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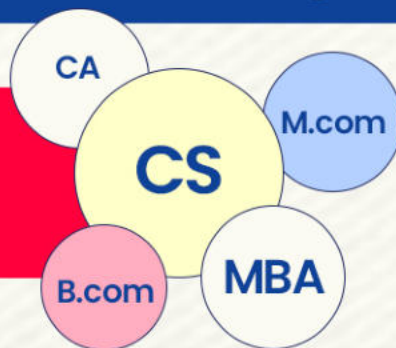
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PRESS RELEASE

Chief of Bureau

14 December 2023

ICSI signs MoU with IMA® to enhance professional skills and competencies of its members

The ICSI signed a Memorandum of Understanding (MoU) with IMA® (Institute of Management Accountants) at the 2nd Regional Conference of Corporate CS of ICSI-SIRC, hosted by Bengaluru Chapter in Bengaluru, to foster collaborative alliances for the benefit of the members of both organizations.

Aimed at advancing the highest standards of ethics and professional conduct in members of both organizations, the MoU will promote excellence in financial management, corporate reporting, and governance.

Sharing his views, CS Manish Gupta, President The ICSI, emphatically stated that "Understanding the rising needs and expectations of the stakeholders, it is utmost important to raise the bar and continuously upgrade the professional knowledge & skills. The association with IMA will provide a collaborative platform for sharing best practices, enhancing knowledge & skills, and will open the doors to addressing various challenges faced by professionals working in the area of finance, governance and strategy".

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CHAPTER : 1 BASICS OF CAPITAL MARKET

Question : 1

Distinguish between the Money Market and Capital Market.

(3 marks)

Answer :

	Money Market	Capital Market
Purpose	Limited to working capital requirements.	For creation of Assets base.
Tenure of Investment	Short Term.	Long Term.
Participants	Mainly Govt, Bank, institutional investors.	Both Institutional and Retail.
Risk	Low.	High.
Return on Investment	Generally Low.	High.
Types of Instruments	Commercial Paper, Certificate of Deposit, T-Bills.	Shares, Debentures, Bonds.

Question : 2

Describe the functions of securities market and its importance in economic development.

(5 marks)

Answer :

Functions of the Securities Market:

1. Mobilization of Savings:

The securities market mobilizes savings from individuals and institutional investors and channels them into productive investments, promoting capital formation.

2. Capital Allocation:

It facilitates efficient allocation of resources by allowing investors to choose securities that best match their risk-return profile, and by directing capital to the most promising business ventures.

3. Liquidity to Investments:

It provides liquidity to financial assets by enabling investors to buy and sell securities on the stock exchange, converting investments into cash with ease.

4. Price Discovery:

The market determines the price of traded securities based on demand and supply forces, thus aiding in fair valuation of companies and assets.

5. Risk Management and Hedging:

Through derivatives like futures and options, the securities market provides investors tools to hedge against risks arising from price volatility and market uncertainties.

6. Information Dissemination:

The securities market provides timely and accurate information to investors, enabling informed decision-making and ensuring transparency.

7. Facilitates Mergers and Acquisitions:

A well-functioning securities market enables corporate restructuring such as mergers, takeovers, and buybacks by providing a platform for equity valuation and trading.

Importance of Securities Market in Economic Development:

1. Promotes Capital Formation:

By channeling domestic and foreign savings into industrial and infrastructure projects, the securities market aids in overall capital formation in the economy.

2. Supports Industrial Growth:

It acts as a reliable source of long-term finance for corporates and start-ups, enabling expansion, modernization, and diversification of industries.

3. Enhances Corporate Governance:

Listing and trading in securities subject companies to stringent disclosure norms, promoting transparency, accountability, and better governance practices.

4. Generates Employment:

The growth of industries and financial institutions supported by the securities market leads to direct and indirect employment generation.

5. Strengthens Monetary Policy Transmission:

A robust securities market enhances the effectiveness of monetary policy by reflecting changes in interest rates, inflation, and liquidity through capital flows.

6. Attracts Foreign Investments:

A regulated, liquid, and transparent market structure attracts Foreign Institutional Investors (FIIs) and Foreign Portfolio Investors (FPIs), boosting foreign capital inflow.

Question : 3 (Dec 2023)

CASE-JVRS Limited :

JVRS Ltd., an Indian Public Limited Company, is listed on BSE. The company was incorporated in 1991 and is leading manufacturer and marketer of dairy based branded foods in India. The company at the beginning focusing on only collection and distribution of milk. The company later on expanded its business and gained a reasonable market and company started offering diverse range of dairy based products which included fresh milk, ice cream, butter, mild cheese, ghee, milk powder etc. The company decided to raise the fund through offer for subscription of 10 crore and through prospectus of 5 crore in order to diversify the business. Mr. J, one of the shareholder having 200 shares of the company had applied for rematerialisation of shares on January 12, 2023, which he bought through screen based trading. J wanted to trade the 200 shares on January 15, 2023 but he was unable to do so. The bonus shares were issued by the company on January 05, 2023. Mr. J has opened another Demat account on January 13, 2023. Mr. V, one of the directors of the company, has felt that the market price of the share was steadily rising and is planning to take over another similar company.

Due to this fact he knew that the share price of the company would increase after the announcement of takeover. Mr. V called one of his friends Mr. C and asked him to invest 2 crores in the shares of the company and promised that he will have surely capital gain. The share price went up and he earned profit of 50 lakh and it was shared equally with Mr. V. On regular inspection and by conducting inquiries of the brokers involved, the Securities and Exchange Board of India was able to detect this irregularity and imposed maximum penalty on Mr. V. The company in 2023 diversified its business in share trading and hired Mr. R as an account executive and was participating along with other new brokers in a company training program, the objectives of which were to familiarize the participants with the procedures of the brokerage house, developing skills of share trading and provide an introduction to investment analysis and Management.

Before joining the firm, he was engaged in brokerage services. He graduated from a reputed University in India in Sociology and History and has not studied any business course due to lack of business background. Mr. R was interested in the investment training sessions. At the first meeting on investment analysis and management, the session leaders dealt with the importance of diversification

and connoted that investors should make informed decision before investing in the shares of the company. He opined that the account executive dealt with entirely too much time on accounting treatment of individual securities. Mr. R was able to grasp the general points brought out in the initial session but he realized that there are lot of the things left which he has to learn in detail. The session leader has used many unfamiliar terms like beta, different types of risks, coefficient of correlation. At the end of the particular lecture, Mr. R asked the instructor to provide some material to learn the terminology. The instructor has given him reading material as well as short exercise and examples to

familiarize him with the concept of risk-return and later on the instructor provided some cases based reading material related to investment management issues. The instructor has given the detailed material of BSE-SENSEX and NSE-NIFTY. The analysis of the

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stock prices of BSE and NSE was also provided to him in order to calculate the volatility both absolutely and relative to market. During the training session, the participants examined historical risk and return information and interrelationships between assets available in the equity market.

Read the case carefully and answer the following questions :

What do you mean by 'Screen based trading' ? When was it started ? How fund raising from offer for subscription is different from prospectus ? How the two securities market mentioned in the case are different from each other ? Elaborate.
(5 marks)

Answer :

Screen based trading :

- It is a form of trading that uses modern telecommunication and computer technology to combine information transmission with trading in financial markets. Investors, who are desirous of buying securities, purchase them through registered broker/sub-broker of the stock exchange.
- Screen based trading has started since 1995.
- Offer for subscription to securities to the public is a public offer. All public offers must be made through prospectus.
- Prospectus is the offer documents that is filed with the regulators like SEBI, RoC and stock exchanges when the company goes for a public issue.

Difference between two securities market i.e. Primary and Secondary Market :

Basis for comparison	Primary Market	Secondary Market
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.
Popular 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.
Utilization of fund	Fund gained from primary market becomes the capital of the company.	Fund received from secondary market becomes income of investors.

Question : 4.

State the objective of Capital Markets.
(3 marks)

Answer :

Through SEBI, the regulation model which is sought to be put in place in India is one in which every aspect of securities market regulation is entrusted to a single highly visible and independent organization, which is backed by a statute, and which is accountable to the Parliament and in which investors can have trust.

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 interface between the issuers and investors. They make the financial transactions smooth and safe.

- SEBI necessarily has the twin task of regulation and development. Its regulatory measures are always meant to be subservient to the needs of the market development.
- Underlying those measures is the logic that rapid and healthy market development is the outcome of well-regulated structures.
- In this spirit, the SEBI endeavors to create an effective surveillance mechanism and encourage responsible and accountable autonomy on the part of all players in the market, who are expected and required to discipline themselves and observe the rules of the market.

Question : 5 (Dec 2024)

List down the institutions recognized as Qualified Institutional Buyer under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
(5 marks)

Answer :

According to Regulation 2(1)(ss) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, followings are termed as Qualified Institutional Buyers:

1. a mutual fund, venture capital fund, Alternative Investment Fund and foreign venture capital investor registered with SEBI;
2. foreign portfolio investor other than individuals, corporate bodies and family offices;
3. a public financial institution;
4. a scheduled commercial bank;
5. a multilateral and bilateral development financial institution;
6. a state industrial development corporation;
7. an insurance company registered with the Insurance Regulatory and Development Authority of India;
8. a provident fund with minimum corpus of twenty five crore rupees;
9. a pension fund with minimum corpus of twenty five crore rupees registered with the Pension Fund Regulatory and Development Authority established under section 3(1) of the Pension Fund Regulatory and Development Authority Act, 2013;

10. National Investment Fund set up by the Government of India:

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

Question : 6

A Singapore-based investor wishes to invest in Indian equity markets through institutional channels. Which category would he fall under and what is the applicable legal framework?
(5 marks)

Answer :

Provision of Law :

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.

Categories of FPI Category I FPIs include:

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

However such an investment manager or eligible entity undertakes the responsibility of all the acts of commission or omission of the applicants seeking registration under this sub-clause.

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

- (i) appropriately regulated funds not eligible as Category-I foreign portfolio investor;
- (ii) endowments and foundations;
- (iii) charitable organisations;

(iv) corporate bodies;

(v) family offices;

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(vi) individuals;

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

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

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

Conclusion/Analysis :

As per the provisions mentioned above, the investor qualifies as a Category II FPI, subject to registration, KYC, and compliance with sectorial caps under SEBI and FEMA.

Question : 7

A Venture Capital Fund is looking to invest in early-stage high-tech startups in India. What category of AIF should it register as, and what regulatory framework applies?

