be jointly and severally liable to repay the money with an interest of 15% p.a.



Types of listing

Listing of securities falls under five groups;

1. Initial listing:

If the shares or securities are to be listed for the **first time** by a company on a Stock Exchange, it is called initial listing.

2. Listing for public issue:

When a company whose share are **listed on a Stock Exchange** comes out with a public issue of securities, it has to list such issue with the Stock Exchange.

3. Listing for Rights Issue:

When companies whose securities are listed on the Stock Exchange issue securities to **existing shareholders** on rights basis, it has to list such rights issues on the concerned Stock Exchange.

4. Listing of Bonus Shares:

Companies issuing shares as a result of **capitalization of profit through bonus issue** shall list such issues also on the concerned Stock Exchange.

5. Listing for merger or amalgamation:

When new shares are issued by an amalgamated company to the shareholders of the amalgamating company, such shares are also required to be listed on the concerned Stock Exchange.

Advantages of Listing

The following benefits are available when securities are listed by a company in the Stock Exchange-

- a) **Public image** of the company is enhanced.
- b) The **liquidity** of the security is ensured making it easy to buy and sell the securities in the Stock Exchange.



- c) Listing procedure compels company management to **disclose important information** to the investors enabling them to make crucial decisions with regard to keeping or disposing of such securities.
- d) Listed companies command **better support from banks and financial institutions** in the form of loans and investment.

Multiple listing

A company with a **paid up capital of over Rs. 5 crores** should list its securities or have its securities permitted for trading, on at least one more Stock Exchange in addition to the Designated Stock Exchange. Multiple listing provides arbitrage opportunities to the investors whereby they can make profit based on the difference in the prices prevailing in the said exchanges.

TYPES OF SECURITIES

Securities traded in the Stock Exchange can be classified as follows:

1. **Specified Securities:**
The securities in which **forward trading is allowed** are referred as specified securities. In this case the buyers can carry forward the transaction from one settlement cycle of outstanding transactions to another settlement cycle.
2. **Unspecified Securities :**
The securities, which are traded on cash basis, are termed as unspecified securities, and **cannot be carried forward** from one settlement to another but have to be settled within one settlement period.
3. **Permitted Securities :**
The securities listed on some of the recognized Stock Exchanges, **when permitted to be traded by those Stock Exchanges** where they are not listed are called permitted securities. Such permission is given if suitable provisions exist in the regulations of the concerned Stock Exchanges.

POWERS OF CENTRAL GOVERNMENT

1. To call for periodical returns and make direct enquiries

Every stock exchange and every member shall maintain and preserve books of accounts, and other documents for a period not exceeding five years in the interest of the trade or in the public interest.

2. To direct rules or make rules

Where the Central Government is of opinion that it is necessary or expedient, it may, by order in writing together with a statement of the reasons direct the recognised stock exchanges to make any rules or to amend any rules already made. The rules so made or amended shall be published in the Gazette of India and also in the Official Gazette of the State where the principal or offices of the recognised stock exchange is situated.

3. To supersede Companies of Stock Exchanges

The Central Government may serve on the governing body a written notice that the Central Government is considering the super session of the governing body for the reasons specified in the notice and after giving an opportunity to the governing body to be heard, it may, by notification in the Official Gazette, declare the governing body of such stock exchange to be superseded, and may appoint any person or persons to exercise and perform all the powers and duties of the governing body.

The governing body of which is superseded, the person or persons appointed shall hold office for such period as may be specified in the notification.

4. To Suspend Business of Recognised Stock Exchange

If in the opinion of the Central Government, an emergency has arisen, and the Central Government considers it necessary so to do, it may, by notification in the Official Gazette, direct a recognised stock exchange to suspend its business for such period not exceeding seven days, and if, in the opinion of the Central Government, the interest of the trade or the public



interest requires that the period should be extended, may, by like notification extend the said period from time to time.

5. To Issue Directions

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

- a) in the interest of investors
 - b) to prevent the affairs of any recognised stock exchange, or, clearing corporation
 - c) to secure the proper management of any such stock exchange or clearing corporation or agency
- It may, by notification in the Official Gazette, declare that section 13 to apply to such State or States or area and every contract so made between members of such stock exchange shall be illegal.

6. To prohibit contracts in certain cases

If the Central Government is of opinion that it is necessary to prevent undesirable speculation in specified securities in any State or area, it may, by notification in the Official Gazette, declare that no person in the State or area shall, without the permission of the Central Government, enter into any contract for the sale or purchase of any security.

All contracts entered into after the date of the notification issued thereunder shall be illegal.

7. To grant Immunity

If the Central Government is satisfied, that any person, who is alleged to have violated any of the provisions of this Act and who has made a full and true disclosure in respect of alleged violation, grant to such person, immunity from prosecution for any offence under this Act, or also from any penalty.

An immunity granted to a person may, be withdrawn by the Central Government, if it is satisfied that such person had, not complied with the condition on which the immunity was granted or had given false evidence.



8. To delegate or to make rules

Every rule made under this Act shall be *laid, before each House of Parliament*, while it is in session, for a *total period of thirty days*, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, so, however, that any such modification or annulment shall be without effect to the validity of anything previously done under that rule.

POWERS OF RECOGNISED STOCK EXCHANGE

1. To make rules restricting voting rights

A recognised stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely -

- a) the restriction of voting rights to members only in respect of any matter placed before the stock exchange at any meeting;
- b) the regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange;
- c) the restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange; and
- d) such incidental, consequential and supplementary matters.

2. 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.

CLEARING CORPORATION

A recognised stock exchange may, with the prior approval of the SEBI, *transfer the duties and functions of a clearing house to a clearing corporation*, being a company incorporated under the Companies Act, 2013, for the purpose of -



- (a) the *periodical settlement* of contracts and differences thereunder;
- (b) the *delivery of, and payment for, securities*;
- (c) any *other matter incidental* to, or connected with, such transfer.

Every clearing corporation shall make bye-laws and submit the same to the SEBI for its approval.

SEBI may, on being satisfied that it is in the interest of the trade and also in the public interest to transfer the duties and functions of a clearing house to a clearing corporation, grant approval to the bye-laws submitted to it and approve the same.

PUBLIC ISSUE AND LISTING OF SECURITIES

No securities shall be offered to the public or listed on any recognized stock exchange unless the issuer fulfil such eligibility criteria made by SEBI.

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 for such certificates or instruments.

Where the permission applied for listing has not been granted or refused by the recognized stock exchanges or any of them, the issuer shall repay all moneys, if any, received from applicants in pursuance of the offer document, and if any such money is not repaid within eight days after the issuer becomes liable to repay it, the issuer and every director or trustee thereof, as the case may be, who is in default shall, on and from the expiry of the eighth day, be jointly and severally liable to repay that money with interest at the rate of fifteen percent per annum.

In reckoning the eighth day after another day, any intervening day which is a public holiday under the Negotiable Instruments Act, 1881, shall be disregarded, and if the eighth day (as so reckoned) is itself such a public holiday, there shall for the said purposes be substituted the first day thereafter which is not a holiday.

RIGHT OF APPEAL AGAINST REFUSAL TO LIST SECURITIES BY STOCK EXCHANGES

Where a recognised stock exchange refuses to list the securities of any company, the company shall be entitled to be furnished with reasons for such refusal, and may, -

- (a) *within fifteen days* from the date on which the reasons for such refusal are furnished to it, or
- (b) where the *stock exchange has omitted or failed* to dispose of the application for permission for the shares or debentures, *within fifteen days* from the date of expiry of the specified time or within such further period, not exceeding one month, as the Securities Appellate Tribunal may, on sufficient cause being shown, *allow appeal to the Securities Appellate Tribunal* having jurisdiction in the matter against such refusal, omission or failure, and thereupon the Securities Appellate Tribunal may, after giving the stock exchange, an opportunity of being heard, -
 - *vary or set aside* the decision of the stock exchange; or
 - where the stock exchange has omitted or failed to dispose of the application within the specified time, *grant or refuse the permission*,
 - and the *stock exchange shall act in conformity with the orders of the Securities Appellate Tribunal*.

FACTORS TO BE TAKEN INTO ACCOUNT BY THE ADJUDICATING OFFICER

The adjudicating officer shall have due regard to the following factors, namely -

- (a) the *amount of disproportionate gain* or unfair advantage, wherever quantifiable, made as a result of the default;
- (b) the *amount of loss caused to an investor* or group of investors as a result of the default;
- (c) the *repetitive nature* of the default.

SETTLEMENT OF ADMINISTRATIVE AND CIVIL PROCEEDINGS

Any person, against whom any proceedings have been initiated or may be initiated under 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 in accordance with the regulations made under the SEBI Act, 1992.

No appeal shall lie against any order passed by the SEBI or adjudicating officer.

RECOVERY OF AMOUNTS

The Recovery Officer may draw up under his signature a statement in the specified form specifying the amount due from the person and shall proceed to recover from such person the amount specified in the certificate by one or more of the following modes, namely:-

- (a) attachment and sale of the person's movable property;
- (b) attachment of the person's bank accounts
- (c) attachment and sale of the person's immovable property;
- (d) arrest of the person and his detention in prison;
- (e) appointing a receiver for the management of the person's movable and immovable properties,

ESTABLISHMENT OF SPECIAL COURTS

- (a) The Central Government may, for the purpose of providing speedy trial of offences under this Act, by notification, establish or designate as many Special Courts.
- (b) 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.
- (c) A person shall not be qualified for appointment as a judge of a Special Court unless he is, immediately before such appointment, holding the office of a Sessions Judge or an Additional Sessions Judge.

OFFENCES TRIABLE BY SPECIAL COURTS

All offences committed under this Act, shall be taken cognizance of and triable by the Special Court established for the area in which the offence is committed or where there are more Special Courts than one for such area, by such one of them as may be specified in this behalf by the High Court concerned.

The Code of Criminal Procedure, 1973 shall apply to the proceeding before a special court and for the purposes of the said provisions, the special court shall be deemed to be Court of Session and the person conducting prosecution before a special court shall be deemed to be a public prosecutor within the meaning of the Code of Criminal Procedure, 1973.

RULE 19 (2) (B) OF SECURITIES CONTRACTS REGULATION RULES, 1957

- 1) The minimum offer and allotment to public in terms of an offer document shall be-at least twenty five per cent of each class or kind of equity shares or debenture convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is less than or equal to one thousand six hundred crore rupees;
- 2) 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 four hundred crore rupees, if the post issue capital of the company calculated at offer price is more than one thousand six hundred crore rupees but less than or equal to four thousand crore rupees;
- 3) at least ten percent of each class or kind of equity shares or debentures convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is above four thousand crore rupees but less than or equal to one lakh crore rupees.
- 4) 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 five thousand crore rupees and at least



five per cent of each post issue capital of the company calculated at offer price is above one lakh crore rupees.

However, the company referred to in sub-clause (ii) or sub-clause (iii), shall increase its public shareholding to at least twenty five per cent 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.

Further, it is provided that where the public shareholding in a listed company falls below 10%, as a result of implementation of the resolution plan approved under section 31 of the Insolvency and Bankruptcy Code, 2016, the same shall be increased to at least ten per cent, within a maximum period of twelve months from the date of such fall, in the manner specified by the SEBI.

The applicant company, who has issued equity shares having superior voting rights to its promoters or founders and is seeking listing of its ordinary shares for offering to the public under this rule and the regulations made by the SEBI in this regard, shall mandatorily list its equity shares having superior voting rights at the same recognized stock exchange along with the ordinary shares being offered to the public.

CONTINUOUS LISTING REQUIREMENT

Rule 19A (1) stipulates that every listed company other than public sector company shall maintain public shareholding of at least 25%. However, any listed company which has public shareholding below 25% on the commencement of the Securities Contracts (Regulation) (Second Amendment) Rules, 2018, shall increase its public shareholding to at least twenty five per cent, within a period of three years from the date of such commencement, in the manner specified by the SEBI.



For the purposes of this sub-rule, a company whose securities has been listed pursuant to an offer and allotment made to public in terms of clause (b) of sub-rule (2) of rule 19, shall maintain minimum 25% public shareholding from the date on which the public shareholding in the company reaches the level of 25% in terms of said sub-clause.

Sub-rule (2) provides that where the public shareholding in a listed company falls below 25% at any time, such company shall bring the public shareholding to 25% **within a maximum period of twelve months** from the date of such fall in the manner specified by the SEBI.

However every listed public sector company whose public shareholding falls below twenty five per-cent at any time after the commencement of the Securities Contracts (Regulation) (Second Amendment) Rules, 2018, shall increase its public shareholding to at least twenty five per-cent, within a period of two years from such fall, in the manner specified by the SEBI.

Where the public shareholding in a listed company **falls below 25% in consequence to SCRR (Amendment) Rules, 2015**, such company shall increase its shareholding to atleast 25%, in the manner specified by the SEBI **within a period of three years**, as the case may be, from the date of notification of:

- (a) the Depository Receipts Scheme, 2014;
- (b) the SEBI (Share Based Employee Benefits) Regulations, 2014.

Sub rule (5) provides that where the public shareholding in a listed company falls below twenty-five per cent, as a result of implementation of the resolution plan approved under section 31 of the Insolvency and Bankruptcy Code, 2016, such company shall bring the public shareholding to twenty-five per cent within a maximum period of three years from the date of such fall, in the manner specified by the Securities and Exchange Board of India.

However, if the public shareholding falls below ten per cent, the same shall be increased to at least ten per cent, within a maximum period of 12 months from the date of such fall, in the manner specified by the Securities and Exchange Board of India. It is further provided that



every listed company shall maintain public shareholding of at least five per cent as a result of implementation of the resolution plan approved under section 31 of the Insolvency and Bankruptcy Code, 2016.

Sub-rule (6) has been amended which provides that “the Central Government may, in public interest, exempt any listed entity in which the Central Government or State Government or public sector company, either individually or in any combination with other, hold directly or indirectly, majority of the shares or voting rights or control of such listed entity, from any or all of the provisions of this rule.”

DELISTING OF SECURITIES

A recognized stock exchange may delist any securities listed on any of the following grounds:-

- (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 listing agreement under the Act and the company has failed to raise public holding to the required level within the time specified by the recognized stock exchange.



A recognized stock exchange may, on the request of the company, delist any securities listed thereon in accordance with the regulations made under the Act by the SEBI, subject to the following conditions, namely :

- (a) the securities of the company have been listed for a minimum period of three years on the recognized stock exchange;
- (b) the delisting of such securities has been approved by the two-third of public shareholders; and
- (c) the company, promoter and/or the director of the company purchase the outstanding securities from those holders who wish to sell them at a price determined in accordance with regulations made by SEBI under the Act.

However, the condition at (c) may be dispensed with by the SEBI if the securities remain listed at least on the National Stock Exchange of India Limited or the Bombay Stock Exchange Limited.

DEFINITION OF POOLED INVESTMENT VEHICLES ('PIVS') [SECTION 2 (DA)]:

'Pooled Investment Vehicle' means a fund established in India in the form of a trust or otherwise, such as mutual fund, alternative investment fund, collective investment scheme or a business trust as defined in sub-section (13A) of section 2 of the Income tax Act, 1961 and registered with the Securities and Exchange Board of India, or such other fund, which raises or collects monies from investors and invests such funds in accordance with such regulations as may be made by the Securities and Exchange Board of India in this behalf.

CLARITY ON ENFORCEMENT IN CASE OF DEFAULT BY POOLED INVESTMENT VEHICLES

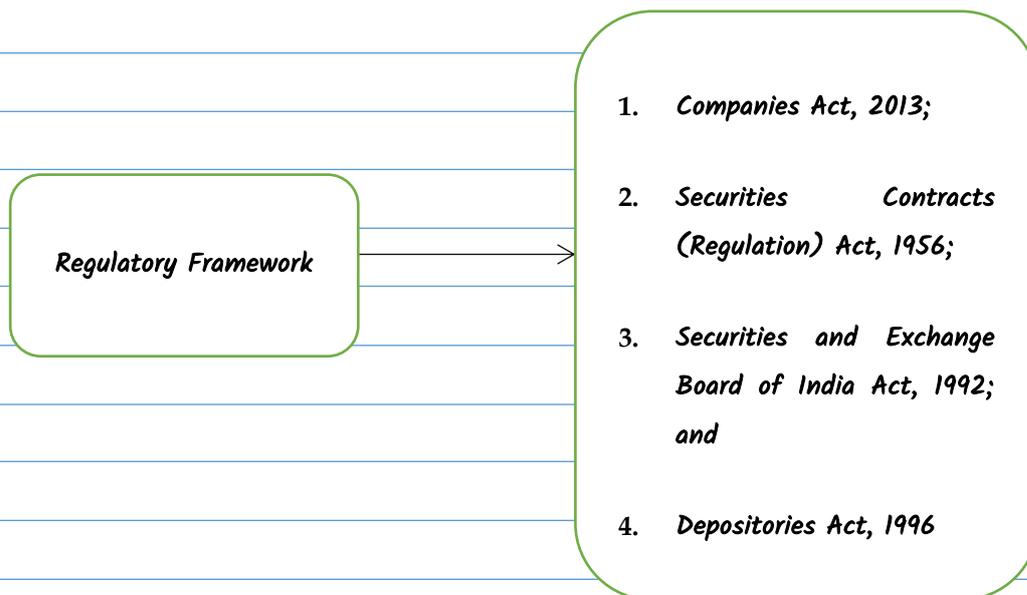
Where any pooled investment vehicle defaults in repayment of principal amount or payment of interest or any such amount due to the lender, the lender shall recover the defaulted amount and enforce security interest, if any, against the trust assets, by initiating proceedings against the trustee acting on behalf of such pooled investment vehicle in accordance with the terms and conditions specified in the facility documents. However, on initiation of the proceedings against the trust assets, the trustee shall not be personally liable and his assets shall not be utilised towards recovery of such debt. The trust assets, which remain after recovery of defaulted amount, shall be remitted to the unit holders on proportionate basis.

CHAPTER 4 - OVERVIEW OF CAPITAL MARKET AND



REGULATORY FRAMEWORK

Securities laws comprises of the following enactments:



Companies Act, 2013

The Companies Act, 2013 is administered by the Ministry of Corporate Affairs and it has the jurisdiction over the entire country. Further under the Ministry of Corporate Affairs, there are six Regional Directors, one for each region i.e. north, east, west, south, north-west and south-east located at Noida, Kolkata, Mumbai, Chennai, Ahmedabad and Hyderabad respectively. All the states lying in one particular region come under the jurisdiction of Regional Director of that region. Hence, all the Registrar of Companies of all the states falling under one particular region of India act as sub-ordinate to the Regional Director of that region.



In addition to aforesaid structure, Company Law Board (henceforth National Company Law Tribunal) is also one administrative and quasi-judicial authority with regard to the Companies Act, 2013.

SCRA, SEBI Act and Depositories Act

Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India Act, 1992 and Depositories Act, 1996 are administered by Ministry of Finance, Government of India. Further under the Ministry of Finance, Securities and Exchange Board of India (SEBI) is the principal executive authority in respect of the aforesaid Acts.

In addition to this, Securities Appellate Tribunal (SAT) is the quasi-judicial authority with regard to the aforesaid three Acts.

EVOLUTION AND GROWTH OF FINANCIAL SYSTEM IN INDIA

Initially after independence, Indian financial system was characterized by the following:

- No organized capital market;
- Rare case of public issue;
- Loans subject to stringent conditions;
- Few financial institutions and intermediaries, etc.

Capital Market got developed and organized with the replacement of Capital Issues (Control) Act, 1947 by Securities and Exchange Board of India Act, 1992. As a consequence, Indian capital market had seen as many as approximately 1,000 public issues per year. In the year 1969, nationalization of banks took place and as a result loans were provided to rural areas on soft terms and hence agriculture and industry got a boost.

A number of Financial Institutions were established in order to provide institutional source of finance in the form of term loans to the industry. Government of India set up three major financial institutions, namely, ICICI, IDBI and IFCI. Presently, ICICI is not in existence as it

has been merged with the ICICI Bank. In addition to this a number of segment specific financial institutions were also set up. For instance, Industrial Reconstruction Bank of India for reconstruction purposes; EXIM Bank for export-import purposes; NABARD for agriculture purpose; SIDBI for small industries; National Housing Bank for housing sector, etc.

Functions of financial systems

Following are some of the important functions of Financial Systems:

1. Regulation of currency through RBI.
2. Banking Functions through banks.
3. Management of national reserves of international currency.
4. Credit control by RBI.
5. Supply and deployment of funds for productive use.
6. Maintaining liquidity.

SECURITIES & EXCHANGE BOARD OF INDIA (SEBI)



**SECURITIES &
EXCHANGE BOARD
OF INDIA (SEBI)**

Introduction

SEBI has been formed under SEBI Act, 1992. SEBI Act 1992 has come into force with effect from 30th January, 1992. SEBI is a body corporate having perpetual succession and common seal. Further, being a body corporate, its separate property, contractual rights, right to sue and be sued.

SEBI is an authority to regulate and develop the Indian capital market and protect the interest of investors in the capital market. SEBI has replaced the Controller of Capital Issues, an authority under Capital Issues (Control) Act, 1947.

Offices of SEBI

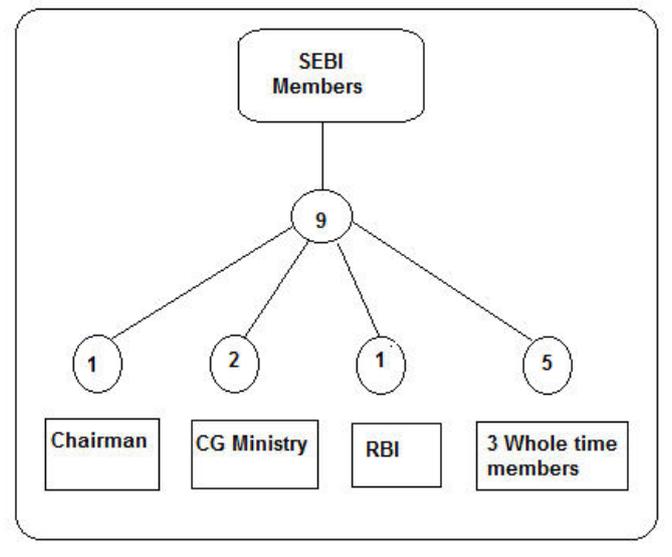
SEBI has its **head office at Mumbai** and its other offices are located at Delhi, Kolkata and Chennai.

Management of SEBI (Sec 4)

The general superintendence, direction and management of the affairs of SEBI vests in its Board of Members, which exercises all powers and do all acts things which may be exercised or done by SEBI. Unless otherwise provided, the Chairman shall also have all these powers.

The Board of Members shall consist of following members, namely:

- (i) A **chairman**, who shall be appointed by Central Government and he shall be a person of ability, integrity and standing in the field of securities market, law, finance, accountancy, economics, administration, etc.,





- (ii) *Two members* from amongst the officials of the Ministry of the Central Govt. dealing with Finance and administration of the Companies Act, 2013, who shall be nominated by the Central Govt.;
- (iii) *One member* from amongst the *officials of RBI*, who shall be nominated by RBI;
- (iv) *Five other members* out of which at *least three members* shall be *whole-time members*, who shall be appointed by Central Government and they shall be persons of ability, integrity and standing in the field of securities market, law, finance, accountancy, economics, administration, etc.;

Meetings of SEBI (Secs 7 & 7A)

All questions which come up before any meeting of SEBI shall be decided by a majority votes of the members present and voting, and, in the event of an equality of votes, the Chairman, or in his absence, the person presiding, shall have a second or casting vote.

An interested party, like a company director, can be a member of SEBI. But if he has any, direct or indirect, pecuniary interest in any matter coming up for consideration at a meeting of SEBI, he shall disclose the nature of his interest and shall not take part in deliberations or decision of SEBI in respect of that matter.

Functions of SEBI (Sec.11)

The principal functions of SEBI are:

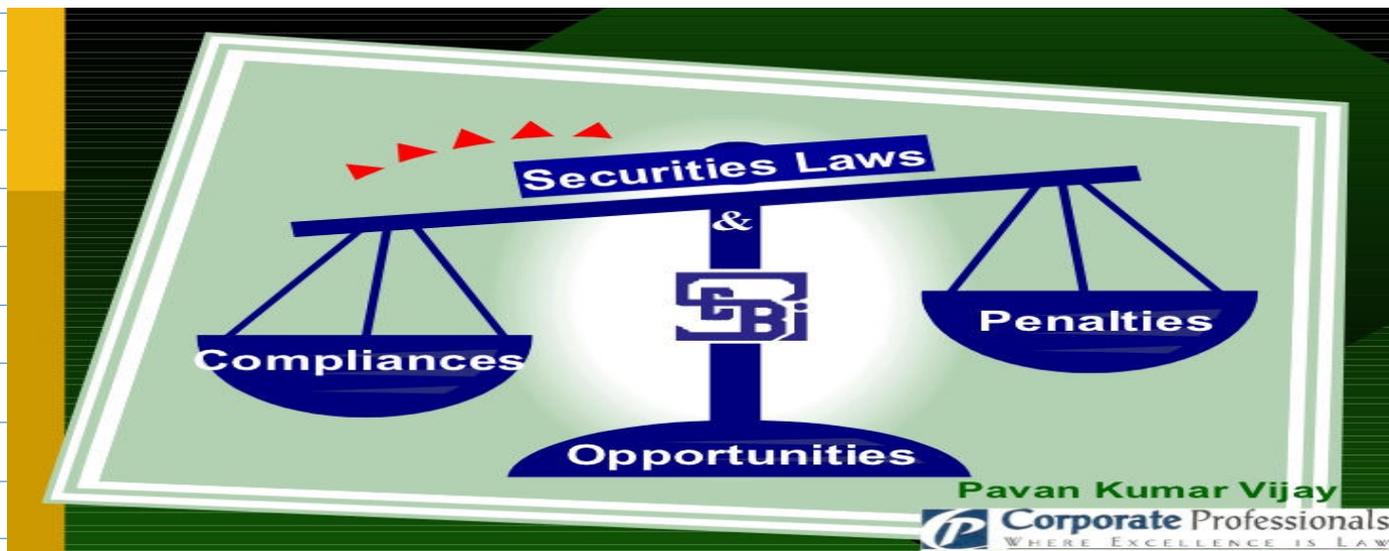
1. *Protecting the interest of investor in securities market;*
2. *Promoting the development of securities market; and*
3. *Regulating the securities market.*

The above functions include the following:

- (i) *Regulating the business in Stock Exchanges;*
- (ii) *Registration and regulating the work of various intermediaries* such as Brokers, Sub-brokers, Registrar and Share Transfer Agents, Merchant Bankers, Underwriters, Portfolio Managers, etc.;
- (iii) *Registration and regulating the work of Depositories* and Depositories Participants;
- (iv) *Registration and regulating the work of Foreign Institutional Investors, Credit Rating Agencies,* etc.

- (v) Registration and regulating the work of Venture Capital Funds, Mutual Funds, Collective Investment Schemes;
- (vi) Promoting Investors' education;
- (vii) Prohibiting insider trading in securities;
- (viii) Prohibiting fraudulent practices and unfair trading practices;
- (ix) Regulating substantial acquisition of shares and takeover of companies;
- (x) Undertaking inspection, conduction inquiries and audits of the Stock Exchanges, Mutual Funds and other persons associated with the securities market.

POWERS OF SEBI



1. Power to regulate or prohibit issue of prospectus, offer documents (Sec. 11A)

SEBI may take the following measures for the protection of investors:

1. It may specify by regulations -
 - a) The matters relating to issue of capital, transfer of securities and other matters incidental thereto; and
 - b) The manner in which such matters shall be disclosed by the companies.
2. It may, by a special or general order, -
 - a) Prohibit any company from issuing of prospectus, any offer document, or advertisement
 - b) soliciting money from the public for the issue of securities; and



c) Specify the conditions subject to which the prospectus, such offer document or advertisement, if not prohibited, may be issued.

3. It may specify the requirements for listing and transfer of securities and other matters incidental thereto. It may be noticed be noted that the provisions of Section 11A of Securities and Exchange Board of India Act shall not affect the provisions of the Companies Act, 2013 or Section 21 of the Securities Contracts (Regulation) Act, 1956.

2. Power of investigation of the affairs of an intermediary, etc. (Sec. 11C)

SEBI may appoint any person, known as Investigating Authority, to investigate the affairs of an intermediary or a person associated with the securities market in the following circumstances:

(a) Where SEBI has reasonable ground to believe that the transactions in securities are being dealt with in a manner detrimental to the investors or the securities market; or

(b) Where SEBI has reasonable ground to believe that any intermediary or any person associated with the securities market has violated any of the provisions of SEBI Act or the rules or the regulations made or directions issued by SEBI thereunder.

The Investigating Authority may keep in its custody any books, registers, other documents and record for 6 months. Thereafter, the Investigating Authority shall return the same to the person who had produced such books etc. however, the Investigating Authority may again call for such books etc. where any person producing books etc, to the Investigating Authority requires certified copies of the same, the Investigating Authority shall give certified copies of such books etc. to him.

