



CS EXECUTIVE CHART BOOK

QUICK REVISION GUIDE

CMSL

MODULE - 2

Summarised Tabular Chart Format for revising the subject matter in an easy-to-learn format

Point-wise Summaries of each chapter are provided in a nutshell

Full-coverage of the New Syllabus for CS-Executive June 2024/Dec 2024 exams

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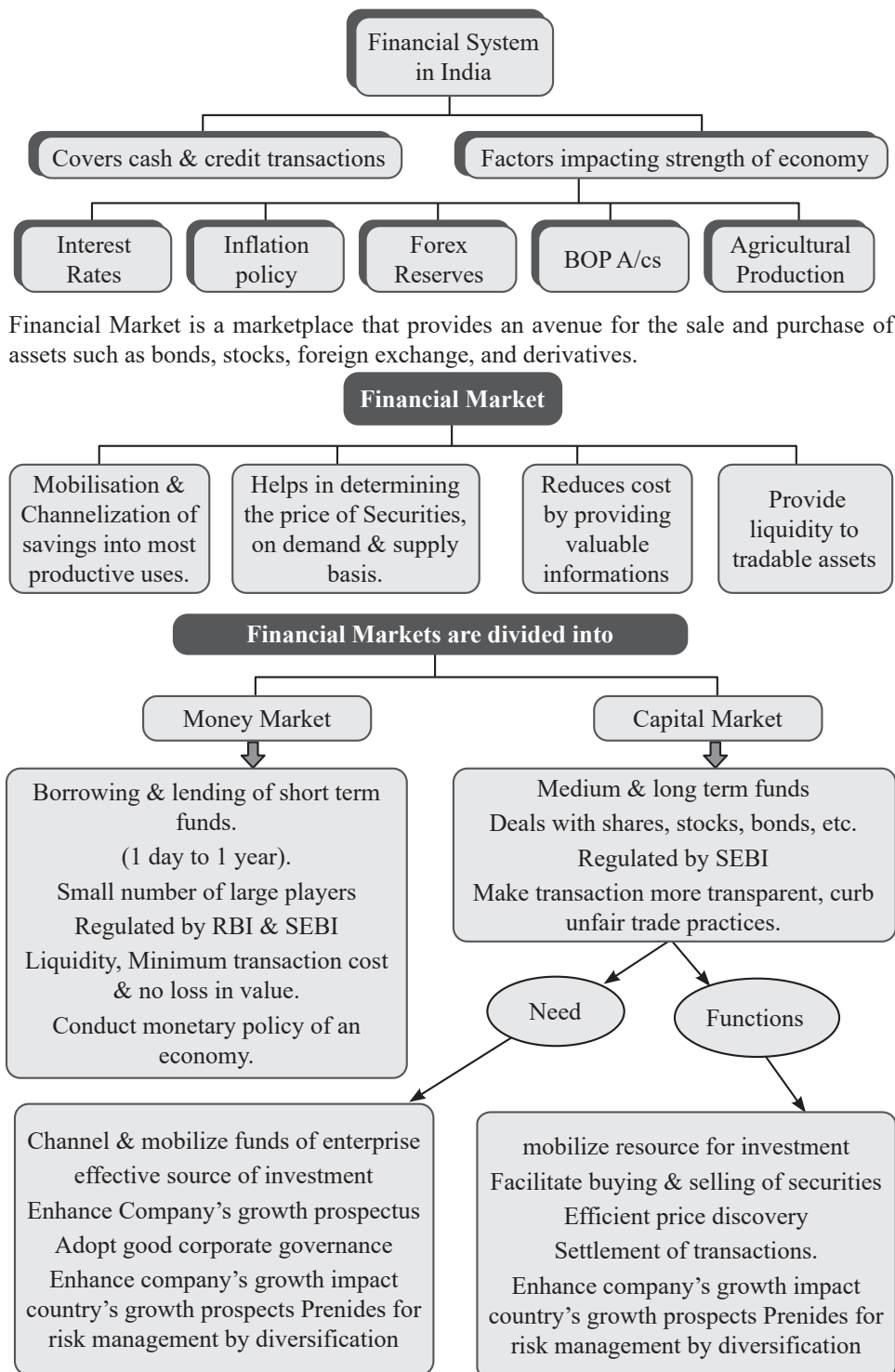
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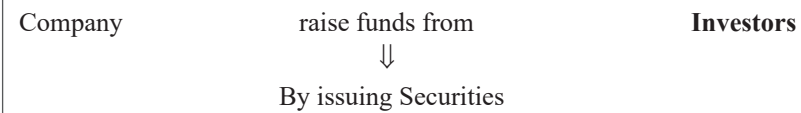
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BASICS OF CAPITAL MARKET



SECURITIES MARKET

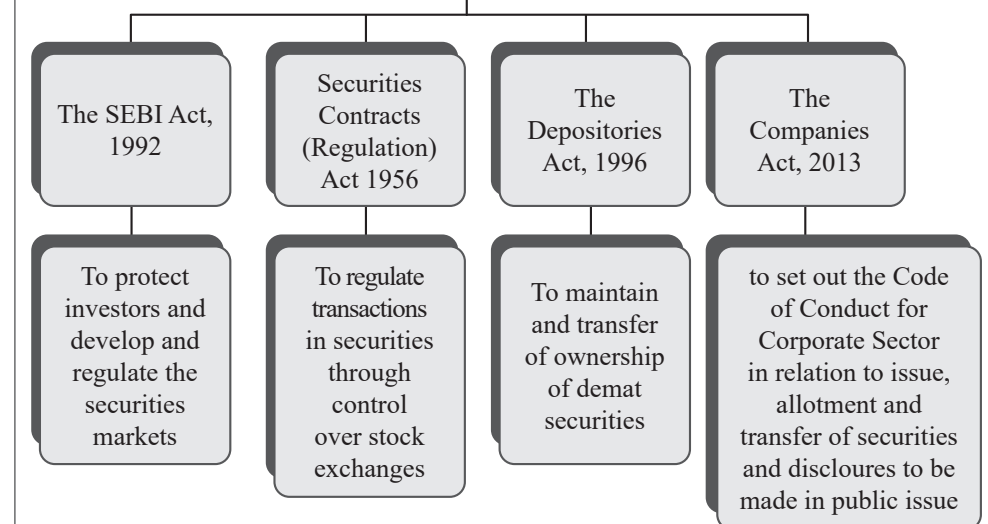


Functions of Securities Market

Difference between Primary and Secondary Market

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

Regulatory Framework for Securities Market in India



THE SEBI ACT, 1992

The SEBI Act, 1992 establishes SEBI with statutory power for

- (a) protecting the interests of investors in securities,
- (b) promoting the development of the securities market, and
- (c) Regulating the securities market.

THE SECURITIES CONTRACTS (REGULATION) ACT, 1956

It provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims to prevent undesirable transactions in securities. It gives central government/SEBI regulatory jurisdiction over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges.

THE DEPOSITORIES ACT, 1996

The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exceptions; (b) dematerializing the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form. In order to streamline the settlement process, the Act envisages transfer of ownership of securities electronically by book entry without making the securities move from person to person.

THE COMPANIES ACT, 2013

The Companies Act, 2013 envisage to strengthen the existing regulatory framework on Corporate Governance. It deals with issue, allotment and transfer of securities and various aspects relating to company management. It provides for standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and management perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, supply of annual report and other information.

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. The Controller of Capital Issues was repealed and its office was abolished in 1992 and SEBI was established on 21 February, 1992 through an ordinance issued on 30 January, 1992. The SEBI Act replaced the ordinance on 4 April, 1992. Certain powers under certain sections of Securities Contracts Regulation Act (SCRA) and Companies Act (CA) have been delegated to the SEBI.

To ensure this the three main participants of the financial market should be taken care of, i.e. issuers of securities, investor, and financial intermediaries.

Issuers of securities : These are entities in the corporate field that raise funds from various sources in the market. SEBI makes sure that they get a healthy and transparent environment for their needs.

Investors : Investors are the ones who keep the markets active. SEBI is responsible for maintaining an environment that is free from malpractices to restore the confidence of general public who invest their hard-earned money in the markets.

Financial Intermediaries : These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

QIBS (QUALIFIED INSTITUTIONAL BUYERS)

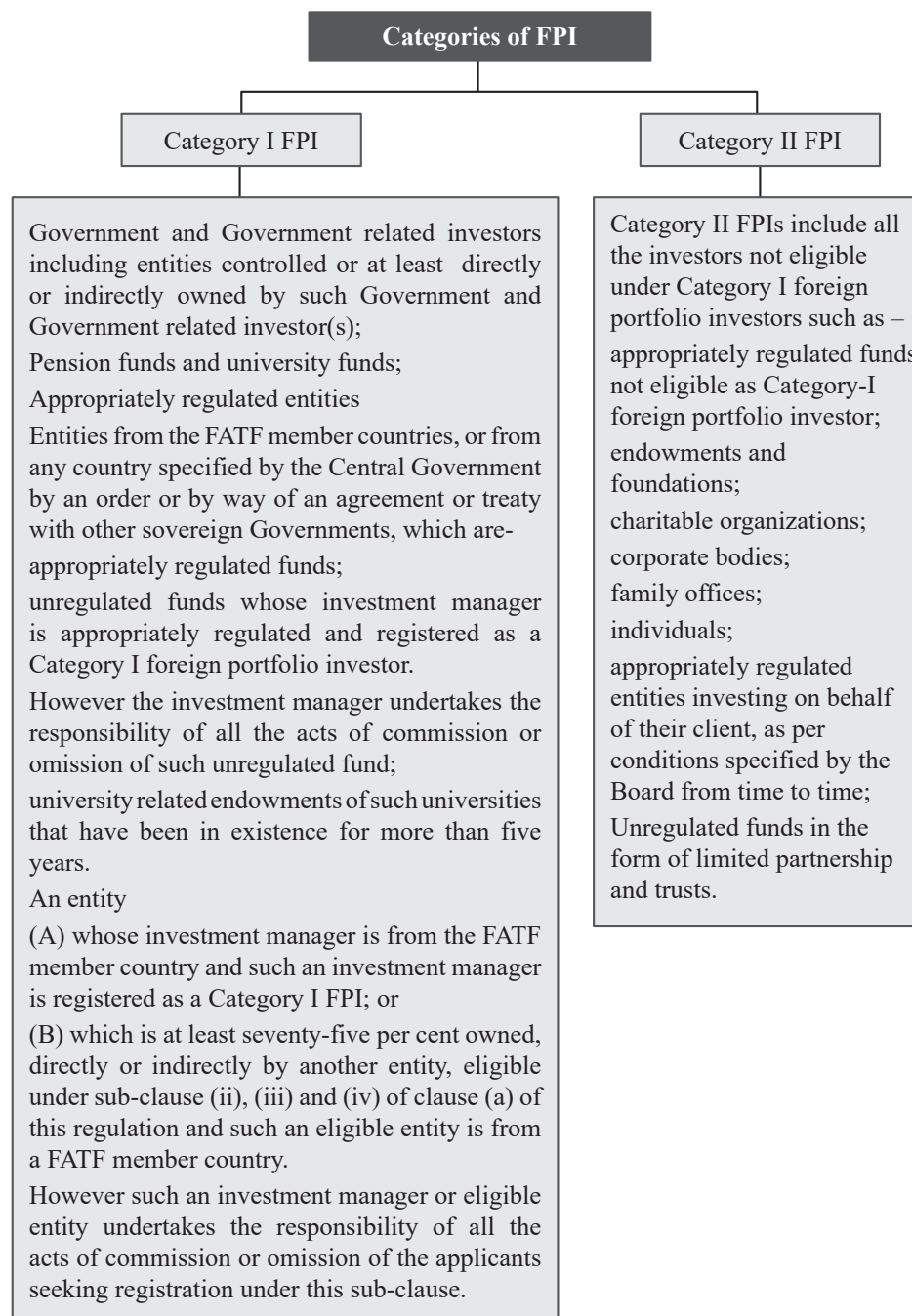
- ❖ a mutual fund, venture capital fund, Alternative Investment Fund and foreign venture capital investor
- ❖ foreign portfolio investor other than individuals, corporate bodies and family offices
- ❖ a public financial institution
- ❖ a scheduled commercial bank
- ❖ a multilateral and bilateral development financial institution;
- ❖ a state industrial development corporation;
- ❖ an insurance company
- ❖ a provident fund with minimum corpus of twenty five crore rupees;
- ❖ a pension fund with minimum corpus of twenty five crore rupees
- ❖ National Investment Fund set up by the Government of India;
- ❖ Insurance funds set up and managed by army, navy or air force of the Union of India;
- ❖ Insurance funds set up and managed by the Department of Posts, India

- ❖ Systemically important non-banking financial companies



FOREIGN PORTFOLIO INVESTOR

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



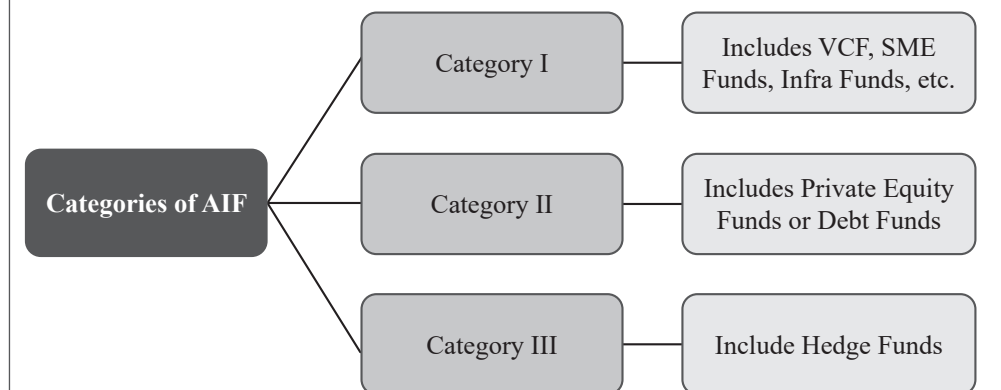
ALTERNATIVE INVESTMENT FUND (AIF)

Alternative Investment fund (AIF)

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

Exclusion from AIF

- Family trusts.
- ESOP Trusts.
- Employee welfare trusts or gratuity trusts set up for the benefit of employees.
- Holding companies.
- Other special purpose vehicles not established by fund managers, including securitization trusts, regulated under a specific regulatory framework.
- Funds managed by securitisation company or reconstruction company which is registered with the Reserve Bank of India
- Any such pool of funds, which is directly regulated by any other regulator in India.



CATEGORIES OF ALTERNATIVE INVESTMENT FUNDS

Category I: which invests in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable and shall include venture capital funds (VCF), SME Funds, social impact funds, infrastructure funds, special situation funds and such other Alternative Investment Funds as may be specified;

Category II: which does not fall in Category I and III and which does not undertake leverage or borrowing other than to meet day-to-day operational requirements and as permitted in these regulations;

Category III : which employs diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives.

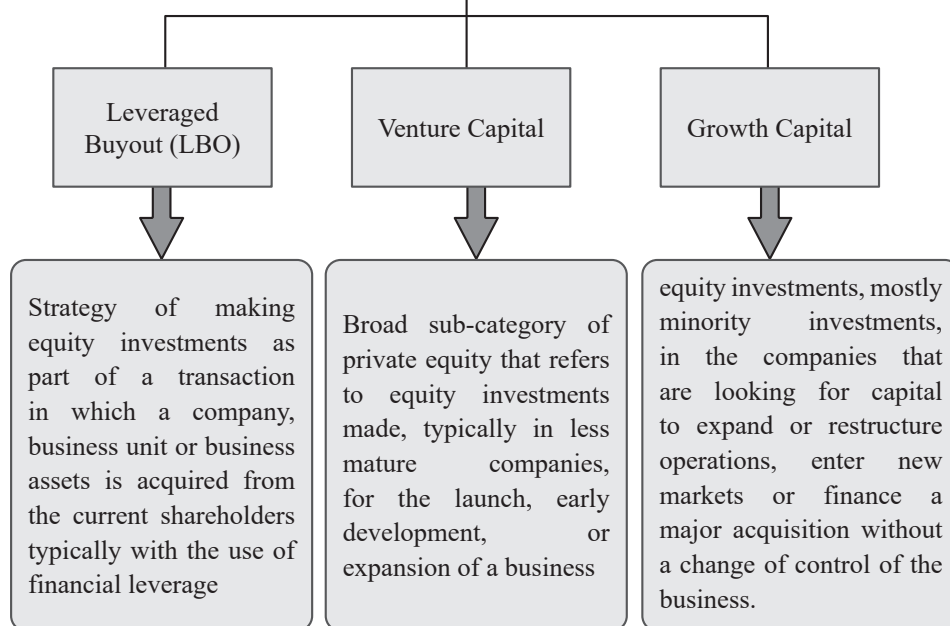
VENTURE CAPITAL

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

PRIVATE EQUITY

Private equity is a type of equity (finance) and one of the asset classes who takes securities and debt in operating companies that are not publicly traded on a stock exchange. Private equity is essentially a way to invest in some assets that isn't publicly traded, or to invest in a publicly traded asset with the intention of taking it private. As a source of investment capital, private equity comes from High Net-worth Individuals (HNI) & firms that purchase stakes in private companies or acquire control of public companies with plans to make them private & consequently delist from the stock exchange. Unlike stocks, mutual funds, and bonds, private equity funds usually invest in more illiquid assets companies.

Types of Private Equity



ANGEL FUND

Angel fund refers to money pool created by high networth individuals or companies (generally known as Angel Investor), for investing in start up business. Angel fund is defined in SEBI (Alternate Investment Funds) (Amendment) Regulations, 2013 as a sub-category of Venture Capital Fund under Category I-AIF that raises funds from angel investors and invests in accordance with regulations specified by SEBI.

Anchor Investors

Anchor investor means a Qualified Institutional Buyer (QIB) who makes an application for a value of at least ₹10 crore in a public issue on the main board made through the book building process or makes an application for a value of atleast ₹ 2 crore for an public issue on the SME exchange.

Allocation to the anchor investors shall be on a discretionary basis, subject to the following:

(I) In case of public issue on the main board, through the book building process:	(II) In case of public issue on the SME exchange, through the book building process:
(i) maximum of 2 such investors shall be permitted for allocation up to ₹10 crore;	(i) Maximum of 2 such investors shall be permitted for allocation up to two crore rupees;
(ii) minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹10 crore and up to ₹ 250 crore, subject to minimum allotment of ₹ 5 crore per such investor;	(ii) Minimum of 2 and maximum of 15 such investors shall be permitted for allocation above 2 crore rupees and up to 25 crore rupees, subject to minimum allotment of 1 crore rupees per such investor;
(iii) in case of allocation above ₹ 250 crore; a minimum of 5 such investors and a maximum of 15 such investors for allocation up to ₹ 250 crore and an additional 10 such investors for every additional ₹ 250 crore or part thereof, shall be permitted, subject to a minimum allotment of ₹ 5 crore per such investor.	(iii) 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.

HIGH NET WORTH INDIVIDUALS

- ❖ HNIs or high net worth individuals is a class of individuals who are distinguished from other retail segment based on their net wealth, assets and investible surplus.
- ❖ there is no specific definition, generally in the Indian context, individuals with over ₹ 2 crore investible surplus may be considered to be HNIs while those with investible wealth in the range of ₹ 25 lac – ₹ 2 crore may be deemed as Emerging HNIs.

PENSION FUND

Pension Fund means a fund established by an employer to facilitate and organize the investment of employees' retirement funds which is contributed by the employer and employees.

The pension fund is a common asset pool meant to generate stable growth over the long term, and 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 National Pension Scheme (NPS) is managed by UTI AMC (Retirement Solutions), although some larger corporations operate their pension funds in-house.

Pension funds control relatively large amounts of capital and represent the largest institutional investors in many nations.

LEGISLATIONS

There are three defining Acts for pensions in India:

Gratuity under the Payment of Gratuity Act, : There are other provident funds in India like Assam Tea Plantations PF, J&K PF, and Seamens PF etc.

Pensions under the EPF & MPAct 1952 : These include the Employees, Provident Fund, Employees, Pension Scheme, and Employees, Deposit Linked Insurance Scheme.

Pensions under the Coal mines PF & MP Act 1948 : These include Coal mines provident fund, Coal mines pension scheme & Coal mines linked insurance scheme.

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.

-Informal sector Pensions

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

CAPITAL MARKET INSTRUMENTS

Equity Shares

Equity shares, commonly referred to as ordinary share also represents the form of fractional ownership in which a shareholder, as a fractional owner, undertakes the maximum entrepreneurial risk associated with a business venture. The holder of such shares is the member of the company and has voting rights.

Equity shares, have voting rights at all general meetings of the company. These votes have the affect of 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 o 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.

SHARE WITH DIFFERENTIAL VOTING RIGHTS

Shares with differential voting rights (“DVR”) refer to equity shares holding differential rights as to dividend and/ or voting.

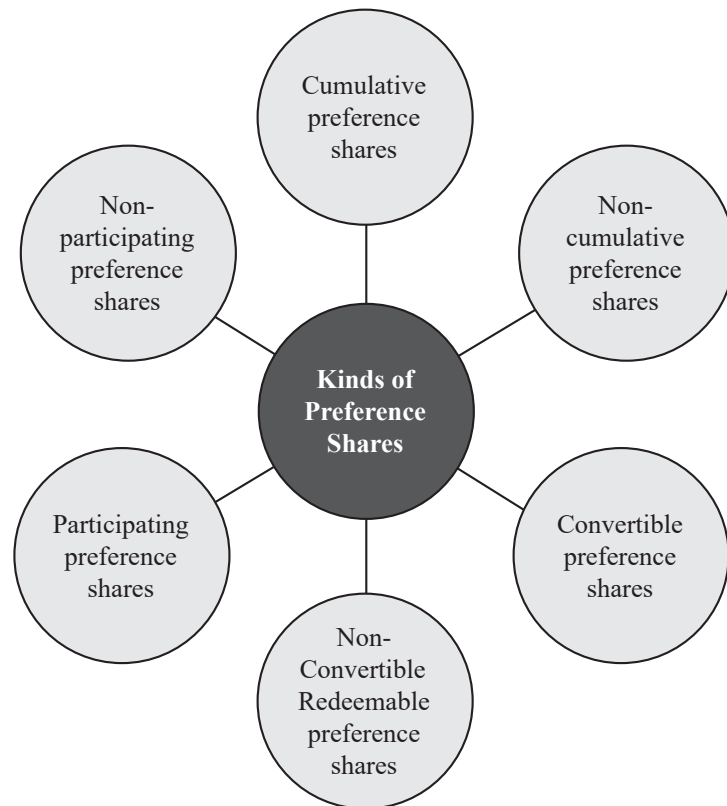
Companies can issue equity shares with differential rights subject to the following conditions including:

- ❖ Articles of association of the company must authorize the issue;
- ❖ The voting power in respect of shares with differential rights of the Company shall not exceed 74% of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;
- ❖ Approval of shareholders by passing ordinary resolution in General Meeting;
- ❖ The Company should not have defaulted in:
 - ♦ Filing annual returns and financial statements for the last three years;
 - ♦ repayment of matured deposits or declared dividend;
 - ♦ redemption of its preference shares/debentures which are due for redemption;
 - ♦ repayment of term loan taken from any public financial institution or state level financial institution or from a scheduled bank that has become due and payable;
 - ♦ statutory dues of the employees of the company.

PREFERENCE SHARES

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

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



DEBENTURES

“Debenture” includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

However, following shall not be treated as debenture:-

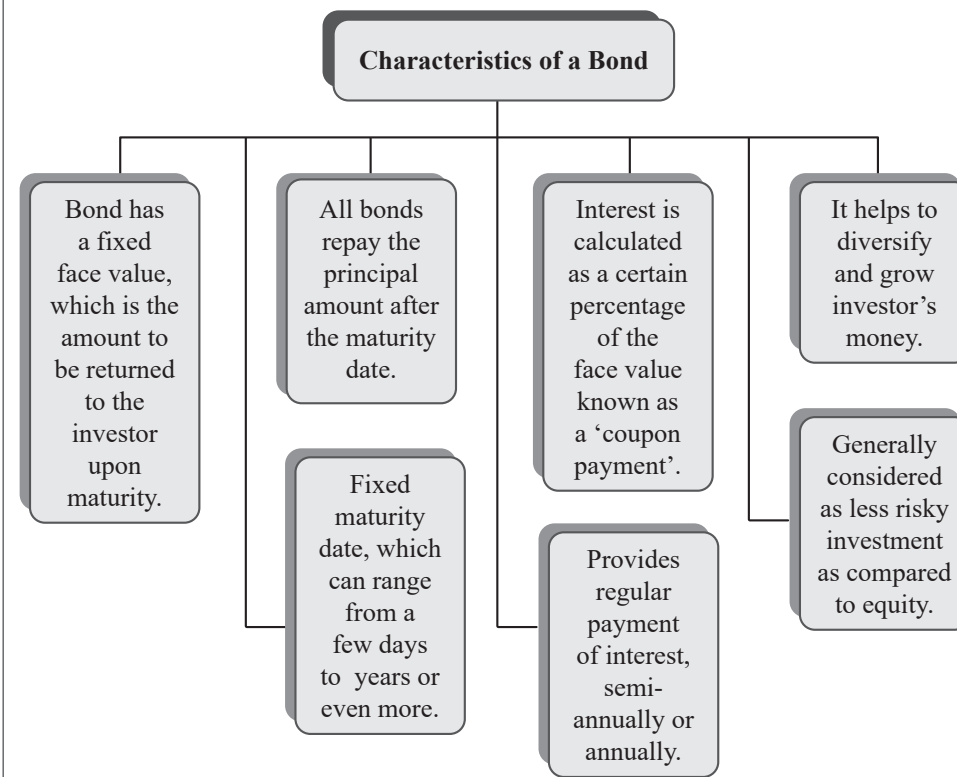
- (a) the instruments referred to in Chapter III-D of the Reserve Bank of India Act, 1934; and
- (b) such other instrument, as may be prescribed by the Central Government in consultation with the Reserve Bank of India, issued by a company.

Features of Debenture

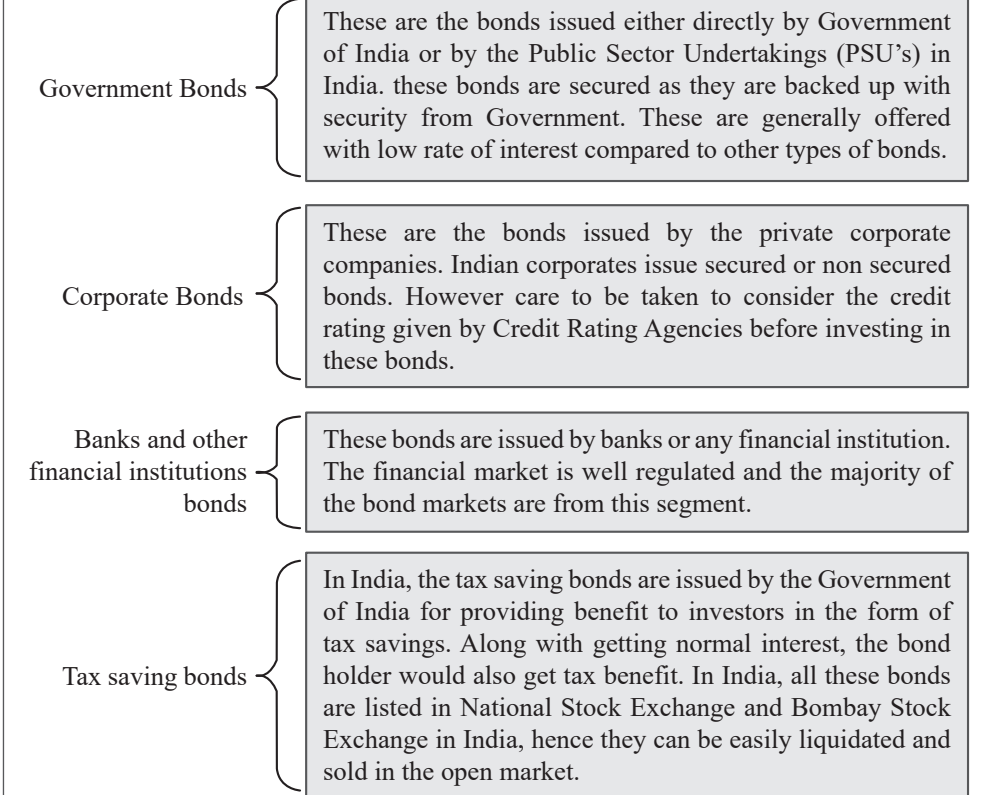
- ❖ It is issued by a company as a certificate of indebtedness.
- ❖ It usually indicates the date of redemption and also provides for the repayment of principal and payment of interest at specified date or dates.
- ❖ In case of secured debentures, it creates a charge on the undertaking or the assets of the company.
- ❖ Debentures holders do not have any voting rights.
- ❖ Company shall pay interest, irrespective of profits.
- ❖ While issuance of debentures, the company shall ensure that the parameters for designation of deposits under Companies (Acceptance of Deposits) Rules, 2014 are not triggered.

BONDS

Bonds are the debt security where an issuer is bound to pay a specific rate of interest agreed as per the terms of payment and repay principal amount at a later time. The bond holders are generally like a creditor where a company is obliged to pay the amount. The amount is paid on the maturity of the bond period. Generally these bonds duration would be for 5 to 10 years.



TYPES OF BOND



Foreign Currency Convertible Bonds (FCCBS)

- ❖ ‘Foreign Currency Convertible Bond’ (FCCB) means a bond issued by an Indian company expressed in foreign Currency, and the principal and interest in respect of which is payable in foreign currency.
- ❖ The FCCBs are unsecured instruments which carry a fixed rate of interest and an option for conversion into a fixed number of equity shares of the issuer company.
- ❖ Interest and redemption price (if conversion option is not exercised) is payable in dollars. FCCBs shall be denominated in any freely convertible Foreign Currency.
- ❖ However, it must be kept in mind that FCCB, issue proceeds need to conform to ECB end use requirements.

Foreign Currency Exchangeable Bonds (FCEBs)

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

- ❖ A bond expressed in foreign currency.
- ❖ The principal and the interest in respect of which is payable in foreign currency.
- ❖ Issued by an issuing company, being an Indian company.
- ❖ Subscribed by a person resident outside India.
- ❖ Exchangeable into equity shares of another company, being offered company which is an Indian company. Either wholly or partly or on the basis of any equity related warrants attached to debt instruments. It may be noted that issuing company to be the part of promoter group of offer or company and the offeror company is to be listed and is to be a eligible to receive foreign investment. Under this option, an issuer company may issue FCEBs in foreign currency, and these FCEBs are convertible into shares of another company (off company) that forms part of the same promoter group as the issuer company.

FCCB V/S FCEB

FCCB	FCEB
Bonds are converted into shares of issuer company	Bonds are exchanged into shares of another group company of issuer company
When holder exercise the conversion right, the issuer company will issue fresh share.	When holder exercise the right of conversion, there is no fresh issue by issuer.

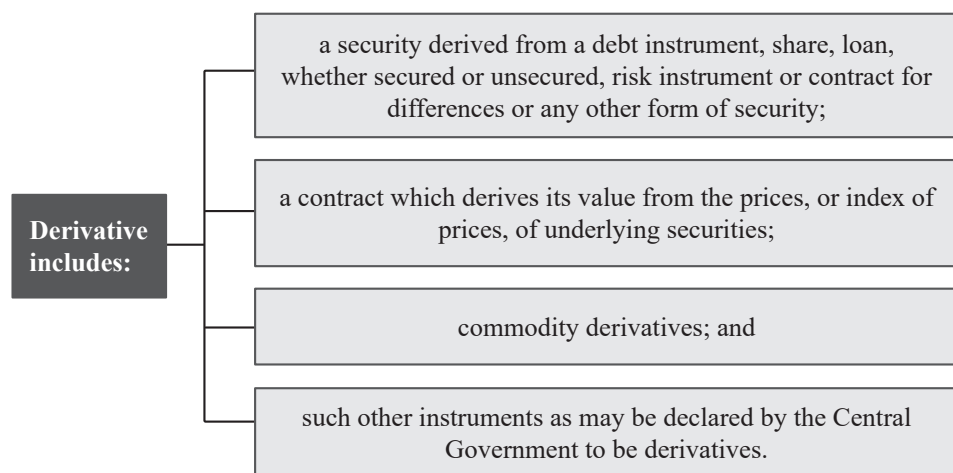
INDIAN DEPOSITORY RECEIPTS

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 India Securities Markets.



DERIVATIVES

Derivatives can be of different types like futures, options, swaps, caps, floor, collars etc. The most popular derivative instruments are futures and options.



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. The companies listed on the Exchange can issue warrants in accordance with SEBI (ICDR) Regulations, 2018.

REAL ESTATE INVESTMENT TRUSTS ('REITS')

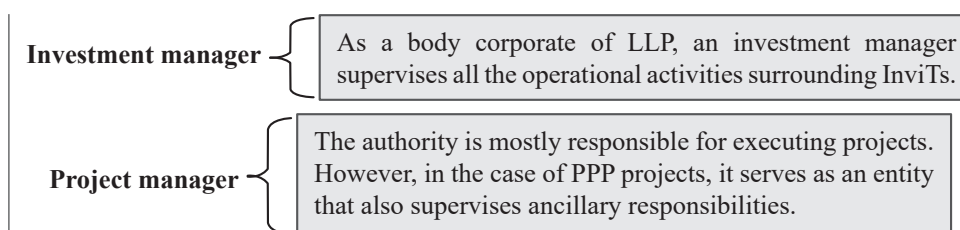
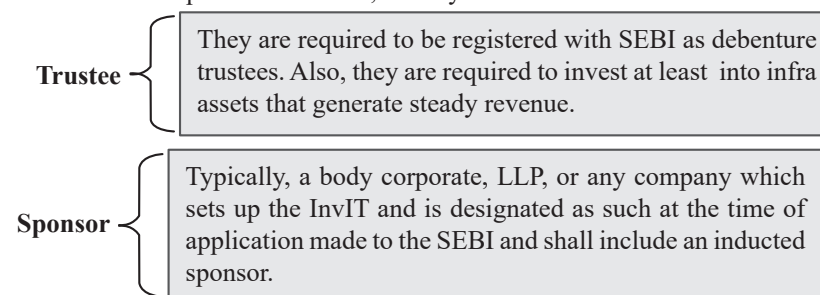
A real estate investment trust ("REIT") is a collective investment scheme that owns, operates or finances income producing real estate. REITs provide all investors the chance to own valuable real estate, present the opportunity to access dividend-based income and total returns, and help communities grow,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

Characteristics of REITs

- ❖ **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.

INFRASTRUCTURE INVESTMENT TRUSTS ('INVITS')

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



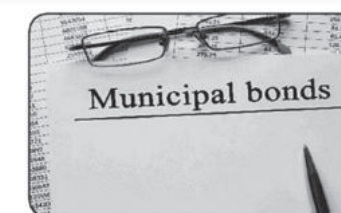
SECURITIZED DEBT INSTRUMENTS

- ❖ Securitized debt instruments are financial securities that are created by securitizing individual loans (debt).
- ❖ Securitization is a financial process that involves issuing securities that are backed by assets, most commonly debt. The assets are transformed into securities, and the process is called securitization. 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.

MUNICIPAL BONDS

Municipal bonds are also referred to as 'muni bonds'.

Municipal bonds are issued when a government body wants to raise funds for projects such as infra-related, roads, airports, railway stations, schools, and so on.



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

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

STOCK EXCHANGE



Stock Exchange { BSE
NSE (1st Demutualised Stx)

ROLE

- | | |
|--|---|
| <ul style="list-style-type: none"> ❖ Continuous market ❖ Responsible for security evaluation ❖ Mobilizes savings. ❖ Healthy speculation ❖ Ensures Liquidity | <ul style="list-style-type: none"> ❖ Acts as economy parameter ❖ Control on companies. ❖ Attracts foreign Capital. ❖ Ensures safety of capital ❖ Regulate company's management |
|--|---|

SEBI



- ❖ Established in April 1992
- ❖ to regulate securities market is
- ❖ to Protect investors

SEBI Act, 1992	Companies Act, 2013	SCRA, 1956	Depositories Act, 1996
SEBI <ul style="list-style-type: none"> ❖ Regulate market ❖ Protect investor 	<ul style="list-style-type: none"> ❖ Issue ❖ Allot ❖ HF (Securities) 	Regulation of transaction in stock market	Electronic ownership and HF of securities

TRADING MECHANISM

- ❖ Demat form + dematerialization
 - ♦ SEBI (LODR, 2015) (Reg. 40-)
 - ♦ Rule 9A companies (Prospectus and allotment of securities), Rules, 2014
- ❖ T+2 (settlement system)

Securities			
Listed Securities		Permitted Securities	
Signed the Listing Agreement	Actively Traded on STx	Not Listed on STx	Actively traded on STx

❖ Role of Market Intermediates (Buyer ← Link → Seller)



Service providers

- ♦ to smoothen price of investment
- ♦ link between investors and user of funds
- ♦ corporation to investors
- ♦ diversification for small investor
- ♦ Transaction through stock-broker.

(1) Stock exchange

- ❖ trading platform
- ❖ appoint clearing corporations and settlement agencies.

(2) Depository

Depository		
Agent	NSDL	CDSL
Depository Participant	Hold Securities in electronic form	

- ❖ Interact with investor and provide securities
Investor ↓↓↓↓ open demat a/c ↓↓→ (DP)
 - ♦ Buy & sell stocks
 - ♦ direct investment
 - ♦ Mandated by SEBI

(3) Stockbroker → Sub broker (acts on behalf of broker)

- ❖ Members of stock exchanges
- ❖ Assist buying/selling
- ❖ All transactions are conducted through stock brokers
- ❖ Receive commission (brokerage)

(4) Custodian

- ❖ Accountable for holding funds of large clients
- ❖ Settle transactions ⊕ record.
 - ♦ Maintain clients securities and funds
 - ♦ Collect benefits or rights due to client
 - ♦ Inform client on actions taken.

(5) Clearing corporation:



Legal counterparty for settlement of all transactions on stock exchange.

(6) Merchant banker:

- ❖ Single point of contact for new issuers.
- ❖ Connect and co-ordinate for issuers with all mediators.
- ❖ **Exchange traded funds (Depends on NAV) → Underlying stock**
 - ♦ Tracks an index, commodity, bonds.
 - ♦ Basket of assets.
 - ♦ Like common stock on the stock exchange.
 - ♦ Price changes like trading in the market.
- ❖ **Derivatives**
 - ♦ Derives value from underlying assets.
 - ♦ Like caps, floors, futures, options, swaps etc.

Derivatives includes		
Securities derived from debt instruments, share, loan, risk instrument or contract.	Commodity derivatives	Derives its value from prices or underlying securities

Currency derivative	Commodity derivative
<ul style="list-style-type: none"> ❖ Contract involving exchange of two currencies at future date ❖ Trading in forex market ❖ Include: <ul style="list-style-type: none"> ♦ Diversification offers ♦ Hedging opp. ♦ Transparent rates ♦ trading opp. 	<ul style="list-style-type: none"> ❖ Spot market: <ul style="list-style-type: none"> ♦ Physical off of goods ♦ Supply and demand conditions ❖ Financial instruments <ul style="list-style-type: none"> ♦ Based underlying asset (commodity)

❖ Future

- ♦ Buy and sell
- ♦ Pre-determined quality
- ♦ Pre-determined price

❖ **Position**



- ♦ Long (buyer agrees to receive delivery)
- ♦ Short (seller agrees to delivery)

❖ **Currency future**

Exchange currency (price decided today)

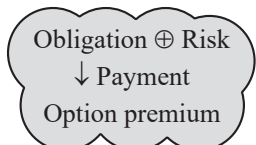
Future date

- ♦ USD
- ♦ Euro
- ♦ GBP (Great Britain Pound)
- ♦ JPY (Japanese Yen)

❖ **IFSC**

- ♦ Rupee derivatives ↓(settlement of forex) → [IFSC futures and options]
- ♦ Position limits
Trading member (Max. 15% of total investment or billion USD) ↓ Higher
Institutional investor
Eligible foreign investor
Other clients (6% total open interest or 100 million USD) ↓ Higher

❖ **Options**



- ♦ Give holders the right not obligation
- ♦ One party has right, other has obligation
- ♦ Call option (gives buyers right to take delivery)
- ♦ Put option (gives seller the right to take delivery)

❖ **Types of Options on basis of expiry date**

- ♦ European option (exercised only on expiry date)
- ♦ American option (exercised on or before expiry date)

1. Illustration

Infosys May 3000 put (250 × 100 = 25000 Rs.)

Sell 100 shares end of May

(Actual prices of shares → 3000 per share)

Put call → right to sell.

2. Investor expecting fall in price

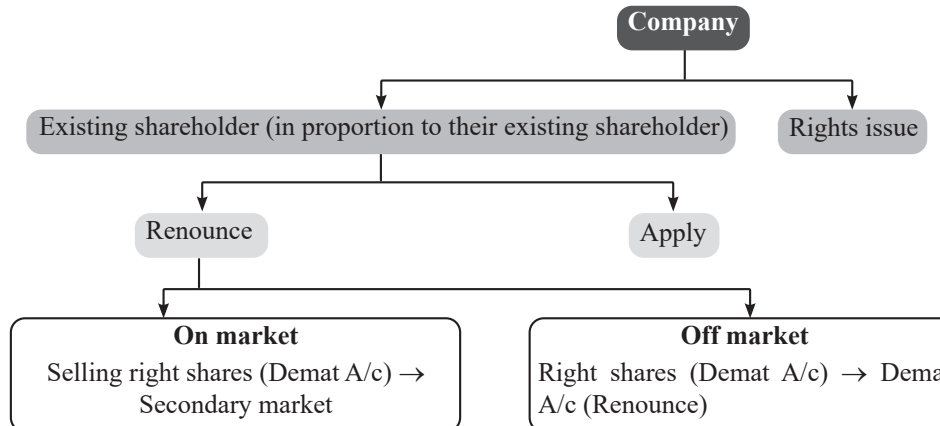
Stock price → 1040

Investor → 1070 PE at 30 Rs.

(3 × 1000) = 30000 Rs. (put premium)

(1070) ↓ Price 1020 Sell = 1070 - 1020 50 profit per unit × 1000 unit 50,000 (-) put 30,000 premium 20,000	Price (1070+) 1080 (Not sell) ↓ Loss put premium (30,000 Rs.).
--	---

❖ **Rights entitlement**



❖ **Trading platform**

Main board (NSE / BSE)	SME Platform
STx issuer <ul style="list-style-type: none"> ❖ In principle approval of draft prospectus ❖ Submission of approval ❖ IPO regulation 	(a) BSE SME <ul style="list-style-type: none"> ❖ Enables listing of SME's Requirements <ul style="list-style-type: none"> ❖ Incorporated under CA, 2013 ❖ Max. PUSC 25 waves ❖ Positive net-worth ❖ Min. 1.5 crores (tangible asset) ❖ Track record of 3 years <p>Or</p> <ul style="list-style-type: none"> ❖ Less than 3 years <ul style="list-style-type: none"> ♦ Funding from Company listed for 2 years or more on: <ul style="list-style-type: none"> ♦ Main board ♦ SME ❖ Website ❖ Agreement with depository ❖ No change in promoter in last one year
	(b) NSE emerge NSE / startup company <ul style="list-style-type: none"> ❖ Max. PUSC / 25 crores ❖ Min. allottees – 50 ❖ 100% underwritten

❖ **IGP**

- ♦ Trading platform for listing and trading of securities issued by company:
 - IT
 - IPR
 - Data analysis
 - Bio or nano technology
- ♦ On date of filing ↓ draft information ↓ → Board
At least 25% → QIB ⊕ Family trust (net-worth > 500 Cr)

❖ **Regulate entries**

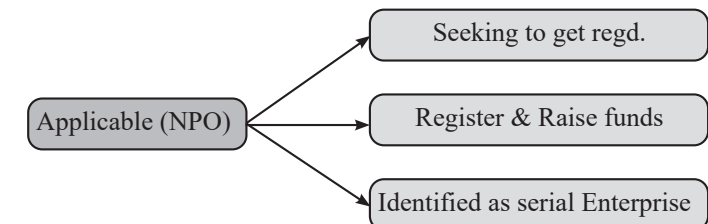
Category III FPI	Entity			
	Pooled investment vehicle (Min. asset USD 150 Million)	Registered with sectoral regulator	Resident of country (sectoral market regulator) <ul style="list-style-type: none"> ❖ MOU with IOSCO ❖ MOU with SEBI 	Not resident (country identified in FATF) <ul style="list-style-type: none"> ❖ Anti money laundering financial terrorism ❖ Not sufficient action plans to address deficiencies

❖ **Social Stock Exchange**

Inserted in SEBI (ICDR) Regulations, 2018

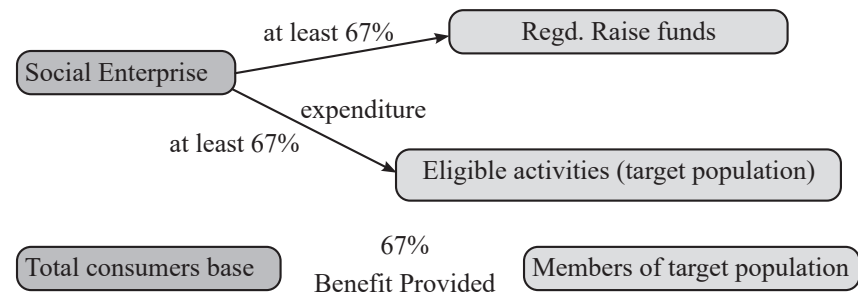


Reg NPO. Securities Listed STx (as per law)

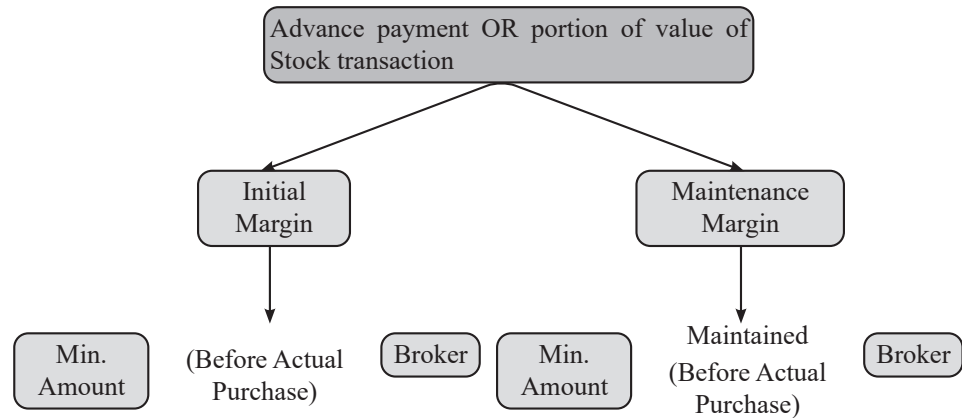


❖ **Eligibility conditions**

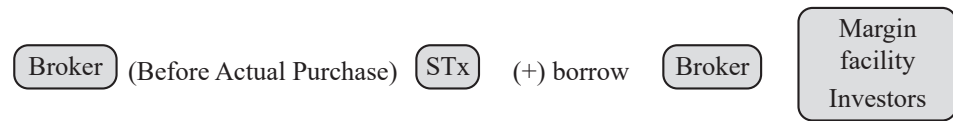
- ♦ Shall establish primary of social intent
- ♦ Activities (Like Sec-8 company)
 - (+) target undeserved or less privileged population or regulation having lower performance



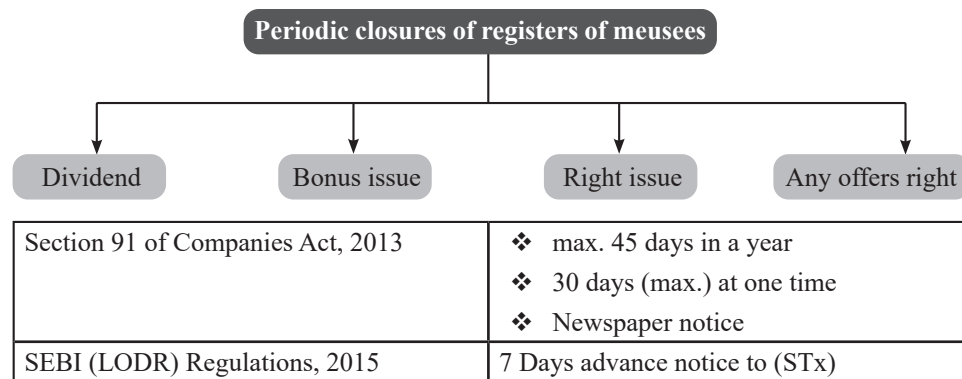
Margins



[Maintain (x) → falls & client is uses to maintain → liquidate]



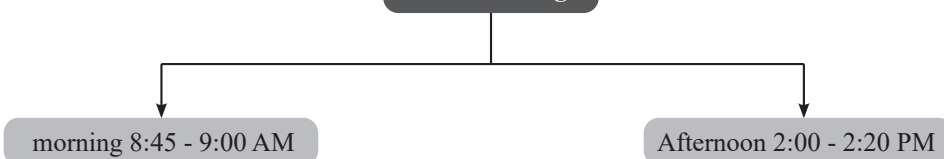
Book closure & Record date



Block Deal

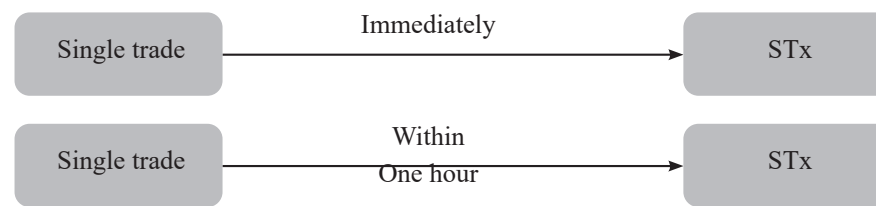
- ❖ Execute large trades
- ❖ (+) or (-) 1% price (order placed)
- ❖ Min. order – 10 crores Rs.

Session timings

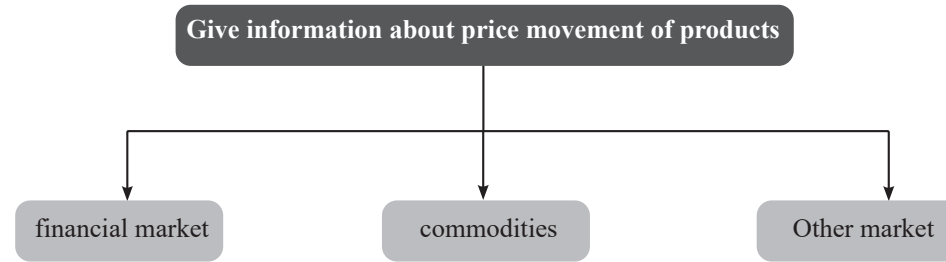


Block Deal

- ❖ Trade, where total quantity brought or sold > 0.5% of Total number of shares]
- ❖ Normal trading days & normal trading months
- ❖ Visible to everyone



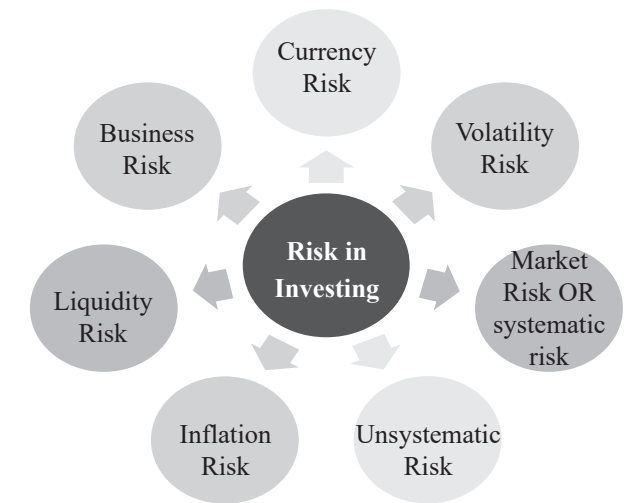
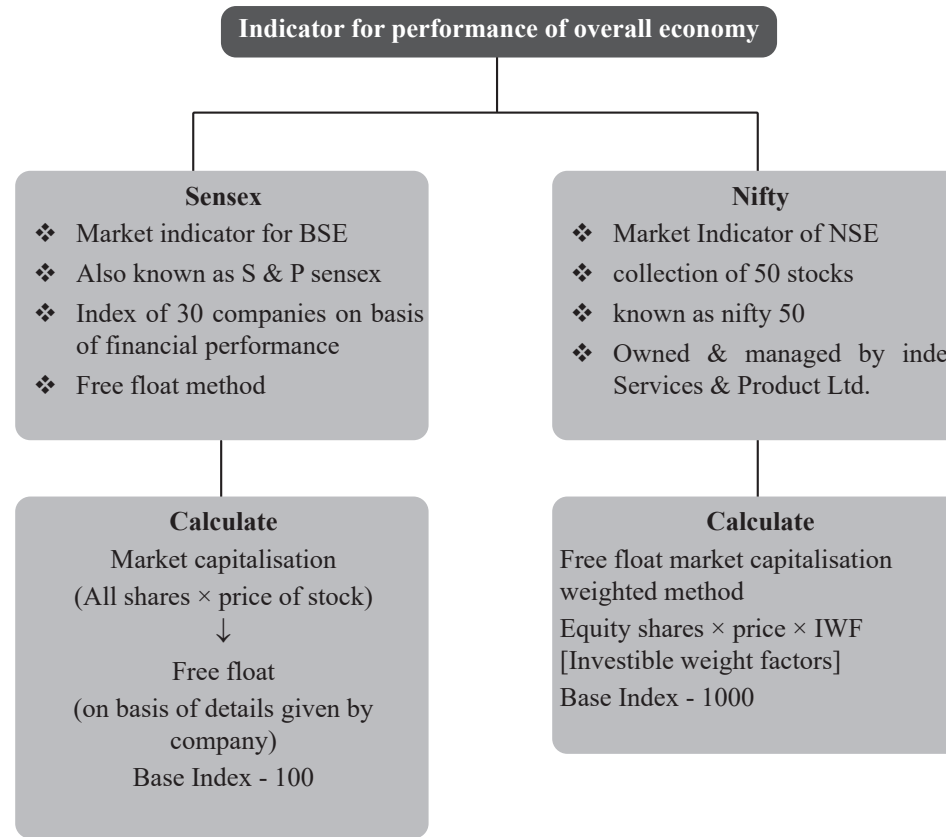
Stock maker index



- ❖ Capture overall behavior of market
- ❖ Created by selected group of stocks that represent complete market

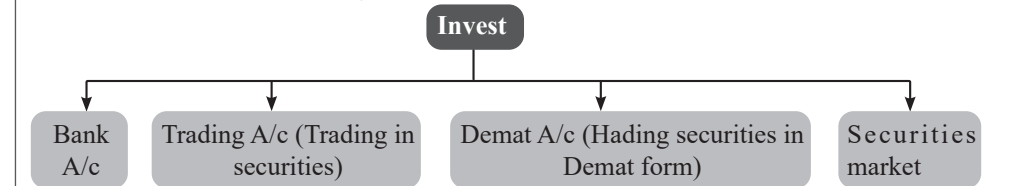
USES

- ❖ Historical comparison of returns (gold vs. equity vs. real estate)
- ❖ Standard to compare an equity fund performance
- ❖ update information



Varioustypes of risk in securities market

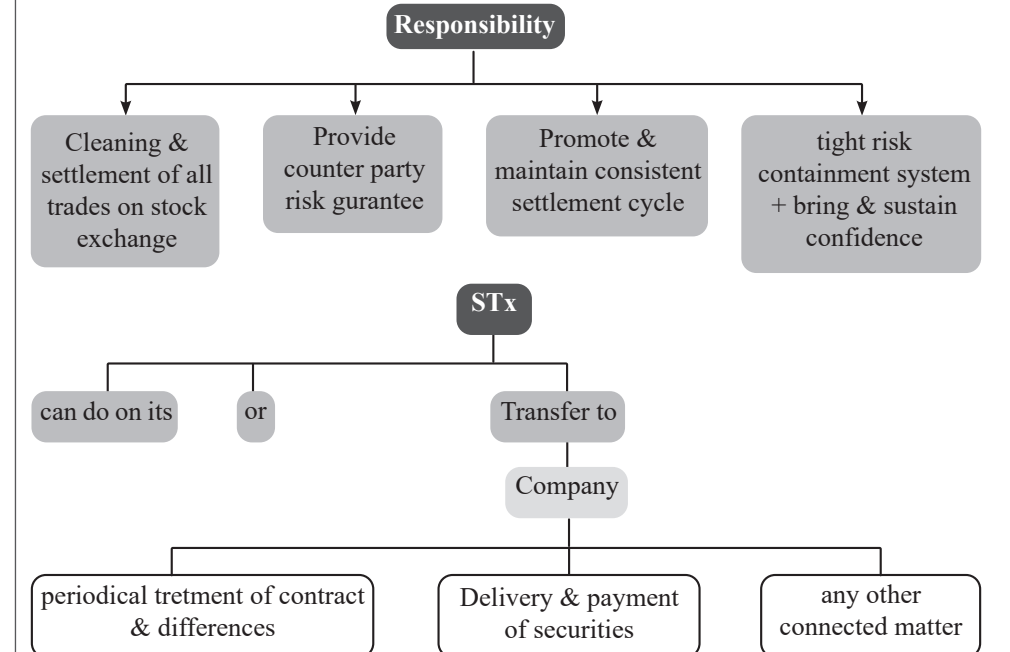
Pre-requisites for investing in Securities Market:-



KYC for opening A/c

- ❖ Mandatory
 - ❖ One Time process
 - ❖ Submit to DP → Id proof → Address proof + other documents
- ↓
- KYC identification number

Clearing corporation



Ensuring market integrity is the core objective of regulators. Surveillance mechanisms to detect any irregularities must also be equally developed. Exchanges adopt automated surveillance tools that analyze trading patterns and are installed with a comprehensive alerts management system

A. Preventive Surveillance -

- ❖ **Stringent On boarding norms for Trading Member**
- ❖ **Index circuit filters** - Coordinated trading halt 3 stages of the index movement, either way viz., at 10%, 15% and 20% based on previous day closing index value.
- ❖ **Trade Execution Rang** - Orders are matched and trades take place only if the trade price is within the reference price and execution range.
- ❖ **Order Value Umitatlol** - Maximum Order Value limit allowed per order.
- ❖ **Cancel on logout** - cancels outstanding trades in case of user log out.
- ❖ **Kill switch** - execution of kill switch cancels all outstanding orders.
- ❖ **Risk reduction mode** - Limits beyond which orders level initiation of risk management shall be initiated instead of trade level.
- ❖ **Compulsory close out** - If Incoming order crosses available margins it will be cancelled and further trading will be disallowed.
- ❖ **Periodic call auction** - Shifting the security form continuous to call auction method

Risk management action by SEBI

- ❖ Categorization of securities on basis of volatility & liquidity
- ❖ Value at risk based margining system
- ❖ Specification of mark to margin (market margin)
- ❖ Specification of limits
 - ♦ Intra day
 - ♦ Grass exposure
- ❖ Collection of margin on upfront basis
- ❖ Index based market wide circuit breakers

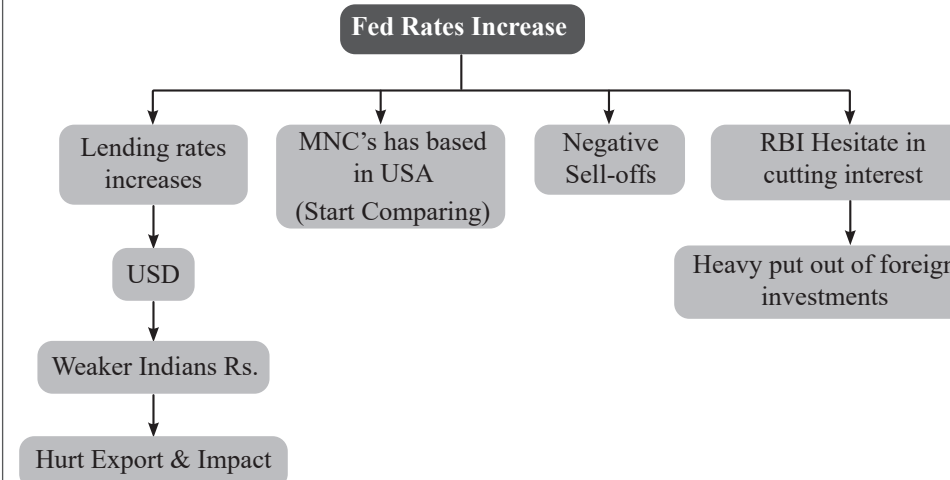
- ❖ **Rumour Verification** - unannounced news is tracked, informed and reply of company disseminated.
 - ❖ **Fixed Price Band / Dynamic Price band** - Limits applied within which securities shall move to curb volatility. For non derivative securities price band is 5%, 10% & 20%. For Derivative products an operating range of 10% is set and subsequently flexed based on market conditions.
 - ❖ **Trade for Trade Settlement** - The settlement of script's available in this segment is done on a trade for trade basis and no netting off is allowed.
 - ❖ **Capital adequacy check** - Refers to monitoring of trading member's performance and automatic disablement from trading when limits are breached
- B. Post trade surveillance**
- ❖ **End of day alert** - Alerts generated using statistical tools. The tool highlights stocks which have behaved abnormally from its past behaviour
 - ❖ **Pattern recognition model** - Models designed using high end tools and trading patterns which itself identifies suspects involving in unfair trading practice.
 - ❖ **Transaction alerts for member** - As part of surveillance obligation of members the alerts are downloaded to members under 14 different heads.