(5 marks)

Answer :

Provision of Law:

Categories of Alternative Investment Funds :

Category I :

- a) 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;
- b) Alternative Investment Funds which are generally perceived to have positive spillover effects on economy and for which the Board or Government of India or other regulators in India might consider providing incentives or concessions shall be included and such funds which are formed as trusts or companies shall be construed as "venture capital company" or "venture capital fund" as specified under sub-section (23FB) of Section 10 of the Income Tax Act, 1961.

Category II :

- which does not fall in Category I and III and which does not undertake leverage or borrowing other than as permitted in these regulations;
- Alternative Investment Funds such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other Regulator shall be included in Category II.

Category III :

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

Facts of the Case:

The fund targets early-stage, high-tech Indian startups.

Conclusion/Analysis:

As per the provisions stated above, It qualifies as a Category I AIF (Venture Capital Fund) and it must register under SEBI AIF

Regulations, 2012 before raising or deploying funds.

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Question : 8

Write a short note on Venture Capital and their area of investment.
(5 marks)

Answer :

- Venture Capital is one of the innovative financing resource for a company in which the promoter has to give up some level of ownership and control of business in exchange for capital for a limited period, say, 3-5 years.
- Venture Capital is generally equity investments made by Venture Capital funds, at an early stage in privately held companies, having potential to provide a high rate of return on their investments.
- It is a resource for supporting innovation, knowledge-based ideas and technology and human capital-intensive enterprises.
- "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 and migrated venture capital fund.
- Essentially, a venture capital company is a group of investors who pool investments focused within certain parameters.
- The participants in venture capital firms can be institutional investors like pension funds, insurance companies, foundations, corporations or individuals but these are high risk investments which may give high returns or high loss.

Areas of Investment

- Different venture groups prefer different types of investments. Some specialize in seed capital and early expansion while others focus on exit financing. Biotechnology, medical services, communications, electronic components and software companies seem to be the most likely attraction of many venture firms and receiving the most financing.
- Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability.
- In India, software sector has been attracting a lot of venture finance. Besides media, health and pharmaceuticals, agri-business and retailing are the other areas that are favoured by a lot of venture companies.

Question : 9

A startup in ed-tech is looking for seed funding. An angel investor approaches with funding and strategic guidance. Define Angel Fund. Explain its features and how it differs from venture capital in terms of stage, risk, and involvement. Which one is more suitable for a startup and why?
(5 marks)

Provision of Law

- Angel fund refers to money pool created by high networth individuals or companies (generally known as Angel Investor), for investing in start up business.
- Angel fund is defined in SEBI (Alternate Investment Funds) (Amendment) Regulations, 2013 as a sub-category of Venture Capital Fund under Category I-AIF that raises funds from angel investors and invests in accordance with regulations specified by SEBI.
- An angel investor or angel (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual or corporate who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.
- A small but increasing number of angel investors invest online through equity crowd funding or organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies.

- Angel investments are typically the earliest equity investments made in start-up companies. They commonly band together in investor networks. Often these networks are based on regional, industry investor or academic affiliation.

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- Angel Investors are often former entrepreneurs themselves, and typically enjoy working with companies at the earliest stages of business formation.
- The effective Angels help entrepreneurs to shape business models, create business plans and connect to resources - but without stepping into a controlling or operating role. Often Angels are entrepreneurs who have successfully built companies, or have spent a part of their career in coaching young companies.

1. Angel Funds

- A sub-category of Alternative Investment Funds (AIF) – Category I.
- Invest in early-stage ventures (seed or idea stage).
- Typically invest up to ₹25 lakh per investor.
- Angel investors often bring mentorship and network in addition to funding.
- Registered with SEBI and governed under AIF Regulations.

2. Venture Capital Funds (VCFs)

- Also classified under AIF – Category I.
- Invest in startups and early-stage emerging companies with high growth potential.
- Usually involve larger capital commitments compared to angel funds.
- Focus on scalability, market disruption, and long-term ROI.
- VCFs generally prefer slightly more mature startups than those approached by angel investors.

Facts of the Case :

The startup is in its early stages and is evaluating two funding options: one from a venture capital (VC) fund and the other from a private equity (PE) fund. The founders are uncertain which option suits their current stage of growth and risk appetite.

Conclusion / Analysis :

Given that the startup is likely in a scaling phase with a tech-based business model, a Venture Capital Fund is the more suitable choice. VCFs are designed for high-potential startups and can offer strategic input, network access, and long-term growth capital, making them ideal for startup ventures.

Question : 10 (Dec 2023)

'Private equity funds usually invest in more liquid assets companies and as source of investment capital, private equity comes from High Net-worth individuals.' Elucidate the statement and enumerate the term 'high net-worth individuals' and types of Private Equity.
(5 marks)

Answer :

A) 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 is not 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.

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- Unlike stocks, mutual funds, and bonds, private equity funds usually invest in more liquid assets companies.

B) 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.
- While there is no standard put forth for the classification, the definition of HNIs varies with the geographical area as well as financial markets and institutions.

C) Types of private equity :

Private equity investments can be divided into the following categories:

- Leveraged Buyout (LBO) :

This refers to a strategy of making equity investments as part of a transaction in which a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage.

The companies involved in these type of transactions that are typically more mature and generate operating cash flows.

- Venture Capital :

It is a broad sub-category of private equity that refers to equity investments made, typically in less mature companies, for the launch, early development, or expansion of a business.

- Growth Capital :

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

Question : 11 (June 2025)

About three decades ago, three friends M, N and P formed a private limited company named MNP Private Limited. They began their operations with four looms and hardly couple of employees in a deserted small village of Gujarat one of India's promising textile belts. Over the following years, with the hard labour and dedication of team, the business grew in size, volume as well as in profitability too. This help MNP Private Limited to expand its business from domestic market into exports market in the financial year 2018-19. With higher export margins and timely payment by foreign clients, later its business further emerged as a vertically integrated textile yarn manufacturer, knitted fabric and also ready-made garments producer.

By 2022, MNP's leadership had an ambitious plan for further expanding into two new domestic plants with double of its existing capacity in the Northern part of the country, to make pan India presence. But they were also knowing that they have to look beyond their internal sources of funds and debt financing to achieve their goals. Because, in the recent past, the management had a bad experience for over-boarding bank financing. At the same time, the company never had an outside shareholder. Therefore, they are also hesitating to have someone unknown to them on the Board. Considering the whole scenario, their Company Secretary, suggested the top management to engaged some renowned consulting firm to explore the possibilities for some good quantum of equity infusion, so that their proposed expansion program can be funded properly. This process was also suitable to the company's founders, as they were accustomed with the private equity model as a viable alternative to an IPO, with much lower regulatory compliance's. Therefore, they assigned their Company Secretary an assignment to explore and appoint some Private Equity firm interested in India's textile sector. After couple of options being explored and evaluated by the Company Secretary, he finally sorted out M/s High Tide Capitals, a Mumbai based private equity firm, actively looking for a large investment in India's textiles sector. In the meanwhile, one of the competing funds of M/s High Tide Capitals, after hearing this news offered a substantially high share purchase price offer to the top management of MNP Private Limited. After considering various pros and cons, the top management decided to opt with M/s High Tide Capitals as their partner. Because, to capitalize firm's significant expertise in the domestic textile industry as well as their links at the global textile trades through their Headquarters based at London. With this M/s High Tide Capitals joined as a minority shareholder, the relationship and mutual trust built with MNP gave a considerable sway over hiring, procurement, and other key aspects of the business. As a result, this gave a pace for setting transformations both in MNP's culture and its stature amongst its peers. M/s High Tide Capitals also help in addressing gaps of MNP's governance aspect that was one of the key hinderance in its ambitious expansion project.

At the time of M/s High Tide Capitals investment, MNP Private Limited had no formal business plans and also does not have effective budgeting process through which the costs of several inputs were to be properly tracked. However, M/s High Tide

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Capitals also helped MNP Private Limited to design a proper business plan and budgeting process from scratch. All these support from M/s High Tide Capitals, has help to become an integral part of MNP's corporate culture and removed a bottleneck that had hampered plans for scaling operations. With passage of time, M/s High Tide Capitals is not considered as an outsider for MNP's top management, rather they are an integral part of top management.

Based upon the case study, answer the following : (2 marks each)

- (i) What is a private equity ?
- (ii) What are the characteristics of private equity invested by High Tide Capitals ?
- (iii) What are the different types of private equity investments ?
- (iv) Who are the investors in a private equity firm, like the High Tide Capitals ?
- (v) What are the alternative sources of arranging funds besides private equity ?

Answer :

(i) 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 per the definition of Private Equity as defined in SEBI (Alternative Investment Funds) Regulations, 2012, private equity fund means an Alternative Investment Fund which invests primarily in equity or equity linked instruments or partnership interests of investee companies according to the stated objective of the fund.

Answer (ii)

Private equity has following three characteristics:

1. Leverage
2. Participation in Equity / ownership
3. High Risk oriented

Answer (iii)

Types of Private Equity Private equity investments can be divided into the following categories:

Leveraged Buyout (LBO):

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

Venture Capital:

It is a broad sub-category of private equity that refers to equity investments made, typically in less mature companies, for the launch, early development, or expansion of a business.

Growth Capital:

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

Answer 1(a)(iv)

Private equity consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies. Capital for private equity is raised from retail and institutional investors, and can be used to fund new technologies, expand working capital within an owned company, make acquisitions, or to strengthen a balance sheet.

The major of private equity consists of institutional investors and accredited investors who can commit large sums of money for long periods of time.

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As a source of investment capital, private equity comes from High Net-worth Individuals (HNI) and 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.

Answer (v)

The alternative sources of arranging funds besides private equity are as under:

- (i) Venture Capital Fund which 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 and migrated venture capital fund,
- (ii) Angel fund refers to money pool created by high net worth individuals or companies (generally known as Angel Investor), for investing in start-up business. Angel fund is defined in SEBI (Alternative Investment Funds) Regulations, 2012 as a sub-category of Venture Capital

Question : 12

Define Anchor Investors.

(3 marks)

Answer:

- 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.
- And, makes an application for a value of atleast Rs. 2 crore for an public issue on the SME exchange made in accordance with Chapter IX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- Upto 60% of the portion available for allocation to qualified institutional buyers shall be available for allocation/ allotment to anchor investor.
- The bidding for anchor investors shall open one day before the issue opening date.
- The allocation to Anchor Investors shall be completed on the day of bidding by Anchor Investors.
- 50% of the Shares allotted to the Anchor Investor shall be locked- in for 30 days from the date of allotment.
- And 50% of the shares shall be locked-in for 90 days from the date of allotment, in the public issue.
- Upto 60% of the portion available for allocation to QIB shall be available to anchor investor(s) for allocation/ allotment ("anchor investor portion") and one-third of the anchor investor portion shall be reserved for domestic mutual funds.