The Investigating Authority may, with the authorization of the Magistrate of the First Class, seize books and papers, where Investigating Authority has reasonable ground to believe that books, registers, other documents and record may be destroyed, mutilated, altered, falsified or secreted. However, the Magistrate shall not authorize seizure of books etc. of any listed public company or a public company which intends to get its securities listed on any recognized stock exchange unless such company indulges in insider trading or market manipulation.



The Investigating Authority may keep the books etc. till the conclusion of the investigation.

The Investigating Authority shall inform the Magistrate when it returns the books, etc. Before returning the books etc., the Investigating Authority may place mark of identification on them.

3. Power to make a cease and desist order (Sec. 11D)

SEBI may pass an order thereby requiring a person to cease and desist from committing violation of the SEBI Act or rules made thereunder. SEBI shall exercise the aforesaid power only after conducting an enquiry regarding violation.

It may be noted that SEBI shall not pass a cease and desist order against any listed company or a public company which intends to get its securities listed on any recognized stock exchange, unless it has reasonable ground to believe that such company has indulged in insider trading or market manipulation.

INVESTIGATIONS

(1) Grounds for Investigation

Where the SEBI has reasonable ground to believe that:

- the transactions in securities are being dealt with in a manner detrimental to the investors or the securities market; or
- 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 made or directions issued by SEBI thereunder;

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 securities market and to report thereon to the SEBI.

(2) Duty of officers to produce Accounts and Records

It is the duty of every manager, managing director, officer and other employee of the company and every intermediary or every person associated with the securities market to preserve and to produce to the Investigating Authority or any person authorised by it in this behalf, all the



books, registers, other documents and record of, or relating to, the company or of or relating to, the intermediary or such person, **which are in their custody or power.**

(3) Powers of Investigating Authority

The Investigating Authority may 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 it** or any person authorized by it in this behalf as it may consider necessary if the furnishing of such information or the production of such books, or registers, or other documents, or record is relevant or necessary for the purposes of its investigation.

The Investigating Authority may keep in its custody any books, registers, other documents and record produced **for six months and thereafter shall return the same to any intermediary or any person associated** with securities market by whom or on whose behalf the books, registers, other documents and record are produced.

(4) To examine on oath

Any person, directed to make an investigation may, examine on oath, any manager, managing director, officer and other employee of any intermediary or any person associated with securities market in relation to the affairs of his business and may administer an oath accordingly and for that purpose may require any of those persons to appear before it personally.

If any person fails without reasonable cause or refuses, he shall be punishable with **imprisonment for a term which may extend to one year, or with fine, which may extend to one crore rupees, or with both,** and also with a further fine which may extend to five lakh rupees for every day after the first during which the failure or refusal continues.

(5) To take notes on examination

Notes of any examination shall be taken down in writing and shall be read over to, or by, and signed by, the person examined, and may thereafter be used in evidence against him.



(6) Seizure of Records

Where in the course of an investigation, the Investigating Authority has reasonable ground to believe that the books, registers, other documents and record of, or relating to any, any intermediary or any person associated with securities market may be destroyed, mutilated, altered, falsified or secreted, the Investigating Authority may make an application to the Magistrate or Judge of such designated Court in Mumbai, as may be notified by the Central Government for an order for the seizure of such books, registers, other documents and records.

The authorised officer may requisition the services of any police officer or any office of the Central Government, or of both, to assist him.

After considering the application and hearing the Investigating Authority, if necessary, the Magistrate or Judge of the Court may, by order, authorize the investigating authority -

- (a) to enter, with such assistance, as may be required, the place or places where such books, registers, other documents and record are kept.
- (b) to search that place or those places in the manner specified in the order and.
- (c) to seize books, registers and other documents and records, it consider necessary for the purpose of the investigation.

However, the Magistrate or Judge of the Designated Court shall not authorize seizure of books, registers, other documents and record of any listed public company or a public company (not being the intermediary specified under section 12) which intends to get its securities listed on any recognized stock exchange unless such company indulges in insider trading or market manipulation.

The Investigating Authority shall keep in its custody the books, registers, other documents and record seized under this section for such period not later than the conclusion of the investigation as it considers necessary and thereafter shall return the same to the company or the other body corporate, or, as the case may be, to the managing director or the manager or any other



person, from whose custody or power they were seized and inform the Magistrate or Judge of the Designated Court of such return.

The Investigating Authority may, before returning such books, registers, other documents and record as aforesaid, place identification marks on them or any part thereof.

Every search or seizure made under this section 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.

PROHIBITION OF MANIPULATIVE AND DECEPTIVE DEVICES, INSIDER TRADING ETC.

Section 12A of the Act provides that a person shall not directly or indirectly:

- (a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device;
- (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, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognized stock exchange;
- (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, in a manner which is in contravention of the provisions of this Act or the rules or the regulations made thereunder;
- (f) acquire control of any company or securities more than the percentage of equity share capital of a company whose securities are listed or proposed to be listed on a recognized stock exchange in contravention of the regulations made under this Act.

ADJUDICATIONS

The SEBI may appoint any of its officers *not below the rank of Division Chief* 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.

The adjudicating officer has *powers to summon and enforce* the attendance of any person acquainted with the facts and circumstances of the case to give evidence or to produce any document which in the opinion of the adjudicating officer, may be useful for or relevant to the subject matter of the inquiry and if, on such inquiry, *he is satisfied that the person has failed to comply with the provisions*, he may impose such penalty as he thinks fit in accordance with the provisions of any of those sections.

SEBI may call for and examine the record of any proceedings under this section and if it considers that the order passed by the adjudicating officer is erroneous to the extent it is not in the interests of the securities market, it may, after making or causing to be made such inquiry as it deems necessary, *pass an order enhancing the quantum of penalty, if the circumstances of the case so justify.*

However, *no such order shall be passed unless the person concerned has been given an opportunity of being heard* in the matter. Further, nothing contained in this section shall be applicable after an expiry of a period of three months from the date of the order passed by the adjudicating officer or disposal of the appeal under section 15-T, whichever is earlier.

SETTLEMENT OF ADMINISTRATIVE AND CIVIL PROCEEDINGS

Any person against where any proceedings have been initiated or may be initiated may file *an application in writing to the SEBI proposing for settlement of proceeding* initiated or to be initiated for the alleged defaults.



SEBI, may, after taking into consideration the nature, gravity and impact of defaults, agree to the proposal for settlement, on payment of such sum the defaulter or on such other terms as may be determined by the SEBI.

The settlement proceedings shall be conducted in accordance with the procedure specified in the regulations made under this Act. No appeal shall lie under section 15T against any order passed by the SEBI or adjudicating officer.

All the settlement amounts excluding the disgorgement amount and legal costs, realised under this Act shall be credited to the Consolidated Fund of India.

SECURITIES APPELLATE TRIBUNAL (SAT)

Introduction

Section 15K of SEBI Act, 1992 empowers the Central Government to set up one or more Tribunals, for the purpose of making appeals against the orders of SEBI and its adjudicating officers. These Tribunals will be known as Securities Appellate Tribunal (SAT). In exercise of the power conferred, the Central Government has set up one Tribunal at Mumbai.

Composition of SAT

SAT shall comprise of the following :

- a) One Presiding Officer; and
- b) Two or more Judicial or Technical Members as he may deem fit. However, every Bench constituted shall include at least one Judicial Member and one Technical Member.

The Presiding Officer and the Members shall be appointed by the Central Government.

Presiding Officer

The Presiding Officer of SAT shall be appointed by the Central Govt. in consultation with the Chief Justice of India.



The person to be appointed as the *Presiding Officer* must be a *sitting or retired Judge of the Supreme Court or a sitting or a retired Chief Justice of a High Court or a Judge of High Court for at least seven years*. It may be noted that a person who is a Member of SEBI or holding a position equivalent to Executive Director in SEBI shall not be appointed as Presiding Officer of SAT during his tenure with the SEBI as well as within two years from the date on which he ceases to hold office.

The *Presiding Officer* shall hold his office for a period of *five years* or up to the *age of 70 years, whichever is earlier*.

Members

Judicial member is, or has been, a *Judge of High Court for at least five years*, in the case of a Judicial Member; or

The *Presiding Officer* and *Judicial Members* of the Securities Appellate Tribunal shall be *appointed by the Central Government in consultation with the Chief Justice of India* or his nominee.

The *Technical Members* of the Securities Appellate Tribunal shall be *appointed by the Central Government on the recommendation of a Search-cum-Selection Committee*.

Technical Member

- (i) is, or has been, a Secretary or an Additional Secretary in the Ministry or Department of the Central Government or any equivalent post in the Central Government or a State Government; or
- (ii) is a person of proven ability, integrity and standing having special knowledge and professional experience, of not less than fifteen years, in financial sector including securities market or pension funds or commodity derivatives or insurance.



A person shall not be qualified for appointment as **Member of SAT**, unless he is a person of **ability, integrity and standing** who has shown capacity in dealing with problems relating to securities market and has **qualification and experience of corporate law, securities laws, finance, economics or accountancy**.

It may be noted that a person who is a Member of SEBI or holding a position equivalent to Executive Director in SEBI shall not be appointed as Member of SAT during his tenure with the SEBI as well as within two years from the date on which he ceases to hold office.

The Members shall hold their office for a period of **five years** or up to the **age of 70 years**, **whichever is earlier**.

Appeal to SAT (Sec.15T)

Any person aggrieved-----

- a) By an **order of the SEBI**, under SEBI Act, 1992 or the rules or regulations made thereunder; or
- b) By an **order made by an adjudicating officer** under SEBI Act, 1992, may prefer an appeal to Securities Appellate Tribunal; or
- c) By an order of the **Insurance Regulatory and Development Authority**
- d) By an order of the **Pension Fund Regulatory and Development Authority**

Within a period of **forty-five days** from the date on which a copy of the order made by the **SEBI or the Adjudicating Officer or the IRDA or the PFRDA** as the case may be, is received by him and it shall be in such form and be accompanied by such fee as prescribed.

On receipt of appeal and after giving the parties to opportunity of being heard SAT, pass order as thinks fit, confirming, modifying or setting aside the order appealed against. The Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of forty-five days if it is satisfied that there was sufficient cause for not filing it within that period.



Powers of SAT (sec. 15u)

The SAT shall have the same powers as are given to a Civil Court under the Code of Civil Procedure, 1908, while trying a suit, in respect of the following matters, namely:

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

Appeal against the orders of SAT (sec. 15z)

Any person aggrieved by any decision or order of SAT may file an appeal to the Supreme Court. It may be noted that the appeal can be made only on any question of law.

The appeal shall be filed **within 60 days** from the date of receiving a copy of the decision or order of SAT. However, the Supreme Court may allow a further period of 60 days for making a appeal, if it is satisfied that the applicant was prevented by sufficient cause from filing the appeal within the first 60 days.

POWERS OF CENTRAL GOVERNMENT

(a) To issue directions:

Central Government has **powers to issue directions in writing to SEBI** on questions of policy. However, the Central Government shall give an opportunity to SEBI to express its views before any such directions is given. The decision of the Central Government as to whether a question is one of policy or not shall be final.

(b) To Supersede SEBI:

If at any time the Central Government is of opinion that:

- (a) on account of emergency, **SEBI is unable to discharge its functions** and duties or
- (b) **SEBI has made default in complying with any direction** issued by the Central Government and as a result of such default the financial position of SEBI or the administration of SEBI has deteriorated; or
- (c) circumstances exist which makes it **necessary in the public interest** so to do, it may, by notification, supersede SEBI for such period, not exceeding six months, as may be specified in the notification.

Upon the publication of the notification, it will have the following effects:

- (a) **all the members from the date of supersession vacate their offices**
- (b) all the **powers, functions** and duties may be **exercised or discharged** by such person or persons as the **Central Government** may direct; and
- (c) all **property owned** or controlled by SEBI shall vest in the Central Government.

On the expiration of the period of supersession specified in the notification, the Central Government may reconstitute SEBI by a fresh appointment and in such case any person or persons who vacated their offices because of supersession shall not be deemed disqualified for appointment.



(c) Power to grant Immunity:

The Central Government may on the recommendations by SEBI, if satisfied that any person who is alleged to have violated any of the provisions of this Act and who has made a full and true disclosures in respect of alleged violations, grant to such persons, **immunity from prosecution for any offence.**

It has also been provided that recommendations of SEBI shall not be binding upon the Central Government. Further, an immunity granted to a person can be withdrawn by the Central Government, if it is satisfied such person had, in the course of the proceedings not complied with the condition on which the immunity was granted or had given false evidence. Such person may be tried for the offence with respect to which the immunity was granted or for any other offence of which he appears to have been guilty in connection with the contravention. He shall also become liable to the imposition of any penalty under this Act to which such person would have been liable had not such immunity been granted.

APPEAL TO THE CENTRAL GOVERNMENT

The Act provides that any person **aggrieved by an order of SEBI may prefer an appeal to the Central Government** within such time as may be prescribed.

Every appeal made shall be made in prescribed form and shall be accompanied by a copy of the order appealed against by such fees as may be prescribed.

CONTINUANCE OF PROCEEDINGS

Where a **person dies, his legal representative shall be liable to pay any sum** which the deceased would have been liable to pay, if he had not died, in the like manner and to the same extent as the deceased.

However, in case of any penalty payable under this Act, **a legal representative shall be liable only in case the penalty has been imposed before the death of the deceased person.**



The liability of a legal representative under this section shall be limited to the extent to which the estate of the deceased is capable of meeting the liability.

CONSENT ORDER

Consent Order means an order settling administrative or civil proceedings between the regulator and a person (Party) who may prima facie be found to have violated securities laws. Consent Order provides flexibility of wider array of enforcement and remedial actions which will achieve the twin goals of an appropriate sanction, remedy and deterrence without resorting to litigation, lengthy proceedings and consequent delays.

Settlement for securities laws violations, was introduced in India in the year 2007. No appeal shall lie to the Securities Appellate Tribunal from an order made by the SEBI or by an adjudicating officer, with the consent of the parties. Similar provision is provided in the Depositories Act.

SEBI notified the SEBI (Settlement Proceedings) Regulations, 2018 on November 30, 2018 which have come into effect from January 1, 2019.

ROLE OF COMPANY SECRETARY

- **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).

- The Securities and Exchange Board of India (SEBI) also recognises the Company Secretary as the Compliance Officer and authorizes practicing company secretaries to issue various certificates under its Regulations.

RECOVERY OF AMOUNTS

If a person fails to pay the penalty imposed or fails to comply with any direction or fails to comply with a direction of disgorgement order issued or fails to pay any fees, the Recovery Officer may draw up a statement in the specified form specifying the amount due from the person.

The Recovery Officer shall proceed to recover amount specified in the certificate by one or more of the following modes,

- (a) attachment and sale of the person's movable property;*
- (b) attachment of the person's bank accounts;*
- (c) attachment and sale of the person's immovable property;*
- (d) arrest of the person and his detention in prison;*
- (e) appointing a receiver for the management of the person's movable and immovable properties.*

Recovery Officer" means any officer of the SEBI who may be authorized, by general or special order in writing, to exercise the powers of a Recovery Officer.

SCORES (SEBI COMPLAINTS REDRESSAL SYSTEM)





1. SCORES is a **web based centralized grievance redress system** of SEBI (<http://scores.gov.in>).
2. SCORES enables investors to **lodge and follow up their complaints** and track the status of redressal of such complaints online from the above website from anywhere.
3. This **enables the market intermediaries and listed companies to receive the complaints online from investors**, redress such complaints and report redressal online.
4. All the activities starting from lodging of a **complaint till its closure by SEBI would be online in an automated environment** and the complainant can view the status of his complaint online.
5. An **email is generated instantaneously** acknowledging the receipt of complaint and allotting a unique complaint registration number to the complainant for future reference and tracking.
6. The **entity concerned uploads an Action Taken Report (ATR) on the complaint.**
7. **SEBI peruses the ATR and closes the complaint if it is satisfied that the complaint has been redressed adequately.**
8. The **concerned investor can view the status of the complaint online** from the above website by logging in the unique complaint registration number.

RESPONSIBILITIES OF THE DESIGNATED BODIES

The Designated Bodies, as per this circular, include **Listed companies, Merchant Bankers, Bankers to an Issue, Real Estate Investment Trusts, Municipal Debt Securities, Debenture Trustees, Portfolio Managers, Mutual Funds, Depository Participants, Investment Advisers, Registrars to an Issue and Share Transfer Agents, Stock Brokers, Vault Managers.**

The Designated Bodies shall be responsible for:

- **Monitoring and handling grievance redressal of investors** against respective entities under their domain as stipulated under Schedule
- **Taking non-enforcement actions** including issuing advisories, caution letters for non-redressal of investor grievances and referring to SEBI for enforcement actions.

FRAMEWORK FOR HANDLING OF INVESTOR GRIEVANCES RECEIVED THROUGH SCORES BY ENTITIES AND MONITORING OF THE REDRESSAL PROCESS BY DESIGNATED BODIES

SUBMISSION OF THE COMPLAINT AND HANDLING OF THE COMPLAINT BY THE ENTITY

- a) All Entities who are in receipt of the complaints of the investors through SCORES, shall resolve the complaint within 21 calendar days of receipt of such Complaint.
- b) The Complaints lodged on SCORES against any Entity shall be automatically forwarded to the concerned Entity through SCORES for resolution and submission of ATR.
- c) Entities shall resolve the Complaint and upload the ATR on SCORES within 21 calendar days of receipt of the Complaint. The ATR of the entity will be automatically routed to the complainant.
- d) The Complaint against the Entity shall be simultaneously forwarded through SCORES to the relevant Designated Body. The Designated Body shall ensure that the concerned Entity submits the ATRs within the stipulated time of 21 calendar days.
- e) The Designated Body shall monitor the ATRs submitted by the entities under their domain and inform the concerned entity to improve the quality of redressal of grievances, wherever required.
- f) SEBI may concurrently monitor grievance redressal process by entities and Designated Bodies.

FIRST REVIEW OF THE COMPLAINT

- a) In case complainant is satisfied with the resolution provided by the entity vide the ATR or complainant does not choose to review the Complaint, the Complaint shall be disposed on SCORES. However, if the complainant is not satisfied, the complainant may request for a review of the resolution provided by the entity within 15 calendar days from the date of the ATR.
- b) In case the complainant has requested for a review of the resolution provided by the entity or the entity has not submitted the ATR within the stipulated time of 21 calendar days, the concerned Designated Body shall take cognizance of the Complaint for first review of the resolution through SCORES. The Designated Body shall take up the first review with the



concerned Entity, wherever required. The concerned Entity shall submit the ATR to the Designated Body within the time stipulated by the Designated Body.

- c) The Designated Body may seek clarification on the ATR submitted by the Entity for the first review. The concerned Entity shall provide clarification to the respective Designated Body, wherever sought and within such timeline, as the Designated Body may stipulate. The Designated Body shall stipulate the timeline in such a manner to ensure that the Designated Body submits the revised ATR to the complainant on SCORES within 10 calendar days of the review sought.

SECOND REVIEW OF THE COMPLAINT

- a) The complainant may seek a second review of the Complaint within 15 calendar days from the date of the submission of the ATR by the Designated Body. In case the complainant is satisfied with the ATR provided by the concerned Designated Body or complainant does not choose to review the Complaint within the period of 15 calendar days, the Complaint shall be disposed on SCORES.
- b) In case the complainant is not satisfied with the ATR provided by the Designated Body or the concerned Designated Body has not submitted the ATR within 10 calendar days, SEBI may take cognizance of the Complaint for second review through SCORES.
- c) SEBI may take up the review with stakeholders involved, including the concerned entity or/and Designated Body. The concerned entity or/and Designated Body shall take immediate action on receipt of second review complaint from SEBI and submit revised ATR to SEBI through SCORES, within the timeline specified by SEBI.
- d) SEBI or the Designated Body (as the case may be) may seek clarification on the ATR submitted by the concerned entity for SEBI review complaint. The concerned entity shall provide clarification to the respective Designated Body and/or SEBI, wherever sought and within such timeline as specified.
- e) The second review Complaint shall be treated as 'resolved' or 'disposed' or 'closed' only when SEBI 'disposes' or 'closes' the Complaint in SCORES. Hence, mere filing of ATR with respect to SEBI review complaint will not mean that the SEBI review complaint is disposed.

ACTION FOR FAILURE TO REDRESS INVESTOR COMPLAINTS BY LISTED COMPANIES

- a) The Designated Stock Exchange (DSE) shall levy a fine of ₹ 1000 per day per complaint on the listed company for violation of Regulation 13 (1) of SEBI (LODR) Regulations, 2015.
- b) DSE shall issue a notice intimating the listed company about the levy of fines while also directing it to submit ATRs on the pending complaints and payment of the fines within 15 days from the date of such notice.
- c) In case the listed company fails to redress the grievances and/or pay fine levied within 15 days from the date of such notice, the concerned DSE shall issue notices to the promoter(s) of such listed company, to ensure submission of ATRs on the pending complaints and payment of fines by the listed company within 10 days from the date of such notice.
- d) In case the listed entity fails to comply with the aforesaid requirement and/ or pay fine levied within the stipulated period as per the notices, the DSE shall forthwith intimate the depositories to freeze the entire shareholding of the promoter(s) in such listed company as well as all other securities held in the demat account of the promoter(s).
- e) In case the listed entity fails to pay the fine or resolve the complaint despite receipt of the notice as stated above, the DSE may initiate other action as deemed appropriate.
- f) The procedure and actions mentioned above shall only be applicable for categories of complaints provided below:
 - 1) Non updation of address /Signature or Corrections etc.
 - 2) Non-receipt of Bonus
 - 3) Non receipt of Dividend
 - 4) Non receipt duplicate debt securities certificate
 - 5) Non-receipt of duplicate share certificate
 - 6) Non receipt of fractional entitlement
 - 7) Non receipt of interest for delay in dividend
 - 8) Non receipt of interest for delay in payment of interest on debt security
 - 9) Non receipt of interest for delay in redemption proceeds of debt security
 - 10) Non receipt of interest for delay in refunds
 - 11) Non receipt of interest on securities
 - 12) Non receipt of redemption amount of debt securities



- 13) Non receipt of refund in Public/ Rights issue
- 14) Non receipt of Rights Issue form
- 15) Non receipt of securities after conversion/ endorsement/ consolidation/ splitting
- 16) Non receipt of securities after transfer
- 17) Non receipt of securities in public/ rights issue
- 18) Non receipt of shares after conversion/ endorsement/ consolidation/ splitting
- 19) Non receipt of shares after transfer
- 20) Non receipt of shares after transmission
- 21) Non receipt of shares in public/ rights issue (including allotment letter)
- 22) Non-receipt of interest for delay in dispatch/credit of securities
- 23) Receipt of refund/ dividend in physical mode instead of electronic mode
- 24) Receipt of shares in physical mode instead of electronic mode
- 25) Demat/Remat
- 26) Complaints of any other nature as may be informed from time to time

GENERAL PROVISIONS REGARDING INVESTOR GRIEVANCE REDRESSAL

- a) Investors shall **first take up their grievances** for redressal with the entity concerned, **through their designated persons/officials who handle issues** relating to compliance and redressal of investor grievances.
- b) Investors who **wish to lodge a Complaint on SCORES (complainant)** are required to register themselves on www.scores.gov.in by clicking on "Register here" under the "Investor Corner". While filing the registration form, details like Name of the investor, Permanent Account Number (PAN), contact details, email id, are required to be provided for effective communication and speedy redressal of the grievances. Upon successful registration, a unique user id and a password shall be generated and communicated through an acknowledgement email to the complainant.
- c) In order to enhance ease, speed and accuracy in the redressal of grievance, the **investor may lodge the Complaint against any Entity on SCORES within a period of one year from the date of occurrence of the cause of action**, where:



- The complainant has approached the Entity for redressal of the complaint and the Entity has rejected the complaint or the complainant has not received any communication from the concerned Entity;
- The complainant is *not satisfied* with the reply received or the redressal by the concerned Entity.
- d) If any complaint filed on SCORES *beyond the limitation period* specified above, SEBI may reject such complaint.
- e) SEBI shall handle the first review complaint for categories of intermediaries where *no Designated Body has been appointed* for the purpose.
- f) The complainant in the event of *being dissatisfied shall give reasons for not being satisfied with the ATR* and provide clear reasons for review at any stage.
- g) SCORES shall only be a *facilitative platform for investors to get redressal* of their grievances from the concerned entity.
- h) In cases where investors raise issues, which require adjudication on any third party rights, on questions of law or fact or which is in the nature of a *lis* between parties, or if investors are not satisfied with disposal on SCORES post SEBI review, they shall seek appropriate remedies through the Online Dispute Resolution mechanism in securities market. In addition, investors have the option to approach legal forums including civil courts, consumer courts etc.
- i) Investors can approach the Online Dispute Resolution mechanism or other appropriate civil remedies at any point of time. In case the complainant opts for Online Dispute Resolution mechanism or other appropriate civil remedies while the complaint is pending on SCORES, the complaint shall be treated as disposed on SCORES.

WHEN CAN A CASE BE REFERRED FOR ARBITRATION

If the grievance is not resolved by the Stock Exchange/Depository due to disputes, an investor can file arbitration subject to the Bye-laws, Rules and Regulations of the exchange / Depository. All claims, differences or disputes between the investors and stock brokers/depository participants can be filed for arbitration.

COMPLAINTS THAT COME UNDER THE PURVIEW OF SEBI

Complaints arising out of issues that are covered under SEBI Act, Securities Contract Regulation Act, Depositories Act and rules and regulation made there under and relevant provisions of Companies Act, 2013.

MATTERS NOT CONSIDERED AS COMPLAINTS IN SCORES

- a) Complaint not pertaining to investment in securities market.
- b) Anonymous Complaints (except whistleblower complaints).
- c) Incomplete or un-specific complaints.
- d) Allegations without supporting documents.
- e) Suggestions or seeking guidance/explanation.
- f) Not satisfied with trading price of the shares of the companies.
- g) Non-listing of shares of private offer.
- h) Disputes arising out of private agreement with companies/intermediaries.
- i) Matter involving fake/forged documents.
- j) Complaints on matters not in SEBI purview.
- k) Complaints about any unregistered/ un-regulated activity.

COMPLAINTS AGAINST WHICH TYPE OF COMPANIES CANNOT BE DEALT ON SCORES

- j) 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 quasijudicial proceedings, disputes pending with Online Dispute Resolution mechanism under the aegis of Market Infrastructure Institutions.
 - Complaints falling under the purview of other regulatory bodies such as Reserve Bank of India, (RBI), Insurance Regulatory and Development Authority of India (IRDAI), Pension Fund



Regulatory and Development Authority of India (PFRDAI), Competition Commission of India (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.
- Complaints which are in the nature of market intelligence i.e., information given to SEBI regarding violation of any of the provisions of the securities laws.

SEBI MOBILE APPLICATION : RECENT DEVELOPMENT

In its efforts to improve the ease of doing business, SEBI dated March 5, 2020, launched a **Mobile Application for the convenience of investors** to lodge their grievances in SEBI Complaints Redress System (SCORES).

SCORES mobile app will make it easier for investors to lodge their grievances with SEBI, as they can now access SCORES at their convenience of a smart phone. The Mobile App will encourage investors to lodge their complaints on SCORES rather than sending letters to SEBI in physical mode.

This is another effort of SEBI in improving digitalization in securities market. **The App has all the features of SCORES which is presently available electronically** where investors have to lodge their complaints by using internet medium. 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.

Investors can, not only file their grievances but also track the status of their complaint redressal. **Investors can also key in reminders for their pending grievances.** Tools like FAQs on SCORES for better understanding of the complaint handling process can also be accessed. **Connectivity to the SEBI Toll Free Helpline number has been provided from the App** for any clarifications/help that investors may require.



Since its launch in June 2011, SEBI on an average has received about 40,000 complaints every year. A total of 3,57,000 complaints has been resolved using SCORES platform, so far. As per SEBI norms, entities against whom complaints are lodged are required to file an Action Taken Report with SEBI within 30 days of receipt of complaints. The Mobile App "SEBI SCORES" is available on both iOS and Android platforms.

SEBI (INFORMAL GUIDANCE) SCHEME, 2003

SEBI has issued SEBI (Informal Guidance) Scheme, 2003 for facilitating the various kind of people, by providing informal guidance on the various aspects related to capital market.

Following persons may make a request for Informal Guidance under the Scheme:

- Any **intermediary** registered with SEBI.
- Any **listed or prospective listed company**.
- Any **mutual fund trustee company** or asset management company.
- Any **acquirer or prospective acquirer** under the SEBI (Substantial Acquisition of Shares & Takeover) Regulations, 1997.

The request seeking informal guidance should state that it is being made under this scheme and also state whether it is a request for a no-action letter or an interpretive letter and should be accompanied with prescribed fees and addressed to the concerned Department of SEBI.