- ❖ Automatic de-activation of trading terminal (breach of limits)
- ❖ Collection of margin from institutional investors (TH basis)

Various policies in stock market

(1) FED policies

Federal Reserve system → U.S. control Bank
 Conducts nations monetary policy
 Promotes stable financial system & minimizes risk
 Safety & soundness of Individual financial institution + their impact
 Efficiency in payment & settlement system
 Promotes consumer protection & community development

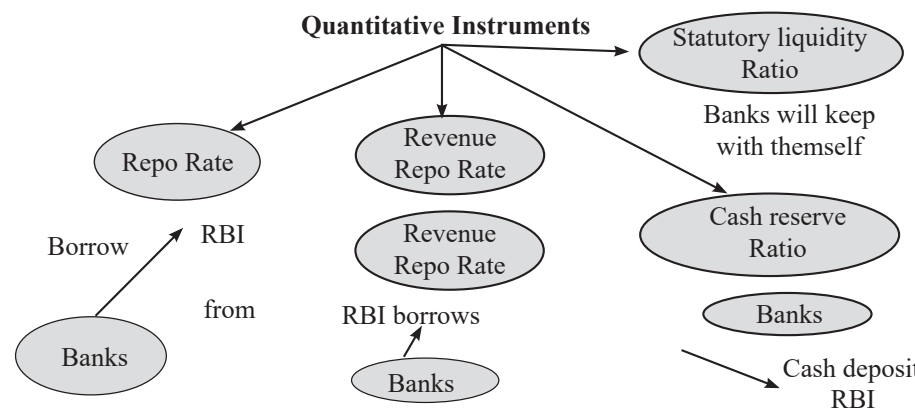


(2) Credit Policy of RBI

- ❖ Aims at Higher growth with price stability
- ❖ Higher economic growth
- ❖ Also known as Monetary policy/Money management policy

Significance

- ❖ Rapid Economic Growth
- ❖ Exchange Rate stability
- ❖ Price stability
- ❖ BOP Equilibrium
- ❖ Neutrality of money
- ❖ Bank Rate



(3) Inflation Index

Economic tool to measure inflation index in economy

Wholesale price index

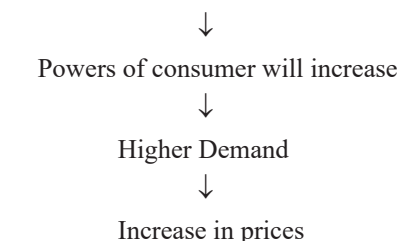
- ❖ Computed → office of Economic Adviser (Ministry of commerce & Industry)
 - ❖ Monthly released (from 2012)
 - ❖ Base Year = 2004 – 05 (100)
 - ❖ 676 items (5482 Quotations)
 - ♦ Primary
 - ♦ Fuel & power
 - ♦ Manufactured
 - ❖ Consumer price Index
 - ♦ Agricultural workers (IW)
 - ♦ Agricultural & Rural Labourers (AL) (RL)
- Released by Labour Bureace
- ♦ CPI (Rural Urban/consigned) → Released → Central statistics office



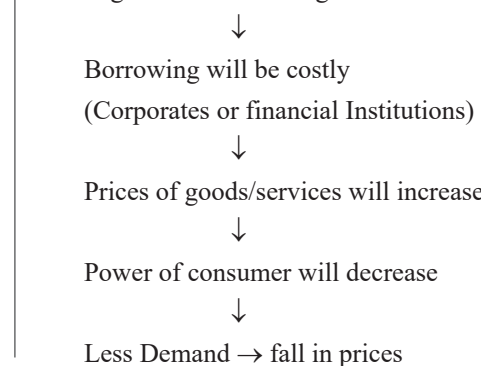
	WPI	CPI
Primary use	Inflationary trend in economy	Adjusting income & expenditure streams
Prices	Wholesale prices of primary products	Retail prices (Include distribution cost + Taxes)
Data	Collected on voluntary basis	Collected by Investigators vehicle visiting market
Coverage	Covers all goods including Intermediate goods transacted in economy	Covers only consumer goods & services
Basis	National Accounts	Consumer Expenditure survey Data

Impact of policy on stock market

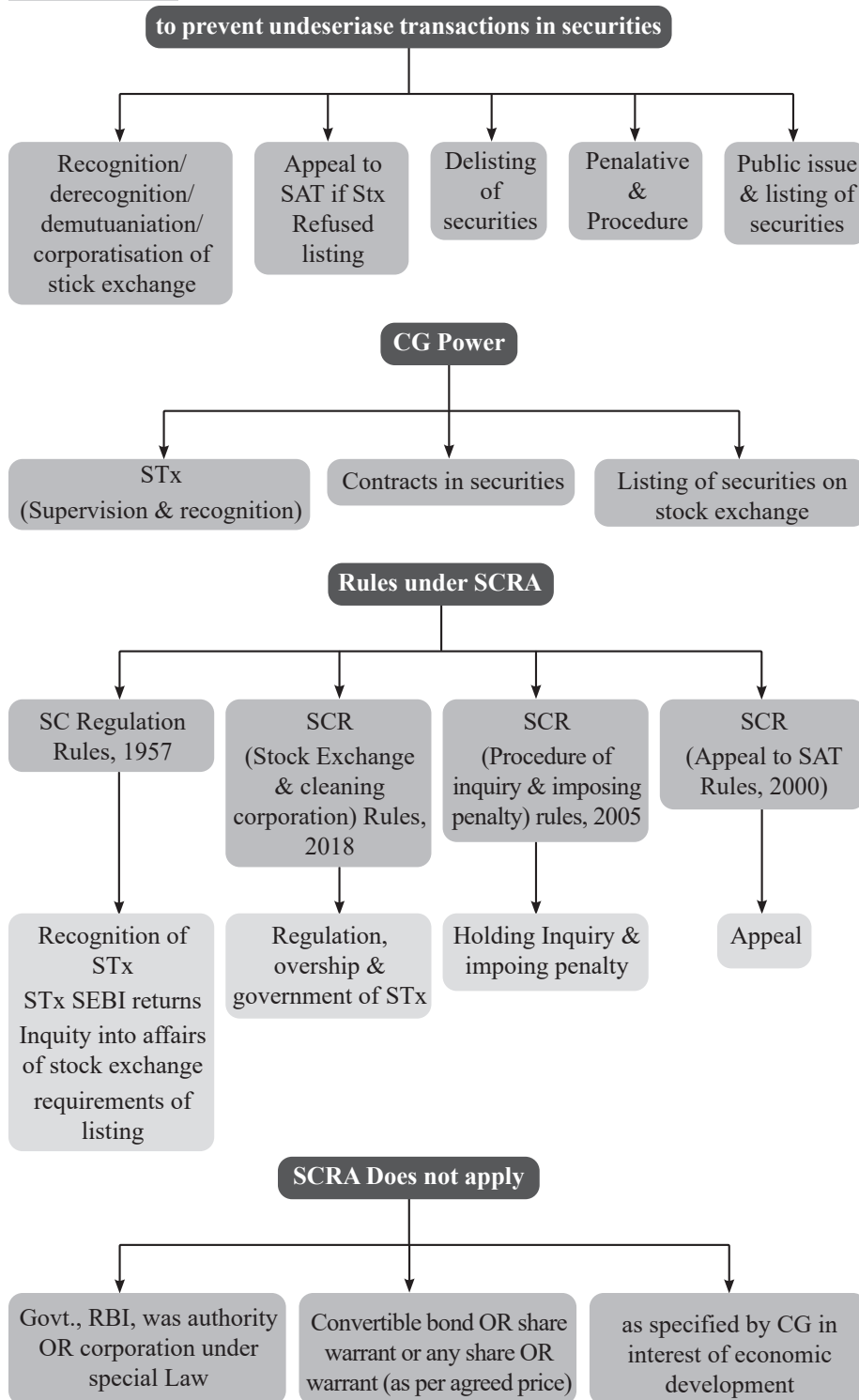
- ❖ Inflation Index predict future inflation
- ❖ Low interest rate regime → borrowers can borrow at lower rate of interest



- ❖ High Interest Rate Regime

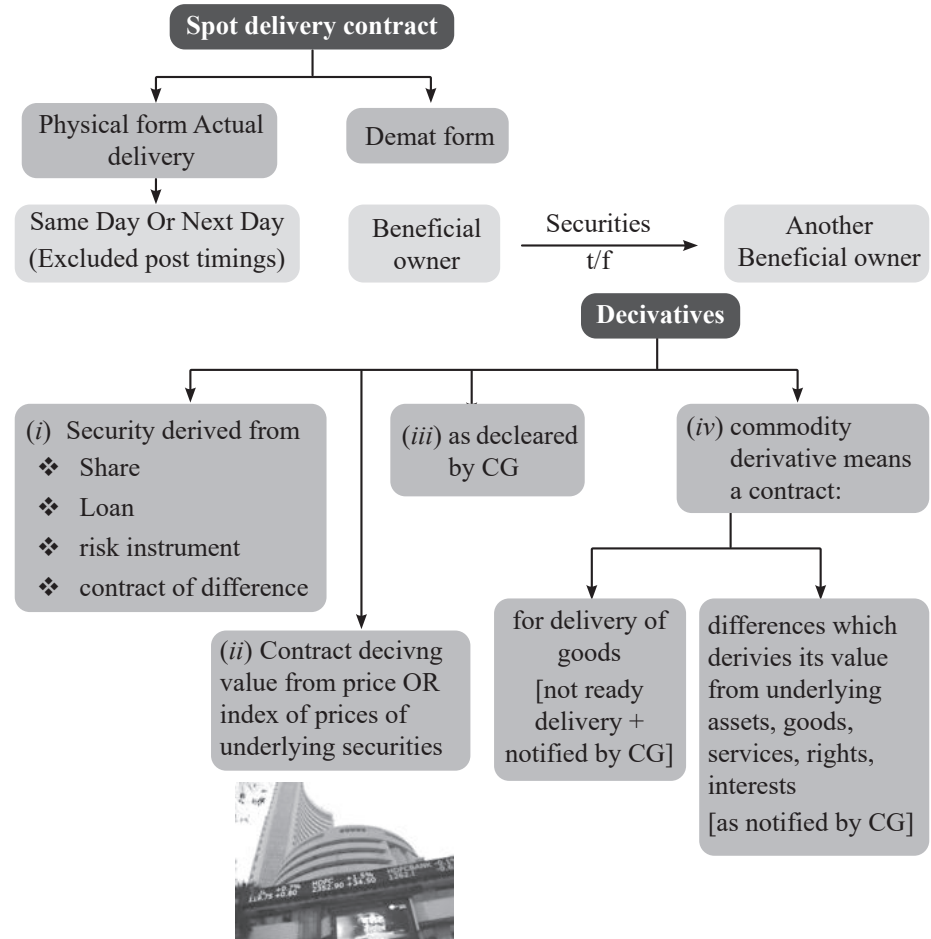


SCRA, 1956

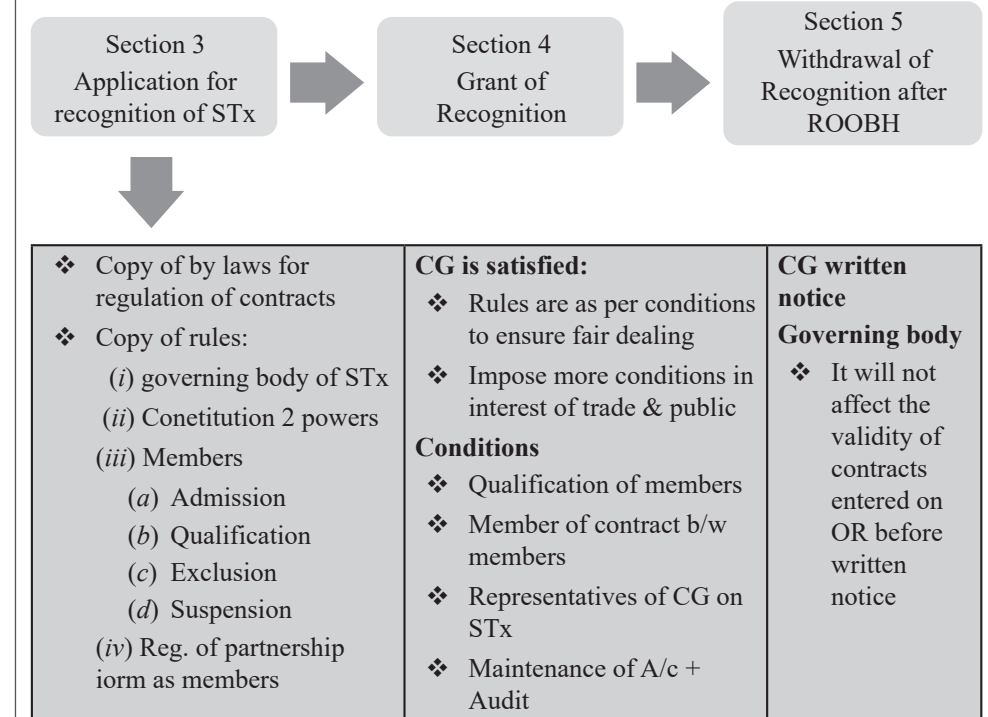


Securities Section 2(h) include:

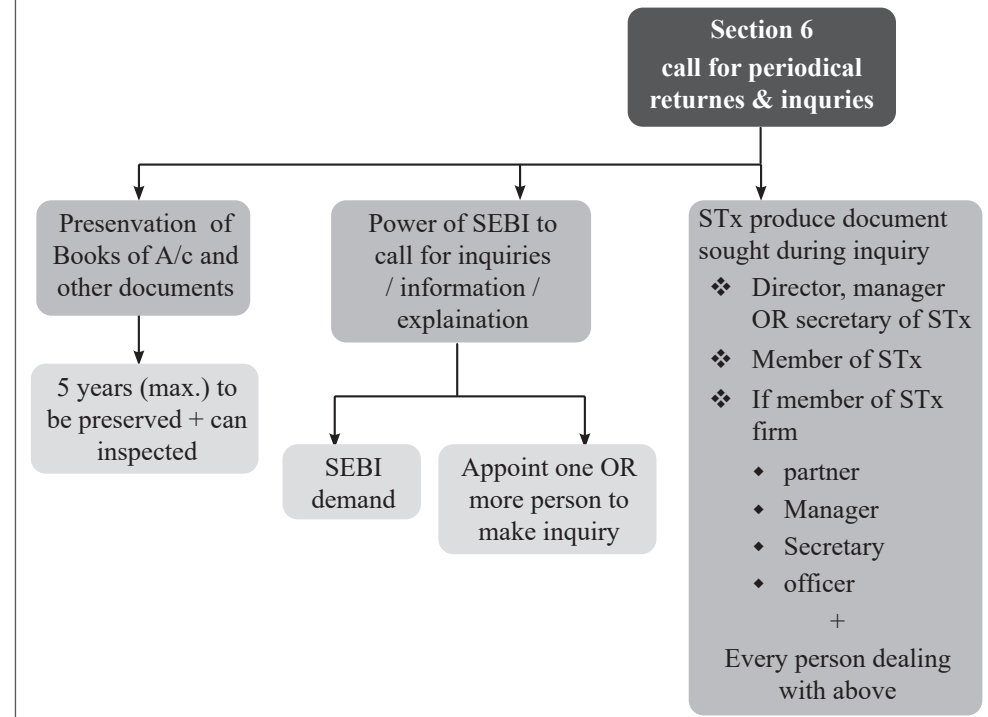
- (i) Shares, scrip, stock, bonds, debentures, debenture stock OR marketable securities of with nature
 - (ii) Derivative
 - (iii) Units OR investments issued by LIS
 - (iv) Security Receipt under SARFEASI Act, 2002
 - (v) Instruments issued under mutual funds OR pooled investment vechile govt. securities
 - (vi) Right OR interest in securities
 - (vii) Issuer (SPv) Investor certificate OR Instrument acknowledges debt OR mortgage OR receivable
 - (viii) Instruments as declared by CG.
- Q. Optionally Fully Convertible Debentures considered as security [Sahara India Real Estate vs. SEBI]**
- ❖ Hybrid nature
 - ❖ Covered in marketable security of like nature



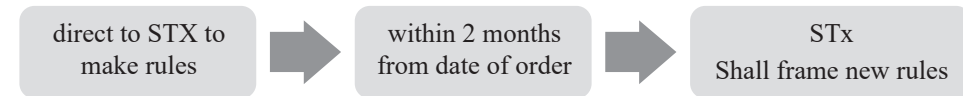
Recognition of stock Exchange



(1) Powers of CG

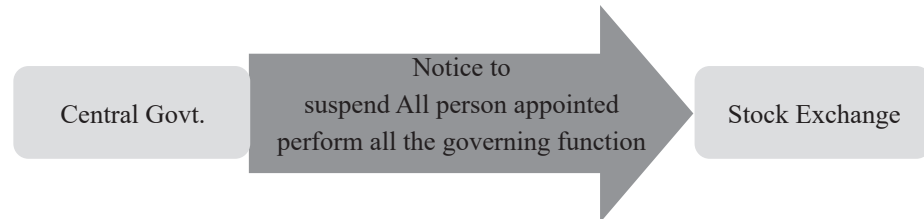


direct rules OR make rules
CG make Or direct rules + Publish in official gazette



Sec - 11

To supersede governing bodies of STx



From date of notice

- ❖ Governing body members of STx → cease to hold office
- ❖ New members appointed → STx governing body
- ❖ All property & right → New members

Sec - 12

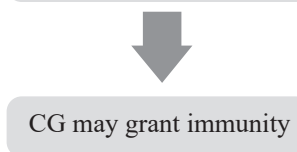
To suspend business of STx

- ❖ Emergency
- ❖ In public interest

Sec - 16 To prohibit contracts in certain cases

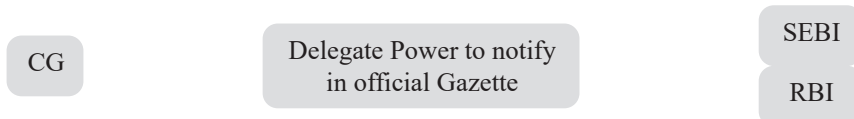
To prevent undesirable transaction CG may order to any person not to trade in securities market

Sec - 23 Power to grant immunity



Sec - 29 A & 30

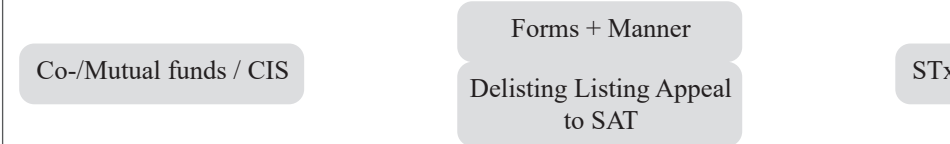
Power to Delegate & Power to make rules



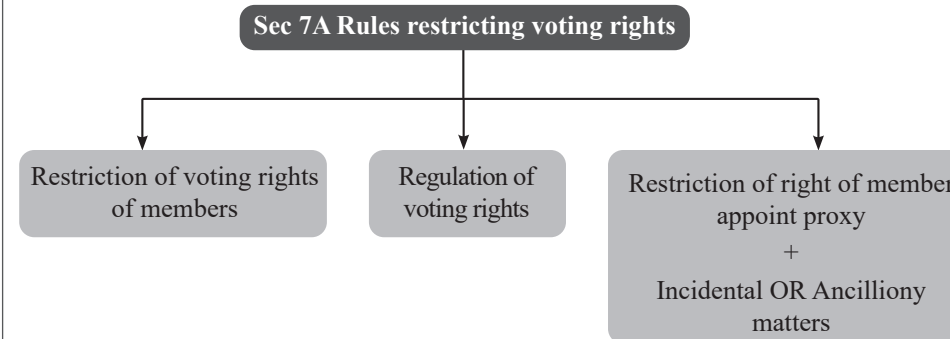
CG may make rules:

- (a) Manner of application & fees + conditions
- (b) Manner of inquiry + admission of members
- (c) Particulars of periodical & annual return

- (d) Presentation of documents
- (e) amendments of bye - laws
- (f) Requirements:



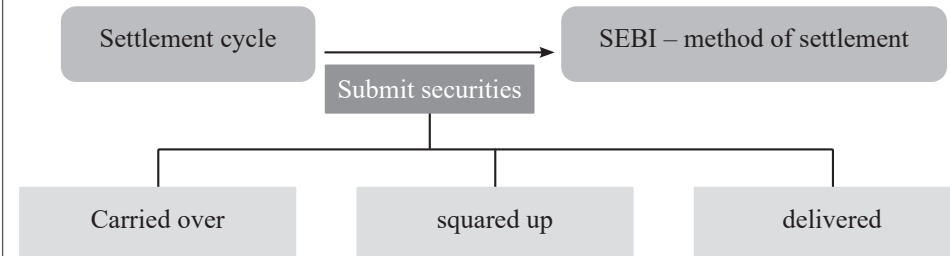
(2) Power of STx



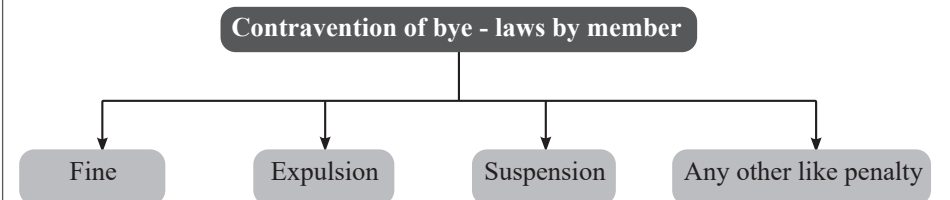
Sec - 9 To make bye - laws

SEBI approval required

- ❖ Opening & closing of market
- ❖ Trading hours
- ❖ Fixing + altering trading hours
- ❖ Clearing house (periodical settlement of A/c)

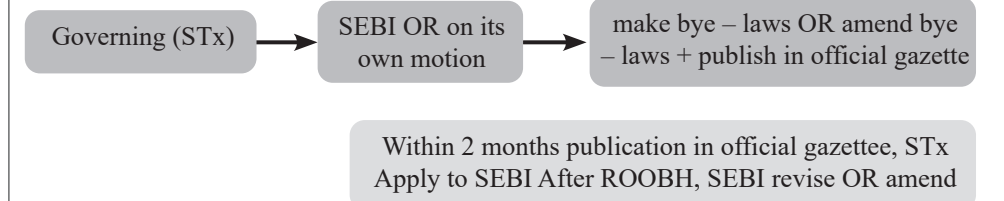


- ❖ Regulation & prohibition of blank b/f
- ❖ Determining opening & closing range of securities
- ❖ Listing of securities
- ❖ Fixing brokerage
- ❖ Emergencies in trade
- ❖ Separation of jobbers & brokers
- ❖ Limits on individual trade orders

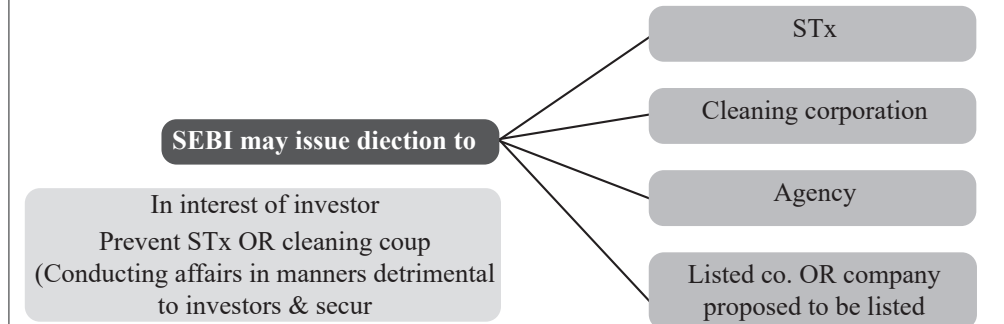


Q. Whether laws framed by BSE are subordinate legislation?

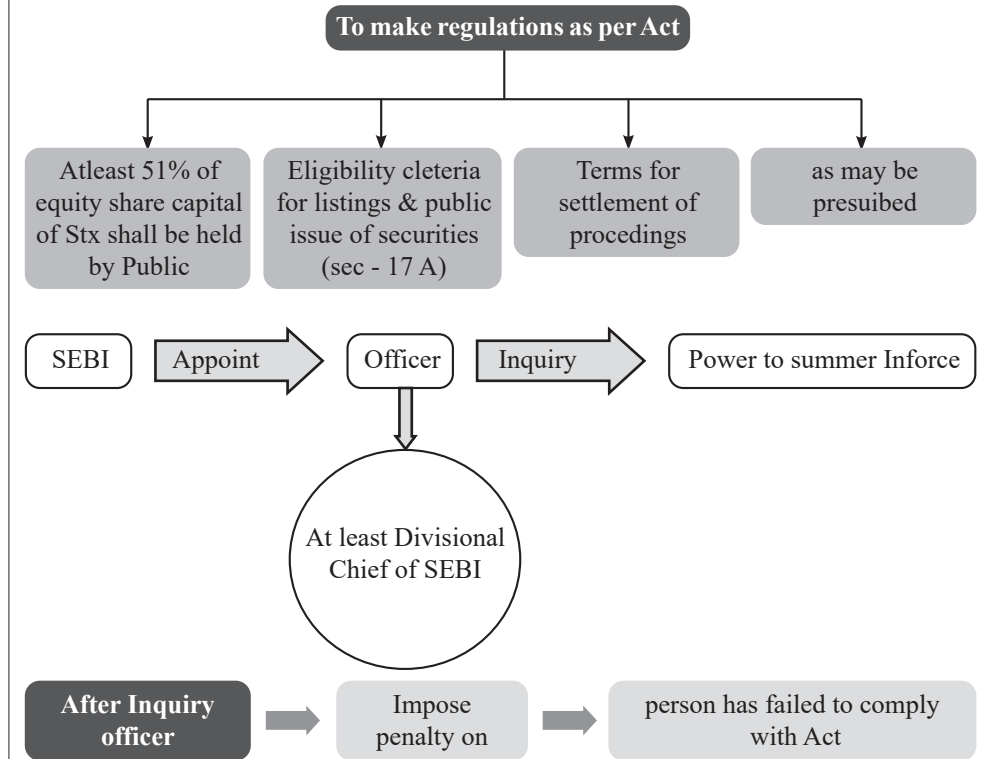
Yes, rules framed under section 9 are subordinate legislation *Vinay Bubna vs. Yogesh mehta (Bombay High court - 1998)*



Sec - 12 A To issue directions



Sec - 31



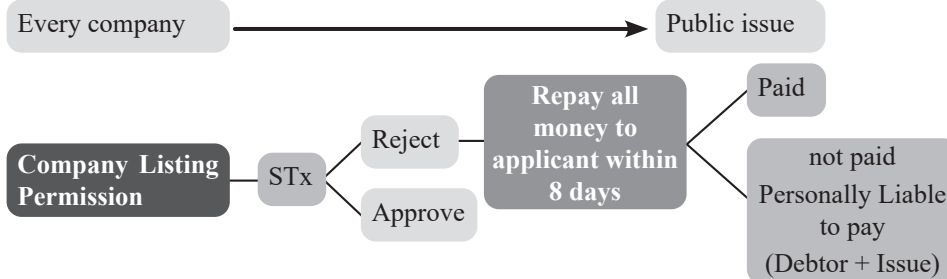


SEBI may reject the order of Officer within 3 months

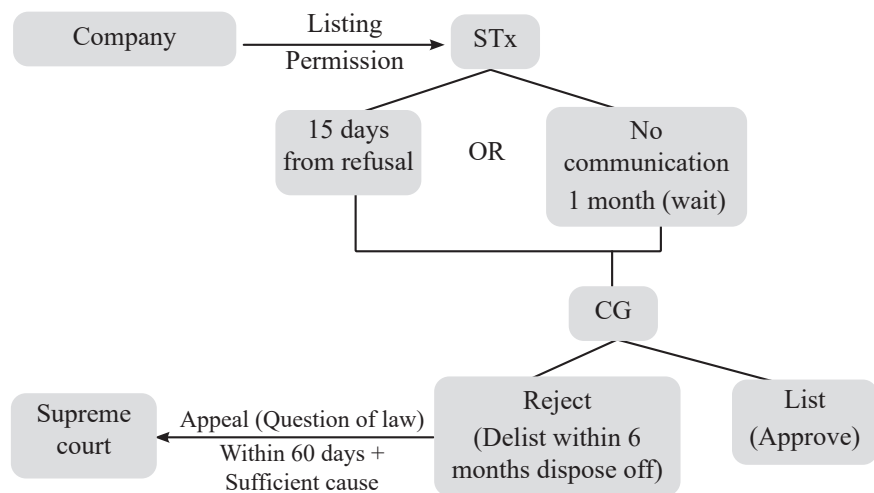
Does not apply to:

- ❖ IFSC under SEZ Act, 2005
- ❖ IFSC Act, 2019

Public issue and listing of securities



Detailed:



Various Penalties

- 23 A (a) fails to provide information Provides incorrect info / incomplete info
- 83 A (b) fails to maintain books OR records
- 23 (b) Fails to enter into contract with clients
- 23 (c) Failure to redress investor grievances (by Listed co.) 1 lakh – 1 lakh per day (till failure continues)
 - ↓
 - 1 crore Rs.
- 23 (D) Failure → Segregate money of client
 - ↓
 - Using client money for self use
- 23 (H) No separate penalty provided 1 lakh – 1 crore Rs/-
- 23 (E) Listing OR Delisting conditions


- ❖ Company
- ❖ CIS
- ❖ Mutual Fund
- ❖ REIT
- ❖ INVIT
- ❖ SIF 5 lakh – 25 crores (max.)

23 (E) Listing OR Delisting conditions

- ❖ Company
- ❖ CIS
- ❖ Mutual Fund
- ❖ REIT
- ❖ INVIT
- ❖ SIF

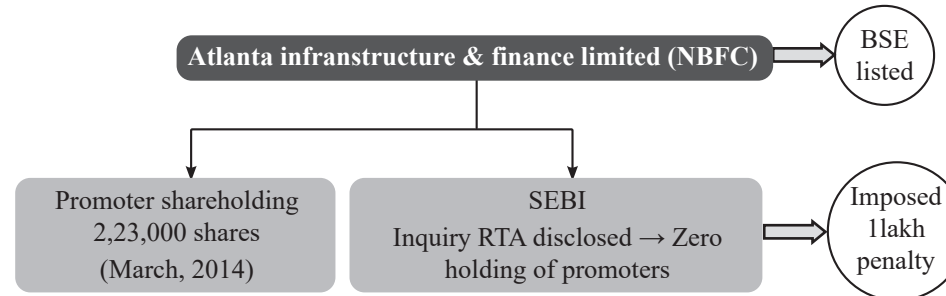
23GA STx OR clearing corporation (Not as per law)

- ❖ Members
- ❖ Agents
- ❖ Issuers



Case Studies

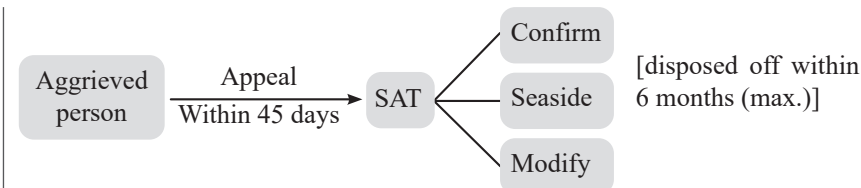
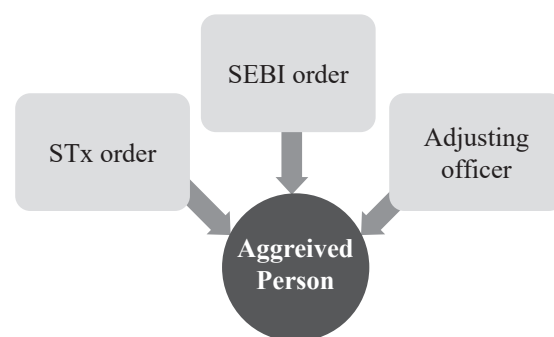
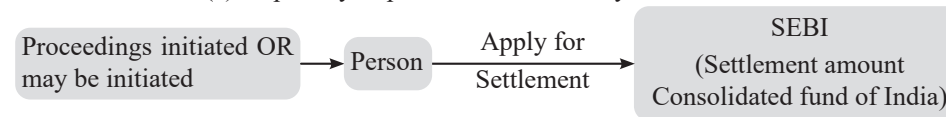
1.



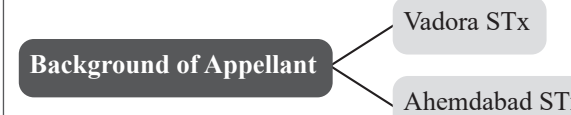
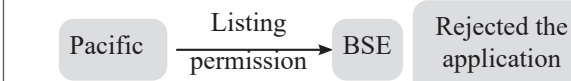
2. Dr. Satish chandra, Mrs. Sucharita Das & The orissa Minerals development co. ltd. (Notices) vs. SEBI



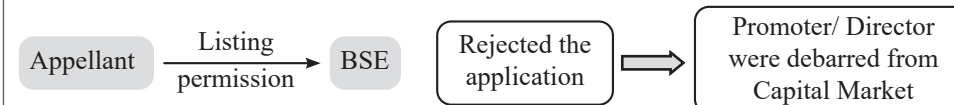
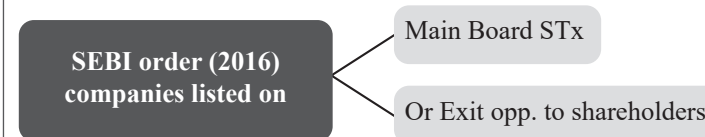
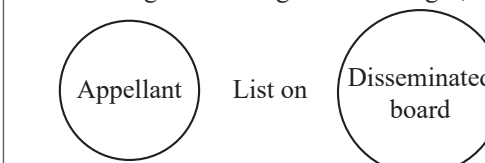
Violation u/s 23A(a) → penalty imposed Rs. 2 lakhs only/-



3. Pacific Funistock Ltd. vs. BSE Ltd.



De-recognition of regional exchanges, BSE launched Dissemination board.



❖ SAT dismiss the Appeal.

4. Karvy stock broking Limited vs. NSE

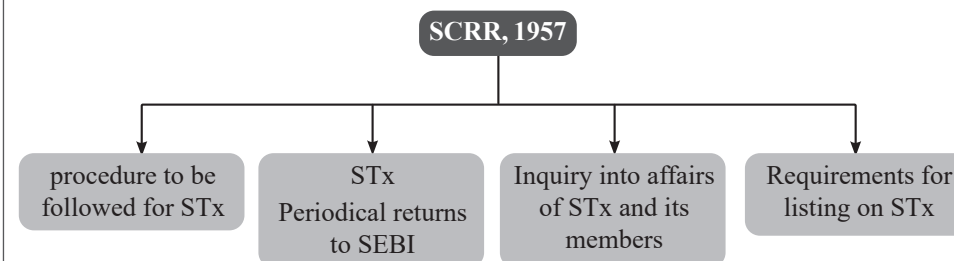
NSE Suspended membership due to non compliance of statutory provisions

SAT Order

- ❖ No reason to entertain appeal
- ❖ No need to by-pass statutory rules

Section 23 M

Where no punishment provided, Imprisonment upto 10 year OR five upto 5 crores OR Both

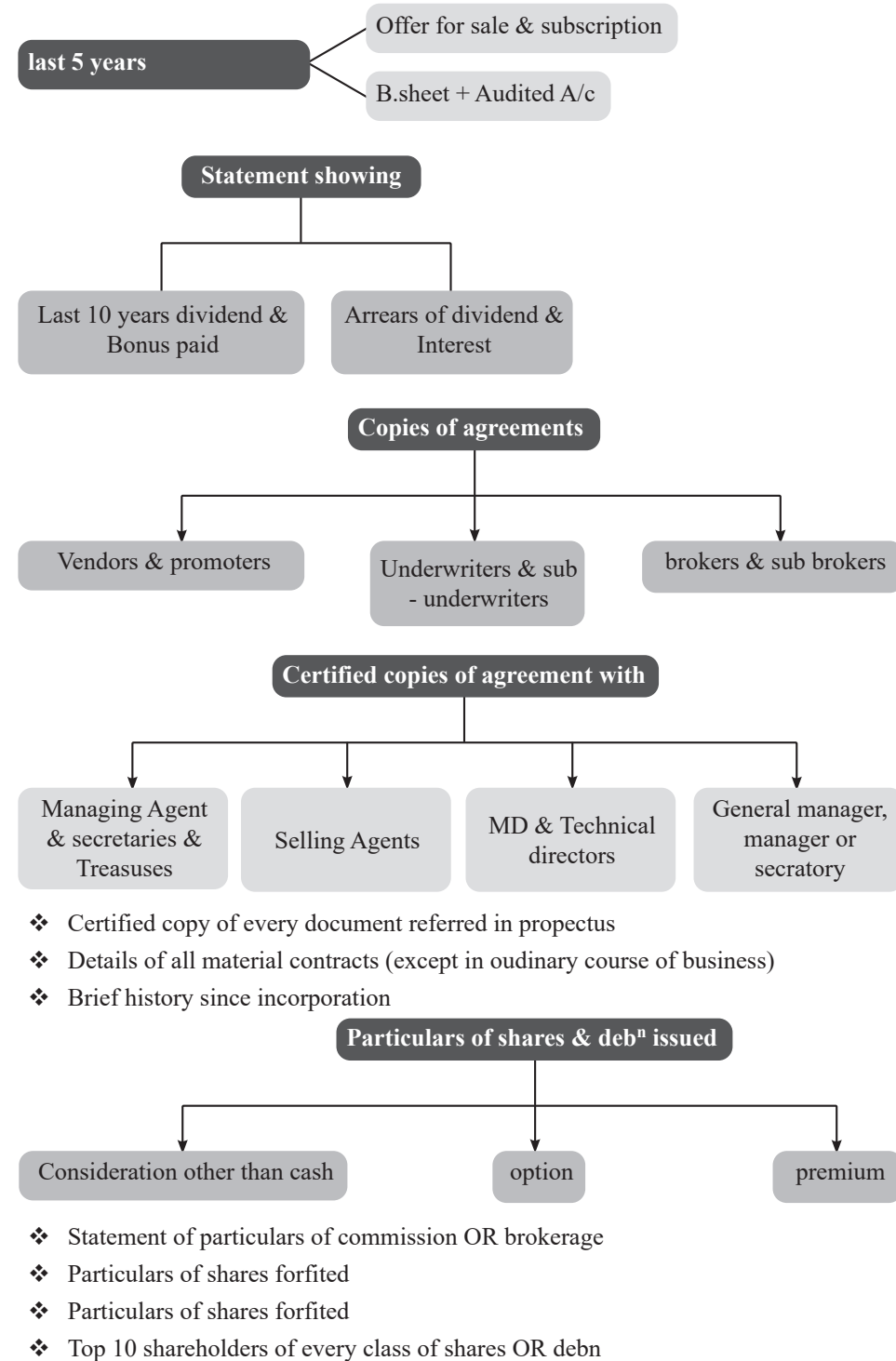


Requirements for listing of securities on STx Rule 19 (1)



Application + following documents:

- ❖ MOA & AOA (shares issue)
Debⁿ Trust deed (debⁿ issue)
- ❖ Copy of prospectus OR statement in his of prospectus



19(2) Issuer shall satisfy stock exchange

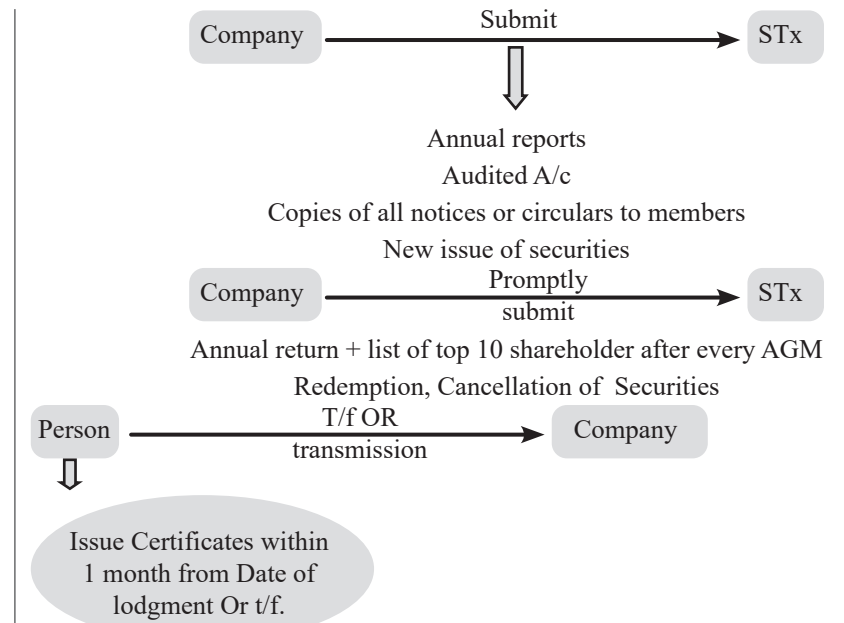
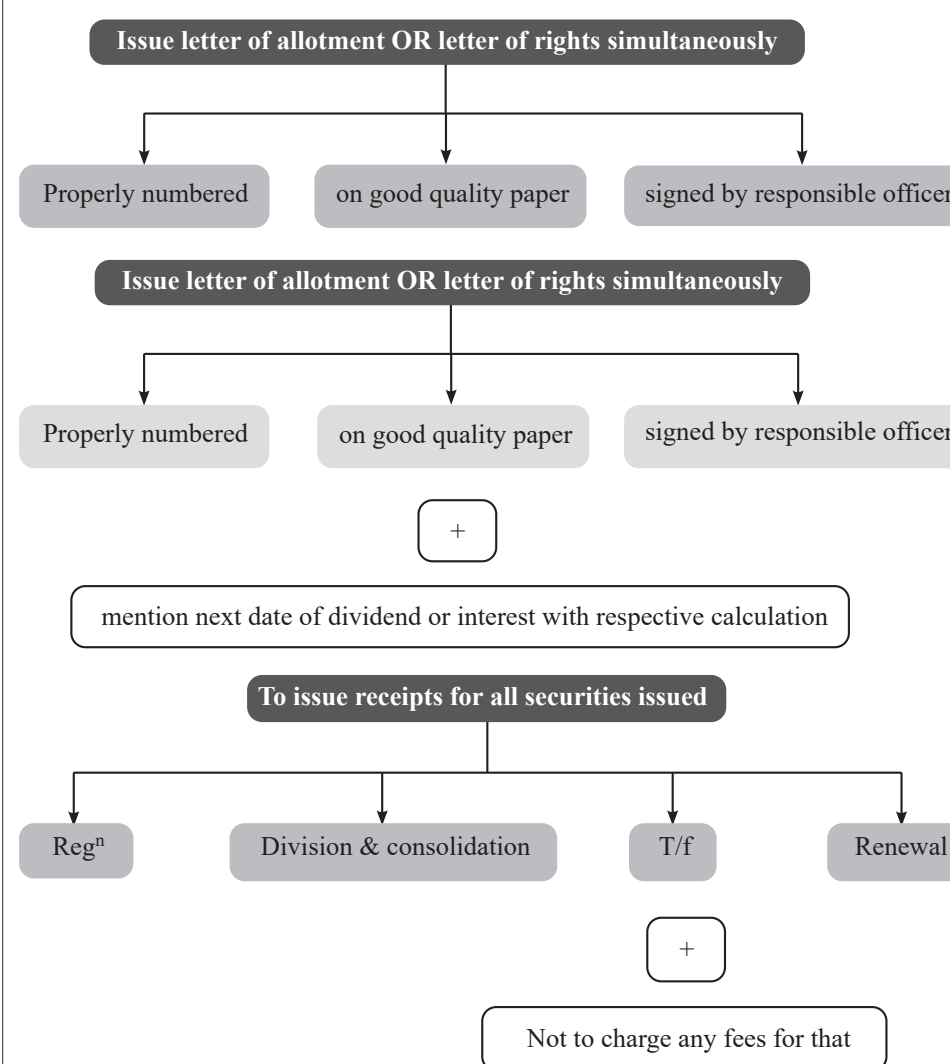
- ❖ AOA provides
 - (i) Common form of transfer
 - (ii) Fully paid up shares → free from any lien

- (iii) party paid up shares → company's lien
- (iv) Advance calls paid may attract interest (but not dividend)
- (v) No forfeiture of unclaimed dividend
- (vi) Right / option of shares
↓ Authorized in General meeting
Person

Rule 19(2) (b)

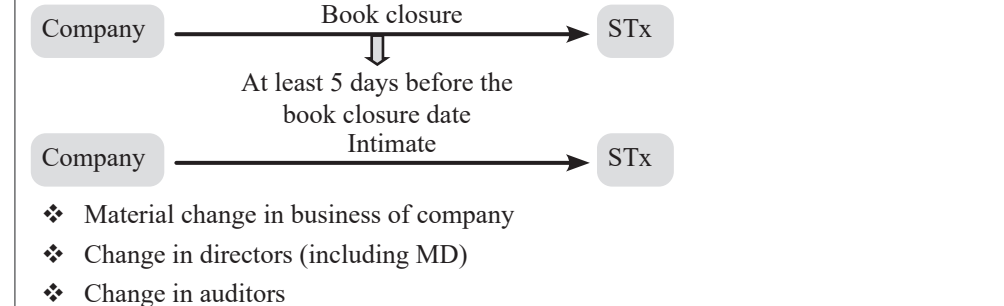
MINIMUM OFFER AND ALLOTMENT TO PUBLIC (ALSO KNOWN AS COMPLIANCE OF CONTINUOUS LISTING AGREEMENT)	
Post Issued Capital (Calculated at offer Price)	Minimum Allotment to Public
Uptp 1600 crores	atleast 25%
More than 1600 crores but upto 4000 crores	atleast Rs. 400 crores (Increase to 25% in next 3 years)
More than 4000 crores but upto 100000 crores	Atleast 10% (Increase to 25% in next 3 years)
More than 1 lakh crores	Atleast 5000 crores and atleast 5% (Increase to 10% in next 2 years and 25% in next 5 years)

v19(3) After submission of application → STx company

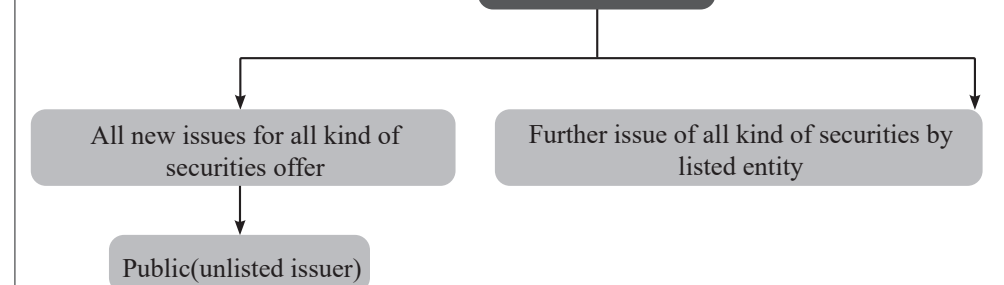


Submit:-

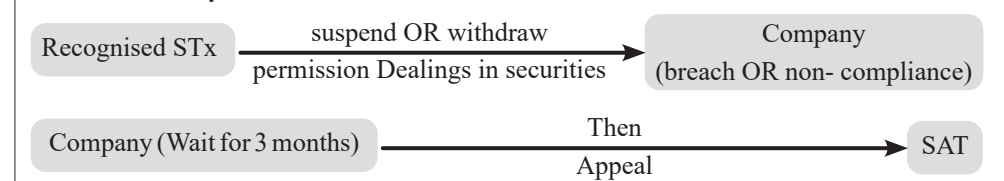
- ❖ Power of attorney
- ❖ Purchase
- ❖ Letter of administration
- ❖ Death certificate
- ❖ Issue certificates (shares or debentures)



Listing permission



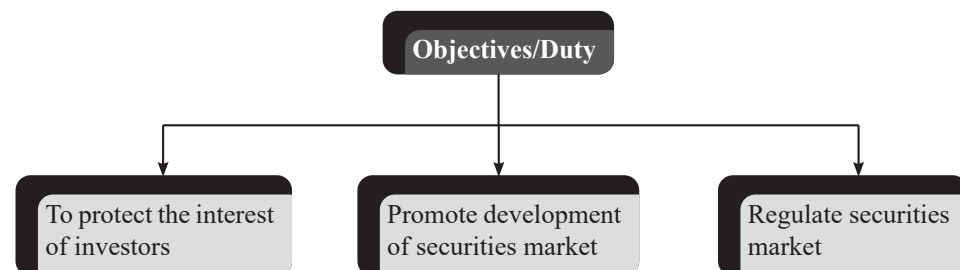
Rule 19(5) Suspension OR withdrawal to deal in securities



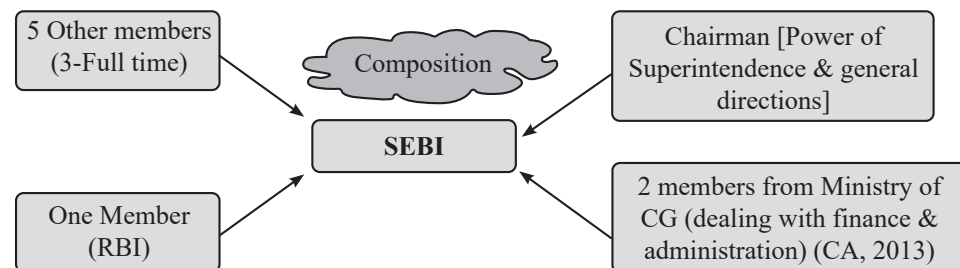
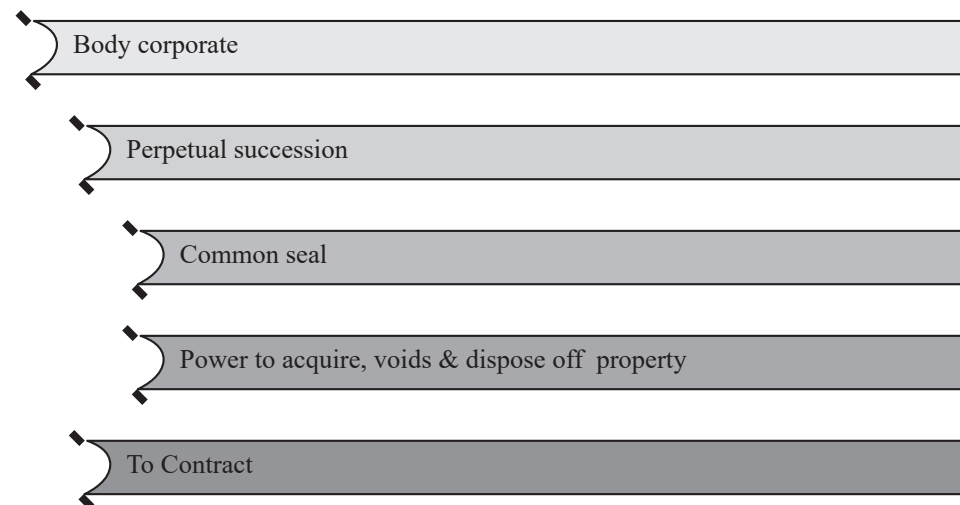
SEBI

- ❖ Established under SEBI Act, 1992
- ❖ Head office at Mumbai

Established as:



Establishment of SEBI



Section- 11 Functions of SEBI

Regulating business in stock exchange + Other securities market

Requesting & Regulating working of

Broker, Sub Broker, share t/f agent, bankers to issue, RTA, underwriter, portfolio Manager,
Venture capital, mutual funds
Depository condition intermediaries

Prohibiting

Fraudulent unfair trade practice
Insider trading

Calling of information & Records from

Any bank/board/corporation/Authority
Agencies & Authorities (in or outside India)
Stx, mutual funds, intermediaries

Regulating SAST

Promoting & Regulating self regulatory organisation

Levy fees

Conducting research

SEBI has powers of civil court (CPC, 1908)

- Discovery & production of books & other documents
- summoning & enforcing attendance of any person
- Inspection of books, registers & other documents (listed Co. + proposed listed Co.)
- Issuing commission for examination of witness

Orders by SEBI

Suspend trading of security

Restrain & prohibit person from doing any transaction in securities market

Suspend any office bearer

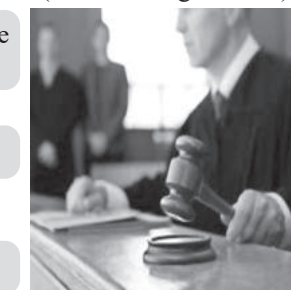
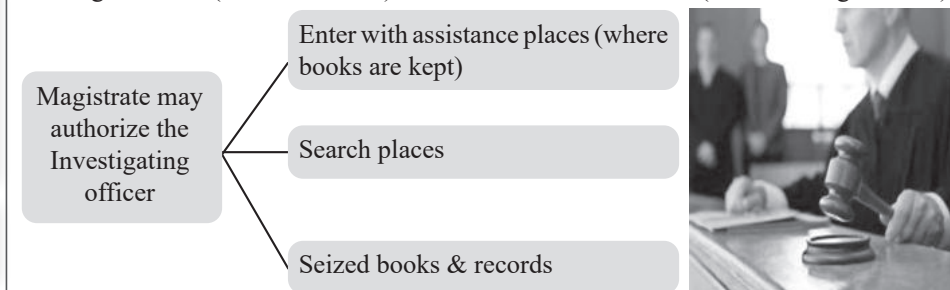
Impound proceeds of securities under investigation

Direct

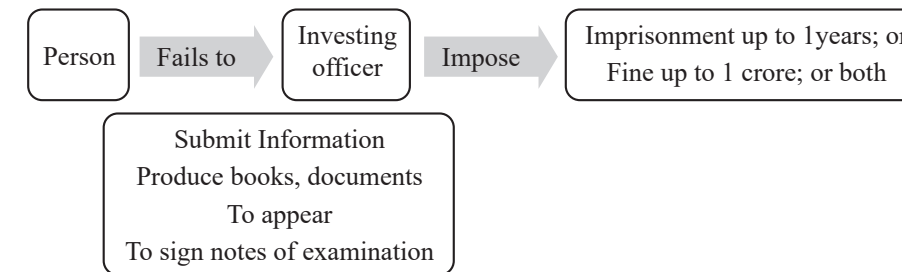
Intermediary (not to dispose off securities under investigation) to attach Bank A/c & property of Intermediary (max. 90 days)

Section 11 AA

Pooling of Funds (100 cr. or more) ---- Shall deemed to be CIS (Whether Regd. or not)



- ❖ Records seized returned intermediary (after conclusion of investigation)



Supreme Tex Mart Ltd. V/s. SEBI

During Investigation (June – Oct 2016)

SEBI $\xleftrightarrow[\text{Information}]{\text{Summon}}$ Company (Which was false)

Held SEBI $\xrightarrow{\text{Penalty}}$ 8 Lakhs (To misguide investigation)

SEBI can put cease & desist proceedings order on persons who are likely to cause violation. Authority



Sec-30

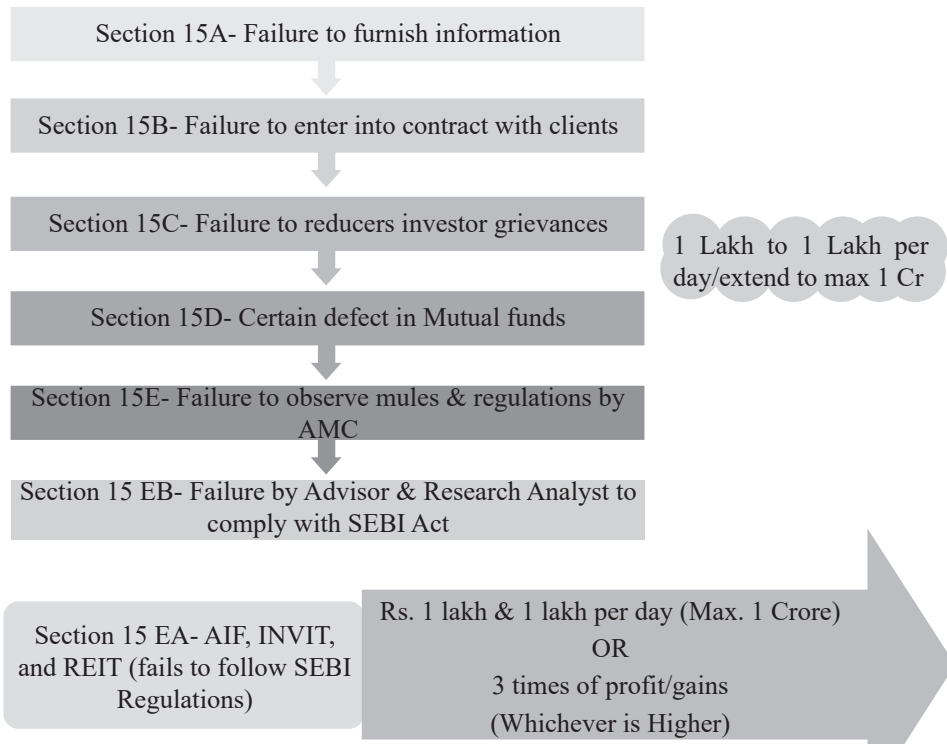
SEBI can make regulations:

- Time & places of board meeting, Quorum, transactions
- Settlement of proceeding
- terms for officers & employees of SEBI
- matters for issue of Capital, t/f & other matters
- conditions for registration, suspension of cancellation of regn.