Question : 13 (Test your Knowledge) :

State the differences between Angel Funds and Anchor Investors.

Answer:

Basis	Angel Investors	Anchor Investors
Meaning	An angel investor or angel (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual or corporate who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.	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 at least Rs. 2 crore for an public issue on the SME exchange made in accordance with Chapter IX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
Regulatory Framework	Regulated under SEBI (Alternate Investment Funds) (Amendment) Regulations, 2013 as a sub-category of Venture Capital Fund under Category I-AIF.	Regulated under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
Stage Of Investment	Angel investments are typically the earliest equity investments made in start-up companies.	Invests at the time of IPO, just before the issue is opened to public investors.
Type Of Investors	Typically High Net Worth Individuals or experienced entrepreneurs.	Usually Qualified Institutional Buyers (QIB) like mutual funds, insurance companies, etc.
Purpose	To provide seed capital and mentoring to start-ups with high growth potential.	To instill confidence among retail and other investors by showing that reputed institutions are backing the IPO.
Lock-In Period	Investments are typically for 3-5 years or longer.	Shares allotted are subject to a 30 days lock-in from the date of allotment.

Question : 14

Zenith Ltd. is launching an IPO using the book-building process. It allots ₹20 crore worth of shares to a group of anchor investors, including 5 large mutual funds. One of the anchor investors sells the entire holding on the 10th day from the allotment date. Is this transaction valid as per SEBI regulations?

(5 marks)

Answer :

Provision of Law:

As per SEBI (ICDR) Regulations, 2018:

- 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.
- And, makes an application for a value of at least Rs. 2 crore for an public issue on the SME exchange made in accordance with Chapter IX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- Anchor Investors must hold shares for at least 30 days from the date of allotment.
- 50% of the Shares allotted to the Anchor Investor shall be locked-in for 30 days from the date of allotment.
- And 50% of the shares shall be locked-in for 90 days from the date of allotment, in the public issue.

13

- Early sale violates the lock-in requirement.

Facts of the Case:

Anchor investors were allotted shares worth ₹20 crore. One anchor investor sold the entire stake on the 10th day post allotment.

Conclusion/Analysis:

The early sale violates SEBI's 30-day lock-in requirement for anchor investors. SEBI may take regulatory action against the investor. It also affects market confidence and stability in the post-listing period.

Question : 15

Sunrise Ltd., a large infrastructure company, plans to raise ₹1,000 crore through an Initial Public Offer (IPO) via book-building. It allots ₹580 crore to anchor investors in the Qualified Institutional Buyers (QIB) portion. The company allots this to only 4 mutual funds. Is Sunrise Ltd. compliant with SEBI norms on number of anchor investors?

(5 marks)

Answer :

Provision of Law:

As per SEBI (ICDR) Regulations, 2018, Regulation 43:

Upto 60% of the portion available for allocation to qualified institutional buyers shall be available for allocation/ allotment to anchor investor.

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:

(i) maximum of 2 such investors shall be permitted for allocation up to Rs. 10 crore;

(ii) minimum of 2 and maximum of 15 such investors shall be permitted for allocation above Rs. 10 crore and up to Rs. 250 crore, subject to minimum allotment of Rs. 5 crore per such investor;

(iii) in case of allocation above Rs. 250 crore; a minimum of 5 such investors and a maximum of 15 such investors for allocation up to Rs. 250 crore and an additional 10 such investors for every additional Rs. 250 crore or part thereof, shall be permitted, subject to a minimum allotment of Rs. 5 crore per such investor.

No single anchor investor shall be allotted more than 25% of the anchor investor portion.

Facts of the Case:

Total IPO size = ₹1,000 crore.

Anchor investor portion = ₹580 crore (above ₹250 crore).

Allotted to only 4 anchor investors, all mutual funds.

Conclusion/Analysis:

As per the provisions stated above, Sunrise Ltd. violated the minimum number of anchor investors requirement. For an anchor allocation above ₹250 crore, at least 5 anchor investors are required. Therefore, the company is non-compliant, and SEBI may direct corrective measures or impose penalties.

Question : 16

An Indian startup wants to raise capital without offering voting rights to investors. Which capital market instrument can they

issue?
(5 marks)

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Answer :

Provision of Law:

Shares with differential voting rights ("DVR") refer to equity shares holding differential rights as to dividend and/ or voting. Section 43 (a) (ii) of the Companies Act, 2013 read with Rule 4 of Companies (Share Capital & Debenture) Rules, 2013 allows a company limited by shares to issue DVRs as part of its share capital.

Introduced for the first time in 2000 and issued by Tata Motors first, DVRs are seen as a viable option for raising investments and retaining control over the company at the same time Section 43(1)(ii) of the Companies Act 2013 read with the said Rules provides that companies can issue equity shares with differential rights subject to the following conditions including:

- Articles of association of the company must authorize the issue;
- The voting power in respect of shares with differential rights of the Company shall not exceed 74% of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;
- Approval of shareholders by passing ordinary resolution in General Meeting and in case, where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot.

It shall be noted that the holders of the equity shares with differential rights shall enjoy all other rights such as bonus shares, rights shares etc., which the holders of equity shares are entitled to, subject to the differential rights with which such shares have been issued.

Following companies are not allowed to Issue shares with DVR :

A. The Company which has defaulted in: I 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;
- payment of interest on such deposits or debentures or payment of dividend;
- 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.

However, a Company may issue equity shares with differential rights upon expiry of 5 years from the end of the financial year in which such default year in was made good.

B. The Company which has been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators

Facts of the Case:

Startup wants to dilute capital without losing control.

Conclusion/Analysis:

The startup may issue DVR shares to raise capital while retaining majority voting control.

Question : 17 (Test your Knowledge)

Amongst the options for equity or debenture for fund raising, which one is recommended for the companies and why?

Answer:

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Equity Funding – Suitable When:

1. Cash Flow is Limited : Companies with uncertain or low cash flows may prefer equity to avoid fixed interest obligations.
2. Long-Term Growth Focus : Equity suits companies planning long-term projects without immediate returns.
3. Leverage Reduction : Equity improves the debt-equity ratio and strengthens the balance sheet.
4. Risk Sharing : Equity holders share both profits and losses, reducing the burden on the company in downturns.
5. No Repayment Obligation : Equity is not repayable (except in case of buybacks), unlike debentures.

Debenture Funding – Suitable When:

1. Company Has Strong Cash Flows : Companies with predictable revenues prefer debt to maintain control and avoid equity dilution.
2. Preserve Ownership/Control : Debt doesn't dilute the promoters' shareholding.
3. Tax Benefits : Interest on debentures is tax-deductible, lowering taxable income.
4. Lower Cost of Capital : If credit rating is good, debt can be raised at a lower cost than equity.

Conclusion/Analysis :

As per the provisions stated above,

- For new or growing companies: Equity is preferable as it brings long-term capital without repayment pressure.
- For mature and profitable companies: Debentures are preferable to take advantage of tax savings and maintain promoter control.
- Hence, the recommended option depends on the company's financial position and strategic objectives.

Question : 18 (Test your Knowledge)

How is a Bond different from a Debenture?

Answer :

Basis	Bond	Debenture
Meaning	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.	Section 2(30) of the Companies Act, 2013 defines debentures. "Debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.
Issuer	Typically issued by government bodies, large corporates, banks and other financial institutions.	Mostly issued by private companies and public limited companies.
Security	Usually secured by specific assets or backed by the government (in case of sovereign bonds).	Can be secured or unsecured, depending on the terms of issuance.
Interest Rate (Coupon)	Generally offer lower interest rates due to lower risk.	Offers higher interest rates due to higher risk.

Priority In Repayment	In case of liquidation, bond holders are paid first (especially if bonds are secured).	In case of liquidation, debenture holders come after secured creditors, depending on the nature of the

		debenture.	

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Question : 19 (Test your Knowledge)

Differentiate between Foreign Currency Convertible Bond (FCCB) and Foreign Currency Exchangeable Bond (FCEB)?

Answer :

Foreign Currency Convertible Bond (FCCB) :

- '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 investors also prefer FCCBs because of the Dollar denominated servicing, the conversion option and, the arbitrage opportunities presented by conversion of the FCCBs into equity shares at a discount on prevailing Indian market price. In addition, 25% of the FCCB proceeds can be used for general corporate restructuring.

Foreign Currency Exchangeable Bonds (FCEBs) :

- a) The FCEB is used to raise funds from the international markets against the security and exchangeability of shares of another company.
- b) The key feature of these bonds is that they are issued by an Issuing Company, subscribed by a person who is a resident outside India, and are exchangeable into equity shares of another company which is called the Offered Company.
- c) Thus, FCEB involves three parties: The issuer company, offered company and an investor. 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 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.

Question : 20

What are Indian Depository Receipts (IDRs)? State their key features.
(5 marks)

Answer :

Indian Depository Receipts (IDRs):

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- i. According to Section 2(48) of the Companies Act, 2013 "Indian Depository Receipt" means any instrument in the form of a depository receipt created by a domestic depository in India and authorized by a company incorporated outside India making an issue of such depository receipts.
- ii. An IDR is an instrument denominated in Indian Rupee in the form of a depository receipt created by a domestic depository (Custodian of securities registered with SEBI) against the underlying equity of issuing company to enable foreign companies to raise funds from Indian Securities Markets.
- iii. In an IDR, foreign companies would issue shares, to a domestic (Indian) depository, which would in turn issue depository receipts to investors in India.
- iv. The actual shares underlying the IDRs would be held by an Overseas Custodian, which shall authorize the Indian depository to issue the IDRs. To that extent, IDRs are derivative instruments because they derive their value from the underlying shares. IDRs involve currency risk for the underlying shares in another country.
- v. Thus, Intermediaries involved in issue of IDR are:
 1. Overseas Custodian Bank
 2. Domestic Depository
- vi. Standard Chartered PLC is only company to offer IDR in the Indian market. The foreign company issuing IDRs need to comply with the requirements of rules prescribed under Companies Act, SEBI Regulations and RBI notifications/ circulars.
- vii. Section 390 of the Companies Act, 2013 and rule 13 of Companies (Registration of Foreign Companies) Rules, 2014 lays down the procedure for issue of Indian Depository Receipts. Apart from this a company has to comply with Chapter VII for new issue of IDRs and VIII for rights issue of IDRs, of SEBI (ICDR) Regulations, 2018.