It should also describe the request, disclose and analyse all material facts and circumstances involved and mention all applicable legal provisions. 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 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 described in a request made 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.*

SEBI may not respond to the following types of requests:

- (a) *With general or incomplete factual situation;*
- (b) *hypothetical situations;*
- (c) *Where the requestor has no direct interest;*
- (d) *Where the applicable legal provisions are not cited;*
- (e) *Where a no-action or interpretive letter has already been issued;*
- (f) *Where investigation, enquiry or other enforcement action has already been initiated;*
- (g) *Cases which are subjudice;*
- (h) *Where policy concerns require that the Department does not respond.*

CONFIDENTIALITY OF REQUEST

1. *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.*
2. *The request shall include a statement of the basis for confidential treatment.*
3. *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.*
4. *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.*
5. *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.*
6. *If the letter or written communication is not withdrawn, it shall be available to the public together with any written staff response.*



SCORES 2.0 NEW TECHNOLOGY TO STRENGTHEN SEBI COMPLAINT REDRESSAL SYSTEM FOR INVESTORS AMENDMENT

1. In the continuous pursuit of protection of interests of investors in the securities market, SEBI has launched the *new version of the SEBI Complaint Redress System (SCORES 2.0)*.
2. The new version of SCORES strengthens the investor complaint redress mechanism in the securities market by making the *process more efficient through auto-routing, auto-escalation, monitoring by the 'Designated Bodies and reduction of timelines*.
3. The new SCORES system has also been *made more user friendly*.
4. Investors can lodge complaints only through new version of SCORES i.e. <https://scores.sebi.gov.in> from April 01, 2024.

CHAPTER 5 - DEPOSITORIES & DEPOSITORY SYSTEM

Excellent Quotes by Warren Buffett



On Earning: "Never depend on a single income. Make investment to create a second source."

On Spending: "If you buy things you do not need, soon you will have to sell things you need".

On Taking Risk: "Never test the depth of the water with both feet".

On Investment: "Do not put all eggs in one basket".

On Expectations: "Honesty is very expensive gift. Do not expect it from cheap people".



BASIC CONCEPT OF DEPOSITORIES

Introduction

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

A depository is an organization where the securities of an investor are held in the electronic form at his request through a Depository Participant (DP). If the investor wants to utilize the



services offered by a Depository, the investor has to open a beneficiary account (popularly called as Demat Account) with the Depository through a DP.

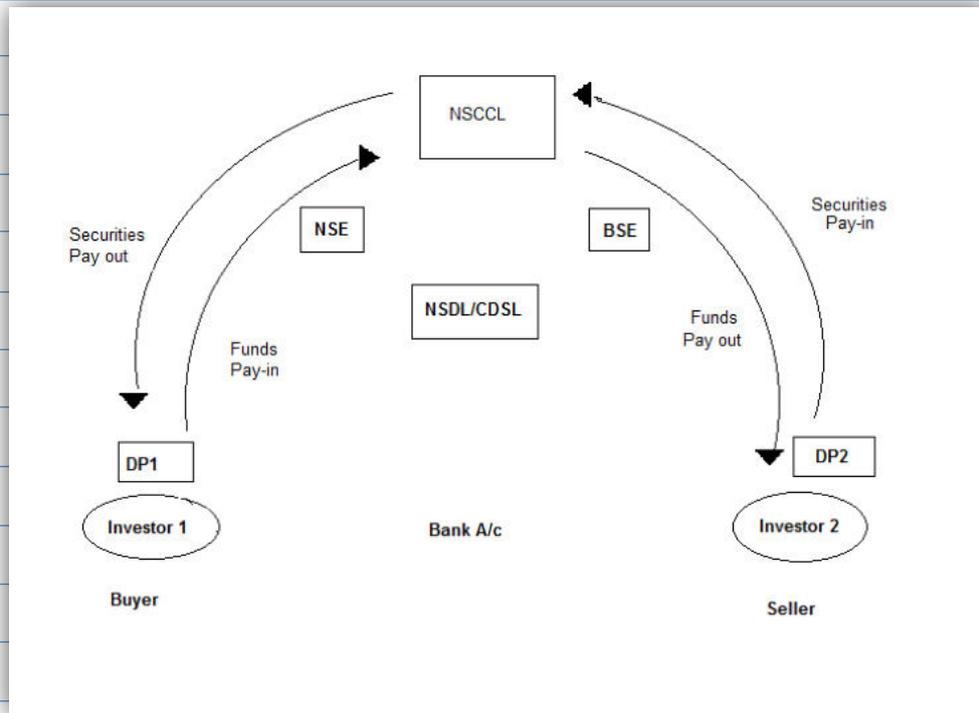
DP is the representative or agent in the depository system and it maintains the investor's securities account balance and intimates to him the status of his holding of any security. For e.g. share and debentures already in the depository mode, the buyer will become owner of the said security in the depository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

Dematerialization is the process by which physical share certificates are converted into electronic form. Rematerialisation is the process by which electronic holdings are converted back into physical certificates. The investor has to pay charges to the Depository and the DP for opening of account and also for every transaction in the account.

Depository is an agency for keeping securities on deposit in electronic (paperless) form and makes scripless trading possible. The physical form of securities could be held in electronic form by way of immobilization and dematerialization.

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

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



DEFINITION AND MEANING OF DEPOSITORY

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

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

CERTIFICATE OF COMMENCEMENT OF BUSINESS BY DEPOSITORIES

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. The SEBI shall not grant a certificate unless it is satisfied that the depository has adequate systems and safeguards to prevent manipulation of records



and transactions. However no certificate shall be refused unless the depository concerned has been given a reasonable opportunity of being heard.

DEFINITION AND MEANING OF DEPOSITORY PARTICIPANT

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

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

ELIGIBILITY CONDITIONS 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.

ELIGIBLE SECURITIES REQUIRED TO BE IN THE DEMAT MODE

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

DIFFERENCE BETWEEN DEPOSITORY AND CUSTODIAN

Depository - Share transferred in electronic form.

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



ADVANTAGES OF HOLDING SECURITIES IN THE ELECTRONIC MODE

- *Faster delivery* and fund settlement.
- *No odd lot* - trading is possible in any lot.
- *Eliminates risks* associated with physical deliveries such as loss, theft, forgery etc.
- *Eliminates* handling of large volumes of *paper*.
- *Facilitates pledge* and hypothecation.
- *Faster disbursement* of non cash corporate benefits.
- *Immediate transfer* and registration of securities.
- *Reduction in brokerage* by many brokers for trading in dematerialized securities.
- *Elimination of problems* related to selling securities on behalf of a *minor*.

DEMATERIALIZATION

The procedure for dematerialization is as under:-

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

IMMOBILIZATION

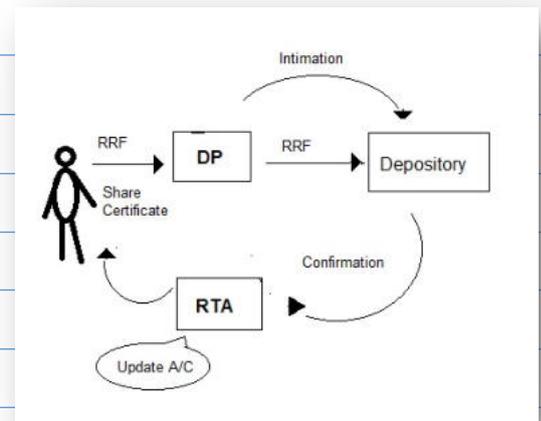
Immobilization of securities occurs when physical security certificates are stored or lodged with Depository for safe custody. All subsequent transactions in these securities take place in book entry form (electronic form). The actual owners have the right to withdraw their physical

securities as and when they desire. The custodian in turn a Jumbo Certificate representing the entire issue in the name of depository on behalf of the beneficial owner.

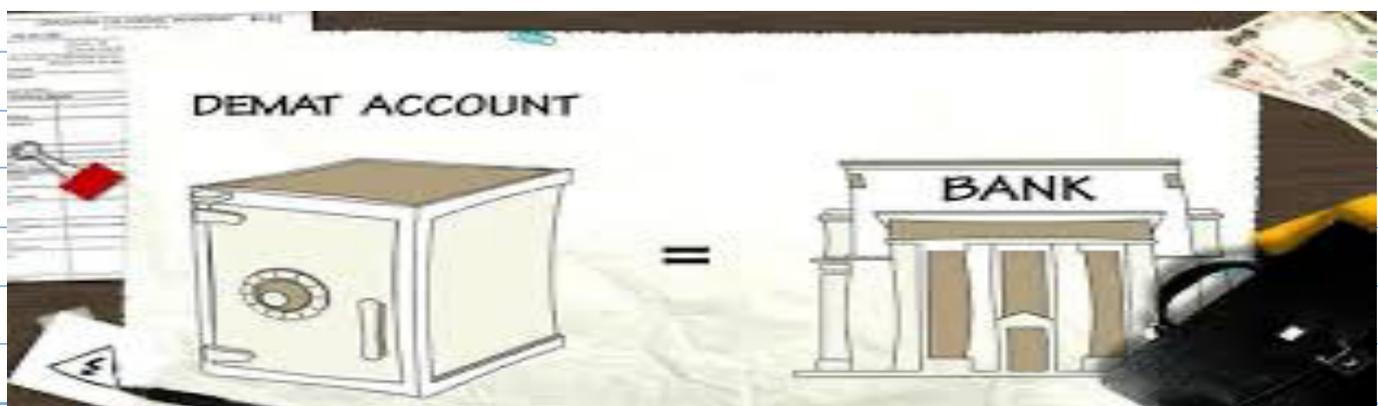
REMATERIALIZATION

The procedure for Rematerialisation of securities is as follows:-

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



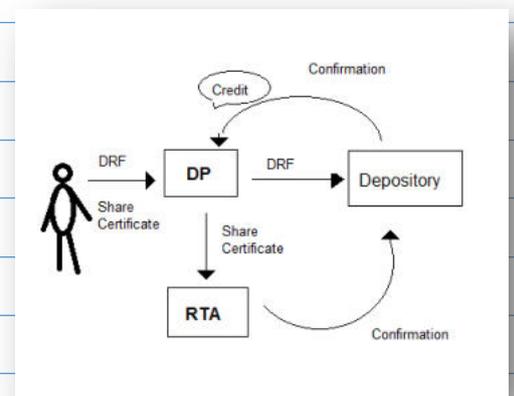
FUNGIBILITY



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

PLEDGE OR HYPOTHECATION OF SECURITIES

Pledge or hypothecation means loan obtained by the owner against his shares. If a beneficial owner (owner of securities) intends to create a pledge/hypothecation on a security owned by him, he shall make an **application to the Depository (NSDL/CDSL)** through his Depository Participant (Broker).



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

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

RIGHTS OF DEPOSITORIES AND BENEFICIAL OWNER

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

REGISTER OF BENEFICIAL OWNER

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

AUDIT UNDER SEBI (DEPOSITORIES AND PARTICIPANTS) REGULATIONS, 2018

1. SEBI has issued a circular on 31st Dec 2002 that all the issuer listed companies must immediately comply with such Secretarial Audit.
2. This circular provides for **reconciliation of total shares** of a company held in **NSDL, CDSL** and **physical** form by the shareholders with the total issued and listed capital of the company.
3. Thus every listed company is required to obtain a **certificate on a quarterly basis** from a practicing **CS** or practicing **CA**, recording of the shares held in electronic form and in physical form with the issued and listed capital of the company.
4. Every listed company is required to submit the aforesaid certificate to the Stock Exchanges where the securities of the company are listed **within 21 days of the close of relevant quarter.**

INTERNAL AUDIT OF DEPOSITORY PARTICIPANTS

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



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

CONCURRENT AUDIT

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

The Concurrent Auditor should conduct the audit in respect of all accounts opened, DIS issued and controls on DIS as mentioned above, during the day, by the next working day. In case the audit could not be completed within the next working day due to large volume, the auditor should ensure that the audit is completed within a week's time.

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

POWER OF THE SEBI

To Give Directions

SEBI, if after making an enquiry or inspection, the SEBI is satisfied that it is necessary in the interest of investors or the securities market or to prevent the affairs of any depository or participant being conducted in the manner detrimental to the interests of investors or the securities market, it may issue such directions, -

- (a) to any depository or participant or any person associated with the securities market; or
- (b) to any issuer, as may be appropriate in the interest of investors or the securities market.

CONTRAVENTION BY COMPANIES

Where a contravention of any of the provisions of this Act or any rule, has been committed by a company, every person who at the time the contravention was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.

Nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the contravention was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such contravention.

Where a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder has been committed by a company and it is proved that the contravention has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.

COGNIZANCE OF OFFENCES BY COURTS

No court shall take cognizance of any offence punishable under this Act or any rules or regulations or bye-laws made there under, save on a complaint made by the Central Government or State Government or the SEBI or by any person.

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. *Cyber Resilience is an organization's ability to prepare and respond to a cyber-attack and to continue operation during, and recover from, a cyber-attack.*

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 include critical assets and infrastructure components like Servers, Networking systems, Security devices, load balancers, other IT systems pertaining to the activities done as Depository Participants.
- Brokers / Depository Participants shall conduct *VAPT at least once in a financial year.*

INTERNATIONAL SECURITIES IDENTIFICATION NUMBER (ISIN)

The ISIN standard is used worldwide to identify specific securities such as bonds, stocks (common and preferred), futures, warrant, rights, trusts, commercial paper and options. ISINs are 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.**

ROLE OF COMPANY SECRETARY

a. Right to Legal Representation:

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

b. Internal Audit of Depository Participants:

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

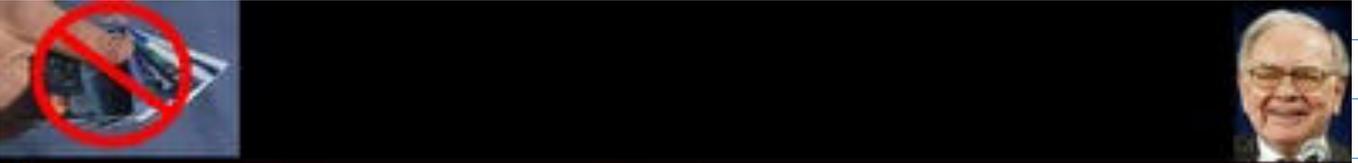
c. Reconciliation of Share Capital Audit:

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

d. Concurrent Audit of Depository Participants:

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

CHAPTER 6 - CAPITAL MARKET INTERMEDIARIES



His advice to young people:

"Stay away from credit cards (bank loans) and invest in yourself and Remember:

- A. Money doesn't create man but it is the man who created money.
- B. Live your life as simple as you are.
- C. Don't do what others say, just listen them, but do what you feel good.

INDIAN-SHARE-TIPS.COM COURTESY NITESH

INTRODUCTION

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

KINDS OF CAPITAL MARKET INTERMEDIARIES

Capital Market Intermediaries are classified as follows:

Primary Market

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

Secondary Market

1. Stock-Brokers and Sub-Brokers
2. Portfolio Managers
3. Custodian of Securities
4. Investment Advisers
5. Research Analyst
6. Credit Rating Agency
7. Depository Participant
8. Foreign Portfolio Investor

REGISTRATION OF INTERMEDIARIES

Application for Registration: An application, for grant of a certificate to act as an intermediary, has to be **made to the Board in Form A** of Schedule I with such additional information as required to be provided under the relevant regulations, and the application fee, as specified in the relevant regulations. The applicant seeking **registration to act as a stock broker or sub-broker or a trading member or a clearing member or a depository participant** has to make the application along with certain additional information through the stock exchange or through the clearing corporation of which the applicant is a member or trading member or through the depository in which the applicant proposes to act as a participant.

Process of Application: The stock exchange, the clearing corporation, the depository or the specified self regulatory organization has to **examine the eligibility of the applicant and forward the application with the application fees to the Board** along with its recommendation as early as possible but not later than 30 days of receipt of the complete application with the specified application fees.



Note: Applicant or an intermediary may carry on the activities of one or more intermediaries only if it obtains a separate certificate to carry on each such activity.

Additional Information: The Board may require the applicant to furnish further information or clarifications, regarding matters relevant to the activity of such an intermediary or which may otherwise be considered necessary by the Board, to consider and dispose of the application.

Rejection of Application: Any application for grant of certificate which is not complete in all respects and does not conform to the requirements in Form A and the requirements specified in the relevant regulation can be rejected by the Board for reasons to be recorded by the Board in writing. However, the applicant has to be given an opportunity in writing to make good the deficiencies within the time specified by the Board, for the purpose. The applicant cannot make any application for grant of certificate under these regulations or any other regulations for a period of 1 year from the date of such rejection.

Granting of Certificate: The Board on being satisfied that the applicant is eligible, has to grant a certificate in the form specified in the relevant regulations and send an intimation to the applicant.

Conditional Registration: Where a pending proceeding before the Board or any court or tribunal may result in the suspension or cancellation of the certificate, the Board may give a conditional registration.

Separate Certificate for other activity: When an intermediary, who has been granted a certificate and who has filed Form A under these regulations, wishes to commence a new activity which requires a separate certificate under the relevant regulations, it has to, while seeking such certificate, not be required to file Form A, and has to furnish to the Board only such additional information as is required under the relevant regulations.

Validity in case of change in status or constitution: Where the intermediary proposes to change its status or constitution, it has to obtain prior approval of the Board for continuing to



act as an intermediary, it has to pay the applicable fees and has to abide by the provisions of the securities laws and it has to meet the eligibility criteria and other requirements specified.

Deemed Approval: *A request for prior approval which is complete in all respects has to be disposed off by the Board within a period of 60 days from the date of receipt of such request and where the decision of the Board has not been communicated to the intermediary within the said period of 60 days, the prior approval has to be deemed to have been granted.*

Transfer of activities to another intermediary: *Where an intermediary has failed to make an application or where an existing intermediary has been refused grant of certificate under these regulations, the intermediary has to forthwith cease to act as such intermediary, transfer its activities to another intermediary which has been granted a certificate for carrying on such activity and allow its clients or investors to withdraw or transfer their securities or funds held in its custody without any additional cost.*

Note: *The certificate granted to an intermediary has to be permanent unless surrendered by the intermediary or suspended or cancelled in accordance with these regulations.*

Timelines for Registration (In Summary)

Activities Timelines

Fresh registration of Intermediaries 30 Days

Cancellation/surrender of registration. 30 Days

Prior approval for change in control of intermediary. 30 Days

MERCHANT BANKERS

Meaning

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



Roles and Responsibilities

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

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

Capital Adequacy Requirements

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

SEBI (MERCHANT BANKERS) (AMENDMENT) REGULATIONS, 2021

The SEBI vide gazette notification dated 30th March, 2021 has issued the SEBI (Merchant Bankers) (Amendment) Regulations, 2021.

The following new Definitions have been inserted in Regulation 2, namely-

- (g) "**Underwriter**" means a person who engages in the business of underwriting of an issue of securities of a body corporate.
- (h) "**Underwriting**" means an agreement to subscribe to or procure subscription for securities, issued or offered for sale, remaining unsubscribed.



Agreement with clients as an Underwriter

The amendment provides that every merchant banker acting as an underwriter shall enter into an agreement with each body corporate on whose behalf it is acting as an underwriter and the said agreement shall, amongst other things, provide for the following, namely—

- i. The **period** for which the agreement shall be in force;
- ii. The **allocation of duties and responsibilities** between the underwriter and the client
- iii. The amount of **underwriting obligations**;
- iv. The **period, within which the underwriter has to subscribe** to the issue after being intimated by or on behalf of such body corporate;
- v. The **amount of commission or brokerage** payable to the underwriter;
- vi. Details of **arrangements**, if any, made by the underwriter for fulfilling the **underwriting obligations**.

General responsibilities of a merchant banker as an underwriter

- 1) A merchant banker acting as an underwriter shall **not derive any direct or indirect benefit from underwriting** the issue other than the commission or brokerage payable under the agreement for underwriting entered with client.
- 2) At any point of time, the **total underwriting obligations under all the agreements shall not exceed twenty times of the net worth of the merchant banker**.
- 3) Every merchant banker acting as an underwriter, in the event of being called upon to subscribe for securities of a body corporate pursuant to an agreement for underwriting, shall **subscribe** to such securities **within 45 days of the receipt of such intimation** from such body corporate.

Additional Code of Conduct for Merchant Bankers

- A merchant banker or any of its directors, partners or manager having the management of the whole or substantially the whole of affairs of the business, **shall not** either through its account or their respective accounts or through their associates or family members, relatives or friends **indulge in any insider trading**.
- A merchant banker acting as an underwriter shall **not make any statement**, either oral or written, **which would misrepresent**— (a) the **services** that the underwriter is capable of



performing for its client, or has rendered to any other issuer company; (b) his **underwriting commitment**.

- A merchant banker acting as an underwriter **shall not indulge in any unfair competition**, which is likely to be harmful to the interest of other entities acting as underwriters carrying on the business of underwriting or likely to place such other underwriters in a disadvantageous position in relation to the underwriter while competing for, or carrying out any assignment.

REGISTRARS AND SHARE TRANSFER AGENTS (RTA)

Introduction

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

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

Definition of Registrar to an Issue

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

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



Definition of Share Transfer Agent

Share Transfer Agent means -

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

Pre-issue Activities

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

Activities during the Issue

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

Post Issue Activities

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

Capital Adequacy Requirements

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

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Every registrar to an issue and share transfer agent holding a certificate shall:

- at all times abide by the Code of Conduct.
- not to act as such registrar for any issue of securities in case he or it is an associate of the body corporate issuing the securities.
- keep and maintain proper books of accounts and records.
- preserve the books of accounts and other records and documents maintained for a minimum period of three years.
- appoint a compliance officer for monitoring the compliance of the Act, rules and regulations.

BANKERS TO AN ISSUE



Definition

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

- 1) Accepting **applications** and application **money**;
- 2) Acceptance of **allotment** and calls **money**;



- 3) *Refund* of application moneys;
- 4) *Payment* of *dividend* or *interest* warrants.

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Every banker to an issue shall

- maintain books of account, records and the documents.
- furnish the information to the SEBI when required.
- enter into an agreement with the body corporate for whom it is acting as banker to an issue.
- inform SEBI, if any disciplinary action is taken by the Reserve Bank against the banker to an issue only in relation to issue payment work.
- abide by the code of conduct.
- appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations.

DEBENTURE TRUSTEE

Definition

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

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

Roles and Responsibilities

- Call for *periodical reports* from the *body corporate*, i.e., issuer of debentures.
- Take possession of trust property.
- *Enforce security* in the interest of the debenture holders.

- Ensure on a continuous basis that the **property charged** to the debenture is available and **adequate at all times** to discharge the interest and principal amount payable.
- Exercise **due diligence** to ensure compliance with the provisions of the Companies Act, the listing agreement or the trust deed.
- To take appropriate measures for **protecting the interest of the debenture holders** as soon as any breach of the trust deed or law comes to his notice.
- To ascertain that the **debentures** have been **converted or redeemed** in accordance with the provisions and conditions under which they are offered to the debenture holders.

Capital Adequacy Requirements

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

STOCK BROKERS AND SUB-BROKERS



Meaning and Concept of Stock Broker and Sub-broker

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

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Every Stock Broker shall

- keep and maintain the proper books of account, records and documents.
- preserve the books of account and other records maintained for a minimum period of five years.
- appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations.

SEBI (STOCK BROKERS) (AMENDMENT) REGULATIONS, 2021

The SEBI vide gazette notification dated 30th March, 2021 has issued the SEBI (Stock Brokers) (Amendment) Regulations, 2021. The amendments inter-alia covers the following:

The following new Definitions have been inserted in Regulation 2, namely-

i) **“Underwriter”** means a person who engages in the business of underwriting of an issue of securities of a body corporate.

j) **“Underwriting”** means an agreement to subscribe to or procure subscription for securities, issued or offered for sale, remaining unsubscribed.

k) **“issue”** means an offer of sale or purchase of securities by any body corporate, or by any other person or group of persons on its or his or their behalf, as the case may be, to or from the public, or the holders of securities of such body corporate or person or group of persons through a merchant banker.

QUALIFIED STOCK BROKER

Qualified Stock Broker has been inserted which means a stock broker referred to in regulation 18D of the SEBI (Stock Brokers) Regulations, 1992.

Enhanced obligations and responsibilities for qualified stock brokers (regulation 18D)

- (1) The SEBI may designate a stock broker as a qualified stock broker having regard to its size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, on the basis of the following parameters and the appropriate weightages thereon: -
- a) the total number of active clients;
 - b) the available total assets of clients with the stock broker;
 - c) the trading volumes of the stock broker;
 - d) the end of day margin obligations of all clients of a stock broker;
 - e) compliance score as may be specified by the Board;
 - f) grievance redressal score as may be specified by the Board; and
 - g) the proprietary trading volumes of the stock broker.
- (2) The stock broker designated as a qualified stock broker shall be required to meet enhanced obligations and discharge responsibilities to ensure: -
- a) appropriate governance structure and processes;
 - b) appropriate risk management policy and processes;
 - c) scalable infrastructure and appropriate technical capacity;
 - d) framework for orderly winding down;
 - e) robust cyber security framework and processes; and
 - f) investor services including online complaint redressal mechanism.

PORTFOLIO MANAGER



Meaning and Concept of Portfolio Manager

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

There are two types of Portfolio Managers:

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



Definition of Portfolio Manager

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

Capital Adequacy Requirements

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

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Every portfolio manager shall:

- abide by the Code of Conduct.
- before taking up an assignment, enters into an agreement in writing with such client that clearly defines the inter se relationship between them.
- The discretionary portfolio manager shall individually and independently manage the funds of each client in accordance with the needs of the client whereas the non-discretionary portfolio manager shall manage the funds in accordance with the directions of the client.
- not accept from the client, funds or securities worth less than fifty lakh rupees.
- act in a fiduciary capacity with regard to the client's funds.
- segregate each client's holding in securities in separate accounts.
- keep the funds of all clients in a separate account.
- transact in securities within the limitation placed by the client himself.
- not derive any direct or indirect benefit out of the client's funds or securities.
- not borrow funds or securities on behalf of the client.
- not lend securities held on behalf of the clients to a third person except as provided under SEBI (Portfolio Managers) Regulations, 2020.
- ensure proper and timely handling of complaints from his clients and take appropriate action immediately.
- ensure that any person or entity involved in the distribution of its services is carrying out the distribution activities in compliance with these regulations.



CUSTODIAN OF SECURITIES

“custodial services” in relation to securities or goods of a client or gold or gold related instruments or silver or silver related instruments held by a mutual fund or title deeds of real estate assets held by a real estate mutual fund scheme in accordance with the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 means, the safekeeping of such securities or goods or gold or gold related instruments or silver or silver related instruments or title deeds of real estate assets and providing services incidental thereto.

Following are the important functions of Custodian of Securities;

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

Capital Adequacy Requirements

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

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Every custodian shall

- *abide by the Code of Conduct.*
- *separate and segregate its activity from all other activities.*
- *have adequate mechanisms for the purposes of reviewing, monitoring, evaluating and inspection the custodian’s controls, systems, procedures and safeguards.*
- *not assign or delegate its functions as a custodian to any other person unless such person is a custodian.*
- *open a separate custody account for each client, in the name of the client whose securities are in its custody.*
- *enter into an agreement with each client on whose behalf it is acting as custodian.*

- have adequate internal controls to prevent any manipulation of records and documents including audits for securities, goods and rights or entitlements arising from the securities and goods held by it on behalf of its client.
- maintain the records and documents.
- appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations.
- be the duty of the custodian to furnish such information within such reasonable period as the SEBI may specify.

INVESTMENT ADVISER



Meaning

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

GENERAL OBLIGATIONS AND RESPONSIBILITIES

An investment adviser shall

- act in a fiduciary capacity towards its clients.
- not receive any consideration by way of remuneration or compensation or in any other form from any person other than the client being advised.



- maintain an arms-length relationship between its activities as an investment adviser.
- ensure that its investment advisory services are clearly segregated from all its other activities.
- ensure that in case of any conflict of interest of the investment advisory activities with other activities.
- not divulge any confidential information about its client, which has come to its knowledge, without taking prior permission of its clients, except where such disclosures are required to be made in compliance.
- not enter into transactions on its own account which is contrary to its advice given to clients for a period of fifteen days from the day of such advice.
- follow Know Your Client procedure as specified by the SEBI from time to time.
- abide by Code of Conduct.
- not act on its own account, knowingly to sell securities or investment products to or purchase securities or investment product from a client.
- shall furnish to the SEBI information and reports as may be specified by the SEBI from time to time.
- ensure that its representatives and partners, as applicable, comply with the certification and qualification requirements at all times.

Capital Adequacy Requirements

Investment advisers who are **non individuals** shall have a **net worth of not less than fifty lakh rupees**. Investment advisers who are **individuals** shall have **net tangible assets of value not less than five lakh rupees**.