#. No person shall directly OR Indirectly (Sec-12A)

- ❖ Employ any devices in contravention with this Act
- ❖ For buy & sell of securities.
- ❖ to defraud issue & dealing in securities
- ❖ employ in any practice which operates as fraud OR deceit any person
- ❖ engage in insider trading or deal on basis of UPSI
- ❖ acquire control of other company in contravention of SAST Regulations, 2011

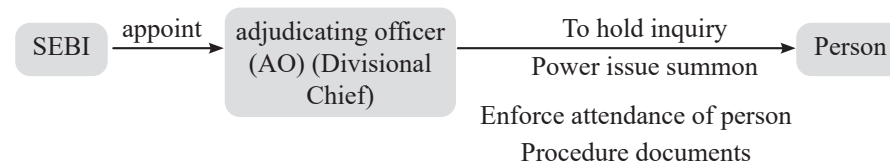
#. Penalties



- Section 15F - Stock Broker**
Fails to issue contract note (1 lakh – 1 Crore)
Fails to deliver security or make payment (1 Lakh to 1 Lakh per day (Max. 1 Cr))
Charges amount of brokerage in excess [1 lakh or 5 × Brokerage (Excess)] Higher
- Section 15G- Insides trading [10 Lakh to 25 Cr or 3 × profit] Higher**

- Section 15H - Non disclose of takeover & acquisition [10 Lakh – 25 Cr or 3 × Profit] Higher**
- Section 15 HA- Fraudulent & Unfair trade practices [5 Lakh – 25 Cr or 3 × Profit] Higher**
- Section 15HB- No separate penalty [1 Lakh – 1 Crore]**

Adjudication



After Inquiry

AO can impose penalty
(If order passed by AO is erroneous, SEBI → pass relevant order)

Time?
3 months from date of order
OR
Disposal of appeal } Earlier

Factors to be considered while adjudicating penalty

(SEBI VS. Bhavesh Pasari)

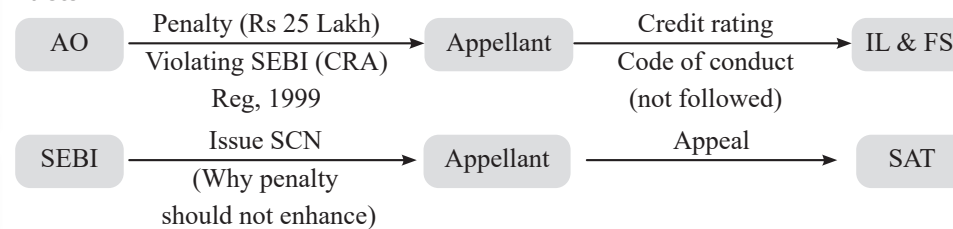
- Amount of disproportionate/unfair advantage
- Amount of loss to investor
- Repetitive nature of default

(An fines or penalties → Credited → consolidated fund of India)

India Ratings & Research (Appellant) Pvt. Ltd. Vs SEBI (Respondent)

SEBI may call for records of inquiry (orders is encourages not in interest of market) + may enhance penalty

Facts



SAT Held

→ Deposit 25 Lakh (within 4 weeks) + Proceeding of SEBI will continue

Settlement of Administrative & Civil proceedings



[All settlement amount → required → consolidated fraud of India]

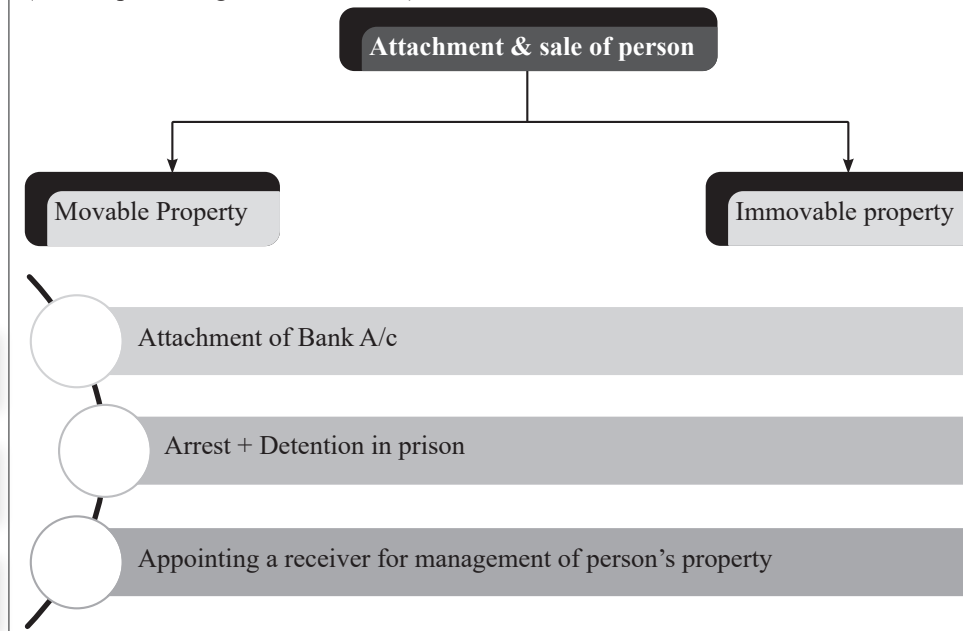
- (-) Legal Cost
- (-) Disgorgement Cost

Recovery of amount

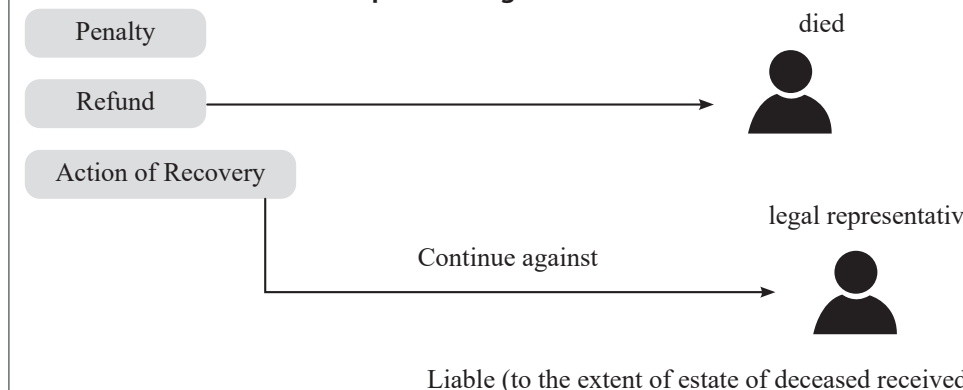
- Person
- fails to pay penalty
- fails to follow SEBI order (to refund money)
- Fails to comply with direction u/s 11B
- fails to pay any fees

Recovery officer

(take help from legal administration)



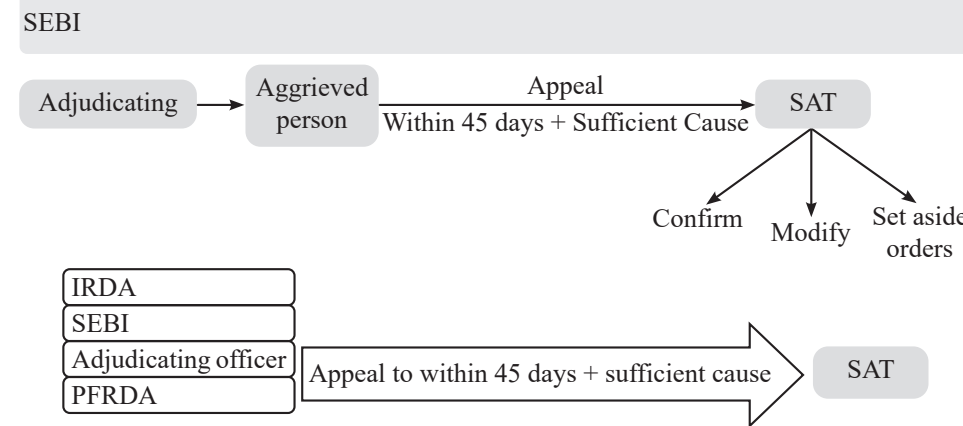
Section 28 B Continuous of proceeding



Securities Appellate Tribunal (SAT)

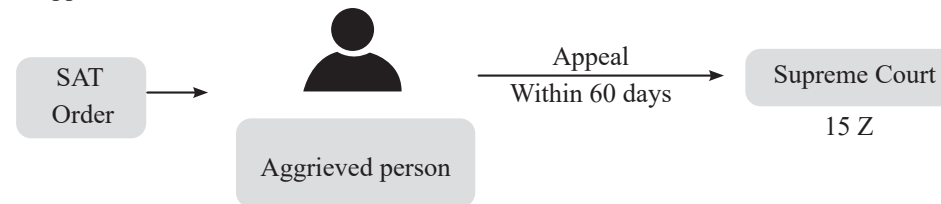
- Presiding officer + Technical Member + Judicial member (in every Bench)
- Ordinarily sits at Mumbai.
- Presiding officer may t/f Technical or Judicial member

Order passed by



Special Note:-

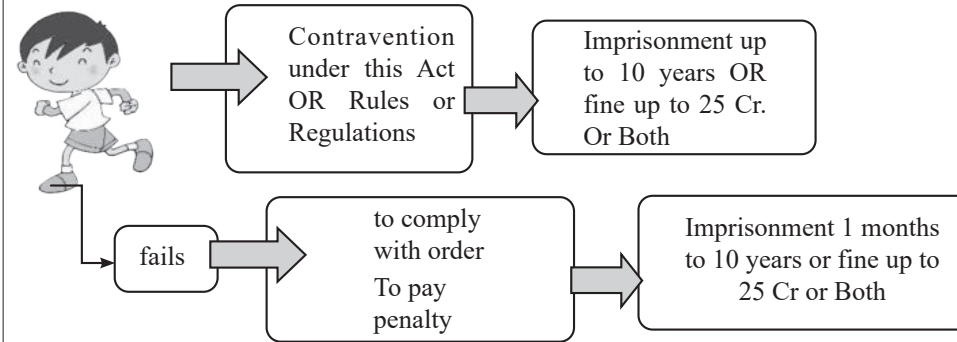
- SAT has same powers as of civil court (CPC, 1908)
- Every proceeding at SAT is deemed judicial proceeding
- T/f of case from one bench of SAT to another Bench is possible
- Bench → refer → Presiding officer
- If 2 members (differ in opinion)
- Appellant may appeal in person or authorize CA, CS, CMA or Legal practitioners to appear before SAT



Section 20A Bar of Jurisdiction

- Appeal shall be filed with SAT only
- No civil court has jurisdiction to pass any order
- No injunction order can be passed for SEBI or its officers orders

Offences



Non-Compoundable offence

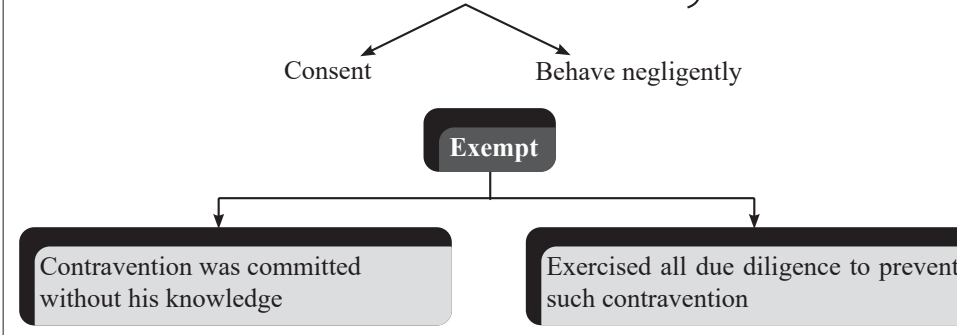
- Imprisonment only
- Imprisonment and fine
- Special Note** – The Compounding of offences can be made by SAT or the court where the proceeding is pending.

Establishment of special court

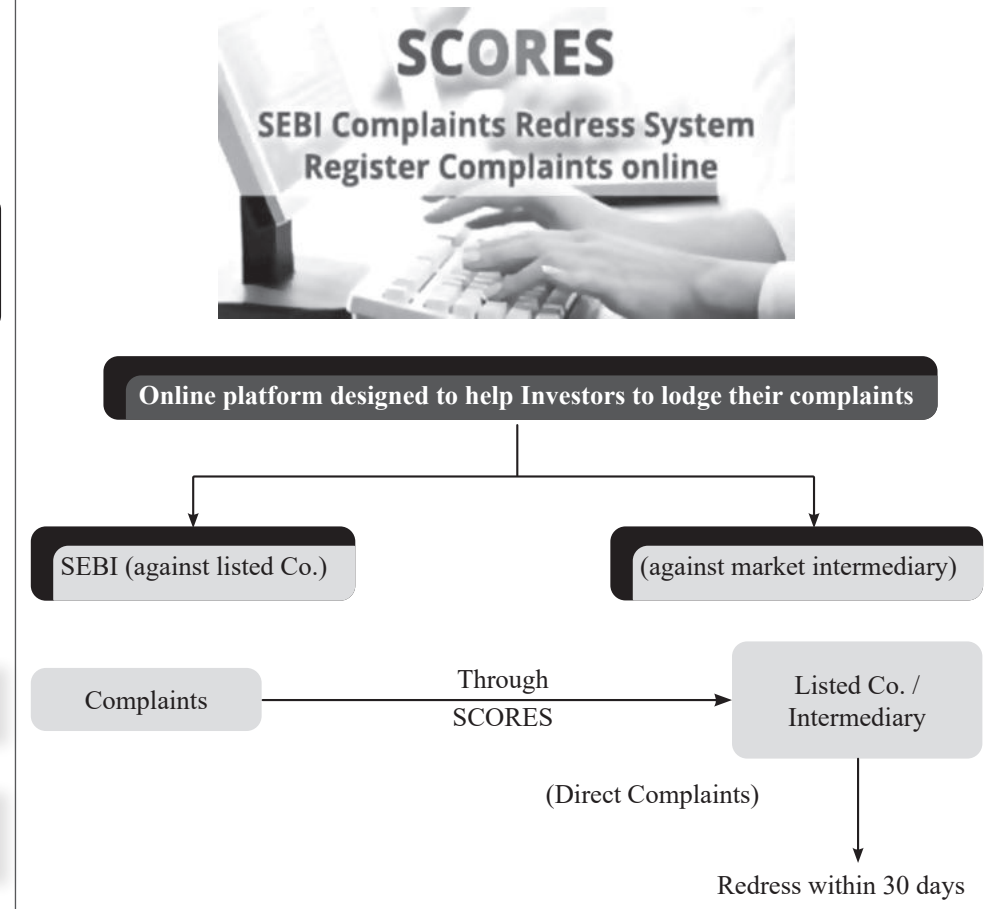
- for speedy trial of offences.
- Single Judge appointed by CG+ chief Justice (Already Holding office of sessions Judge OR Add. Session Judge)
- all offences under area of special court will be tried by specified special court only
- Appeal against the order of Special court shall lie with High court
- person conducting prosecution before special court (public prosecutor) Advocate in practice from last 7 years

Contravention by Companies

- Every person who was responsible for conduct of business of company
- Every director, manager, secretary OR other officers
- Deemed guilty & punished accordingly



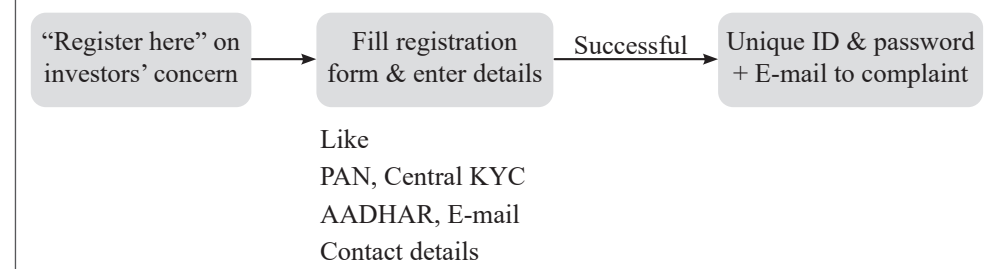
SCORES (SEBI complaint Redressal System)



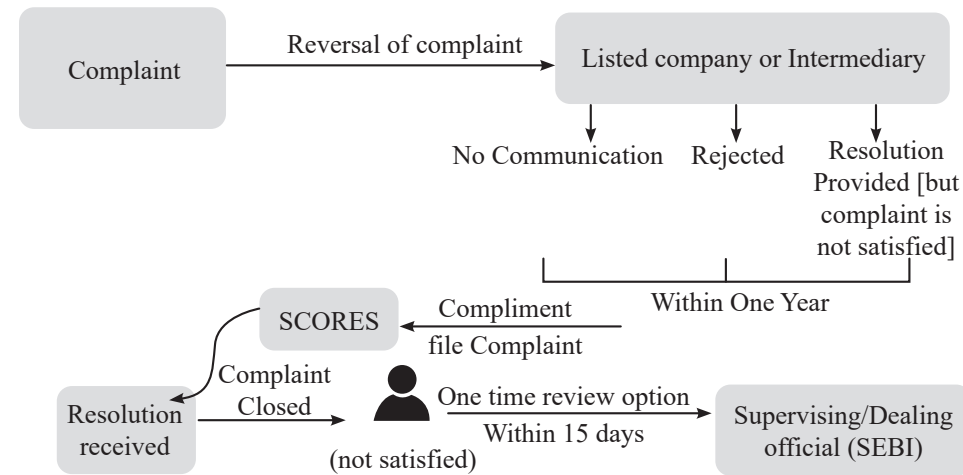
Features

- Centralised database of investor complaints
- Online movement of complaints
- Upload action taken report
- Current status check
- Online 24 x 7 access
- Instant acknowledgment of complaints (on e-mail)
- Complaint registration number for tracking

Process of complaint on SCORES



Timeline for lodging complaint on SCORES



Complaints not allowed on SCORES

Complaints against

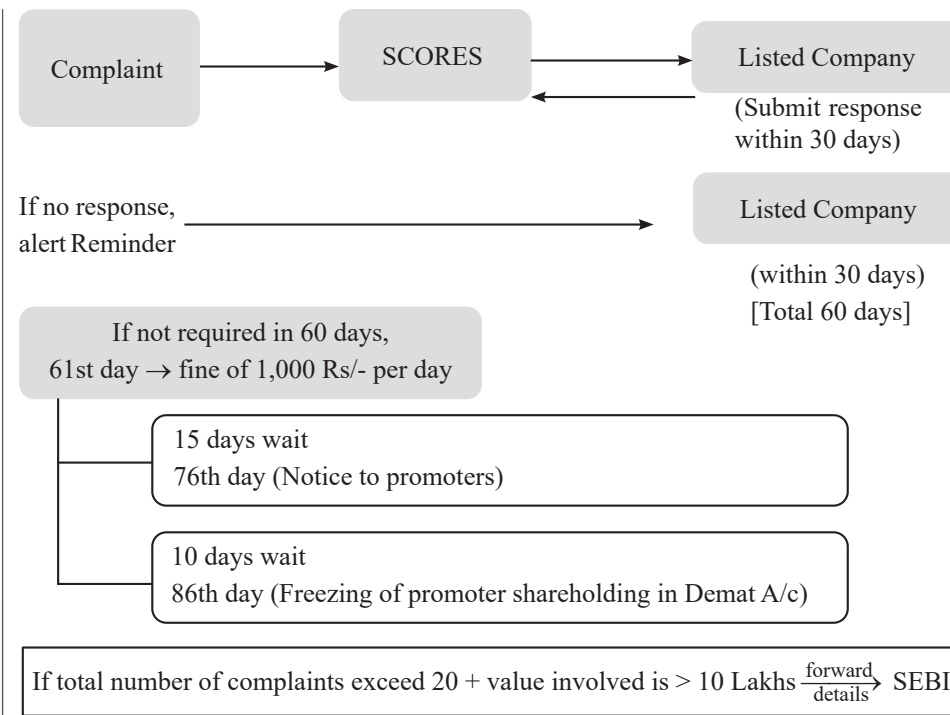
- Unlisted company OR
- Company listed on discommunication Board of STx.
- Cases pending in court or Quasi Judicial
- Other regulatory bodies Jurisdiction Ex. IRDAI, CCI, PFRDA
- Stricked off companies from ROC
- Companies liquidated or under liquidation

Complaints allowed on SCORES

Non-update of address/signature etc.

Non-receipt

- Bonus Shares
- Dividend OR delay in dividend
- Interest OR delay in interest
- duplicate share certificate OR debenture certificate
- Right Issue form
- securities / after conversion/ consolidation / splitting)
- Received physical square certificate whereas Deceit was requested & vice-versa
- fractional entitlement
- Delay in payment of interest & redemption amount (on debt)
- Delay in refund / Non-receipt of refund
- Securities in public / right issue
- after transfer/transmission
- Demat / Remat



SEBI Mobile Application

- ❖ [same features of SCORES]

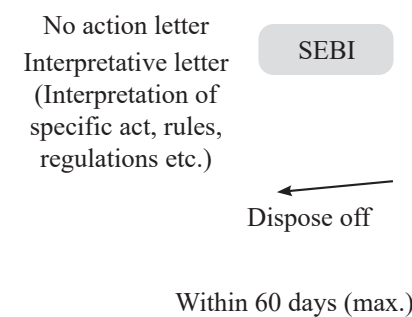
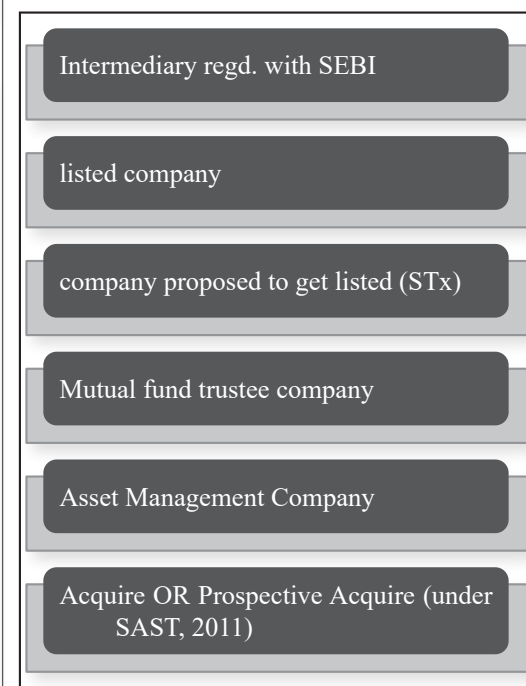
Suman Motels Ltd vs. SEBI

- ❖ Failure to obtain SCORES Authentication and to reduces investor grievances

SEBI circular (dated 13 Aug, 2012)

- ❖ Every company to get regd. on SCORES
- ❖ Adjudicating officer Imposed 1 lakh Rs/- penalty on Suman Molds Ltd, as they fail to register on SCORES within 30 days.

SEBI Informal guidance Scheme, 2003

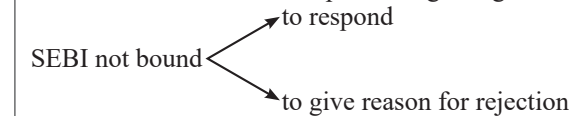


SEBI may not respond to following

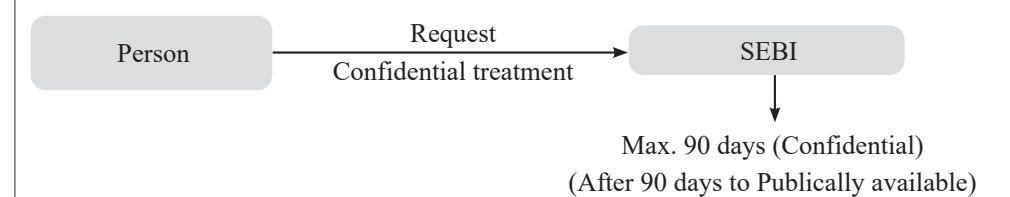
- Do not completely describe factual situation
- Involve Hypothetical Situation
- Requester has no direct OR proximate interest
- No action or interpretative Letter is already issued
- Cases under inquiry OR investigation
- Policy concerns
- Connected issues are pending before any court of tribunal

Request Rejected

Amount will be refunded – processing charge = Refund



Confidentiality of Request

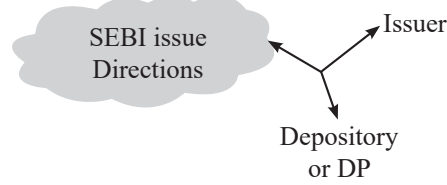
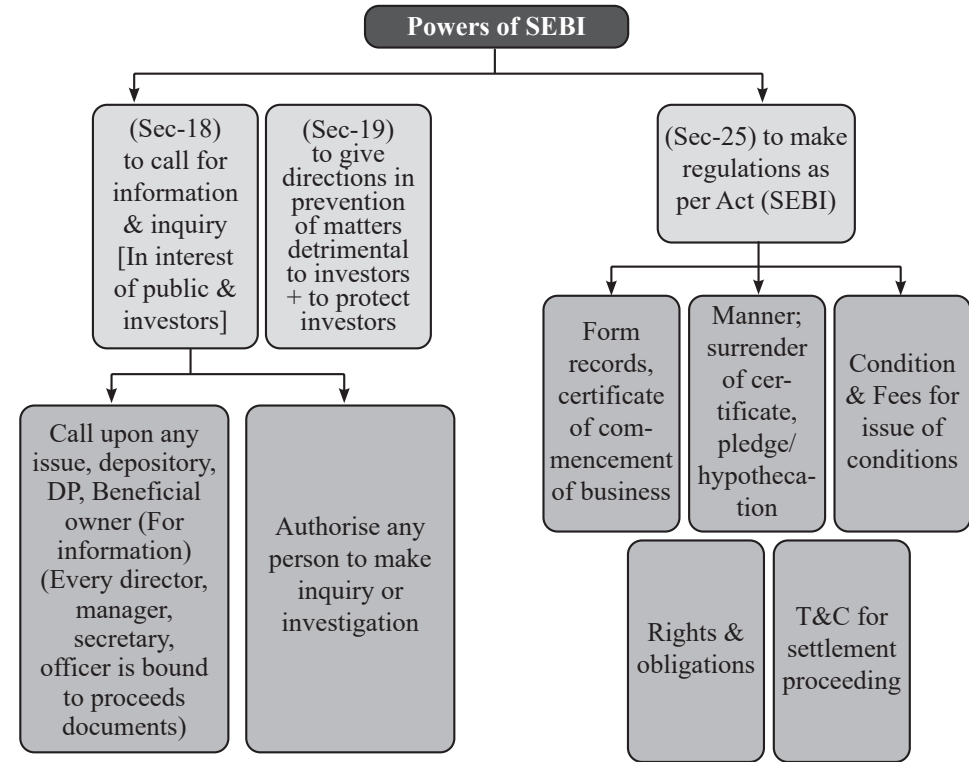


- SEBI can deny confidential treatment, Applicants (2 Options)
1. Withdraw request + SEBI will not disclose to Public
 2. Proceed without confidential treatment

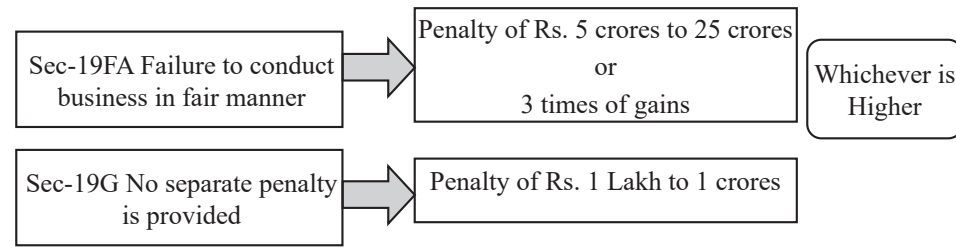
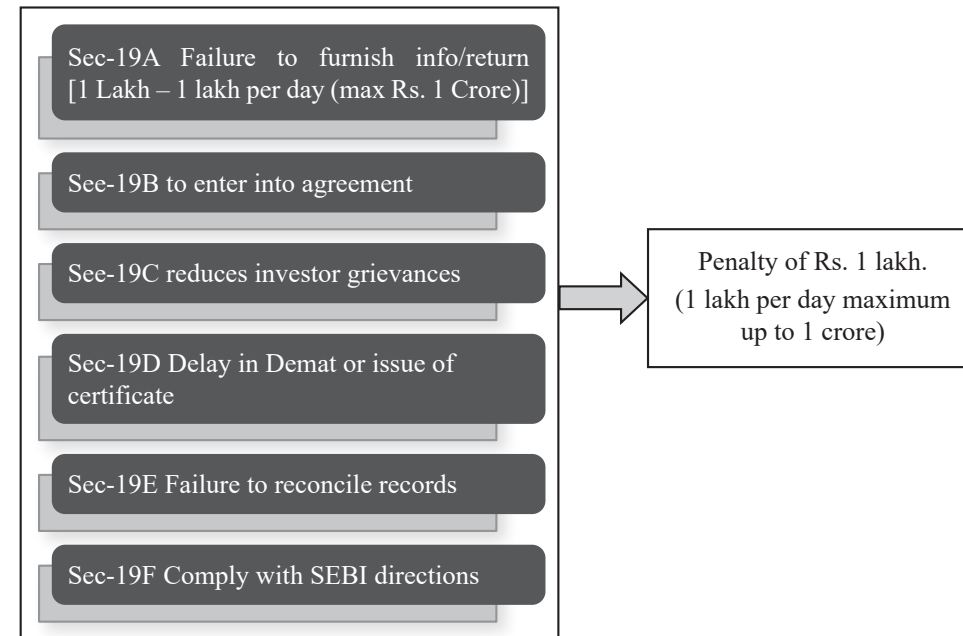
Special points

- Reply of SEBI under guidance scheme
- Not appealable
- Not conclusive decision
- SEBI shall not be liable for any loss or damage to requester

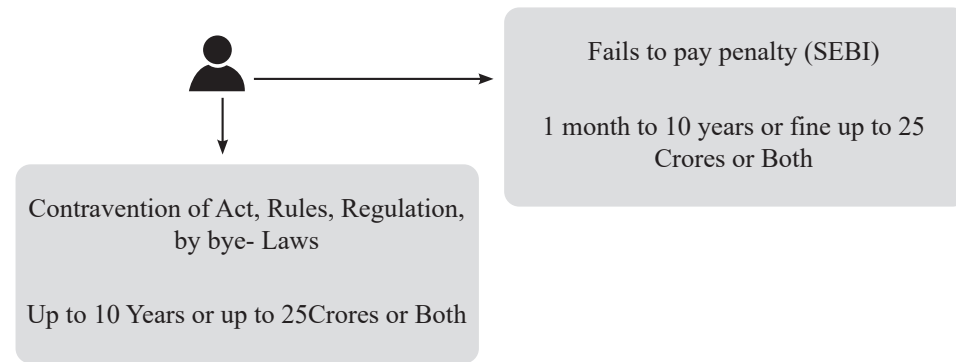
Powers of SEBI



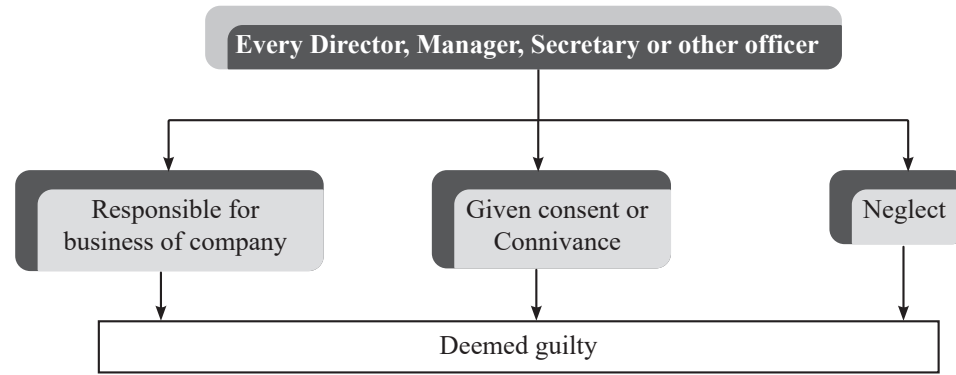
Penalties



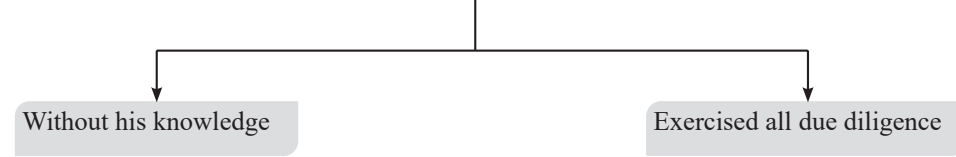
Offenses



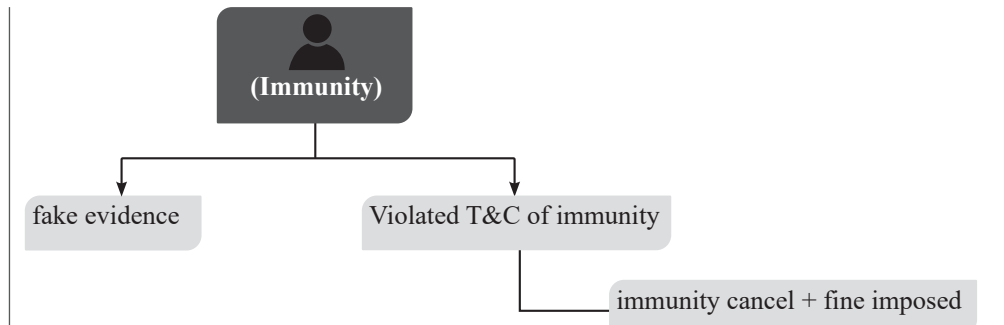
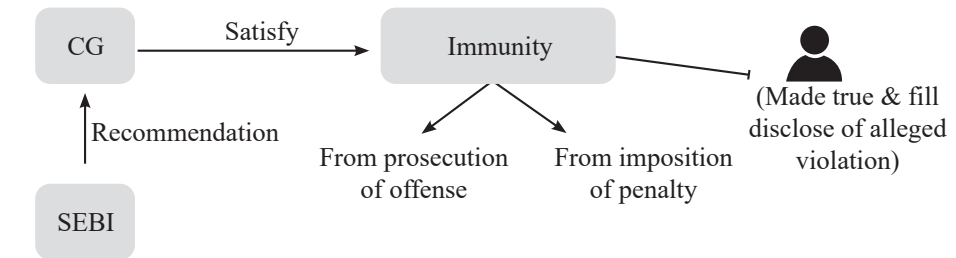
Contravention by Companies



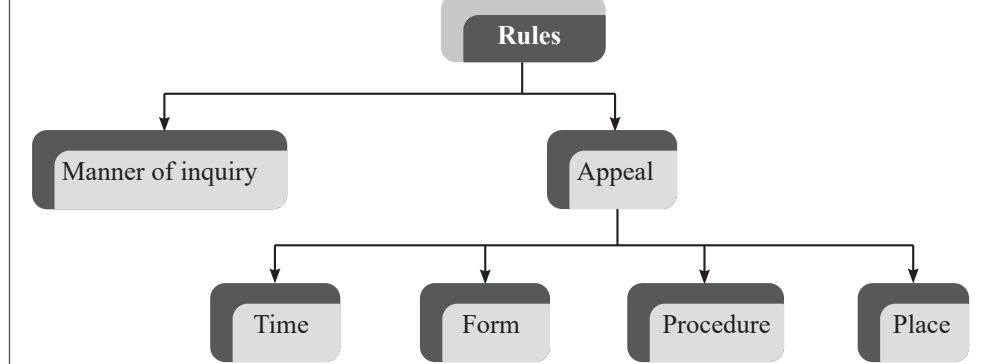
Not liable



#. Immunity



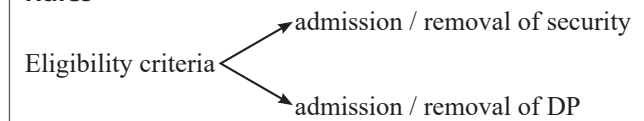
Power of Central Government (Sec-24)



Power of depositories to make rules

Depository (with the SEBI approval) + As per Act & Regulations

Rules



Conditions → dealing with securities

Admission & withdrawal of beneficial owner (BO)

Procedure

- transaction with depository
- ensuring safeguard for protection of interest.
- conveying information rights BO
- resolving disputes
- proceeding against participant committing breach & expulsion

Manner

- dematerialisation
- distribution of Issuer → benefits → Beneficial owner
- creating pledge
- furnishing information → BOD
- ❖ Inter se rights among depository, DP, issuer & beneficial owner
- ❖ Internal control standards



Facilitates transfer without having to handle money	Facilitates transfer of ownership without having to handle securities
Accountable for the safe keeping of funds	Accountable for the safe keeping of securities

Difference between Depository and Custodian

Depository	Custodian
Depository can transfer beneficial ownership	Custodian can not transfer any ownership
Objective is to minimize paperwork involved and facilitate transfer of beneficial ownership electronically	Objective is to safeguard keeping of assers
Custodian is one of the services given by Depository	No such services are given by custodian

DEPOSITORY PARTICIPANT (DP)

- ❖ A depository interfaces with the investors through its agents called Depository Participants (DPs)
- ❖ If an investor wants to avail the services offered by the depository, the investor has to open an account with a DP
- ❖ The Depository Participant maintains securities' account balances and intimates the status of holding to the account holder from time to time.

Characteristics of a DP

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

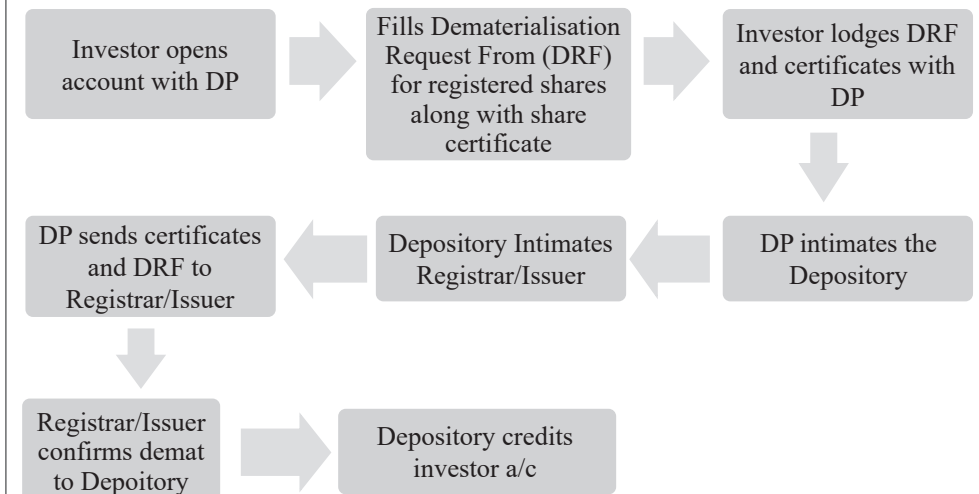
ISSUER

means a person making an issue of securities.

DEMATERIALISATION

Dematerialization is a process by which the physical share certificates of an investor are taken back by the company and an equivalent number of securities are credited to his account in electronic form at the request of the investor.

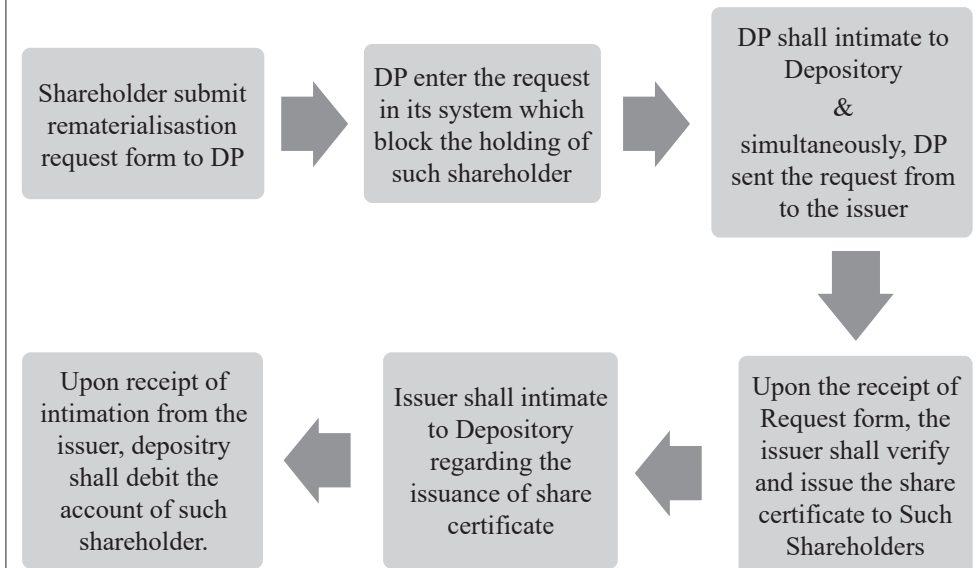
PROCEDURE FOR DEMATERIALISATION



REMATERIALISATION

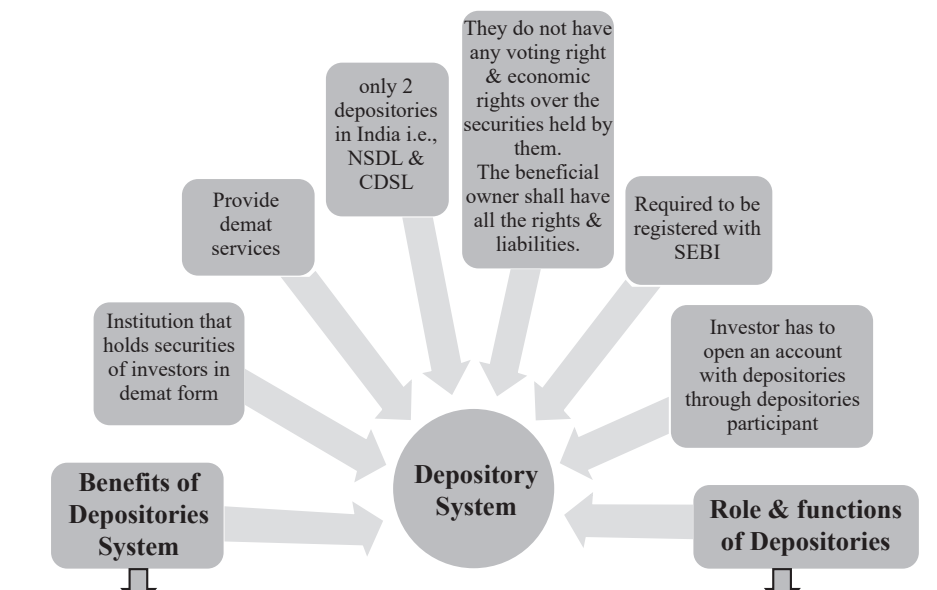
Rematerialisation is the process of converting securities held in electronic form in a demat account back in physical certificate form

Procedure of Rematerialisation



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.

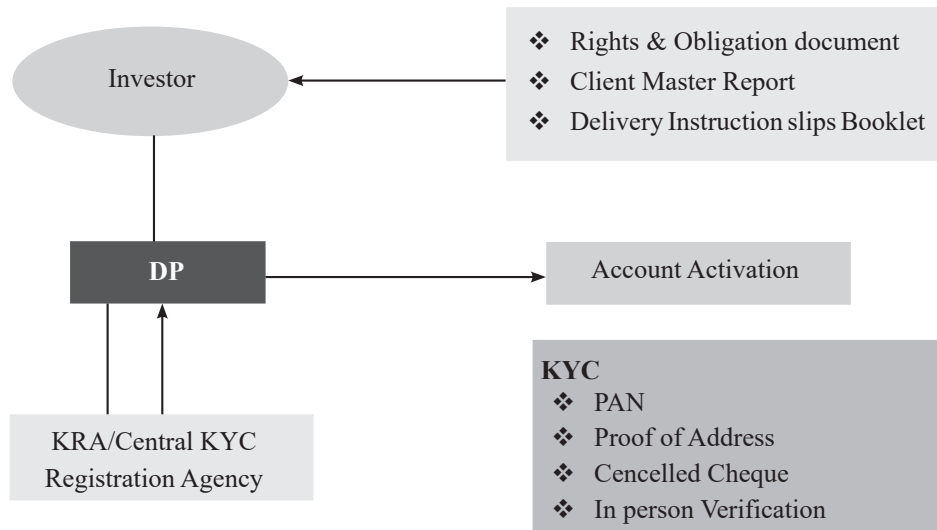


Benefits of Depositories System	Role & functions of Depositories
<ul style="list-style-type: none"> ❖ Elimination of bad deliveries ❖ Elimination of all risks associated with physical certificates ❖ Immediate transfer and registration of securities ❖ Faster disbursement of non-cash corporate benefits ❖ Reduction in handling of huge volumes of paper and periodic status reports to investors 	<ul style="list-style-type: none"> ❖ Dematerialisation ❖ Rematerialisation ❖ Facilitating repurchase / redemption of units of mutual funds ❖ Electronic settlement of trades in stock exchanges ❖ Pledging/hypothecation of dematerialised securities against loan ❖ Electronic credit of securities allotted in public issues, rights issue

Bank-Depository-Analogy

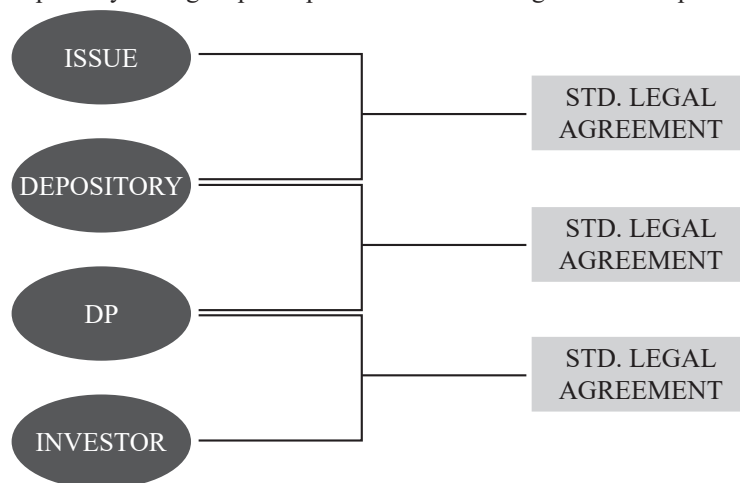
BANK	DEPOSITORY
Holds funds in an account	Holds securities in an account
Transfers funds between accounts on the instruction of the account holder	Transfers securities between accounts on the instruction of the Beneficial owner account holder

DEMAT ACCOUNT OPENING PROCESS



LEGAL LINKAGE

The investors opting to join depository mode are required to enter into an agreement with the depository through a participant who acts as an agent of the depository.



ELECTRONIC CREDIT IN NEW ISSUES

Investor opens account with DP

Submits application with option to hold securities in depository giving DP-Id and Client-Id

Registrar uploads list of allottees to Depository

Depository credits allottee's account with DP.

Corporate Actions

Dividend & other Cash benefits are directly forwarded to investors by the company or its Registrar & Share Transfer Agent

Non-cash benefits are electronically credited to beneficial owner's account through depository.

DEPOSITORIES ACT, 1996

Objectives

A legal basis for establishment of depositories to conduct the task of maintenance of ownership records and effecting changes in ownership records through book entry;

Dematerialisation of securities in the depositories mode as well as giving option to an investor to choose between holding securities in physical mode and holding securities in a dematerialized form in a depository;

Making the securities fungible;

Making the shares, debentures and any interest thereon of a public limited company freely transferable; and

Exempting all transfers of shares within a depository from stamp duty.

Commencement of business by depositories

To commence the business as depository, it shall obtain the registration certificate from SEBI

Depository & Depository Participant

Eligibility Conditions

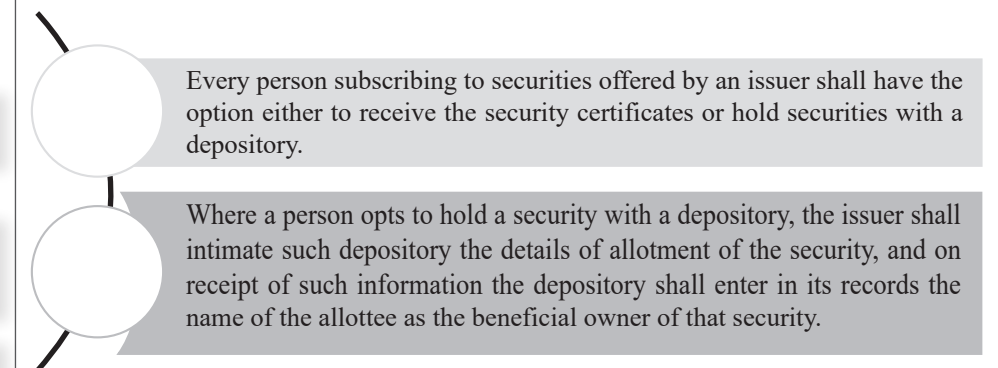
- Has a net worth of not less than rupees one hundred crores
- Be formed and registered as a company under the Companies Act, 2013.
- Be registered with SEBI as a depository under SEBI Act, 1992.
- Has framed bye-laws with the previous approval of SEBI.
- Has one or more participants to render depository services on its behalf.
- Has adequate systems and safeguards to prevent manipulation of records and transactions to the satisfaction of SEBI.
- Complies with Depositories Act, 1996 and SEBI (Depositories and Participants) Regulations, 2018.
- Meets eligibility criteria in terms of constitution, network, etc.

Rights & obligations

- Agreement between depository and participant
- Services of depository

Surrender of certificate of security
Any person who has entered into an agreement through a participant shall surrender the certificate of security, for which he seeks to avail the services of a depository, to the issuer in such manner as may be specified by the regulations.
Registration of transfer of securities with depository

Options to receive security certificate or hold securities with depository



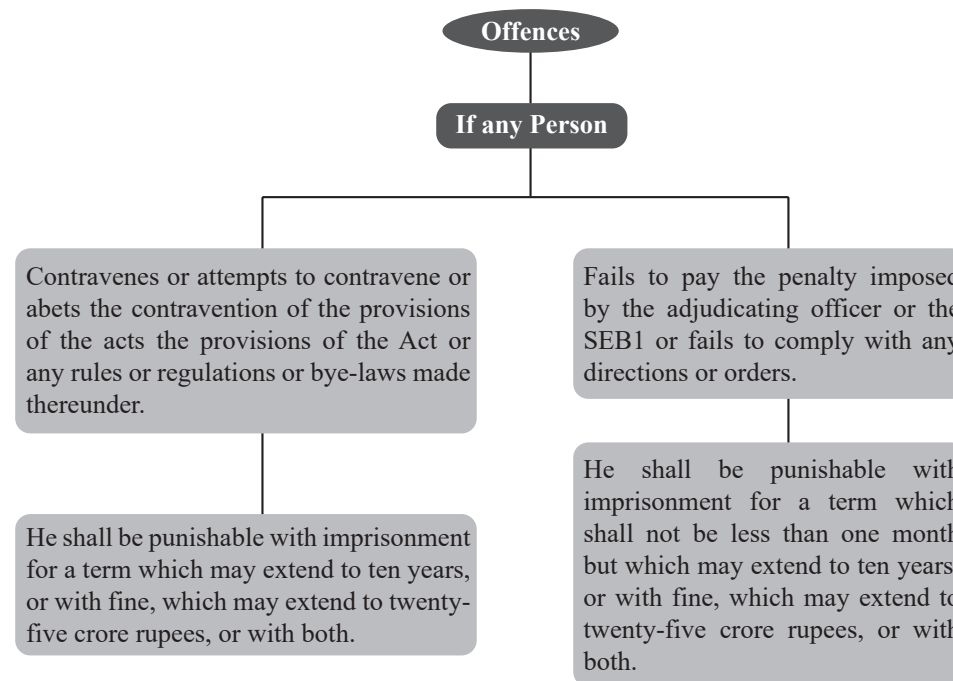
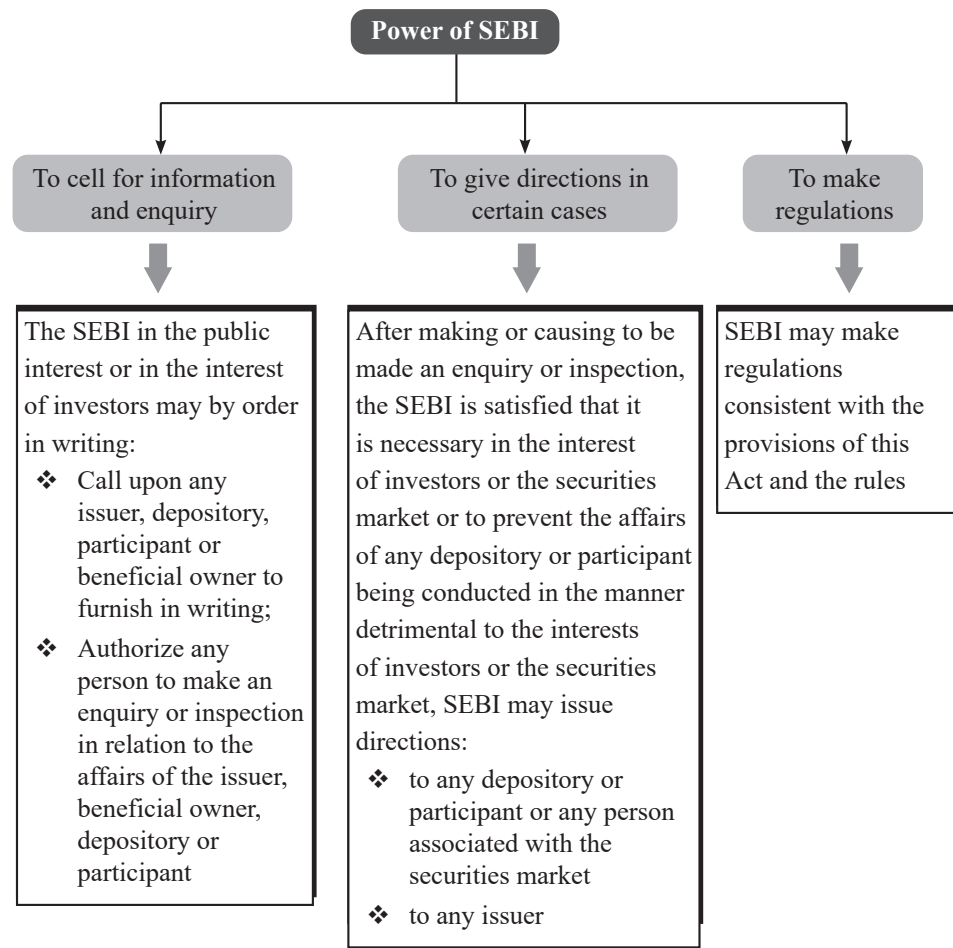
Restriction on Transfer of Securities

- ❖ It is not allow for listed companies to accept request for transfer of securities which are held in physical form.
- ❖ The listed entity shall ensure that hundred percent of shareholding of promoter and promoter group is in dematerialized form and the same is maintained on a continuous basis in the manner as specified by the SEBI.

Fungibility

- ❖ Section 9 states that securities in depositories shall be in fungible form.
- ❖ Fungibility is the ability of a good or asset to be readily interchanged for another of like kind. Fungibility implies equal value between the assets
- ❖ As per Depositories Act, all securities held in depository shall be fungible i.e. all certificates of the same security shall become interchangeable in the sense that investor loses the right to obtain the exact certificate he surrenders at the time of entry into depository.
- ❖ It is like withdrawing money from the bank without bothering about the distinctive numbers of the currencies.





Contravention by companies		
Where a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder <i>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</i> and shall be liable to be proceeded against and punished accordingly.	However, nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, <i>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.</i>	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 <i>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.</i>

Compounding of Offences & Immunity by CG

- Civil Court do not have any locus standi under depository Act or any rule thereunder except on the complaint made by CG, SEBI or by any person
- Compounding of offences under Depository Act shall be done by SAT or the court before which proceedings are pending.

CG may grant immunity for offences under Depositories Act.

If prosecution is instituted before the institution of application for grant of immunity.

POWER OF DEPOSITORIES TO MAKE BYE-LAWS

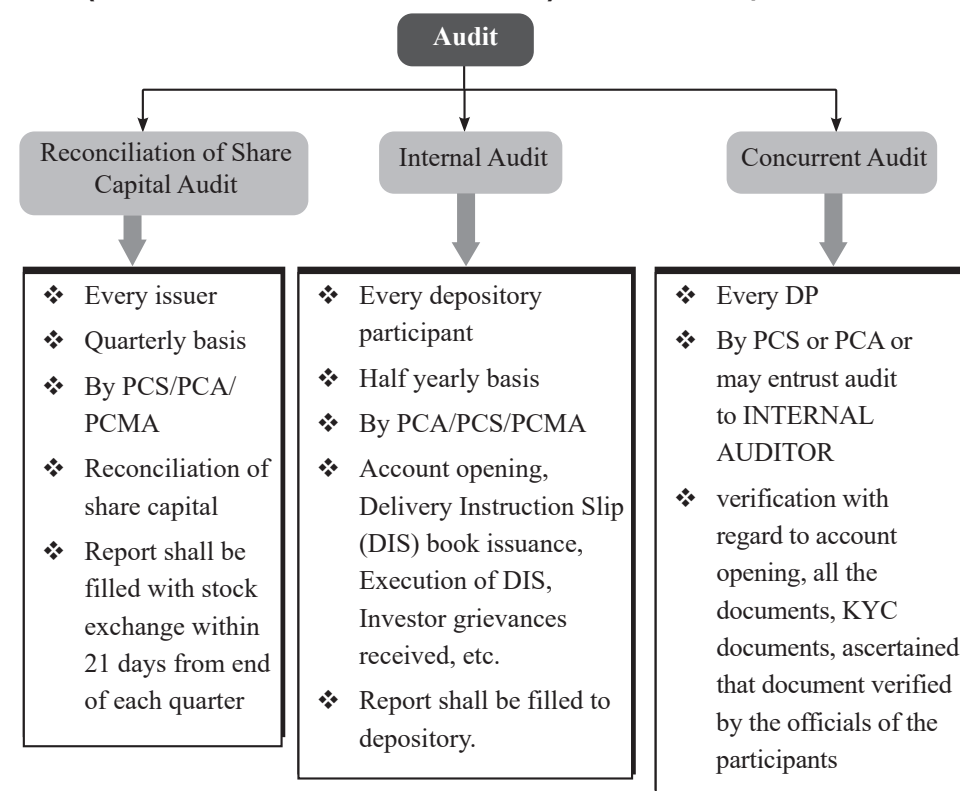
A depository shall, with the previous approval of the Board, make bye-laws consistent with the provisions of this Act and the regulations.

- ❖ The eligibility criteria for admission and removal of securities in the depository;
- ❖ The conditions subject to which the securities shall be dealt with;
- ❖ The eligibility criteria for admission of any person as a participant;
- ❖ The manner and procedure for dematerialisation of securities;
- ❖ The procedure for transactions within the depository;
- ❖ The manner in which securities shall be dealt with or withdrawn from a depository;
- ❖ The procedure for ensuring safeguards to protect the interests of participants and beneficial owners;
- ❖ The conditions of admission into and withdrawal from a participant by a beneficial owner;
- ❖ The procedure for conveying information to the participants and beneficial owners on dividend declaration, shareholder meetings and other matters of interest to the beneficial owners;
- ❖ The manner of distribution of dividends, interest and monetary benefits received from the company among beneficial owners;
- ❖ The manner of creating pledge or hypothecation in respect of securities held with a depository;
- ❖ Inter se rights and obligations among the depository, issuer, participants, and beneficial owners;
- ❖ The manner and the periodicity of furnishing information to the Board, issuer and other persons;
- ❖ The procedure for resolving disputes involving depository, issuer, company or a beneficial owner;
- ❖ The procedure for proceeding against the participant committing breach of the regulations and provisions for suspension and expulsion of participants from the depository and cancellation of agreements entered with the depository;
- ❖ The internal control standards including procedure for auditing, reviewing and monitoring.

Penalties

- ❖ Contravention where no separate penalty has been provided
 - Shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore Rupees.
- ❖ Failure to Furnish information return etc.
- ❖ Failure to enter in to agreement
- ❖ Failure to redress investor's grievances
- ❖ Delay in demat or issue of certificate of securities
- ❖ Failure to reconcile records
- ❖ Failure to comply with the directions issued by SEBI
 - Shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.
 - Shall be liable to a penalty which shall not be less than five crore rupees but which may be extend to twenty five crore rupees or three times the amount of gains made out of such failure, whichever is higher.
- ❖ Failure conduct business in a fair manner

SEBI (DEPOSITORY AND PARTICIPANTS) REGULATIONS, 2018



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

- ❖ At least once in a financial year
- ❖ 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
- ❖ Maintain up-to-date inventory of its hardware and systems, software and information assets
- ❖ Conduct at least once in a financial year

ROLE OF COMPANY SECRETARY

- Right to Legal Representation (Section 23C):
- Internal Audit of Depository Participants:
- Reconciliation of Share Capital Audit:
- Concurrent Audit of Depository Participants:

Case Law



Jaypee Capital Services Ltd. (Noticee)

Vs

SEBI

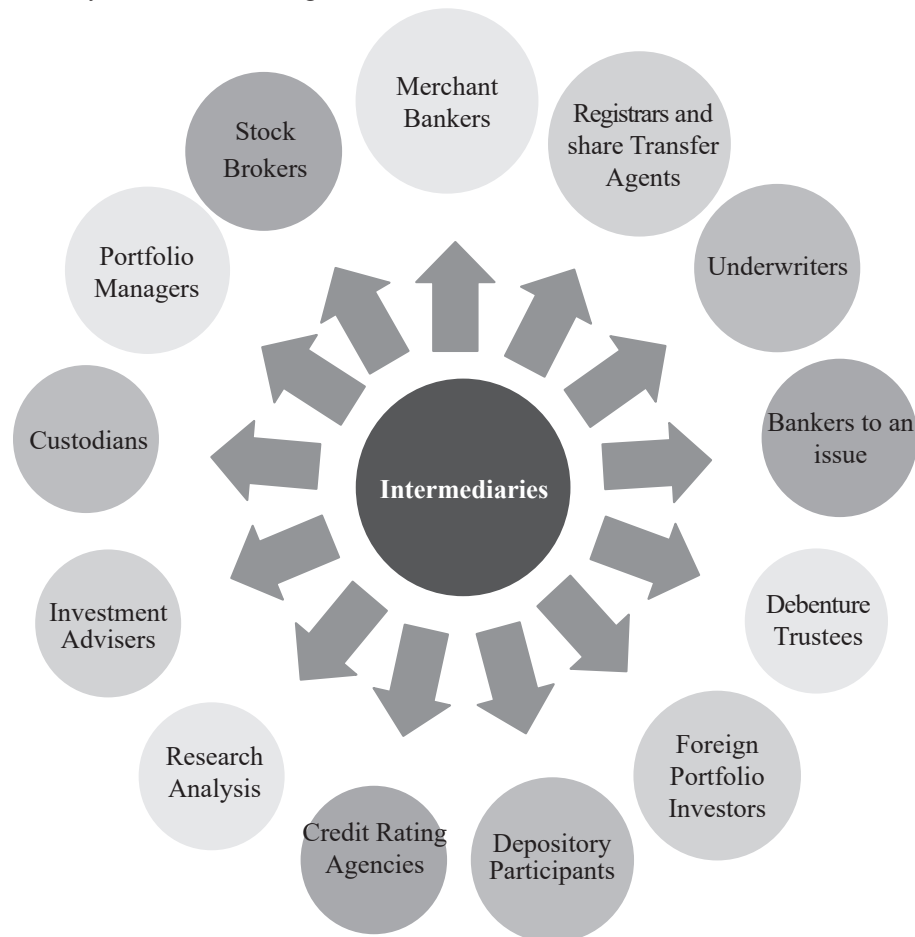
- ❖ SEBI granted a certificate of Registration as a DP to Jaypee Capital Services Ltd.
- ❖ SEBI received a letter from CDSL informing that it has terminated the agreement with the Noticee due to non-compliance with the bye-laws of CDSL.
- ❖ CDSL vide the said letter also requested SEBI to cancel the registration as DP of Noticee with immediate effect.
- ❖ Thereafter NSDL informed SEBI that it has also terminated the agreement with noticee due to non-compliance with the various bye-laws of NSDL.
- ❖ Noticee was no longer eligible to be admitted as DP and had failed to inform SEBI about termination of agreement with NSDL & CDSL.