Question : 21 (June 2024).

One of the investors wants to invest in the growing real estate market. The entry and exit from the physical real estate is not cost effective and liquid. Is there any way to invest in real estate like other securities? State briefly.
(5 marks)

Answer :

- A Real Estate Investment Trust ("REIT") is a collective investment scheme that owns, operates or finances income producing real estate.
- REIT's 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.
- REITs allow anyone to invest in portfolios of real estate assets the same way they invest in other industries through the purchase of individual company stock or through a mutual fund or exchange traded fund (ETF).
- The stockholders of a REIT earn a share of the income produced through real estate investment without buying any finance property.

Benefits of REITs include:

- **Less Capital Intensive:**
Direct investment in real estate property is very capital intensive. But each shares of REITs will be comparatively more affordable (it will not require large capital outflows).
- **Suitable for small Investors:**
Investing through REITs will eliminate dealing with builders, thereby avoiding potential exposure to big builders.
- **Transparency:**
REITs stocks are listed in stock market, hence details will be available on public domain.

- Assured Dividends:

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REITs generate income in the 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 is easier than investment in Real Estate properties. REITs are similar to mutual funds and shares and they provide income by way of dividend to its shareholders and capital appreciation as REITs stocks are listed on stock exchanges.

Question : 22

An infrastructure development firm wants to raise funds from investors by monetizing its assets. Explain how InvITs work as a capital market instrument. How do they help both infrastructure firms and investors?

(5 marks)

Answer :

- Considering the importance of infrastructure sector with an aim to provide a suitable platform for financing / refinancing infrastructure projects and allow the investors to participate in the growth story of infrastructure, the Government introduced a new investment vehicle named Infrastructure Investment Trusts ('InvITs') in 2014. The SEBI has issued SEBI (Infrastructure Investment Trusts) Regulations, 2014.
- The primary objective of InvITs is to promote the infrastructure sector of India by encouraging more individuals to invest in it.
- Typically, such a tool is designed to pool money from several investors to be invested in income-generating assets.
- The cash flow thus generated is distributed among investors as dividend income. When compared to Real Estate Investment Trust or REITs, the structure and operation of both are quite similar. An InvIT is established as a trust and is registered with the SEBI.

Typically, infrastructure investment trust SEBI comprises 4 elements, namely –

- a) **Trustee :** They are required to be registered with SEBI as debenture trustees. Also, they are required to invest at least 80% into infra assets that generate steady revenue.
- b) **Sponsor :** Typically, a body corporate, LLP, or any company which sets up the InvIT and is designated as such at the time of application made to the SEBI and shall include an inducted sponsor.
- c) **Investment manager :** As a body corporate of LLP, an investment manager supervises all the operational activities surrounding InvITs.
- d) **Project manager :** The authority is mostly responsible for executing projects. However, in the case of PPP projects, it serves as an entity that also supervises ancillary responsibilities.

Question : 23

Write a short note on Municipal Bonds.

(5 marks)

Answer :

- Municipal bonds are also referred to as 'muni bonds'. The urban local government and agencies issue these bonds.
- Municipal bonds are issued when a government body wants to raise funds for projects such as infra-related, roads, airports, railway stations, schools, and so on. SEBI issued Regulations in 2015 for the urban local bodies to raise funds by issuing

municipal bonds.

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- Municipal bonds exist in India since the year 1997. Bangalore Municipal Corporation is the first urban local body to issue municipal bonds in India. Ahmedabad followed Bangalore in the succeeding years.
- The municipal bonds lost the ground after the initial investors' attraction it received and failed to raise the desired amount of funds.
- To revive the municipal bonds, SEBI came up with Regulations for the issue of municipal bonds in 2015 namely SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015. Although, efforts have been made to make it attractive for investors, however liquidity concerns, and state guarantees remains challenges.

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

1. The issuer, proposing to issue municipal debt securities is eligible to raise funds under its constitution document.
2. 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.
3. 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.
4. There shall be no order or direction of restraint, prohibition or debarment by the Board is in force against the issuer or its promoters or its directors from accessing the securities market.
5. Any of the promoter or director(s) of issuer has not been declared as a fugitive economic offender.

Question : 24

Finera Technologies Ltd., a listed AI-based SaaS company, is planning to issue bonus shares to its shareholders. Around the same time, a foreign pension fund expressed interest in subscribing to its securities through the primary market. The company has also been approached by a Category I AIF (Angel Fund) to invest in one of its R&D spin-off start-ups.

Meanwhile, the company's compliance officer raised concerns about ensuring compliance with the regulatory framework for participants in the capital market, especially concerning high net worth individuals (HNIs) and qualified institutional buyers (QIBs).

Based on the above scenario, answer the following:

- (i) What is a bonus issue? Can it be made in dematerialized form only?
 - (ii) Can a foreign pension fund qualify as a QIB under SEBI regulations?
 - (iii) Who can invest in an Angel Fund, and what is the minimum investment required?
 - (iv) Define High Net Worth Individual (HNI) in the context of capital market investing.
 - (v) Explain the role of Qualified Institutional Buyers (QIBs) in ensuring the success of an IPO.
- (5 marks)

Answer :

(i) Answer :

1. A bonus issue refers to the issuance of fully paid-up shares by a company to its existing shareholders, out of its free reserves, in proportion to their current shareholding .
2. It is a method of capitalizing the company's reserves without taking in new funds.
3. As per SEBI guidelines and listing requirements, bonus shares can only be issued in dematerialized form for listed companies.

(ii) Answer :

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

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- a pension fund with minimum corpus of twenty five crore rupees registered with the Pension Fund Regulatory and Development Authority established under section 3(i) of the Pension Fund Regulatory and Development Authority Act, 2013.
- Yes, a foreign pension fund can qualify as a Qualified Institutional Buyer (QIB).

(iii) Answer:

- An angel investor or angel (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual or corporate who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.
- The minimum investment per investor in an Angel Fund is ₹25 lakh, to be made over a maximum period of 5 years.

(iv) Answer :

- 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.
- While there is no standard put forth for the classification, the definition of HNIs varies with the geographical area as well as financial markets and institutions.
- Though 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.
- Explanation: If you apply for amount under ₹ 2 lakhs, you are considered as a retail investor. There may be so many ways in which HNIs are categorized and defined, there is no single bracket that could put them under one roof.

(v) Answer :

- QIBs play a critical role in providing credibility and depth to an IPO issue.
- Their participation:
 - Helps in efficient price discovery.
 - Attracts other investors due to perceived trust and expertise.
 - Boosts subscription levels, making the IPO more likely to succeed.
- SEBI mandates that at least 50% of the net offer in a book-built IPO be allocated to QIBs.

CHAPTER : 2 SECONDARY MARKET IN INDIA

Question : 1

Explain the key functions of the secondary market.
(5 marks)

Answer:

1. Liquidity:

Enables investors to buy and sell existing securities easily, providing liquidity to investments.

2. Price Discovery:

Helps determine fair prices through demand-supply mechanism.

3. Marketability of Securities:

Listed securities can be easily traded, increasing their attractiveness.

4. Capital Formation Support:

Encourages primary market investments by offering exit options.

5. Regulated Framework:

Operates under the surveillance of SEBI and stock exchanges ensuring investor protection and transparency.

Question : 2 (Test your Knowledge)

Prepare a note explaining in brief, the role of various intermediaries in the Stock Market.
(5 marks)

Answer :

Stock Exchanges :

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

Depositories :

Depositories are institutions that hold securities (like shares, debentures, bonds, government securities, mutual fund units) of investors in electronic form. Two prominent depositories in India are the National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CDSL).

Depository Participant :

A Depository Participant (DP) is an agent of the depository through which it interfaces with the investors and provides depository services. Investors enable depository participants to hold and transact in securities in the dematerialized form.

Trading Members/Stock Brokers & Sub-Brokers :

Trading members or Stock Brokers are registered members of a Stock Exchange, who assist the investors in buying/selling of securities. All secondary market transactions on stock are conducted through registered brokers of the stock exchange. Trading members can be individuals (sole proprietor), Partnership Firms or Corporate bodies, who are permitted to become members of recognized stock exchanges subject to completion of prescribed requirements.

A sub-broker is an entity who is not a member of Stock Exchange but who acts on behalf of a trading member or Stock Broker as an agent for assisting the investors in buying, selling or dealing in securities all the way through such trading member or Stock Broker with whom he is connected. Sub-brokers assist in increasing the reach of brokers to a larger number of investors.

Custodians :

A Custodian is a body that is charged with the accountability of holding funds and securities of its large clients, characteristically institutions such as banks, insurance companies, and foreign portfolio investors. In addition to safeguarding securities, a custodian also settles transactions in these securities and keeps record of corporate actions on behalf of its clients.

Clearing Corporation :

Clearing Corporations play a vital role in protecting the interest of investors in the securities market. Clearing agencies ensure that members on the Stock Exchange meet their obligations to deliver funds or securities. These agencies act as a legal counter party to all trades and guarantee settlement of all transactions on the Stock Exchanges. It can be a part of an exchange or a separate entity.

Merchant Bankers :

Merchant bankers are bodies registered with SEBI and act as issue managers, investment bankers or lead managers.

Question : 3 (Dec 2024)

Buying a single share of any company is much riskier, as compared to buying the Exchange Traded Fund (ETF). Explain this statement, with reference to the understanding about ETF.

(5 marks)

Answer :

- An Exchange traded fund (ETF) is a security that tracks an index, commodity, bonds, or a basket of assets like an index fund and is traded in the securities market. In simple words, ETFs are funds that track indexes such as Sensex, Nifty, etc. ETF may be of various types such as Equity ETF, Bond ETF, Commodity ETF, Index ETF, etc.
- When any investor buy shares/ units of an ETF, he buys shares/ units of a portfolio that tracks the performance of the index. ETFs just reflect the performance of the index they track.
- Unlike regular mutual funds, ETFs trade like a common stock on the stock exchange and the price of an ETF changes as per the trading in the market takes place.
- The trading value of an ETF depends on the net asset value of the underlying stock that it represents. ETFs, generally, have higher daily liquidity and lower fees than mutual fund schemes.
- There are many benefits of investing in ETF like hedging risks, proper allocation of assets, etc.

Question : 4

Write a short note on Derivatives.

(3 marks)

Answer :

- A derivative is a financial instrument that derives its value from an underlying asset.
- This underlying asset can be stocks, bonds, currency, commodities, metals and even intangible, assets like stock indices.
- Derivatives can be of different types like futures, options, swaps, caps, floor, collars etc.
- The most popular derivative instruments are futures and options.
- The term Derivative has been defined in Securities Contracts (Regulations) Act, as:

Derivative includes:

A) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;

B) a contract which derives its value from the prices, or index of prices, of underlying securities;

C) commodity derivatives; and

D) such other instruments as may be declared by the Central Government to be derivatives.