SEBI (RESEARCH ANALYST) REGULATIONS, 2014

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



Roles and Responsibilities

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

Capital Adequacy Requirements

Regulation 8 prescribes the capital adequacy requirement:-

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

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Research analyst or research entity shall

- maintain an arms-length relationship between its research activity and other activities.
- abide by Code of Conduct.
- furnish to the SEBI information and reports as may be specified by the SEBI from time to time.
- ensure that its employees or partners comply with the certification and qualification requirements at all times.
- maintain the records: (i) research report duly signed and dated; (ii) research recommendation provided; (iii) rationale for arriving at research recommendation; (iv) record of public appearance.
- ensure that all records shall be maintained either in physical or electronic form and preserved for a minimum period of five years.
- conduct annual audit in respect of compliance with these regulations from a CA/CS.



- Research analyst or research entity which is a body corporate or limited liability partnership firm shall appoint a compliance officer who shall be responsible for monitoring the compliance of the provisions of the Act, these regulations and circulars issued by the SEBI.

CREDIT RATING AGENCIES

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

Roles and Responsibilities

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

Capital Adequacy requirements

Minimum net worth of **Rs. 25 crores**

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Every credit rating agency shall

- abide by the Code of Conduct.
- enter into a written agreement with each client whose securities it proposes to rate.
- during the lifetime of securities rated by it continuously monitor the rating of such securities.
- disseminate information regarding newly assigned ratings, and changes in earlier rating promptly through press releases and websites, and, in the case of securities issued by listed companies,



such information shall also be provided simultaneously to the concerned regional stock exchange and to all the stock exchanges where the said securities are listed.

- disclose Rating Definitions and Rationale.
- Where any information is called for by the SEBI from a credit rating agency for the purposes of these regulations, including any report relating to its activities, the credit rating agency shall furnish such information to the SEBI.
- comply with such guidelines, directives, circulars and instructions as may be issued by the SEBI from time to time,
- appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations.
- keep and maintain books of accounts, records and documents for a minimum period of five years.

DEPOSITORY PARTICIPANT

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

Roles and Responsibilities

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

Capital Adequacy requirements

Not less than Rs. **one hundred crores**.



SEBI (DEPOSITORY AND PARTICIPATIONS) (AMENDMENT) REGULATIONS, 2022

Effective from 23 February 2022

SEBI has increased the *net worth requirements for stock broker to register as a depository participant* and provides that the stock broker shall have a *net worth of rupees three crores (within one year of the date of this notification), which shall be increased to rupees five crores (within two years of the date of this notification)*. A self-clearing member fulfilling the net worth requirements shall also be eligible to register as a depository participant.

FOREIGN PORTFOLIO INVESTOR

“Foreign Portfolio Investor” means a person who has been registered under Chapter II of Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 and shall be deemed to be an intermediary in terms of the provisions of the SEBI Act, 1992.

GENERAL OBLIGATIONS AND RESPONSIBILITIES

- (a) A foreign portfolio investor shall, at all times, abide by the code of conduct.
- (b) Comply with the provisions of these regulations;
- (c) Forthwith inform the SEBI and designated depository participant in writing, if any information or particulars previously submitted to the SEBI or designated depository participant are found to be false or misleading, in any material respect
- (d) Forthwith inform the SEBI and designated depository participant in writing, if there is any material change in the information including any direct or indirect change in its structure or ownership or control, previously furnished by him to the SEBI or designated depository participant;
- (e) 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;
- (f) Forthwith inform the SEBI and the designated depository participant, in case of any penalty, pending litigation or proceedings, findings of inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator against it;
- (g) Obtain a Permanent Account Number from the Income Tax Department;



- (h) In relation to its activities as foreign portfolio investor, at all times, subject itself to the extant Indian laws, rules, regulations, guidelines and circulars issued from time to time;
- (i) Be a fit and proper person;
- (j) Undertake necessary KYC on its shareholders/investors in accordance with the rules applicable to it in the jurisdiction where it is organised; provide any additional information or documents including beneficiary ownership details of their clients as may be required by the designated depository participant or the SEBI or any other enforcement agency to ensure compliance with the Prevention of Money Laundering Act, 2002 and the rules and regulations specified thereunder, the Financial Action Task Force standards and circulars issued from time to time by the SEBI; and
- (k) Ensure that securities held by foreign portfolio investors are free from all encumbrances.

SEBI (FOREIGN PORTFOLIO INVESTORS) (AMENDMENT) REGULATIONS, 2023

1. For grant of certificate as a foreign portfolio investor an **application to be made to Designated Depository Participants ("DDP")** in the form specified by the government or SEBI, along with the fee specified.
2. General obligations and responsibilities of foreign portfolio investors, has following amendments:
 - a. The foreign portfolio investor shall **as soon as possible but not later than seven working days**, inform the Board and DDP in writing, if **any information or particulars previously submitted to the Board or DDP are found to be false or misleading**, in any material respect.
 - b. As soon as possible but **not later than seven working days**, inform the Board and DDP in writing, if there is any **material change in the information including any direct or indirect change in its structure or ownership or control or investor group** previously furnished by him to the Board or DDP.
 - c. As soon as possible but **not later than seven working days**, inform the Board and the DDP, in case of any **penalty, pending litigation or proceedings, findings of inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator** against it.



- d. Ensure that *accurate details regarding its investor group are maintained* with its DDP at all times.

INTERNAL AUDIT OF INTERMEDIARIES BY COMPANY SECRETARY IN PRACTICE

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 authorised Practising Company Secretaries to undertake internal audit of various capital market intermediaries and issue quarterly certificate with respect to reconciliation of share capital audit.

1. *Internal Audit of Portfolio Managers: Practising Company Secretary* is authorized for conducting the internal audit of Portfolio Manager. The report is to be *submitted twice a year, as on 31st of March and 30th of September*. The scope of internal audit comprises the checking of compliance of SEBI (Portfolio Managers) Rules, 1993, SEBI (Portfolio Managers) Regulations, 1993 issued by SEBI.
2. *Internal Audit of Stock Brokers / Trading Members / Clearing Members: Practising Company Secretary* is authorized to carry out Internal Audit of Stock Brokers/Trading Members/Clearing Members on a *half yearly basis*. The scope of internal audit of stock brokers, being wide enough, covers the existence, scope and efficiency of the internal control system, compliance with the provisions of the SEBI Act, 1992, Securities Contracts (Regulation) Act, 1956, SEBI (Stock Brokers) Regulations, 1992, circulars issued by SEBI, agreements, KYC requirements, Bye Laws of the Exchanges, data security and insurance in respect of the operations of stock brokers/clearing members.



3. **Internal Audit for Credit Rating Agencies (CRAs):** Half yearly audit report to be submitted within two months of the half year end. It shall cover all aspects of CRA operations and procedures, including investor grievance redressal mechanism, compliance with the requirements stipulated in the SEBI Act, Rules and Regulations made thereunder, and guidelines issued by SEBI.
4. **Compliance audit of an investment adviser:** Yearly audit in order to check the whether Requirements of Regulation 19 of the SEBI (Investment Advisers) Regulations, 2013 are complied with respects to the records to be maintained.
5. **Annual audit of Research analyst or research entity:** Yearly audit in order to check the whether Requirements of SEBI (Research Analysts) Regulations, 2014 are complied with respects to the records to be maintained.
6. **Internal Audit of Registrar and Share Transfer Agent (RTA):** All RTAs are required to carry out internal audit on annual basis by independent qualified Company Secretaries who don't have any conflict of interest. The audit shall cover all aspects of RTA operations including investor grievance redressal mechanism and compliance with the requirements stipulated in the SEBI Act, Rules and Regulations made thereunder. The scope of the audit shall cover all issues concerning the functioning of RTAs.

CHAPTER 7 – INTERNATIONAL FINANCIAL SERVICES AUTHORITY

INTERNATIONAL FINANCIAL SERVICES CENTRE (IFSC)

1. Financial Services Centres those which cater to customers outside their own jurisdiction are referred to as International Financial Services Centres (IFSCs).
2. International financial services (IFS) deal with the flow of finance and financial products and services such as raising of funds such as debt and equity, risk management, mutual funds and pension funds, asset management done by insurance companies, corporate treasury management operations among others.
3. An IFSC has 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.

IMPORTANCE OF IFSCs

Globally, IFSCs have assumed prominence in the financial services ecosystem primarily because of three reasons:

1. They have contributed enormously to the growth of international financial transactions.
2. These centres have played an important role in accelerating the pace of financial globalization.
3. These centres have played an invaluable role in accelerating the socio-economic growth of host countries.

The Percy Mistry committee report in 2007 highlighted the need for setting up an IFSC in India to bring back the financial services and transactions that are currently carried out in offshore financial centres by Indian corporate entities to a centre which is physically on Indian soil.

Further, the 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. While capital control

restrictions are applicable in domestic India, the same restrictions are not applicable in the IFSC jurisdiction.

FISCAL BENEFITS AND TAX EXEMPTIONS FOR GIFT- IFSC

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

Taxes & 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</p> <ul style="list-style-type: none"> From 01 April 2020, dividend income distributed by Company in IFSC to be taxed in the hands of the shareholder. 	<p>(a) Interest income paid to non-residents on:-</p> <p>(i) Monies lent to IFSC units not taxable</p> <p>(ii) Long Term Bonds and Rupee Denominated Bonds listed on IFSC exchanges taxable at lower rate of 4%.</p> <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 (GST)	<p>a) No GST on services -</p> <p>(i) received by unit in IFSC;</p> <p>(ii) provided to IFSC / SEZ units, Offshore clients.</p>	No GST on transactions carried out in IFSC exchanges.

	b) GST applicable on services provided to Domestic Tariff Area.	
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.

Following taxes are at NIL rates: -

- (i) Security Transaction Tax (STT)
- (ii) Commodity Transaction Tax (CTT)
- (iii) Dividend Distribution Tax (DDT)
- (iv) Long Term Capital Gain (LTCG)
- (v) Short Term Capital Gain (STCG)

NECESSITY OF IFSC FOR DOMESTIC ECONOMY

1. 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.

2. 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. Another driving force for setting up an IFSC within the country was to allow



bright young Indian talent to fully exhibit & showcase their talent and expertise, who had to travel and work in overseas financial centres.

IFSC BENEFITS FOR INDIA

The establishment of GIFT-IFSC will boost the growth of country and GIFT-IFSC is an important gateway to connect India with global opportunities. The benefits of having an IFSC in India are summarized below -

1. Internationalisation of rupee
2. Gateway for inbound and outbound capital flows
3. Employment generation
4. Regional financial integration
5. Development of niche areas
6. Innovation in financial services

INTERNATIONAL FINANCIAL SERVICES CENTRE AUTHORITY

1. Government of India through the International Financial Services Centres Authority Act, 2019 established the International Financial Services Centres Authority (IFSCA) as a dedicated and unified financial regulator for IFSCs in India.
2. The IFSCA has been statutorily empowered to develop and regulate the financial markets in the IFSCs in India.
3. The Act empowers IFSCA to exercise powers of four domestic regulators ie RBI, SEBI, IRDAI & PFRDA for development and regulation of financial products, financial institutions and financial services within the IFSCs.
4. IFSCA can perform all such quasi-legislative, executive, and quasi-judicial functions in IFSCs.
5. To develop the IFSC, the Authority has adopted a multi-pronged and calibrated approach which inter alia, includes creating an internationally aligned regulatory framework across all business verticals such as Banking, Capital Markets, Fund Management, Insurance, etc.
6. The authority is working to onshore new and niche international financial services. The niche financial services include International Bullion Exchange, Aircraft Leasing and Finance, Courses offered in Financial Management, Fin-Tech, Science, Technology, Engineering and Mathematics



by foreign universities or foreign institutions, Ship Leasing and Financing, FinTech related services, etc.

7. The Authority has been proactively working with multiple stakeholders to facilitate ease of doing business for the global and domestic financial services industry operating from GIFT IFSC.
8. The IFSCA is a unique Authority which has been vested with a **dual mandate of developing and regulating the IFSCs in India.**

FUNCTIONS OF IFSCA

- 1) IFSCA Act empowers the Authority to **develop and regulate** the financial products, financial services and financial institutions in an IFSC independently.
- 2) The authority can take all **developmental steps** such as authorizing the service providers who aid in assisting the financial service providers, which are an important pillar in providing support services for the entities to function effectively and to build a supporting ecosystem around for the entities in IFSC.
- 3) The role of the Authority has broadened as it regulates Bullion exchange, Foreign Universities and Institutions, Aircraft leasing, Ancillary service providers, Finance Companies and Fintech entities, etc. These services are either not regulated in the domestic sector or are not regulated as a financial service, like in the IFSC.
- 4) IFSC can also be perceived as a **laboratory for financial experimentation** which would enable the government to experiment with new financial services and based on their adoption and risk perception can be replicated in the domestic economy.
- 5) IFSCA as a **unified regulator exercises control over all the financial services** and hence is equipped to provide better oversight on these new generation initiatives.

POWERS OF IFSCA

1. All powers exercisable by an appropriate regulator specified in First Schedule of the IFSCA Act, 2019 under respective acts, in an IFSC shall be exercised by the IFSCA, in so far as it relates to financial products, financial services and financial institutions. This is a unique

experimentation wherein the *legislature instead of enumerating various powers of IFSCA has incorporated all the powers of domestic sector financial regulators by simple reference.*

- Central Government has powers to amend the *First Schedule* by including or omitting any financial sector regulator and the law administered by it, through notification.

The Regulators and respective Acts mentioned under First Schedule are as follows:

FIRST SCHEDULE

SR NO	DOMESTIC REGULATOR	STATUTE ADMINISTERED
1.	The Reserve Bank of India constituted under the Reserve Bank of India Act, 1934 (2 of 1934).	<ol style="list-style-type: none"> The Reserve Bank of India Act, 1934; The Banking Regulation Act, 1949; The Deposit Insurance and Credit Guarantee Corporation Act, 1961; The Foreign Exchange Management Act, 1999; The Credit Information Companies (Regulation) Act, 2005; The Government Securities Act, 2006; The Payment and Settlement Systems Act, 2007.
2.	SEBI established under the Securities and Exchange Board of India.	<ol style="list-style-type: none"> The Securities Contracts (Regulation) Act, 1956 (42 of 1956); The Securities and Exchange Board of Act, 1992 (15 of 1992); The Depositories Act, 1996 (22 of 1996).
3.	IRDA constituted under the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).	<ol style="list-style-type: none"> The Insurance Act, 1938 (4 of 1938); The General Insurance Business Insurance Regulatory and (Nationalization) Act, 1972; The Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).

4. PFRDA constituted under the Pension Fund Regulatory and Development Authority Act, 2013 (23 of 2013). The Pension Fund Regulatory and Development Authority Act, 2013.

FINANCIAL PRODUCTS AND FINANCIAL SERVICES

FINANCIAL PRODUCTS

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

- (i) Securities;
- (ii) Contracts of insurance;
- (iii) Deposits;
- (iv) Credit arrangements;
E.g., Trade Financing Services is one such activity which comes under Credit arrangements.
- (v) Foreign currency contracts other than contracts to exchange one currency for another that are to be settled immediately; and
- (vi) Any other product or instrument that may be notified by the Central Government from time to time.

NEW FINANCIAL PRODUCTS

- (i) **Aircraft lease** including operating and financial lease and any hybrid of operating and financial lease of aircraft or helicopter and engines of aircraft or helicopter or any other part thereof;
The Government of India (GOI) vide Gazette notification dated October 06, 2020, notified aircraft operating lease as a financial product.
- (ii) **Bullion spot delivery contract**;
- (iii) **Bullion depository receipt with underlying bullion**;



GOI notified bullion spot trading and bullion depository receipts (BDR) with underlying bullion, as financial products and bullion related services as financial services respectively on August 31, 2020.

(iv) Operating lease including any hybrid of operating and financial lease of such product or equipment as financial product. Under this, IFSCA has been empowered to bring framework for products such as ship leasing and other equipment;

In view of the Authority's assessment of a huge potential for operating lease of ships and for various other equipments in the IFSC, the Government of India vide notification dated December 14, 2021, notified operating lease including any hybrid of operating and financial lease of such product or equipment, as specified by the Authority, as a financial product;

(v) Ship lease including operating lease, and hybrid of operating and financial lease, of a ship or ocean vessel, engines of ship or ocean vessel, or any other part thereof, as a financial product.

FINANCIAL SERVICES

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

- (i) Buying, selling, or subscribing to a financial product or agreeing to do so;
- (ii) Acceptance of deposits;
- (iii) Safeguarding and administering assets consisting of financial products, belonging to another person, or agreeing to do so;
- (iv) Effecting contracts of insurance;
- (v) Offering, managing or agreeing to manage assets consisting of financial products belonging to another person;
- (vi) Exercising any right associated with a financial product or financial service;
- (vii) Establishing or operating an investment scheme;
- (viii) Maintaining or transferring records of ownership of a financial product;
- (ix) Underwriting the issuance or subscription of a financial product;
- (x) Providing information about a person's financial standing or creditworthiness; e.g., Credit Information Companies, Credit rating agencies.
- (xi) Selling, providing, or issuing stored value or payment instruments or providing payment services;



- (xii) Making arrangements for carrying on any of the services in sub-clauses (i) to (xi); (under this a framework on Ancillary Services was issued, which provides for support services such as Auditing, Accounting, Taxation and Assets Management);
- (xiii) Rendering or agreeing to render advice on or soliciting for the purposes of—
 - (a) buying, selling, or subscribing to, a financial product; or
 - (b) availing any of the services in sub-clauses (i) to (xi); or
 - (c) exercising any right associated with a financial product or any of the services in clauses (i) to (xi);
- (xiv) Any other service that may be notified by the Central Government from time to time.

The framework allows the following permissible activities under ancillary services:

- (a) Legal, Compliance and Secretarial;
- (b) Auditing, Accounting, Bookkeeping and Taxation Services;
- (c) Professional & Management Consulting Services;
- (d) Administration, Assets Management Support Services and Trusteeship Services;
- (e) Any other services as approved by IFSCA from time to time.

Under the said framework more than 34 Ancillary Services firms have been authorized by IFSCA as of now.

NEW FINANCIAL SERVICES

- (i) **Global in-House Centres (GIC)**, as financial service to provide services relating to financial products and financial services;
- (ii) Trading in **bullion depository receipts** with underlying bullion in relation to bullion spot delivery contracts;
- (iii) Provision of bullion financing, bullion-based loans, bullion loans against collateral, **bullion vaulting**, clearing and settlement services in relation to bullion spot delivery contracts and bullion depository receipts;
- (iv) **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

In Globalized world, Global capital acts as an important driver of economic growth and development. The setting up of the IFSC in India is aimed at tapping global capital flows to meet India's development needs and simultaneously provide international issuers a globally competitive financial platform for the full range of international financial services.

Section 23 (3) of the Companies Act, 2013 has been notified on September 28, 2020, enabling listing of equity shares of public Indian companies in permissible foreign jurisdictions, including IFSC. Previously, the listing of equity in IFSC by companies incorporated in India and foreign jurisdiction is regulated by a combination of SEBI (IFSC) Guidelines, 2015, relevant provisions of SEBI (Issue of Capital and Disclosure requirements) Regulations, 2018, Companies Act, 2013 and Foreign currency depository receipt scheme and circulars issued thereunder.

IFSCA, in its endeavor to develop a comprehensive and consistent regulatory framework based on global best practices with a special focus on ease of doing business, enacted an all-encompassing framework to facilitate issuers to access world's capital markets. Through a cross-border listing, a company can reach beyond its home jurisdiction to identify a foreign stock exchange that meets its particular corporate financing needs. In order to provide an ecosystem for Fintech companies, IFSCA enabled the listing of startups in IFSC. Further, considering the recent innovative methods for raising of capital are being used by companies in some jurisdictions, such as by Special Purpose Acquisition Companies (SPACs), IFSCA enabled the listing of SPAC on the recognised stock exchanges, in order to facilitate sponsors, raise capital to undertake an acquisition of a company or assets.

The countries worldwide are investing into Environment, Social, Governance (ESG) projects, pursuant to the Paris Agreement and Sustainable Development Goals. The financial sector has been identified as being instrumental in advancing the zero-carbon energy transition. Considering the importance of Environment, Social and Governance issues and the ESG targets, there is a need for the regulators to provide an ecosystem for sustainable financing. IFSCA aims to move towards becoming a prominent international centre for sustainable finance,



supporting the needs for ESG financing. Towards this direction, IFSCA has enabled the listing of green bonds, social bonds, sustainable bonds and sustainability linked bonds.

LISTING OF SECURITIES

- (a) The IFSCA (Issuance and Listing of Securities) Regulations, 2021 ("Listing Regulations") enables the following types of listing:
- (i) an initial public offer of specified securities by an unlisted issuer;
 - (ii) a follow-on public offer of specified securities by a listed issuer;
 - (iii) Listing of specified securities by a start-up company or a SME;
 - (iv) Secondary listing;
 - (v) An initial public offer of specified securities by a SPAC;
 - (vi) Listing of depository receipts;
 - (vii) Listing of debt securities (including SMART City bonds); and
 - (viii) Listing of ESG focused debt securities
- (b) The following entities would be eligible for listing of securities on the recognised stock exchanges in IFSC:
- (i) A company incorporated in an IFSC;
 - (ii) A company incorporated in India; and
 - (iii) 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:
- (i) any supranational, multilateral or statutory organisation/ institution/agency provided such organization/institution/agency is permitted to issue securities as per its constitution; and
 - (ii) 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;
 - (iii) 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)

A. Eligibility:

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

- (i) the issuer has an **average pre-tax profit**, based on consolidated audited accounts, of at least **USD 1 million** during the preceding three financial years; or
- (ii) the issuer has an **operating revenue** of at least **USD 20 million** in the preceding financial year; or
- (iii) any **other eligibility criteria** that may be prescribed by IFSCA.

B. 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.

C. 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.

D. 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 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.



The SME Companies, as defined in their respective home jurisdiction, shall be eligible to list on specified securities on a recognised stock exchange.

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

- (a) **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.
- (b) **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.
- (c) **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.

LISTING OF SPAC

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

- (a) **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.**
- (b) **Minimum application size:** The minimum application size in an initial public offer of SPAC shall be **USD 250,000.**
- (c) **Minimum subscription:** At least **75%** of the offer size.
- (d) **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.

LISTING OF DEBT SECURITIES

- (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

The SEBI (IFSC) Guidelines, 2015 provides a comprehensive regulatory framework for Market Infrastructure Institutions (MII) such as Stock exchanges, Clearing corporation, Depositories.

Eligibility and shareholding:

1) Eligibility and shareholding limit for stock exchanges desirous of operating in IFSC:

Any Indian recognised stock exchange or any stock recognised exchange 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:

- (i) any other stock exchange,
- (ii) a depository,
- (iii) a banking company,
- (iv) an insurance company,
- (v) commodity derivatives exchange, whether Indian or of foreign jurisdiction, and
- (vi) a public financial institution of Indian jurisdiction.

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.

2) Eligibility and shareholding limit for clearing corporations desirous of operating in IFSC:

Any Indian recognised stock exchange or clearing corporation, or any recognised stock exchange or clearing corporation of a foreign jurisdiction shall form a subsidiary to provide the services



of clearing corporation in IFSC wherein **at least fifty-one per cent** of paid-up equity share capital shall be held by such stock exchange or clearing corporation, and remaining share capital shall be held by the following:

- (i) any other stock exchange
- (ii) a clearing corporation,
- (iii) a depository,
- (iv) a banking company,
- (v) an insurance company, whether Indian or foreign jurisdiction, and
- (vi) 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 clearing corporation.

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

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

4) 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:

- (a) Equity shares of a company incorporated outside India;
- (b) Depository receipt(s);



- (c) Debt securities issued by eligible issuers;
- (d) Currency and interest rate derivatives;
- (e) Index based derivatives;
- (f) Commodity Derivatives;
- (g) Derivatives on Equity shares;
- (h) Such other securities as may be specified by the Board.

CHAPTER 8 - ISSUE OF CAPITAL & DISCLOSURE

"A BULL MARKET IS LIKE
SEX. IT FEELS BEST
JUST BEFORE IT ENDS."

SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2018

METHODS OF RAISING FUNDS FROM PRIMARY MARKET

- **PUBLIC ISSUE:** When an offer is made to new investors (general public) for becoming shareholders of the issuer Company it is called a public issue.
- **Initial Public Offer (IPO):** When an unlisted public company offers its securities for sale for the **first time** to the General public, it is known as an IPO.
- **Further Public Offer (FPO) or follow on offer:** When a **listed company offers** a fresh issue of securities **to the general public for sale**, it is known as a FPO.
- **RIGHTS ISSUE:** When a listed company offers or issues securities to the **existing shareholders** on a particular date fixed by the issuer company (i. e. record date), it is called a rights issue. The rights issue is always issued at price not like bonus shares.
- **BONUS ISSUE:** When an issuer makes an issue of securities to its **existing shareholders** as on a record date, **without any consideration** from them, it is called a bonus issue. The shares are issue out of the Company's free reserve or share premium account in a particular ratio to the number of securities held on a record date.
- **PRIVATE PLACEMENT:** When an issuer makes an issue of securities to a **select group of persons not exceeding 49%**, and which is neither a rights issue nor a public issue, it is called a private placement.
Private placement of shares or convertible securities by listed issuer can be of two types:
 - (i) **Preferential Allotment:** When a listed company issues shares or convertible securities, to a **select group of persons** in terms of **SEBI (ICDR) Regulations, 2018**, it is called a preferential allotment. The issuer is required to comply with various provisions which intern alia include pricing, disclosures in notice etc., in additional to requirements specified in Companies Act.



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

ALLOCATION OF NET OFFER TO PUBLIC

- (1) In an issue made through the book building process the allocation in the net offer to public category should be made as follows:
- not less than **35%** to **retail individual investors**;
 - not less than **15%** to **non-institutional investors**;
 - not more than **50%** to **qualified institutional buyers**, **five per cent** of which shall be allocated to **mutual funds**. However, in addition to five per cent allocation available, mutual funds shall be eligible for allocation under the balance available for qualified institutional buyers.

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

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

In an issue made through book building process, the allocation in the non-institutional investors' category shall be as follows:



- (a) *1/3rd of the portion* available to non-institutional investors shall be reserved for applicants with application size of *more than Rs. 2 lakh and up to Rs. 10 lakh*;
- (b) *2/3rd of the portion* available to non-institutional investors shall be reserved for applicants with application size of *more than Rs. 10 lakh*.

Provided that the unsubscribed portion in either of the sub-categories specified in clauses (a) or (b) may be allocated to applicants in the other sub-category of non-institutional investors.

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

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

PRICE AND PRICE BAND

For Book Building Process:

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

For Other than Book Building Process:

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

- (1) The issuer company can *mention a price in the draft prospectus* (in case of a fixed price issue) and floor price or price band in the red herring prospectus (in case of a fixed built issue) and determine the price at a later date before registering the prospectus with the Registrar of Companies. However, the final prospectus registered with the Registrar of Companies should contain only one price.
- (2) The cap on the price band shall be less than or equal to *120% of the floor price*.
- (3) The floor price or the final price should *not be less than the face value* of the securities.



- (4) If the floor price or price band is not mentioned in the red herring prospectus, the issuer company should **announce the floor price or price band in all the newspapers** in which the pre - issue advertisement was released atleast 2 working days before the opening of the bid.
- (5) The cap on the price band, and the coupon rate in case of convertible debt instruments, shall be less than or equal to 120% of the floor price. **Provided that the cap of the price band shall be at least 105% of the floor price.**

Draft Offer Document	Red Herring Prospectus	Offer Document
<p>“Draft Offer document” means the offer document in draft stage. The draft offer documents are filed with SEBI, atleast 30 days prior to the filing of the Offer Document with ROC/SEs. SEBI may specifies changes, if any, in the Draft Offer Document and the Issuer or the Lead Merchant banker shall carry out such changes in the draft offer document before filing the Offer Document with ROC/SEs. The Draft Offer document is available on the SEBI website for public comments for a period of 21 days from the filing of the Draft Offer Document with SEBI.</p>	<p>“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. In the case of book-built issues, it is a process of price discovery and the price cannot be determined until the bidding process is completed. Only on completion of the bidding process, the details of the final price are included in the offer document. The offer document filed thereafter with ROC is called a prospectus.</p>	<p>“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.</p>

GUIDELINES FOR RETURNING OF DRAFT OFFER DOCUMENT AND ITS RESUBMISSION

ADDITION

Return of Draft Offer Document

1. Draft offer document must be **drafted in simple language with visual representation of data**, so as to ensure ease of understanding of its contents.
2. The information in the draft offer document is presented in a **clear, concise, and intelligible manner**.
3. The draft offer document **avoids complex presentations, vague, ambiguous and imprecise explanations, complex information, repetition of disclosures and inconsistency**.
4. The **risk factors are appropriately worded in simple, clear and unambiguous language** to bring out clearly the risk to the investor, without undermining the same.