SEBI Order

- ❖ SEBI, in exercise of power under Section 19 of SEBI Act, 1992, cancelled the registration of Jaypee Capital Services Ltd. with immediate effect.

Registration of Intermediaries

- ❖ To make the investment process smoother.
- ❖ To connect investors with those who need funds.
- ❖ Corporations and governments use intermediaries to market their securities instead of doing it directly.
- ❖ Small investors often struggle with direct investments and diversifying their portfolios. They may also lack the skills to assess and monitor credit risk.
- ❖ Market intermediaries help investors by providing investment advice, market analysis, and credit ratings.

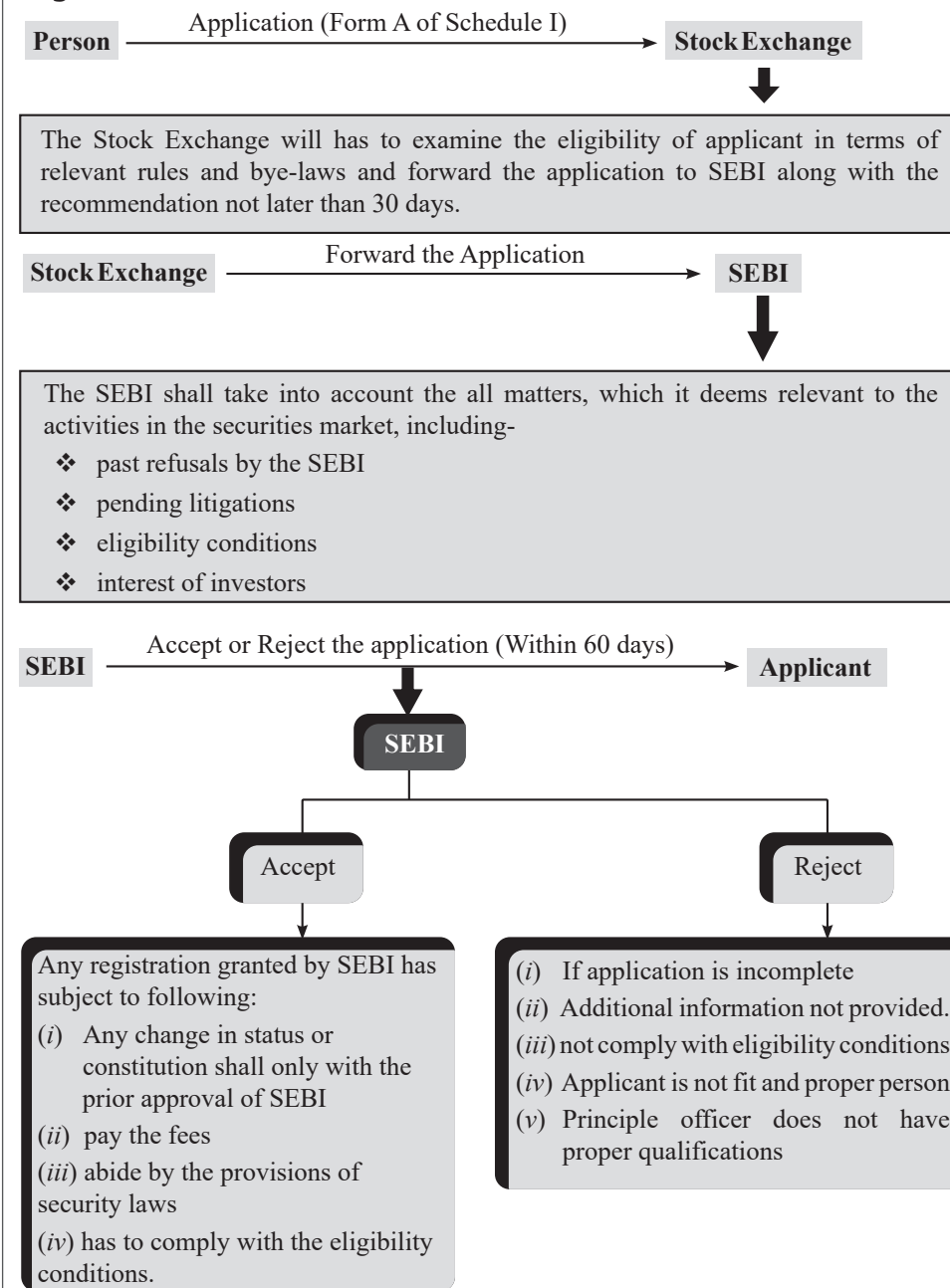
**Primary Market Intermediaries**

- ❖ Merchant Bankers
- ❖ Bankers to the Issue
- ❖ Registrars to an issue and share transfer agents
- ❖ Underwriters
- ❖ Debenture Trustees

Secondary Market intermediaries

- ❖ Stock brokers
- ❖ Depository
- ❖ Share Transfer Agents

- ❖ In order to act as an intermediary, a person is required to apply to the SEBI for the grant of a certificate to act as an intermediary, as per the SEBI Intermediaries Regulations.
- ❖ **Primary objectives of intermediaries** is link between the investors and the users of funds

Registration of Intermediaries**General Obligations****Intermediary shall:**

- ❖ provide a compliance certificate on 1st April of each year
- ❖ display the name and details of its compliance officer to whom any complaint of investors can be made
- ❖ Maintain the books and records
- ❖ Redress the investors grievances in 45 days
- ❖ Appoint the compliance officer

REGULATORY FRAMEWORK FOR INTERMEDIARIES

Intermediary	Net worth	Roles & responsibility
Merchant banker	Not less than 5 crore	<ol style="list-style-type: none"> 1. Managing the public issue 2. Underwriting 3. Managing & Advising the international offering 4. International finance advisory services 5. Syndications of term loans
Registrar and Shares transfer Agent	<ul style="list-style-type: none"> ❖ Cat. I – Rs. 50 lakh or more ❖ Cat. II – Rs. 25 lakhs or more 	<ol style="list-style-type: none"> 1. Collecting the applications from investors 2. Keeping proper records & books of application & money 3. Determining the basis of allotment 4. Finalizing the list of person entitle to allotment of securities
Banker to issue	-	<ol style="list-style-type: none"> 1. Acceptance of application and application monies; 2. Acceptance of allotment or call monies; 3. Refund of application monies; 4. Payment of dividend or interest warrants.
Debenture Trustees	Not less than Rs. 10 crore	<ol style="list-style-type: none"> 1. Satisfy itself that the prospectus or letter of offer doesn't contain any matter inconsistency with the terms of issue 2. Protect the interest of debenture holders 3. Call for periodic status report from issuer 4. In case of any default communicate to the debenture holders 5. Ensure that the company does not commit any breach of the terms of issue of debentures or covenants of the trust deed

Stock Broker	The stock broker shall have such net worth and shall deposit with the stock exchange such sum as may be specified by the SEBI/ stock exchange from time to time	<ol style="list-style-type: none"> 1. keep and maintain the proper books of account, records and documents. 2. Every Stock Broker acting as an underwriter shall not derive any direct or indirect benefit from underwriting the issue 3. Every stock broker shall appoint a compliance officer
Portfolio managers	Not less than Rs. 5 crores.	<ol style="list-style-type: none"> 1. shall abide by the Code of Conduct 2. enter into an agreement in writing with such client that clearly defines the inter se relationship and rights & responsibility 3. The portfolio manager shall not accept from the client, funds or securities worth less than fifty lakh rupees. 4. The portfolio manager shall act in a fiduciary capacity with regard to the client's funds. 5. The portfolio manager shall keep the funds of all clients in a separate account to be maintained by it in a Scheduled Commercial Bank
Custodians	Minimum of Rs. 50 crores	<ol style="list-style-type: none"> 1. abide by the Code of Conduct. 2. No custodian shall assign or delegate its functions as a custodian to any other person unless such person is a custodian. 3. open a separate custody account for each client 4. enter into an agreement with each client on whose behalf it is acting as custodian. 5. appoint a compliance officer 6. Where any information is called for by the SEBI, it shall be the duty of the custodian to furnish such information

Investment Adviser	<ul style="list-style-type: none"> ❖ Investment advisers who are non-individuals shall have a net worth of not less than Rs.50 lakh ❖ Investment advisers who are individuals shall have net tangible assets of value not less than R. 5 lakh 	<ol style="list-style-type: none"> 1. Advice relating to investing in, purchasing, selling or otherwise dealing in securities or investment products, and advice on investment portfolio containing securities or investment products, 2. Adviser shall act in a fiduciary capacity towards its clients 3. An investment adviser shall maintain an arms-length relationship between its activities as an investment adviser and other activities. 4. An investment advisor shall follow Know Your Client procedure
Research Analysts	<ul style="list-style-type: none"> ❖ In case of a Body corporate or limited liability partnership firm –net worth not less than Rs. 25 Lakh. ❖ In case of individual or partnership firm - net tangible assets of value not less than Rs. 1 Lakh. 	<ol style="list-style-type: none"> 1. Preparation or publication of the content of the research report; 2. Providing research report; 3. Making 'buy/ sell/hold' recommendation
Credit Rating Agencies	Minimum Rs. 25 crores	<ol style="list-style-type: none"> 1. Minimum Rs. 25 crores 2. Every credit rating agency shall disseminate information regarding newly assigned ratings 3. Disclose Rating Definitions and Rationale 4. Appoint a COMPLIANCE OFFICER

Depository	Not less than Rs. 100 crores	Hold securities of investors in dematerialized / electronic form and provide demat services
Depository Participant (DP)	<ul style="list-style-type: none"> ❖ In case of a NBFC - net worth of not less than Rs.50 fifty lakhs. ❖ In case of a registrar to an issue or share transfer agent - minimum net worth of Rs. 10 crores 	They are the intermediaries between the depository and the investors

INTERNAL AUDIT OF INTERMEDIARIES BY COMPANY SECRETARY IN PRACTICE

- ❖ **Internal Audit of Portfolio Managers:** Practicing Company Secretary audits portfolio managers twice a year to ensure compliance with SEBI rules and regulations.
- ❖ **Internal Audit of Stock Brokers/Trading Members/Clearing Members:** Practicing Company Secretary conducts a wide-ranging internal audit twice a year to ensure compliance with SEBI rules, regulations, and internal controls.
- ❖ **Internal Audit for Credit Rating Agencies (CRAs):** Half-yearly audit to ensure compliance with SEBI regulations and effective operations, including handling investor grievances.
- ❖ **Compliance Audit of an Investment Adviser:** Annual audit to check compliance with SEBI regulations regarding record maintenance.
- ❖ **Annual Audit of Research Analyst or Research Entity:** Annual audit to ensure compliance with SEBI regulations regarding record maintenance.
- ❖ **Internal Audit of Registrar and Share Transfer Agent (RTA):** Annual audit by an independent Company Secretary to ensure compliance with SEBI regulations and effective operations, including handling investor grievances.

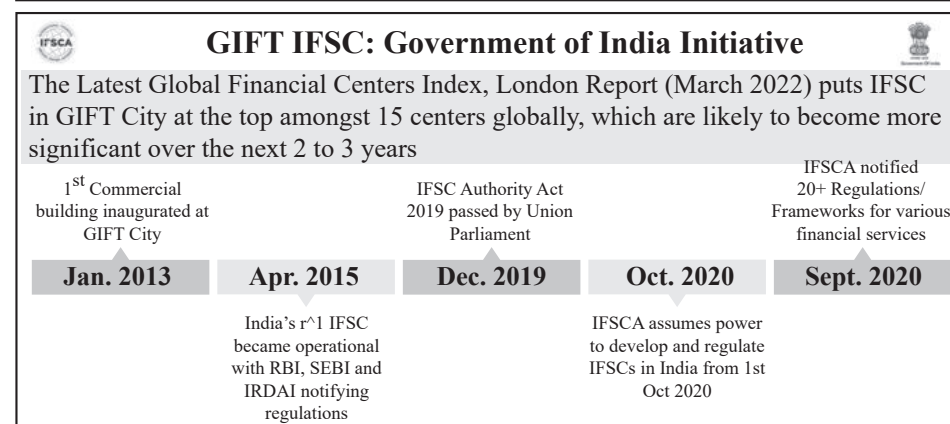
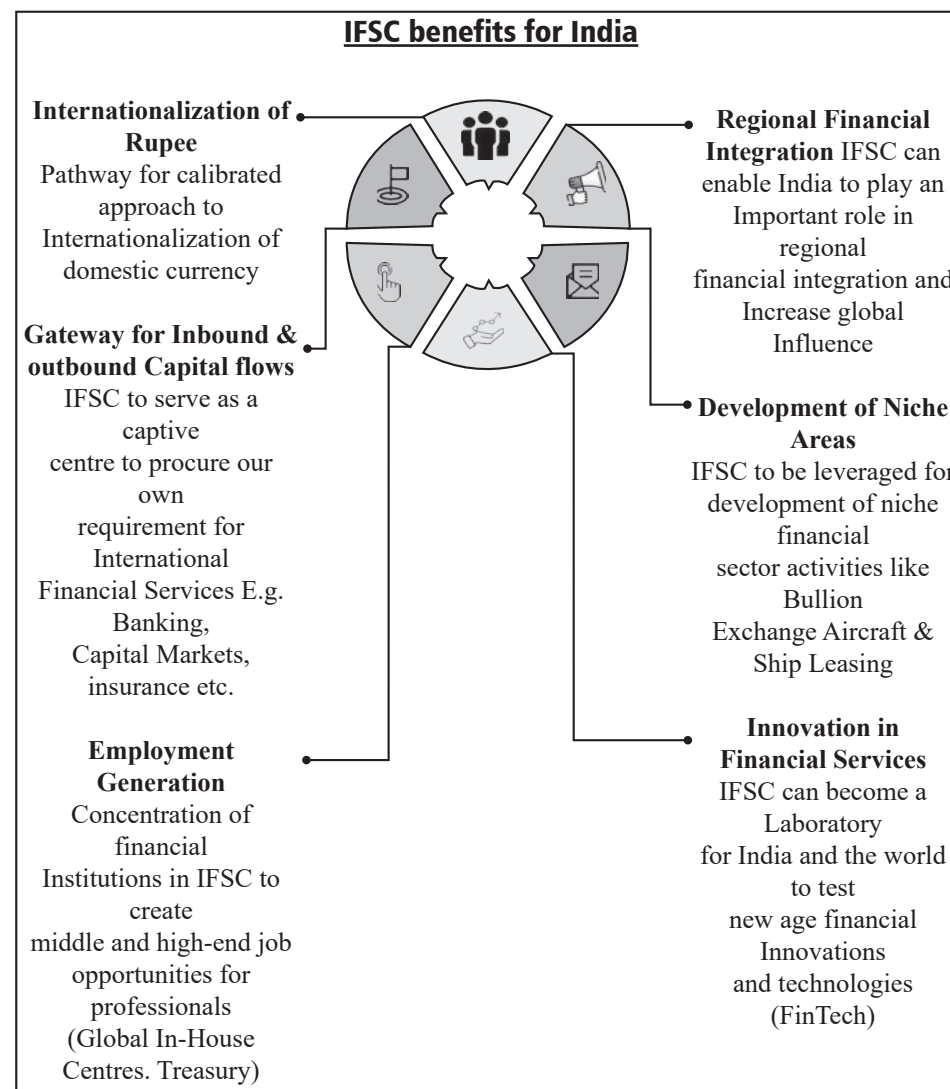
International financial services (IFS) are those cross-border services, that deal with the flow of finance and financial products and services such as raising of funds such as debt and equity, risk management, mutual funds and pension funds, asset management done by insurance companies, corporate treasury management operations among others.

Importance of IFSCs

- ❖ Growth of international financial transactions
- ❖ Accelerating the pace of financial globalization
- ❖ Accelerating the socio-economic growth of host countries

Fiscal benefits and Tax Exemptions for Gift-IFSC

Laws	Benefits for Units in IFSC	Benefits for Investors
Income tax	100% tax exemption for 10 consecutive years out of 15 years	<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>
	IFSC Unit has the flexibility to select any 10 years out of 15 years block	
	MAT / AMT @ 9% of book profits	
	Dividend paid to shareholders of company in IFSC to be taxed in the hands of the shareholder	
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> <p>(b) GST applicable on services provided to Domestic Tariff Area.</p>	No GST on transactions carried out in IFSC exchanges.
Other taxes duties	State Subsidies – Lease rental, PF contribution, electricity charges.	Exemption from Securities Transaction Tax, Commodity Transaction Tax, stamp duty in respect of transactions carried out on IFSC exchanges.



BUSINESS ACTIVITIES

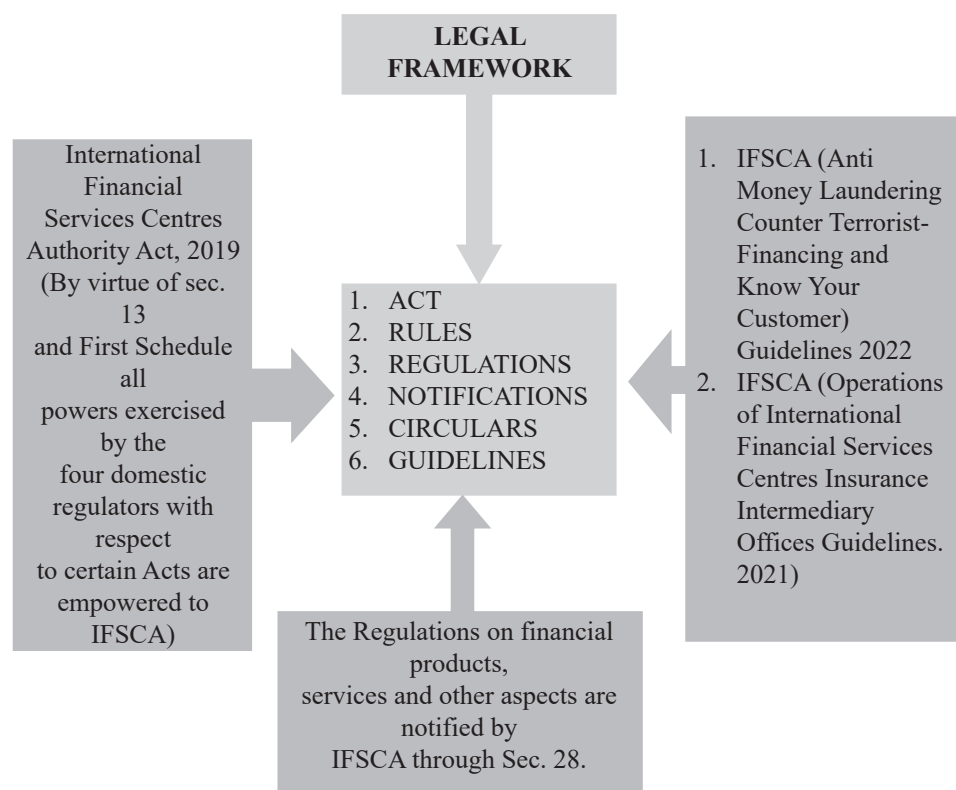
<p>BANKS</p> <ul style="list-style-type: none"> ❖ Indian banks ❖ Foreign banks 	<p>CAPITAL MARKET</p> <ul style="list-style-type: none"> ❖ Stock/Commodity Exchanges ❖ Clearing Corporation ❖ Depository ❖ Broker Dealer
<p>INSURANCE</p> <ul style="list-style-type: none"> ❖ Indian Insurer ❖ Indian Reinsurer ❖ Indian Broker ❖ Foreign Insurer ❖ Foreign Reinsurer 	<p>Other Financial Institutions</p> <ul style="list-style-type: none"> ❖ Finance Company ❖ Global Corporate Treasury Centre ❖ International Trade Finance Services Platform
<p>ASSET MANAGEMENT</p> <ul style="list-style-type: none"> ❖ Alternate Investment Fund ❖ Investment Advisers ❖ Wealth Management ❖ Portfolio Manager ❖ Custodial Services 	<p>Emerging Activities</p> <ul style="list-style-type: none"> ❖ Global Fintech Hub ❖ Global inhouse centres ❖ International Bullion Exchange ❖ Aircraft Leasing & Financing ❖ Sustainable Finance ❖ Ancillary Services/Professional Service Providers

THE INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

IFSCA has been established as a unified financial regulator by the Government of India under the IFSCA aCT, 2019

The Authority is mandated to develop and regulate Financial Institutions, Financial Services and Financial Products in the International Financial Services Centre (IFSC) In India

To develop regulate IFSC's in India, IFSCA has been vested with powers of four sectoral regulators namely- RBI, SEBI, IRDAI & PFRDA



Powers and Functions of the IFSCA

- ❖ To develop and regulate the financial products, financial services and financial institutions in an IFSC
- ❖ The authority can take all developmental steps such as authorizing the service providers who aid in assisting the financial service providers
- ❖ Regulate those financial products, financial services and financial institutions in an IFSC Which are permitted to operate in IFSC before the commencement of IFSCA Act, by any regulator.
- ❖ Recommend to the Central Government to notify other financial products, services and institutions in an IFSC

Financial Products

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

New Financial Products notified by the Central government

❖ 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.
❖ Bullion spot delivery contract;
❖ 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.
❖ 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 equipment 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;
❖ 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

(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; Two foreign universities namely Wollongong university and "Deakin University" have been granted in-principle registration by IFSCA
(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

Considering the importance of professional and other service providers for the development of financial products, financial services and financial institutions in the IFSC, a framework for enabling ancillary services has been issued by IFSCA. This provision enables IFSCA to authorize such entities which are important in developing ancillary services ecosystem for the existing entities in IFSC. The framework allows the following permissible activities under ancillary services:

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

New Financial Services notified by the Central government:

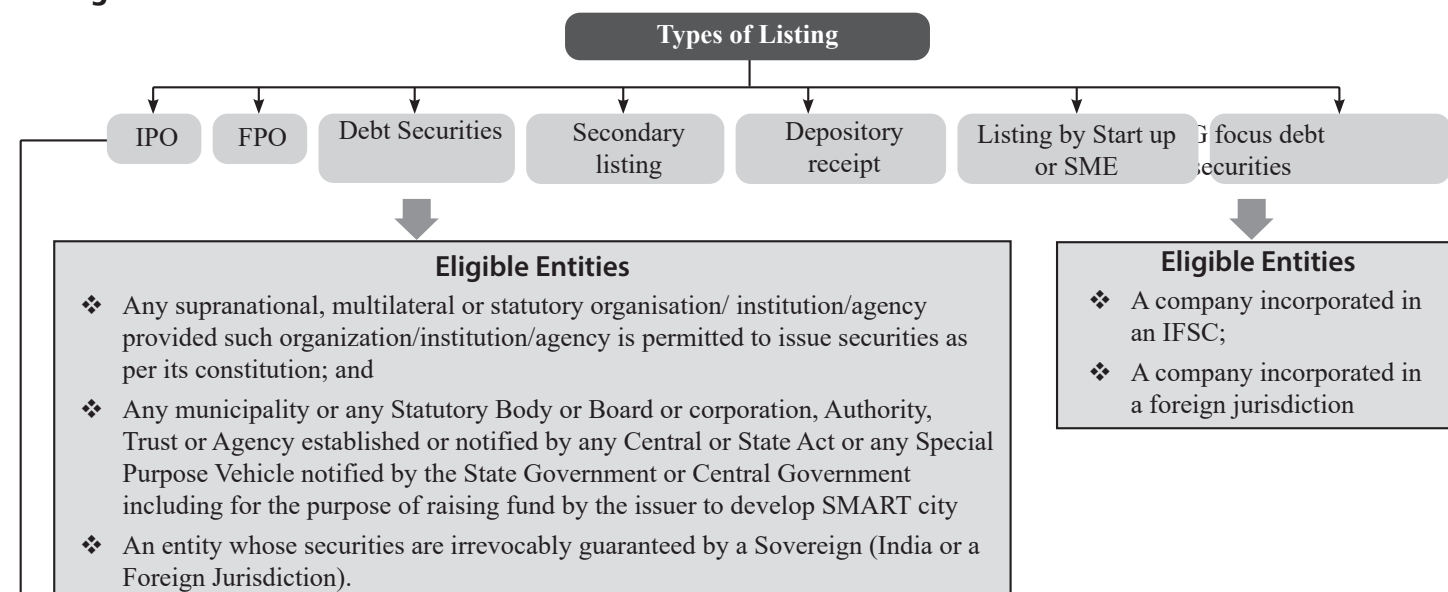
Global in-House Centres (GIC), as financial service to provide services relating to financial products and financial services;

Trading in **bullion depository receipts** with underlying bullion in relation to bullion spot delivery contracts;

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;

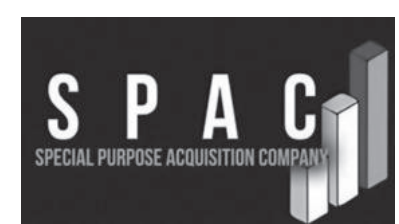
Courses offered in Financial Management, Fin-Tech, Science, Technology, Engineering and Mathematics by **foreign universities or foreign institutions** in IFSC.

Listing of securities



- Less than 10 years from the date of incorporation;
- The turnover of the company for any of the financial years since incorporation should not have exceeded USD 20 million.
- 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.

- ❖ **Salient features for the framework for listing of start-up and SME companies**
 - ♦ The start-ups and SMEs are also permitted to list on the recognized stock exchanges in IFSC without public offer.
 - ♦ Offer size in case of public offer shall be not less than USD 2 million.
 - ♦ 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

- Eligibility to raise capital through IPO
- ❖ Business acquisition
 - ❖ Issuer does not have any operating business

- Salient features of the framework for listing of SPACs are as follows**
- ❖ The offer size shall not less than USD 50 million and the sponsor shall hold at least 20% of the post issue paid up capital.
 - ❖ The minimum application size in an initial public offer of SPAC shall be USD 250,000.
 - ❖ Minimum subscription shall be 75% of offer size

Listing of Debt Securities

- ❖ Eligibility Criteria
 - Debt securities issued by issuers incorporated in IFSC;
 - Debt securities issued by issuers incorporated in India or foreign jurisdiction in any currency other than INR;
 - Masala Bonds;
 - Any other debt securities as permitted by relevant authority from time to time.

SEBI (IFSC) GUIDELINES, 2015

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

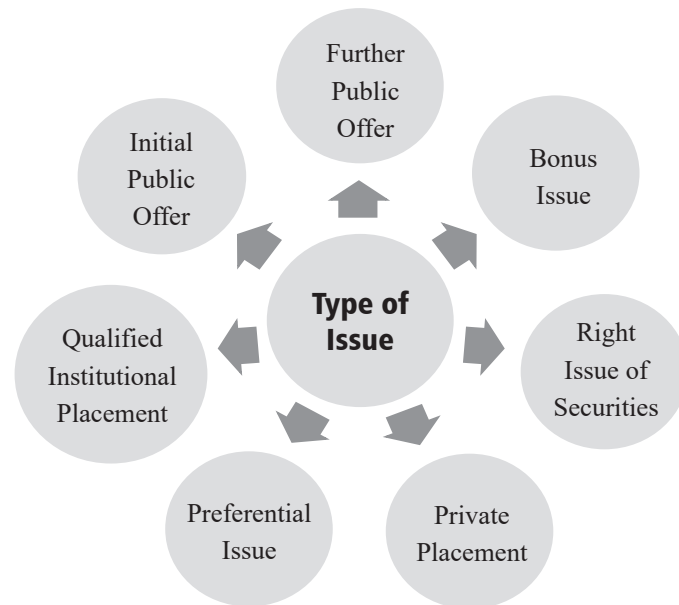
The salient features for raising of capital through IPOs on a recognised stock exchange in IFSC are as follows:

A.	Eligibility:	An issuer shall be eligible to make an initial public offer only if: (a) The issuer has an average pre-tax profit, based on consolidated audited accounts, of at least USD 1 million during the preceding three financial years; or (b) The issuer has an operating revenue of at least USD 20 million in the preceding financial year, or (c) Any other eligibility criteria that may be prescribed by IFSCA.
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



Types of Issue



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

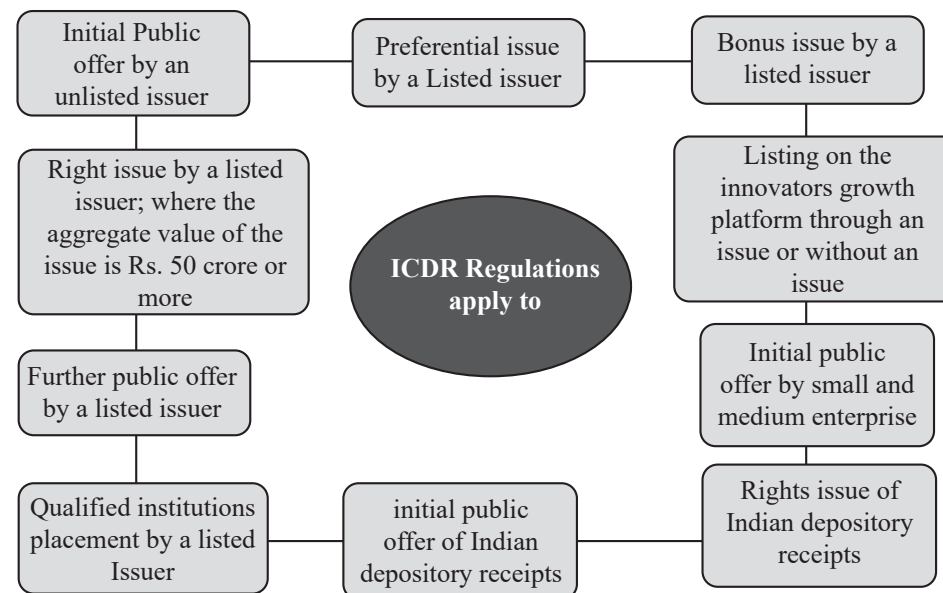
DRAFT OFFER DOCUMENT, LETTER OF OFFER AND RED HERRING PROSPECTUS

- ❖ **“Draft Offer document”** means the offer document at the initial stage. The draft offer documents are filed with the SEBI, at least 30 days prior to the filing of the Offer Document with ROC/Stock Exchanges. The SEBI may specify changes, if any,

in the Draft Offer Document and the Issuer or the Lead Merchant banker shall carry out such changes in the draft offer document before filing the Offer document with ROC/Stock exchanges.

- ❖ **“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. On the other hand, an issuer can state the issue size and the number of shares are determined later.
- ❖ **“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.

APPLICABILITY OF ICDR



Entities not eligible to make IPO.

- ❖ Issuer, promoter, promoter group, selling shareholder are debarred from accessing the capital market.
(However, if the debarred period is over then the company can raise the fund by public issue.)
- ❖ Promoter, director of issuer is a promoter or director of any other company which is debarred from accessing the capital market.
(However, if the debarred period is over then the company can raise the fund by public issue.)

- ❖ Issues / Promoter / Director are wilful defaulter.
- ❖ Promoter/director of issue is a fugitive offender.
- ❖ Outstanding convertible security is converted into equity shares before the filling of RHP/prospectus except ESOP.

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

Option 1

- ❖ **Net tangible assets of at least 3cr** in each of the preceding three full year and maximum 50% can be held as a monetary assets
(However can held more than 50% monetary assets if issuer made firm commitment to utilize such amount for project or issue is through offer for sale).
- ❖ **Minimum Average Operating Profit of Rs. 15 crore** during preceding 3 years of 12 months each with operating profit in each of these preceding 3 years.
- ❖ **Net worth of at least Rs. 1 crore** in each of the preceding 3 full years of 12 months each).
- ❖ In case of **change of name** of the company within the last one year, at least 50% of the revenue for the preceding 1 full year is being earned by the company from the activity suggested by the new name.

Option 2

- ❖ If issue made through Book Building method. and;
- ❖ 75% of Net offer to public shall be allotted to QIB.

General condition for IPO/FPO

- ❖ Application to one or more recognised stock exchange for in-principle approval & choose one of them as designated recognised stock exchange.
- ❖ Agreement with depository.
- ❖ Partly paid up shares converted into fully paid up shares.
- ❖ All promoter holding shall be in demat mode.
- ❖ 75% of the total issue size shall utilize for the specific proposed (written in prospectus) project.
- ❖ It has made firm arrangements of finance through verifiable means towards 75% of the stated means of finance for a specific project proposed to be funded from the

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

Additional condition for an offer for sale.

- ❖ Shares must be fully paid
- ❖ Holding period 1 years before offer of sale.
- ❖ Holding period shall be required to be complied at the time of filing of draft offer document.

Non-Applicability of Holding period ([Period of one year shall not apply])

- ❖ Offer for sale of a government company & statutory authority or corporation.
- ❖ Equity shares offered under merger & amalgamation scheme.
- ❖ Securities issued under bonus issue & prior holding of at least 1 year.

Issue of Warrants

<ul style="list-style-type: none"> ❖ Tenure of such warrants <i>shall not exceed eighteen months from the date of their allotment in the initial public offer</i> ❖ Price or formula for determination of exercise price of the warrants <i>shall be determined upfront and disclosed in the offer document and at least 25 % of the consideration amount based on the exercise price shall also be received upfront</i> 	<ul style="list-style-type: none"> ❖ In case the warrant holder does not exercise the option to take equity shares against any of the warrants held by the warrant holder, <i>within three months from the date of payment of consideration, such consideration mode in respect of such warrants shall be forfeited by the issuer</i> ❖ A specified security may have one or more warrants attached to it
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ELIGIBILITY CRITERIA FOR FURTHER PUBLIC OFFER (FPO)

- ❖ Issuer, promoter, promoter group, selling shareholder are debarred from accessing the capital market.
- ❖ Promoter, director of issuer is a promoter or director of any other company which is debarred from accessing the capital market.
- ❖ Issues / Promoter / Director are wilful defaulter.
- ❖ Promoter/director of issue is a fugitive offender.

Eligibility requirements for FPO

- ❖ In case of **change of name** of the company within the last one year, at least 50% of the revenue for the preceding 1 full year is being earned by the company from the activity suggested by the new name.

General condition for FPO: Same as IPO

Issue of Warrants

- ❖ Term not exceed 18 months.
- ❖ Price shall disclosed in offer document & at least 25% of issued price or cap value of linked formula, received Upfront advance.
- ❖ If holder not exercise the option within 3 month then such warrant shall be forfeited.

Promoter Contribution

IPO	FPO
<ul style="list-style-type: none"> ❖ The promoter shall hold at least 20% of the post issue capital. ❖ However, in the case of post issue of shareholding of the promoters is less than 20% alternate investment fund or foreign venture capital investors or scheduled commercial banks or public financial institutes or insurance companies registered with IRDA may contribute to a max. of 10% of the post issue capital. 	<ul style="list-style-type: none"> ❖ Either to the extent of 20% of the proposed issue size or to the extent of 20% of the post-issue capital; ❖ In case of a composite issue (i.e., further public offer cum rights issue), either to the extent of 20% of the proposed issue size or to the extent of 20% of the post-issue capital excluding the rights issue component.

Lock-in Requirement for promoter contribution under IPO & FPO



Case	Minimum Promoter Contribution	Excess over minimum promoter contribution
1. Generally	18 months from allotment	6 months from allotment
2. If majority of proceeds of issue utilized for capital expenditure	3 years from allotment	1 year from allotment

Note - SR equity shares shall be under lock-in until conversion into ordinary equity shares or the tenure above, whichever is later.

Lock- in on the security held by other security holder other than promoter

6 months from the date of allotment

Note – It shall not apply on:

- ❖ Equity shares allotted under ESOP
- ❖ Equity shares held by ESPO trust
- ❖ Equity shares held by a venture capital fund or AIF of category I & II or a FVCI and such equity shares shall be locked-in for a period of at least 6 months from the date of purchase.

Ineligible Securities for Promotes Contribution

Securities ineligible for Minimum Promoter requirement
<ul style="list-style-type: none"> ❖ Securities acquired during preceding 3 years for consideration other than cash or involving Revaluation of assets or involving capitalisation of intangible assets.
<ul style="list-style-type: none"> ❖ Securities acquired in preceding 1 year at a price lower than the issue price.
<ul style="list-style-type: none"> ❖ Pledged security.

OTHER REQUIREMENTS FOR IPO & FPO

Issuer shall appoint the following intermediaries:

- ❖ one or more merchant bankers, which are registered with the SEBI, as lead manager(s) to the issue.
- ❖ in case of an issue made through the book building process, syndicate member and in the case of any other issue, appoint bankers to issue.
- ❖ registrar to the issue
- ❖ compliance officer



Disclosures and Filing of Offer Documents

- ❖ Contain all material disclosures which are true and adequate
- ❖ The issuer shall file 3 copies of the draft offer document with the SEBI.
- ❖ SEBI may specify changes or issue observations, if any, on the draft offer document within 30 days
- ❖ If the SEBI specifies any changes or issues observations on the draft offer document, the issuer and lead manager shall carry out such changes in the draft offer document and shall submit to the SEBI an updated draft offer document complying with the observations issued by SEBI and before filing the offer documents with the ROC.
- ❖ The issuer shall within 2 days of filing the draft offer document with the SEBI, make a public announcement in one English national daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated.
- ❖ Copy of the offer documents shall also be filed with the SEBI and the stock exchange through the lead manager promptly after filing the offer documents with Registrar of Companies.

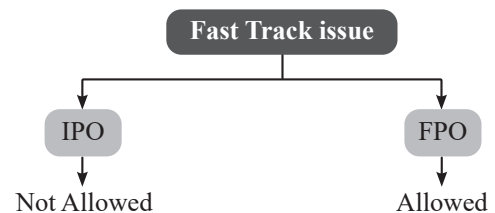
Issuance Conditions and Procedure

- ❖ **ASBA:** The issuer shall accept bids using only the ASBA facility in the manner specified by the Board. ASBA means an application for subscribing to a public issue or rights issue, along with an authorization to self-certified syndicate bank to block the application money in a bank account.
- ❖ **IPO grading:** The issuer may obtain grading for its initial public offer from one or more credit rating agencies registered with the Board. It is optional.
- ❖ **Underwriting:** If the issuer making an IPO/FPO, other than through the book building process, desires to have the issue underwritten, it shall appoint merchant bankers or stock brokers, registered with the SEBI, to act as underwriters. However, if the issuer makes a public issue through the book building process, the issue shall be underwritten by lead manager(s) and syndicate member(s).
- ❖ **Monitoring agency:** If the issue size exceeds **Rs. 100 crore** rupees, the issuer shall make arrangements for the use of proceeds of the issue to be monitored by a credit rating agency registered with the SEBI.
- ❖ **Pre-issue advertisement:** The issuer shall, after filing the red herring prospectus (in case of a book built issue) or prospectus (in case of fixed price issue) with the

Registrar of Companies, make a pre-issue advertisement in one English national daily newspaper with wide circulation, Hindi national daily newspaper with wide circulation and one regional language newspaper with wide circulation at the place where the registered office of the issuer is situated.

- ❖ **Opening of the issue:** A public issue may be opened **within 12 months** from the date of issuance of the observations by the SEBI
- ❖ **Minimum subscription:** The minimum subscription to be received in the issue shall be at least 90% of the offer through the offer document. In the event of non-receipt of minimum subscription, all application monies received shall be refunded to the applicants forthwith, but not later than 4 days from the closure of the issue
- ❖ **Period of subscription:** An IPO/FPO shall be kept open for at least 3 working days and not more than 10 working days
- ❖ **Minimum application value:** The minimum sum payable on application per specified security shall be at least 25% of the issue price.
- ❖ **Post-issue Advertisements:** The lead manager shall ensure that an advertisement within 10 days from the date of completion of the various activities in at least one English national daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation and one regional language daily newspaper with wide circulation at the place where registered office of the issuer is.
- ❖ **Release of subscription money:** The lead manager shall confirm to the bankers to the issue all formalities in connection with the issue have been completed and that the banker is free to release the money to the issuer or release the money for refund in case of failure of the issue.

Fast Track Issue



Note - No need to file the draft offer document with SEBI and obtain observations from SEBI and make security deposit with Stock exchange.

Condition of fast Track issue

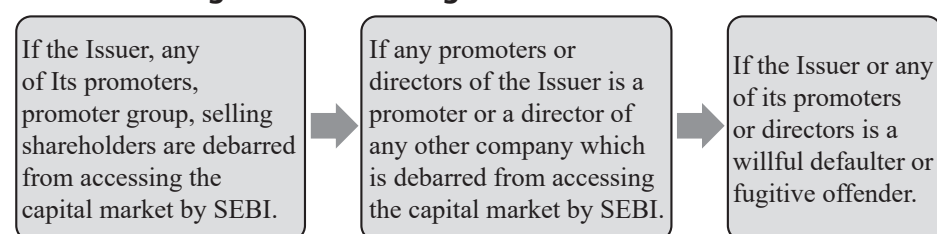
- ❖ Equity shares of the issuer have been listed on any stock exchange for a period of at least three years immediately preceding the reference date
- ❖ Entire shareholding of the promoter group of the issuer is held in dematerialised form on the reference date
- ❖ Average market capitalisation of public shareholding of the issuer is at least ₹1000 CRORES in case of public issue
- ❖ 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 2% of the weighted average number of equities shares available as free float during such six months' period.

- ❖ Annualized delivery-based trading turnover of the equity shares during six calendar months immediately preceding the month of the reference date has been at least 10% of the annualised trading turnover of the equity shares during such six months period
- ❖ The issuer has been in compliance with the equity listing agreement or LODR, 2015, as applicable, for a period of at least three years immediately preceding the reference date.
- ❖ 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.
- ❖ No show-cause notices, excluding proceedings for imposition of penalty, have been issued by the Board and pending against the issuer or its promoters or whole time directors as on the reference date
- ❖ In case issuer or the promoter or the promoter group or the director of the issuer has settled any alleged violations of securities laws through the settlement mechanism of the Board in the past three years immediately preceding the reference date, then the disclosure of such compliance of the settlement order, shall be made in the offer document
- ❖ Equity shares of the issuer have not been suspended from trading as a disciplinary measure during last three years immediately preceding the reference date
- ❖ 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
- ❖ For audit qualifications, if any, in respect of any of the financial years for which accounts are disclosed in the offer document, the issuer shall provide the restated financial statements adjusting for the impact of the audit qualifications. Further, for the qualifications wherein impact on the financials cannot be ascertained, the same shall be disclosed appropriately in the offer document.

RIGHTS ISSUE

- ❖ Issue of shares to existing shareholders
- ❖ The shareholders who are offered may or may not subscribe to the same

Entities not eligible to make a rights issue



General Conditions for Right issue

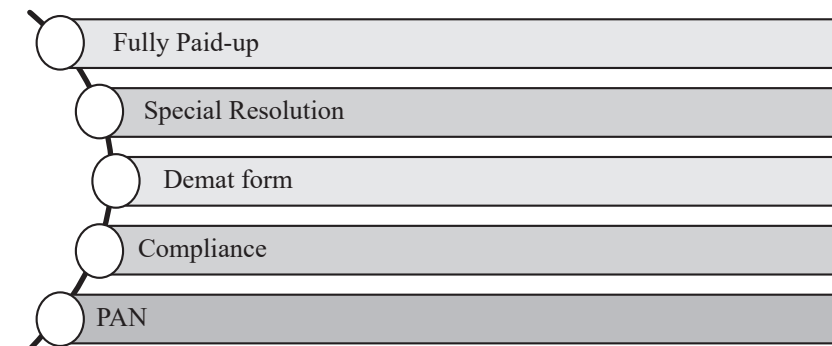
- ❖ Made an application to one or more stock exchanges to seek an in-principal approval for listing of its specified securities
- ❖ All its existing partly paid-up equity shares have either been fully paid-up or have been forfeited
- ❖ It has made firm arrangements of finance through verifiable means towards 75% of the stated means of finance for 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

- ❖ The amount for general corporate purposes, as mentioned in objects of the issue in the draft letter of offer and the letter of offer, shall not exceed 25% of the amount raised by the issuer.
- ❖ Where the issuer or any of its promoters or directors is a willful 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.
- ❖ 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

#. PREFERENTIAL ISSUE

- ❖ An issue of specified securities by a listed issuer to any select person or group of persons on a private placement basis
- ❖ 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
- ❖ An issuer shall not be eligible to make a preferential issue if any of its promoters or directors is a fugitive economic offender or if it has any outstanding dues to the Board, the stock exchanges or the depositories.
- ❖ However, the same 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, as the case may be.
- ❖ 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 preceding the relevant date.
- ❖ Where any person belonging to promoter(s) or the promoter group has previously subscribed to warrants of an issuer but has failed to exercise the warrants, the promoter(s) and promoter group shall be ineligible for issue of specified securities of such issuer on preferential basis for a period of one year from:
 - the date of expiry of the tenure of the warrants due to non-exercise of the option to convert; or
 - the date of cancellation of the warrants, as the case may be.

Conditions for preferential issue:



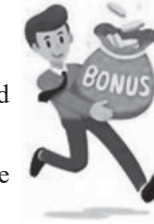
#. QUALIFIED INSTITUTIONS PLACEMENT

- ❖ 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**
 - ♦ Special resolution
 - ♦ 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, have been listed on a stock exchange for a period of at least one year.
 - ♦ An issuer shall 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.

Bonus Issue

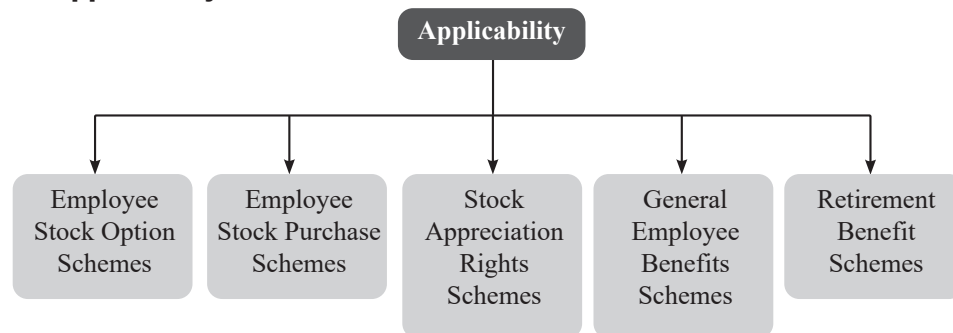
- ❖ When an issuer makes an issue of shares to its existing shareholders without any consideration based on the number of shares already held by them as on a record date it is called a bonus issue
- ❖ **Conditions:**
 - ♦ Authorised by its articles of association
 - ♦ Not defaulted in payment of interest or principal in respect of fixed deposits or debt securities
 - ♦ Not defaulted in respect of the payment of statutory dues of the employees



- ♦ All existing shares shall be fully paid up
- ♦ Any of its promoters or directors is not a fugitive economic offender
- ❖ Issuer shall make reservation for outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof.
- ❖ 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.
- ❖ A bonus issue, once announced, shall not be withdrawn.



#. Applicability



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

(i) For direct or indirect benefit of employees;

(ii) Involving dealing in or subscribing to or purchasing securities of the company, directly or indirectly; and

(iii) satisfying, directly or indirectly, and one of the following conditions;

(a) The scheme is set up by the company or any other company in its group;

(b) The scheme is funded or guaranteed by the company or any other company in its group;

(c) The scheme is controlled or managed by the company or any other company in its group.

#. Important Definitions

1. "Employee"



- (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,

Following shall not consider as employee –

- (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.

2. **"Employee stock option scheme" or "ESOS"** means a scheme under which a company grants employee stock options to employees directly or through a trust

3. **"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.

4. **"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.

5. **"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.

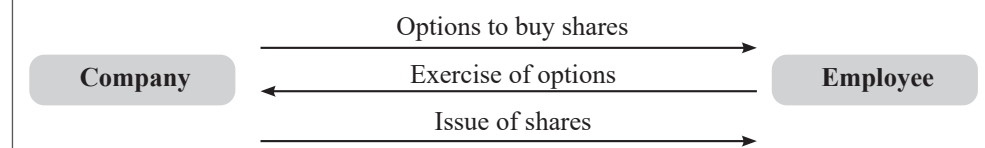
6. **"Stock appreciation right" or "SAR"** means a right given to a SAR grantee entitling him to receive appreciation for a specified number of shares of the company where the settlement of such appreciation may be made by way of cash payment or shares of the company

A company may implement a scheme(s) either-

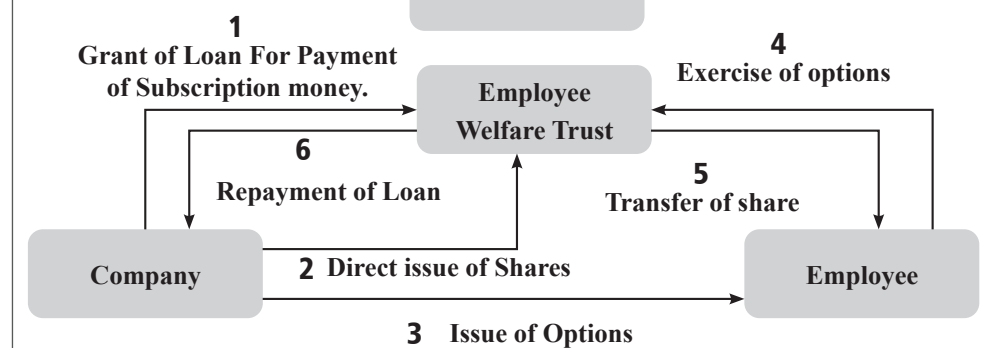
Directly, or

By setting up an irrevocable trust(s).

Direct Route



Trust Route



#. Special Points

- ❖ 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.
- ❖ To change the mode of implementation, a fresh approval of shareholders will be required
- ❖ If scheme involve the any secondary acquisition or gift, it shall be implemented through trust route.
- ❖ Company may implement various scheme through single trust.
- ❖ If the company implements various scheme through single trust, it shall maintain separate books of accounts and records for each schemes.
- ❖ Trustee shall not vote in respect of shares held by trust.
- ❖ Trustee shall ensure that all requisite approval has been obtained.

- ❖ Trust shall not deal in derivatives.
- ❖ For the purpose of disclosures to the recognized stock exchange, the shareholding of the trust shall be shown as “non-promoter and non-public” shareholding.
- ❖ The trust shall be required to hold the shares acquired through secondary acquisition for a minimum period of six months.
- ❖ Benefit granted to an employee under the regulations shall not be transferable to any person
- ❖ Benefit granted to the employee shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner
- ❖ Event of resignation or termination of an employee, benefit which are granted and yet not vested as on that day, shall expire.

#. Trustee means the trustee of the employee benefit trust.

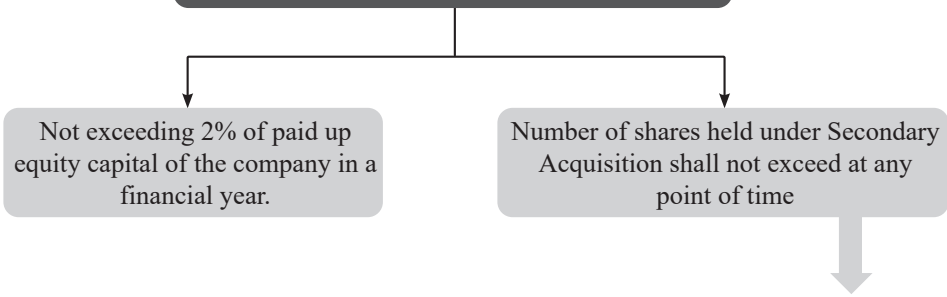
Powers and duties of trustee

1. To frame rules for administration of the scheme
2. To maintain books of accounts of trust.

#. Following person shall not be appointed as trustee of the trust

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

Limit on Secondary Acquisition by the Trust



Sl. No.	Particulars	Limit (% of Paid up equity capital)
A.	For the schemes ESOS, ESPS and SAR Scheme	5%
B.	For the schemes enumerated in GBRS, or retirement scheme	2%
C.	For all the schemes in aggregate	5%

The trust shall not become a mechanism for trading in shares and hence shall not sell the shares in secondary market except under the following circumstances:

- ❖ To enable the employee to fund the payment of the exercise price
- ❖ On vesting or exercise of SAR
- ❖ In case of emergency for implementing the schemes covered 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.

- ❖ A company shall constitute a compensation committee for administration and superintendence of the schemes.
- ❖ The compensation committee shall frame suitable policies and procedures to ensure that there is no violation of securities laws



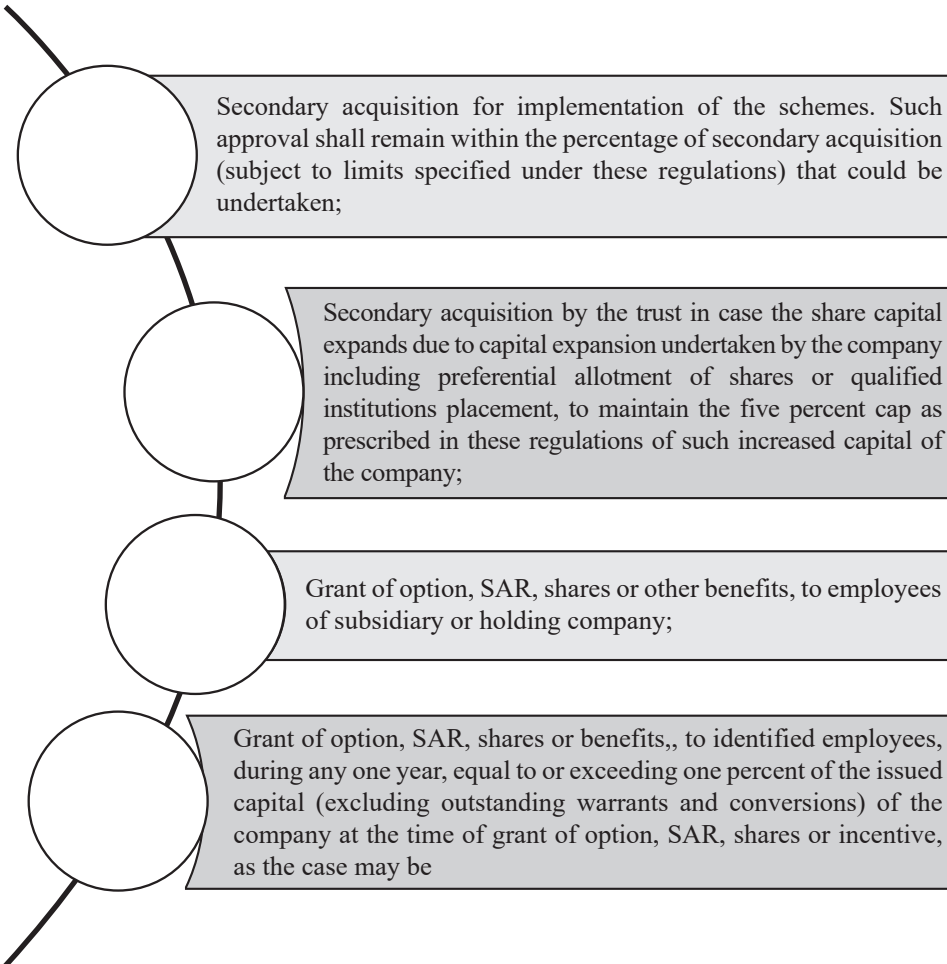
A Scheme shall not be offered to employees of a company unless the shareholders of the company approve it by passing a special resolution in the general meeting.

Requirement for Shareholders Approval

Explanatory statement shall be annexed with notice and the resolution proposed to be passed by shareholders for the schemes shall include the information as specified by the SEBI in this regards.

Approval of shareholders by way of separate resolution in the general meeting shall be obtained by the company in 4 cases as given below.

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



Variation of Terms of the Scheme

- Special resolution required.
- Variation shall not be prejudicial to the interests of the employees
- To meet any regulatory requirement, variation is not required Special Resolution
- All other provisions apply mutatis mutandis as apply to original scheme
- Repricing is allowed if scheme become unattractive due to fall in share price.

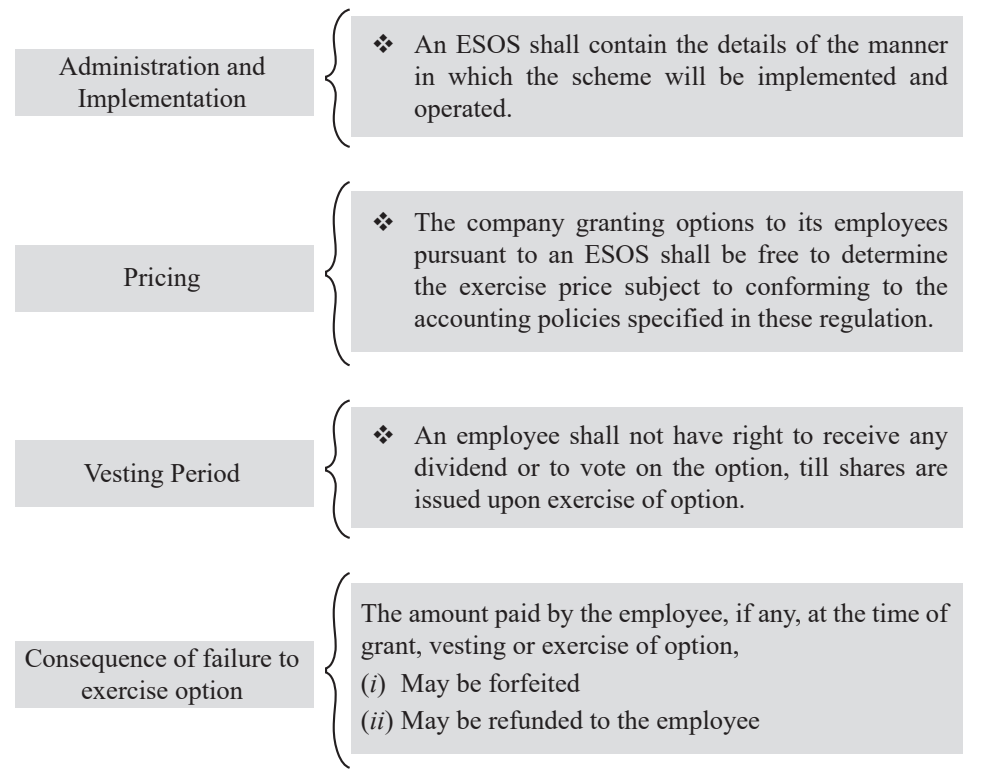
#. Winding up of the Schemes

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 utilized 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.

#. 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)



Administration and Implementation	Pricing and Lock-In
<ul style="list-style-type: none"> An ESPS scheme shall contain the details of the manner in which the scheme will be implemented and operated 	<ul style="list-style-type: none"> A 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 <i>shall be locked-in for a minimum period of one year</i> from the date of allotment. If ESPS is part of a public issue and the shares are issued to employees at the same price as in the public issue, the shares issued to employees pursuant to ESPS shall not be subject to lock-in.

Stock Appreciation Rights Scheme (SAR Scheme)

Administration and Implementation	Vesting
<p>ASAR scheme shall contain the details of the manner in which the scheme will be implemented and operated.</p> <p><i>A company shall have the freedom to implement cash settled or equity settled SAR scheme.</i> However, for the purpose of these regulations, reference to SAR shall mean equity settled SARs only.</p>	<p>There shall be a <i>minimum vesting period of one year</i> in case of SAR scheme.</p>

General Employee Benefits Scheme (GEBS)

(1)	GEBS shall <i>contain the details of the scheme and the manner in which the scheme shall be implemented and operated.</i>
(2)	The shares of the company or shares of its listed holding company <i>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</i> , as appearing in its latest balance sheet (whether audited or limited reviewed) for the purposes of GEBS.
(3)	The <i>secretarial auditor of the company shall certify compliance</i> at the time of adoption of such balance sheet by the company.

Retirement Benefit Scheme (RBS)

- 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.
- 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.
- 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.
- 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

Employee means,

An employee of the company *working in India or abroad*; or

A director of the company whether a whole time director or not (includes Independent director)

A company whose equity shares are listed on a recognized stock exchange may issue sweat equity shares in accordance with Section 54 of Companies Act, 2023 and these Regulation to its Directors

Maximum quantum of sweat equity shares

Upto 15% of paid up equity share capital in a year.

Upto 25% of paid up equity equity share capital of company at any time.