Question: 5 (Dec 2024)

Distinguish between Currency Derivatives & Commodity Derivatives.
(5 marks)

Answer :

Currency derivatives

- a. Currency derivatives are financial contracts between the buyer and seller involving the exchange of two currencies at a future date, and at a stipulated rate.
- b. Currency Derivative Trading is similar to Stock Futures and Options trading. However, the underlying asset are currency pairs (such as USDINR or EURINR) instead of Stocks.
- c. Currency Options and Currency Futures trading is done in the Foreign Exchange markets
- d. Forex rates are the value of a foreign currency relative to domestic currency.
- e. The major participants of Currency Trading in India are banks, corporations, exporters and importers.

Benefits of currency derivatives include:

- Diversification to investments.
- Hedging opportunities to importers & exporters, for their future payable and receivables.
- Trading opportunities because of volatility in currency.
- Transparent rates to traders as it is exchange-traded.

Commodity Derivatives

- a) Commodity is a physical good attributable to a natural resource that is tradable and supplied without substantial differentiation by the general public. Commodities trade in physical (spot) markets and in futures and forward markets. Spot markets involve the physical transfer of goods between buyers and sellers: prices in these markets reflect current (or very near term) supply and demand conditions.
- b) Commodity derivatives are financial instruments whose value is based on underlying commodities. such as oil, gas, metals, agricultural products and minerals. Other assets such as emissions trading credits, freight rates and even the weather can also underlie commodity derivatives. Commodity Derivatives markets are a good source of critical information and indicator of market sentiments. Since, commodities are frequently used as input in the production of goods or services, uncertainty and volatility in commodity prices and raw materials make the business environment erratic, unpredictable and subject to unforeseeable risks.
- c) Volatility in raw material costs affects businesses and can be significant given that commodity prices are driven by supply and demand from domestics as well as global markets. Ability to manage or mitigate risks by using suitable hedging in commodity derivative products, can positively affect business performance.

Benefits of commodity derivatives include:

- a. Offers alternative investment opportunity.
- b. Offers higher leverage.
- c. Return based on exposure to global market.

Question : 6

What are Futures Contracts? State their key features.
(3 marks)

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Answer:

- Future refers to a future contract which means an exchange traded forward contract to buy or sell a predetermined quantity of an asset on a predetermined future date at a predetermined price.
- Contracts are standardized and there's centralized trading ensuring liquidity.
- There are two positions that one can take in a future contract:
 - i. Long Position - This is when a futures contract is purchased and the buyer agrees to receive delivery of the underlying asset. The holder profits if the price of the underlying instrument increases, as the price they will pay will be less than the market price (Stock/Indices/Commodities)
 - ii. Short Position - This is when a futures contract is sold and the seller agrees to make delivery of the underlying asset. (stock/Indices/Commodities)

Question : 7

Mr. Arnav enters into a stock futures contract to buy 500 shares of Alpha Ltd. at ₹180 per share, expiring in one month. Before expiry, prices fall sharply to ₹160, and Mr. Arnav wants to square off his position to avoid further loss. He asks whether this contract is binding and how settlement works.
(3 marks)

Answer :

Provision of Law:

- Future refers to a future contract which means an exchange traded forward contract to buy or sell a predetermined quantity of an asset on a predetermined future date at a predetermined price.
- Contracts are standardized and there's centralized trading ensuring liquidity.
- There are two positions that one can take in a future contract:
 1. Long Position - This is when a futures contract is purchased and the buyer agrees to receive delivery of the underlying asset. The holder profits if the price of the underlying instrument increases, as the price they will pay will be less than the market price (Stock/Indices/Commodities)
 2. Short Position - This is when a futures contract is sold and the seller agrees to make delivery of the underlying asset. (stock/Indices/Commodities)

Facts of the Case:

Arnav holds a long futures contract at ₹180; price drops to ₹160. Seeks exit via square-off.

Conclusion/Analysis:

As per the provisions stated above, Arnav can square off (close) his position by entering an opposite trade before expiry. If not squared off, the contract will be settled at expiry (₹160), and the loss will be credited/debited through the clearing corporation. Futures are compulsory contracts, enforceable through the exchange and clearing mechanism

Question : 8

Define Options. Distinguish between Call Option and Put Option.
(5 marks)

Answer:

- Options Contract give its holder the right, but not the obligation, to take or make delivery on or before a specified date at a

stated price.

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- But this option is given to only one party in the transaction while the other party has an obligation to take or make delivery.
- Since the other party has an obligation and a risk associated with making the good the obligation, he receives a payment for that. This payment is called as option premium.
- Option contracts are classified into two types on the basis of which party has the option:
 - i. Call option - A call option is with the buyer and gives the holder a right to take delivery.
 - ii. Put option - The put option is with the seller and gives the right to take delivery.
- Option Contracts are classified into two types on the basis of time at which the option can be exercised:-
 - i. European Option – European style options are those contacts where the option can be exercised only on the expiration date. Options traded on Indian stock exchanges are of European Style.
 - ii. American Option – American style options are those contacts where the option can be exercised on or before the expiration date.

Basis	Call Option	Put Option
Meaning	Right to buy an asset	Right to sell an asset
Buyer's Gain	When market price > strike price	When market price < strike price
Seller's Risk	Unlimited	Limited to premium received

Question : 9

Ms. Riya buys a call option on the stock of BetaCorp Ltd. with a strike price of ₹500, paying a premium of ₹20. On expiry, the stock trades at ₹520. She wishes to understand her profit and whether she is obligated to buy the stock.
(3 marks)

Answer :

Provision of Law:

- Options Contract give its holder the right, but not the obligation, to take or make delivery on or before a specified date at a stated price.
- But this option is given to only one party in the transaction while the other party has an obligation to take or make delivery.
- Since the other party has an obligation and a risk associated with making the good the obligation, he receives a payment for that. This payment is called as option premium.
- Premium is non-refundable.

Facts of the Case:

Call option with strike ₹500, premium ₹20. Spot price on expiry: ₹520.

Conclusion/Analysis:

As per the provisions stated above, Riya can exercise the option: Profit = ₹20 gain (₹520-₹500) – ₹20 premium = ₹0 net. Since buyer has the right, not obligation, she can choose to exercise or not.

Question : 10 (Dec 2023).

The option contracts are given below; you are required to compute profit or loss to each investor :

(i) Ravi writes a call option to buy share at an exercise price of ₹ 70 for a premium of ₹ 11 per share. The share price rises to ₹ 73 by the time the option expires.

(ii) Narain buys a put option at an exercise price of ₹ 78 for a premium of ₹ 7 per share. The share price falls to ₹ 66 by the time the option expires.

(2+3=5 marks)

(i) Ravi writes call option

Exercise price	₹ 70
Actual price on the date of exercise	₹ 73
Action taken by the writer	Exercise the option
Gross pay off by option writer to buyer (₹73- ₹70)	₹ 3
Premium received	₹ 11
Net pay off	₹ 8

Hence, Ravi will have a profit of ₹ 8 per share.

(ii)

Exercise price	₹ 78
Actual price on the date of exercise	₹ 66
Action taken by the writer	Exercise the option
Gross Pay off to Narain (₹78- ₹66)	₹ 12
Premium paid	₹ 7
Net pay off / profit to Narain	₹ 5

Net profit to Narain from the transaction will be ₹ 5 per share.

Question : 11 (June 2024).

Ram purchased a 3 month call option for 100 shares in XYZ Ltd. at a premium of ₹ 30 per share, with an exercise price of ₹ 550. He also purchased a 3 months put option for 100 shares of the same company at a premium of ₹ 5 per share with an exercise price of ₹ 450. The market price of the share on the date of purchase of option, is ₹ 500. Calculate the profit or loss that Ram would make assuming that the market falls to ₹ 350 at the end of 3 months.

(5 marks)

Answer :

Provision of Law:

- Options Contract give its holder the right, but not the obligation, to take or make delivery on or before a specified date at a stated price.
- But this option is given to only one party in the transaction while the other party has an obligation to take or make delivery.
- Since the other party has an obligation and a risk associated with making the good the obligation, he receives a payment for that. This payment is called as option premium.
- Premium is non-refundable.

Conclusion/Analysis:

Since the market price at the end of 3 months falls to ₹ 350 which is below the exercise price under the call option, the call option will not be exercised. Only put option becomes viable.

The gain will be: Gain per share (₹ 450 — ₹ 350) ₹ 100
Total gain per 100 shares (₹ 100 x 100) ₹ 10,000
Cost or premium paid (₹ 30 x 100) + (₹ 5 x 100) ₹ 3,500

Net gain ₹ 6,500.

Question : 12 (Dec 2024).

The result of assembly election of major State will be announced in next week. Naresh an investor, wants to take the opportunity only with limited risk as outcome of election result might be negative. Kamal, one of his friends, is regularly deals in option contracts, Kamal advised him to take position in following option contracts in PQR Ltd. (Assume the option lot size is 100) :

- Purchase one lot with 1-month call option, with a premium of ₹ 30 with an exercise price of ₹ 550.
- Purchase one lot with 1-month put option, with a premium of ₹ 5 with an exercise price of ₹ 450.

PQR Ltd. share is currently traded at ₹ 500.

Calculate the net pay off position of Naresh at the expiry of option, if the price of PQR Ltd. share happens to be :

- (i) No change in price
 - (ii) Falls at ₹ 350.
- (5 marks)

Answer :

Total premium paid on purchasing a call and put option
= (₹ 30 per share x 100) + (₹ 5 per share x 100) = ₹ 3,000 + ₹ 500 = ₹ 3,500

(i) Net Pay-off if there is no change in price In this case, Naresh exercises neither the Call option nor the Put option as both will result in a loss for him.

Thus, Ending value = - ₹ 3,500 + Zero gain
= - ₹ 3,500 i.e. Net loss is ₹ 3,500

(ii) Net Pay-off if price falls at ₹ 350 Since the price of the stock is below the exercise price of the Call, it will not be exercised. Only Put is valuable hence it will be exercised.

Thus, Ending value = - ₹ 3,500 + [(₹ 450 - ₹ 350) x 100]
= - ₹ 3,500 + 10,000 = ₹ 6,500

Net gain is ₹ 6,500.

Question : 13 (June 2024).