Resubmission of Draft Offer Document

1. While there shall be no requirement for payment of any fees on account of resubmission of draft offer document, the **requirement for paying applicable fees for the changes, if any, in terms of changes specified for the updated offer document shall continue to apply** as is applicable to issuer for updation in offer document.
2. There shall be **no refund of the filing fees on account of non-submission** of draft offer document by the issuer after return.
3. The issuer, **within two days of resubmission** of draft offer document with the SEBI, shall make a **public announcement** in the mode and manner as prescribed under ICDR Regulations, as applicable, and the issuer shall also include a disclosure that it is a resubmitted document.
4. Issuer shall **make written intimation to its sectoral regulator**, if any, informing about the return and resubmission of the draft offer document, as applicable.

ISSUE OPENING DATE

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

PERIOD OF SUBSCRIPTION

AMENDMENT

1. An IPO/FPO shall be kept open for **at least 3 working days and not more than 10 working days**.
2. In case of **force majeure, banking strike or similar unforeseen circumstances**, the issuer may, for reasons to be recorded in writing, **extend the bidding (issue) period** disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), for a **minimum period of one working day**.

ENTRY / ELIGIBILITY NORMS

Unlisted Company

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

1. The company has **net tangible assets of atleast Rs. 3 crores** on a restated and consolidated basis, in each of the preceding 3 full years (of 12 months each), of which **not more than 50% is held in monetary assets**. However, if more than 50% of the net tangible assets are held in monetary assets, the issuer has utilized or made firm commitments to utilize such excess monetary assets in its business or project. This limit of 50% shall not apply in case of IPO is made entirely through an offer for sale.
2. The company has **average operating profit of at least Rs.15 crores**, calculated on a restated and consolidated basis, during the **3 most profitable years** out of the immediately preceding three years;
3. The company has a **net worth of at least Rs. 1 crore** in each of the **preceding 3 full years** (of 12 months each), calculated on a restated and consolidated basis;
4. In case the company has **changed its name** within the last 1 year, **at least 50% of the revenue** calculated on a restated and consolidated basis for the preceding 1 full year is earned by the company from the activity suggested by the **new name**;



An issuer not satisfying the eligibility conditions shall be eligible to make an initial public offer only if the issue is **made through the book-building process** and the issuer undertakes to allot **at least seventy five per cent of the net offer to qualified institutional buyers** and to refund the full subscription money, if it fails to do so.

Example

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

(Rs. in lacs)

Year Ended March 31	2014	2015	2016	2017	2018
Net Tangible Assets	1448.56	2275.53	2532.60	3510.33	4657.50
Monetary Assets	292.76	61.97	108.25	302.33	288.17
Monetary Assets as a percentage of Net Tangible Assets	20.21	2.72	4.27	8.61	6.19

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

Example

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



for the 3 preceding years is Rs.15.75 crores which is more than the prescribed average of Rs.15 crores.

Year Ended March	2016	2017	2018
Operating Profit	1630.31	1232.65	1864.63

GENERAL CONDITIONS

An issuer making an initial public offer shall ensure that:

- it has made an **application** to one or more **stock exchanges** to seek an in-principle approval for listing;
- it has entered into an **agreement with a depository** for dematerialisation of the specified securities;
- all its specified securities held by the **promoters** are in **dematerialised form** prior to filing of the offer document;
- all its existing partly paid-up equity shares have either been **fully paid-up** or have been forfeited;
- it has made **firm arrangements of finance through verifiable means towards seventy five percent** of the stated means of finance for a specific project proposed to be funded from the issue proceeds, excluding the amount to be raised through the proposed public issue or through existing identifiable internal accruals.

An issuer making an IPO shall ensure that 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.**



Further, *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.*

Explanation:

(i) **“Project”** means the object for which monies are proposed to be raised to cover the objects of the issue.

(ii) **Partnership Firms**

In case of an issuer which had been a partnership firm or a limited liability partnership, the track record of distributable profit of the partnership firm or the LLP shall be considered only if the financial statements of the partnership business for the period during which the issuer was a partnership firm conform to and are revised in the format prescribed for companies under the Companies Act, 2013.

(iii) **Spinning off of a division**

In case of an issuer formed out of a division of an existing company, the track record of distributable profits of the division spun-off shall be considered only if the requirements regarding financial statements as provided for partnership firms and LLPs are complied with.

ENTITIES NOT ELIGIBLE TO MAKE AN IPO

An issuer shall *not make an initial public offer:*

- a. If the issuer, any of its *promoters, promoter group, selling shareholders* are *debarred from accessing the capital market by the SEBI.*
- b. If any of the promoters or directors of the issuer is a *promoter or a director of any other company which is debarred from accessing the capital market by the SEBI.*
- c. If the issuer or any of its *promoters or directors* is a *wilful defaulter or a fraudulent borrower.*
- d. If any of the *promoters or directors* of the issuer is a *fugitive offender.*



- e. If there are any outstanding convertible securities, which would entitle any person option to receive equity shares of the issuer except ESOP or fully paid-up outstanding convertible securities which are required to be converted on or before the date of filing of the Red Herring Prospectus or the Prospectus.

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

ELIGIBILITY REQUIREMENTS FOR FPO

- An issuer may make an FPO if it has changed its name within the last one year and atleast 50% of the revenue in the preceding one full year has been earned from the activity suggested by the new name.
- If an issuer does not satisfy the above-mentioned condition, it may make a FPO 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 and to refund full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.

GENERAL CONDITIONS FOR FPO

An issuer making an FPO shall ensure that:

- a) it has made an **application** to one or more **stock exchanges** to seek an in-principle approval for listing;
- b) it has entered into an **agreement with a depository** for dematerialisation of the specified securities;
- c) all its specified securities held by the **promoters** are in **dematerialised form** prior to filing of the offer document;
- d) all its existing partly paid-up equity shares have either been **fully paid-up** or have been forfeited;
- e) it has made **firm arrangements of finance through verifiable means towards seventy five percent** of the stated means of finance for a specific project proposed to be funded from the issue



proceeds, excluding the amount to be raised through the proposed public issue or through existing identifiable internal accruals.

An issuer making an FPO shall ensure that 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.

Further, 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.

ENTITIES NOT ELIGIBLE TO MAKE AN FPO

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

- a. If the issuer, any of its promoters, promoter group, selling shareholders are debarred from accessing the capital market by the SEBI.
- b. If any of the promoters or directors of the issuer is a promoter or a director of any other company which is debarred from accessing the capital market by the SEBI.
- c. If the issuer or any of its promoters or directors is a wilful 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.

SECURITY DEPOSIT

The issuer shall, before the opening of the subscription list, deposit with the stock exchange or stock exchanges an amount calculated at the **rate of 1% of the amount of the issue size available for subscription to the public** as may be specified by SEBI and the amount so deposited shall be refundable or forfeitable in the manner specified by SEBI.

IPO GRADING

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

MINIMUM PROMOTERS' CONTRIBUTION IN CASE OF IPO

The promoters of the issuer shall hold **at least twenty per cent of the post-issue capital.**

Provided that in case the post-issue shareholding of the promoters is less than twenty per cent, alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with IRDAI or **any non-individual public shareholder holding at least five per cent of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s)** may contribute to meet the shortfall in minimum contribution as specified for the promoters, subject to a maximum of ten per cent. of the post-issue capital without being identified as promoter(s).

LOCK-IN OF SPECIFIED SECURITIES HELD BY THE PROMOTERS IN CASE INITIAL PUBLIC OFFER (REGULATION 16)

Minimum promoters' contribution including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of



India or any non-individual public shareholder holding at least five per cent of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s), shall be locked-in for a period of eighteen months from the date of allotment in the initial public offer.

Provided that in case the majority of the issue proceeds excluding the portion of offer for sale is proposed to be utilized for capital expenditure, then the lock-in period shall be three years from the date of allotment in the initial public offer.

The excess promoters' contribution over the required minimum contribution shall be locked in for a period of 6 months from the date of allotment.

Provided that in case the majority of the issue proceeds excluding the portion of offer for sale is proposed to be utilized for capital expenditure, then the lock-in period shall be one year from the date of allotment in the initial public offer.

Explanation: For the purpose of this sub-regulation, "capital expenditure" shall include civil work, miscellaneous fixed assets, purchase of land, building and plant and machinery, etc.

LOCK-IN OF SPECIFIED SECURITIES HELD BY PERSONS OTHER THAN THE PROMOTERS (REGULATION 17)

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

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

- (i) Equity shares allotted to employees under employee stock option prior to initial public offer, if the issuer has made full disclosures with respect to such option; and
- (ii) Equity shares held by an employee stock option trust or transferred to the employees by an employee stock option trust pursuant to exercise of options by the employees, in accordance with the employee stock option plan or employee stock purchase scheme.



- (iii) Equity shares held by a *venture capital fund or AIF of category I & II or a FVCI* and such equity shares shall be *locked-in for a period of at least six months* from the date of purchase by the venture capital or AIF or FVCI.

For Point No. (iii), in case such equity shares have resulted pursuant to conversion of fully paid-up compulsorily convertible securities, the holding period of such convertible securities as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period and convertible securities shall be deemed to be fully paid-up, if the entire consideration payable thereon has been paid and no further consideration is payable at the time of their conversion.

MINIMUM PROMOTERS' CONTRIBUTION IN CASE OF FPO

The promoters shall contribute in the public issue as follows:

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

The promoters shall contribute in the public issue as follows:

The SR equity shares of promoters, if any, shall be eligible towards computation of minimum promoters' contribution.

Exemption from Requirement of Promoters' Contribution

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

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

Further, it is provided that the issuer has been *in compliance with the SEBI (LODR) Regulations, 2015*, for a *minimum period of 3 years* immediately preceding the reference date. However, *if the issuer has not complied* with the provisions of SEBI (LODR) Regulations, 2015, *relating to composition of board of directors*, for any quarter during the last three years immediately preceding the date of filing of draft offer document/offer document, but is *compliant with such provisions at the time of filing of draft offer document/offer document*, and *adequate disclosures are made in the offer document* about such non-compliances during the three years immediately preceding the date of filing the draft offer document/offer document, it shall be *deemed as compliance* with the condition.

SEBI further laid the condition that where the *promoters propose to subscribe to the specified securities offered to the extent greater than higher of the two options available in clause (a)*, the subscription in excess of such percentage shall be made at a *price determined in terms of the provisions of regulation 164 or the issue price, whichever is higher*.

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

LOCK-IN OF SPECIFIED SECURITIES HELD BY THE PROMOTERS IN CASE FURTHER PUBLIC OFFER (REGULATION 115)

The promoters shall contribute in the public issue as follows:

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



Period of lock in shall now be **eighteen months** from the date of allotment of the further public offer upto 20% of the proposed issue.

Promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of **6 months** instead of 1 year.

TRANSFERABILITY OF LOCKED-IN SPECIFIED SECURITIES

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

The specified securities held by persons other than the promoters and locked-in as per regulation 17 (lock in of securities held by persons other than promoters), may be transferred to any other person holding the specified securities which are locked-in along with the securities proposed to be transferred. Lock-in on such specified securities shall continue for the remaining period with the transferee and such transferee shall not be eligible to transfer them till the lock-in period stipulated in these regulations has expired.

MINIMUM SUBSCRIPTION

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

UNDERWRITING (REGULATION 40 AND 136)

- (1) If the issuer making an **initial public offer or further public offer, other than through the book building process**, desires to have the issue underwritten **to cover under-subscription in the issue**, it shall, prior to the filing of the prospectus, **enter into an underwriting agreement** with the merchant bankers or stock brokers to act as underwriters, **indicating therein the maximum**



number of specified securities they shall subscribe to, either by themselves or by procuring subscription, at a predetermined price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.

- (2) The issuer making an **initial public offer or further public offer, other than through the book building process**, shall, prior to the filing of the prospectus, enter into an underwriting agreement with the merchant bankers or stock brokers registered with the Board to act as underwriters, **indicating therein the number of specified securities they shall subscribe to on account of rejection of applications**, either by themselves or by procuring subscription, at a predetermined price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.
- (3) If the issuer makes a public issue **through the book building process**:
- (a) the issue shall be underwritten by lead manager(s) and syndicate member(s), provided that **at least seventy five per cent of the net offer proposed to be compulsorily allotted to qualified institutional buyers for the purpose of compliance of the eligibility conditions specified in regulation 6(2) shall not be underwritten.**
 - (b) the issuer shall, prior to the filing of the prospectus, enter into an **underwriting agreement** with the lead manager(s) and syndicate member(s), indicating therein **the number of specified securities they shall subscribe to on account of rejection of bids**, either by themselves or by procuring subscription, at a price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the prospectus.
 - (c) if the **issuer desires to have the issue underwritten to cover under-subscription** in the issue, it shall, prior to the filing of the red herring prospectus, enter into an **underwriting agreement** with the lead manager(s) and syndicate member(s) to act as underwriters, indicating therein **the maximum number of specified securities they shall subscribe to**, either by themselves or by procuring subscription, at a price which shall not be less than the issue price, and shall disclose the fact of such underwriting agreement in the red herring prospectus.
 - (d) if the **syndicate member(s) fail to fulfil their underwriting obligations, the lead manager(s) shall fulfil the underwriting obligations.**
 - (e) the lead manager(s) and syndicate member(s) shall not subscribe to the issue in any manner except for fulfilling their underwriting obligations.



- (f) in case of every underwritten issue, the **lead manager(s)** shall undertake **minimum underwriting obligations** as specified in the Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992.
- (g) where the issue is required to be underwritten, the **underwriting obligations should be at least to the extent of minimum subscription.**

MONITORING AGENCY

If the issue size excluding the **size of offer for sale** by selling shareholders, **exceeds Rs.100 crores**, the issuer shall ensure that the use of the proceeds of the issue is **monitored by a credit rating agency** registered with the SEBI

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

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

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

RELEASE OF SUBSCRIPTION MONEY

- The lead manager(s) shall confirm to the bankers to the issue by way of copies of listing and trading approvals that all formalities in connection with the issue have been completed and that the banker is free to **release the money to the issuer or release the money for refund in case of failure of the issue.**
- In case the issuer fails to obtain listing or trading permission from the stock exchanges where the specified securities were to be listed, it shall refund through verifiable means the entire monies received within **4 days** of receipt of intimation from stock exchanges rejecting the



application for listing of specified securities, and if any such money is **not repaid within 4 days** after the issuer becomes liable to repay it, the issuer and every director of the company who is an officer in default shall, **on and from the expiry of the 4th day, be jointly and severally liable to repay that money with interest at the rate of fifteen per cent per annum.**

POST-ISSUE ADVERTISEMENT

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

FAST TRACK ISSUES

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

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



period;

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

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



CONDITIONS FOR AN OFFER FOR SALE

1. Shares must be fully paid-up.
2. It shall be held by the sellers for a period of at least one year prior to the filing of the draft offer document.
3. The holding period of such convertible securities, including depository receipts, as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period.
4. The equity shares received on conversion or exchange of fully paid-up compulsorily convertible securities including depository receipts are being offered for sale

Non-Applicability

1. The offer for sale of a government company or statutory authority or corporation or any special purpose vehicle set up and controlled by any one or more of them, which is engaged in the infrastructure sector;
2. Equity shares offered for sale were acquired pursuant to any scheme approved by a High Court under the sections 391 to 394 of Companies Act, 1956, or approved by a tribunal or the Central Government under the sections 230 to 234 of Companies Act, 2013, as applicable, in lieu of business and invested capital which had been in existence for a period of more than one year prior to approval of such scheme;
3. If the equity shares offered for sale were issued under a bonus issue on securities held for a period of at least one year prior to the filing of the draft offer document with the SEBI and further subject to the following:

ADDITIONAL CONDITIONS FOR AN OFFER FOR SALE

- a. shares offered for sale to the public by shareholder(s) holding, individually or with persons acting in concert, **more than twenty per cent of pre-issue shareholding** of the issuer based on fully diluted basis, **shall not exceed fifty per cent of their pre-issue shareholding** on fully diluted basis;



- b. shares offered for sale to the public by shareholder(s) holding, individually or with persons acting in concert, **twenty per cent or less of pre-issue shareholding** of the issuer based on fully diluted basis, **shall not exceed ten per cent of pre-issue shareholding** of the issuer on fully diluted basis;
- c. for shareholder(s) holding, individually or with persons acting in concert, more than twenty per cent of pre-issue shareholding of the issuer based on fully diluted basis, provisions of lock-in as specified under regulation 17 of these regulations shall be applicable, and relaxation from lock-in as provided under clause (c) of regulation 17 of these regulations shall not be applicable.

ISSUE OF WARRANTS

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

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

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

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

RIGHTS ISSUE

Definition of Right 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.



- It is **pre-emptive rights** given by the status to existing shareholders.
- The offer is required to be made to the existing shareholders on **pro-rata** to their existing holdings.
- 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 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]

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

- 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**.

Explanation: The restrictions under (a) and (b) above will not apply to the promoters or directors of the issuer 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 letter of offer with the SEBI.

General conditions [Regulation 62]

1. The issuer making a rights issue of specified securities shall ensure that:
 - 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**.
 - 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 seventy five per cent of the stated means of finance* for the specific project proposed to be funded from issue proceeds, excluding the amount to be raised through the proposed rights issue or through existing identifiable internal accruals.
- 2. Where the issuer or any of its *promoters or directors is a wilful defaulter or a fraudulent borrower*, the promoters or promoter group of the issuer *shall not renounce their rights except to the extent of renunciation within the promoter group.*
- 3. Where the issuer has issued *SR equity shares to its promoters or founders*, then such a SR shareholder shall not renounce their rights and the SR shares received in a rights issue shall *remain under lock-in until conversion into equity shares* having voting rights same as that of ordinary equity shares along with existing SR equity shares.
- 4. An issuer making a Rights issue shall ensure that 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.*

Further, *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.*

PREFERENTIAL ISSUE

Definition of 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 and 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]

1. Preferential issue of specified securities shall not be made to any person who has sold or transferred any equity shares of the issuer during the six months preceding the relevant date. However in respect of the preferential issue of equity shares and compulsorily convertible debt instruments, whether fully or partly, the SEBI may grant relaxation from the requirements of this sub-regulation, if the SEBI has granted relaxation in terms of SEBI (SAST) Regulations, 2011 to such a preferential allotment.
2. 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.
3. An issuer shall not be eligible to make a preferential issue if any of its promoters or directors is a fugitive economic offender.
4. Preferential issue of specified securities shall not be made to any person who has sold or transferred any equity shares of the issuer during the 90 trading days (earlier six months) preceding the relevant date.
5. An issuer shall not be eligible to make a preferential issue if it has any outstanding dues to the Board, the stock exchanges or the depositories. However, this shall not be applicable in a case where such outstanding dues are the subject matter of a pending appeal or proceeding(s), which has been admitted by the relevant Court, Tribunal or Authority.

Conditions for preferential issue [Regulation 160]

A listed issuer making a preferential issue of specified securities shall ensure that:

- a) all equity shares allotted by way of preferential issue shall be made fully paid up at the time of the allotment;
- b) a special resolution has been passed by its shareholders;



- c) all equity shares held by the **proposed allottees** in the issuer are in **dematerialised form**;
- d) the issuer is in **compliance with** the conditions for **continuous listing** of equity shares;
- e) the issuer has obtained the **Permanent Account Numbers of the proposed allottees**, except those which may be exempt by SEBI.

Tenure of Convertible Securities

Upon exercise of the option by the allottee to convert the convertible securities within the tenure, the issuer shall ensure that the **allotment** of equity shares pursuant to exercise of the convertible securities is **completed within 15 days from the date of such exercise** by the allottee.

Disclosures to shareholders

The issuer shall place a copy of the **certificate of a practicing company secretary** before the general meeting of the shareholders considering the proposed preferential issue, certifying that the issue is being made in accordance with the requirements of the SEBI (ICDR) Regulations, 2018.

Specified securities may be issued on a preferential basis for consideration other than cash:

Provided that consideration other than cash shall comprise only swap of shares pursuant to a valuation report by an independent registered valuer, which shall be submitted to the stock exchange(s) where the equity shares of the issuer are listed.

Lock-in

Lock in requirement for securities allotted to **promoters/ promoter group (upto 20% of the post issue capital)** has been reduced to 18 months. For allotment exceeding 20% of the post issue capital, lock in period has been reduced to 6 months. Lock in requirement for allotment to persons **other than promoters and promoter group** has been reduced to 6 months.

Pledge of locked-in specified securities

Specified securities, except SR equity shares, held by the promoters and locked-in under the provisions of these regulations, may be pledged as collateral for a loan granted by a scheduled commercial bank or a public financial institution or a systemically important non-banking finance company or a housing finance company:



Provided that the *loan has been granted to the issuer* or its subsidiary(ies) for the purpose of *financing one or more of the objects of the issue* and pledge of specified securities is one of the conditions for sanction of the loan

Provided further that the lock-in on the specified securities shall continue pursuant to the invocation of the pledge and the entity invoking the pledge shall not be eligible to transfer the specified securities till the lock-in period stipulated in these regulations has expired.

Adjustments in pricing in case of preferential issue - frequently and infrequently traded shares

ADDITION

The effect on the price of the equity shares of the issuer *due to material price movement and confirmation of reported event or information may be excluded* as per the framework specified under regulation 30(11) of the SEBI (LODR) Regulations, 2015 for determination of the price for a preferential issue in accordance with regulations 164, 164A, 164B or 165 of SEBI (ICDR) Regulations, 2018.

QUALIFIED INSTITUTIONS PLACEMENT

Definition of 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 *special resolution* approving the qualified institutions placement has been passed by its shareholders.



- *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 specified in the Securities Contracts (Regulation) Rules, 1957;
- The allotment shall be *completed within a period of 365 days* from the date of passing of the resolution.
- 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.
- Where an issuer, being a transferee company in a scheme of compromise, arrangement and amalgamation 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 nationwide trading terminals shall also be considered for the purpose of computation of the period of one year. This clause shall not be applicable to an issuer proposing to undertake qualified institutional placement for complying with the minimum public shareholding requirements specified in the Securities Contracts (Regulation) 1957.
- An issuer shall not be eligible to make a qualified institutions placement if any of its *promoters or directors is not a fugitive economic offender*.
- 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.

Pricing in case of Qualified Institutions Placement

ADDITION

The effect on the price of the equity shares of the issuer *due to material price movement and confirmation of reported event or information* may be excluded as per the framework specified under of regulation 30 (11) of the SEBI (LODR) Regulations, 2015 for calculation of the issue price under SEBI (ICDR) Regulations, 2018.

INITIAL PUBLIC OFFER OF INDIAN DEPOSITORY RECEIPTS

Eligibility conditions [Regulation 183]

(1) An issuer shall be eligible to make an issue of IDRs only if:

- the issuing company is listed in its home country for at least three immediately preceding years;
- the issuer is not prohibited to issue securities by any regulatory body;
- the 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.

(2) The issue shall be subject to the following conditions:

- issue size shall not be less than fifty crore rupees;
- 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.

(3) The issuer shall ensure that:

- it has made an application to one or more stock exchanges to seek an in-principle approval for listing of the IDRs 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 IDRs proposed to be issued;
- it has made firm arrangements of finance through verifiable means towards seventy five per cent of the stated means of finance for the project proposed to be funded from issue proceeds, excluding the amount to be raised through the proposed issue of IDRs or through existing identifiable internal accruals, have been made.

(4) 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 twenty five per cent of the amount being raised by the issuer.

RIGHTS ISSUE OF INDIAN DEPOSITORY RECEIPTS

The issuer shall ensure that it has made an application to all the stock exchanges in India, where its IDRs are already listed, for listing of the IDRs to be issued by way of rights and has chosen one of them as the designated stock exchange.

Entities not eligible to make a rights issue [Regulation 213]

An issuer shall not be eligible to make a rights issue of IDRs if -

- at the time of undertaking the rights issue, the issuer is in breach of ongoing material obligations under the listing agreement and SEBI (LODR) Regulations, 2015.
- any of its promoters or directors is a fugitive economic offender

CLARIFICATION ON FRAMEWORK FOR ISSUE OF DEPOSITORY RECEIPTS

Permissible holder means a holder of DR, including its Beneficial Owner(s), satisfying the following conditions:

- a) who is **not a person resident in India**;
- b) who is **not a Non-Resident Indian (NRI)**

The restriction under this Clause shall **not apply in case of issue of DRs to NRIs, pursuant to share based employee benefit schemes** which are implemented by a company in terms of **SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021**

The restriction under this Clause shall **also not apply in case of issue of DRs by the company to NRIs pursuant to a bonus issue or a rights issue**;



The onus of identification of NRIs holders, who are issued DRs in terms employee benefit scheme, would lie with the listed company. The listed company shall provide the information of such NRI DR holders to the designated depository for the purpose of monitoring of limits.

INITIAL PUBLIC OFFER BY SMALL AND MEDIUM ENTERPRISES

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

An issuer shall not be eligible to make an initial public offer:

- (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 **wilful defaulter or a fraudulent borrower**.
- (d) if any of its promoters or directors is a fugitive economic offender.

Eligibility requirements for an initial public offer [Regulation 229]

- (1) An issuer shall be eligible to make an initial public offer only if its post-issue paid-up capital is less than or equal to ten crore rupees.
- (2) An issuer, whose post issue face value capital is more than ten crore rupees and upto twenty five crore rupees, may also issue specified securities in accordance with provisions of this Chapter.
- (3) An issuer may make an initial public offer, if it satisfies track record and/or other eligibility conditions of the SME Exchange(s) on which the specified securities are proposed to be listed.

General conditions [Regulation 230]

An issuer making an initial public offer shall ensure that:

- it has made an application to one or more SME exchanges for listing.
- it has entered into an agreement with a depository for dematerialisation of its specified securities already issued and proposed to be issued;
- all its existing partly paid-up equity shares have either been fully paid-up or forfeited;
- all specified securities held by the promoters are in the dematerialised form;



- it has made firm arrangements of finance through verifiable means towards seventy five per cent of the stated means of finance for the project proposed to be funded from the issue proceeds, excluding the amount to be raised through the proposed public offer 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 twenty five per cent of the amount being raised by the issuer.

Promoters' contribution in case of initial public offer by small and medium enterprises

ADDITION

1. The promoters of the issuer shall hold **at least twenty per cent of the post-issue capital.**
2. Provided that in case the post-issue shareholding of the promoters is **less than twenty per cent., alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India or any non-individual public shareholder holding at least five per cent of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) may contribute to meet the shortfall in minimum contribution as specified for the promoters, subject to a maximum of ten per cent of the post-issue capital without being identified as promoter(s).**

Lock-in of specified securities held by the promoters in case of initial public offer by small and medium enterprises

ADDITION

Minimum promoters' contribution including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India or any non-individual public shareholder holding at least five per cent of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s), as applicable, shall be **locked-in for a period of three years from**



the date of commencement of commercial production or date of allotment in the initial public offer, whichever is later.

Period of subscription in case of initial public offer by small and medium enterprises

ADDITION

1. A public issue shall be kept open for *at least 3 working days and not more than 10 working days.*
2. In case of *force majeure, banking strike or similar unforeseen circumstances*, the issuer may, for reasons to be recorded in writing, *extend the bidding (issue) period* disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), *for a minimum period of one working day.*
3. The provisions mentioned in Regulation 38, Regulation 80, Regulation 135 and Regulation 197 and Regulation 259 pertaining to Security deposit have been omitted.

INNOVATORS GROWTH PLATFORM

Definition of 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 SEBI (ICDR), 2018.

Listing on IGP

1. Aimed to list startups which *are intensive in the use of technology, information technology, intellectual property, data analytics, bio-technology or nano-technology to provide products services or business platforms with substantial value addition.*
2. *Atleast twenty five per cent of the pre-issue capital of the Issuer Company for at least a period of one year*, should have been held by Qualified Institutional Buyers, IGP Investors or any other class of investors as specified by SEBI.
3. *Listing is allowed, with or without IPO.* SEBI will issues its observations in both the cases.
4. The minimum *offer size shall be ten crores* in case of IPO.
5. Minimum *application size shall be INR two lakh* and in multiples.
6. Number of *allottees* in the IPO shall be atleast *50.*



7. Minimum trading lot shall be INR 2 lakhs or multiples.

BONUS ISSUE

Bonus issue of shares means additional shares issued by the Company to its existing shareholders to reward for their loyalty and is an opportunity to enhance the shareholders wealth. The bonus shares are issued without any cost to the Company by capitalizing the available reserves.

Conditions for 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.
- It has received approval from the stock exchanges for listing and trading of all the securities, excluding options granted to employees pursuant to an employee stock option scheme and convertibles securities, issued by the issuer prior to the issuance of bonus shares.
- Bonus issue shall be made only in dematerialised form.