Employees

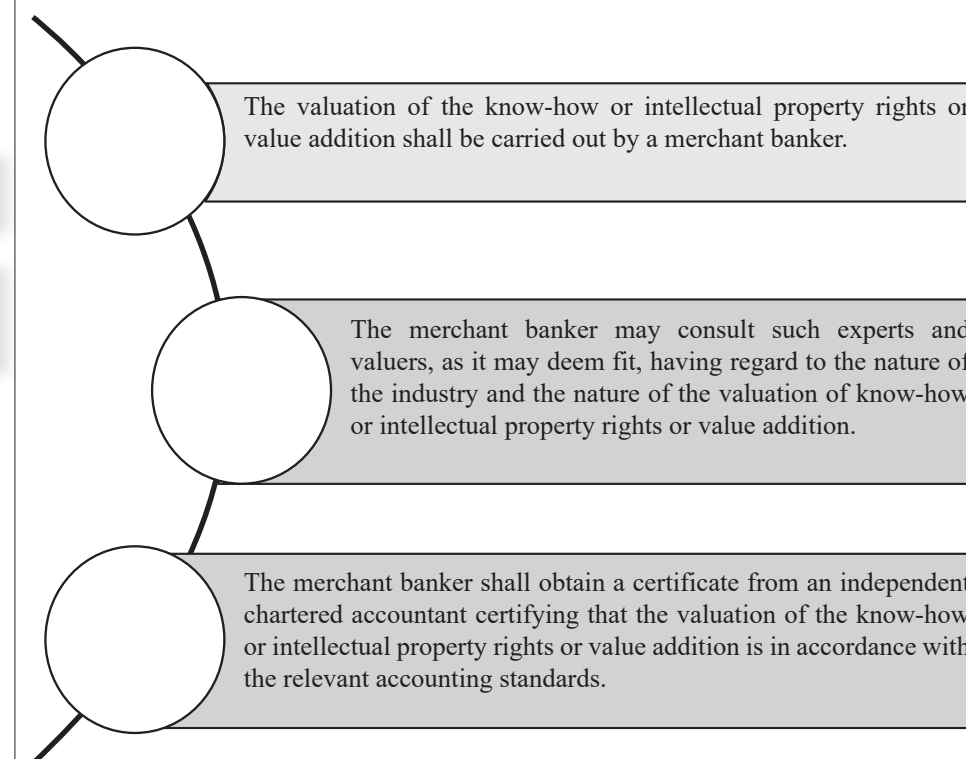
or

Directors

Special Point

- Special resolution is required for issuance of Sweat Equity Shares
- 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.
- 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.
- 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

#. Valuation



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

Debt securities;

Non-Convertible redeemable preference shares;

Perpetual debt instruments or Perpetual Non-cumulative preference shares;

Commercial Paper.

Important Definitions

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**

1. security receipts,
2. securitized debt instruments,
3. money market instruments regulated by the Reserve Bank of India, and
4. Bonds issued by the Government or such other bodies as may be specified by the SEBI.

Applicability of Chapter II of SEBI (Issue and listing of Non-convertible securities and Non-convertible redeemable preference shares) Regulations, 2021

Debt securities and non-convertible redeemable preference shares by an issuer by way of public issuance;

Non-convertible securities by an issuer on private placement basis.



Eligible issues (Regulation-5)

The following issues shall not make issue of non-convertible securities if as on the date of filing draft offer document or offer document:

- The issuer, any of its promoters, promoter group or directors are debarred from accessing the securities market or dealing in securities by the SEBI;
- Any of the promoters or directors of the issuer is a promoter or director of another company which is debarred from accessing the securities market or dealing in securities by the SEBI;
- The issuer or any of its promoters or directors is a wilful defaulter;
- Any of the promoters or whole-time directors of the issuer is a promoter or whole-time director of another company which is a wilful defaulter;
- Any of its promoters or directors is a fugitive economic offender; or
- Any fine or penalties levied by the SEBI/Stock Exchanges is pending to be paid by the issuer at the time of filing the offer document.
- ❖ If default in payment of interest or repayment of principal amount in respect of non-convertible securities for period of 6 months, then such issuer shall not make public issue of non-convertible securities.

Issuer Shall make application for in-principle approval → STx.

Issuer Shall enter in an agreement with → Depositories

The issuer shall appoint a Registrar to the issue

- If the issuer itself is a Registrar to the Issue, it shall not appoint itself as a Registrar to the Issue
- Lead merchant banker shall not be appointed as Registrar to the issue

Issuer Shall obtain credit rating from at least one → Credit Rating Agency
 Shall disclose in the offer document

Right to recall or redeem prior to maturity

An issuer making issuance of non-convertible securities shall:

have the right to recall such securities prior to the maturity date (call option); or,

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 shall be exercise in accordance with the terms of offer documents
- ❖ The period of exercise shall not be less than 3 working days
- ❖ After the completion of the exercise of such right, the issuer shall:
 - ♦ submit report to STx.
 - ♦ inform the debenture trustee.
 - ♦ inform depositories for extinguishment of security.

International Securities Identification Number

Issuer shall comply with the conditions related to ISIN.

Trust Deed

- ❖ The issuer and the debenture trustee shall execute a trust deed.
- ❖ If issuer fails to execute the trust deed, shall pay extra interest of 2% p.a.
- ❖ Trust deed shall consist of two parts:

○ Part A containing statutory/standard information pertaining to the debt issue.

○ Part B containing details specific to the particular debt issue.

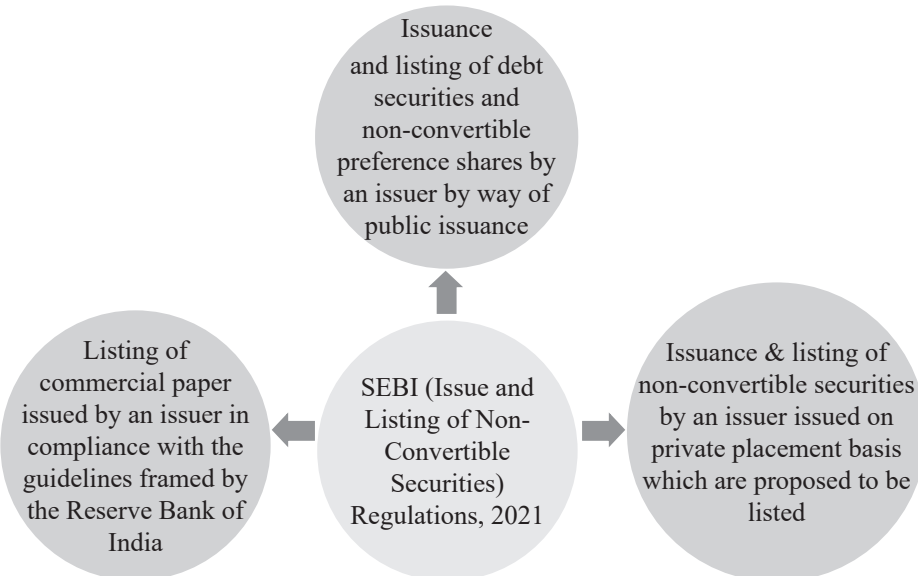


- ❖ The trust deed shall contain the issuer's bank details from which it proposes to pay the interest and redemption amount.

Obligations of the Issuer

The issuer shall treat all applicants to an issue of non-convertible securities in a fair and equitable manner as per the procedures as may be specified by the SEBI.

The issuer shall not employ any device, scheme, or artifice to defraud in connection with issue or subscription or distribution of non-convertible securities which are listed or proposed to be listed on the recognized stock exchange.



The issuer shall apply for Securities and Exchange Board of India Complaints Redress System (SCORES) authentication in the format specified by the SEBI and shall use the same for all issuance of non-convertible securities.

In case of a public issue, the issuer shall provide all required information/ documents to the lead managers for conducting the due diligence, 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.

Obligation of Debenture Trustee

Debenture Trustee shall have all the requisite power for protecting the interest of holders including a right appoint nominee director.

Debenture trustee shall supervise the implementation of conditions regarding the security, creation of recovery expense fund, DRR

Debenture trustee shall monitor the security cover.

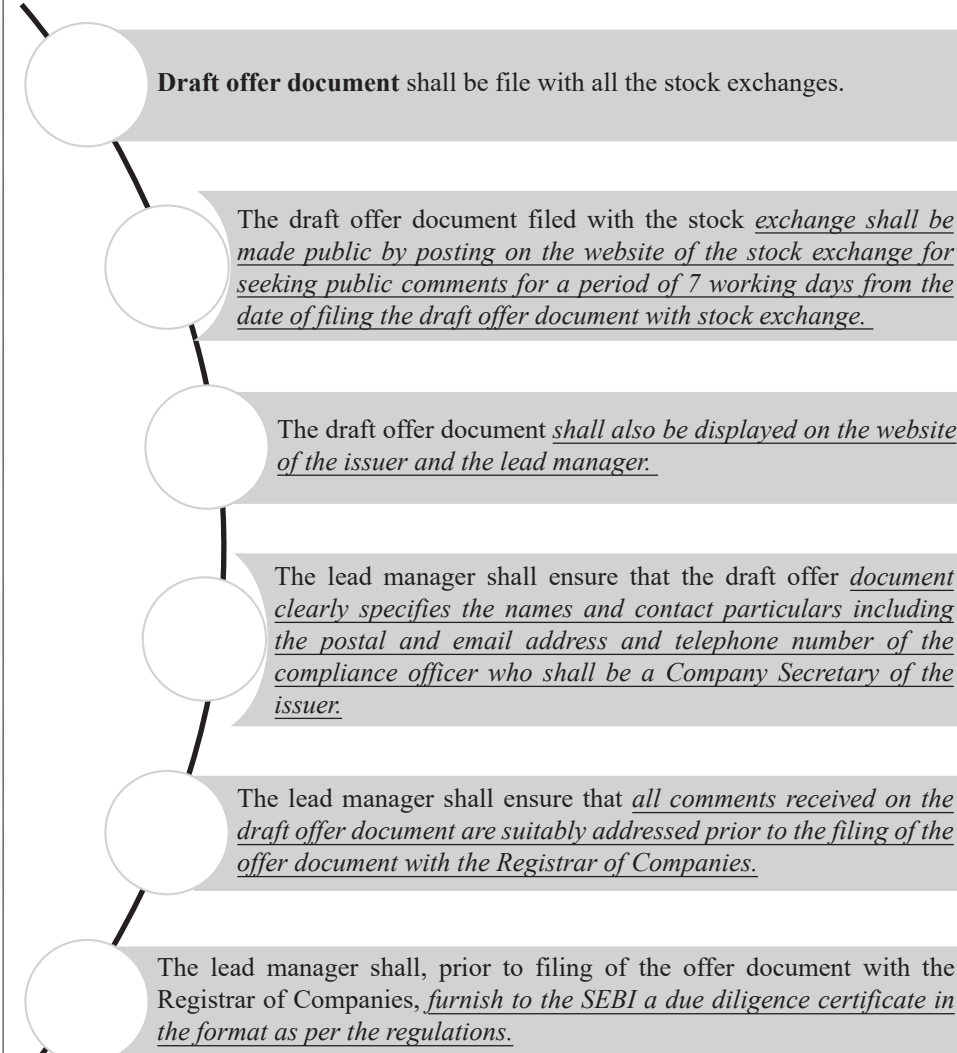
Issuance of green debt securities

An issuer desirous of issuing and listing of green debt securities shall comply with the conditions as may be specified by the SEBI

Green Debt Security means a debt security issued for raising funds that are to be utilized for project(s) and/ or asset(s) falling under any of the following categories, subject to the conditions as may be specified by the SEBI from time to time:

(i)	Renewable and sustainable energy including wind, solar, bioenergy, other sources of energy which use clean technology,
(ii)	Clean transportation including mass/public transportation,
(iii)	Sustainable water management including clean and/or drinking water, water recycling,
(iv)	Climate change adaptation,
(v)	Energy efficiency including efficient and green buildings,
(vi)	Sustainable waste management including recycling, waste to energy, efficient disposal of wastage,
(vii)	Sustainable land use including sustainable forestry and agriculture, afforestation,
(viii)	Biodiversity conservation, or
(ix)	A category as may be specified by the SEBI, from time to time.

Filing of draft 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.
- ❖ The issuer and lead manager shall ensure that every application form and the abridged prospectus is in the format as specified by the SEBI and the abridged prospectus shall not contain matters which are extraneous to the contents of the offer document.
- ❖ The issuer may provide the facility for subscription of application in electronic mode.
- ❖ The issuer may determine the price and/or coupon of debt securities and non-convertible redeemable preference shares in consultation with the lead manager.
- ❖ **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 but within 8 working days from the date of closure of the issue or such time as may be specified by the SEBI.

- ❖ The issuer shall allotment the security within the time specified by SEBI.
- ❖ Issuer, fails to allot the security within the time, shall be liable to pay interest @ 15% p.a. to investors.
- ❖ A public issue of debt securities and non-convertible redeemable preference shares may be underwritten by eligible intermediaries.

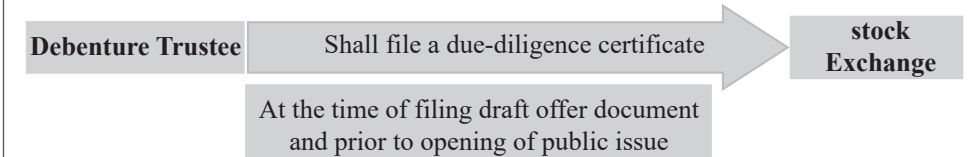
Other Obligations of the Lead Manager

The lead manager shall not employ any device, scheme, or artifice to defraud in connection with issue.

The lead manager shall ensure that the secured debt securities are secured by at least hundred percent security cover

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



Listing of Commercial Paper

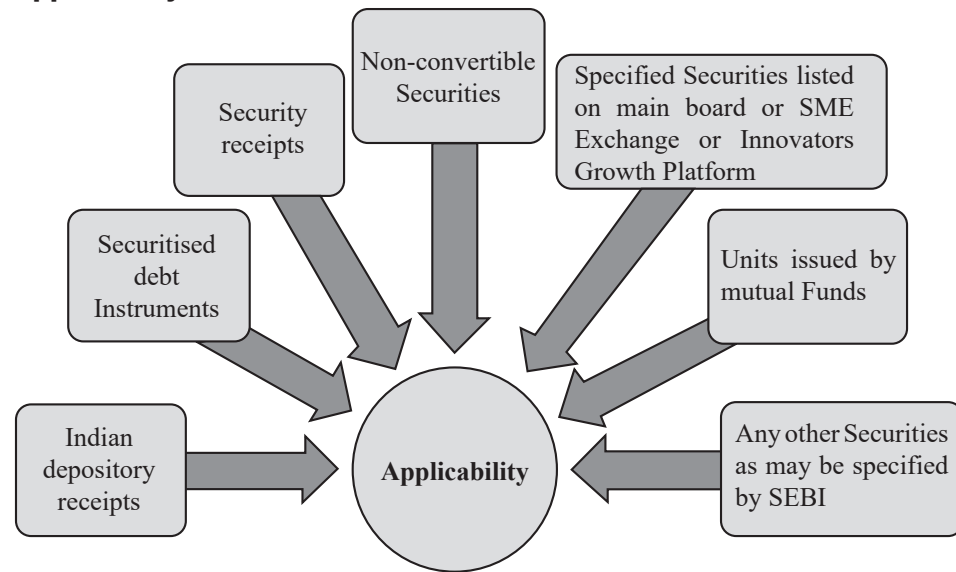
Issuer shall comply with the conditions specified by SEBI.

If issuer that has filed general information document, intends to issue commercial paper, shall file a key information documents

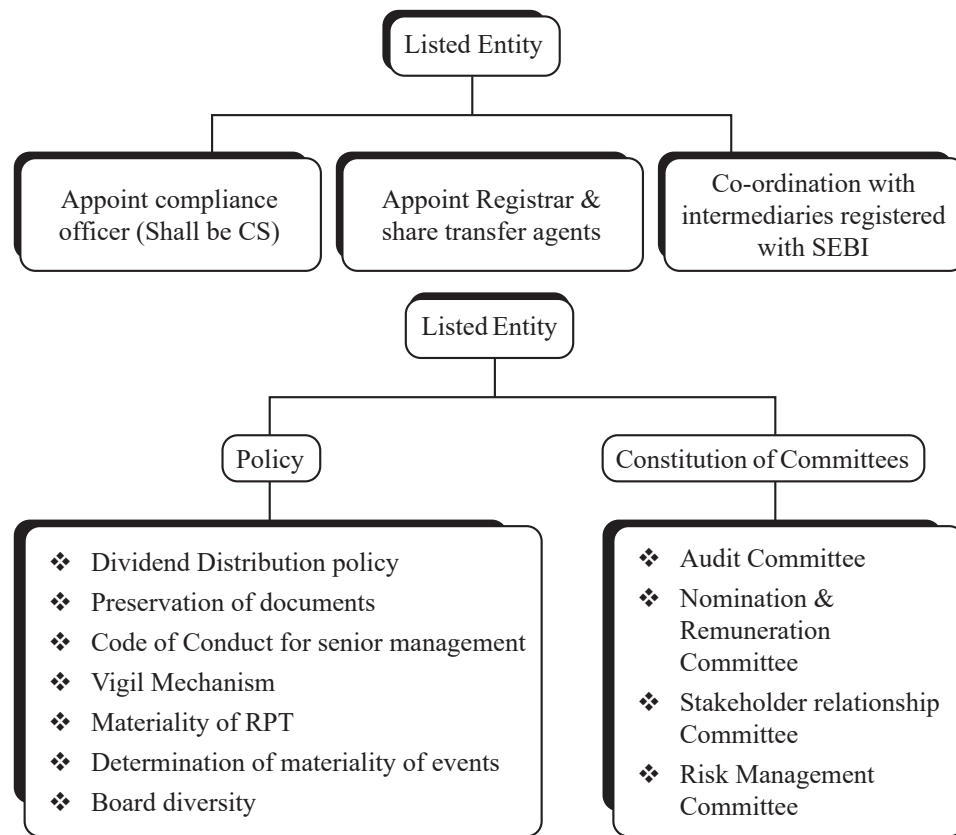
If issuer that has filed a shelf prospectus in cse of public issue, intends to issue and list the commercial paper shall not require to file a general information document.

Issuer shall apply for SCORES authentication.

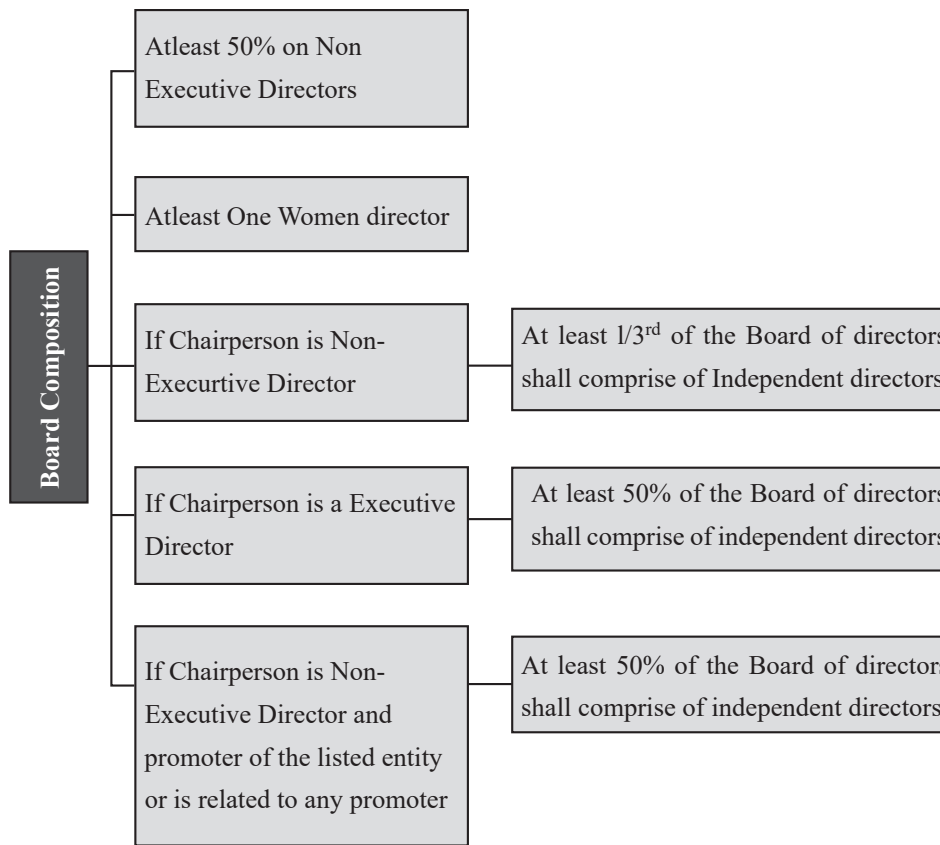
Applicability of LODR



COMMON OBLIGATIONS OF LISTED ENTITIES



COMPOSITION OF BOARD



Special Note:

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.

Committees under LODR



	Audit Committee	Nomination & Remuneration Committee	Stakeholders Relationship Committee	Risk Management Committee
Composition	<ul style="list-style-type: none"> ❖ Comprise of at least 3 directors. ❖ At least Two thirds shall be ID. ❖ If listed entity having outstanding SR equity shares, All member shall be ID. ❖ All members shall be financially literate and at least one member shall expert of finance or accounts. 	<ul style="list-style-type: none"> ❖ Comprise of at least 3 directors. ❖ All member shall be non-executive directors. ❖ At least two thirds shall be ID 	<ul style="list-style-type: none"> ❖ 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. 	<ul style="list-style-type: none"> ❖ Minimum 3 members with majority of them being director, including at least 1 ID. ❖ listed entity having outstanding SR equity shares, at least two thirds shall comprise ID.
Chairperson	<ul style="list-style-type: none"> ❖ The chairperson shall be an ID. 	<ul style="list-style-type: none"> ❖ The Chairperson shall be an ID. 	<ul style="list-style-type: none"> ❖ The chairperson shall be a non-executive director. 	<ul style="list-style-type: none"> ❖ The Chairperson shall be a director.
Meetings	<ul style="list-style-type: none"> ❖ Aleast four times in a year and Gap shall not more than 120 days 	<ul style="list-style-type: none"> ❖ The committee shall meet at least once in a year. 	<ul style="list-style-type: none"> ❖ The committee shall meet at least once in a year. 	<ul style="list-style-type: none"> ❖ Atleast twice in a year.

Quorum	❖ Two members or one third of the members, whichever is greater, with at least 2 ID.	❖ The quorum shall be either two members or one third of the members, whichever is greater, including at least 1 ID in attendance.	–	❖ The quorum shall be either two members or one third of the members, whichever is higher, including at least one director in attendance.
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Quarterly Compliances



Statement of Grievance Redressal Mechanism	Within 21 days from the end of the quarter
Corporate Governance Report	Within 21 days from the end of the quarter
Shareholding Pattern	Within 21 days from the end of the quarter
Statement of deviation or variation.	Within 45 days from the end of the quarter
Holding of Board meeting	Within 45 days from end of Quarter

Half-Yearly Compliances

Disclosure of Related Party Transaction	Within fifteen days from publication of its standalone and consolidated financial results on half-yearly basis.	All Listed Entity
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Annual Compliances

Share Transfer Agent	Within 30 days from the end of the financial year
Secretarial Compliance Report	within 60 days of the end of the financial year

Financial Results along with Auditor's Report	within 60 days of the end of the financial year
Annual Report	Not later than the day of commencement of dispatch to its shareholders.
Transfer or transmission or transposition of securities	Within 30 days from the end of the financial year

Event Based Disclosures

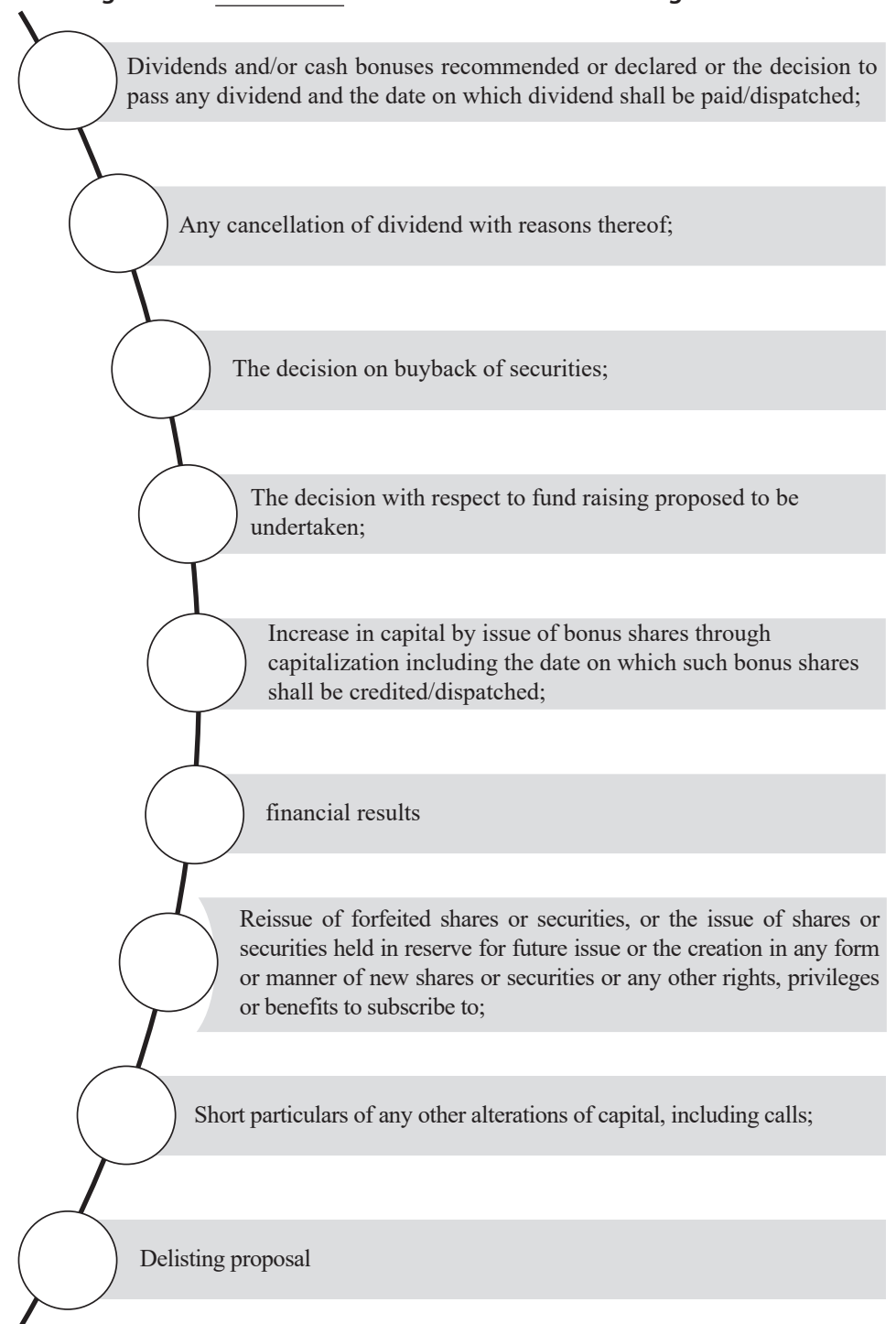
Title	Particulars	Time Limit
Share-transfer agent	intimation of the appointment of Share Transfer Agent, to the stock exchange(s)	Within 7 days of Agreement with RTA
Holding of Specified securities	The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities prior to listing of securities	One day prior to listing of Securities
Shareholding pattern	statement showing holding of securities and shareholding pattern separately for each class of securities in case of Capital Restructuring	Within 10 days of any capital restructuring exceeding 2% of the total paid-up share capital
Disclosure of material events in case for reclassification of any person as promoter/public	The listed entity shall disclose to the stock exchange the deemed material events i.e., receipt of request for reclassification by the listed entity from the promoter(s) seeking reclassification, 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
Scheme of arrangement	file draft Scheme of Arrangement to the stock exchange(s)	Prior approval before filing with Court or Tribunal
Issue of Certificate	The listed entity shall effect issuance of certificates or receipts or advices, as applicable, of subdivision, split, consolidation, renewal, exchanges, endorsements, issuance of duplicates thereof or issuance of new certificates or receipts or advices, as applicable, in cases of loss or old decrepit or worn out certificates or receipts or advices, as applicable, in dematerialised form	Within 30 days from the date of such lodgment

Information relating loss of securities	submit information with respect to loss of share certificates and issue of the duplicate certificates to the stock exchange	Within 2 days of getting information
Registering the transfer of securities	The listed entity shall register transfers of its securities in the name of the transferee(s) and issue certificates or receipts or advices, as applicable, of transfers; or issue any valid objection or intimation to the transferee or transferor, as the case may be	Within 15 days from the date of such receipt of request for transfer
Transmission request	The listed entity shall ensure that transmission requests are processed	Within 7, after receipt of the specified documents
Record Date / Book Closure	The listed entity shall intimate the record date or date of closure of transfer books to all the stock exchange(s) specifying the purpose of the record date The listed entity shall intimate the following events: (a) declaration of dividend (b) issue of right or bonus shares (c) issue of shares for conversion of convertible security (d) shares arising out of rights attached to any convertible security (e) corporate actions (f) such other purposes as may be specified by the stock exchange(s)	In case of Right Issue, at least 3 working days in advance (excluding the date of intimation and record date) Other than Right Issue, at least 7 working days in advance (excluding the date of intimation and record date)
Maintenance of website	The listed entity shall maintain a functional website	Within 2 working days from the date of change in content

PRIOR INTIMATIONS

At least 5 Clear Days in advance	At least 2 Working Days in advance	At least 11 Working Days in advance
❖ Financial results	<ul style="list-style-type: none"> ❖ Proposal for buyback of securities; ❖ Proposal for voluntary delisting; ❖ Fund raising ❖ Declaration/ recommendation of dividend, ❖ issue of convertible securities; ❖ Declaration of bonus securities. 	<ul style="list-style-type: none"> ❖ Any alteration in the form or nature of any of its listed securities or in the rights or privileges of the holders thereof; ❖ Any alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.

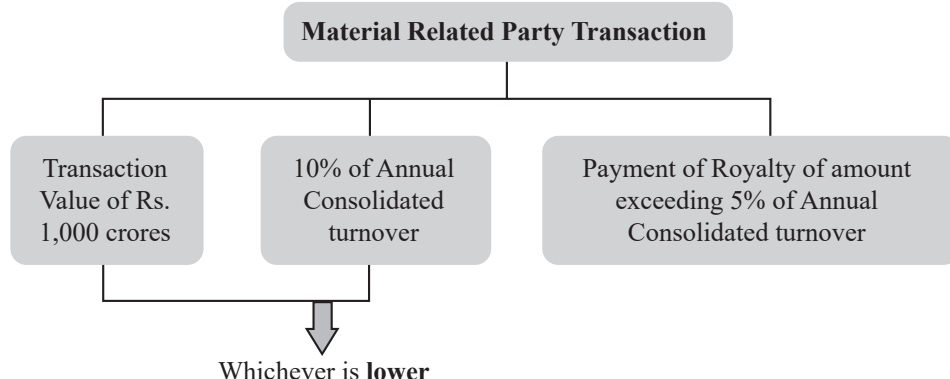
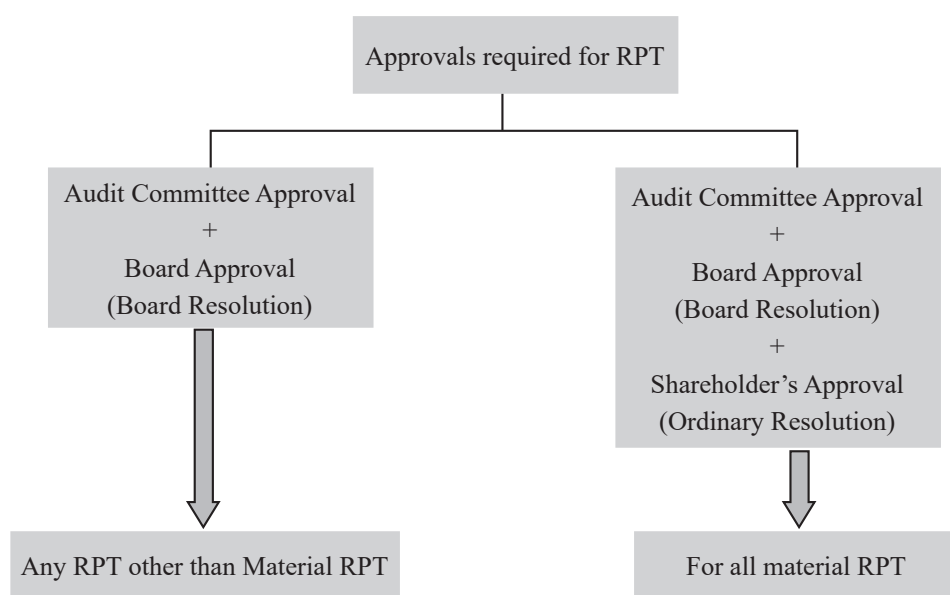
Outcome of Meetings of the board of directors to be disclosed to the Exchange within 30 minutes of the closure of the meeting



Related Party Transactions

(Regulation 23)

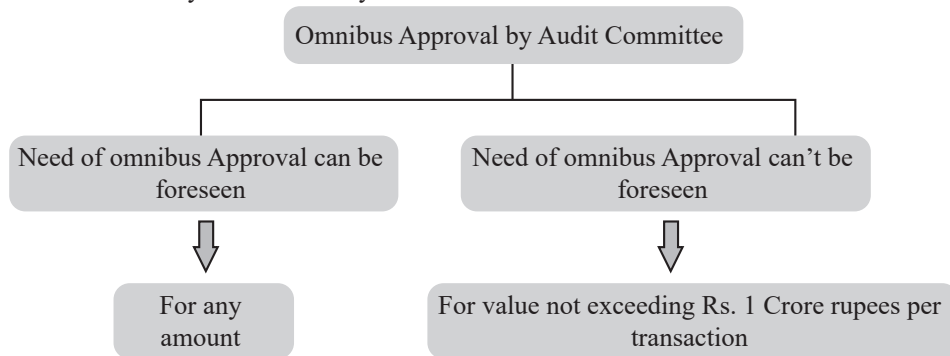
As per Regulation 23 of SEBI (LODR) Regulations, 2015 every listed entity shall formulate a policy on materiality of related party transactions and on dealing with related party transactions including clear threshold limits duly approved by the board of directors and such policy shall be reviewed by the board of directors at least **once every three years** and updated accordingly.



Special Note: "only those members of the audit committee, who are independent directors, shall approve related party transactions."

Omnibus Approval by Audit Committee

Audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity.



Note:

- ❖ Validity of Omnibus approval is up to 1 years.
- ❖ Audit Committee shall review the transactions pursuant to Omnibus approval on quarterly basis.
- ❖ The listed entity shall submit to the stock exchanges disclosures of related party transactions in the format as specified by the SEBI in every six months within fifteen days from the date of publication of its standalone and consolidated financial results, and publish the same on its website.

Exceptions

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

- Transactions entered into between two government companies;
- transactions entered into between at holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval;
- transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

Independent Director

"Independent Director" means a non-executive director, other than a nominee director of the listed entity:

(i)	Who, in the opinion of the board of directors, is a person of integrity and possesses relevant expertise and experience;
(ii)	Who is or was not a promoter of the listed entity or its holding, subsidiary or associate company or member of the promoter group of the listed entity;
(iii)	Who is not related to promoters or directors in the listed entity, its holding, subsidiary or associate company;
(iv)	Who, apart from receiving director's remuneration, has or had no material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the three immediately preceding financial years or during the current financial year;
(v)	None of whose relatives:
(A)	Is holding securities of or interest in the listed entity, its holding, subsidiary or associate company during the three immediately preceding financial years or during the current financial year of face value in excess of fifty lakh rupees or two percent of the paid-up capital of the listed entity, its holding, subsidiary or associate company, respectively, or such higher sum as may be specified;
(B)	Is indebted to the listed entity, its holding, subsidiary or associate company or their promoters or directors, in excess of such amount as may be specified during the three immediately preceding financial years or during the current financial year;
(C)	Has given a guarantee or provided any security in connection with the indebtedness of any third person to the listed entity, its holding, subsidiary or associate company or their promoters or directors, for such amount as may be specified during the three immediately preceding financial years or during the current financial year; or
(D)	Has any other pecuniary transaction or relationship with the listed entity, its holding, subsidiary or associate company amounting to two percent or more of its gross turnover or total income;

	Provided that the pecuniary relationship or transaction with the listed entity, its holding, subsidiary or associate company or their promoters, or directors in relation to points (A) to (D) above shall not exceed two percent of its gross turnover or total income or fifty lakh rupees or such higher amount as may be specified from time to time, whichever is lower.
(vi)	who, neither himself/herself, nor whose relative(s) —
(A)	holds or has held the position of a key managerial personnel or is or has been an employee of the listed entity or its holding, subsidiary or associate company or any company belonging to the promoter group of the listed entity, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed; Provided that in case of a relative, who is an employee other than key managerial personnel, the restriction under this clause shall not apply for his / her employment.
(B)	is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of —
	1. a firm of auditors or company secretaries in practice or cost auditors of the listed entity or its holding, subsidiary or associate company; or
	2. any legal or a consulting firm that has or had any transaction with the listed entity, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm.

(C)	holds together with his relatives two per cent or more of the total voting power of the listed entity; or
(D)	is a chief executive or director, by whatever name called, of any non-profit organisation that receives twenty-five per cent or more of its receipts or corpus from the listed entity, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the listed entity;
(E)	is a material supplier, service provider or customer or a lessor or lessee of the listed entity;
(vii)	who is not less than 21 years of age;
(viii)	who is not a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director.

Corporate Governance requirement related to subsidiary

- ❖ “Material Subsidiary” shall mean a subsidiary, whose income or net worth exceeds twenty 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.

Secretarial Audit and Secretarial Compliance Report



- (1) 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.
- (2) 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.
For the purpose of aforesaid provisions, the term “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.

Objective of Takeover code:


- ❖ To ensure that the public shareholders of a company are mandatorily offered an exit opportunity in case of change in control.
- ❖ To ensure fair disclosure about the change in control & shareholding



Important definition

Acquirer	“Acquirer” means any person who, directly or indirectly, acquires or agrees to acquire whether by himself, or through, or with persons acting in concert with him, shares or voting rights in, or control over a target company. [Reg. 2(1)(a)]
Offer period	“Offer period” means the period between the date of entering into an agreement, formal or informal, to acquire shares, voting rights in, or control over a target company requiring a public announcement, or the date of the public announcement, as the case may be, and the date on which the payment of consideration to shareholders who have accepted the open offer is made, or the date on which open offer is withdrawn, as the case may be. [Reg. 2(1)(p)]

“Persons acting in concert” means,

- Persons who, with a common objective or purpose of acquisition of shares or voting rights in, or exercising control over a target company, pursuant to an agreement or understanding, formal or informal, directly or indirectly co-operate for acquisition of shares or voting rights in, or exercise of control over the target company. 
- Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be persons acting in concert with other persons within the same category, unless the contrary is established,
 - a company, its holding company, subsidiary company and any company under the same management or control;
 - a company, its directors, and any person entrusted with the management of the company;
 - directors of companies referred to in item (i) and (ii) of this sub-clause and associates of such directors;
 - promoters and members of the promoter group;
 - immediate relatives;
 - a mutual fund, its sponsor, trustees, trustee company, and asset management company;
 - a collective investment scheme and its collective investment management company, trustees and trustee company;
 - a venture capital fund and its sponsor, trustees, trustee company and asset management company;
 - an alternate investment fund and its sponsor, trustees, trustee company and manager;

- a merchant banker and its client, who is an acquirer;
- a portfolio manager and its client, who is an acquirer;
- banks, financial advisors and stock brokers of the acquirer, or of any company which is a holding company or subsidiary of the acquirer, and where the acquirer is an individual, of the immediate relative of such individual. However, this shall not apply to a bank whose sole role is that of providing normal commercial banking services or activities in relation to an open offer under these regulations;
- an investment company or fund and any person who has an interest in such investment company or fund as a shareholder or unitholder having not less than 10 per cent of the paid-up capital of the investment company or unit capital of the fund, and any other investment company or fund in which such person or his associate holds not less than 10 per cent of the paid-up capital of that investment company or unit capital of that fund. However, this shall not be applicable to holding of units of mutual funds registered with the SEBI.

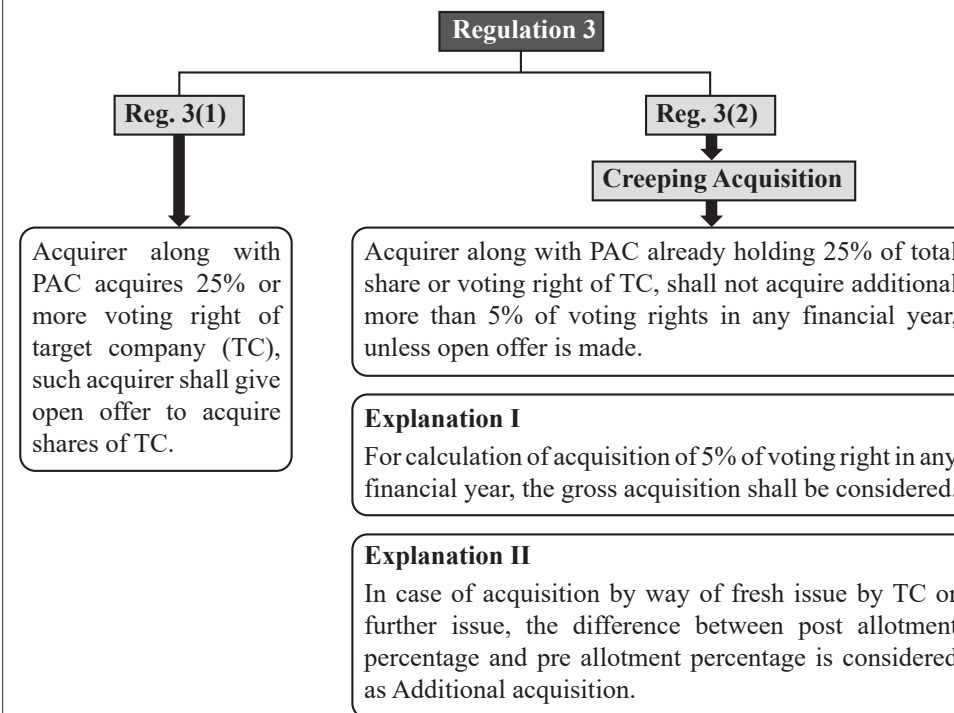
Volume Weighted Average Market Price (VWAMP)

$$VWAMP = \frac{\text{(no. of equity share traded x Market price of each equity share)}}{\text{Total no. of equity share traded}}$$

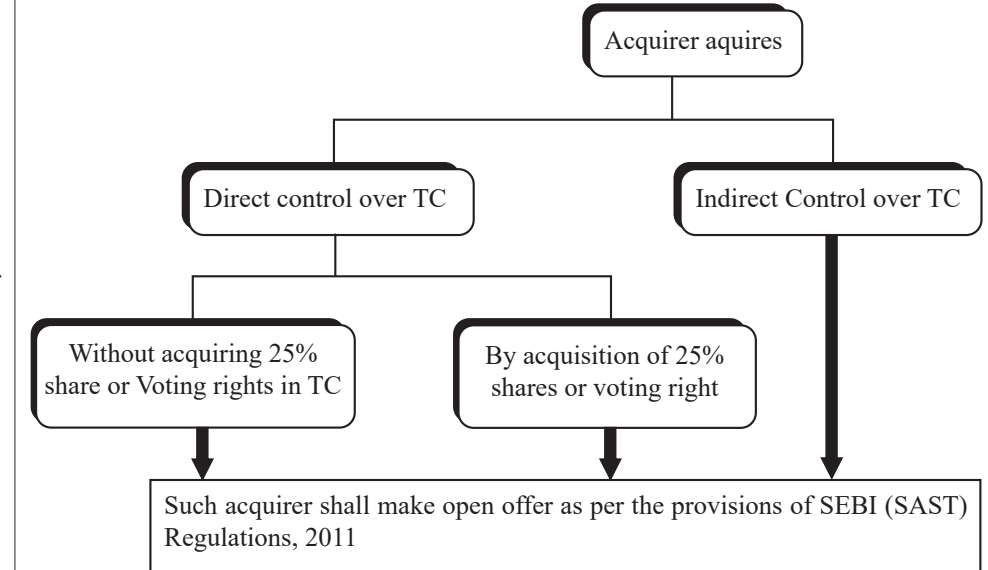
Volume weighted average price (VWAP)

$$VWAP = \frac{\text{(no. of equity share bought X price of each equity share)}}{\text{Total no. of equity share bought}}$$

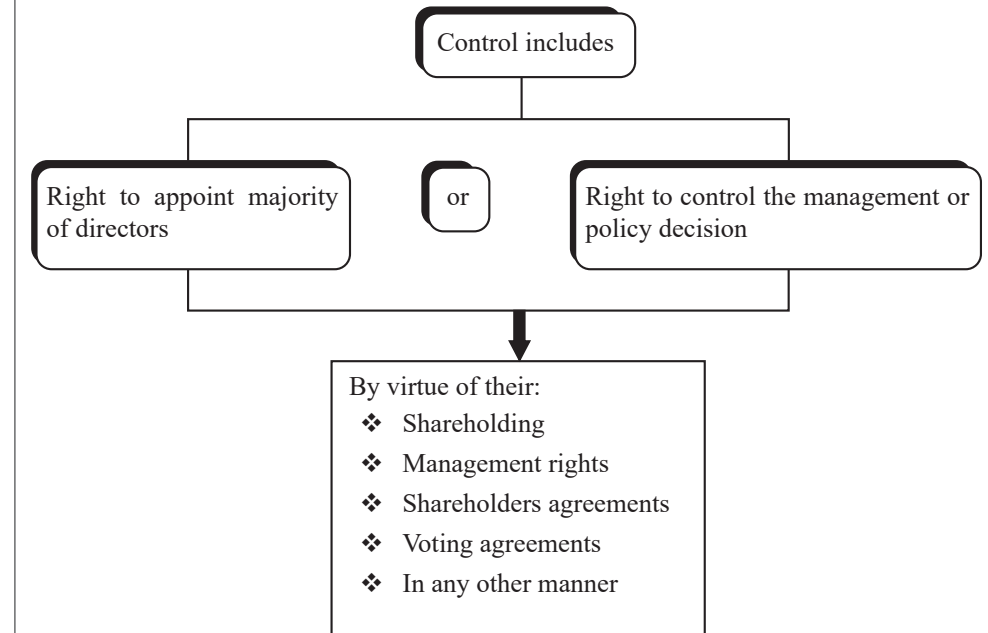
TRIGGER POINT FOR MAKING AN OPEN OFFER BY AN ACQUIRER



Regulation 4



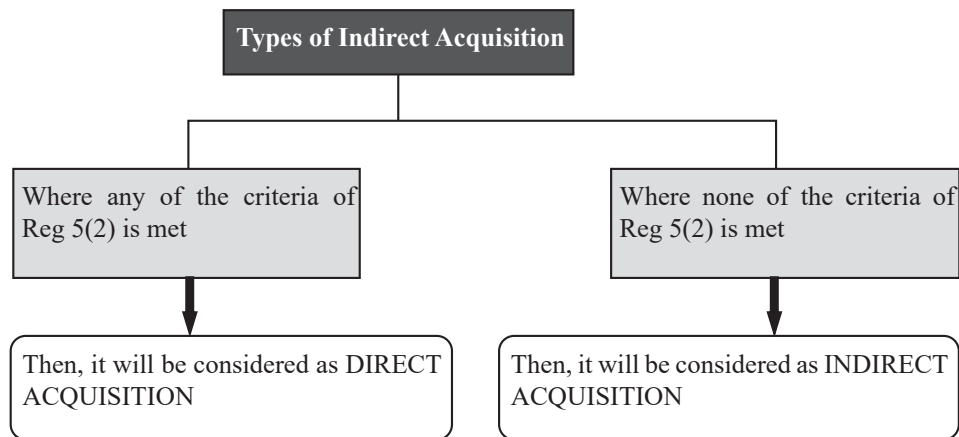
Control



However, Director or officer of TC shall not be considered to be in control over TC, merely by virtue of holding such position.

Indirect Acquisition

If acquirer acquires parent entity of TC, resulting acquirer becoming to exercise 25% or more voting rights or control over TC, then such direct acquisition of parent entity shall be treated as acquisition of TC.



All the obligations of takeover code w.r.t. time limit, payment, etc. shall applicable, as it is a direct acquisition

Criteria under Regulation 5(2)

In case of Indirect acquisition of the TC, where

The NAV of TC is more than 80% of consolidated NAV of entity being acquired.

The sales turnover of TC is more than 80% of consolidated sales turnover of entity being acquired.

The market cap. of TC is more than 80% of consolidated market cap of entity being acquired.

Voluntary open offer

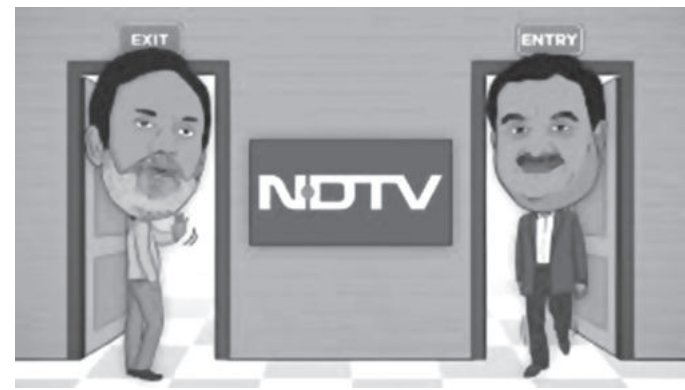
An acquirer along with PAC, already holding 25% of shares or voting rights of TC and such acquirer and PAC has not made any acquisition of shares in preceding 52 weeks without an open offer, may voluntary open offer for acquiring at least 10% of shares of TC.

Size of Open offer

The open offer for acquiring the shares of TC to be made by acquirer and PAC, shall be at least 26% of total shares of TC but subject to minimum permissible public shareholding, as on 10th working days from the closure of tendering period.

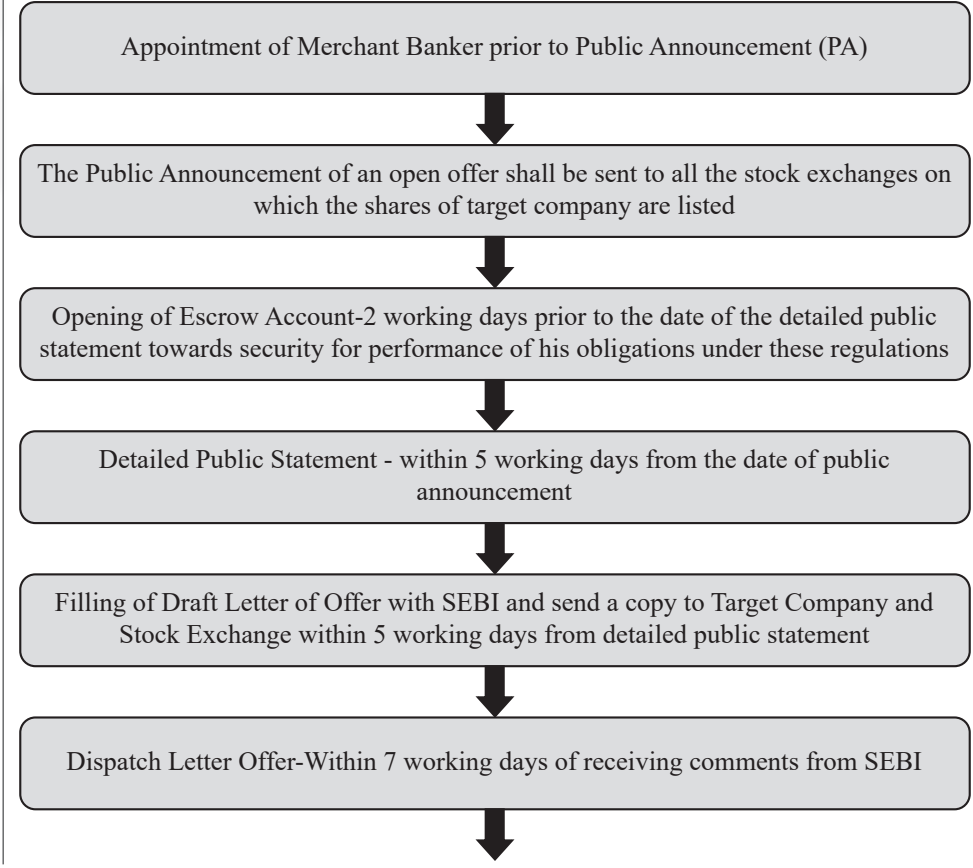
The minimum offer size for an open offer is as under:

Open offer when triggered	Minimum open offer size
Direct acquisition under Regulation 3 & 4 or Indirect acquisition under Regulation 5	26% of the total shares of the Target Company as on the 10th working day from the closure of the tendering period.
Voluntary under Regulation 6	10% of the shares in the Target Company of the company. The post offer shareholding of the Acquirer and PACs in such case shall not exceed the maximum permissible non-public shareholding.

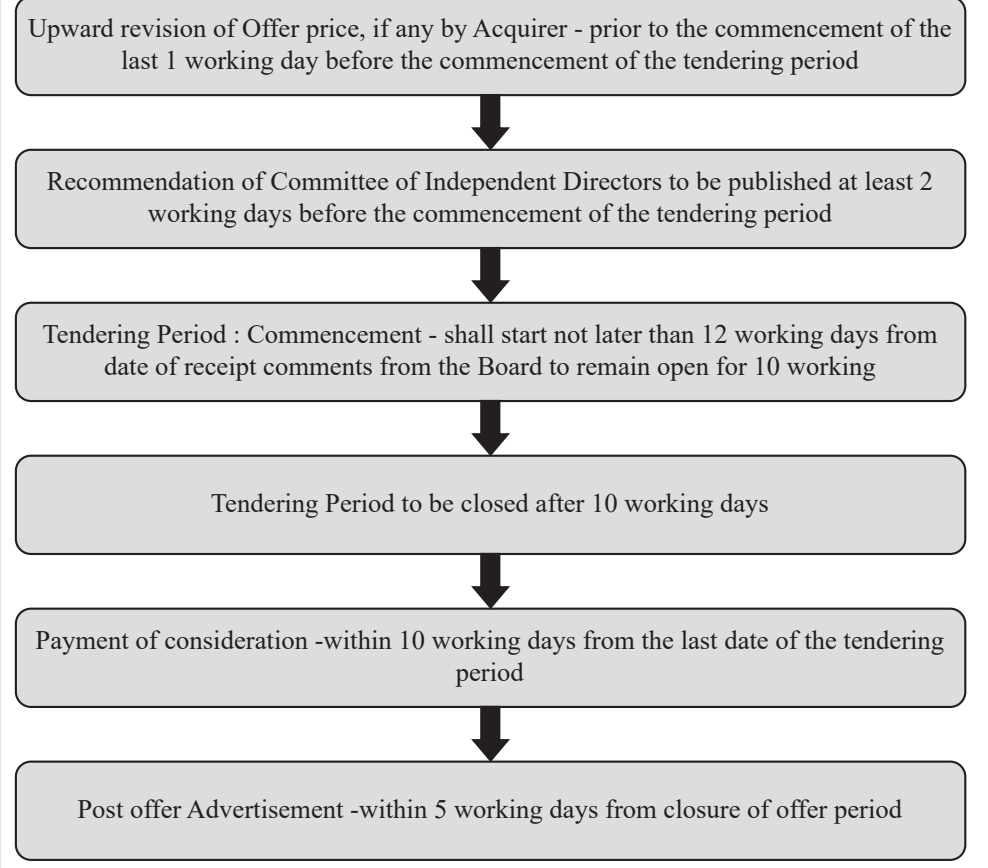


Difference between Voluntary open offer and Compulsory open offer

Basis	Compulsory open offer	Voluntary open offer
Eligibility	Can be trigger through both direct acquisition and indirect acquisition.	Can be trigger by acquirer holding 25% or more and acquirer and PAC shall not acquire any shares from last 52 weeks.
Applicability	On crossing the threshold or creeping acquisition or by way of control.	No such applicability is required.
Minimum offer size	26% of total number of shares of TC	10% of total shares of TC
Public disclosure requirement	Mandatory Public announcement	Voluntary public announcement.



Process of Takeover



Disclosures

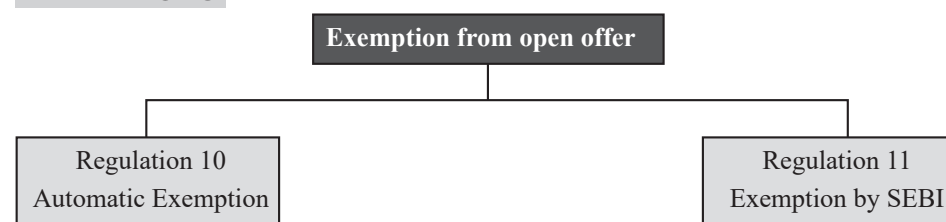
EVENT BASED DISCLOSURES

Regulation	Made by	Trigger	Time Period	Made to
Regulation 29(1)	Acquirer	Acquirer + persons acting in concert (PAC) acquiring 5% or more of the shares or voting rights of the target company shall disclose to their aggregate shareholding and voting rights in such target company. This disclosure is like an initial disclosure which is required to be given on acquiring 5% or more shares or voting rights of Target Company. Further in case of listed entity which has listed its specified securities on Innovators Growth Platform, any reference to "five per cent" shall be read as "ten per cent".	Within two working days of the receipt of intimation of allotment of shares, or the acquisition or the disposal of shares or voting rights in the target company.	Every Stock Exchange where the shares of the target company are listed and the target company at its registered office.

Regulation 29(2)	Acquirer	Any person + persons acting in concert (PAC), holds shares or voting rights entitling them to five per cent or more of the shares or voting rights in a target company, shall disclose the number of shares or voting rights held and change in shareholding or voting rights, even if such change results in shareholding falling below five percent, if there has been change in such holdings from the last disclosure made under sub-regulation (1) or under this sub regulation; and such change exceeds two per cent of total shareholding or voting rights in the target company. Further in case of listed entity which has listed its specified securities on Innovators Growth Platform, any reference to “five per cent” shall be read as “ten per cent” and any reference to “two per cent” shall be read as “five per cent”.	Within two working days of the receipt of intimation of allotment of shares or the acquisition or the disposal of shares or voting rights in the target company.	Every Stock Exchange where the shares of the target company are listed and the target company at its registered office
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Regulation 31(4)	Promoter	Promoter + PAC shall declare on a yearly basis that he, along with persons acting in concert, has not made any encumbrance, directly or indirectly, other than those already disclosed during the financial year.	Within 7 working days from the financial year ending 31st March every year.	Every Stock exchange where the shares are listed and the Audit Committee of the Target Company.
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EXEMPTIONS



Regulation 10 - Automatic Exemptions

(1) (a)	acquisition pursuant to inter se transfer of shares amongst qualifying persons, being,
	(i) immediate relatives;
	(ii) persons named as promoters in the shareholding pattern filed by the target company in terms of the listing regulations or as the case may be, the listing agreement or these regulations for not less than three years prior to the proposed acquisition; It is necessary that promoters should have shown as such in the filing for a period of at least 3 years prior to the acquisition.
	(iii) a company, its subsidiaries, its holding company, other subsidiaries of such – holding company, persons holding not less than fifty per cent of the equity shares of such company, other companies in which such persons hold not less than fifty per cent of the equity shares, and their subsidiaries subject to control over such qualifying persons being exclusively held by the same persons; For this sub-regulation, the company shall include a body corporate, whether Indian or foreign.
	(iv) persons acting in concert for not less than three years prior to the proposed acquisition, and disclosed as such pursuant to filings under the listing regulations or as the case may be, the listing agreement; It is necessary that persons acting in concert should have shown as such in the filing for a period of at least 3 years prior to the acquisition.
	(v) shareholders of a target company who have been persons acting in concert for a period of not less than three years prior to the proposed acquisition and are disclosed as such pursuant to filings under the listing regulations or as the case may be, the listing agreement, and any company in which the entire equity share capital is owned by such shareholders in the same proportion as their holdings in the target company without any differential entitlement to exercise voting rights in such company.
(b)	acquisition in the ordinary course of business by,
	(i) an underwriter registered with the SEBI by way of allotment pursuant to an underwriting agreement;

Regulation	Who will make	Trigger	Time Period	Made to
Regulation 31(1)	Promoter	Promoter + PAC creating encumbrance on the shares of the target company.	Within 7 working days from the creation or invocation or release of encumbrance as the case may be.	Every Stock exchange where the shares.
Regulation 31(2)	Promoter	Invocation of such encumbrance or release of such encumbrances of the shares of the target company.	Within 7 working days from the creation or invocation or release of encumbrance as the case may be.	Every Stock exchange where the shares.