Mohan purchased a 3 month call option for 100 shares in PQR Ltd. at a premium of ₹ 30 per share, with an exercise price of ₹ 550. He also purchased a 3 month put option for 100 shares of the same company at a premium of ₹ 10 per share with an exercise price of ₹ 500. Calculate the profit or loss that Mohan would make assuming that the market price falls to ₹ 400 at the end of 3 months.

(5 marks)

Answer :

Since the market price at the end of 3 months falls to ₹ 400 which is below the exercise price i.e. ₹ 550 under the call option, the call option will not be exercised. Only put option becomes viable.

The gain will be :
Gain per share (₹ 500 - ₹ 400) 100
Total gain per 100 shares @ ₹ 100 per share 10,000

Cost or premium paid ($\text{₹ } 30 \times 100$) + ($\text{₹ } 10 \times 100$) 4,000

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Net gain 6,000.

Question : 14

What are Rights Entitlements (RE)? Explain the options available to shareholders holding RE.
(5 marks)

Answer:

Rights Entitlements (RE)

- a) Rights Entitlement (RE) is the rights issued by the company to the existing shareholders to subscribe to the new shares / other securities that the shareholder of a company is eligible to apply for under the rights offer.
- b) REs are offered to shareholders based on a ratio of existing equity shares held as on the record date.
- c) Rights Entitlements (REs) are issued in dematerialised form under a separate ISIN created by the Company.
- d) Physical shareholders shall be required to provide their demat account details to Issuer / Registrar to the Issue for credit of REs not later than two working days prior to issue closing date, such that credit of REs in their demat account takes place at least one day before issue closing date.

Options available to Eligible Equity Shareholder can:

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

Note: Rights Entitlements (REs) which are neither subscribed nor renounced on or before the Issue Closing Date shall lapse and shall be extinguished after the Issue Closing Date. The investors can get information related to REs in the letter of offer filed by the issuer company with Stock Exchanges and is also available on SEBI website.

Question : 15 (Dec 2024).

You have been newly appointed SEBI consultant, for Techno AVR Ltd. This is a fintech Start-up company incorporated in 2010 under the Companies Act 1956. Their management, is seeking to list the company on the BSE SME platform. So, please advise the following:

- (a) Can Techno AVR Ltd. get listed at BSE SME Platform?
- (b) What should be the tangible assets of Techno AVR for this listing?
- (c) What should be post issue paid up capital of Techno AVR Ltd ?
- (d) Is it compulsory for Techno AVR Ltd. to facilitate trading of securities in demat form, or also in physical form?
- (e) Techno AVR Ltd. has changed its promoters about ten month preceding the date of filing the listing application with the BSE. Does this have any impact its listing?

Answer :

(a) BSE SME Platform Established in 2012, BSE SME is the market leader amongst the SME platform in India. BSE SME Platform offers an entrepreneur and investor friendly environment, which enables the listing of SMEs from the unorganized sector scattered throughout India, into a regulated and organized sector. Requirements of Listing at BSE SME Platform I Incorporation The Company shall be incorporated under the Companies Act, 2013, provided it fulfils other criteria required for SME Listing on

BSE.

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- (b) Net Tangible Assets of Techno AVR Ltd, should be Rs 1.5 Crore in last preceding (full) financial year.
- (c) The post issue paid up capital of Techno AVR Ltd. shall not be more than Rs. 25 crores.
- (d) It is mandatory for Techno AVR Ltd. to facilitate trading of securities only in demat form and enter into an agreement with both the depositories i.e. NSDL and CDSL.
- (e) There should not be any change in the promoters of the company in preceding one year from date of filing the application to BSE for listing under SME segment. Since, defined period of one year has not yet been passed, hence Techno AVR Ltd. will not be eligible for listing.

Question : 16 (June 2024).

Centre for Youth Ltd. (CYL) is a section 8 company and operating since last 20 years. Its prime area of activities is to promote education and employ-ability amongst unserved population. Currently the major donations come through advertisement in social media. As the company started providing education towards financial literacy, it needs more funds to cater the growing demand. The management is of the view that as CYL is a not-for-profit entity, it can't raise funds through open market for fulfilling its objects.

You being a SEBI law consultant, advise the management on the below aspects for raising of funds through Social Stock Exchange (SSE) (with reasons) :

- (i) What are the provisions for section 8 company to tap the public fund under SEBI regulations ?
- (ii) Will it make any difference if CYL is a charitable trust ?
- (iii) What type of instrument is allowable for CYL for fund raising ?
- (iv) What will be your answer, if 40% target population is general public ?
- (v) If CYL was debarred by Ministry of Home Affairs for carrying out its activities, can it still raise funds through SSE ?
- (2 marks each)

Answer :

- (i) The provisions of Social Stock Exchange as mentioned in Chapter X-A of SEBI (ICDR) Regulations, 2018 shall apply to the following:
- a Not for Profit Organization seeking to only get registered with a Social Stock Exchange;
 - a Not for Profit Organization seeking to get registered and raise funds through a Social Stock Exchange;
 - a For Profit Social Enterprise seeking to be identified as a Social Enterprise

- (ii) No, the answer will not change, as the Charitable trusts are also included in the definition of Not for Profit Organisation. [Regulation 292A (e) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018].

- (iii) A Not for Profit Organization may raise funds on a Social Stock Exchange through:

- issuance of Zero Coupon Zero Principal Instruments to institutional investors and/or non-institutional investors;
- donations through Mutual Fund schemes as specified by SEBI;
- any other means as specified by SEBI from time to time. [Regulation 292G of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018]

Therefore, CYL is allowed for raising fund through the above-mentioned instruments.

- (iv) The Social Enterprise shall have at least 67% of its activities, qualifying as eligible activities to the target population, to be established through: – members of the target population to whom the eligible activities have been provided constitute at

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least 67% of the immediately preceding 3-year average of the total customer base and/or total number of beneficiaries.

- In the given situation, if 40% target population is general public and unserved population, then CYL is not be identified as Social Enterprise and thus, not eligible for fund raising through SSE.[Regulation 292E(2)(c) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations,2018]

(v) A Social Enterprise shall not be eligible to register or raise fund, if the Social Enterprise or any of its promoters or directors or trustees has been debarred from carrying out its activities or raising funds by the Ministry of Home Affairs.

- In the given case, CYL was debarred by Ministry of Home Affairs, thus, it cannot register or raise fund through SSE. [Regulation 292H(e)]

Question : 17

A retail investor buys a Zero Coupon Bond of ₹10,000 face value at ₹6,000 with a 10-year maturity. After 3 years, he wishes to sell it on the exchange and claim annual interest. Can he do so?

(3 marks)

Answer :

Provision of Law:

- Zero Coupon Bonds (ZCBs) carry no periodic interest.
- Returns are realized from capital appreciation at maturity.
- These bonds are tradable on stock exchanges.

Facts of the Case:

Investor bought ZCB for ₹6,000. Wants to sell after 3 years and claim interest.

Conclusion/Analysis:

As per the provisions stated above, ZCBs do not pay annual interest; hence, no claim can be made. However, investor can sell the bond on the secondary market at market price. The return will be in the form of capital gain, not interest.

Question : 18

Write a short note on Margins.

(3 marks)

Answer :

- An advance payment of a portion of the value of a stock transaction. The amount of credit a broker or lender extends to a customer for stock purchase.
- "Initial margin" in this context means the minimum amount, calculated as a percentage of the transaction value, to be placed by the client, with the broker, before the actual purchase. The broker may advance the balance amount to meet full settlement obligations.
- "Maintenance margin" means the minimum amount, calculated as a percentage of market value of the securities, calculated with respect to last trading day's closing price, to be maintained by client with the broker.
- When the balance deposit in the client's margin account falls below the required maintenance margin, the broker shall promptly make margin calls.
- However, no further exposure can be granted to the client on the basis of any increase in the market value of the securities.

- f. The broker may liquidate the securities if the client fails to meet the margin calls made by the broker or fails to deposit the cheques on the day following the day on which the margin call has been made or the cheque has been dishonored.

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- g. The broker must disclose to the stock exchange details on gross exposure including the name of the client, unique identification number, name of the scrip and if the broker has borrowed funds for the purpose of providing margin trading facilities, name of the lender and amount borrowed, on or before 12 Noon on the following day.
- h. Stock exchanges disclose scrip wise gross outstanding in margin accounts with all brokers to the market. Such disclosures regarding margin trading done on any day shall be made available after the trading hours on the following day through the website.

Question : 19 (Dec 2024)

TechGlobal Corp is a multinational technology company, it decided to acquire a significant stake in a promising Indian start-up, RecreateX Ltd, but it is a listed company with NSE. To avoid market disruption and potential price fluctuations, TechGlobal and RecreateX negotiated and entered into a bulk deal.

The transaction involves TechGlobal purchasing 50% of RecreateX's equity shares. This transaction includes, shareholding held by one of its shareholder Mr. X as 5% and another shareholder Mr. Y as 0.5% of RecreateX's total outstanding shares.

The brokering Firm, ABC Ltd. facilitated the transaction. But once the deal was completed, ABC Ltd. failed to report the details to the National Stock Exchange (NSE), where RecreateX's shares are listed. Under these scenarios, answer the following:

- (a) Is these three transactions [50% including 5% and 0.5%] constitutes a bulk deal on a stock exchange?
- (b) What is the reporting timing, when a bulk deal happens through a single trade or multiple trades?
- (c) Who is required to disclose the details of a bulk deal to the stock exchange?
- (2+2+1=5 marks)

Answer :

- (a) Bulk deal is a transaction, where total quantity bought or sold is more than 0.5% of the number of equity shares of a listed company on the exchange. The first transaction is 44.5% and the second one is 5%. Hence both are bulk trade. The third transaction is of 0.5% between the buyer and seller and therefore, totaling to more than 0.5% and hence qualify as bulk trade transaction.
- (b) The execution of bulk deal should be notified to the exchange immediately upon the execution of the trade order. If it happens through multiple trades, it should be notified to the exchange within one hour from the closure of the trading.
- (c) The stock broker, ABC Ltd, who facilitates the trade, is required to reveal to the stock exchange about the bulk deals on a daily basis.

Question : 20 (June 2024).

Maxgrow Ltd. (a listed company) is manufacturing the solar PV modules in India. It is a cash rich company with cash reserve of ₹ 500 crore. It declared a dividend of ₹ 20 per share (face value ₹ 10 each). Before the record date, many mutual fund houses, HNIs and Institutional investors shown interest in the shares of Maxgrow Ltd. through block deal. Ranjan, a shareholder did not receive the dividend declared by the company after the expiry of prescribed period. Since last two months, there is heavy fluctuation in the price of the shares of Maxgrow Ltd. and with very thin trading volume. The stock exchange based on its surveillance system, took stringent action in the interest of the investors. Technet Ltd, subsidiary of Maxgrow Ltd. is in the business of data analytics since last two years. It is providing the services to the fortune 500 companies across the world. The management wishes to list its securities with the stock exchange, by floating an IPO.