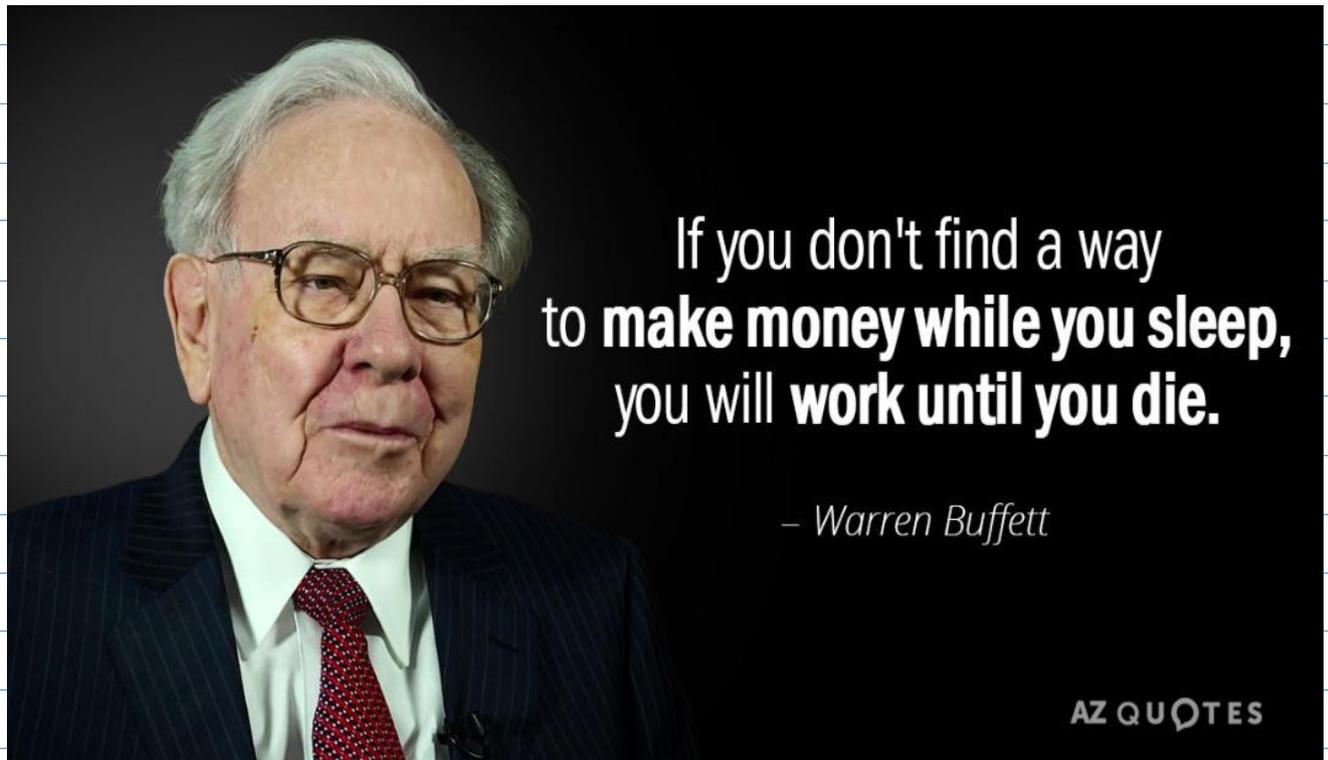
Restrictions on bonus issue [Regulation 294]

- 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** on the same terms or same proportion at which the bonus shares were issued.
- 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 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.**

CHAPTER 9 - SHARE BASED EMPLOYEE BENEFITS AND SWEAT EQUITY



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

Effective from 13 August 2021

IMPORTANT DEFINITIONS

“Employee”, except in relation to issue of sweat equity shares, means, —

- (i) an employee as designated by the company, who is exclusively working in India or outside India; or
- (ii) 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; or
- (iii) 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; or



(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.

“Scheme” means a scheme of a company proposing to provide share based benefits to its employees under Chapters III of these regulations, which may be implemented and administered directly by such company or through a trust, in accordance with these regulations.

“Secretarial auditor” means a company secretary in practice appointed by a company under rule 8 of the Companies (Meetings of Board and its Powers) Rules, 2014 to conduct secretarial audit pursuant to regulation 24A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

“Employee stock option scheme or ESOS” means a scheme under which a company grants employee stock options to employees directly or through a trust.

“Employee stock purchase scheme or 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.

“General employee benefits scheme or 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 benefits in the event of sickness, accident, disability, death or scholarship funds, or such other benefit as specified by such company.

“Retirement benefit scheme or 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.

• **“Sweat equity shares”** means sweat equity shares as defined in sub-section (88) of section 2 of the Companies Act, 2013 (18 of 2013).



“Appreciation” means the difference between the market price of the share of a company on the date of exercise of SAR or the date of vesting of SAR, as the case may be, and the SAR price.

“Exercise” means making of an application by an employee to the company or to the trust for issue of shares or appreciation in form of cash, as the case may be, against vested options or vested SARs in pursuance of the schemes covered under Part A or Part C of Chapter III of these regulations, as the case may be.

“Exercise period” means the time period after vesting within which an employee can exercise his/her right to apply for shares against the vested option or appreciation against vested SAR in pursuance of the schemes covered under Part A or Part C of Chapter III of these regulations, as the case may be.

“Exercise price” means the price, if any, payable by an employee for exercising the option or SAR granted to such an employee in pursuance of the schemes covered under Part A or Part C of Chapter III of these regulations, as the case may be.

“Grant” means the process by which the company issues options, SARs, shares or any other benefits under any of the schemes.

“Grant date” means the date on which the compensation committee approves the grant.
Explanation,—For accounting purposes, the grant date will be determined in accordance with applicable accounting standards.

“Option” means the option given to an employee which gives such an employee a right to purchase or subscribe at a future date, the shares offered by the company, directly or indirectly, at a pre-determined price.

“Option grantee” means an employee having a right but not an obligation to exercise an option in pursuance of an ESOS.



“Relevant date” means,-

- (i) in the case of grant, the date of the meeting of the compensation committee on which the grant is made; or
- (ii) in the case of exercise, the date on which the notice of exercise is given to the company or to the trust by the employee.

“Stock appreciation right or SAR” means a right given to a SAR grantee entitling him to receive appreciation for a specified number of shares of the company where the settlement of such appreciation may be made by way of cash payment or shares of the company.

Explanation 1 - A SAR settled by way of shares of the company shall be referred to as equity settled SAR.

Explanation 2 - For the purpose of these regulations, any reference to stock appreciation right or SAR shall mean equity settled SARs and does not include any scheme which does not, directly or indirectly, involve dealing in or subscribing to or purchasing, securities of the company.

“Stock appreciation right scheme or SAR scheme” means a scheme under which a company grants SAR to employees.

“SAR grantee” means an employee to whom a SAR is granted.

“SAR price” means the base price defined on the grant date of SAR for the purpose of computing appreciation.

“Trust” means a trust established under the provisions of the Indian Trusts Act, 1882 (2 of 1882) including any statutory modification or re-enactment thereof, for implementing any of the schemes covered by these regulations.

“Vesting” means the process by which the employee becomes entitled to receive the benefit of a grant made to him/her under any of the schemes.



“Vesting period” means the period during which the vesting of option, SAR or a benefit granted under any of the schemes takes place.

IMPLEMENTATION OF SCHEMES THROUGH TRUST

1. A company may implement a scheme(s) either **directly** or by setting up an **irrevocable trust(s)**. 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, 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 through a **single trust**. However, such single trust shall keep and **maintain proper books of account & records** and documents for **each such scheme** and in particular give a true and fair view of the state of affairs of each scheme.

3. The trust deed shall contain provisions as specified in Part A of Schedule - I of these regulations and such **trust deed and any modifications** thereto shall be mandatorily **filed with the recognised stock exchange(s)**.

4. Any person can be **appointed as a trustee of the trust, except** in cases where such person—
 - i. 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; or
 - ii. 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 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. 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 percent 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:

Sr. 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 *unappropriated inventory of shares which are not backed by grants, acquired through secondary acquisition by the trust under Part A, Part B or Part C of Chapter III of these regulations, shall be appropriated within a reasonable period which shall not extend beyond the end of the subsequent financial year, or the second subsequent financial year subject to approval of the compensation committee/nomination and remuneration committee for such extension to the second subsequent financial year.*

13. 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.

14. The trust shall be *permitted to undertake off-market transfer of shares* only under the following circumstances: -

- (a) transfer to the employees pursuant to scheme(s);
- (b) 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.

15. 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:



- (a) 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;
- (b) 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) in case of emergency for implementing the schemes covered under Part D and Part E of Chapter III of these regulations, and for this purpose -
- (i) the trustee(s) shall record the reasons for such sale; and
- (ii) money so realised on sale of shares shall be utilised within a definite time period as stipulated under the scheme or trust deed.
- (d) participation in buy-back or open offers or delisting offers or any other exit offered by the company generally to its shareholders, if required;
- (e) for repaying the loan, if the unappropriated inventory of shares held by the trust is not appropriated within the timeline as provided above;
- (f) winding up of the scheme(s); and
- (g) 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.

16. The trust shall be required to make disclosures and comply with the other requirements applicable to insiders or promoters under the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 or any modification or re-enactment thereto.

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**. Where the scheme is being implemented through a trust the compensation committee shall delegate the administration of such scheme(s) to the trust.
- (2) The compensation committee shall be a **committee of such members of the Board of Directors of the company**. A company **may also opt to designate its nomination and remuneration committee as the compensation committee**.
- (3) The compensation committee shall formulate the detailed terms and conditions of the schemes.
- (4) 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

A Scheme shall not be offered to employees of a company unless the shareholders of the company approve it by passing a special resolution in the general meeting.

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

- a) Secondary acquisition for implementation of the schemes.
- b) 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;
- c) Grant of option, SAR, shares or other benefits to employees of subsidiary or holding company;
- d) Grant of option, SAR, shares or benefits to identified employees, during any one year, equal to or exceeding one percent 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

- (1) A company **may by special resolution of its shareholders vary the terms of the schemes** offered pursuant to an earlier resolution of the general body but not yet exercised by the employees, if such variation is not prejudicial to the interests of the employees



- (2) A company shall be entitled to vary the terms of the schemes **to meet any regulatory requirement without seeking shareholders' approval** by special resolution.
- (3) The provisions of regulation 6 (Shareholders' Approval) of these regulations shall apply to such variation of terms as they apply to the original grant of option, SAR, shares or other benefits.
- (4) The notice for passing a special resolution for variation of terms of the schemes shall disclose full details of the variation, the rationale therefore, and the details of the employees who are beneficiaries of such variation.
- (5) 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**.
- 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 a new issue of shares is made under any scheme, shares so issued shall be listed immediately on all recognised stock exchange(s) where the existing shares are listed, subject to the following conditions:

- (a) The scheme is in compliance with these regulations;
- (b) A statement, as specified in Part D of Schedule - 1 of these regulations, is filed and the company obtains an in-principle approval from the recognised stock exchange(s);
- (c) As and when an exercise is made, the company notifies the concerned recognised stock exchange(s) as per the statement as specified in Part E of Schedule - 1 of these regulations.

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** and in accordance with the resolution of the company in the general meeting.

EMPLOYEE STOCK OPTION SCHEME (ESOS)

Important Terms

1. Grant Date:

Grant date is the date on which list of eligible employees or directors is determined and an offer is given to all of them.

2. Vesting Date:

On this date, all those eligible persons who were being offered ESOPs, have a right to reply and the company accordingly vests the said member of stock options in their favour.



3. **Exercise Date:**

All the options which are vested, are now due for exercise on this particular date i.e. the employees have a right to exercise the options granted to them.

Note: There has to be a minimum lock in period of 1 year i.e. minimum gap between grant date and vesting date should be at least 1 year. The company is free to decide the lock in period on the shares, issued pursuant to exercise of options.

No options shall carry right of dividend or interest till the time they are converted into shares. Listed companies are bound to comply with SEBI regulations.

1. **Eligibility to participate :** Any employee not being a promoter or director holding (along with relatives) more than 10% of the outstanding equity.
2. **Compensation Committee :** Constitution of Compensation Committee of Directors is required in case of ESOS; but not in case of ESPS.
3. **Shareholder approval :** Special resolution is required to be passed at a general meeting.
4. **Pricing :** Companies are free to determine Exercise Price subject to its conforming to the accounting policies prescribed
5. **Lock-in period :** In case of ESOS, company is free to specify any lock-in period. In case of ESPS, lock-in period shall be one year from the date of allotment. If the ESPS is part of public issue and the shares are issued to employees at the same price as in the public issue, the shares issued to employee pursuant to ESPS shall not be subject to any lock-in period.
6. **Auditor's Certificate :** In case of ESOS, a certificate from the Auditors is to be placed at each AGM stating that the scheme has been implemented as per the guidelines and in accordance with the special resolution passed. In the case of ESPS, no such certificate is required.
7. **Directors' Report :** Directors' report shall contain the following disclosures about ESOS Scheme:
 - (i) The total number of shares covered by the ESOP as approved by the shareholders;
 - (ii) The pricing formula;
 - (iii) Options granted, options vested, options exercised, options forfeited, etc.,
 - (iv) Fully diluted earnings per shares (EPS) computed in accordance with International Accounting Standards.

The Director's Report related to ESPS should contain the following disclosures;



- (a) The details of the number of shares issued in the scheme;
- (b) The price at which such shares are issued;
- (c) Employee-wise details of the shares issued;
- (d) Diluted Earnings Per Share (EPS) pursuant to issuance of shares under the scheme;
- (e) Consideration received against the issuance of shares.

Note :

In regard to Vesting period, -

- where options are granted by a company under an ESOS in lieu of options held by an employee under an ESOS in another company which has merged, demerged, arranged or amalgamated with the first mentioned company, the period during which the options granted by the transferor company were held by such employee shall be adjusted against the minimum vesting period.
- In the event of death or permanent incapacity of an employee, the minimum vesting period of one year shall not be applicable and in such instances, the options shall vest on the date of the death or permanent incapacity.

EMPLOYEE STOCK PURCHASE SCHEME (ESPS)

The ESPS scheme shall contain the details of the manner in which the scheme will be implemented and operated.

Pricing and Lock-In

The company may determine the price of shares to be issued under an ESPS, provided they conform to the provisions of accounting policies under these regulation. Shares issued under an **ESPS shall be locked-in for a minimum period of one year from the date of allotment.**

However, in case where shares are allotted by a company under an ESPS in lieu of shares acquired by the same person under an ESPS in another company which has merged or amalgamated with the first mentioned company, the lock-in period already undergone in respect of shares of the transferor company shall be adjusted against the lock-in period.



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.

In the event of death or permanent incapacity of an employee, the requirement of lock-in shall not be applicable from the date of death or permanent incapacity.

STOCK APPRECIATION RIGHTS SCHEME (SAR SCHEME)

Administration and Implementation

The SAR scheme shall contain the details of the manner in which the scheme will be implemented and operated. The company shall have the freedom to implement cash settled or equity settled SAR scheme. However, in case of equity settled SAR scheme, if the settlement results in fractional shares, then the consideration for fractional shares should be settled in cash.

Vesting

There shall be a minimum vesting period of one year in case of SAR scheme.

Rights of the SAR Holder

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

Note :

- *In case of equity settled SAR scheme, if the settlement results in fractional shares, then the consideration for fractional shares should be settled in cash.*
- *In a case where SAR is granted by a company under a SAR scheme in lieu of SAR held by the employee under a SAR scheme in another company which has merged or amalgamated with the first mentioned company, the period during which the SAR granted by the transferor company were held by the employee shall be adjusted against the minimum vesting period.*



- In the event of death or permanent incapacity, the minimum vesting period of one year shall not be applicable and in such instances, the options shall vest on the date of death or permanent incapacity.

GENERAL EMPLOYEE BENEFITS SCHEME (GEBS)

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 (whether audited or limited reviewed) 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)

Administration and Implementation

- (1) Retirement benefit scheme 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 retirement benefit scheme 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, as appearing in its latest balance sheet (whether audited or limited reviewed) for the purposes of RBS.
- (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

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.

ISSUE OF SWEAT EQUITY SHARES TO EMPLOYEES

A company whose equity shares are listed on a recognised stock exchange may issue sweat equity shares in accordance with section 54 of the Companies Act, 2013 and these regulations to its employees for their providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

MAXIMUM QUANTUM OF SWEAT EQUITY SHARES

A company shall *not issue sweat equity shares for more than fifteen percent of the existing paid up equity share capital in a year. However, the issuance of sweat equity shares in the company shall not exceed twenty five percent of the paid up equity share capital of the company at any time.*

Further, a company *listed on Innovators Growth Platform* shall be permitted to issue *not more than fifteen percent of the paid up equity share capital in a financial year subject to overall limit not exceeding fifty percent of the paid up equity share capital of the company, up to ten years* from the date of its incorporation or registration.

SPECIAL RESOLUTION

- (1) For the purposes of passing a special resolution, the explanatory statement to be annexed to the notice for the general meeting shall contain disclosures as specified in the Schedule - 11 of these regulations.
- (2) 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.*



- (3) Each issue of sweat equity shares shall be voted by a separate resolution.
- (4) 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 Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

VALUATION

- (1) The valuation of the know-how or intellectual property rights or value addition shall be **carried out by a merchant banker**.
- (2) 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.
- (3) 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**.

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:-

- (a) where the non-cash consideration takes the form of a depreciable or amortizable asset, it shall be carried to the balance sheet of the company in accordance with the relevant accounting standards; or
- (b) where clause (a) is not applicable, it shall be expensed as provided in 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 and in accordance with the resolution passed by the company authorizing the issue of such sweat equity shares.*

CEILING ON MANAGERIAL REMUNERATION

The amount of sweat equity shares issued *shall be treated as part of managerial remuneration for the purpose of sections 196, 197 and other applicable provisions of the Companies Act, 2013, if the following conditions are fulfilled:*

- (1) *the sweat equity shares are issued to any director or manager; and*
- (2) *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

- (1) *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.*
- (2) *The provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosures Requirements) Regulations, 2018 in respect of public issue in terms of lock-in and computation of promoters' contribution shall apply if a company makes a public issue after it has issued sweat equity shares.*

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.



APPLICABILITY OF THE SEBI (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 2011

Any acquisition of sweat equity shares shall be subject to the provisions of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

GENERAL OBLIGATIONS

The company shall ensure that -

- (a) the explanatory statement to the notice for general meeting contains the disclosures specified under the Companies Act, 2013 and regulation 32 of these regulations.
- (b) the secretarial auditor's certificate required under regulation 36 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 recognised stock exchange, disclosing:
 - (i) number of sweat equity shares issued;
 - (ii) price at which the sweat equity shares are issued;
 - (iii) total amount received towards sweat equity shares;
 - (iv) details of the persons to whom sweat equity shares have been issued; and
 - (v) 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

IMPORTANT DEFINITIONS UNDER THE SEBI NCS REGULATIONS

DEBT SECURITIES:

A non-convertible debt security with a **fixed maturity period which creates or acknowledge indebtedness and includes debentures, bonds or any other security whether constituting a charge on the assets/properties or not**, but excludes security receipts, securitized debt instruments, money market instruments regulated by the Reserve Bank of India, and bonds issued by the Government or such other bodies as may be specified by the SEBI.

ISSUER:

A company or a body corporate or a statutory corporation or a multilateral institution or a trust **registered with the Board as a Real Estate Investment Trust (REIT) or an Infrastructure Investment Trust (InvIT)**, **authorised to issue non-convertible securities and/or commercial paper** under the relevant laws and in accordance with these regulations and seeks to list its non-convertible securities, with any recognized stock exchange(s).

NON-CONVERTIBLE SECURITIES:

These are debt securities, non-convertible redeemable preference shares, perpetual non-cumulative preference shares, perpetual debt instruments and any other securities as specified by the Board.

PRIVATE PLACEMENT:

It is an **offer or invitation to subscribe or issue of non-convertible securities to a select group of persons** by a company (other than by way of public offer), which satisfies the applicable conditions specified in Section 42 of the Companies Act, 2013.

PUBLIC ISSUE:

It is an offer or invitation by an issuer **to the public to subscribe** to its debt securities and/or nonconvertible redeemable preference shares which is not in the nature of a private placement.



SECURED DEBT SECURITIES:

These are such debt securities which are secured by *creation of a charge* on the properties or assets of the issuer or its subsidiaries or its holding companies or its associate companies having a value which is sufficient for the due repayment of principal and payment of interest thereon.

ELECTRONIC BOOK PROVIDER PLATFORM:

An electronic platform for private placement of non-convertible securities *provided by a recognized stock exchange(s) or a recognised depository*, pursuant to obtaining approval from the Board.

NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARE:

A *preference share which is redeemable* in accordance with the relevant provisions of the Companies Act, 2013 and does not include a preference share which is convertible into or exchangeable with equity shares of the issuer at a later date, at the option of the holder or not.

PERPETUAL DEBT INSTRUMENT:

A perpetual debt instrument issued in accordance with the guidelines framed by the Reserve Bank of India.

PERPETUAL NON-CUMULATIVE PREFERENCE SHARE:

A perpetual non-cumulative preference share issued in accordance with the guidelines framed by the Reserve Bank of India.

SEBI (ISSUE AND LISTING OF NON-CONVERTIBLE SECURITIES) REGULATIONS, 2021

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*.

Unless otherwise provided in these regulations, an issuer making an offer of nonconvertible securities shall satisfy the conditions of these regulations as on:

- (a) *date of filing of the draft offer document with the Board or stock exchange(s); and*
- (b) *date of filing the offer document with the Registrar of Companies.*

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:
 - (a) The *issuer, any of its promoters, promoter group or directors* are *debarred from accessing the securities market* or dealing in securities by the SEBI;
 - (b) 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;
 - (c) The issuer or any of its *promoters or directors* is a *wilful defaulter*;
 - (d) 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*;
 - (e) Any of its *promoters or directors* is a *fugitive economic offender*; or
 - (f) 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*.

However, the:



- (i) 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.
 - (ii) 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.
 - (iii) Restrictions mentioned at (c) and (d) shall not be applicable in case of private placement of nonconvertible securities.
2. Issuer shall not make a public issue of non-convertible securities if as on the date of filing of draft offer document or 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.

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. However, where the application is made to more than one stock exchange, the issuer shall 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 in accordance with the Depositories Act, 1996 and also take such steps to ensure that such securities are admitted on all the depositories.

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 SEBI. 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 it 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.

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)*; or,
- (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 in accordance with the terms of issue 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 in accordance with the terms 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.

Issuer shall also provide a copy of such notice to the stock exchange(s) where such nonconvertible securities are listed for wider dissemination and shall make an advertisement in an english national daily and regional daily having wide circulation, indicating the details of such rights and eligibility of the holders who are entitled to avail such right. Issuer shall pay interest at the rate of fifteen percent per annum for the period of delay, if any.

After the completion of the exercise of such right, the issuer shall:

- (a) submit a report to the stock exchange(s) for public dissemination regarding the details of non-convertible securities redeemed during the exercise period and details of redemption thereof;
- (b) inform the debenture trustee regarding the debt securities redeemed during the exercise period and details of redemption thereof; and
- (c) inform the depositories for extinguishing the non-convertible securities that have been redeemed.

The issuer shall send a notice regarding recall or redemption of non-convertible securities, prior to maturity, to all the eligible holders of such securities and the debenture trustee(s), at least twenty-one days before the date from which such right is exercisable and the notice to the eligible holders shall be sent in the following manner:

- (i) soft copy of such notice shall be sent to the eligible holders who have registered their email address(es) either with the listed entity or with any depository; and
- (ii) hard copy of the notice shall be sent to the eligible holders who have not registered their email address(es) either with the listed entity or with any depository.



The issuer shall *simultaneously provide a copy* of such notice to the stock exchange(s) where the non-convertible securities of the issuer are listed, for dissemination on *its website*.

DEBENTURE REDEMPTION RESERVE/ CAPITAL REDEMPTION RESERVE (REGULATION 16)

The issuer shall create a debenture redemption reserve or capital redemption reserve in accordance with the relevant provisions of the Companies Act, 2013.

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.

TRUST DEED (REGULATION 18)

The issuer and the debenture trustee shall execute the trust deed. Where an issuer *fails to execute* the trust deed within the specified period, the issuer *shall also 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 as may be specified by the SEBI.

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, subject to conditions as specified by the SEBI.

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 SCORES authentication in the format specified by the SEBI and shall use the same for all issuance of nonconvertible securities.
- In case of a public issue, the issuer shall provide all required information/ documents to the lead managers for conducting the due diligence, in the form and manner as may be specified by the SEBI.



- The issuer shall ensure that the **secured debt securities are secured by 100% security cover** or higher security cover as per the terms of the offer document and/or Debenture Trust Deed, 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 and in accordance with applicable law.
- 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, as applicable.
- The debenture trustee shall **monitor the security cover** in relation to secured debt securities in the manner as specified by the Board.

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. **Such lead manager shall not issue any due diligence certificate**, in relation to the issue of such debt securities and/or non-convertible redeemable preference shares. In case there is more than one lead manager, **at least one lead manager to the issue shall not be an associate.**

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.** However, where the issuer is a Non-Banking Finance Company, Housing Finance Company or a Public Financial Institution the aforesaid restriction



shall not apply and appropriate disclosures shall be made as specified in the Schedule I of these regulations.

ISSUANCE OF GREEN DEBT SECURITIES

Green debt security means a debt security issued for raising funds subject to the conditions as may be specified by the Board from time to time, to be utilised for project(s) and/ or asset(s) falling under any of the following categories:

- (i) renewable and sustainable energy including wind, bioenergy, other sources of energy which use clean technology,
- (ii) clean transportation including mass/public transportation,
- (iii) climate change adaptation including efforts to make infrastructure more resilient to impacts of climate change and information support systems such as climate observation and early warning systems,
- (iv) energy efficiency including efficient and green buildings,
- (v) sustainable waste management including recycling, waste to energy, efficient disposal of wastage,
- (vi) sustainable land use including sustainable forestry and agriculture, afforestation,
- (vii) biodiversity conservation,
- (viii) pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy efficient or emission efficient waste to energy) and sectors mentioned under the India Cooling Action Plan launched by the Ministry of Environment, Forest and Climate Change,
- (ix) circular economy adapted products, production technologies and processes (such as the design and introduction of reusable, recyclable and refurbished materials, components and products, circular tools and services) and/or eco efficient products,
- (x) blue bonds which comprise of funds raised for sustainable water management including clean water and water recycling, and sustainable maritime sector including sustainable shipping, sustainable fishing, fully traceable sustainable seafood, ocean energy and ocean mapping,
- (xi) yellow bonds which comprise of funds raised for solar energy generation and the upstream industries and downstream industries associated with it,



- (xii) transition bonds which comprise of funds raised for transitioning to a more sustainable form of operations, in line with India's Intended Nationally Determined Contributions, and Explanation: Intended Nationally Determined Contributions (INDCs) refer to the climate targets determined by India under the Paris Agreement at the Conference of Parties 21 in 2015, and at the Conference of Parties 26 in 2021, as revised from time to time.
- (xiii) any other category, as may be specified by the Board from time to time.

FILING OF DRAFT OFFER DOCUMENT

- Issuer shall not make a public issue of debt securities and/or non-convertible redeemable preference shares **unless a draft offer document has been filed** with all the stock exchanges.
- 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 names and contact particulars** including the postal and email address and telephone number of the **compliance officer** who shall be a 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** 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

ADVERTISEMENTS FOR PUBLIC ISSUES

The issuer shall make an advertisement in an **english national daily and regional daily** with wide circulation, 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.

PRICE DISCOVERY AND BOOK BUILDING

The issuer may determine the price and/or coupon of debt securities and nonconvertible 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 and price or coupon of the debt securities and non-convertible redeemable preference shares through book building process.

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 or such time as may be specified by the SEBI.

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 within such timeline as may be specified by the SEBI.

Where the debt securities and non-convertible redeemable preference shares are 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.



MANDATORY LISTING OF A PUBLIC ISSUE OF DEBT SECURITIES AND NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARES

An issuer desirous of making an offer of debt securities and non-convertible redeemable preference shares to the public shall make an application for listing to stock exchange.

OTHER OBLIGATIONS OF THE LEAD MANAGER

- The lead manager shall *not employ any device, scheme, or artifice to defraud* in connection with issue or subscription or distribution.
- The lead manager shall ensure that the secured debt securities are *secured by hundred percent security cover or higher security cover* as per the terms of the offer document and/or Debenture Trust Deed, sufficient to discharge the principal amount and the interest thereon at all times for the issued debt securities.
- The lead manager shall *ensure payment of additional interest by the issuer* in accordance with these regulations in case of *non-allotment* of debt securities and non-convertible redeemable preference shares.

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 nonconvertible redeemable preference shares issued on private placement basis, *the issuer shall forward the listing application along with the disclosures* as per this regulation to the stock exchange within such days as may be specified by the SEBI 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 investors, is made within such time as may be specified by the SEBI.

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 as specified from an issuer of commercial paper at the time of their listing.
- The issuer shall apply for SCORES authentication in the format specified by the Board and shall use the same for issuance and listing of commercial paper.