	(ii) a stock broker registered with SEBI on behalf of his client in exercise of lien over the shares purchased on behalf of the client under the bye-laws of the stock exchange where such stock broker is a member
	(iii) a merchant banker registered with SEBI or a nominated investor in the process of market making or subscription to the unsubscribed portion of;
	(iv) any person acquiring shares pursuant to a scheme of safety net in terms of the then existing SEBI (ICDR) Regulations, 2009;
	(v) a merchant banker registered with SEBI acting as a stabilising agent or by the promoter or pre issue shareholder;
	(vi) by a registered market-maker of a stock exchange in respect of shares for which he is the market maker during the course of market making;
	(vii) a Scheduled Commercial Bank, acting as an escrow agent; and
	(viii) invocation of pledge by Scheduled Commercial Banks or Public Financial Institutions as a pledgee.
(c)	acquisitions at subsequent stages, by
	An acquirer who has made a public announcement of an open offer for acquiring shares pursuant to an agreement of disinvestment, as contemplated in such agreement.
(d)	acquisition pursuant to a scheme,
	(i) made under section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985 or any statutory modification or re-enactment thereto;
	(ii) of arrangement involving the target company as a transferor company or as a transferee company, or reconstruction of the target company, including amalgamation, merger or demerger, pursuant to an order of a court or a tribunal under any law or regulation, Indian or foreign; or
	(iii) of arrangement not directly involving the target company as a transferor company or as a transferee company, or reconstruction not involving the target company’s undertaking, including amalgamation, merger or demerger, pursuant to an order of a court or a tribunal or under any law or regulation, Indian or foreign, subject to,
	A. the component of cash and cash equivalents in the consideration paid being less than twenty-five per cent of the consideration paid under the scheme; and
	B. where after implementation of the scheme of arrangement, persons directly or indirectly holding at least thirty-three per cent of the voting rights in the combined entity are the same as the persons who held the entire voting rights before the implementation of the scheme.
(da)	acquisition pursuant to a resolution plan approved under section 31 of the Insolvency and Bankruptcy Code, 2016.
(e)	acquisition pursuant to the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
(f)	acquisition pursuant to the provisions of SEBI (Delisting of Equity Shares) Regulations, 2021.
(g)	acquisition by way of transmission, succession or inheritance.
(h)	acquisition of voting rights or preference shares carrying voting rights arising out of the operation of sub-section (2) of section 47 of the Companies Act, 2013.
(i)	acquisition of shares by the lenders pursuant to conversion of their debt as part of a debt restructuring implemented in accordance with the guidelines specified by RBI. However, the conditions specified under sub-regulation (6) of regulation 158 of the SEBI (ICDR) Regulations, 2018 are complied with.

(j)	increase in voting rights arising out of the operation of sub-section (1) of section 106 of the Companies Act, 2013 or pursuant to a forfeiture of shares by the target company, undertaken in compliance with the provisions of the Companies Act, 2013 and its articles of association.
(2A)	An increase in the voting rights of any shareholder beyond the threshold limits stipulated in regulation 3(1) and (2), without the acquisition of control, pursuant to the conversion of equity shares with superior voting rights into ordinary equity shares, shall be exempted from the obligation to make an open offer.
(2B)	Any acquisition of shares or voting rights or control of the target company by way of preferential issue in compliance with regulation 164A of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 shall be exempt from the obligation to make an open offer.
(3)	An increase in voting rights in a target company of any shareholder beyond the limit attracting an obligation to make an open offer under regulation 3(1), pursuant to buy-back of shares by the target company shall be exempt from the obligation to make an open offer.
(4)	The following acquisitions shall be exempt from the obligation to make an open offer
	(a) acquisition of shares by any shareholder of a target company, upto his entitlement, pursuant to a rights issue;
	(b) acquisition of shares by any shareholder of a target company, beyond his entitlement, pursuant to a rights issue
	(c) increase in voting rights in a target company of any shareholder pursuant to buy-back of shares;
	(d) acquisition of shares in a target company by any person in exchange for shares of another target company tendered pursuant to an open offer for acquiring shares under these regulations;

	(e) acquisition of shares in a target company from state-level financial institutions or their subsidiaries or companies promoted by them, by promoters of the target company pursuant to an agreement between such transferors and such promoter;
	(f) acquisition of shares in a target company from a venture capital fund or Category I Alternative Investment Fund or a foreign venture capital investor registered with the SEBI, by promoters of the target company pursuant to an agreement between such venture capital fund or category I Alternative Investment Fund or foreign venture capital investor and such promoters.

Regulation 11 – Exemption by SEBI

On an application being made by the acquirer in writing giving the details of the proposed acquisition and grounds on which the exemption is sought along with duly sworn affidavit, SEBI may grant exemption to the acquirer from the Open Offer obligations subject to the compliance with such conditions as it deems fits.

Case laws

1. M/s Sungold Capital Limited v/s. SEBI

The Securities and Exchange Board of India (SEBI) addressed a case concerning the acquisition of shares/voting rights in Sungold Capital Limited (“Target Company”) beyond the permissible threshold without subsequent compliance with open offer obligations under the SAST Regulations, 1997. Despite the repeal of these regulations by the SAST Regulations, 2011, the obligations incurred under the former were preserved and enforceable under the latter.

SEBI directed the acquirers/Persons Acting in Concert (PACs) of Sungold Capital Limited to initiate a combined open offer within 45 days from the date of the order. This offer must adhere to the provisions of the SAST Regulations, 2011. Additionally, the acquirers/PACs are required to compensate for the delay in the open offer by paying

interest at a rate of 10% per annum. This interest accrues from the date the obligation to make the public announcement arose until the date of actual payment of consideration to shareholders whose shares are accepted in the open offer, adjusted for any dividends paid.

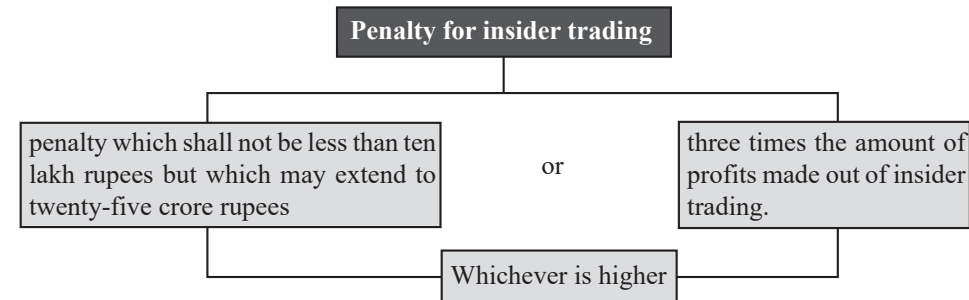
One of the principles underlying under SAST Regulations is exit opportunity to the public shareholders of the Target Company at the best price and accordingly, the provisions of SAST Regulations deals with offer price, that offer price in an open offer highest of the prices of shares of the Target Company derived through various methods.

2. Susheel Somani & Ors. (Appellant) v/s. SEBI (Respondent)

- ❖ The appeal arises from an order by the Adjudicating Officer (AO) of SEBI, dated December 27, 2017, imposing a penalty of Rs. 15 lakhs for breaching provisions related to public announcement of an open offer under Regulation 3(2) read with Regulation 13(1) of the SEBI (SAST) Regulations, 2011.
- ❖ Appellants argued that there was no violation as the transfer was between promoters and thus exempt from public announcement, citing Regulation 10 of SAST Regulations.
- ❖ However, the AO found that although Regulation 10 allows for disclosures to be made to stock exchanges and the company within two working days, appellants made disclosures on the 7th day, contrary to Regulation 29(3).
- ❖ Regulation 29(3) mandates disclosures within two working days.
- ❖ Consequently, the appellants were technically not exempt from making a public announcement and thus violated regulations.
- ❖ The penalty was imposed due to the failure to meet the condition of making disclosures within two working days, rendering exemption inapplicable.
- ❖ Despite the delay in disclosures, the AO considered it a technical breach and reduced the penalty from Rs. 15 lakhs to Rs. 5 lakhs, deeming it just and sufficient.
- ❖ The appeal was partly allowed based on these considerations.

No person shall directly or indirectly

- ❖ Engage in insider trading;
- ❖ 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.



Important Definition

- ❖ **Connected person means**



Corrected person means

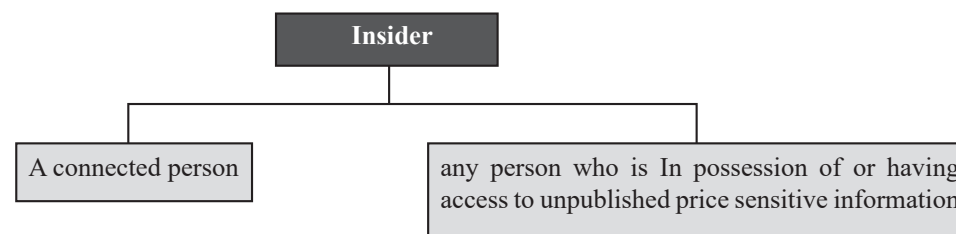
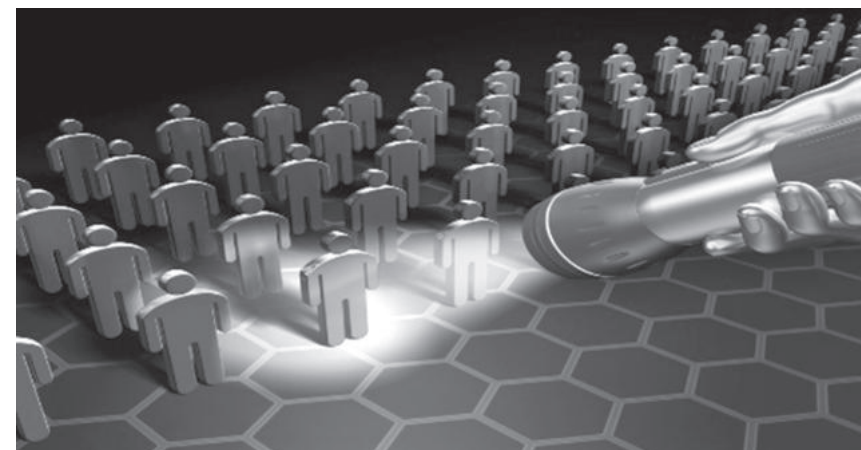
any person who is or has during the six months prior to the concerned act been associated with a company, directly or indirectly, in any capacity including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relationship or by being a director,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

❖ **“Person is deemed to be a connected person” unless the contrary is established, if such person is**

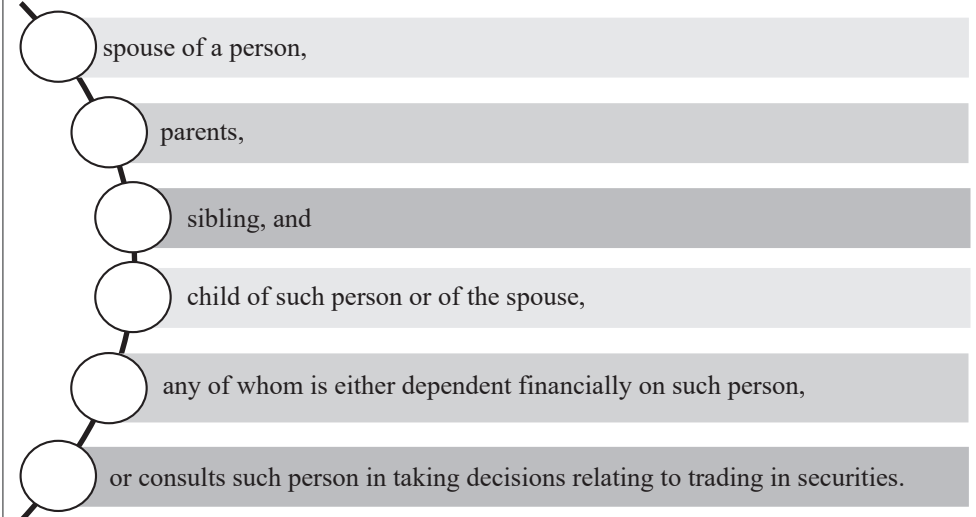
- (a) an immediate relative of connected person(s); or
- (b) a holding company or associate company or subsidiary company; or

(c)	an intermediary as specified in Section 12 of the SEBI Act or an employee or director thereof; or
(d)	an investment company, trustee company, asset management company or an employee or director thereof; or
(e)	an official of a stock exchange or of clearing house or corporation; or
(f)	a member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or
(g)	a member of the board of directors or an employee, of a public financial institution as defined in Section 2(72) of the Companies Act, 2013; or
(h)	an official or an employee of a self-regulatory organization recognised or authorized by the SEBI; or
(i)	a banker of the company; or
(j)	a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of a company or his immediate relative or banker of the company, has more than ten percent of the holding or interest.

❖ **Insider**



❖ **Immediate Relative**



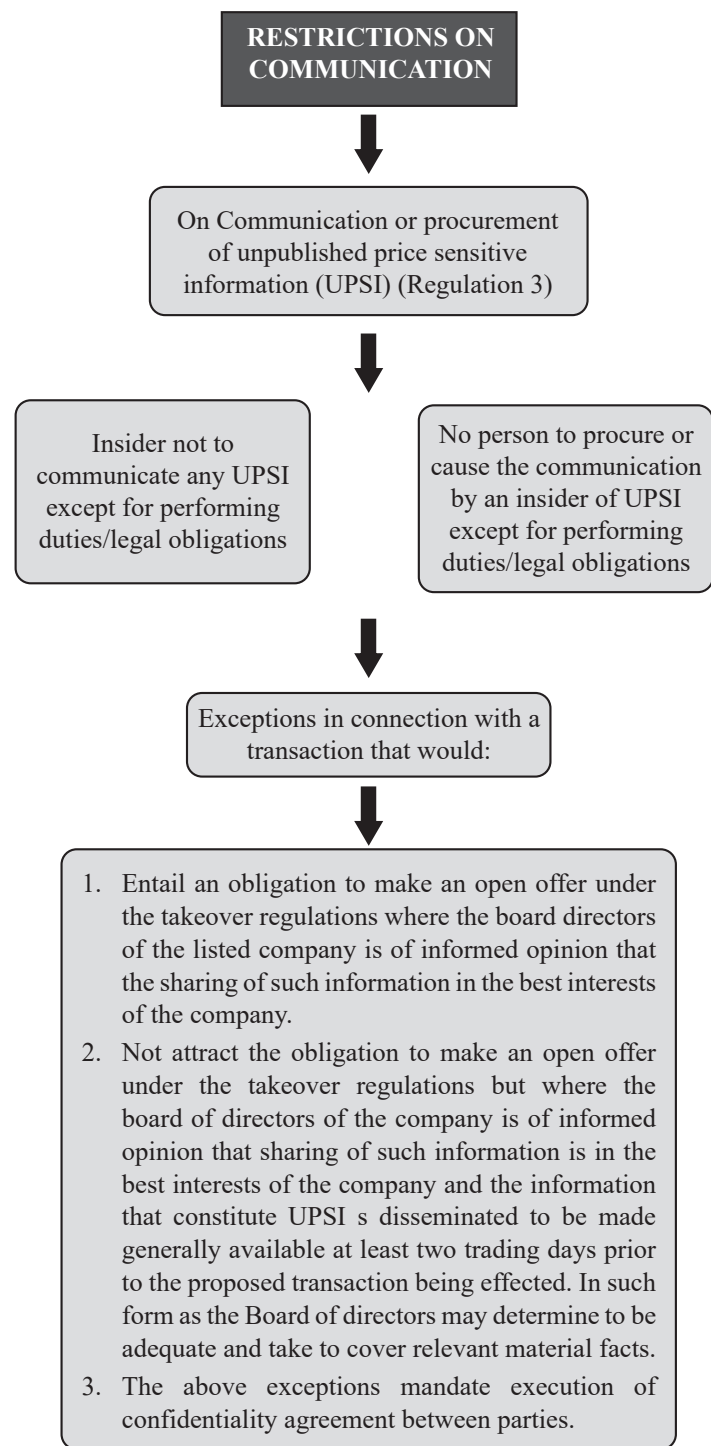
Unpublished price sensitive information

“Unpublished price sensitive information” means any information, relating to a company or its securities, directly or indirectly, that is not generally available which upon becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following

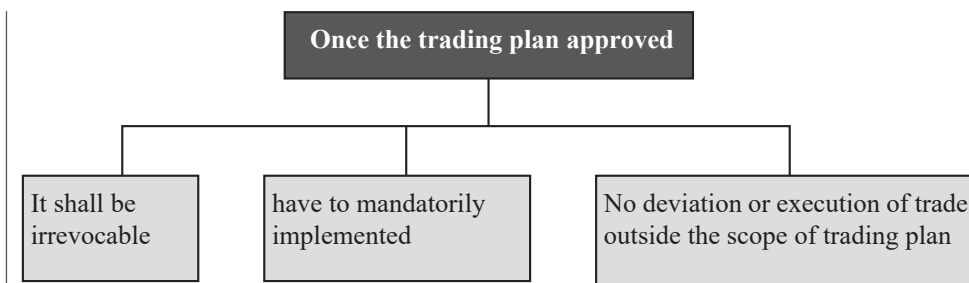
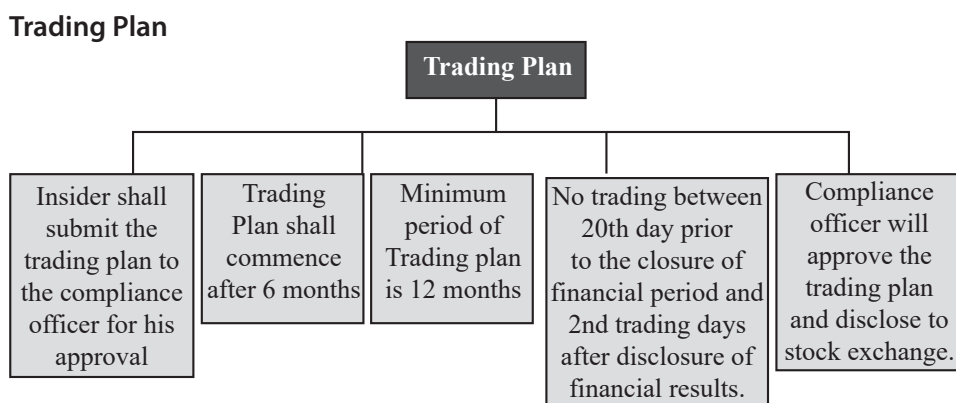
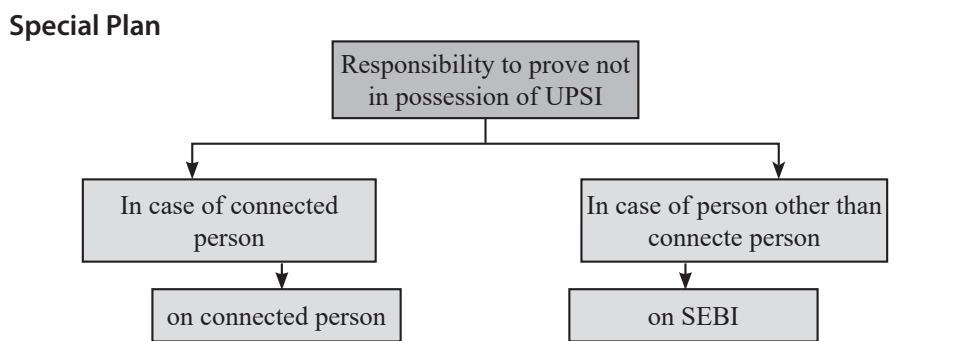
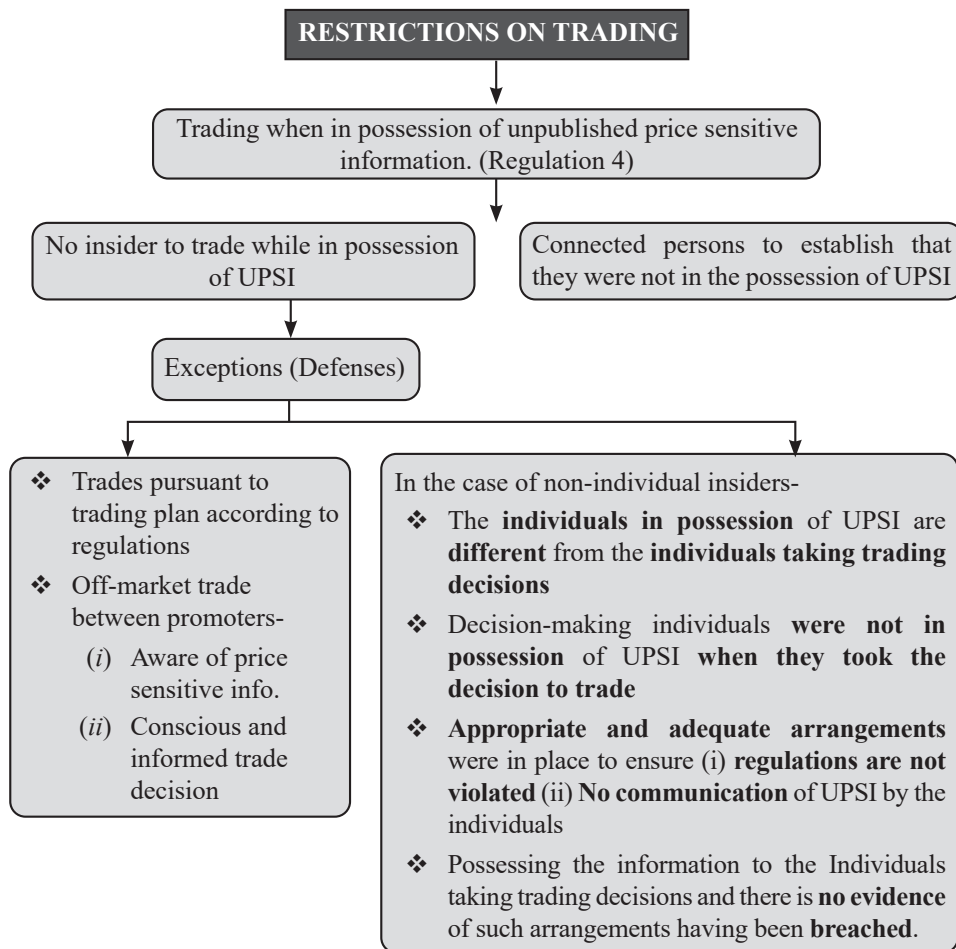
Financial results;
Dividends;
Change in capital structure;
Mergers, de-mergers, acquisitions, delisting, disposals and expansion of business and such other transactions;
Changes in key managerial personnel.

RESTRICTION ON COMMUNICATION OR PROCUREMENT OF UNPUBLISHED PRICE SENSITIVE INFORMATION (UPSI) (REGULATION 3)





TRADING WHEN IN POSSESSION OF UNPUBLISHED PRICE SENSITIVE INFORMATION (UPSI): PERMISSION & LIMITATION



Case laws



❖ **Shruti Vora, Neeraj Kumar Agarwal, Parthiv Dalal and Aditya Omprakash Gaggar (Appellants)**

V/S.

Securities and Exchange Board of India (SEBI) (Respondent)

A “forwarded as received” whatsapp message circulated on a group regarding financial results of a Company closely matching with the vital statistics would not amount to an UPSI under provision of SEBI (PIT) Regulations, 2015

❖ **Balram Garg and Ms. Shivani Gupta & Ors. (Appellants)**

V/S.

Securities and Exchange Board of India (Respondent)

In the absence of any material available on record to show frequent communication between the parties, there could not have been a presumption of communication of UPSI. The trading pattern of the appellants cannot be the circumstantial evidence to prove the communication of UPSI by the appellant to the other appellants.

Regulation 3 of the PIT Regulations, which deals with communication of UPSI, does not create a deeming fiction in law.

Hence, it is only through producing cogent materials (letters, emails, witnesses etc.) that the said communication of UPSI could be proved and not by deeming the communication to have happened owing to the alleged proximity between the parties.

DISCLOSURE REQUIREMENTS



Special Note

- ❖ The board of directors of a listed company shall make a policy for determination of “legitimate purposes”
- ❖ The board of directors or head(s) of the organization of every person required to handle unpublished price sensitive information shall ensure that the structured digital database is preserved for a period of not less than eight years after completion of the relevant transactions and in the event of receipt of any information from the Board regarding any investigation or enforcement proceedings, the relevant information in the structured digital database shall be preserved till the completion of such proceedings.

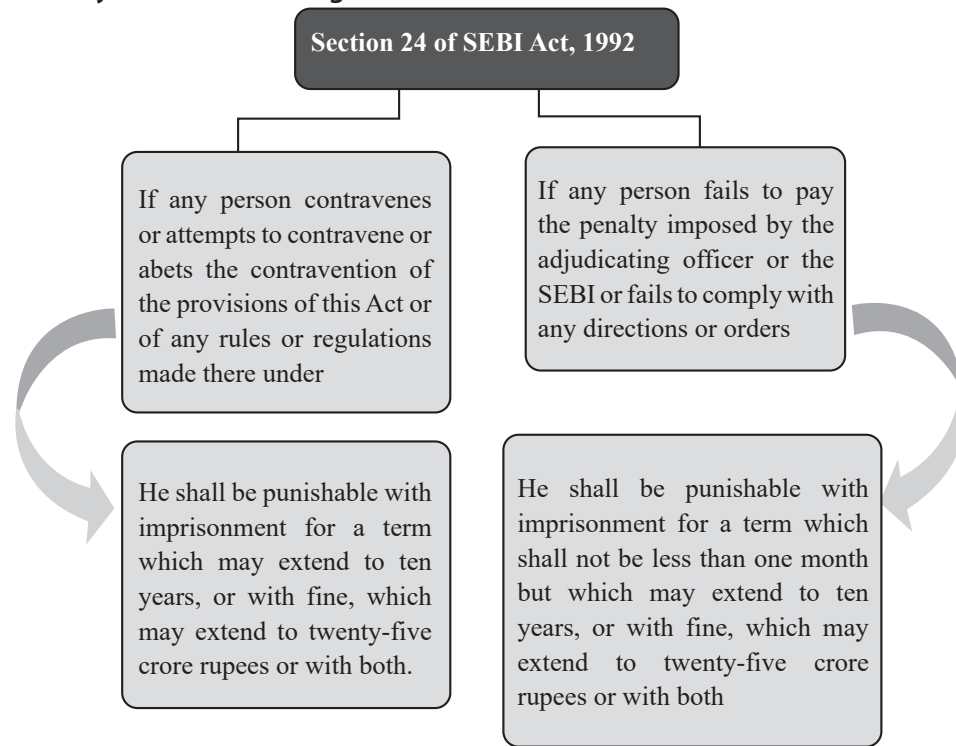
INITIAL DISCLOSURES	CONTINUAL DISCLOSURES
<ul style="list-style-type: none"> Promoter/Member of Promoter group Director/Key Managerial personnel to disclose holding of their securities to the company within 7 days from the date of their appointment/ becoming g promoter or member of promoter group. 	<ul style="list-style-type: none"> Every promoter/Member of promoter Group/ Designated Person/ director to disclose to the company the number of such securities acquired or disposed of within two trading days of such transaction if the value of the securities traded, whether in one transaction or a series of transactions over any calendar quarter, aggregates to a traded value in excess of ten lakh rupees or such other values as may be specified. Company to notify to the exchange within 2 trading days of receipt of intimation.

Disclosures - Who, what and when?

Who	What	When
Promoter/member of Promoter Group	Initial disclosure	Within 7 days from the date of their appointment/becoming promoter or member of promoter Group
	Continual Disclosure	the number of such securities acquired or disposed of within two trading days of such transaction if the value of the securities traded, whether in one transaction or a series of transactions over any calendar quarter, aggregates to a traded value in excess of ten lakh rupees or such other value as may be specified
Director	Initial disclosure	Within 7 days from the date of their appointment
	Continual Disclosure	The number of such securities acquired or disposed of within two trading days of such transaction if the value of the securities traded, whether in one transaction or a series of transactions over any calendar quarter, aggregates to a traded value in excess of ten lakh rupees or such other value as may be specified

Key Managerial personnel	Initial disclosure	Within 7 days from the date of their appointment
	Continual Disclosure (as Designated Person)	The number of such securities acquired or disposed of within two trading days of such transaction if the value of the securities traded, whether in one transaction or a series of transactions over any calendar quarter, aggregates to a traded value in excess of ten lakh rupees or such other value as may be specified
Designated Person	Continual Disclosure	The number of such securities acquired or disposed of within two trading days of such transaction if the value of the securities traded, whether in one transaction or a series of transactions over any calendar quarter, aggregates to a traded value in excess of ten lakh rupees or such other value as may be specified
Other Connected persons	Any company whose securities are listed on a stock exchange may, at its discretion require any other connected person or class of connected persons to make disclosures of holdings and trading in securities of the company in such form and at such frequency as may be determined by the company in order to monitor compliance with these regulations.	
Company	Company to notify to the exchange within 2 trading days of receipt of disclosure.	

Penalty for Insider trading



CODE OF CONDUCT

- Board of Directors of every listed company and the board of directors or head(s) of the organization of every intermediary ensure that the chief executive officer or managing director formulate code of conduct with their approval to regulate, monitor and report trading by its designated persons and immediate relatives of designated persons.
- The board of directors or head(s) of the organization, of every other person who is required to handle unpublished price sensitive information in the course of business operations shall formulate a code of conduct
- Every listed company, intermediary and other persons formulating a code of conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under these regulations.

ROLE OF COMPANY SECRETARY AS COMPLIANCE OFFICER

1.	Ensure compliance with SEBI (Prohibition of insider Trading) Regulations, 2015 including maintenance of various documents.
2.	Frame a Code of Fair Disclosure in line with the model code specified in the Schedule A of the regulations, get the same approved by the board of directors of the company and submit to the stock exchanges.
3.	Frame Code of Conduct for the listed company to regulate, monitor and report trading by designated persons in accordance with the minimum standards as enumerated in the Schedule B to these regulations.
4.	Receive initial disclosure from every Promoter, KMP and director or every person on appointment as KMP or director or becoming a Promoter shall disclose its shareholding in the prescribed form within 7 days of such appointment or becoming a promoter.
5.	Pre Clear the trade pursuant to the requests received from the designated persons and also monitor trading in accordance with the regulations.
6.	Ensure that no trading shall between 20th day prior to closure of financial period and 2nd trading day after disclosure of financial results.
7.	Approve the trading plan and after the approval of the trading plan, as compliance officer shall notify the plan to the stock exchanges on which the securities are listed.
8.	Maintain records, as a Compliance Officer, of all the declarations given by the directors/designated employees/ partners in the appropriate form for a minimum period of three years.
9.	Take additional undertakings, as a compliance officer, from the insiders for approval of the trading plan. Such trading plan on approval will also be disclosed to the Stock Exchanges, where the securities of the company are listed.
10.	Monitor trades and the implementation of the code of conduct under the overall supervision of the Board of Directors of the listed company.
11.	Frame and then monitor adherence to the rules for the preservation of "Price sensitive information".

12.	Ensure that proper internal control system is in place and continuously monitor and review of its functioning.
13.	Suggest any improvements required in the policies, procedures, etc. to ensure effective implementation of the code.
14.	Assist in addressing any clarifications regarding the SEBI (Prohibition of Insider Trading) Regulations, 2015 and the company's code of conduct.
15.	Maintain a list of all information termed as 'price sensitive information'
16.	Maintain a record of names of files containing confidential information deemed to be price sensitive information and persons in charge of the same.
17.	Ensure that files containing confidential information are kept secured.
18.	Keep records of periods specified as 'Close period' and the 'Trading window'.
19.	Ensure that the trading restrictions are strictly observed and all directors/officers/designated employees conduct all their dealings in the securities of the company only in a valid trading window and do not deal in the company's securities during the period when the trading window is closed.

Institutional Mechanism for Prevention of Insider trading

The Chief Executive Officer, Managing Director or such other analogous person of a listed company, intermediary or fiduciary shall put in place adequate and effective system of internal controls to ensure compliance with the requirements given in these regulations to prevent insider trading.

The internal controls shall include the following:

(a)	all employees who have access to unpublished price sensitive information are identified as designated person;
(b)	all the unpublished price sensitive information shall be identified and its confidentiality shall be maintained as per the requirements of these regulations;
(c)	adequate restrictions shall be placed on communication or procurement of unpublished price sensitive information as required by these regulations;
(d)	lists of all employees and other persons with whom unpublished price sensitive information is shared shall be maintained and confidentiality agreements shall be signed or notice shall be served to all such employees and persons;

(e)	all other relevant requirements specified under these regulations shall be complied with;
(f)	periodic process review to evaluate effectiveness of such internal controls.

APPEAL TO SECURITIES APPELLATE TRIBUNAL

Violation of the provisions of these regulations attract huge monetary penalty and may lead to criminal prosecution. However, those aggrieved by an order of SEBI, may prefer an appeal to the Securities Appellate Tribunal within a period of forty-five days of the order.

SEBI INSIDER TRADING COMPLIANCE CHECKLIST

A. Compliance Officer Duties

1. Compliance Officer Definition:

- ❖ Senior officer, reports to the board/head, financially literate, understands legal/regulatory compliance.
- ❖ Responsible for policy compliance, record maintenance, rule adherence, trade monitoring and code implementation.

2. Policy and Procedure Compliance:

- ❖ Ensure the company has a fair disclosure code
- ❖ Publish and inform stock exchanges about the code
- ❖ Implement a code of conduct for trading by designated persons and their relatives.
- ❖ Designate a compliance officer to manage the code.
- ❖ Train employees on fair disclosure principles.

3. Record Maintenance

- ❖ Keep trade disclosures by insiders for at least five years.

4. Monitoring UPSI:

- ❖ Identify and manage UPSI.
- ❖ Appoint a Chief Investor Relations Officer.
- ❖ Handle UPSI on a need-to-know basis.
- ❖ Avoid sharing UPSI with analystis/research personnel..

- ❖ Disseminate UPSI uniformly
- ❖ Monitor designated persons use of UPSI.
- ❖ Ensure pre-clearance applicants declare no possession of UPSI

5. Advisory Roles:

- ❖ Advise the board on code of conduct standards and designated persons
- ❖ Recommend Information dissemination mechanisms
- ❖ Guide on trading window closures
- ❖ Suggest pre-clearance application formats and trade reporting
- ❖ Maintain a restricted securities list for pre-clearance decisions Prescribe Chinese wall procedures and trade execution timelines
- ❖ Monitor and approve trading plans.

6. Stock Exchange Intimations:

- ❖ Inform about initial and continual disclosures by directors, KMPs, promoters, and connected persons

B. KMP AND EMPLOYEE DUTIES

1. Disclosures

- ❖ Make initial and continual disclosures as required.

C. BOARD OF DIRECTORS DUTIES

1. Formulate Codes:

- ❖ Develop a code of fair disclosure and conduct.

2. UPSI Communication

- ❖ Communicate UPSI in the company's best interest.
- ❖ Obtain non-disclosure agreements for shared UPSI.

3. Designation and Pre-clearance:

- ❖ Identify designated persons based on their roles.
- ❖ Set pre-clearance thresholds.
- ❖ Prescribe application formats for pre-clearance and trade reporting
- ❖ Record and monitor trade decisions and holdings.

❖ Fraud [Regulation 2(1)(c)]

“Fraud” includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person with his connivance or by his agent while dealing in securities in order to induce another person or his agent to deal in securities, whether or not there is any wrongful gain or avoidance of any loss, and shall also include—



1. A knowing misrepresentation of the truth or concealment of material fact in order that another person may act to his detriment;
2. A suggestion as to a fact which is not true by one who does not believe it to be true;
3. An active concealment of a fact by a person having knowledge or belief of the fact;
4. A promise made without any intention of performing it;
5. A representation made in a reckless and careless manner whether it be true or false;
6. Any such act or omission as any other law specifically declares to be fraudulent;
7. Deceptive behaviour by a person depriving another of informed consent or full participation;
8. A false statement made without reasonable ground for believing it to be true;
9. The act of an issuer of securities giving out misinformation that affects the market price of the security, resulting in investors being effectively misled even though they did not rely on the statement itself or anything derived from it other than the market price.

SECURITIES LAW FRAUD INCLUDES

Misrepresentation	Concealment of material facts or truth
Suggestion	Of facts which are not true
Active Concealment	By a person who knows the facts
Promise	Without intention of performing it
Representation	Made in a reckless & careless manner
Omission	Which law specifically declares fraudulent
Deceptive Behavior	
False Statement	
Misinformation	

Exceptions to ‘Fraud’

Regulation 2 (1) (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 provides for certain exceptions to ‘Fraud’ and states that nothing contained in the clause shall apply to any general comments made in good faith in regard to—

- ❖ The economic policy of the government
- ❖ The economic situation of the country
- ❖ Trends in the securities market or
- ❖ Any other matter of a like nature

Whether such comments are made in public or in private.

Regulation 3

No person shall directly or indirectly

Buy, sell or otherwise deal in securities in a fraudulent manner;

Use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the SEBI Act or the rules or the regulations made there under

Employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

Engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the SEBI Act or the rules and the regulations made there under.

Further, any dealing in securities shall be deemed to be a manipulative, fraudulent or an unfair trade practice if it involves any of the following:

- | | |
|-----|--|
| (a) | Knowingly indulging in an act which creates false or misleading appearance of trading in the securities market; |
| (b) | Dealing in a security not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in the price of such security for wrongful gain or avoidance of loss; |
| (c) | Inducing any person to subscribe to an issue of the securities for fraudulently securing the minimum subscription to such issue of securities, by advancing or agreeing to advance any money to any other person or through any other means; |
| (d) | Inducing any person for dealing in any securities for artificially inflating, depressing, maintaining or causing fluctuation in the price of securities through any means including by paying, offering or agreeing to pay or offer any money or money’s worth, directly or indirectly, to any person; |

- | | |
|-----|--|
| (e) | Any act or omission amounting to manipulation of the price of a security including, influencing or manipulating the reference price or bench mark price of any securities; |
| (f) | Knowingly publishing or causing to publish or reporting or causing to report by a person dealing in securities any information relating to securities, including financial results, financial statements, mergers and acquisitions, regulatory approvals, which is not true or which he does not believe to be true prior to or in the course of dealing in securities; |
| (g) | Entering into a transaction in securities without intention of performing it or without intention of change of ownership of such security; |
| (h) | Selling, dealing or pledging of stolen, counterfeit or fraudulently issued securities whether in physical or dematerialized form.
Provided that if: <ol style="list-style-type: none"> 1. the person selling, dealing in or pledging stolen, counterfeit or fraudulently issued securities was a holder in due course; or 2. the stolen, counterfeit or fraudulently issued securities were previously traded on the market through a bonafide transaction; 3. such selling, dealing or pledging of stolen, counterfeit or fraudulently issued securities shall not be considered as a manipulative, fraudulent, or unfair trade practice. |
| (i) | Disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading in a reckless or careless manner and which is designed to, or likely to influence the decision of investors dealing in securities; |
| (j) | A market participant entering into transactions on behalf of client without the knowledge of or instructions from client or mis-utilizing or diverting the funds or securities of the client held in fiduciary capacity; |
| (k) | Circular transactions in respect of a security entered into between persons including intermediaries to artificially provide a false appearance of trading in such security or to inflate, depress or cause fluctuations in the price of such security; |
| (l) | Fraudulent inducement of any person by a market participant to deal in securities with the objective of enhancing his brokerage or commission or income; |
| (m) | An intermediary predating or otherwise falsifying records including contract notes, client instructions, balance of securities statement, client account statements; |
| (n) | Any order in securities placed by a person, while directly or indirectly in possession of information that is not publically available, regarding a substantial impending transaction in that securities, its underlying securities or its derivative; |
| (o) | Knowingly planting false or misleading news which may induce sale or purchase of securities |

(p)	Mis-selling of securities or services relating to securities market; Mis-selling means sale of securities or services relating to securities market by any person, directly or indirectly, by <ul style="list-style-type: none"> ❖ Knowingly making a false or misleading statement, or ❖ Knowingly concealing or omitting material facts, or ❖ Knowingly concealing the associated risk, or ❖ Not taking reasonable care to ensure suitability of the securities or service to the buyer.
(q)	Illegal mobilization of funds by sponsoring or causing to be sponsored or carrying on or causing to be carried on any collective investment scheme by any person.

Powers of Investigating Authority

1.	To call for information or records from any person;
2.	To undertake inspection of any book, or register, or other document or record of any listed public company or a public company (not being intermediaries referred to in section 12 of the SEBI Act, 1992) which intends to get its securities listed on any recognized stock exchange where the Investigating Authority has reasonable grounds to believe that such company has been conducting its activities in violation of these regulations;
3.	To require any intermediary or any person associated with securities market in any manner to furnish such information to, or produce such books, or registers, or other documents, or record before him or any person authorized by him in this behalf as he 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 the investigation;
4.	To keep in his custody any books, registers, other documents and record produced for a maximum period of six months: However, the Investigating Authority may call for any book, register, other document or record if the same is needed again: Further, if the person on whose behalf the books, registers, other documents and record are produced requires certified copies of the books, registers, other documents and record produced before the Investigating Authority, he shall give certified copies of such books, registers, other documents and record to such person or on whose behalf the books, registers, other documents and record were produced;
5.	To examine orally and to record the statement of the person concerned or any director, partner, member or employee of such person and to take notes of such oral examination to be used as an evidence against such person : However, the said notes shall be read over to, or by, and signed by, the person so examined;
6.	To examine on oath any manager, managing director, officer or other employee of any intermediary or any person associated with securities market in any manner 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 him personally;
7.	To call for information and record from any person including any bank or any other authority or board or corporation established or constituted by or under any Central, State or Provincial Act in respect of any transaction in securities which are under investigation;

8.	To make an application to the Judge of the designated court in Mumbai for an order for the seizure of any books, registers, other documents and record, if in the course of investigation, the Investigating Authority has reasonable ground to believe that such books, registers, other documents and record of, or relating to, any intermediary or any person associated with securities market in any manner may be destroyed, mutilated, altered, falsified or secreted;
9.	To keep in his custody the books, registers, other documents and record seized under these regulations for such period not later than the conclusion of the investigation as he considers necessary and thereafter to return the same to the person, 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: However, the Investigating Authority may, before returning such books, registers, other documents and record as aforesaid, place identification marks on them or any part thereof;
10.	Every search or seizure made under this regulation shall be carried out in accordance with the provisions of the Code of Criminal Procedure, 1973 relating to searches or seizures made under that Code.

Duty to co-operate

(1) It shall be the duty of every person in respect of whom an investigation has been ordered -

(a)	To produce to the Investigating Authority or any person authorized by him such books, accounts and other documents and record in his custody or control and to furnish such statements and information as the Investigating Authority or the person so authorized by him may reasonably require for the purposes of the investigation;
(b)	To appear before the Investigating Authority personally when required to do so by him under regulation 6 to answer any question which is put to him by the Investigating Authority.

(2) It shall be the duty of every manager, managing director, officer and other employee of the company and every intermediary referred to in section 12 of the SEBI Act or every person associated with the securities market to preserve and to produce to the Investigating Authority or any person authorized by him in this behalf, all the books, registers, other documents and record of, or relating to, the company or, as the case may be, of or relating to, the intermediary or such person, which are in their custody or power.

(3) Such person shall—

Allow the Investigating Authority or any person authorized by him in this behalf to have access to the premises occupied by such person at all reasonable times for the purpose of investigation;

Extend to the Investigating Authority or any person authorized by him in this behalf reasonable facilities for examining any books, accounts and other documents in his custody or control (whether kept manually or in computer or in any other form) reasonably required for the purposes of the investigation;

Provide to such Investigating Authority or any person authorized by him in this behalf any such books, accounts and records which, in the opinion of the Investigating Authority, are relevant to the investigation or, as the case may be, allow the Investigating Authority or any person authorized by him in this behalf to take computer print-outs thereof.

Submission of report to SEBI

- ❖ Investigating officer shall submit the report to SEBI.
- ❖ The Investigating Authority may submit an interim report pending completion of investigations if he considers necessary in the interest of investors and the securities market or as directed by the appointing authority.

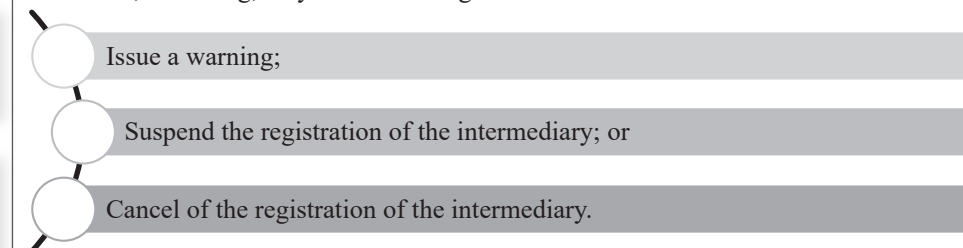
Enforcement by the SEBI

- ❖ If SEBI is satisfied that there is a violation of these regulations and after giving a reasonable opportunity of hearing to the persons concerned, may issue directions or take action.
- ❖ the SEBI may, by an order, for reasons to be recorded in writing, in the interests of investors and securities market, issue or take any of the following actions or directions, either pending investigation or enquiry or on completion of such investigation or enquiry, namely:

(a)	Suspend the trading of the security found to be or prima facie found to be involved in fraudulent and unfair trade practice in a recognized stock exchange;
(b)	Restrain persons from accessing the securities market and prohibit any person associated with securities market to buy, sell or deal in securities;
(c)	Suspend any office-bearer of any stock exchange or self-regulatory organization from holding such position;
(d)	Impound and retain the proceeds or securities in respect of any transaction which is in violation or prima facie in violation of these regulations;
(e)	Direct and intermediary or any person associated with the securities market in any manner not to dispose of or alienate an asset forming part of a fraudulent and unfair transaction;
(f)	Require the person concerned to call upon any of its officers, other employees or representatives to refrain from dealing in securities in any particular manner;
(g)	Prohibit the person concerned from disposing of any of the securities acquired in contravention of these regulations;
(h)	Direct the person concerned to dispose of any such securities acquired in contravention of these regulations, in such manner as the SEBI may deem fit, for restoring the status quo ante.

Suspension or cancellation of registration

The SEBI, in writing, may take following action:



Case laws

1. *Kishan Vishram Nanda, Kishan Vishram Nanda HUF and others (Noticees)*

v/s

Trades of Sanctum Wealth Management Private Limited now known as Sanctum Wealth Private Limited

- ❖ SEBI received an alert and investigated potential violations of securities laws by Kishan Vishram Nanda and related entities.

- ❖ Nanda, working as an equity dealer, allegedly used insider information about impending trades to his advantage.
- ❖ He opened multiple trading accounts, including in his family members' names, to execute trades ahead of the big client's orders. This is called front-running, which SEBI defines as using non-public information to trade before a substantial order, anticipating price changes when the information becomes public. SEBI alleges violations of SEBI Act and PFUTP Regulations.
- ❖ SEBI Penalties include:
 - ♦ Kishan Vishram Nanda is barred from securities market activities for 3 years and holding positions in listed companies or intermediaries.
 - ♦ A monetary penalty of Rs. 5 lakh is imposed on Kishan Vishram Nanda.
 - ♦ Kishan Vishram Nanda HUF and family members are barred from securities market activities and holding positions in listed companies or intermediaries for 1 year.
 - ♦ A disgorgement of Rs. 34,84,605.26 plus 12% interest per annum is ordered, to be paid within 45 days.
 2. *Mrs. Bharti Goyal (Appellant)*
vs.
SEBI (Respondent)
and
 3. *Mr. Laxmikant Vyas (Appellant)*
vs.
SEBI (Respondent)
- ❖ The Securities and Exchange Board of India (SEBI) conducted an investigation into possible violations of securities regulations by certain entities, including the appellant, regarding manipulation of the price of Mapro Industries Limited (Mapro) shares.
- ❖ SEBI imposed a penalty on these entities for violations.
- ❖ One individual, Bharti Goyal, appealed to the Securities Appellate Tribunal (SAT) arguing lack of connection to the entities involved in manipulation and claiming losses from her investment.
- ❖ SAT modified the penalty to a warning due to insufficient evidence of a connection between the appellants and the suspected entities.

- ❖ SEBI appealed this decision to the Supreme Court of India, arguing that the warning is not a penalty as stipulated by Section 15HA of the SEBI Act.
- ❖ The Supreme Court agreed, stating that SAT's direction to substitute the penalty with a warning contradicts statutory provisions, and ordered a stay on SAT's decision.
- 4. Order In the matter of Reliance Petroleum Limited (now known as Reliance Industries Limited)**
 - ❖ SEBI conducted an investigation into trading activities involving Reliance Petroleum Limited (now Reliance Industries Limited) during November 2007.
 - ❖ It found that Reliance Industries Limited (RIL) orchestrated a scheme with its agents to manipulate the market by selling shares in the cash segment while simultaneously taking short positions in futures, resulting in a fall in share prices.
 - ❖ RIL appointed agents to trade futures on its behalf, and profits from these transactions were transferred back to RIL.
 - ❖ SEBI found RIL and its Chairman & Managing Director, Mukesh Ambani, along with other entities, guilty of violating securities regulations by engaging in manipulative trading practices. It imposed penalties of Rs. 40 crores on RIL and Mukesh Ambani, and Rs. 20 crores and Rs. 10 crores on two other entities involved in the scheme.
- 5. Re: Nishant Inbuild Limited**
 - ❖ SEBI conducted an investigation into PMC Fincorp Ltd. trading activities from March 29, 2012, to March 31, 2015.
 - ❖ It found that several buyers and sellers manipulated the market by artificially increasing demand and holding onto purchased shares, reducing the shares held by the public.
 - ❖ The investigation identified five periods with significant trading volume and price fluctuations.
 - ❖ Alleged violations included:
 1. 92 entities were connected through fund transfers, off-market transactions, common directors, etc.
 2. Some entities traded among themselves to contribute positively to the market.
 3. Certain entities aided others by selling shares to increase the price.
 4. Noticee and connected entities manipulated the price rise, violating SEBI Act and PFUTP Regulations.

SEBI found:

- ❖ Noticee contributed to both negative and positive price contributions.
- ❖ Noticee was a significant buyer in PMC scrip during specific periods, providing liquidity.
- ❖ Noticee facilitated fund transfers and had close connections with entities involved in price manipulation.

SEBI imposed a Rs. 5 Lakh penalty on Nishant Inbuild Limited for its involvement.

6. Re: M/s Achal Investments Ltd.

- ❖ SEBI investigated M/s Achal Investments Ltd. for raising funds through a preferential issue of equity shares and their subsequent utilization.
- ❖ The company issued shares to 47 entities, deviating from the stated objectives in utilization. The ratified details of the proceeds showed diversion for loans, share purchases, and loan repayments.
- ❖ SEBI alleged mis-utilization, incomplete disclosure, and fraud on shareholders' funds. Violations included SEBI Act, PFUTP Regulations, and Listing Agreement conditions.

SEBI found:

Funds intended for share purchase lacked basic details and were diverted for sub-brokers' use.

Loans given lacked formal agreements, interest, or collateral, indicating no intention for return.

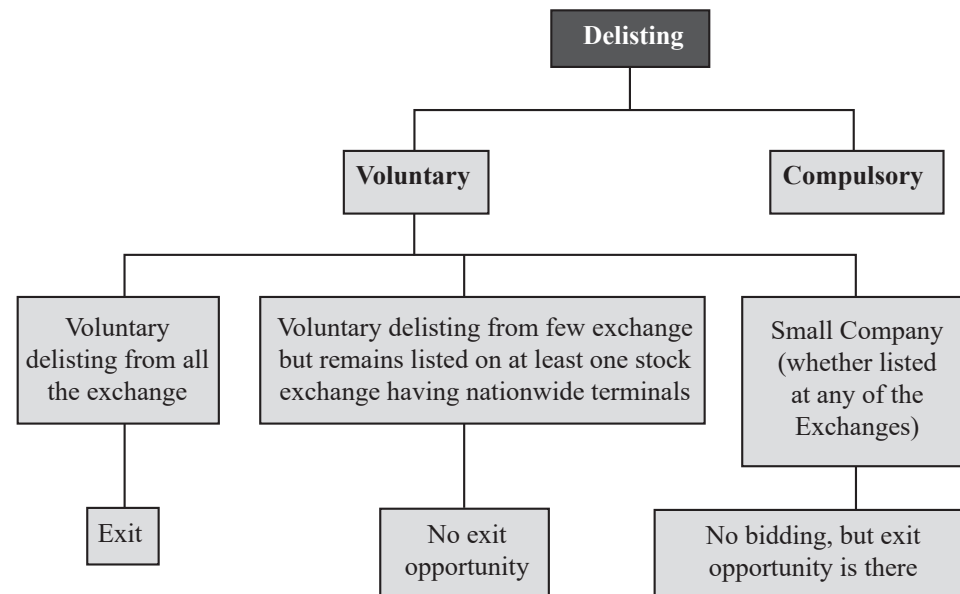
SEBI concluded that the company defrauded shareholders by manipulating information and misusing funds. The company's ratification process misled shareholders, violating PFUTP Regulations and SEBI Act.

SEBI's directions to the company:

- ❖ A five-year restraint from accessing securities markets and dealing in securities.
- ❖ Retrieval of diverted funds, with quarterly compliance reports to SEBI.
- ❖ A penalty of Rs. 20,00,000 imposed under SEBI Act and SCRA.

DELISTING

Delisting is the removal of a listed security from a stock exchange. The delisting of a security can be voluntary or involuntary.



These regulation shall not be applicable to:

- Securities listed and traded on the Innovators growth platform of a recognized stock exchange, without making a public issue;
- Any delisting of equity shares of a listed entity made pursuant to a resolution plan approved under section 31 of the Insolvency Code, if such plan,
 - Provides for delisting of such share; or
 - Provides an exit opportunity to the existing public shareholders at a specified price.

CONDITIONS FOR DELISTING

Neither any company shall apply for, nor any recognized stock exchange shall permit delisting of equity shares of a company.

❖ Pursuant to Buy-back of equity shares by the company

❖ Pursuant to Preferential allotment made by the company

❖ Unless a period of three years has elapsed since the listing of that class of equity shares

❖ Instruments which are convertible into the same class of equity shares that are sought to be delisted are outstanding

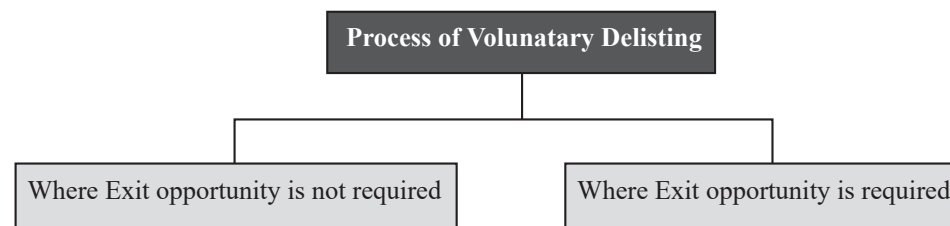
No acquirer shall, directly or indirectly

Employ any device, scheme, or artifice to defraud any shareholder or other person; or

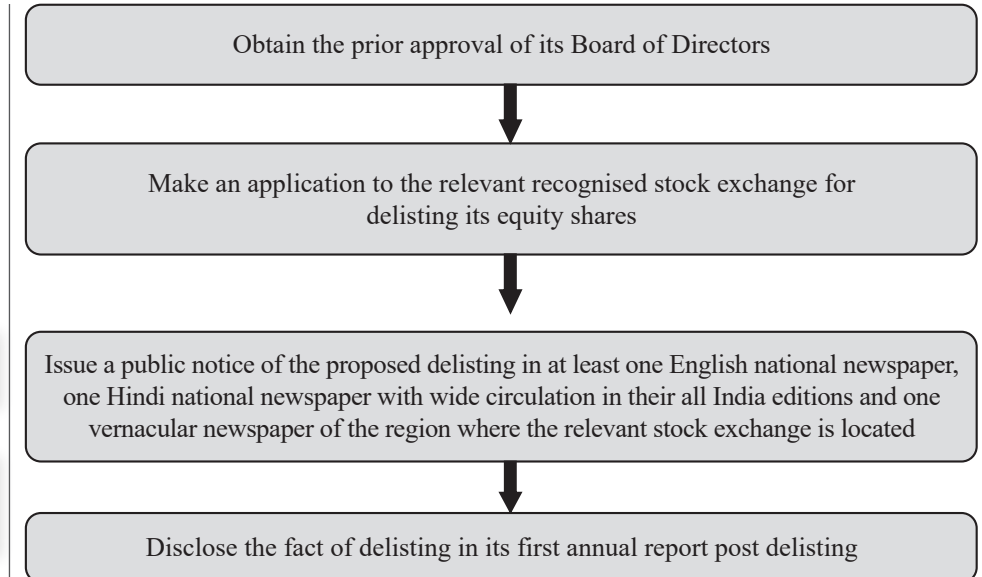
Engage in any transaction or practice that operates as a fraud or deceit upon any shareholder or other person; or

Engage in any act or practice that is fraudulent, deceptive or manipulative in connection with any delisting of equity shares.

VOLUNTARY DELISTING (REGULATION 5)

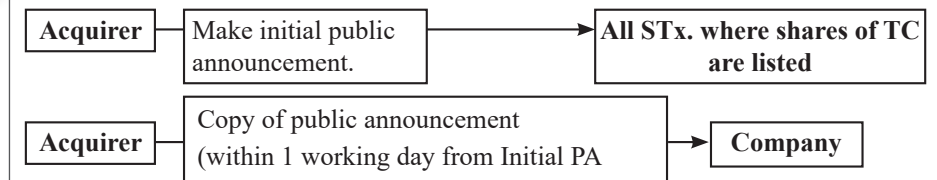


Process of Delisting where Exit opportunity is not required.



Initial public announcement

On the date when he decides to voluntarily delist the company,



Obligation of the manager to the offer

The acquirer is able to implement the delisting offer.

Firm arrangements for funds through verifiable means have been made by the acquirer to meet the payment obligations under the delisting offer.

The contents of the initial public announcement, the detailed public announcement, the letter of offer and the post-bidding advertisement(s) are complete, true, fair and adequate in all material aspects, based on reliable sources and are in compliance with the requirements under these regulations and other applicable securities laws.

Market intermediaries engaged for the purpose of the delisting of equity shares are registered with the SEBI.

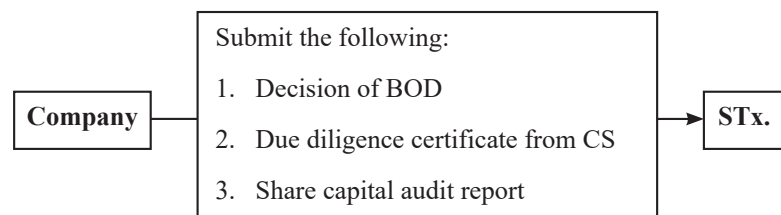
The Manager to the offer shall exercise due diligence, care and professional judgment to ensure compliance with these regulations.

The Manager to the offer shall not, either directly or indirectly through its associates, deal in its own account in the shares of the company after its appointment as Manager to the offer till the conclusion of the delisting offer.

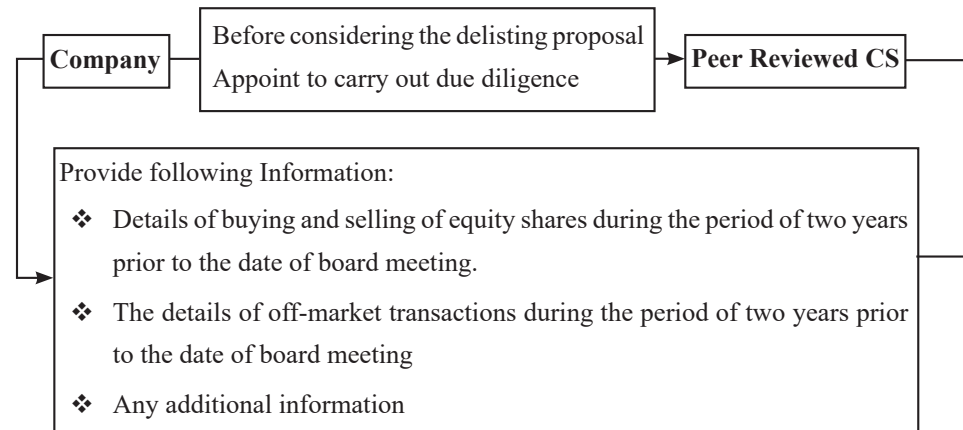
The Manager to the offer to ensure that the acquirer complies with the provisions of these regulations.

Approval by the board of Directors (Regulation 10)

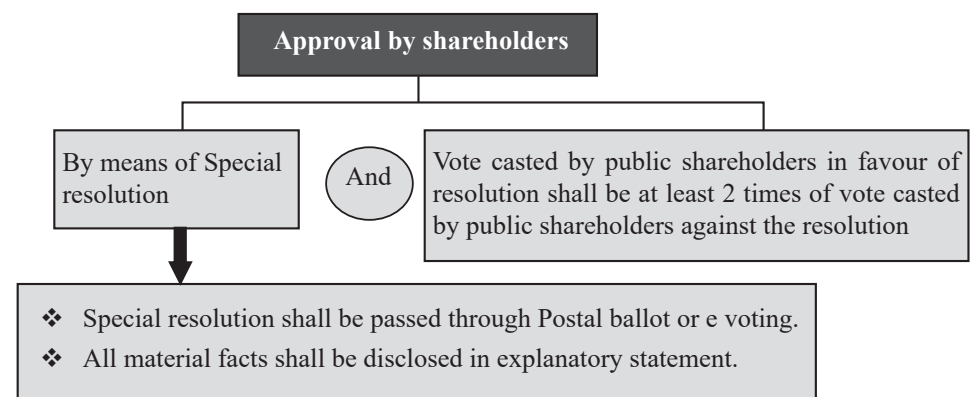
The company shall obtain the board approval within 21 working days from initial public announcement.