After analyzing the case study, answer the following (with reasons) :

- (i) Is block deal window also open for individual investors?
- (ii) What are the timings of executing transaction through block deal window?
- (iii) What first course of action is available to the shareholder for default of payment of dividend by the company?
- (iv) What types of preventive surveillance restrictions can be imposed by the stock exchange (name any four)?
- (v) Is it possible to list shares for a two year old company in the stock exchange?
- (2 marks each)

Answer :

(i) The block deal is also open for individual investors subject to the minimum order size for execution of trades in the Block deal window shall be Rs. 10 Crore.

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

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

(iii) It is mandatory for investors to first take up their grievances for redressal with the entity concerned, through their designated persons/officials who handle issues relating to compliance and redressal of investor grievances. In case, the entity concerned fails to redress the complaint within the timeline, the investor may then file their complaint in SCORES. Investors who wish to lodge a complaint on SCORES (Complainant) are required to register themselves with SCORES portal.

(iv) The types of Preventive Surveillance restrictions that can be imposed by the Stock Exchange are:

(a) Stringent On boarding norms for Trading Members - Stringent net worth, back ground, viability etc. checks while on boarding Trading Members.

(b) Index circuit filters - brings coordinated trading halt in all equity and equity derivative markets at 3 stages of the index movement, either way viz., at 10%, 15% and 20% based on previous day closing index value.

(c) Trade execution range - Orders are matched and trades take place only if the trade price is within the reference price and execution range.

(d) Order valuation limitation - Maximum Order value limit allowed per order.

(e) Cancel on logout - All outstanding orders are cancelled, if the enabled user logs out.

(f) Kill switch - All outstanding orders of that trading member are cancelled if trading member executes kill switch.

(g) Risk reduction mode - Limits beyond which orders level risk management shall be initiated instead of trade level.

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

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

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

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

(l) Periodic call auction - Shifting the security from continuous to call auction method.

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

(v) In the given case, Technet Ltd. is in business of data analytics since last two years and wishes to list its securities with the stock exchange, by floating an IPO. An issuer not satisfying the condition stipulated in regulation 6(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, shall be eligible to make an initial public offer only if the issue is made through the book building process and the issuer undertakes to allot at least seventy five percent. of the net offer to qualified institutional buyers and to refund the full subscription money if it fails to do so. Therefore, Technet Ltd. opt for the route as available under Regulation 6(2) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 for making an initial public offer and listing thereof.

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Define Bulk Deal. How is it different from a Block Deal?

(5 marks)

Answer:

- Bulk deal is a trade, where total quantity bought or sold is more than 0.5% of the number of equity shares of a listed company.
- Bulk deal can be transacted by the normal trading window provided by brokers throughout the trading hours in a day.
- Bulk deals are market driven and take place throughout the trading day.
- The brokers shall disclose to the stock exchange the name of the scrip, name of the client, quantity of shares bought/sold and the traded price. The disclosure shall be made by brokers immediately upon execution of the trade.
- Bulk orders are visible to everyone.
- If the bulk deal happens through a single trade, it should be notified to the exchange immediately upon the execution of the order. If it happens through multiple trades, it should be notified to the exchange within one hour from the closure of the trading.

Differences from Block Deal :

Basis	Block Deal	Bulk Deal
Execution	Through separate window	Through normal trading window
Minimum Size	₹10 crore	0.5% of total equity shares.
Timing	Specified block windows only	Any time during market hours
Disclosure	Exchange discloses trade immediately.	Broker must report within one hour

Question : 22

“Stock market indexes are useful for a variety of reasons.” Explain.

(3 marks)

Answer:

Stock market indexes are useful for a variety of reasons.

Some of them are :

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

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State the Difference between market capitalization and free float method.
(3 marks)

Answer:

- Market capitalization is the total value of a company's shares of stock. Whereas, the number of outstanding shares for trading by the general public, is termed as a float.
- Thus, the free float method to calculate the market cap excludes locked-in shares i.e. the shares held by the company and the government.
- Steps to calculate Sensex:
- The market capitalization is taken into account. This is done by multiplying all the shares issued by the company with the price of its stock.
- BSE determines a Free-Float factor that is a multiple of the market capitalization of the company. This helps in determining the Free-Float market capitalization based on the details submitted by the company.
- Ratio and Proportion are used based on the base index of 100. This helps to determine the Sensex.

Question : 24

State the Key risks in investing in securities market.
(3 marks)

Answer:

Key risks in investing in securities market :

- Market risk or Systematic Risk: It is inherent risk. It means that an investor may experience losses due to factors affecting the overall performance of financial markets and general economy of the country.
- Unsystematic Risk: Unsystematic risk can be described as the uncertainty attached with a particular company or industry. It is also known as specific risk.
- Inflation risk: Inflation risk is also called as purchasing power risk. It is defined as the chance that the cash flows from an investment would lose their value in future because of a decline in its purchasing power due to inflation.
- Liquidity risk: Liquidity risk arises when an investment can't be bought or sold quickly enough.
- Volatility Risk: Volatility risk arises as the Companies' stock prices may fluctuate over time.
- Currency Risk: It refers to the potential risk of loss from fluctuating foreign exchange rates that an investor may face when he has invested in foreign currency or made foreign currency-traded investments.

Question : 25

A retail investor is advised to invest in complex derivative strategies (straddles and strangles) without understanding the risk. He incurs a major loss and files a complaint claiming lack of disclosure.
(5 marks)

Answer:

Provision of Law:

- Before one starts investing in securities market, one needs to understand and identify their investment goals, objectives and risk appetite (the extent up to which they are willing to take risk).

- Every investment decision should reflect needs and requirements and should be as per investors desired preferences. Every

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investment comes with the risk of change in the inherent value of that investment.

- Once investor decides goals and identifies risk appetite, they need to decide the amount they want to invest and the time period over which they want to invest.
- The ability to take risk differs from investor to investor and could be dependent on the goals as well as the age of the investor. The investors should also be well informed about their rights, responsibilities.
- Investors should make informed decision before investing in the shares of a company. They should carefully read all the information related to the company such as disclosures related to the company, its promoters, the project details, financial details, etc. These details can be found on the websites of the stock exchanges.

Facts of the Case:

Investor unaware of risk; advised complex derivative strategy. Suffers significant loss.

Conclusion/Analysis:

As per the provisions stated above, Registered intermediaries must act in fiduciary capacity and disclose risks. Failure to do so may lead to SEBI action, investor compensation, or license suspension. Derivatives are high-risk and must be sold transparently.

Question : 26 (June 2024, Old Syllabus).

For settlement of securities transactions in stock exchanges, the Clearing Corporation plays a major role for smooth functioning of capital market." Briefly explain the importance of Clearing Corporation.
(5 marks)

Answer:

Clearing Corporation is responsible:-

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

Section 8A(1) of the SCRA provides that a recognised stock exchange may, with the prior approval of the SEBI, transfer the duties and functions of a clearing house to a

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

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

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

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A stock price rises over 60% in 2 trading sessions without corporate announcement. What can the stock exchange do?
(5 marks)

Answer:

Provision of Law:

Stock exchange can take following actions :

Online Surveillance includes following :

- a. Reduction of Price Bands: In order to maintain the market integrity and curb excessive price movement in the securities listed / traded on its Trading Platform, a surveillance framework of Price band prescribed by SEBI, has been implemented and its details are given as under:
- b. Dynamic Price bands: Securities on which derivative products are available have dynamic price bands wherein the initial threshold of 10% or as decided otherwise on the previous closing price is applied.
- c. Fixed Price bands: Securities which are not having derivative products have fixed price bands which are based on the previous closing price of the respective stocks. The maximum price band prescribed is 20 %. Exchanges revise the price bands 10 % and 5 % as a Surveillance action

Offline Surveillance includes following :

1. Investigation: This includes conducting various type of analysis or investigation to detect suspected market irregularities and take appropriate actions.
2. Regulatory Compliance : This includes handling compliance of SEBI/Regulatory orders and corresponding actions such as revocation/ debarment as directed against entities by regulatory bodies, taking other actions as may be specified
3. Surveillance Framework : Stock exchanges in consultation with the SEBI, in addition to the aforesaid on-line surveillance, other surveillance measures viz.
4. Graded Surveillance Measures [GSM] and Additional Surveillance Measure [ASM] have been introduced. The main objective of these measures is to;
 - alert and advice investors to be extra cautious while dealing in these securities and
 - advice market participants to carry out necessary due diligence while dealing in these securities.
5. Graded Surveillance Measure (GSM): GSM is a surveillance measure on securities whose price is not commensurate with financial health and fundamentals.
6. Additional Surveillance Measure (ASM): ASM is a surveillance measures on securities with surveillance concerns viz. Price /Volume variation, Volatility etc.

The shortlisting of securities for placing in ASM is based on an objective criteria as jointly decided by SEBI and Exchanges covering the parameters viz :High Low Variation, Client Concentration, Close to Close Price Variation, Market Capitalization, Volume Variation, Delivery Percentage, No. of Unique PANs.

Facts of the Case:

Sharp price increase with no disclosed event.

Conclusion:

As per the provisions stated above, Exchange may impose price caps or shift settlement type and ask for clarification from the company.

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What is market surveillance? Explain the key objectives and tools used by stock exchanges.
(3 marks)

Answer:

- Market surveillance plays a vital role in ensuring market integrity which is the core objective of regulators. Market integrity is achieved through combination of surveillance, inspection, investigation and enforcement of relevant laws and rules.
- In order to enhance market integrity and safeguard interest of investors, have been introducing various enhanced pre-emptive surveillance measures such as reduction in price band, periodic call auction and transfer of securities to Trade for Trade segment from time to time.
- Globally market surveillance is either conducted by the Regulators or Exchanges or both. In India, the primary responsibility of market surveillance has been entrusted to Stock Exchanges and is being closely monitored by SEBI.
- Millions of orders are transmitted electronically every minute and therefore 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.
- The surveillance activities are classified under two areas as below:
 - a. Online Surveillance: is mainly related to the price movement/ abnormal fluctuation in prices or volumes.
 - b. Offline Surveillance: conducting various types of investigations / analysis as may be warranted.

Question : 29 (June 2024).