PERIOD OF SUBSCRIPTION (REGULATION 33A)

1. A public issue of debt securities or, non-convertible redeemable preference shares shall be kept open for a minimum of three working days and a maximum of ten working days.
2. In case of a revision in the price band or yield, the issuer shall extend the bidding (issue) period disclosed in the offer document for a minimum period of three working days. Provided that the overall bidding (issue) period shall not exceed 10 working days.



3. In case of *force majeure*, banking strike or similar circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the offer document. Provided that the overall bidding (issue) period *shall not exceed 10 working days*.

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 DISCLOSURES REQUIREMENTS) REGULATIONS, 2015

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

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



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

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

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

APPLICABILITY OF SEBI LODR REGULATIONS TO A LISTED ENTITY ON THE BASIS OF MARKET CAPITALISATION [REGULATION 3(2)]

AMENDMENT

- (a) every recognized stock exchange shall, at the end of the calendar year i.e., 31st December, prepare a list of entities that have listed their specified securities ranking such entities on the basis of their average market capitalisation from 1st July to 31st December of that calendar year.
- (b) The relevant provisions shall then become applicable to a listed entity that is required to comply with such requirements for the first time (or, if applicable, required to comply after any interim period) after a period of three months from December 31 (i.e. April 1) or from the beginning of the immediate next financial year, whichever is later.

Provided that the listed entity, which is required to comply for the first time or after a period of cessation, shall put in place systems and processes for compliance with clause (f) of sub-regulation (2) of regulation 34 within a period of three months from December 31 (i.e. on or



before April 1) or from the beginning of the immediate next financial year, whichever is later, and further disclose the Business Responsibility and Sustainability Report and/or assurance as per the Business Responsibility and Sustainability Report Core in the Annual Report prepared for the financial year in which systems and processes were required to be put in place in accordance with this proviso.

In Regulation 3, the Regulations (2A) and (2B) have been added:

(2A) The provisions of these regulations, which become applicable to a listed entity on the basis of criteria of market capitalisation, shall continue to apply to such an entity unless its ranking changes in the list prepared in accordance with sub-regulation (2) of this regulation and such change results in the listed entity remaining outside the applicable threshold for a period of three consecutive years.

(2B) For such listed entities which remain outside the applicable threshold for a period of three consecutive years in terms of sub-regulation (2A) of this regulation, the provisions that apply on the basis of criteria of market capitalisation shall cease to apply at the end of the financial year following the 31st December of the third consecutive year:

Provided that for those listed entities that follow January to December as its financial year, the provisions shall cease to apply at the end of three months from 31st December of the third consecutive year (i.e. on 31st March).

REGULATIONS

ONE TIME COMPLIANCES

Regulations	Particulars
6(1)	A listed entity shall appoint a CS as the Compliance Officer
7(1)	The listed entity shall appoint a share transfer agent or the listed entity registered with SEBI as Category II share transfer agent in case of share transfer facility in house.

- | | |
|---|--|
| 9 | The listed entity shall have a <i>policy for preservation of documents</i> , approved by its Board of Directors. |
|---|--|

QUARTERLY COMPLIANCES

Regulation	Particulars	Time Limit
13(3)	The listed entity shall file with the recognised stock exchange, a statement giving the <i>number of investor complaints pending</i> at the beginning of the quarter, those <i>received</i> during the quarter, <i>disposed</i> of during the quarter and those remaining <i>unresolved</i> at the end of the quarter	within <i>21 days</i> from end of quarter
27	The listed entity shall submit a <i>quarterly compliance report</i> on corporate governance in the format as specified by SEBI from time to time to the recognized stock exchanges.	within <i>21 days</i> from close of the quarter
31(1))(b)	The listed entity shall submit to the stock exchange(s) a statement showing <i>holding of securities</i> and <i>shareholding pattern</i> separately for each class of securities, in the format specified by SEBI from time to time	within <i>21 days</i> from the end of each quarter

32(1)	The listed entity shall submit to the stock exchange a statement of <i>deviation or variation in the utilization of issue proceeds</i> as stated on the objects clause of the offer document and the actual utilization of those funds.	Quarterly Basis to the stock exchange till such time the issue proceeds have been fully utilized or the purpose for which these proceeds were raised has been achieved within forty-five days from the end of each quarter.
32(6)	<i>Monitoring Agency Report</i> - 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 <i>45 days</i> from the end of each quarter
33(3)	The listed entity shall submit quarterly and <i>year-to-date financial results</i> to the stock exchange	within <i>forty-five days</i> of end of each quarter, <i>other than the last quarter.</i>

HALF YEARLY COMPLIANCES

Regulation	Particulars	Time Limit
23(9)	The listed entity shall submit to the stock exchange, disclosures of related party on consolidated basis. Provided that a 'high value debt listed entity' shall submit such disclosures along with its standalone financial results for the half year.	fifteen days from the date of publication of its standalone and consolidated financial results: Provided further that the listed entity shall make such disclosures every six months on the date of publication of its standalone and consolidated financial results with effect from April 1, 2023.
33(3)	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.	Once in six months

YEARLY COMPLIANCES

Regulation	Particulars	Time Limit
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.	within thirty days from the end of the financial year . Earlier the same was to be submitted within one month of end of each half of the financial year.

14	<p>The listed entity shall pay all such fees or charges, as applicable, to the recognised stock exchange(s), in the manner specified by SEBI or the recognised stock Exchanges.</p>	<p>within 30 days of the end of financial year</p>
33(3)	<p>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. If listed entity has subsidiaries, it shall, while submitting annual audited standalone financial results, also submit annual audited consolidated financial results along with the audit report and Statement on Impact of Audit Qualifications applicable only for audit report with modified opinion.</p> <p>In case of audit reports with unmodified opinion(s), the listed entity shall furnish a declaration to that effect to the Stock Exchange while publishing the annual audited financial results.</p> <p>The listed entity shall also submit the audited or limited reviewed financial results in respect of the last quarter along-with the results for the entire financial year)</p>	<p>within 60 days from the end of the financial year</p>

34	<p>The listed entity shall submit the annual report along with the Notice of the Annual General Meeting to the stock exchange.</p> <p>Amongst others, the annual report shall also consist the following: audited financial statements i.e. balance sheets, profit and loss accounts etc and Statement on Impact of Audit Qualifications as stipulated in regulation 33(3)(d), if applicable.</p> <p>The requirement of submitting a business responsibility report shall be discontinued after the financial year 2021-22 and thereafter, with effect from the financial year 2022-23, the top one thousand listed entities based on market capitalization shall submit a business responsibility and sustainability report describing quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors and time, shall form part of the Annual Report.</p>	Not later than the day of commencement of dispatch to its shareholders.
34(1)(b)	In case any changes to the annual report, the revised copy along with the details of and explanation for the changes shall be sent	within 48 hours after the annual general meeting
36	The listed entity shall send annual report to the holders of securities	Twenty one days before AGM (in soft or hard copy)

40(9)	The listed entity shall ensure that the share transfer agent and/or the in-house share transfer facility, as the case may be, produces a certificate from a practicing company secretary	within 30 days from the end of financial year
24A Secretaria I Audit and Secretaria I Complianc e 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.	within 60 days from end of each financial year

EVENT BASED COMPLIANCES

Regulation	Particulars	Due date
7(5)	The listed entity shall intimate the appointment of Share Transfer Agent, to the stock exchange(s)	Within 7 days of Agreement with RTA
28(1)	The listed entity shall obtain In-principle approval from recognised stock exchange	Prior to issuance of Security
30(6)	Disclosure of Price Sensitive Information to the stock exchange(s)	Not later than twenty four hours as per Part A of Schedule III
31A (8)	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

31(1)(a)	The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities prior to listing of securities	One day prior to listing of Securities
31(1)(c)	The listed entity shall submit to the stock exchange(s) statement showing holding of securities and shareholding pattern separately for each class of securities in case of Capital Restructuring	Within 10 days of any change in capital Structure exceeding 2% of the total paid-up share capital.
37(2)	The listed entity shall file draft Scheme of Arrangement to the stock exchange(s)	Prior approval before filing with Court
39(2)	The listed entity shall issue 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	within thirty days from the date of such lodgement but only in dematerialised form .
39(3)	The listed entity shall submit information with respect to loss of share certificates and issue of the duplicate certificates to the stock exchange	Within two days of getting information.
40(1) Proviso	Transfer or transmission or transposition of securities	Only in dematerialized form with a depository. Further, transmission or transposition of securities held in physical or dematerialised form shall be effected only in demat form.

40(3)	The listed entity shall <i>register transfers</i> of its securities in the name of the transferee(s) and <i>issue certificates</i> 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 <i>fifteen days</i> from the date of such receipt of request for transfer.
42(2)	The listed entity shall intimate the <i>record date</i> or date of closure of transfer books to all the stock exchange(s) <i>where it is listed and also 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.</i>	
42(2)	In case of <i>Right Issue</i>	At least <i>three working days</i> in advance (excluding the date of intimation and record date)
42(2)	<i>Other than Right Issue</i>	At least <i>7 clear working days</i> in advance (excluding the date of intimation and record date)
43A	<i>Dividend Distribution Policy</i> by the <i>top one thousand listed entities</i>	To formulate a dividend distribution policy which shall be disclosed in their <i>annual reports</i> and on their <i>websites</i> and also a <i>web-link</i> shall also be provided in their <i>annual reports</i>
44(3)	The listed entity shall submit to the stock exchange <i>details regarding voting results</i> by Shareholders	Within <i>two working days</i> of conclusion of its General Meeting
45(3)	The listed entity shall <i>allowed to change its name</i>	<i>Prior approval</i> from Stock Exchange(s)

46	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 two working days from the date of change in content.
47 - Advertisements in Newspapers	Now the listed entity will not be required to publish the following: 1. Notice of meeting of the board of directors where financial results shall be discussed. 2. Statements of deviation(s) or variation(s) as specified in regulation 32 (1).	

Note: as per Regulation 36(4), the information and documents made by the listed entity-

(a) to the stock exchanges shall be in XBRL; and

(b) to the stock exchanges and on its website, shall be in a format that allows users to find relevant information easily through a searching tool.

PRIOR INTIMATIONS [REGULATION 29]

AMENDMENT

- (1) The listed entity shall give prior intimation of **at least two working days in advance, excluding the date of the intimation and date of the meeting**, to stock exchange about the meeting of the board of directors in which any of the following proposals is due to be considered:
- financial results viz. quarterly, half yearly, or annual, as the case may be;
 - proposal for buyback of securities;
 - proposal for voluntary delisting by the listed entity from the stock exchange(s);
 - fund raising by way of issue of securities (excluding security receipts, securitized debt instruments or money market instruments regulated by the Reserve Bank of India), through] further public offer, rights issue, American Depository Receipts/Global Depository



Receipts/Foreign Currency Convertible Bonds, qualified institutions placement, debt issue, preferential issue or any other method and for determination of issue price:

Provided that intimation shall also be given in case of any annual general meeting or extraordinary general meeting or postal ballot that is proposed to be held for obtaining shareholder approval for further fund raising indicating type of issuance.

Provided further that intimation for determination of issue price in a qualified institutions placement is not required if such placement is done in accordance with the provisions of the SEBI (ICDR) Regulations, 2018

- e) declaration/ recommendation of dividend, issue of convertible securities including convertible debentures or of debentures carrying a right to subscribe to equity shares or the passing over of dividend;
- f) the proposal for declaration of bonus securities;
- g) any alteration in the form or nature of any of its securities that are listed on the stock exchange or in the rights or privileges of the holders thereof;
- h) 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.

(2) The intimation required shall mention the date of such meeting of board of directors.

BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING BY LISTED ENTITIES

SEBI came out with disclosure requirements under Business Responsibility and Sustainability Report (BRSR) covering ESG (Environmental, Social and Governance) parameters.

SEBI has introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR). The BRSR is accompanied with a guidance note to enable the companies to interpret the scope of disclosures.



The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs) and reporting under each principle is divided into essential and leadership indicators. The essential indicators are required to be reported on a mandatory basis while the reporting of leadership indicators is on a voluntary basis. Listed entities should endeavour to report the leadership indicators also.

The BRSR is intended towards having quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors and time. Such disclosures will be helpful for investors to make better investment decisions. The BRSR shall also enable companies to engage more meaningfully with their stakeholders, by encouraging them to look beyond financials and towards social and environmental impacts.

The filing of BRSR shall be mandatory for the top 1000 listed companies (by market capitalization) with effect from the financial year 2022-2023 and shall replace the existing Business Responsibility Report (BRR). Filing of BRSR is voluntary for the financial year 2021-22.

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

1. Promoter shall apply to Company for reclassification along with the supporting documents, if any.
2. Intimation to Exchange about receipt of such request from the promoter has to be made by the Company within 24 hours of receipt of such application.
3. The Board of Directors of the listed entity shall analyse the request and place the same before the shareholders in a general meeting for approval along with their views. There shall be a time gap of at least three months but not exceeding six months between the date of board meeting and the shareholders meeting considering the request for reclassification.
4. Outcome of board meeting shall be submitted to the Exchange within 24 hours of the conclusion of board meeting in which resolution regarding reclassification is approved.



5. The request of the promoter(s) seeking re-classification is required to be approved in the general meeting by an **ordinary resolution** in which the promoter(s) seeking reclassification and persons related to the promoter(s) seeking re-classification shall not vote to approve such re-classification request. The Outcome of the General Meeting shall be submitted to the Exchange as required under regulations applicable to the General Meetings.
6. After obtaining shareholders' approval in General Meeting, Company will submit the **application for reclassification within 30 days** from the date of approval by shareholders in the General Meeting, to the Stock Exchange.
7. Additionally, disclosure of the fact that such application has been filed with the Exchanges shall be submitted to the Exchange as intimation of material event within 24 hours of the filing of such application.
8. **Exchange shall process the application** subject to the application being complete in all respects and compliant with all applicable regulations.
9. In case of **incomplete applications**, company shall be provided **opportunity to rectify the deficiencies**. If the deficiencies are **not rectified within 30 days** of intimation of the same to the Company, the application shall be **liable to be rejected** and the processing fee paid by the company will be forfeited.
10. **Letter of acceptance shall be issued to the company by the Exchange** to effect the reclassification in the shareholding pattern subject to compliance with applicable SEBI regulations.
11. After Exchange approval / rejection of the reclassification application, same is also **required to be disclosed as material event within 24 hours of communication of decision of the Exchange**.

SIMPLIFICATION OF PROCEDURE AND STANDARDIZATION OF FORMATS OF DOCUMENTS FOR ISSUANCE OF DUPLICATE SECURITIES CERTIFICATES

SEBI has simplified the procedure and documentation requirements for issuance of duplicate securities.

The requirements are as specified below:



1. Submission by the security holder of copy of FIR including e-FIR/Police complaint/Court injunction order/copy of plaint, necessarily having details of the securities, folio number, distinctive number range and certificate numbers.
2. Issuance of advertisement regarding loss of securities in a widely circulated newspaper. However, there shall be no requirement to comply with above mentioned Para 1 and 2, if the value of securities as on the date of submission of application, along with complete documentation as prescribed by the SEBI does not exceed Rs. 5 Lakhs.
3. Submission of Affidavit and Indemnity bond as per the format prescribed by the SEBI. There shall be no requirement of submission of surety for issuance of duplicate securities.
4. In case of non-availability of Certificate Nos./Distinctive Nos./ Folio nos., the RTA (upon written request by the security holder) shall provide the same, to the security holder only where the signature and the address of the security holder matches with the RTA / listed company's records. In case the signature and/or the address do not match, the security holder shall first comply with the KYC procedure and then only the details of the securities shall be provided to the security holder by the RTA/listed company.

CORPORATE GOVERNANCE UNDER SEBI (LODR) REGULATIONS, 2015

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

SEBI (LODR) Regulations, 2015 shall also apply to a listed entity **which has listed non-convertible securities on recognised stock exchange(s)**. The provisions of these regulations which become applicable to listed entities on the basis of the criterion of the value of outstanding listed debt securities shall continue to apply to such entities even if they fall below such thresholds.

The regulation 15 and regulation 16 to regulation 27 of SEBI (LODR) Regulations, 2015, w.r.t. the corporate governance provisions shall apply to a listed entity which has **listed its non-**



convertible debt securities and has an outstanding value of listed non-convertible debt securities of Rs. 500 crore and above.

However, in case an entity that has listed its non-convertible debt securities triggers the specified threshold of Rs. 500 crore during the course of the year, it shall ensure compliance with these provisions within six months from the date of such trigger.

Further, it has been provided that these provisions shall be applicable to a 'high value debt listed entity' on a 'comply or explain' basis until March 31, 2025 and on a mandatory basis thereafter.

Exceptions

1. The listed entity having paid up equity share capital not exceeding rupees 10 crore and net worth not exceeding rupees 25 crore, as on the last day of the previous financial year.
2. The listed entity which has listed its specified securities on the SME Exchange. However, for other listed entities which are not companies, but body corporate or are subject to regulations under other statutes, the provisions of corporate governance provisions as specified shall apply to the extent that it does not violate their respective statutes and guidelines or directives issued by the relevant authorities.
3. The provisions as specified in regulation 17 shall not be applicable during the insolvency resolution process period in respect of a listed entity which is undergoing corporate insolvency resolution process under the Insolvency Code.
4. Regulations 18, 19, 20 and 21 shall not be applicable during the insolvency resolution process period in respect of a listed entity which is undergoing corporate insolvency resolution process under the Insolvency Code.



KEY PROVISIONS PERTAINING TO CORPORATE GOVERNANCE

COMPOSITION OF BOARD OF DIRECTORS

Board of Directors shall have optimum combination of executive and non-executive directors with atleast one-woman director.

The Composition of board of directors of the listed entity shall be as follows:

CHAIRMAN COMPOSITION

- In case chairperson is executive director - not less than fifty percent of the board of directors shall comprise of independent directors.
- In case chairperson is a non-executive director - at least one-third of the board of directors shall comprise of independent directors
- In case listed entity does not have a regular non-executive chairperson at least half of the board of directors shall comprise of independent directors
- In case non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors at least half of the board of directors shall be independent 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, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person.

With effect from April 1, 2025, the top 500 listed entities shall ensure that the Chairperson of the board of such listed entity shall -

- be a non-executive director;
- not be related to the Managing Director or the Chief Executive Officer as per the definition of the term "relative" defined under the Companies Act, 2013.:



The board of directors of top 2000 listed entities (with effect from April 1, 2020) shall comprise of not less than six directors.

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

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.

Further, the statement referred to under sub-section (1) of section 102 of the Companies Act, 2013, annexed to the notice to the shareholders, for considering the appointment or re-appointment of such a person earlier rejected by the shareholders shall contain a detailed explanation and justification by the Nomination and Remuneration Committee and the Board of directors for recommending such a person for appointment or re-appointment.

MEETINGS OF BOARD

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

QUORUM OF BOARD MEETING

The quorum for every meeting of the board of directors of the top 2000 listed entities with effect from April 1, 2020 shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.

KEY COMPLIANCE REQUIREMENTS FOR BOARD

- Periodically review compliance reports pertaining to all laws applicable to the listed entity, as well as steps taken by the listed entity to rectify instances of non-compliances.
- Satisfy itself that plans are in place for orderly succession for appointment to the board of directors and senior management.



- Lay down a code of conduct for all members of board of directors and senior management and incorporate duties of independent directors.
- Recommend all fees or compensation, if any, paid to non-executive directors, including independent directors and shall require approval of shareholders in general meeting.
- Lay down procedures to inform members of board of directors about risk assessment and minimization procedures.
- Responsible for framing, implementing and monitoring the risk management plan for the listed entity.
- Performance evaluation of independent directors
- The minimum information to be placed before the board of directors is specified in Part A of Schedule 11.
- The chief executive officer and the chief financial officer shall provide the compliance certificate to the board of directors as specified in Part B of Schedule 11.

MAXIMUM NUMBER OF DIRECTORSHIPS

A person shall **not be a director in more than seven listed entities**. 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.

[For the purpose of this sub-regulation, the count for the number of listed entities on which a person is a director/independent director shall be only those whose equity shares are listed on a stock exchange]



BOARD COMMITTEES UNDER THE SEBI LISTING REGULATIONS

AUDIT COMMITTEE

Composition

- The committee shall comprise of at least **three directors**.
- **Two-thirds** of the members of audit committee shall be **independent directors** and all related party transactions shall be approved by only independent directors on the Audit Committee.
- 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 11.



NOMINATION & REMUNERATION COMMITTEE

Composition

- The committee shall comprise of **at least three directors**;
- **all directors** of the committee shall be **non executive directors**;
- **at least two third** 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 nonexecutive, may be appointed as a member of the Committee and shall not chair such Committee.
- The Chairperson of 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 11



STAKEHOLDERS RELATIONSHIP COMMITTEE

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 SR 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**.

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

RISK MANAGEMENT COMMITTEE

Composition

- The **majority** of members shall consist of 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 of **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

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, and **not more than 210 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 cyber security)

Applicability

The provisions of this regulation shall be applicable to top **1000** listed entities.

COMMITTEE POSITIONS OF DIRECTORS IN A LISTED COMPANY

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.

Question:

Mr. A is a Director of ABC Listed company. He holds following membership / chairmanship in following companies -

1. Chairman of Audit Committee of ABC Listed company
2. Chairman of Nomination & Remuneration Committee of ABC Listed company
3. Chairman of Stakeholders' Relationship Committee of ABC Listed company
4. Chairman of Audit Committee of XYZ Limited company
5. Chairman of Nomination & Remuneration Committee of XYZ Limited company
6. Chairman of Stakeholders' Relationship Committee of XYZ Limited company

Please advise the limit of membership / chairpersonship.

Answer:

Mr. A, in the given case, is chairman of above mentioned committees. Only Audit Committee and Stakeholders Relationship Committee will be counted for the purpose and both ABC Listed company and XYZ Limited, being public limited company will be considered. Hence, his total chairperson is 4 which is within the limit of 5 committee chairpersonship as permitted.

VIGIL MECHANISM

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



RELATED PARTY TRANSACTIONS

Under Listing Regulations, 2015

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

Any person or entity forming a part of the promoter or promoter group or any person or any entity, holding equity shares of 10% in the listed entity either directly or on a beneficial interest basis, at any time, during the immediate preceding financial year, shall be deemed to be a related party.

Revised definition of related party transaction under regulation 2(1)(zc)-

Related Party Transaction means a transaction involving a transfer of resources, services or obligations between:

- (i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or
 - (ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023;
- 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:

Provided that the 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 Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- (b) the following corporate actions by the listed entity which are uniformly applicable/offered to all shareholders in proportion to their shareholding:
 - i. payment of dividend;
 - ii. subdivision or consolidation of securities;



- iii. issuance of securities by way of a rights issue or a bonus issue; and
 - iv. buy-back of securities.
 - (c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board.
- Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s)."

Under Companies Act, 2013

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

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

Policy on materiality of related party transactions

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



When will a transaction with a related party be material?

A transaction with a related party shall be considered material, if the transaction(s) to be entered into **individually or taken together with previous transactions during a financial year, exceeds Rs. 1000 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.

Question:

A company ABC Limited, listed entity, entered into a transaction with related party namely XYZ Limited for an amount of Rs. 26 Crore. The turnover of ABC Limited is Rs. 240 Cr on standalone basis and after considering consolidation of subsidiaries & associates is Rs. 290 Cr. Please advise whether the transaction is related party transaction or not.

Answer:

A material related party transaction is transaction which either individually or taken together with previous transactions during a financial year, exceeds 10% of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

In the above case, ABC Limited has a consolidated turnover of Rs. 290 Cr and therefore, threshold for materiality would be Rs. 29 Cr for a transaction with related party.

In case ABC Limited has not entered into any transaction during the financial year 2019-20, which crosses the overall limit of Rs. 29 Cr including the existing Rs. 26 Cr transaction then it is not material related party transaction.

Approval of Audit Committee

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



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

- (a) the audit committee shall **lay down the criteria for granting the omnibus approval** and such approval shall be applicable in respect of transactions which are repetitive in nature;
- (b) the audit committee shall **satisfy itself regarding the need for such omnibus approval** and that such approval is in the interest of the listed entity;
- (c) the omnibus approval shall **specify as much details as possible**. However, where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions **subject to their value not exceeding rupees one crore per transaction**.
- (d) the audit committee shall review, **at least on a quarterly basis, the details of related party transactions** entered into by the listed entity pursuant to each of the omnibus approvals given.
- (e) Such omnibus approvals shall be **valid for a period not exceeding one year** and shall require fresh approvals after the expiry of one year.

Approval of the shareholders

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

Exceptions

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

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

CORPORATE GOVERNANCE REQUIREMENTS RELATED TO SUBSIDIARY

- Material Subsidiary shall mean a subsidiary, whose **income or net worth exceeds ten percent 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.**
 - As per Regulation 24, a listed entity shall not dispose of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than or equal to fifty percent without passing a special resolution in its General Meeting
- Explanation** - For the purpose of this regulation, the term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed ten percent of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted subsidiary for the immediately preceding accounting year.

Question:

ABC Limited is having three subsidiaries A Ltd, B Ltd and C Ltd. The consolidated income of ABC Limited is Rs. 300 Cr and networth is Rs. 600 Cr.

The income and networth of A Ltd, B Ltd and C Ltd. are as follows -

	Income	Networth
A Ltd	10 Cr	65 Cr
B Ltd	45 Cr	14 Cr
C Ltd	10 Cr	18 Cr

Please examine if there is any material subsidiary of ABC Limited.



Answer:

In the given case, 10 % of consolidated income and networth of ABC Limited would be 30 Cr and 60 Cr respectively. Hence, A Ltd since crossed threshold in terms of Networth, would be a material subsidiary. B Ltd since crossed threshold in terms of income, would be a material subsidiary. C Ltd since does not cross either of the threshold, would not be a material subsidiary.

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.
- 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.

OBLIGATIONS IN RESPECT OF INDEPENDENT DIRECTORS

- No person shall be appointed or continue as an alternate director for an independent director of a listed entity with effect from October 1, 2018.
- The maximum tenure of independent directors shall be in accordance with the Companies Act, 2013 and rules made thereunder.
- The **appointment, re-appointment or removal of an independent director** of a listed entity, shall be subject to the approval of shareholders by way of a **special resolution**.
- The independent directors of the listed entity shall hold at least one meeting in a financial year, without the presence of non-independent directors and members of the management and all the independent directors shall strive to be present at such meeting.
- An independent director who resigns or is removed from the board of directors of the listed entity shall be replaced by a new independent director by listed entity at the earliest but not later than the immediate next meeting of the board of directors or three months from the date of such vacancy, whichever is later.



- No independent director, who resigns from a listed entity, shall be appointed as an executive / whole time director on the board of the listed entity, its holding, subsidiary or associate company or on the board of a company belonging to its promoter group, unless a period of one year has elapsed from the date of resignation as an independent director.
- The listed entity shall familiarise the independent directors through various programmes about the listed entity, including the following:
 - (a) nature of the industry in which the listed entity operates;
 - (b) business model of the listed entity;
 - (c) roles, rights, responsibilities of independent directors; and
 - (d) any other relevant information.
- Every independent director shall, at the first meeting of the board in which he participates as a director and thereafter at the first meeting of the board in every financial year or whenever there is any change in the circumstances which may affect his status as an independent director, submit a declaration that he meets the criteria of independence.
- Top 1000 listed 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.

OBLIGATION IN RESPECT OF EMPLOYEES INCLUDING SENIOR MANAGEMENT, KEY MANAGERIAL PERSONS, DIRECTORS AND PROMOTERS

- Every director shall inform the listed entity about the committee positions he or she occupies in other listed entities and notify changes as and when they take place.
- All members of the board of directors and senior management personnel shall affirm compliance with the code of conduct of board of directors and senior management on an annual basis.
- Senior management shall make disclosures to the board of directors relating to all material, financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the listed entity at large.



Explanation - For the purpose of this sub-regulation, conflict of interest relates to dealing in the shares of listed entity, commercial dealings with bodies, which have shareholding of management and their relatives etc.

OUTCOME OF MEETINGS OF THE BOARD OF DIRECTORS

(to be disclosed to the Exchange within 30 minutes of the closure of the meeting)

- a) 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;*
- b) any cancellation of dividend with reasons thereof;*
- c) the decision on buyback of securities;*
- d) the decision with respect to fund raising proposed to be undertaken*
- e) increase in capital by issue of bonus shares through capitalization including the date on which such bonus shares shall be credited/dispatched;*
- f) reissue of forfeited shares or securities, or the issue of shares or securities held in reserve for future issue or the creation in any form or manner of new shares or securities or any other rights, privileges or benefits to subscribe to;*
- g) short particulars of any other alterations of capital, including calls;*
- h) financial results;*
- i) decision on voluntary delisting by the listed entity from stock exchange(s).*

In case of board meetings being held for more than one day, the financial results shall be disclosed within thirty minutes of end of the meeting for the day on which it has been considered

MEETINGS OF SHAREHOLDERS AND VOTING

- The top 100 listed entities 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 in the format specified by the Board.