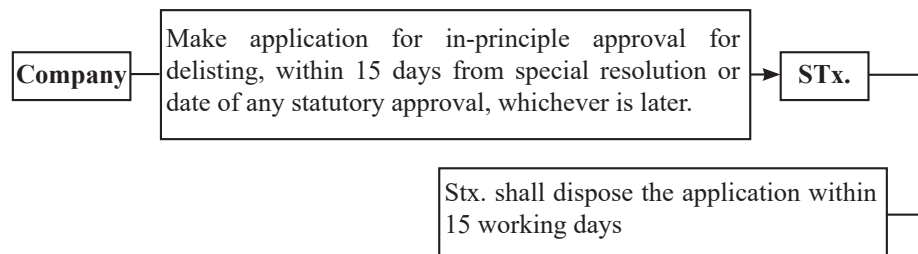
Appointment of Peer reviewer Company Secretary to carry out due-diligence



Approval by shareholders (Regulation 11)



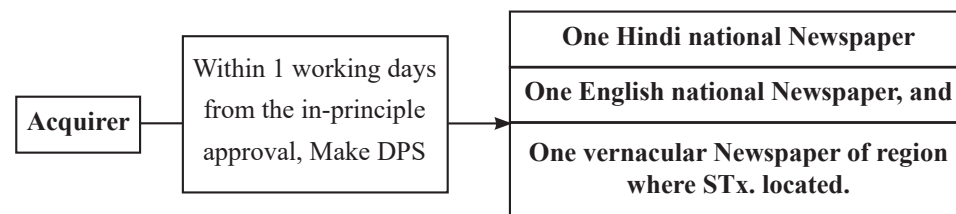
In-principle approval of the stock exchange



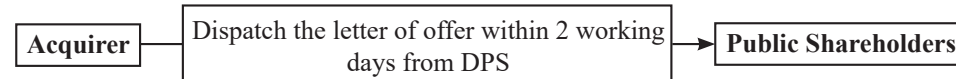
Escrow Account (Regulation 14)

Escrow Account	
❖	Acquirer shall open interest bearing escrow account with schedule commercial bank.
❖	Such escrow a/c shall be open within 7 working days from special resolution
❖	Deposit in escrow a/c: 25% of total consideration payable (Calculated on the basis of floor price or indicative price, whichever is higher).
❖	In case of failure of the delisting offer, ninety nine percent of the amount lying in the escrow account shall be released to the acquirer within one working day from the date of public announcement of such failure.

#. Detailed Public Announcement (DPS)



Letter of offer



Bidding mechanism

- The bidding period shall start within 7 working days from DPS.
- The bidding period shall remain open for 5 working days.
- The acquirer shall provide the tendering facility through stock exchange mechanism.
- The manager to the offer shall ensure that the outcome of bidding shall announce within 2 hours of closure of bidding period.

Discovered price

- ❖ Floor price shall be determine as per regulation 8 of SEBI (SAST) regulations, 2011.
- ❖ The acquirer shall have the option to provide an indicative price in respect of the delisting offer, which shall be higher than the floor price.

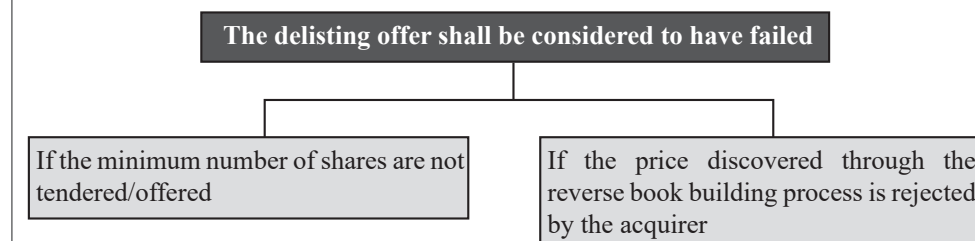
Minimum number of equity shares to be acquired

An offer made or a counter offer made by the acquirer, as the case may be, shall be deemed to be successful if,

- (a) the post offer promoter shareholding (along with the persons acting in concert with the promoter) taken together with the shares accepted through eligible bids at the final price determined, **reaches 90% of the total issued shares** of that class excluding the following:
- (i) Shares which are held by a custodian and against which depository receipts have been issued overseas; and
 - (ii) Shares held by a Trust set up for implementing an Employee Benefit scheme under the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014;
 - (iii) shares held by a Trust set up for implementing an Employee Benefit scheme under the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014;

However, such shareholders shall be certified by the Peer Review Company Secretary appointed by the Board of Directors of the company for due-diligence.

Failure of offer



Where the delisting offer fails the equity shares tendered / offered as the case may be, shall be released

- On the date of disclosure of the outcome of the reverse book building process if the minimum number of shares are not tendered / offered;
- On the date of making public announcement for the failure of the delisting offer if the price discovered through the reverse book building process is rejected by the acquirer;
- In accordance with Schedule IV of these regulations if a counter offer has been made by the acquirer.

(2) Where the delisting offer fails

- The expenses relating to the offer for delisting shall be borne by the acquirer.
- The acquirer, whose delisting offer has failed, shall not make another delisting offer until the expiry of six months.

Payment upon success of the offer

All shareholder whose bid has been accepted shall be paid the discovered price or a higher price, if any, in following manner:

- ❖ In case the discovered price is equal to the floor price or the indicative price or in case the acquirer is bound to accept the equity shares in the delisting offer, the payment shall be made through the secondary market settlement mechanism;
- ❖ In case the discovered price or the price, if any, offered by the acquirer, is higher than the floor price or the indicative price, as the case may be, the payment shall be made within five working days from the date of the public announcement.

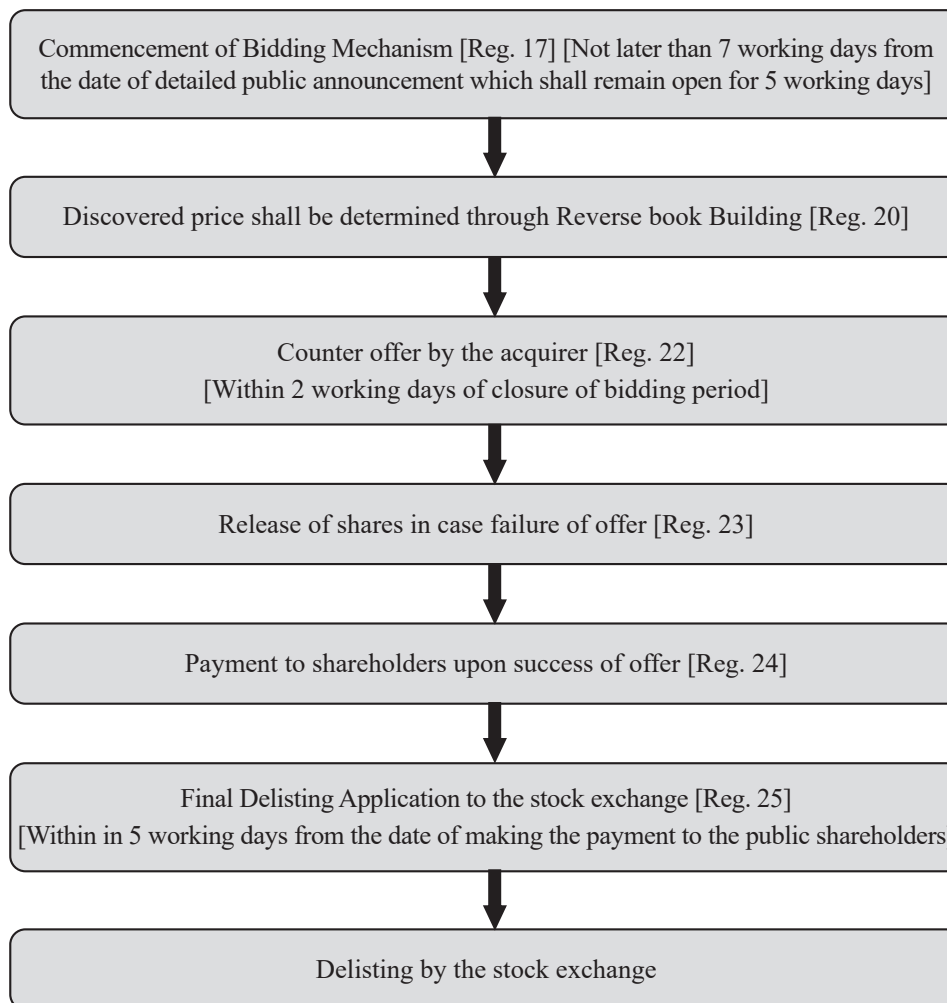
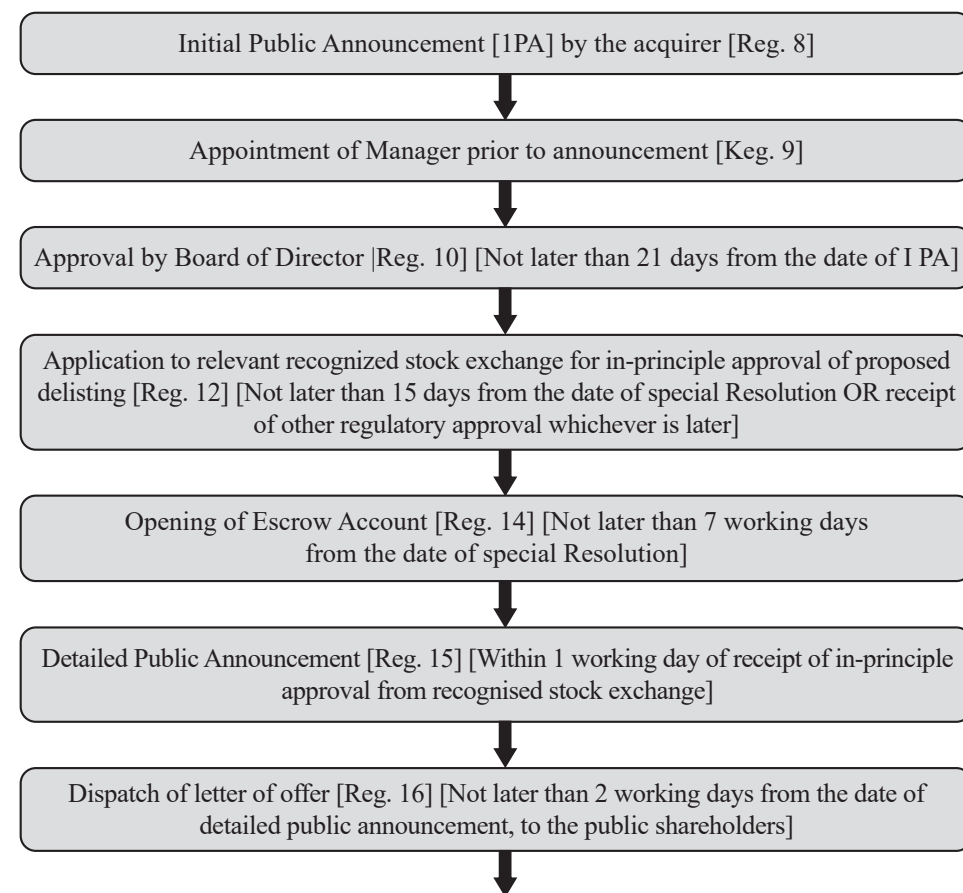
Final application to the stock exchange after successful delisting



Right of the remaining public shareholders to tender equity shares

- ❖ The remaining public shareholders, whose shares were either not accepted or were not tendered at all during the bidding period, shall have a right to tender their equity shares for a minimum period of 1 year from the date of delisting.
- ❖ The acquirer shall be under an obligation during such period to accept the shares of the remaining public shareholders, at the same price at which the equity shares had been delisted. The payment of consideration for equity shares accepted shall be made out of the balance amount lying in the escrow account.

#. Procedure for voluntary delisting from all the stock exchanges



COMPULSORY DELISTING

Compulsory delisting refers to permanent removal of securities of a listed company from a stock exchange as a penalizing measure at the behest of the stock exchange for not making submissions/comply with various requirements set out in the Listing agreement within the time frames prescribed.

Constitution of Panel

The decision regarding compulsory delisting shall be taken by a panel to be constituted by the recognized stock exchange consisting of

- Two Directors of the recognized stock exchange (one of whom shall be a public representative);
- One representative of an investor association recognised by the SEBI;
- One representative of the Ministry of Corporate Affairs or Registrar of Companies; and
- The Executive Director or Secretary of the recognized stock exchange.

Delisting Order by the Recognised Stock Exchange

GUIDELINES FOR COMPULSORY DELISTING

The recognized stock exchange shall take into account the grounds prescribed in the rules made under the Securities Contracts (Regulation) Act, 1956 while compulsorily delisting the equity shares of the company.

The recognized stock exchange shall take all reasonable steps to trace the promoters of a company whose equity shares are proposed to be delisted.

The recognized stock exchange shall consider the nature and extent of the alleged noncompliance by the company and the number and percentage of public shareholders who may be affected by such non-compliance

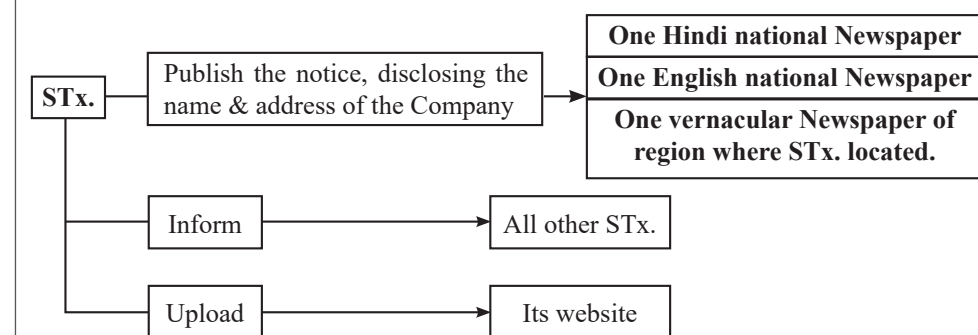
The name of the companies whose equity shares are proposed to be delisted and their promoters shall be displayed in a separate section on the website of the recognize stock exchange. If delisted, the names shall be shifted of another separate section on the website.

The recognized stock exchange shall in appropriate cases file prosecutions under relevant provisions of the Securities Contracts (Regulation) Act, 1956 or any other law for the time being in force against identifiable promoters and directors of the company for the alleged non-compliances.

The recognized stock exchange shall, in appropriate cases, under the applicable provisions of the companies Act, 2013 file a petition for winding up the company or make a request to the Registrar of Companies to strike off the name of the company from the register.

Public notice after Delisting Order

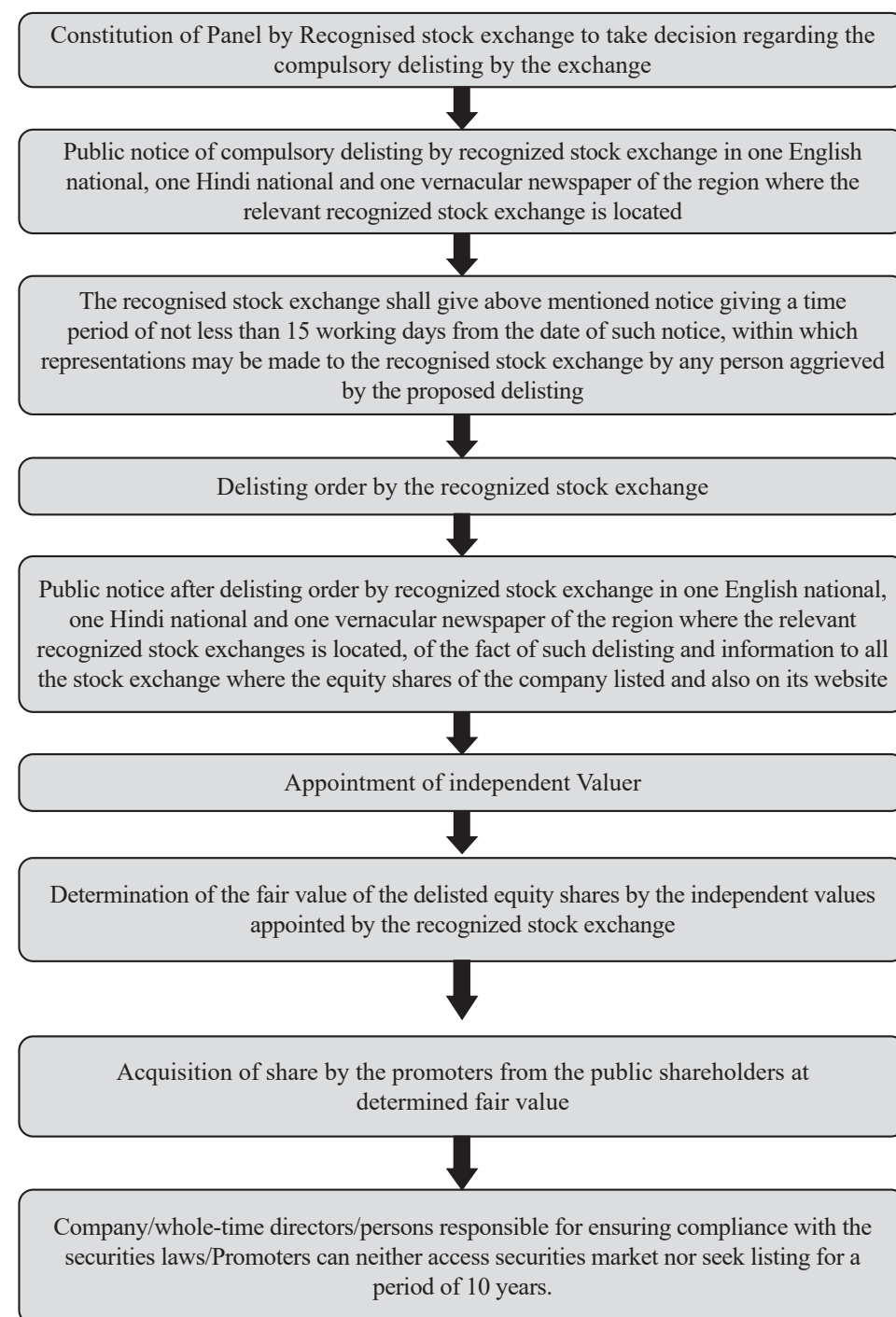
Any person aggrieved by the order of Stock Exchange can file objection within 15 days.



Rights of public shareholders in case of compulsory delisting

- ❖ The promoter of the company shall acquire the delisted equity shares from the public shareholders by paying them the value determined by the valuer, within three months of the date of delisting from the recognised stock exchange, subject to the option of the public shareholders to retain their shares.
- ❖ The promoter shall be liable to pay interest at the rate of ten percent per annum to all the shareholders, who offer their shares under the compulsory delisting offer, if the price payable is not paid to all the shareholders within the time specified.

#. Procedure for Compulsory Delisting



SPECIAL PROVISIONS FOR DELISTING

Delisting of equity shares of small Companies (Regulation 35)

Equity shares of a company may be delisted from all the recognised stock exchanges where they are listed, without following the procedure in Chapter IV (Exit Opportunity) of these regulations, if,

The company has a paid up capital not exceeding 10 crore rupees and net worth not exceeding 25 crore rupees as on the last date of preceding financial year.	The number of equity shares of the company traded on each such recognized stock exchange during the 12 calendar months immediately preceding the date of board meeting held for consideration of the proposal of delisting is less than 10% of the total number of shares of the company	The company has not been suspended by any of the recognized stock exchanges having nationwide trading terminals for any non-compliance in the preceding one year.
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Delisting of equity shares may be made if, in addition to fulfilment of the requirements of regulation 10 (Approval by the Board of Directors) and regulation 11 (Approval by shareholders), the following conditions are fulfilled:

(a)	Acquirer appoints a Manager to the offer and decides an exit price after consultation;
(b)	the exit price offered to the public shareholders shall not be less than the floor price determined in terms of clause (e) of sub-regulation (2) of regulation 8 of the Takeover Regulations;
(c)	the acquirer writes individually to all the public shareholders of the company informing them of its intention to get the equity shares delisted, the exit price together with the justification therefor and seeking their consent for the proposal for delisting;
(d)	the public shareholders, irrespective of their numbers, holding ninety percent or more of the public shareholding give their consent in writing to the proposal for delisting, and consent either to sell their equity shares at the price offered by the acquirer or to continue to hold the equity shares even if they are delisted;
(e)	the acquirer completes the process of inviting the positive consent and finalization of the proposal for delisting of equity shares within seventy five working days of the first communication made under clause (c);
(f)	The acquirer makes payment of consideration in cash within fifteen working days from the date of expiry of 75 working days mentioned in clause (e).

PROVISIONS PERTAINING TO DELISTING UNDER THE SECURITIES CONTRACT (REGULATION) ACT, 1956

A recognized stock exchange may delist any securities listed thereon on any of the following grounds.

(a)	the company has incurred losses during the preceding three consecutive years and it has negative net worth;
(b)	trading in the securities of the company has remained suspended for a period of more than six months;
(c)	the securities of the company have remained infrequently traded during the preceding three years;
(d)	the company or any of its promoters or any of its director has been convicted for failure to comply with any of the provisions of the Act or the SEBI Act, 1992 or the Depositories Act, 1996 or rules, regulations, agreements made thereunder, as the case may be and awarded a penalty of not less than rupees one crore or imprisonment of not less than three years;
(e)	the addresses of the company or any of its promoter or any of its directors, are not known or false addresses have been furnished or the company has changed its registered office in contravention of the provisions of the Companies Act, 2013; or
(f)	shareholding of the company held by the public has come below the minimum level applicable to the company as per the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the company has failed to raise public holding to the required level within the time specified by the recognized stock exchange.



OBLIGATIONS OF THE COMPANY (REGULATION 28)	Upon receipt of the detailed public announcement, the Board of Directors of the company shall constitute a Committee of independent directors to provide reasoned recommendations on the delisting offer.
	The Committee of independent directors shall provide its written reasoned recommendations on the proposal for delisting of equity shares to the Board of Directors of the company and in relation thereto, the Committee may also seek external professional advice at the expense of the company.
	The Committee of independent directors, while providing reasoned recommendations on the delisting proposal, shall disclose the voting pattern of the meeting in which the said proposal was discussed.
	The company shall publish such recommendations of the Committee of independent directors, along with the details of the voting pattern, at least 2 working days before the commencement of the bidding period, in the same newspapers in which the detailed public announcement of the offer for delisting of equity shares was published, and simultaneously, a copy of the same shall be sent to the stock exchange(s) and the Manager to the offer.

**OBLIGATIONS OF
THE ACQUIRER
(REGULATION 30)**

Prior to making the initial public announcement of the offer for the delisting of equity shares, the acquirer shall ensure that firm financial arrangements have been made for fulfilling the payment obligations under the delisting offer and that the acquirer is able to implement the delisting offer, subject to any statutory approvals for the delisting offer that may be necessary.

The acquirer shall ensure that the contents of the initial public announcement, the detailed public announcement, the letter of offer and announcement about success or failure of the offer for delisting are true, fair and adequate in all material aspects, not misleading and based on reliable sources that shall be mentioned wherever necessary.

The acquirer and the persons acting in concert with it shall be jointly and severally responsible for the fulfilment of the applicable obligations under these regulations.

The acquirer shall ensure to acquire the shares offered by the remaining public shareholders at the same price at which the equity shares had been delisted for a minimum period of one year.

No acquirer or persons acting in concert with it shall sell shares of the company during the delisting period.

Case law

Autoriders Finance Ltd. v/s Stock exchange of India



- ❖ NSE issue SCN to Company for compulsory delisting of its equity shares, due to non-compliance with listing regulations
- ❖ NSE sent email to Company & no response has been received from Company
- ❖ Thereafter, Delisting committee passes the order of delisting order
- ❖ The Company make appeal stating that there is violation of principles of natural justice
- ❖ The proviso to Regulation 22(1) of the Delisting Regulations clearly indicates that no order directing delisting of the shares of the Company shall be made unless the Company is given a reasonable opportunity of being heard.
- ❖ SAT opined that the impugned order is violate the principles of natural justice since no notice of hearing or opportunity of hearing was provided to the appellant Company. For the reasons stated aforesaid, the impugned order cannot be sustained and is quashed.

BUY-BACK OF SECURITIES

The buy-back of securities is governed by Section 68, 69 and 70 of the Companies Act, 2013 and Rule 17 of the Companies (Share Capital and Debentures) Rules, 2014. For Listed Companies, the SEBI Regulations for Buy Back will also be applicable.



OBJECTIVES OF BUY-BACK

1. To strategically increase promoters' shareholding subject to compliance with SEBI (SAST) Regulations, 2011;
2. To improve earnings per share;
3. To improve return on capital, return on net worth and to enhance the long-term shareholder value;
4. To enhance consolidation of stake in the company;
5. To prevent unwelcome takeover bids;
6. To return surplus cash to shareholder and allow profitable deployment of cash surplus;
7. To achieve optimum capital structure;
8. To support share price during periods of sluggish market conditions;
9. To service the equity more efficient; and
10. To provide an additional exit route to shareholders when shares are under valued or are thinly traded.

PROVISIONS OF THE COMPANIES ACT, 2013



A company may purchase its own shares or other specified securities (hereinafter referred to as buy-back) out of-

Its free reserves;

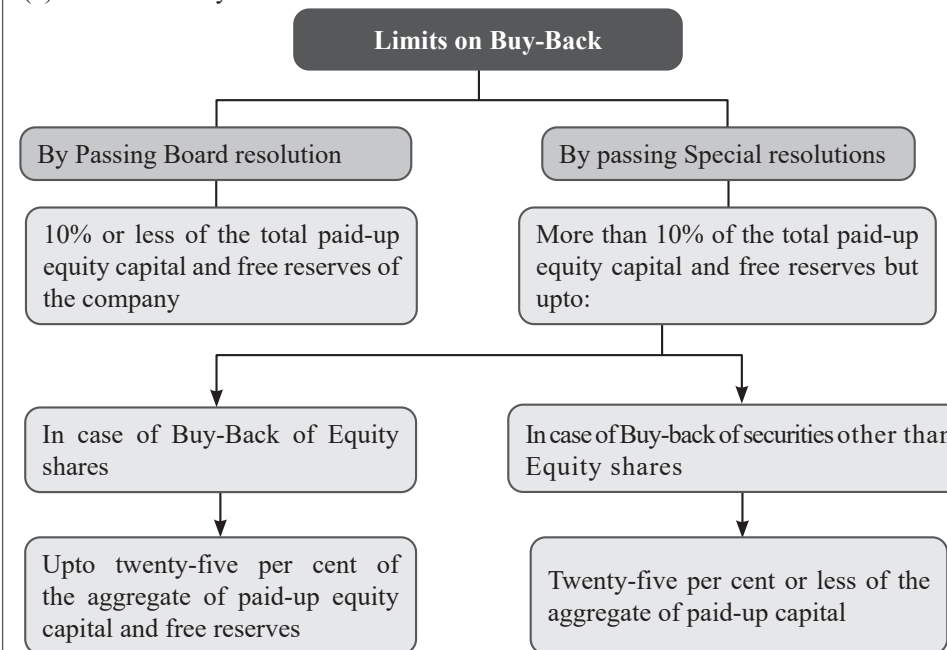
The securities premium account; or

The proceeds of the issue of any shares or other specified securities:

Conditions for Buy-Back pursuant to section 68(2) of the Companies Act, 2013



- (a) Authorized by its articles
- (b) Limits on Buy-Back



- (c) The debt equity ratio shall not more than 2:1
- (d) All securities shall be fully paid-up.
- (e) If securities are listed then comply with SEBI regulations
- (f) No offer of buy-back shall be made within a period of one year reckoned from the date of the closure of the preceding offer of buy-back.

Associate	It includes a person, <ul style="list-style-type: none"> ❖ Who directly or indirectly by himself or in combination with relatives, exercise control over the company; or ❖ Whose employee, officer or director is also a director, officer or employee of Company.
buy-back Period	The period between the date of Board resolution; or date of declaration of results of the postal ballot for special resolution, as the case may be, to authorize buy-back of shares of the company and the date on which the payment of consideration to shareholders who have accepted the buy-back offer is made.
Small Shareholder	A shareholder of a company, who holds shares or other specified securities whose market value, on the basis of closing price of shares or other specified securities, on the recognised stock exchange in which highest trading volume in respect of such securities, as on record date is not more than two lakh rupee.

CONDITIONS FOR BUYBACK OF SHARES OR OTHER SECURITIES

The maximum limit of any buy-back shall be 25% or less of the aggregate of paid-up capital and free reserves of the company, based on both standalone and consolidated financial statements of the company. All shares or other specified securities for buy-back shall be fully paid-up

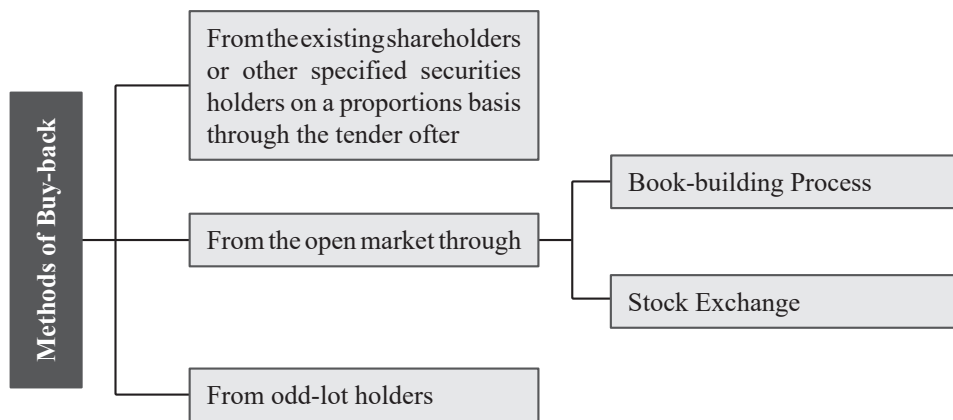
❖ The ratio of the aggregate of secured and unsecured debts owed by the company to the paid-up capital and free reserves after buy-back shall,	
(a)	be less than or equal to 2:1, based on both standalone and consolidated financial statements of the company, whichever sets out a lower amount. However, if a higher ratio of the debt to capital and free reserves for the company has been notified under the Companies Act, 2013, the same shall prevail; or
(b)	be less than or equal to 2:1, based on both standalone and consolidated financial statements of the company, whichever sets out a lower amount, after excluding financial statements of all subsidiaries that are non-banking financial companies and housing finance companies regulated by Reserve Bank of India or National Housing Bank, as the case may be. However, buy-back of securities shall be permitted only if all such excluded subsidiaries have their ratio of aggregate of secured and unsecured debts to the paid-up capital and free reserves of not more than 6:1 on standalone basis.

Additional Conditions for buy-back of Shares or Other Securities

❖ A company shall not buy-back its shares or other specified securities :	
(a)	so as to delist its shares or other specified securities from the stock exchange.
(b)	from any person through negotiated deals, whether on or off the stock exchange or through spot transactions or through any private arrangement.

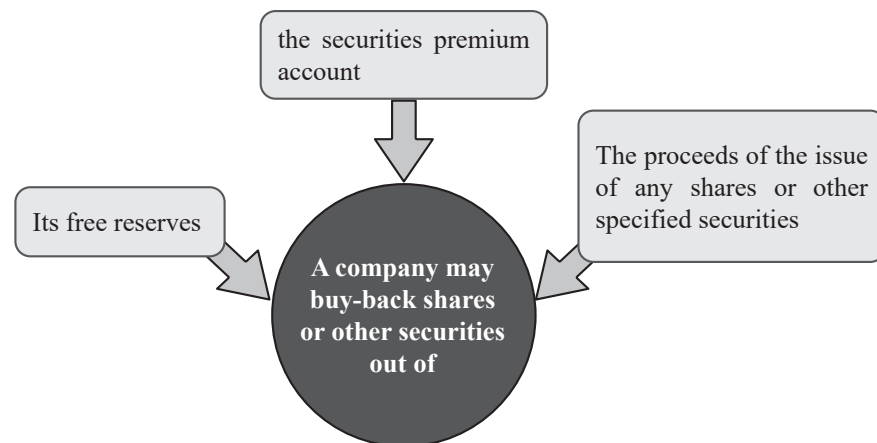
- ❖ A company shall not make any offer of buy-back within a period of one year reckoned from the date of expiry of buy-back period of the preceding offer of buy-back, if any.
- ❖ A company shall not allow buy-back of its shares unless the consequent reduction of its share capital is effected.

METHODS OF BUY-BACK



No offer of buy-back for fifteen percent or more of the paid up capital and free reserves of the company, based on both standalone and consolidated financial statements of the company, shall be made from the open market.

SOURCES OF BUY-BACK



PROHIBITIONS FOR BUY-BACK

The Company shall not directly or indirectly purchase its own shares or other specified securities:

Through any subsidiary company including its own subsidiary companies;

Through any investment company or group of investment companies; or

If a default is made by the company in the repayment of deposits accepted either before or after the commencement of the Companies Act, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company.

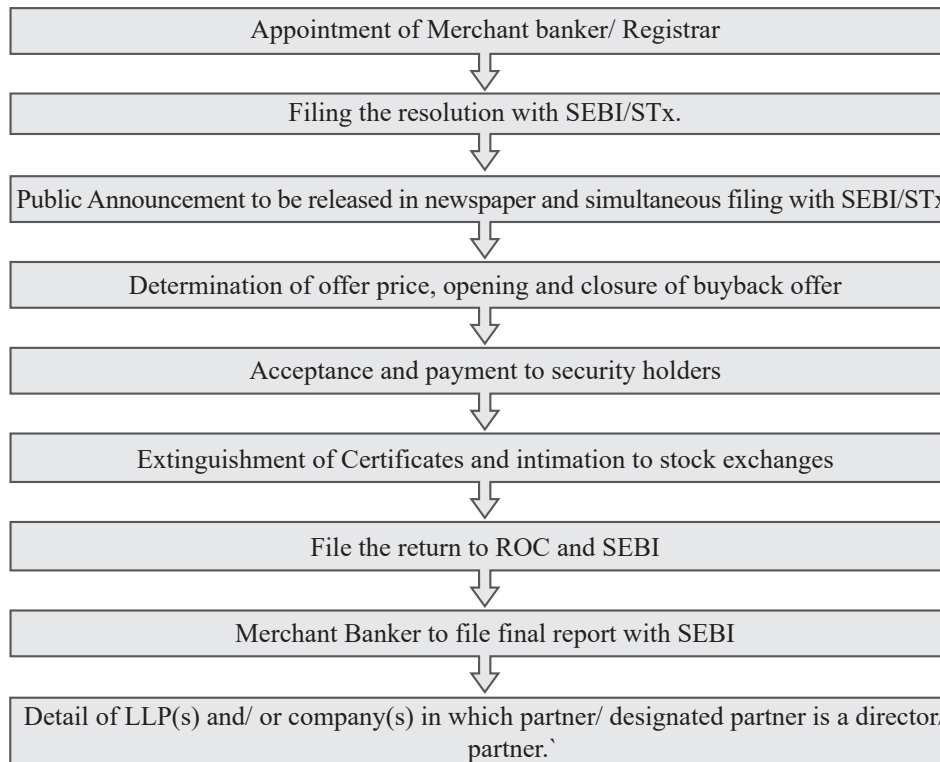
EXPLANATORY STATEMENT

Mandatory disclosures in Explanatory Statement



- A full and complete disclosure of all material facts;
- The necessity for the buy-back;
- The class of shares or securities intended to be purchased under the buy-back;
- The amount to be invested under the buy-back; and
- The time-limit for completion of buy-back.
- Date of the Board meeting at which the proposal for buy-back was approved
- Necessity for the buy-back

PROCESS



BUY-BACK THROUGH TENDER OFFER

A company may buy-back its shares or other specified securities from its existing securities holders on a proportionate basis in accordance with the provisions of these Regulations.

However, fifteen percent of the number of securities which the company proposes to buy-back or number of securities entitled as per their shareholding, whichever is higher, shall be reserved for small shareholders.

Additional Disclosures

The maximum price at which the buy-back of shares or other specified securities shall be made

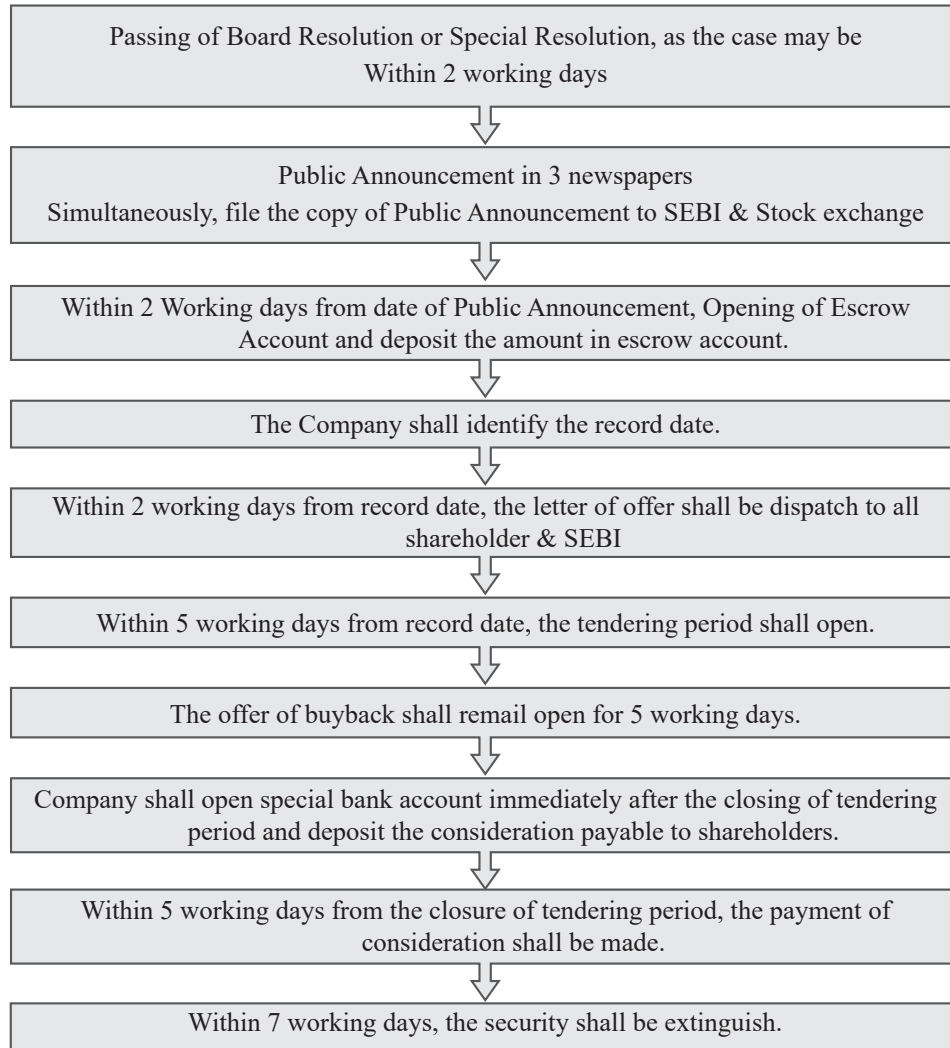
whether the board of directors of the company is being authorised at the general meeting to determine subsequently the specific price at which the buy-back may be made at the appropriate time;

If the promoter intends to offer his shares or other specified securities, the quantum of shares or other specified securities proposed to be tendered and the details of their transactions and their holdings for the last six months prior to the passing of the special resolution for buy-back including information of number of shares or other specified securities acquired, the price and the date of acquisition.

Disclosures, filing requirements and timelines for public announcement and draft letter of offer

1.	Public Announcement	The company shall make a public announcement within two working days from the date of declaration of results of the postal ballot for special resolution/ board of directors resolution in at least one English National Daily, one Hindi National Daily and one Regional language daily, all with wide circulation at the place where the Registered Office of the company is situated. A copy of the public announcement along with the soft copy, shall also be submitted to SEBI, simultaneously, through a merchant banker.
2.	Filing with SEBI	The company shall within five working days of the public announcement file the following: A draft letter of offer, along with a soft copy, containing disclosures as specified in these regulations through a merchant banker who is not associated with the company. A declaration of solvency in specified form and in a manner provided in Section 68(6) of the Companies Act, 2013. SEBI may provide its comments on the draft letter of offer within seven working days of the receipt of the draft letter of offer. Letter of Offer shall be dispatch to the shareholders after making changes suggested by SEBI, if any.

OFFER PROCEDURE THROUGH TENDER OFFER



SPECIAL NOTE

- ❖ Letter of Offer may also be dispatched through electronic mode in accordance with the provisions of the Companies Act, 2013.
- ❖ Within 2 working days from the record date, the Company shall file the following:
 - ♦ Letter of offer
 - ♦ Certificate from Merchant banker stating that the buyback is in compliance with SEBI regulations
 - ♦ Declaration of Solvency
- ❖ On receipt of a request from any shareholder to receive a copy of the letter of offer in physical form, the same shall be provided.
- ❖ If case an eligible public shareholder does not receive the tender offer/off form, even though he can participate in the buy-back off and tender shares in the manner as provided by the SEBI.
- ❖ The public announcement shall disclose that the dispatch of the letter of offer, shall be through electronic mode in accordance with the provisions of the Companies Act, within two working days from the record date and that in the case of receipt of a request from any shareholder to receive a copy of the letter of offer in physical form, the same shall be provided.
- ❖ The shares proposed to be bought back shall be divided into two categories;

- (a) Reserved category for small shareholders; and
- (b) General category for other shareholders, and the entitlement of a shareholder in each category shall be calculated accordingly.

Can unregistered shareholder tender his shares for buy-back?

Yes, unregistered shareholder may also tender his share for buy-back by Submitting the duly executed Transfer Deed for transfer of share in his name, along with the offer form and other relevant documents as required for transfer, if any.

DEPOSIT IN ESCROW ACCOUNT

Amount of Consideration	% of amount to be deposited
Consideration not more than Rs. ₹100 crores	25 per cent of the consideration payable;
Consideration exceeds Rs. 100 crores	25 percent upto Rupees 100 crores and 10 percent thereafter.

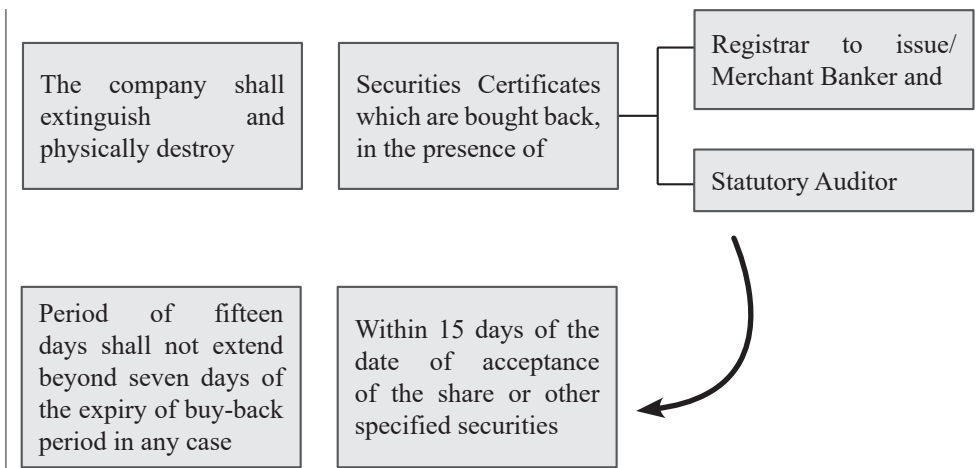
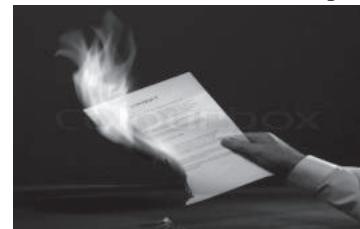
The escrow account referred to above shall consist of (subject to appropriate margin)

- Cash including bank deposits with any scheduled commercial bank, or
- Bank guarantee issued in favour of the merchant banker by any scheduled commercial bank or
- Deposit of frequently traded and freely transferable equity shares or other freely transferable securities, or
- Government securities or
- Units of mutual funds invested in gilt funds and overnight schemes or
- A Combination of above.

Special Note

- ❖ The cash component of the escrow account may be maintained in an interest bearing account.
- ❖ Where part of the escrow account is in a form other than cash, the company shall deposit with a scheduled commercial bank, in cash, a sum of not less than two and half per cent of the total amount earmarked for buy back as specified in the resolution of the Board of Directors or the special resolution, as the case may be, as security for the fulfilment of its obligations under the regulations.

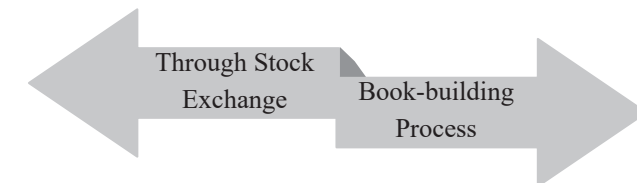
Extinguishment of Certificate and other Closure Compliances



- ❖ The company shall extinguish and physically destroy the securities certificates so bought back in the presence of a registrar to an issue or the Merchant Banker and the secretarial auditor within fifteen days of the date of acceptance of the shares or other specified securities.

The Company shall furnish the particulars of the securities certificates extinguished and destroyed to the stock exchange where the shares of the company are listed, within 7 days of extinguishment and destruction of the certificates.

BUY-BACK FROM THE OPEN MARKET



- ❖ The company shall ensure that at least 75% of the amount earmarked for buy-back, as specified in the resolution of the board of directors or the special resolution, as the case may be, is utilized for buying-back shares or other specified Securities.
- ❖ The company shall ensure that at a minimum of 40% of the amount earmarked for the buy-back, as specified in the resolution of the Board of Directors or the special resolution, as the case may be, is utilized within the initial half of the specified duration

Buy-back of Shares through Stock Exchange



1.	Pre-conditions	<ul style="list-style-type: none"> ❖ The company may buy-back only on stock exchanges having nationwide trading terminals. ❖ The buy-back of the shares or other specified securities through the stock exchange shall not be made from the promoters or persons in control of the company. ❖ The buy-back of shares or other specified securities shall be made only through the order matching mechanism except 'all or none' order matching system.
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2.	Disclosures, filing requirements and timelines of public announcement	<ul style="list-style-type: none"> ❖ The company shall appoint a merchant banker and make a public announcement in manner as specified in buy-back of shares through tender offer. ❖ The public announcement shall be made within two working days from the date of passing the board of director's resolution or date of declaration of results of the postal ballot for special resolution, as relevant and shall contain disclosures as specified in these regulations. ❖ Simultaneously with the issue of such public announcement, the company shall file a copy of the public announcement with SEBI & Stx along with the prescribed fees. ❖ The public announcement shall also contain disclosures regarding details of the brokers and stock exchanges through which the buy-back of shares or other specified securities would be made.
		Note: In case of the buy-back from open market, no draft letter of offer/ letter of offer is required to be filed with SEBI.
3.	Opening of the offer on stock exchange	<ul style="list-style-type: none"> ❖ The identity of the company as a purchaser shall be appeared on the electronic screen when the order is placed. ❖ For the purpose of buyback through stock exchange a separate window shall be open and it will remain for the period specified by SEBI. ❖ The buy-back offer shall open not later than four working days from the record date and shall close within 22 working days.
4.	Subsequent compliances	The company shall submit the information regarding the shares or other specified securities bought-back, to the stock exchange on a daily basis in such form as may be specified by SEBI and the same shall be uploaded immediately on the official website stock exchange and on Company's website.
5.	Procedure for buy-back shares or other specified securities in Physical form	<ul style="list-style-type: none"> ❖ A separate window shall be created by the stock exchange, which shall remain open during the period of buy-back, for buy-back of shares or other specified securities in physical form. ❖ The Company shall buyback shares or other securities holding physical shares only through this separate window after verification of identity and address of eligible shareholders by broker. ❖ The price at which the shares or other specified securities are bought back shall be the volume weighted average price of the shares or other specified securities bought-back, other than in the physical form, during the calendar week in which such shares or other specified securities were received by the broker. ❖ However, the price of shares or other specified securities tendered during the first calendar week of the buy-back shall be the volume weighted average market price of the shares or other specified securities of the company during the preceding calendar week. <p>Note: In case no shares or other specified securities were bought back in the normal market during calendar week, the preceding week when the company has last bought back the shares or other specified securities may be considered.</p>

6.	Escrow Account	<ul style="list-style-type: none"> ❖ The company shall, within 2 working days from public announcement, create an escrow account towards security for performance of its obligations under these regulations, and deposit in escrow account 25 per cent of the amount earmarked for the buy-back as specified in the resolution of the board of directors or the special resolution, as the case may be. <p>The escrow account may be in the form of:</p> <ol style="list-style-type: none"> (a) cash deposited with any scheduled commercial bank; or (b) bank guarantee issued in favour of the merchant banker by any scheduled commercial bank. (c) deposit of frequently traded and freely transferable equity shares or other freely transferable securities with appropriate margin <ul style="list-style-type: none"> ❖ For such part of the escrow account as is in the form of a cash deposit with a scheduled commercial bank, the company shall while opening the account, empower the merchant banker to instruct the bank to make payment of the amounts lying to the credit of the escrow account, to meet the obligations arising out of the buy-back. <p>For such part of the escrow account as is in the form of a bank guarantee;</p> <ol style="list-style-type: none"> (a) The same shall be in favour of the merchant banker and shall be kept valid for a period of thirty days after the expiry of buy-back period of the offer or till the completion of all obligations under these regulations, whichever is later. (b) The same shall not be returned by the merchant banker till completion of all obligations under the regulations. <ul style="list-style-type: none"> ❖ Where part of the escrow account is in the form of a bank guarantee, the company shall deposit with a scheduled commercial bank, in cash, a sum of at least 2.5 per cent of the total amount earmarked for buy back as specified in the resolution of the board of directors or the special resolution, as the case may be, as and by way of security for fulfillment of the obligations under the regulations by the company. ❖ The amount may be released from escrow account for making of payment to the shareholders subject to at least 2.5 per cent of the amount earmarked for buy-back as specified in the resolution of the board of directors or the special resolution, as the case may be, remaining in the escrow account at all points of time. ❖ After utilisation of at least 50 % of the amount earmarked for buy-back as specified in the resolution of the Board of Directors or Special Resolution, as case may be, the amount and the guarantee remaining in the escrow account, if any, shall be released to the company. ❖ In the event of non-compliance as specified above, SEBI may direct the merchant banker to forfeit the escrow account, subject to a maximum of 2.5 percent of the amount earmarked for buy-back as specified in the resolution of the board of directors or the special resolution, as the case may be, except in cases where,
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		<ul style="list-style-type: none"> ❖ Volume weighted average market price (VWAMP) of the shares or other specified securities of the company during the buy back period was higher than the buy-back price as certified by the merchant banker based on the inputs provided by the Stock exchanges.
		<ul style="list-style-type: none"> ❖ Sell orders were inadequate despite the buy orders placed by the company as certified by the merchant banker based on the inputs provided by the stock exchanges. ❖ Such circumstances existed which were beyond the control of the company and in the opinion of SEBI merit consideration ❖ In the event of forfeiture for non-fulfilment of obligations as specified in these regulation, the amount forfeited shall be deposited in the Investor Protection and Education Fund of Securities and Exchange Board of India.
7.	Extinguishment of certificates	<ul style="list-style-type: none"> ❖ The provisions pertaining to the extinguishment of certificates for tender offers specified above shall apply for extinguishment of certificates for buy-back from open market. ❖ The verification of acceptances shall be completed by the company within fifteen days of the pay-out. ❖ The company shall extinguish and physically destroy the securities certificates so bought back during the month in the presence of a Merchant Banker and the Statutory Auditor, on or before the fifteenth day of the succeeding month. ❖ However, the company shall ensure that all the securities bought-back are extinguished within seven days of expiry of buy-back period.

SPECIAL NOTE

- ❖ The buy-back through stock exchanges shall be undertaken only in respect of frequently traded shares.

Buy-back through book building

1.	Pre-conditions	<ul style="list-style-type: none"> ❖ Special resolution or Board Resolution, as the case may be, shall be passed for authorisation of Buy-back of shares or other specified securities in the manner as specified under these regulations.
2.	Disclosures, filing requirements and timelines for public announcement	<ul style="list-style-type: none"> ❖ The company shall appoint a merchant banker and make a public announcement within 2 working days from date of BR or SR, as the case may be. ❖ The book building process shall be commence within 7 working days from pubic announcement

3.	Escrow Account	<ul style="list-style-type: none"> ❖ The provisions with respect to deposit of amount in escrow account as specified in buy-back through tenders offers shall also apply to buy back of shares or other specified securities through book building process. ❖ The deposit in the escrow account shall be made before the date of the public announcement. ❖ The cash component of the escrow account may be maintained in an interest bearing account. ❖ However, the merchant banker shall ensure that the funds should be available at the time of making payment to shareholders.
4.	Filing with SEBI	<ul style="list-style-type: none"> ❖ A copy of the public announcement shall be filed with SEBI within two days of such announcement along with the prescribed fees.
5.	Offer Procedure	<ul style="list-style-type: none"> ❖ The book-building process shall be made through an electronically linked transparent facility. ❖ The number of bidding centers shall not be less than thirty and there shall be at least one electronically linked computer terminal at all the bidding centers. ❖ The offer for buy-back shall remain open to the securities holders for a period not less than fifteen days and not exceeding thirty days. ❖ The merchant banker and the company shall determine the buy-back price based on the acceptances received. ❖ The final buy-back price, which shall be the highest price accepted, shall be paid to all holders whose shares or other specified securities have been accepted for buy-back.

		<ul style="list-style-type: none"> ❖ The provisions pertaining to verification of acceptances and the provisions pertaining to opening of special account and payment of consideration for tender offer shall be applicable mutatis mutandis to the buy-back through book building.
6.	Extinguishment of certificates	<ul style="list-style-type: none"> ❖ The provisions pertaining to extinguishment of certificates for tender offer shall be applicable mutatis mutandis to the buy-back through book building.

OBLIGATIONS FOR ALL BUY-BACK OF SHARES OR OTHER SPECIFIED SECURITIES

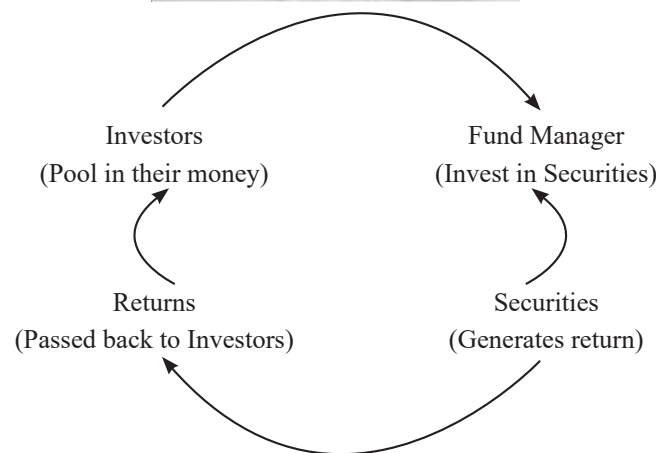


Obligations of the Company	Obligations of the Merchant Banker
<ul style="list-style-type: none"> ❖ The company shall ensure that, ❖ The letter of offer, the public announcement of the offer or any other advertisement, circular, brochure, publicity material shall contain true, factual and material information. ❖ Any documents shall not contain any misleading information and must state that the directors of the company accept the responsibility for the information contained in such documents; ❖ The company shall not issue any shares or other specified securities including by way of bonus till the date of expiry of buy-back offer period; 	<ul style="list-style-type: none"> ❖ The merchant banker shall ensure that ❖ The company is able to implement the offer; ❖ The provision relating to escrow account has been complied with; ❖ Firm arrangements for monies for payment to fulfill the obligations under the offer are in place; the public announcement of buy-back is made in terms of the regulations;

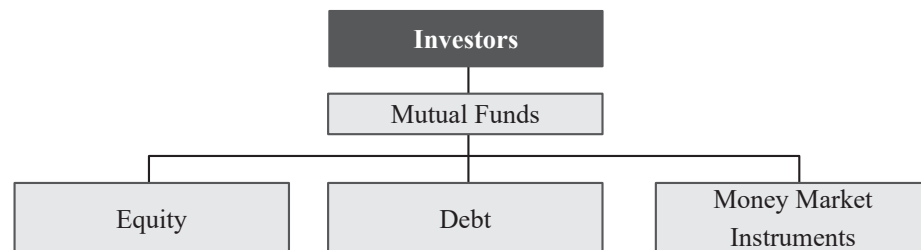
<ul style="list-style-type: none"> ❖ The company shall pay the consideration only by way of cash; ❖ The company shall not withdraw the offer to buy-back after the draft letter of offer is filed with SEBI or public announcement of the offer to buy-back is made; ❖ The promoter(s) or his/their associates shall not deal in the shares or other specified securities of the company in the stock exchange or off-market, including inter-se transfer of shares among the promoters during the period from the date of passing the resolution of the board of directors or the special resolution, as the case may be, till the closing of the offer; ❖ The company shall not raise further capital for a period of one year from the expiry of buy-back period, except in discharge of its subsisting obligations. 	<ul style="list-style-type: none"> ❖ The letter of offer has been filed in terms of the regulations; ❖ A due diligence certificate along with the draft letter of offer has been furnished to SEBI; ❖ The contents of the public announcement of offer as well as the letter of offer are true, fair and adequate and quoting the source wherever necessary; ❖ Due compliance of sections 68, 69 and 70 of the Companies Act and any other laws or rules as may be applicable in this regard has been made;
<ul style="list-style-type: none"> ❖ No public announcement of buy-back shall be made during the pendency of any scheme of amalgamation or compromise or arrangement. ❖ The company shall nominate a compliance officer and investors service centre for compliance with regulations and to redress the grievances of the investors. ❖ Particulars of the security certificate extinguished and destroyed shall be furnished by the company to the stock exchanges. 	<ul style="list-style-type: none"> ❖ The bank with whom the escrow or special amount has been deposited releases the balance amount to the company only upon fulfilment of all obligations by the company under the regulations; ❖ A final report is submitted to SEBI in the form specified within fifteen days from the date of expiry of buy-back period.

MUTUAL FUNDS

Mutual fund is a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, money market instruments, gold or gold related instruments, real estate assets and such other assets as specified by the SEBI.



Mutual fund is a trust that collects money from investors who share a common financial goal and invest the proceeds in different assets classes, as defined by investment objective simply like a financial goal and invest the proceeds in different assets classes, as defined by investment objective, simply like a financial intermediary.