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

COMPLIANCES UNDER SEBI LISTING REGULATIONS FOR THE LISTED ENTITY WHICH HAS LISTED ITS NON-CONVERTIBLE DEBT SECURITIES OR NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARES OR BOTH

Regulation	Title	Intimation to Stock Exchanges	Time Limit
50	Intimation of Board meetings	<p>The listed entity shall give prior intimation about the Board meeting in which any of the following proposals is to be considered:</p> <ul style="list-style-type: none"> - 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; - an alteration in the date of the interest/ dividend/ redemption payment of non-convertible securities; 	<p>Atleast two working days in advance excluding the date of the intimation and the date of the</p>

		<ul style="list-style-type: none"> - financial results viz. quarterly or annual; - fund raising by way of issuance of non-convertible securities; or any matter affecting the rights or interests of holders of non-convertible securities. - The listed entity shall also intimate the stock exchange not later than the date of commencement of dispatch of notices, in case of: <ul style="list-style-type: none"> - any annual general meeting or extraordinary general meeting that is proposed to be held for obtaining shareholder approval for the proposals at clauses (c) and (d) mentioned above; - any meeting of the holders of non-convertible securities in relation to the proposal at clause (e) mentioned above. 	meeting of the board
54 (1)	Security Cover	Listed companies have been permitted to maintain asset cover in respect of its listed non-convertible debt securities, at 100% asset cover or asset cover as per the terms of the offer document/ Information Memorandum and/ or Debenture Trust Deed, sufficient to discharge the principal amount and interest thereon at all times for the non-convertible debt securities issued.	
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	Ratings	Each rating obtained by the listed entity with respect to non-convertible debt securities shall be reviewed at least once a year by a credit rating agency registered by the Board.	Yearly
56	Annual Report	The listed company shall forward the following to the debenture trustee promptly: <ul style="list-style-type: none"> - Copy of annual report - Copy of all notices, resolutions and circulars - Intimations regarding revision in rating, default in payment of interest - a half-yearly certificate regarding maintenance of hundred percent Asset cover in respect of listed non-convertible debt securities 	
57	Intimations/ other submissions to stock exchange(s)	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

Financial Results [Regulation 52]

- (1) The listed entity shall prepare and submit un-audited or audited quarterly and year to date standalone **financial results** on a **quarterly basis** in the format as specified by the Board within **forty- five days from the end of the quarter**, other than last quarter, to the recognised stock exchange(s).



However, in case of entities which have listed their debt securities, a copy of the financial results submitted to stock exchanges shall also be provided to Debenture Trustees on the same day the information is submitted to stock exchanges.

- (2) The listed entity shall comply with following requirements with respect to preparation, approval, authentication and publication of annual and quarterly financial results:
- (a) Un-audited financial results on quarterly basis shall be accompanied by limited review report prepared by the statutory auditors of the listed entity, in the format as specified by the Board. Provided that in case of issuers whose accounts are audited by the Comptroller and Auditor General of India, the report shall be provided by any practising Chartered Accountant.
- (b) The quarterly results shall be taken on record by the board of directors and signed by the managing director / executive director.
- (c) The audited results for the year shall be submitted to the recognised stock exchange(s) in the same format as is applicable for quarterly financial results.
- (d) The annual audited standalone and consolidated financial results for the financial year shall be submitted to the stock exchange(s) within sixty days from the end of the financial year along with the audit report. Provided that issuers, who are being audited by the Comptroller and Auditor General of India, shall adopt the following two step process for disclosure of the annual audited financial results:
- (ii) The first level audit shall be carried out by the auditor appointed by the Comptroller and Auditor General of India, who shall audit the financials of the listed entity and such financial results shall be submitted to the Stock Exchange(s) within sixty days from the end of the financial year.
- (iii) After the completion of audit by the Comptroller and Auditor General of India, the financial results shall be submitted to the Stock exchange(s) within nine months from the end of the financial year.
- (e) Modified opinion(s) in audit reports/limited review reports that have a bearing on the interest payment/ dividend payment pertaining to non-convertible securities/ redemption or principal repayment capacity of the listed entity shall be appropriately and adequately addressed by the board of directors while publishing the accounts for the said period.

- (f) The listed entity shall also submit as part of its standalone or consolidated financial results for the **half year**, by way of a note, a **statement of assets and liabilities and statement of cash flows** as at the end of the half year.

VARIOUS POLICIES TO BE MAINTAINED BY THE LISTED COMPANIES

Regulation	Title of Policy	Requirements
9	Preservation of documents Policy	To be classified into two categories:- 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(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
17(5)	Code of Conduct	<ul style="list-style-type: none"> - 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
22	Vigil Mechanism	The listed entity shall formulate a vigil mechanism for directors and employees to report genuine concerns
23(1)	Materiality of related party transactions and on	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

	dealing with related party transactions	by the board of directors at least once every three years and updated accordingly.
23(3)	Criteria for granting omnibus approval for Related Party Transactions	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;
30	Policy on determination of materiality	The listed entity shall make disclosure of events specified in Para B of Part A of Schedule III, based on application of the guidelines for materiality, as specified in sub-regulation (4)
43A	Dividend Distribution Policy	The top 1000 listed entities shall formulate a dividend distribution policy which shall be disclosed in their annual reports and on their websites.
Part D of Schedule II	Board Diversity Policy	The Board shall devise a policy on diversity of board of directors
Part D of Schedule II	Criteria for evaluation of performance of independent directors and the board of directors	The Nomination and Remuneration Committee shall formulate criteria for evaluation of performance of independent directors and the board of directors



NON-COMPLIANCE WITH PROVISIONS RELATED TO CONTINUOUS DISCLOSURES

In order to ensure effective enforcement of continuous disclosure obligations by issuers of listed Non-Convertible Debt Securities or NCRPS or Commercial Papers, it has been decided to lay down a uniform structure for imposing fines for non-compliance with continuous disclosure requirements.

In view of the above and in the interests of investors and the securities market, it has been provided that-

- The Stock Exchanges shall **levy fine and take action** in case of non-compliances with continuous disclosure requirements by issuers of listed Non-Convertible Debt Securities and/ or NCRPS and/ or Commercial Papers **as specified in Annexure I and Annexure II.**
- **Stock Exchanges may deviate** from the above, if found necessary, **only after recording reasons in writing.**
- In case a non-compliant entity is **listed on more than one recognized stock exchange**, the concerned recognized stock exchanges shall take **uniform action** under this circular in consultation with each other.
- The **recognized stock exchanges** shall take necessary steps to implement this circular and shall **disclose on their website the action(s) taken** against the entities for non-compliance(s); including the details of the respective requirement, amount of fine levied/ action taken etc.
- **The amount of fine realized** as per the structure provided in Annexure I of this circular shall **be credited to the "Investor Protection Fund"** of the concerned recognized stock exchange.
- The fines specified in Annexure I of this circular **shall continue to accrue till the time of rectification of the non-compliance and to the satisfaction of the concerned recognized stock exchange.** Such accrual shall be irrespective of any other disciplinary/enforcement action(s) initiated by recognized stock exchange(s)/SEBI.
- The recognized stock exchanges **may keep in abeyance the action or withdraw the action** in specific cases where **specific exemption from compliance** with the requirements for continuous disclosures /moratorium on enforcement proceedings has been **provided for under any Act, Court/Tribunal Orders etc.**



- The above provisions are without prejudice to the power of SEBI to take action under the securities laws.

ROLE OF 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 -

- ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit.
- co-ordination with and reporting to SEBI, recognised stock exchange(s) and depositories with respect to compliance with rules, regulations and other directives of these authorities in manner as specified from time to time.
- 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 under these regulations.
- 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.

“Senior Management” shall mean Officers/Personnel of the listed entity who are members of its core management team excluding Board of directors and normally this shall comprise all members of management one level below Chief Executive Officer/ Managing Director/ Whole Time Director/Manager (including Chief Executive Officer/Manager, in case they are not part of the board) and shall specifically include Company Secretary and Chief Financial Officer.



ROLE OF A COMPANY SECRETARY IN PRACTICE

Certificate regarding Transfer of Securities

Certification to the effect that all transfers have been completed within the stipulated time.

[Regulation 40(9)]

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. [Schedule V, clause E]

Certificate Regarding Maintenance of 100% Asset Cover

To issue half yearly certificate regarding maintenance of 100% security cover in respect of listed non- convertible debt securities. [Regulation 56(1)] (d)]

Secretarial Audit Report

Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake Secretarial Audit and shall annex with its Annual Report, a Secretarial Audit Report, given by a Company Secretary in Practice, in such form as may be specified with effect from the year ended March 31, 2019.[Regulation 24A]

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.

[Schedule V, Part C, Clause 10 (i)]



POWER TO RELAX STRICT ENFORCEMENT OF SEBI (LODR) REGULATIONS, 2015 (REGULATION 102)

SEBI may after *due consideration of the interest of the investors and the securities market* and for the development of the securities market, relax the strict enforcement of any of the requirements of these regulations, if an application is made by the Central Government in relation to its strategic disinvestment in a listed entity.

MAINSTREAM MEDIA [REGULATION 2(1)(RA)]:

ADDITION

Mainstream media shall include *print or electronic mode* of the following:

- i. *Newspapers registered with the Registrar of Newspapers for India;*
- ii. *News channels permitted by Ministry of Information and Broadcasting under Government of India;*
- iii. *Content published by the publisher of news and current affairs content as defined under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021; and*
- iv. *Newspapers or news channels or news and current affairs content similarly registered or permitted or regulated, as the case may be, in jurisdictions outside India.*

VACANCY TO BE FILLED IN THE OFFICE OF THE COMPLIANCE OFFICER [REGULATION 6(1A)]

ADDITION

Any vacancy in the office of the Compliance Officer shall be filled by the listed entity at the earliest and in any case *not later than 3 months* from the date of such vacancy.

However, the *listed entity shall not fill such vacancy by appointing a person in interim capacity, unless such appointment is made in accordance with the laws applicable in case of a fresh appointment.*



SHAREHOLDER APPROVAL REQUIRED FOR APPOINTMENT OR REAPPOINTMENT OF DIRECTORS [REGULATION 17(1D)]

ADDITION

With effect from April 1, 2024, the *continuation of a director serving on the board of directors of a listed entity shall be subject to the approval by the shareholders in a general meeting at least once in every five years from the date of their appointment or reappointment.*

However, the *continuation of the director serving on the board of directors of a listed entity as on March 31, 2024, without the approval of the shareholders for the last five years or more shall be subject to the approval of shareholders in the first general meeting to be held after March 31, 2024.*

The requirement specified in this regulation shall *not be applicable to:*

1. *Whole-Time Director, Managing Director, Manager, Independent Director or a Director retiring as per section 152 (6) of the Companies Act, 2013, if the approval of the shareholders for the reappointment or continuation of the aforesaid directors or Manager is otherwise provided for by the provisions of these regulations or the Companies Act, 2013 and has been complied with.*
2. *Director appointed pursuant to the order of a Court or a Tribunal or to a nominee director of the Government on the board of a listed entity, other than a public sector company, or to a nominee director of a financial sector regulator on the board of a listed entity.*
3. *Director nominated by a financial institution registered with or regulated by the Reserve Bank of India under a lending arrangement in its normal course of business or nominated by a Debenture Trustee registered with the Board under a subscription agreement for the debentures issued by the listed entity.*



VACANCY TO BE FILLED IN THE OFFICE OF A DIRECTOR [REGULATION 17(1E)]

ADDITION

Any vacancy in the office of a director shall be filled by the listed entity at the earliest and in any case not later than 3 months from the date such vacancy. However, if the listed entity becomes non-compliant, due to expiration of the term of office of any director, the resulting vacancy shall be filled by the listed entity not later than the date such office is vacated.

VACANCIES TO BE FILLED IN RESPECT OF CERTAIN KEY MANAGERIAL PERSONNEL [REGULATION 26A]

ADDITION

- Any vacancy in the office of Chief Executive Officer, Managing Director, Whole Time Director, Manager or Chief Financial Officer shall be filled by the listed entity at the earliest and in any case not later than 3 months from the date of such vacancy.
- The listed entity shall not fill such vacancy by appointing a person in interim capacity, unless such appointment is made in accordance with the laws applicable in case of a fresh appointment to such office and the obligations under such laws are made applicable to such person.

Where the listed entity is required to obtain approval of regulatory, government or statutory authorities to fill up such vacancies, then the vacancies shall be filled up by the listed entity at the earliest and in any case not later than six months from the date of vacancy.

[Insertion of Proviso in Regulation 26A(1) and 26A(2)]

DISCLOSURE OF CYBERSECURITY BREACHES [INSERTION: REGULATION 27(2)(BA)]

ADDITION

Details of cyber security incidents or breaches or loss of data or documents shall be disclosed along with quarterly compliance report on corporate governance.



DISCLOSURE OF EVENTS OR INFORMATION [REGULATION 30(4)(1)(C)]

ADDITION

The omission of an event or information, whose value or the expected impact in terms of value, exceeds the lower of the following:

- **2% of turnover**, as per the last audited consolidated financial statements of the listed entity;
- **2% of net worth**, as per the last audited consolidated financial statements of the listed entity, except in case the arithmetic value of the net worth is negative;
- **5% percent of the average of absolute value of profit or loss after tax**, as per the last **three audited consolidated financial statements** of the listed entity.

In case where the criteria specified is not applicable, an event or information may be treated as being material if in the opinion of the board of directors of the listed entity, the event or information is considered material.

The listed entity shall first disclose to the stock exchange all events or information which are material in terms of the provisions of this regulation as soon as reasonably possible and in any case not later than the following:

- **30 minutes from the closure of the meeting** of the board of directors in which the decision pertaining to the event or information has been taken;
- **12 hours from the occurrence of the event or information**, in case the event or information is emanating from within the listed entity;
- **24 hours from the occurrence of the event or information**, in case the event or information is not emanating from within the listed entity.

However, disclosure with respect to events for which timelines have been specified in Part A of Schedule III shall be made within such timelines. Provided further that **in case the disclosure is made after the timelines specified under this regulation, the listed entity shall, along with such disclosure provide the explanation for the delay.**



The top 100 listed entities (with effect from 1 June 2024) and thereafter the top 250 listed entities (with effect from 1 December 2024) shall confirm, deny or clarify any reported event or information in the mainstream media which is not general in nature and which indicates that rumours of an impending specific material event or information in terms of the provisions of this regulation are circulating amongst the investing public, as soon as reasonably possible and not later than 24 hours from the reporting of the event or information. However, if the listed entity confirms the reported event or information, it shall also provide the current stage of such event or information. [Insertion: Provisos to Regulation 30(11)]

In case an event or information is required to be disclosed by the listed entity in terms of the provisions of this regulation, pursuant to the receipt of a communication from any regulatory, statutory, enforcement or judicial authority, the listed entity shall disclose such communication, along with the event or information, unless disclosure of such communication is prohibited by such authority. [Insertion: Regulation 30(13)].

DISCLOSURE REQUIREMENTS FOR CERTAIN TYPES OF AGREEMENTS BINDING LISTED ENTITIES [INSERTION: REGULATION 30A]

ADDITION

All the shareholders, promoters, promoter group entities, related parties, directors, key managerial personnel and employees of a listed entity or of its holding, subsidiary and associate company, who are parties to the agreements specified in clause 5A of para A of part A of schedule III to these regulations, shall inform the listed entity about the agreement to which such a listed entity is not a party, within 2 working days of entering into such agreements or signing an agreement to enter into such agreements.



SPECIAL RIGHTS TO SHAREHOLDERS [REGULATION 31B]

ADDITION

Any special right granted to the shareholders of a listed entity shall be subject to the approval by the shareholders in a general meeting by way of a special resolution **once in every five years** starting from the date of grant of such special right.

SUBMISSION OF FINANCIAL RESULTS FOR NEWLY LISTED ENTITY [REGULATION 33(3)(J)]

ADDITION

The listed entity shall, subsequent to the listing, submit its financial results for the quarter or the financial year immediately succeeding the period for which the financial statements have been disclosed in the offer document for the initial public offer, in accordance with the timeline specified in regulation 33(3)(a) i.e. 45 days from end of each quarter or in regulation 33(3)(d) i.e. 60 days from the end of the financial year or within 21 days from the date of its listing, whichever is later.

ANNUAL REPORT DISCLOSURES [REGULATION 34(2)(F)]

ADDITION

For the **top 1000 thousand listed entities**, the **annual report** shall contain a **Business Responsibility and Sustainability Report (BRSR)** on the environmental, social and governance disclosures, in the format as may be specified by SEBI. The assurance of the BRSR Core shall be obtained, with effect from and in the manner as may be specified by SEBI. The listed entities shall also make disclosures and obtain assurance as per the BRSR Core for their value chain, with effect from and in the manner as may be specified by SEBI.

The remaining listed entities, including the entities which have listed their specified securities on the SME Exchange, may voluntarily disclose the BRSR or may voluntarily obtain the



assurance of the Business Responsibility and Sustainability Report Core, for themselves or for their value chain, as the case may be.

FRAMEWORK FOR VOLUNTARY DELISTING OF NON-CONVERTIBLE DEBT SECURITIES OR NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARES AND OBLIGATIONS OF THE LISTED ENTITY ON SUCH DELISTING

ADDITION

APPLICABILITY

The provisions of this Chapter VIA will be applicable to *voluntary delisting of all listed non-convertible debt securities or non-convertible redeemable preference shares from all or any of the stock exchanges where such non-convertible debt securities or nonconvertible redeemable preference shares are listed.*

IN-PRINCIPLE APPROVAL OF THE STOCK EXCHANGES

The listed entity shall make an *application to the relevant stock exchange(s) for seeking in-principle approval for the proposed delisting of nonconvertible debt securities or non-convertible redeemable preference shares in the form specified by such stock exchange, not later than 15 working days from the date of passing of the board resolution to that effect or of receipt of any other statutory or regulatory approval, whichever is later.*

The application seeking in-principle approval for the delisting of the non-convertible debt securities or nonconvertible redeemable preference shares *shall be disposed of by the relevant stock exchange(s) within a period not exceeding fifteen working days from the date of receipt of such application that is complete in all respects.*



NOTICE OF DELISTING

The listed entity shall send the notice of delisting to the holders of non-convertible debt securities or non-convertible redeemable preference shares, **not later than 3 working days from the date of receipt of in-principle approval** from the stock exchanges.

APPROVAL FROM THE HOLDERS AND NO-OBJECTION LETTER FROM THE DEBENTURE TRUSTEE

The listed entity shall obtain approval from all the holders of non-convertible debt securities or non-convertible redeemable preference shares **within 15 working days from the date of the notice of delisting**. The listed entity shall also obtain the **No-Objection Letter from the debenture trustee** in case of delisting of non-convertible debt securities.

FAILURE OF DELISTING PROPOSAL

The delisting proposal shall be deemed to have failed under any of the following circumstances:

- a) **non-receipt of in-principle approval** from any of the stock exchanges; or
- b) **non-receipt of requisite approval from the holders of non-convertible debt securities or nonconvertible redeemable preference shares**; or
- c) **non-receipt of No-Objection Letter from the debenture trustee** in case of proposal for delisting of non-convertible debt securities.

In case of failure of the delisting proposal, the listed entity shall **intimate the same to the stock exchanges within 1 working day from the date of event of failure**.

FINAL APPLICATION TO THE STOCK EXCHANGE

- **Within 5 working days** from the date of obtaining the requisite approval from the holders of non-convertible debt securities or non-convertible redeemable preference shares, the **listed entity shall make the final application for delisting to the stock exchange** in the form specified by such stock exchange.



- The final application for delisting shall be disposed of by the stock exchange within 15 working days from the date of receipt of such application that is complete in all respects.
- Upon disposal of the final application for delisting by the stock exchange, the non-convertible debt securities or non-convertible redeemable preference shares of the listed entity, as the case may be, shall be delisted from the stock exchange.

LISTING OF SUBSEQUENT ISSUANCES OF NON-CONVERTIBLE DEBT SECURITIES [REGULATION 62A]

ADDITION

1. A listed entity, whose nonconvertible debt securities are listed shall list all non-convertible debt securities, proposed to be issued on or after January 1, 2024, on the stock exchange.
2. A listed entity, whose subsequent issues of unlisted non-convertible debt securities made on or before December 31, 2023 are outstanding on the said date, may list such securities, on the stock exchange.
3. A listed entity that proposes to list the non-convertible debt securities on the stock exchange on or after January 1, 2024, shall list all outstanding unlisted non-convertible debt securities previously issued on or after January 1, 2024, on the stock exchange within 3 months from the date of the listing of the nonconvertible debt securities proposed to be listed.
4. A listed entity shall not be required to list the following securities:
 - i. Bonds issued under section 54EC of the Income Tax Act, 1961;
 - ii. Non-convertible debt securities issued pursuant to an agreement entered into between the listed entity of such securities and multilateral institutions;
 - iii. Non-convertible debt securities issued pursuant to an order of any court or Tribunal or regulatory requirement as stipulated by a financial sector regulator namely, the Board, Reserve Bank of India, Insurance Regulatory and Development Authority of India or the Pension Fund and Regulatory Development Authority.
5. The securities issued by the listed entity under clauses (ii) and (iii) of sub-regulation (4) shall be locked in and held till maturity by the investors and shall be unencumbered.
6. A listed entity proposing to issue securities under sub-regulation (4) shall disclose to the stock exchanges on which its non-convertible debt securities are listed, all the key terms of such



securities, including embedded options, security offered, interest rates, charges, commissions, premium (by any name called), period of maturity and such other details as may be required to be disclosed by SEBI from time to time.

REPORTING OF MATERIAL EVENTS [REGULATION 30(11)]

The listed entity may on its initiative also, confirm or deny any reported event or information to stock exchange(s).

Provided that the **top 100 listed entities and thereafter the top 250 listed entities, with effect from the date specified by the SEBI**, shall confirm, deny or clarify, upon the material price movement as may be specified by the stock exchanges, any reported event or information in the mainstream media which is not general in nature and which indicates that rumour of an impending specific event or information is circulating amongst the investing public, as soon as reasonably possible **but in any case not later than twenty four hours from the trigger of material price movement.**

Provided further that if the listed entity confirms the reported event or information, **it shall also provide the current stage of such event or information.**

Provided further that when the listed entity confirms within twenty four hours from the trigger of material price movement, any reported event or information on which pricing norms provided under Chapter V or Chapter VI of the SEBI (ICDR) Regulations, 2018 or pricing norms provided under Regulation 8 or Regulation 9 of the SEBI (SAST) Regulations, 2011 or pricing norms provided under Regulation 19 or Regulation 22B of the SEBI (Buy back of Securities) Regulations, 2018 or any other pricing norms specified by the SEBI or the stock exchanges are applicable, **then the effect on the price of the equity shares of the listed entity due to the material price movement and confirmation of the reported event or information may be excluded for calculation of the price for that transaction as per the framework as may be specified by SEBI. [Regulation 30(11)]**



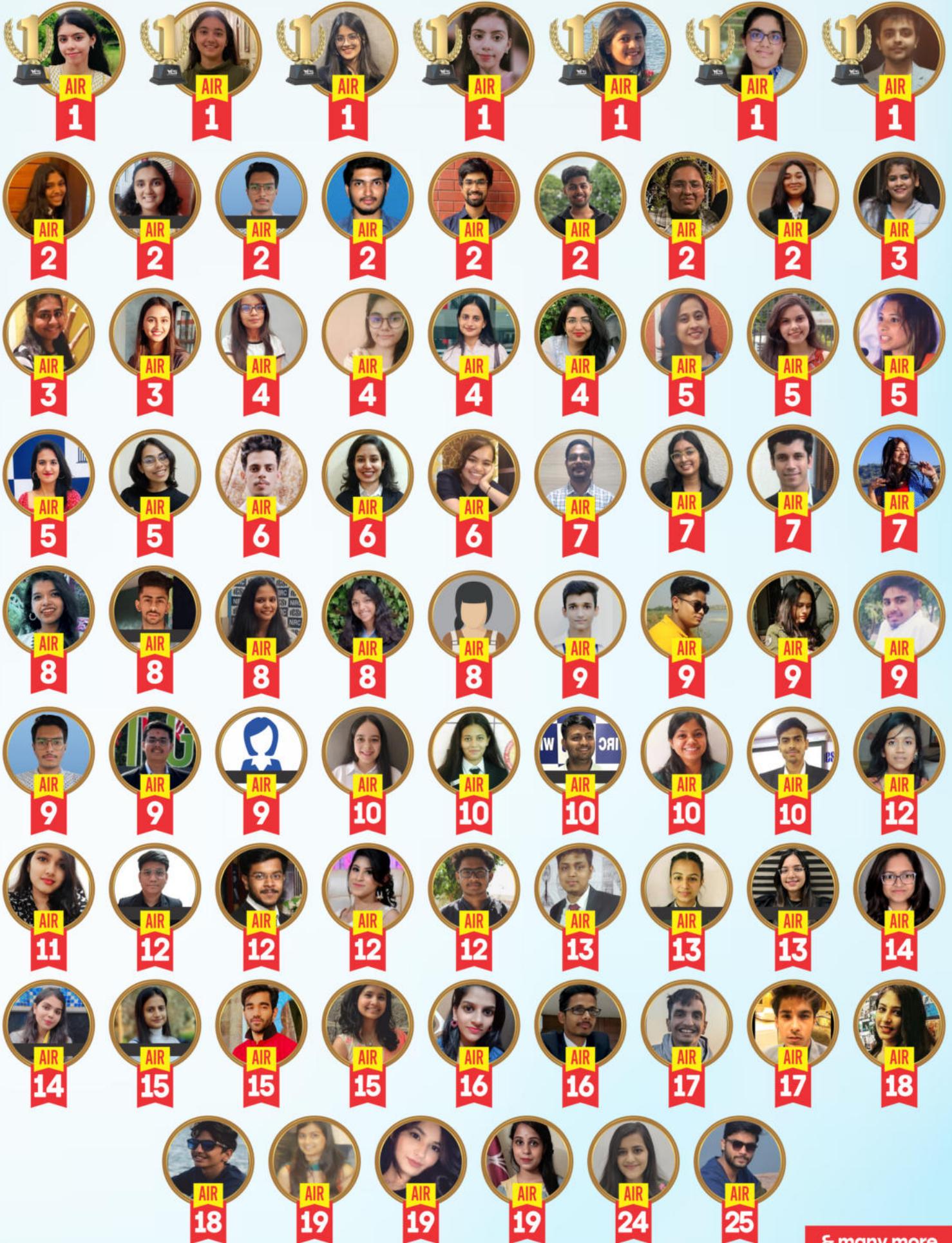
The promoter, director, key managerial personnel or senior management of a listed entity shall provide adequate, accurate and timely response to queries raised or explanation sought by the listed entity in order to ensure compliance with the requirements under sub-regulation 11 of this regulation and the listed entity shall disseminate the response received from such individual(s) promptly to the stock exchanges. [Insertion: Regulation 30(11A)]

ANNUAL IMPACT REPORT

AMENDMENT

The annual impact report shall be assessed by a Social Impact Assessment Firm employing Social Impact Assessor(s).

Prior to the amendment, the requirement was to audit the annual impact report by a Social Audit Firm employing Social Auditor.





CS Vikas Vohra
Founder - YES Academy

Vikas is a Commerce and Law Graduate and a Company Secretary by profession. He has to his credit, few other Certifications and specialisations in Corporate and Securities Laws. On the teaching side, he has taught more than 50,000 students.

He is also a speaker at various Management Institutes and ICSI on various Corporate matters and Entrepreneurship. In his previous assignments, he worked as an Associate Vice President with LexValueAdd Consulting Private Limited, an Investment Banking firm based out of Mumbai.

He has significant hands on experience in Mergers and Acquisitions, Public Offerings and consequent listing of the Shares and GDR's on the Bourses, fund raising and Deal Structuring. Before that he also worked with Kirloskar Brothers Investments Limited & Bajaj Auto Limited wherein, he was deeply involved in various M&A activities.

Vikas is presently the Founder of YES Academy for CS, Pune He is also a Co-Founder of PapaZapata (Mexican food chain) & GujjuKhakhra (Indian Breads). He enjoys writing poetry and doing meditation in his free time.



📍 Office 30A, 1st Floor, Gate No. 1, Kumar Prestige Point,
Behind BSNL Office, Bajirao Road, Shukrawar Peth, Pune - 411 002

☎ 8888 235 235 | 8888 545 545
✉ yesacademypune@gmail.com

🌐 yesacademy.co.in
📺 [/yesacademyforcs](https://www.youtube.com/channel/UC...)
📘 [/yesacademyforcs](https://www.facebook.com/yesacademyforcs)
📷 [/yesacademyforcs](https://www.instagram.com/yesacademyforcs)