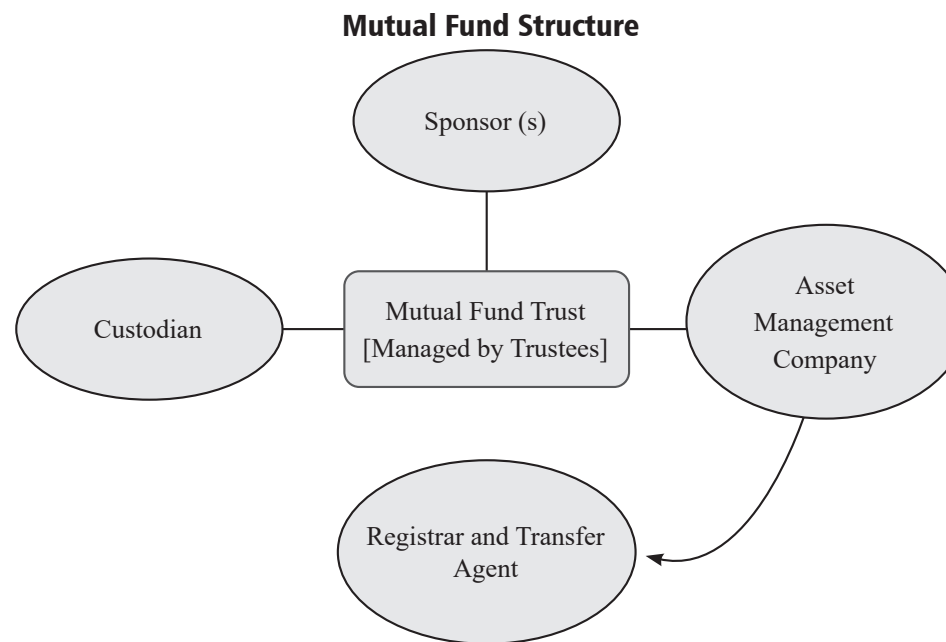


List of all stakeholders in Indian mutual fund industry is as follows:

- Reserve Bank of India (RBI)
- Securities and Exchange Board of India (SEBI)
- Association of Mutual Funds in India (AMFI)
- Ministry of Finance

- Self Regulatory Organization (SROs)
- Income Tax Regulations
- Investors' Associations

STRUCTURE OF A MUTUAL FUND



Open Ended	Close Ended
Can be purchased on any transaction day	Can be purchased only during NFO
Can be redeemed on any transaction day [Except when units are locked-in in the case of Equity-Linked Savings Scheme (ELSS) funds]	Can be redeemed only at maturity
High liquidity	Low on liquidity

Besides these, there are other types of mutual funds also to meet the investment needs of several groups of investors. Some of them include the following:

(a)	Income Schemes:	Oriented	The fund primarily offer fixed income to investors. Naturally enough, the main securities in which investments are made by such funds are the fixed income yielding ones like bonds, corporate debentures, Government securities and money market instruments, etc.
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(b)	Growth Schemes:	Oriented	These funds offer growth potentialities associated with investment in capital market namely: (i) high source of income by way of dividend and (ii) rapid capital appreciation, both from holding of good quality scrips. These funds, with a view to satisfying the growth needs of investors, primarily concentrate on the low risk and high yielding spectrum of equity scrips of the corporate sector.
(c)	Hybrid Schemes:		These funds cater to both the investment needs of the prospective investors – namely fixed income as well as growth orientation. Therefore, investment targets of these mutual funds are judicious mix of both the fixed income securities like bonds and debentures and also sound equity scrips. In fact, these funds utilise the concept of balanced investment management. These funds are, thus, also known as “balanced funds”.
(d)	High growth Schemes:		As the nomenclature depicts, these funds primarily invest in high risk and high return volatile securities in the market and induce the investors with a high degree of capital appreciation.
(e)	Capital Protection Oriented Scheme:		It is a scheme which endeavours to protect the capital invested in the mutual fund through suitable orientation of its portfolio structure.
(f)	Tax Saving Schemes:		These schemes offer tax rebates to the investors under tax laws as prescribed from time to time. This is made possible because the Government offers tax incentive for investment in specified avenues. For example, Equity Linked Savings Schemes (ELSS) and pensions schemes.
(g)	Special Schemes:		This category includes index schemes that attempt to replicate the performance of particular index such as the BSE, Sensex or the NSE-50 or industry specific schemes (which invest in specific industries) or sectoral schemes (which invest exclusively in segment such as ‘A’ Group or initial public offering). Index fund schemes are ideal for investors who are satisfied with a return approximately equal to that of an index. Sectoral fund schemes are ideal for investors who have already decided to invest in particular sector or segment.
(h)	Real Estate Funds:		These are close ended mutual funds which invest predominantly in real estate and properties

(i)	Off-shore Funds:	Such funds invest in securities of foreign companies with RBI permission.
(j)	Leverage Funds:	Such funds, also known as borrowed funds, increase the size and value of portfolio and offer benefits to members from out of the excess of gains over cost of borrowed funds. They tend to indulge in speculative trading and risky investments.
(k)	Hedge Funds:	They employ their funds for speculative trading, i.e. for buying shares whose prices are likely to rise and for selling shares whose prices are likely to fall.
(l)	Fund of Funds:	They invest only in units of other mutual funds. Such funds do not operate at present in India.
(m)	New Direction Funds:	They invest in companies engaged in scientific and technological research such as birth control, anti-pollution, oceanography etc.
(n)	Exchange Trade Funds (ETFs)	are a new variety of mutual funds that first introduced in 1993. ETFs are sometimes described as mere “tax efficient” than traditional equity mutual funds, since in recent years, some large ETFs have made smaller distribution of realized and taxable capital gains than most mutual funds.
(o)	Money Market Mutual Funds:	These funds invest in short- term debt securities in the money market like certificates of deposits, commercial papers, government treasury bills etc. Owing to their large size, the funds normally get a higher yield on such short term investments than an individual investor.
(p)	Infrastructure Debt Fund:	They invest primarily in the debt securities or securitized debt investment of infrastructure companies.

Regular Plans	Direct Plans
❖ Sold through a distributor	❖ Sold directly by the Asset Management Company (AMC)
❖ Higher Expense Ratio (Due to commissions paid to distributor)	❖ Lower Expense Ratio (No commission paid to distributor)
❖ Potentially lower returns to the investor (Due to higher expenses)	❖ Potentially higher returns (Due to lower expenses)

FIVE PRINCIPAL CONSTITUENTS

Sponsor	A sponsor is an influential investor who creates demand for a security because of their positive outlook on it. The sponsor brings in capital and creates a mutual fund trust and sets up the AMC. The sponsor makes an application for registration of the mutual fund and contributes at least 40% of the net worth of the AMC.
Asset Management Company	An asset management company (AMC) is a company that invests its clients' pooled funds into securities that match declared financial objectives. Asset management companies provide investors with more diversification and investing options. AMCs manage mutual funds, hedge funds and pension plans, these companies earn income by charging service fees or commissions to their clients.

	The sponsor or, if so authorised by the trust deed, the trustee, shall appoint an asset management company, which has been approved by the SEBI. The appointment of an asset management company can be terminated by majority of the trustees or by seventy-five per cent of the unit holders of the scheme. Any change in the appointment of the asset management company shall be subject to prior approval of the SEBI and the unitholders.
Trustee	A trustee is a person or firm that holds and administers property or assets for the benefit of a third party. A trustee may be appointed for a wide variety of purposes, such as in case of bankruptcy, for a charity, for a trust fund or for certain types of retirement plans or pensions.
Unit Holders	A unitholder is an investor who owns the units issued by a trust, like a real estate investment trust or a master limited partnership (MLP). The securities issued by trusts/MF are called units, and investors in units are called unitholders. The unit in turn reflect share of the investor in the Net Assets of the fund.
Mutual fund	A mutual fund established under the Indian Trust Act to raise money through, the sale of units to the public for investing in the capital market The funds thus collected as per the directions of asset management company for invested. The mutual fund has to be SEBI registered.

Three market intermediaries are:

Custodian	A custodian is a person who carries on the business of providing custodial services to the client. The custodian keeps the custody of the securities of the client. The custodian also provides incidental services such as maintaining the accounts of securities of the client, collecting the benefits or rights accruing to the client in respect of securities
Transfer Agents	‘Transfer agents’ services include issue and redemption of mutual fund units, preparation of transfer documents and maintenance of updated investment records. They also record transfer of units between investors where depository does not function. They also facilitate investors to get customized reports.
Depository	A depository facilitates the smooth flow of trading and ensure the investor's about their investment in securities.

MUTUAL FUND TERMINOLOGIES

A. Offer Document	<ul style="list-style-type: none"> ❖ AMC raises money in new schemes through New Fund Offer (NFO) ❖ Offer document contains key details about the NFO – open and close dates, scheme objective, nature of the scheme, etc. ❖ Filed with SEBI ❖ Two parts: <ul style="list-style-type: none"> ❖ 1. Scheme Information Document (SID) ❖ 2. Statement of Additional Information (SAI)
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1. Scheme Information Document (SID) - A document that contains the details of the scheme, which the investor should know before investing. SID has to be updated every year.
<p>Key Contents:</p> <ul style="list-style-type: none"> ❖ Scheme name on the cover page, along with scheme structure (open / closed-ended) and expected scheme nature (equity / debt / balanced / liquid / ETF) ❖ Highlights of the scheme ❖ Risk factors: <ul style="list-style-type: none"> ♦ Standard ♦ Scheme specific ❖ Due diligence certificate issued by the AMC ❖ Fees and expenses ❖ Rights of unit holders ❖ Penalties, litigations, etc.
2. Statement of Additional Information (SAI) -A document that contains statutory information about the fund house offering the scheme. SAI has to be updated the end of every quarter.
<p>Key Contents:</p> <ul style="list-style-type: none"> ❖ Information about sponsor, mutual fund, trustees, custodian and registrar & transfer agents ❖ Condensed financial information for schemes launched in the last three financial years ❖ Information on how to apply ❖ Rights of unit holders ❖ Details of the fund managers ❖ Tax, legal and other general information
B. Key Information Memorandum (KIM)
<ul style="list-style-type: none"> ❖ Essentially a summary of SID & SAI ❖ As per SEBI regulations, every application form should be accompanied by the KIM ❖ The KIM has to be updated at least once a year ❖ Contents: <ul style="list-style-type: none"> ♦ Name of the AMC, Mutual Fund Trust, Trustee, Fund Manager(s) and Scheme details ♦ Open and close dates of the issue ♦ Issue price of the scheme ♦ Plans and options available in the scheme ♦ Risk profile of the scheme ♦ Benchmark ♦ Dividend policy ♦ Performance of the scheme and benchmark over last 1, 3, 5 years and since inception ♦ Loads and expenses ♦ Contact information and registrars

C. Fact Sheets	<ul style="list-style-type: none"> Usually provided on a monthly basis by AMCs Contains the following: <ul style="list-style-type: none"> NAV and Assets under Management (AUM) Expense ratio, exit loads, average maturity, yield-to-maturity (YTM), modified duration Benchmark & Fund manager details Past performance Scheme's allocation & portfolios Style box Other scheme attributes – like risk category, minimum investment amount, scheme objective, etc.
D. Assets under Management (AUM) What is AUM?	<ul style="list-style-type: none"> It is the total market value of the assets managed by a mutual fund scheme as on a particular date Periodic AUM Available Month-end Quarterly average
E. Know Your Client (KYC) – What is KYC?	<ul style="list-style-type: none"> A one-time process made mandatory to invest in mutual funds Key details required: PAN, Address proof, contact details, occupation and income details With a view to bring uniformity in the KYC requirements for the securities markets, SEBI has initiated usage of uniform KYC by all SEBI registered intermediaries.
F. Foreign Account Tax Compliance Act (FATCA) – What is FATCA?	<ul style="list-style-type: none"> Requires that all financial institutions (including Indian mutual funds) need to report financial transactions of US persons and entities in which US persons hold a substantial ownership Enacted to prevent tax evasion through foreign investments Key details required: Country of birth, Country of citizenship, country of tax residence, TIN from such country Currently made mandatory for all investors (existing and new) in Indian mutual funds For non-individual investors, Ultimate Beneficial Ownership (UBO) details have to be provided.
G. Modes of Holding	<ul style="list-style-type: none"> Single Either or Survivor Signature of any of the applicants is sufficient for making transactions Joint Signature of all the applicants is required for making transactions.
H. Nomination	

- Nomination is a facility that enables an individual unitholder to nominate a person, who can claim the Units held by the unitholder or the redemption proceeds thereof in the event of death the unitholder
- Up to 3 nominees can be registered for a folio
- Units get transferred to the nominees (in the proportion specified) in case of the investor's demise
- Nomination can be updated as and when required by the investor
- A minor can also be nominated, provided the guardian is specified
- If nomination is not registered, in case of death of the investor, the legal heir has to produce documents such as Will, Legal Heir Certificate, No-Objection Certificate from other legal heirs, etc.

SYSTEMATIC INVESTMENT PLAN (SIP) IN MUTUAL FUND



- Systematic Investment Plan (SIP) is a disciplined Mutual Fund investment approach that helps in building greater wealth for future by investing a pre-determined sum at regular intervals.
- The power of compounding in SIP mutual funds is quite a valuable feature. Unlike simple interest, which calculates interest solely on the principal amount, compounding involves reinvesting earnings, leading to exponential growth over time.
- SIP has been gaining popularity among Indian MF investors, as it helps in investing in a disciplined manner. Systematic Investment Plans offered by mutual funds are easily the best way to enter the world of investments over the long term.

NET ASSET VALUE

The performance of a particular scheme of a mutual fund is denoted by Net Asset Value (NAV).

In simple words, NAV is the market value of the securities held by the scheme.

The NAV per unit is the market value of securities of a scheme divided by the total number of units of the scheme on any particular date.

How is it calculated?

$$\text{Net Asset Value} = \frac{\text{Net Asset of the Scheme}}{\text{Number of units outstanding}}$$

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

EXPENSE RATIO



- The fees charged by the scheme to manage investors' money

What does it contain?

- Fees paid to service providers like trustees, Registrar & Transfer Agents, Custodian, Auditor, etc.
- Asset management expenses
- Commissions paid to distributors
- Other selling expenses including advertising expenses
- Expenses on investor communication, account statements, dividend / redemption cheques / warrants
- Listing fees and Depository fees.
- Service tax.
- The expense ratio has a direct bearing on a scheme's NAV – the lower the expense ratio of a scheme, the higher the NAV

HOLDING PERIOD RETURN (HPR)

Holding period return is the total return received from holding an asset or portfolio of assets over a period of time, generally expressed as a percentage. Holding period return is calculated on the basis of total returns from the asset or portfolio i.e. income plus changes in value. It is particularly useful for comparing returns between investments held for different periods of time.

Calculation of HPR

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

ADVANTAGES OF MUTUAL FUNDS

Professional Management: Investors avail the services of experienced and skilled professionals who are backed by a dedicated investment research team

Diversification: Mutual funds invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk

Convenient Administration: Investing in a mutual fund reduces paper work and helps investors to avoid many problems such as bad deliveries, delayed payments and unnecessary follow up with brokers and companies.

Return Potential: Mutual funds have the potential to provide a higher return as they invest in a diversified basket of selected securities.

Low Costs: Mutual funds are a relatively less expensive way to invest compared to directly investing in the capital markets

RISKS INVOLVED IN MUTUAL FUNDS

Types of Risks	Cause of Risk
Volatility risk	The value of such funds is based on companies' performance, which often gets affected due to the prevalent microeconomic factors.
Credit risk	Credit risk in mutual fund investment often results from a situation, wherein, the issuer of the scheme fails to pay the promised interest.
Liquidity risk	Mutual funds with a long-term and rigid lock-in period like ELSS often come with liquidity risk.
Concentrated risk	It can be described as the situation when investors tend to put all their money into a single investment scheme or in one sector.
Inflation risk	It can be best described as the risk of losing one's purchasing power, mainly due to the rising inflation rate.

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

1.	Excessive diversification of portfolio, losing focus on the securities of the key segments.
2.	Too much concentration on blue-chip securities
3.	Necessity to effect high turnover through liquidation of portfolio resulting in large payments of brokerage and commission.
4.	Poor planning of investment returns.
5.	Unresearched forecast on income, profits and Government policies.
6.	Fund managers being unaccountable for poor results.
7.	Failure to identify clearly the risk of the scheme as distinct from risk of the market.
8.	Under performance in comparison to peers.

SEBI (MUTUAL FUNDS) REGULATIONS, 1996 – AN OVERVIEW

Eligibility Criteria for Registration of Mutual Funds

For the purpose of grant of a certificate of registration, the applicant has to fulfill the following, namely

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

Explanation: For the purposes of this clause, "sound track record" shall mean the sponsor should

- carrying on business in financial services for a period of at least five years; and
- Ensure that the net worth is positive in all the immediately preceding five years; and
- Ensure that the networth is more than the proposed capital contribution of the sponsor in the asset management company and ensure that in case of change in control of the existing asset management company due to acquisition of shares, the networth of the sponsor is more than the aggregate par value or market value of the shares so acquired, whichever is higher; and
- Have net profit after providing for depreciation, interest and tax in each of the immediately preceding five years; and
- Have average net around profit after depreciation, interest and tax during the immediately preceding five years of at least rupees ten crore:

Provided that if the requirements specified above are not fulfilled, the sponsor shall:

1.	The net worth of the asset management company is not less than rupees one hundred fifty crore; and
2.	Ensure that the initial shareholding equivalent to capital contributed to the asset management company to the extent of not less than rupees one hundred fifty crore is locked-in for a period of five years; and
3.	Appoint experienced personnel in asset management company such that the total combined experience of Chief Executive Officer, Chief Operating Officer, Chief Risk Officer, Chief Compliance Officer and Chief Investment Officer should be at least thirty years; and
4.	Ensure that in case of acquisition of existing asset management company, the sponsor shall have minimum positive liquid net worth equal to incremental capitalization required to ensure minimum capitalization of the asset management company and the positive liquid net worth of the sponsor or the funds tied up by the sponsor are to the extent of aggregate par value or market value of the shares proposed to be acquired, whichever is higher; and
5.	Ensure that in case of acquisition of stake in an existing asset management company, the shareholding equivalent to at least rupees one hundred fifty crore shall be locked in for five years; and
6.	Ensure that other conditions in this regard as may be specified by the Board from time to time are adhered to.

However, a private equity fund or a pooled investment vehicle or a pooled investment fund may also be permitted to sponsor mutual funds subject to such other conditions as may be specified by the SEBI from time to time.

- ❖ The applicant is a fit and proper person.
- ❖ In the case of an existing mutual fund, such fund is in the form of a trust and the trust deed has been approved by the SEBI.
- ❖ The sponsor has contributed or contributes at least 40% to the net worth of the asset management company.
- ❖ However, any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor and will be required to fulfil the eligibility criteria specified in these regulations.
- ❖ The sponsor or any of its directors or the principal officer to be employed by the mutual fund should not have been guilty of fraud or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence.
- ❖ Appointment of trustees, asset management company and custodian for the mutual fund in accordance with the provisions of the regulations.

Norms for Shareholding & governance in Mutual Funds

1.	No sponsor of a mutual fund, its associate or group company including the asset management company of the fund, through the schemes of the mutual fund or otherwise, individually or collectively, directly or indirectly, have <ul style="list-style-type: none"> (a) 10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or (b) Representation on the board of the asset management company or the trustee company of any other mutual fund.
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2.	Any shareholder holding 10% or more of the share-holding or voting rights in the asset management company or the trustee company of a mutual fund, shall not have, directly or indirectly, <ul style="list-style-type: none"> (a) 10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or (b) Representation on the board of the asset management company or the trustee company of any other mutual fund.
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TERMS AND CONDITIONS OF REGISTRATION

The trustees, the sponsor, the asset management company and the custodian shall comply with the provisions of SEBI (Mutual Fund) Regulations, 1996.

The mutual fund shall forthwith inform the SEBI, if any information or particulars previously submitted to the SEBI was misleading or false in any material respect.

The mutual fund shall forthwith inform the SEBI, of any material change in the information or particulars previously furnished, which have a bearing on the registration granted by it.

Payment of fees as specified in the SEBI (Mutual Fund) Regulations, 1996.

Constitution and Management of Mutual Funds and Operation of Trustees

A mutual fund shall be constituted in the form of a trust and the instrument shall be in the form of a deed duly registered under the Registration Act.

The trust deed shall not contain any clause which has the effect of limiting or extinguishing the obligations and liabilities of the trusts or indemnifying the trustees/ asset management company for loss or damage caused to the unitholders by their acts of negligence or acts of commission or omission.

TRUSTEE

- ❖ The trustees serve as an independent body to protect the interests of the investors and ensure compliance with the SEBI (Mutual Fund) regulations.
- ❖ The Board of trustees or Trustee Company holds the property of the mutual fund in trust for the benefit of the unit holders.
- ❖ They appoint an Asset Management Company (AMC) to float schemes for the mutual fund and manage the funds
- ❖ The trustee is also authorized to initiate action against the AMC or even penalize the AMC if SEBI regulations are not complied with or if the interests of the unit holders are not protected.

DISQUALIFICATION FROM BEING APPOINTED AS TRUSTEES

1.	A mutual fund shall appoint trustees in accordance with these regulations. A person shall not be eligible to be appointed as a trustee unless— (a) He is a person of ability, integrity and standing; and (b) Has not been found guilty of moral turpitude; and (c) Has not been convicted of any economic offence or violation of any securities laws; and (d) Has furnished particulars as specified in Form C.
2.	No asset management company and no director (including independent director), officer or employee of an asset management company shall be eligible to be appointed as a trustee of any mutual fund.
3.	No person who is appointed as a trustee of a mutual fund shall be eligible to be appointed as a trustee of any other mutual fund.
4.	Two-thirds of the trustees shall be independent persons and shall not be associated with the sponsors or be associated with them in any manner whatsoever.
5.	In case a company is appointed as a trustee then its directors can act as trustees of any other trust provided that the object of the trust is not in conflict with the object of the mutual fund.

CONSTITUTION AND MANAGEMENT OF ASSET MANAGEMENT COMPANY AND CUSTODIAN

Appointment of an Asset Management Company

The sponsor or, if so authorised by the trust deed, the trustee, shall appoint an asset management company, which has been approved by the SEBI.

The appointment of an asset management company can be terminated by majority of the trustees or by seventy-five per cent of the unitholders of the scheme.

Any change in the appointment of the asset management company shall be subject to prior approval of the SEBI and the unitholders.

ELIGIBILITY CRITERIA FOR APPOINTMENT OF ASSET MANAGEMENT COMPANY

- ❖ In case the asset management company is an existing asset management company it has a sound track record, general reputation and fairness in transactions;
- ❖ The asset management company is a fit and proper person;
- ❖ The directors of the asset management company are persons having adequate professional experience in finance and financial services related field and not found guilty of moral turpitude or convicted of any economic offence or violation of any securities laws;
- ❖ The key personnel of the asset management company have not been found guilty of moral turpitude or convicted of economic offence or violation of securities laws or worked for any asset management company or mutual fund or any intermediary during the period when its registration has been suspended or cancelled at any time by the Board;
- ❖ The board of directors of such asset management company has at least fifty per cent directors, who are not associate of, or associated in any manner with, the sponsor or any of its subsidiaries or the trustees;

- ❖ The Chairman of the asset management company is not a trustee of any mutual fund;
- ❖ The asset management company has a net worth of not less than rupees fifty crore.

APPOINTMENT OF CUSTODIAN

The mutual fund shall appoint a Custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to the Board within fifteen days of the appointment of the Custodian.

However, in case of a gold exchange traded fund scheme, the assets of the scheme being gold or gold related instruments may be kept in the custody of a custodian registered with the SEBI.

However, in case of a silver exchange traded fund scheme, the assets of the scheme being silver or silver related instruments and in case of a real estate mutual fund scheme, the title deed of real estate assets held by it, may be kept in the custody of a custodian registered with the SEBI.

PROCEDURE FOR LAUNCHING OF SCHEMES

No scheme shall be launched by the asset management company unless such scheme is approved by the trustees and a copy of the offer document has been filed with the SEBI.

The offer documents shall contain adequate disclosures to enable the investors to make informed decisions.

The mutual fund shall pay the minimum filing fee to the SEBI while filing the offer document and the balance filing fee within such time as may be specified by the SEBI.

The mutual fund, which intends to list units of its scheme on the recognised stock exchange(s), shall obtain 'in-principle' approval from recognised stock exchange(s) in the manner as specified by the recognised stock exchange(s) from time to time.

Every mutual fund desirous of listing units of its schemes on a recognised stock exchange shall execute an agreement with such stock exchange.

The listing of close-ended schemes is mandatory and these should be listed on a recognised stock exchange within such time period and subject to such conditions as specified by the SEBI.

No scheme other than equity-linked saving scheme can be opened for subscription for more than 15 days. Further, the minimum subscription and the extent of over subscription that is intended to be retained should be specified in the offer document. In the case of over-subscription, all applicants applying up to 5,000 units must be given full allotment subject to over subscription.

The AMC is required to refund the application money if minimum subscription is not received, and also the excess over subscription within five working days of closure of subscription.

CODE OF CONDUCT OF MUTUAL FUNDS

- The schemes should not be organized, operated and managed in the interest of sponsors or the directors of AMC or special class of unit holders;
- It shall ensure the adequate dissemination of adequate, fair, accurate and timely information of all the stake holders;
- The excessive concentration of business with the broking firm or associates should be avoided;
- The scheme - wise segregation of bank accounts and securities accounts must be ensured;
- The investment should be made in accordance with the investment objectives stated on the offer documents;
- It must not use any unethical means to sell, market or induce any investor to buy their schemes;
- The high standards of integrity and fairness in all the dealings should be maintained by the trustees and AMCs;
- The AMCs shall not make any exaggerated statements.

ADVERTISEMENT CODE



- Advertisement shall be accurate, true, fair, clear, complete, unambiguous and concise.
- Advertisement shall not contain statement which are false, misleading, biased or deceptive, based on assumptions and shall not contain any testimonials or any ranking based on any criteria.
- No celebrities shall form part of advertisement.
- No advertisement shall directly or indirectly discredit other advertisements or make unfair comparisons.
- Advertisements shall be accompanied by a standard warning in legible fonts which states "Mutual fund investments are subject to market risks, read all schemes related document carefully." No addition or deletion of words shall be made to the standard warning.
- In audio visual media based advertisements, the standard warning in visual and accompanying voice over reiteration shall be audible in a clear and understandable manner. For ex-ample, in standard warning both the visual and the voice over reiteration containing 14 words running for at least 5 seconds may be considered as clear and understandable.
- Advertisement shall not be so designed as likely to be misunderstood or likely to be disguise the significance of any statement.

RESTRICTION ON INVESTMENT BY MUTUAL FUNDS

(i)	The schemes shall not invest more than 10% of its NAV in debt instruments issued by a single issuer which are rated not below investment grade by a Credit Rating Agency. However, such limit can be increased to 12% of its NAV with prior approval of Board of Trustee and Board of Directors of AMC.
(ii)	A mutual fund scheme shall not invest in unlisted debt instruments including commercial papers, except Government Securities and other money market instruments. However, Mutual Fund Schemes may invest in unlisted non- convertible debentures up to a maximum of 10% of the debt portfolio of the scheme subject to such conditions as may be specified by the SEBI.
(iii)	Mutual fund shall not own more than 10% of company's paid - up capital carrying voting rights.
(iv)	The transfer of investments from one scheme to another shall be done only at the prevailing market price & the securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.
(v)	A scheme may invest in another scheme under the same asset management company or any other mutual fund without charging any fees. However, the aggregate inter-scheme investments made by all schemes shall not exceed 5% of the NAV of the mutual fund. (This shall not apply to funds of funds scheme)
(vi)	The buy and sell by all the mutual funds shall be made on the basis of the deliveries.
(vii)	All securities shall be purchase or transferred in the name of the mutual fund scheme.
(viii)	No mutual fund scheme shall make any investment in:
	(a) any unlisted security of an Associate or Group Company of the Sponsor;
	(b) any security issued by way of private placement by an associate or group company of the sponsor;

	(c) the listed securities of group companies of the sponsor which is in excess of 25 per cent of the net Assets.
(ix)	No mutual fund shall make any investment in the funds of fund scheme.
(x)	No mutual fund shall invest more than 10% of its NAV in the equity shares or equity related instruments of any company.
(xi)	All investments by a mutual fund scheme in equity shares and equity related instruments shall only be made provided such securities are listed or to be listed.

PROVISIONS PERTAINING TO MUTUAL FUNDS UNDER THE SEBI (LODR) REGULATIONS, 2015

Submission of Documents

The listed entity is required to intimate to the recognized stock exchange, the information relating to daily Net Asset Value, monthly portfolio, half -yearly portfolio of those schemes whose units are listed on the recognized stock exchange(s) in the format as specified under SEBI (Mutual Funds) Regulations, 1996 and directions issued there under.

The listed entity is also required to intimate to the recognized stock exchange of:

Movement in unit capital of those schemes whose units are listed on the recognised stock exchange(s);

Rating of the scheme whose units are listed on the recognised stock exchange(s) and any changes in the rating thereof (wherever applicable);

Imposition of penalties and material litigations against the listed entity and Mutual Fund; and

Any prohibitory orders restraining the listed entity from transferring units registered in the name of the unit holders.

1. SEBI v/s. Shriram Mutual Fund

- (i) A mutual fund and asset management company violated regulation 25 (7)(a) by conducting excessive business with associated brokers from June 1998 to September

1999, breaching permissible limits 12 times over 6 quarters. The company failed to adhere to registration terms, leading to a Rs. 5 lakh penalty for the asset management company and Rs. 2 lakh for the mutual fund. They appealed, arguing transactions involved thinly traded securities without ready markets. The Securities Appellate Tribunal initially overturned the penalties, citing judicial discretion in imposing penalties for statutory obligations.

- (ii) The Supreme Court reinstated the penalties, overturning the Securities Appellate Tribunal's decision in Shriram Mutual Fund v. Chairman. The Court ruled that penalties are warranted based on statutory obligation breaches, regardless of intent (mens rea). The violation of civil obligations attracts penalties as soon as contravention is established, making the intention behind the breach irrelevant.
- (iii) The Supreme Court held that mens rea is not an essential element for imposing penalty for breach of civil obligations.

2. Sahara asset management company p. Ltd & Ors. [Appellant(s)]

Versus

SEBI & Ors. [Respondent(s)]

- ❖ SEBI find that Sahara Sponsor is not a 'fit and proper person' because its Promoter-Director is not a fit and proper person
- ❖ Hence, the Sahara MF and Sahara AMC are no longer fit and proper to carry on the business of mutual fund.
- ❖ SEBI ordered cancellation of certificate of registration.
- ❖ Subsequently, Sahara MF, Sahara AMC and others had preferred an appeal against the SEBI order before the Hon'ble Securities Appellate Tribunal (SAT)
- ❖ SAT vide order disposed of the said appeal, granting a period of 6 weeks to the appellants to approach the Hon'ble Supreme Court of India.
- ❖ Sahara MF and others subsequently filed an appeal in the Hon'ble Supreme Court, challenging the aforesaid order of the Hon'ble SAT.
- ❖ The said appeal was dismissed by the Hon'ble Supreme Court.

A collective investment scheme is a scheme that comprises a pool of assets that is managed by a collective investment scheme manager and is governed by the Collective Investment Schemes Regulations given by SEBI.



Collective Investment Scheme

'Collective Investment Scheme' means any scheme or arrangement which satisfies the condition specifies in section 11AA of SEBI Act, 1992.

Section 11AA(1) of SEBI Act, 1992 provides that any scheme or arrangement which satisfies the conditions referred to in sub-section (2) or sub-section (2A) shall be a collective investment scheme

However, any pooling of funds under any scheme or arrangement which is not registered with SEBI or is not covered under sub-section (3), involving a corpus amount of Rs. 100 crore or more shall be deemed to be a collective investment scheme.

Section 11AA

Sub-Section 2A

Any scheme or arrangement made or offered by any person satisfying the condition as may be specified in accordance with the regulations made under SEBI Act.

Sub-Section 2

Any scheme or arrangement made or offered by any person under which:

- (i) The contributions or payment made by the investors, by whatever name called are pooled and utilized for the purpose of the scheme or arrangement;
- (ii) The contributed or payments are made to such scheme or arrangement by the investors with a view to receive profits, income produce or property whether movable or immovable from such scheme or arrangement

Sub-Section 2

The following shall not be Collective Investment Scheme (CIS):

- (i) Offer made by co-operative society registered under Co-operative Societies Act or registered with state;

(ii)	Deposit accepted by:- NBFC Under Companies Act, 2013 Nidhi Company under Companies Act, 2013
(iii)	Being a contract of insurance to which the Insurance Act, 1938, applies;
(iv)	Providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provisions Act, 1952;
(v)	Under which deposits are accepted by a company declared as a Nidhi or a mutual benefit society under section 406 of the Companies Act, 2013;
(vi)	Falling within the meaning of Chit business
(vii)	Under which contributions made are in the nature of subscription to a mutual fund;
(viii)	Such other scheme or arrangement which the Central Government may, in consultation with SEBI, notify, shall not be a collective investment scheme.

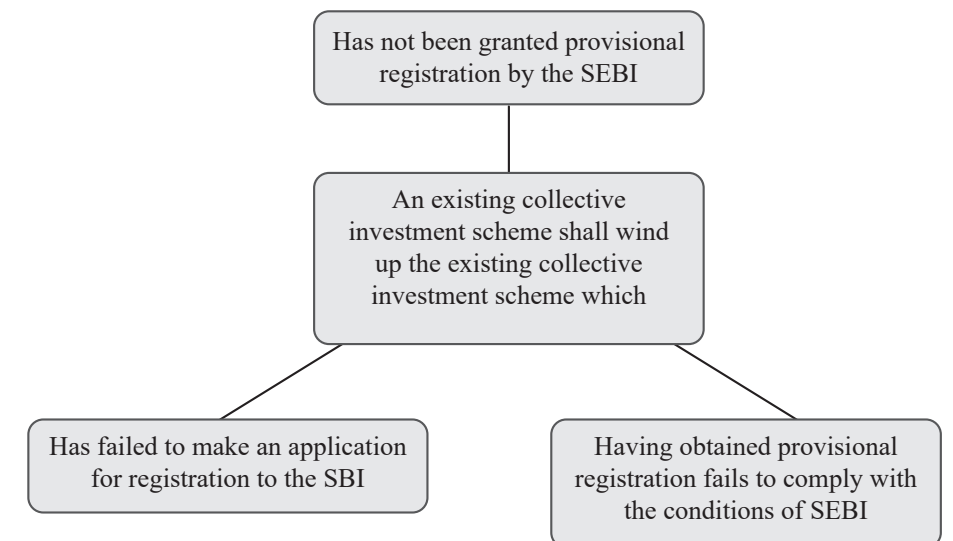
IMPORTANT DEFINITIONS

Collective Investment Management Company	Collective Investment Management Company means a company incorporated under the Companies Act, 1956 or the Companies Act, 2013 and registered with SEBI under these regulations, whose object is to organize, operate and manage a collective investment scheme.
Closed-ended Collective Investment Scheme	Closed-ended collective investment scheme means any collective investment scheme launched by a Collective Investment Management Company, in which the period of maturity of the collective investment scheme is specified and there is no provision for re-purchase before the expiry of the maturity of the collective investment scheme.
Collective Investment Scheme Property	Collective investment scheme property includes: <ol style="list-style-type: none"> (i) Subscription of money, or money's worth (including bank deposits) to the collective investment scheme; (ii) Property acquired, directly or indirectly, with, or with the proceeds of, subscription of money referred to in item (i); or (iii) Income arising, directly or indirectly from, subscription money or property

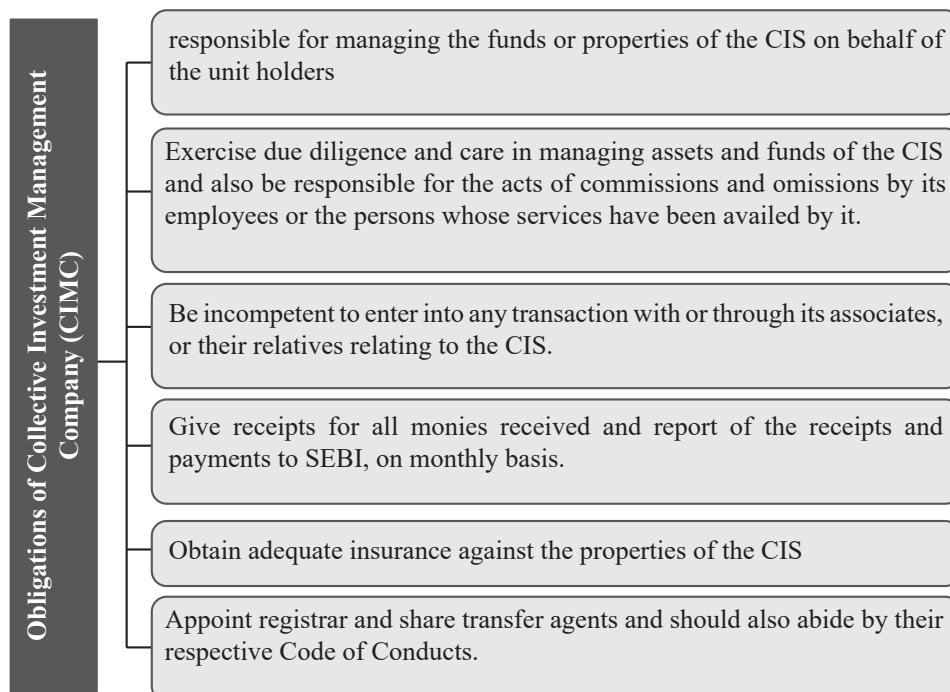
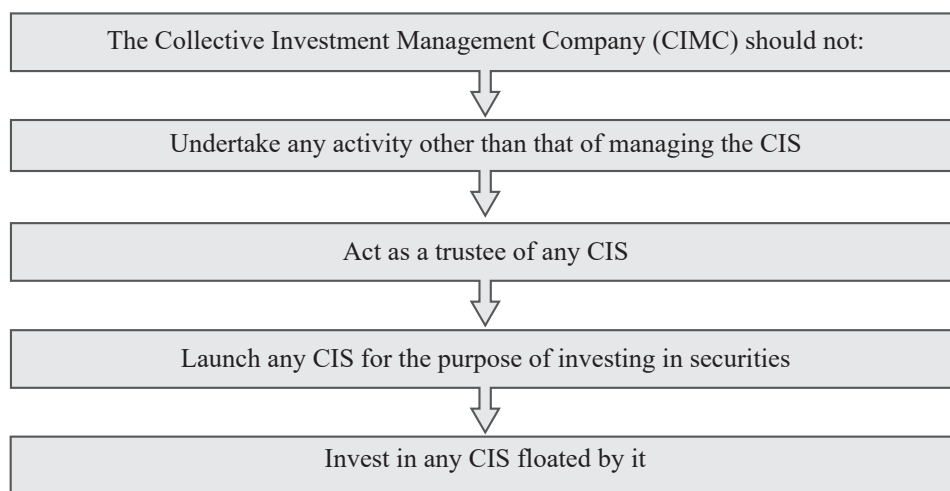
Conditions for Eligibility for grant of Certificate of Registration

- ❖ Registered as Company under Companies Act.
- ❖ Authorized by MOA to do CIS business.
- ❖ The applicant or its promoters should have a sound track record and general reputation of fairness and integrity in all their business transactions.
- ❖ The applicant is a fit and proper person for the grant of such certificate;
- ❖ The applicant has adequate infrastructure to enable it to operate collective investment.
- ❖ The directors or key personnel of the applicant shall consist of persons of honesty and integrity having adequate professional experience in related field and have not been convicted for an offence involving moral turpitude or for any economic offence or for the violation of any securities laws;
- ❖ At least fifty per cent of the directors of such Collective Investment Management Company shall consist of persons who are independent and are not directly or indirectly associated with the persons who have control over the Collective Investment Management Company;
- ❖ No person, directly or indirectly connected with the applicant has in the past been refused registration by the SEBI.
- ❖ At least one of the directors, on the Board of the Collective Investment Management Company, who is not subject to retirement, is a representative of the trustee;
- ❖ The Collective Investment Management Company is not a trustee of any collective investment scheme;
- ❖ The Collective Investment Management Company is not a trustee of any collective investment scheme;

Winding up of Existing Collective Investment Scheme (CIS)



RESTRICTIONS ON BUSINESS ACTIVITIES



GRIEVANCE REDRESSAL MECHANISM

The Collective Investment Management Company shall redress investor grievances promptly within 21 calendar days from the date of receipt of the grievance.

SUBMISSION OF INFORMATION AND DOCUMENTS

- ❖ The Collective Investment Management Company should prepare quarterly reports of its activities and the status of compliance of SEBI regulations and submit the same to the trustees within one month of the expiry of each quarter.
- ❖ The Collective Investment Management Company should file with the trustees and the SEBI, particulars of all its directors along with their interest in other companies within fifteen days of their appointment.
- ❖ It should furnish a copy of Balance sheet, profit & loss account and a copy of summary of yearly appraisal report to the unit holders within 2 months from the date of closure of financial year.

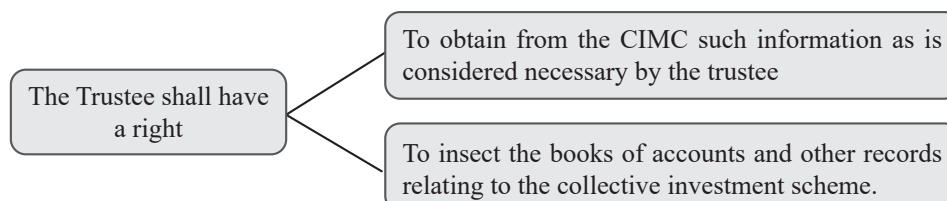
TRUSTEES AND THEIR OBLIGATIONS

Trustee means a person who holds the property of the collective investment scheme in trust for the benefit of the unit holders, in accordance with these regulations.



Special Note: No trust deed should contain a clause which has the effect of:

- ❖ limiting or extinguishing the obligations and liabilities of the Collective Investment Management Company in relation to any scheme or the unit holders.
- ❖ indemnifying the trustee or the Collective Investment Management Company for loss or damage caused to the unit holders by their acts of negligence or acts of commissions or omissions.



OBLIGATIONS OF THE TRUSTEE

❖ The trustee should ensure that the CIMC has:	
(i)	the necessary office infrastructure;
(ii)	appointed all key personnel including managers for the collective investment schemes and submitted their bio-data which shall contain the educational qualifications and past experience in the areas relevant for fulfilling the objectives of the collective investment schemes;
(iii)	appointed auditors from the list of auditors approved by SEBI to audit the accounts of the CIS;
(iv)	appointed a compliance officer to comply with the provisions of the Act and these regulations and to redress investor grievances;
(v)	appointed registrars to an issue and share transfer agent;
(vi)	prepared a compliance manual and designed internal control mechanisms including internal audit systems;
(vii)	taken adequate insurance for the assets of the collective investment scheme;
(viii)	not given any undue or unfair advantage to any associates of the company or dealt with any of the associates in any manner detrimental to the interest of the unit holders;
(ix)	operated the collective investment scheme in accordance with the provisions of the trust deed, these regulations and the offer document of the collective investment scheme(s);
(x)	undertaken the activity of managing collective investment schemes only;
❖ The trustee should forthwith take such remedial steps as are necessary and immediately inform the SEBI of the action taken where the trustee believes that the conduct of business of the collective investment scheme is not in accordance with these regulations.	
❖ The trustee should be accountable for, and act as the custodian of the funds and property of the respective collective investment schemes and should hold the same in trust for the benefit of the unit holders in accordance with these regulations and the provisions of trust deed.	
❖ The trustee should be responsible for the calculation of any income due to be paid to the collective investment scheme and also for any income received in the Collective Investment Scheme to the unit holders.	

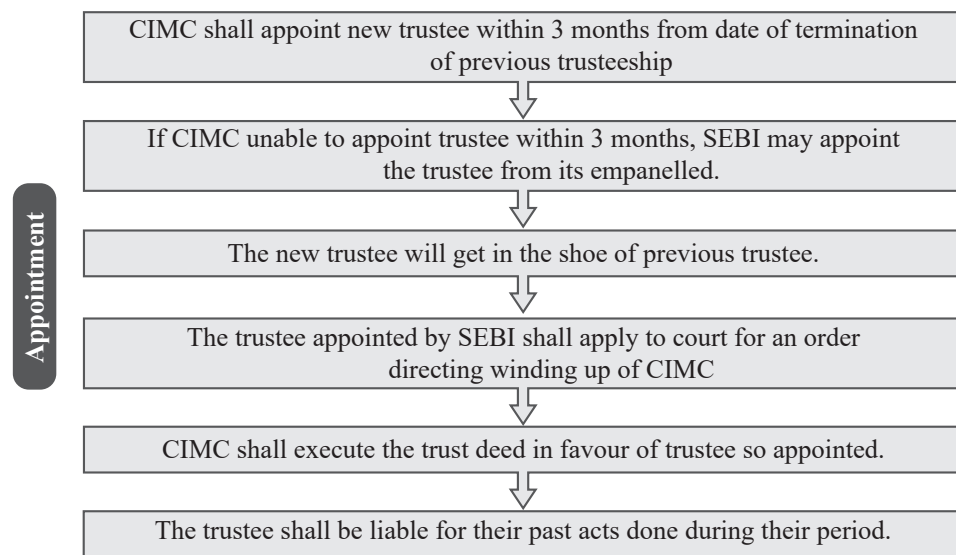
❖ The trustee shall convene a meeting of the unit holders	
(a)	whenever required to do so by the SEBI in the interest of the unit holders; or
(b)	whenever required to do so on the requisition made by unitholders holding at least one-tenth of nominal value of the unit capital of any collective investment scheme; or
(c)	when any change in the fundamental attributes of any collective investment scheme. However, no such change shall be carried out unless the consent of unit holders holding at least three - fourths of nominal value of the unit capital of the collective investment scheme is obtained. Explanation: For the purposes of this clause "fundamental attributes" means the investment objective and terms of a collective investment scheme.
❖ The trustee shall review	
(a)	on a quarterly basis (i.e., by the end of March, June, September and December) every year all activities carried out by the Collective Investment Management Company
(b)	periodically all service contracts relating to registrars to an issue and share transfer agents and satisfy itself that such contracts are fair and reasonable in the interest of the unit holders;
(c)	investor complaints received and the redressal of the same by the Collective Investment Management Company.
❖ The trustee should ensure that	
(a)	net worth of CIMC is not deployed in a manner which is detrimental to interest of unit holders;
(b)	the property of each collective investment scheme is clearly identifiable as collective investment scheme property and held separately from property of the CIMC;
(c)	Clearances or no objection certificate should be obtained, in respect of transactions relating to property of the scheme from such authority as is competent to grant such clearance or no objection certificate.
❖ The trustee should abide by the Code of Conduct as specified in the Third Schedule.	
❖ The trustee is required to furnish to SEBI on a quarterly basis every year	
(a)	a report on the activities of the collective investment scheme;
(b)	a certificate stating that the trustee has satisfied himself that affairs of the Collective Investment Management Company and of the various collective investment schemes are conducted in accordance with these regulations and investment objective of each collective investment scheme.
❖ The trustee should cause:	
(a)	The profit and loss accounts and balance sheet of the collective investment schemes to be audited at the end of each financial year by an auditor empaneled with the SEBI;
(b)	Each collective investment scheme to be appraised at the end of each financial year by an appraising agency;
(c)	Collective investment scheme to be rated by a credit rating agency.
❖ A meeting of the trustees to discuss the affairs of the collective investment scheme should be held at least twice in every three months in a financial year.	
❖ The trustee should report to SEBI any breach of these regulations that has, or is likely to have, made materially adverse effect on the interests of unit holders, as soon as they become aware of the breach.	
❖ The trustee should ensure that:	

(a)	the fees and expenses of the collective investment scheme are within the limits as specified;
(b)	accounts of the collective investment schemes are drawn up in accordance with the accounting norms as specified;
(c)	accounts of the collective investment scheme and the format of the balance sheet and the profit and loss account as specified under these regulation.

TERMINATION OF TRUSTEESHIP



- Grounds**
- If the trustee ceases to be trustee under SEBI (Debentures Trustees) Regulations, 1993; or
 - If the trustee is in the course of being wound up; or
 - If unit holders holding at least three-fourths of the nominal value of the unit capital of the collective investment scheme pass a resolution for removing the trustee and SEBI approves such resolution; or
 - If in the interest of the unit holders, SEBI, for reasons to be recorded in writing decides to remove the trustee for any violation of the Act or these regulations committed by them or the trustee should be afforded reasonable opportunity of being heard before action is taken under this clause;
 - If the trustee serves on the Collective Investment Management Company, a notice of not less than three months expressing intention of not to continue as trustee.

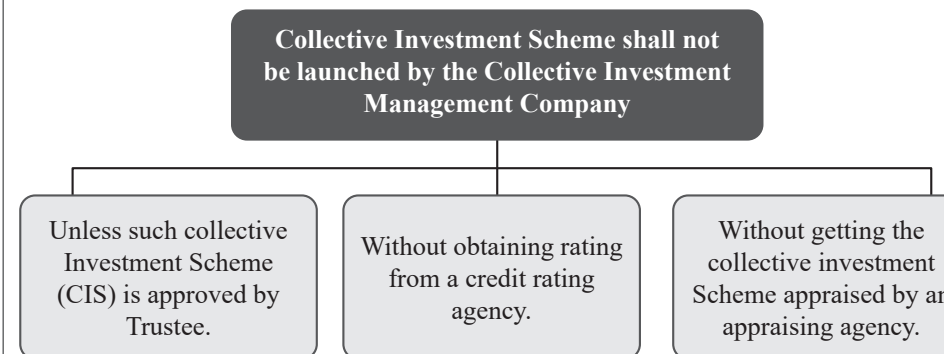


Termination of the Agreement with the Collective Investment Management Company



- Grounds**
- If the CIMC is in the course of being wound up as per the provisions of the Companies Act, 2013, or
 - If unit holders holding at least three-fourth of the nominal value of the unit capital of the collective investment scheme pass a resolution for terminating the agreement with the CIMC and the prior approval of SEBI has been obtained, or
 - If in the interest of the unit holders, SEBI or the trustee after obtaining prior approval of SEBI, and after giving an opportunity of being heard to the Collective Investment Management Company, decide to terminate the agreement with the CIMC.

COLLECTIVE INVESTMENT SCHEMES OF COLLECTIVE INVESTMENT MANAGEMENT COMPANY



CLOSE ENDED COLLECTIVE INVESTMENT SCHEME AND COLLECTIVE INVESTMENT SCHEME DURATION

- Launch only close ended collective investment schemes:
- The duration of the collective investment schemes shall not be of less than three calendar years.

Insurance

Collective Investment Management Company shall obtain adequate insurance policy for protection of the collective investment scheme property.

Conditions to be complied with after the closure of the subscription list

- Minimum subscription amount of Rs. 20 crore;
- Minimum 20 investors; and
- No person shall hold more than 25% of the assets under management of scheme.

DISCLOSURES IN THE OFFER DOCUMENT

- The CIMC shall before launching any collective investment scheme file a copy of the offer document along with fees with SEBI.
- The offer document should contain information such as name of the collective investment scheme, name and address of the registered office of the Collective Investment Management Company and trustee, Risk Factors, Disclaimer Clause etc, as specified in the Sixth Schedule.
- The offer document should also contain true and fair view of the collective investment scheme and adequate disclosures to enable the investors to make informed decision.
- SEBI may in the interest of investors require the CIMC to carry out such modifications in the offer document as it deems fit.
- In case no modifications are suggested by SEBI in the offer document within 21 days from the date of filing, the Collective Investment Management Company may issue the offer document to the public.

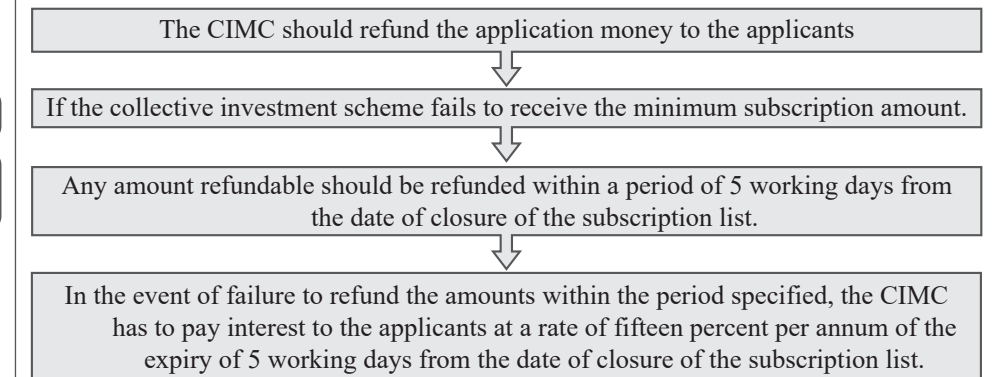
MISLEADING STATEMENTS

The offer document and advertisement materials shall not be misleading or contain any statement or opinion which are incorrect or false.

Liability in case of false statement in offer documents

- Who is a director of the Collective Investment Management Company at the time of the issue of the offer document;
- Who has issued the offer document and shall be punishable under the Act unless he proves either that the statement or opinion was immaterial or that he had reasonable ground to believe at the time of the issue of the offer document or advertisement that the statement was true.

ALLOTMENT OF UNITS AND REFUND OF MONEYS



MONEY TO BE KEPT IN SEPARATE ACCOUNT AND UTILIZATION OF MONEY

(1)	The subscription amount received should be kept in a separate bank account in the name of the collective investment scheme and utilized for <ul style="list-style-type: none"> (a) adjustment against allotment of units only after the trustee has received a statement from the registrars to the issue and share transfer agent regarding minimum subscription amount, as stated in the offer document, having been received from the public, or (b) for refund of money in case minimum subscription amount, as stated in the offer document, has not been received or in case of over-subscription.
(2)	The minimum subscription amount as specified in the offer document could not be less than the minimum amount, as specified by the appraising agency, needed for completion of the project for which the collective investment scheme is being launched.
(3)	The moneys credited to the account of the collective investment scheme should be utilized for the purposes of the scheme and as specified in the offer document.
(4)	Any unutilized amount lying in the account of the collective investment scheme should be invested in the manner as disclosed in the offer document.

INVESTMENTS AND SEGREGATION OF FUNDS

The Collective Investment Management Company should:

(a)	Not invest the funds of the collective investment scheme for purposes other than the objective of the collective investment scheme as disclosed in the offer document.
(b)	Segregate the assets of different collective investment schemes.
(c)	Not invest corpus of a collective investment scheme in other collective investment schemes.
(d)	Not transfer funds from one collective investment scheme to another collective investment scheme. However, it has been provided that inter-scheme transfer of collective investment scheme property may be permitted at the time of termination of the collective investment scheme with prior approval of the trustee and the SEBI.
(e)	Not invest more than 25% of the amount raised by Collective Investment Management Company in projects owned directly or indirectly by Collective Investment Management Company.

WINDING UP OF COLLECTIVE INVESTMENT SCHEME

Events

On the happening of any event which, in the opinion of the trustee, requires the collective investment scheme to be wound up and the prior approval of the SEBI is obtained; or

If unit holders of a collective investment scheme holding at least three-fourth of the nominal value of the unit capital of the collective investment scheme, pass a resolution that the scheme be wound up and the approval of SEBI is obtained thereto; or

If in the opinion of SEBI, the continuance of the collective investment scheme is prejudicial to the interests of the unit-holders; or

If in the opinion of the CIMC, the purpose of the collective investment scheme cannot be accomplished and it obtains the approval of the trustees and that of the unit holders of the collective investment scheme holding at least three-fourth of the nominal value of the unit capital of the collective investment scheme with a resolution that the collective investment scheme be wound up and the approval of SEBI is obtained thereto.

After the completion of the winding up, the trustee should forward to SEBI and the unit holders

- ❖ A report on the steps taken for realisation of assets of the collective investment scheme, expenses for winding up and net assets available for distribution to the unit holders, and
- ❖ A certificate from the auditors of the collective investment scheme to the effect that all the assets of the collective investment scheme are realised and the details of the distribution of the proceeds.

Statement of Accounts and Annual Report

The Collective Investment Management Company shall:

- Not exceed the ceilings on expenses or fees in respect of the collective investment scheme. The expense incurred in case of Initial Issue Expenses and Annual recurring expenses shall not exceed 2.00 percent of the funds raised under the collective investment scheme. However, other direct costs, if any, which are incidental to the operation of the collective investment scheme may be charged to scheme, as may be approved by trustee;
- Prepare the accounts of the collective investment scheme in accordance with accounting norms as specified in Part II of the Ninth Schedule;
- Comply with format of balance sheet and profit and loss accounts as specified in Part III of the Ninth Schedule.

AUDITOR'S REPORT

- ❖ The annual accounts of every CIS shall be audited by an auditor who is empaneled with the SEBI
- ❖ The auditor shall not be associated with CIS
- ❖ The auditor shall be appointed by trustee.

Publication of Annual Report and summary thereof

- ❖ The CIS shall publish annual report or an abridged form thereof in a national daily newspaper within 2 calendar months from finalization of accounts.

Periodic and continual disclosures

Copies of the duly audited annual statements of account including the balance sheet and the profit and loss account in respect of each collective investment scheme, once a year;

a copy of quarterly unaudited accounts;

a quarterly statement of changes in net assets for each of the collective investment schemes.

QUARTERLY DISCLOSURES

A Collective Investment Management Company, on behalf of the collective investment scheme shall before the expiry of one month from the close of each quarter that is 31st March, 30th June, 30th September and 31st December publish its unaudited financial results in one daily newspaper having nationwide circulation and in a newspaper published in the language of the region where the Head Office of the Collective Investment Management Company is situated.

PENAL PROVISIONS

Contravention	Penalty
Operating without Registration	at least one lakh rupees for each day, up to a maximum of one crore rupees.
Non-compliance with Registration Terms	at least one lakh rupees for each day of non-compliance, up to a maximum of one crore rupees.
Failure to Apply for Listing	at least one lakh rupees for each day of failure to apply, up to a maximum of one crore rupees.
Non-dispatch of Unit Certificates	at least one lakh rupees for each day of non-compliance, up to a maximum of one crore rupees.
Fails to refund the application monies:	one lakh rupees for each day of delay, up to a maximum of one crore rupees.
Fails to invest money collected by collective investment schemes:	not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees

KEY ASPECTS FOR LAUNCHING COLLECTIVE INVESTMENT SCHEME

1.	The company floating CIS shall have to seek registration with SEBI as Collective Investment Management Company (CIMC).
2.	CIS shall be constituted as a two tiered structure comprising of a trust and a CIMC.
3.	At the time of application for Registration as CIMC, these entities should have a minimum net worth of Rs. 3 crores which shall have to be increased to Rs. 5 crores within three years from the date of grant of registration.

4.	Compulsory Filing of Offer Documents: Every collective investment Scheme shall have to file offer documents with SEBI containing adequate disclosures to enable the investors to take informed investment decisions.
5.	Mandatory Rating Requirement: Each collective investment scheme shall have to obtain a rating from recognised credit rating agencies such as CRISIL Limited, Fitch Ratings India Private Limited, ICRA Limited, CARE, SMERA.
6.	The projects being undertaken must also be appraised by an empanelled appraising agency such as Agricultural Finance Corporation Ltd., North Eastern Development Finance Corporation Ltd. (NEDFI), Indian Institute of Forest Management, The Forest Research Institute (FRI).
7.	No Assured Return: The collective investment schemes are prohibited from guaranteeing assured returns. Indicative returns, if any, provided by the collective investment scheme shall be based on the projections in the appraisal report.
8.	Advertisement Code: Advertisements in respect of every collective investment scheme shall have to conform to the SEBI's advertisement code.
9.	Subscription Period: No collective investment scheme shall be kept open for subscription for a period of more than 90 days. The collective investment schemes shall be close ended in nature. The collective investment schemes must indicate the minimum and maximum amount proposed to be raised over this period.
10.	Duration of collective investment Schemes: The duration of the collective investment schemes shall be for a minimum period of 3 years.
11.	Insurance: Compulsory Insurance cover for the assets of the collective investment scheme and personal indemnity cover for the CIMC shall be obtained.
12.	Listing: Units issued under the Collective Investment Schemes are to be compulsorily listed on recognised stock exchanges.
13.	Accounting/valuation norms: Accounting/valuation norms as stipulated shall have to be followed by Collective Investment Schemes.

CASE LAWS

Parties:

- (i) Dairyland Plantations (India) Limited – Noticee No. 1
- (ii) Mrs. Roshan D. Nariman – Noticee No. 2
- (iii) Ms. Taz N. Nariman – Noticee No. 3
- (iv) Ms. Jeroo Nariman – Noticee No. 4
- (v) Mrs. Silloo R. Nariman – Noticee No. 5
- (vi) Whole Time Member Securities and Exchange Board of India Mr. Urvaksh
- (vii) Naval Hoyvoy – Noticee No. 6
- (viii) Mrs. Shernaz Kershasp patel – Noticee No. 7
- (ix) Mrs. Meher Khushru Patel – Noticee No. 8
- (x) Mrs. Rukhshana Meher Anklesaria – Noticee No. 9

- ❖ The Securities and Exchange Board of India (SEBI) investigated Dairyland Plantations (India) Limited (referred to as “Company/DPL/Noticee no.1”) for its Green Gold Bonds scheme.
- ❖ The scheme involved a one-time payment of Rs. 5,000 for a unit of 5 Teakwood trees with a 20-year holding period, with the option to receive either the trees or the proceeds upon maturity.
- ❖ The company collected approximately Rs.1,00,82,000 from 1660 investors between 1992 and 1996.
- ❖ The scheme operated without SEBI registration, violating the SEBI Act and CIS Regulations.
- ❖ Despite SEBI's letters and notices, the company didn't obtain registration or wind up the scheme.
- ❖ SEBI issued a Show Cause Notice on May 12, 2000, to the company for violating regulations.
- ❖ SEBI's order includes directions such as:

- ♦ Publication in newspapers inviting claims from investors.
- ♦ Opening an interest-bearing escrow account and transferring outstanding amounts.
- ♦ Refunding investors strictly according to scheme terms.
- ♦ Submitting a final Winding Up and Repayment Report (WRR) within six months.
- ♦ Restraining directors from market activities for one year and freezing their existing securities.
- ♦ Holding company and directors liable for refunds if directions are not followed.
- ♦ Prohibiting diversion of funds raised and providing inventory of assets within one month.

2. Nicer Green Housing Infrastructure Developers Ltd. &Ors. (Appellant) vs. SEBI (Respondent)

- ❖ The Nicer Green Housing Infrastructure Developers Ltd., a public limited company incorporated under the Companies Act, 1956, engages in acquiring agricultural land for resale.
- ❖ SEBI determined that the company's fund mobilization activities fell under the definition of a “Collective Investment Scheme” according to Section 11AA of the SEBI Act.
- ❖ On November 9, 2015, SEBI issued an order under relevant sections and regulations, restraining the company and its directors from collecting funds from investors or launching investment schemes.
- ❖ SEBI directed the company to refund collected funds to investors and wind up its operations.
- ❖ The company appealed this order to the Securities Appellate Tribunal (SAT), claiming readiness to comply and stating they had refunded Rs. 27.48 crore out of Rs. 31.71 crore collected.
- ❖ SAT found no evidence presented to SEBI or the Tribunal regarding the claimed refund of Rs. 27.48 crore or readiness to pay the balance amount promptly.
- ❖ Due to lack of evidence, SAT upheld SEBI's order, dismissing the appeal for lacking merit.