The rising FED rate will certainly impact the fund flow to rest of the world. Elucidate the statement in the Indian context.
(5 marks)

Answer :

- The Fed Funds Rate is the interest rate at which the top US banks borrow overnight money from common reserves. All American banks are required to park a portion of their deposits with the Federal Reserve in cash, as a statutory requirement.
- Actually, fed fund rate gives the direction in which US interest rates should be heading at any given point of time. If the Fed is increasing the interest rates, lending rates for companies and retail borrowers will go up and vice versa.
- In India, hike in repo rate may not impact the countries outside India. On the other hand, US interest rates matter a lot to global capital flows. Some of the world's richest institutions and investors have their base in USA. They constantly compare Fed rates with interest rates across the world to make their allocation decisions. In the globalised world, markets are connected.
- An increase in Fed rates will be negative in general for the US stock market and if it leads to another round of sell-offs, it will also have ripple effects on the Indian market.
- The Fed reduce the rate mainly for the following reasons:
 - When it observes signs of a slowing economy, such as rising unemployment rates and declining business activity
 - To address inflation concerns
 - To resolve the geopolitical tensions and trade disputes.
- Any changes in the Fed Fund Rates impact the domestic borrowing market to a large extent. For instance, if the Fed rates go up, it will make the RBI hesitant in cutting rates at that time. The reason is that if RBI cut rates it will lead to heavy pullout of foreign investors from the Indian bond market.

Question : 30 (June 2024).

What are the key differences between WPI and CPI ?

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(5 marks)

Answer :

Key differences between Wholesale Price Index (WPI) & Consumer Price Index (CPI) :

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

Question : 31 (June 2025).

Elaborate the impact of RBI's monetary policies on Indian economy and stock market.
(5 marks)

Answer :

Impact of Policies on Indian Stock Market :

- Since monetary policies are influenced by inflation and inflationary expectations in the economy it is therefore, critical that inflation index should be able to predict future inflation with reasonable accuracy.
- Generally, when a country is operating in a low interest rate regime, borrowers can borrow money at a lower interest rate. This aids in increased purchased power of the consumers. The demand for the goods increase and subsequently sensing a higher demand, the prices will also raise.
- This condition drives the inflation rates higher. When the inflation rates have raised more than the optimal levels, the Reserve Bank of India (RBI) steps in to increase interest rate to control inflation rate.
- When inflationary pressure starts building in the economy, RBI hikes the repo rate and/or cash reserve ratio (CRR) to manage the money supply causing higher inflation.
- Maintaining an optimal inflation rate is the primary task of Monetary Policy decision makers of any nation. An optimal inflation rate ensures a healthy economy. More often than not, the policy makers tend to spur growth in a stalled economy by slashing the interest rates, thereby increasing the money available in the markets.
- However, in order to implement such rate cuts the inflation rate should be at an optimal level. So, it becomes a the prime responsibility of Reserve Bank to monitor Wholesale Price Index (WPI) and Consumer Price Index (CPI) to ensure that economy is balance.
- A rise in the inflation rate impacts market sentiments. A higher inflation rate drives the interest rates higher and hence borrowing becomes costly for the banks, corporates and financial institutions.
- Therefore, the valuations of capital-intensive companies and sectors may come under pressure as their margins decrease due to the higher interest burden.
- However, the markets are governed by many factors and the direction cannot be determined by reading just one factor. Global sentiments and global funds inflows are other crucial factors that impact the direction of stock markets significantly.

CHAPTER : 3 SECURITIES CONTRACTS (REGULATION) ACT,1956

Question : 1

State the non applicability of SCRA.
(3 marks)

Answer :

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

- a. The Government, the Reserve Bank of India, any local authority or any corporation set up by a special law.
- b. any convertible bond or share warrant or any option or right, in so far as it entitles the person in whose favour any of the foregoing has been issued, whether by conversion of the bond or warrant or otherwise, on the basis of the price agreed upon when the same was issued.
- c. the Central Government, in the interest of trade and commerce or the economic development of the country, may specify any class of contracts as contracts to which this Act or any provision contained therein shall not apply.

Question : 2

Define the term Securities under SCRA.
(5 marks)

Answer :

As per Section 2(h) of the Act :

Securities include :

- i. shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or a pooled investment vehicle or other body corporate;
- ii. derivative;
- iii. units or any other instrument issued by any Collective Investment Scheme to the investors in such schemes;
- iv. security receipt as defined in clause (zg) of Section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
- v. units or any other such instrument issued to the investors under any mutual fund scheme;
- vi. units or any other instrument issued by any pooled investment vehicle;
- vii. any certificate or instrument (by whatever name called) issued to an investor by any issuer being a special purpose distinct entity which possess any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debt or receivable, including mortgage debt, as the case may be;
- viii. government securities;
- ix. such other instruments as may be declared by the Central Government to be securities;
- x. and rights or interests in securities.

Question : 3

Mr. Raj sells 1,000 shares to Mr. Aman through a spot delivery contract on Sunday. Is this valid?
(3 marks)

Answer :

Provision of Law:

As per the Section 2(i) of the Act :

Spot delivery contract means a contract which provides for :

(a) actual delivery of securities and the payment of a price therefore either on the same day as the date of the contract or on the next day, the actual period taken for the dispatch of the securities or the remittance of money therefor through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality;

(b) transfer of the securities by the depository from the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository.

Conclusion/Analysis :

As per the provisions stated above, Since Sunday is excluded, settlement on Monday would still be valid. The contract is legal under SCRA.

Question : 4 (Dec 2023).

Explain the procedure for making application and recognition of stock exchange.
(5 marks)

Answer :

Application for recognition of stock exchange

Section 3 of the Securities Contracts (Regulation) Act, 1956 lays down that any stock exchange, desirous of being recognized for the purposes of this Act may make an application in the prescribed manner to the Central Government. Every application shall contain such particulars as may be prescribed, and shall be accompanied by a copy of the bye-laws of the stock exchange for the regulation and control of contracts and also a copy of the rules relating in general to the constitution of the stock exchange and in particular to -

- (a) the governing body of such stock exchange, its constitution and powers of management and the manner in which its business is to be transacted;
- (b) the powers and duties of the office bearers of the stock exchange;
- (c) the admission into the stock exchange of various classes of members, the qualifications, for membership, and the exclusion, suspension, expulsion and re-admission of members therefrom or there-into;
- (d) the procedure for the registration of partnerships as members of the stock exchange in cases where the rules provide for such membership; and the nomination and appointment of authorized representatives and clerks.

Grant of recognition to stock exchange

Section 4 of the Securities Contracts (Regulation) Act, 1956 lays down that if the Central Government is satisfied (powers are exercisable by SEBI also) after making such inquiry as may be necessary in this behalf and after obtaining such further information, if any, as it may require:

- (a) that the rules and bye-laws of a stock exchange applying for registration are in conformity with such conditions as may be prescribed with a view to ensure fair dealing and to protect investors;
- (b) that the stock exchange is willing to comply with any other conditions (including conditions as to the number of members) which the Central Government, after consultation with the governing body of the stock exchange and having regard to the area served by the stock exchange and its standing and the nature of the securities dealt with by it, may impose for the purpose of carrying out the objects of this Act; and

(c) that it would be in the interest of the trade and also in the public interest to grant recognition to the stock exchange;

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It may grant recognition to the stock exchange subject to the conditions imposed upon it as aforesaid and in such form as may be prescribed.

The conditions which the Central Government (powers are exercisable by SEBI also) may prescribe for the grant of recognition to the stock exchanges may include, among other matters, conditions relating to-

(i) the qualifications for membership of stock exchanges;

(ii) the manner in which contracts shall be entered into and enforced as between members;

(iii) the representation of the Central Government on each of the stock exchange by such number of persons not exceeding three as the Central Government may nominate in this behalf; and

(iv) the maintenance of accounts of members and their audit by chartered accountants whenever such audit is required by the Central Government.

Every grant of recognition to a stock exchange under this section shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office of the stock exchange is situated, and such recognition shall have effect as from the date of its publication in the Gazette of India.

No application for the grant of recognition shall be refused except after giving an opportunity to the stock exchange concerned to be heard in the matter; and the reasons for such refusal shall be communicated to the stock exchange in writing.

Question : 5

A regional stock exchange has been inactive for years. Can SEBI withdraw its recognition under SCRA?
(5 marks)

Answer :

Provision of Law:

- Section 5 lays down that if the Central Government is of opinion that the recognition granted to a stock exchange should in the interest of the trade or in the public interest, be withdrawn, the Central Government may serve on the governing body of the stock exchange a written notice that the Central Government is considering the withdrawal of the recognition for the reasons stated in the notice and after giving an opportunity to the governing body to be heard in the matter, the Central Government may withdraw, by notification in the Official Gazette, the recognition granted to the stock exchange.
- However, the withdrawal shall not affect the validity of any contract entered into or made before the date of the notification, and the Central Government may, after consultation with the stock exchange, make such provision as it deems fit in the notification of withdrawal or in any subsequent notification similarly published for the due performance of any contracts outstanding on that date.
- Where the recognized stock exchange has not been corporatized or demutualised or it fails to submit the scheme within the specified time therefore or the scheme has been rejected by the SEBI, the recognition granted to such stock exchange, shall stand withdrawn and the Central Government shall publish, by notification in the Official Gazette, such withdrawal of recognition.
- However, such withdrawal shall not affect the validity of any contract entered into or made before the date of the notification, and SEBI may, after consultation with the stock exchange, make such provisions as it deems fit in the order rejecting the scheme published in the Official Gazette.
- It is to be noted that the powers under Section 4 and Section 5 have been delegated concurrently to SEBI also. Hence, SEBI may exercise these powers.

Conclusion/Analysis :

As per the provisions stated above, Yes, SEBI can legally withdraw recognitions.

Question : 6(Dec 2024)

The Old Age Regional Stock Exchange (OARSE), once a vital financial hub, had gradually lost its significance in the face of a rapidly evolving financial market. Established decades ago, OARSE initially served a broad spectrum of investors and businesses. However, with the emergence of national-level stock exchanges and technological advancements, OARSE struggled to keep pace with modern regulatory and operational standards.

During the year 2023-24, SEBI conducted a thorough review of OARSE's operations to assess its adherence to newly established regulations. The review revealed several deficiencies in OARSE's trading practices and compliance measures. When SEBI requested detailed information regarding these areas, OARSE failed to provide adequate responses, demonstrating significant lapses in its management and operational framework. As a result, SEBI decided to derecognize OARSE, effectively preventing it from functioning as a stock exchange. This decision highlighted the importance of compliance, technological adaptation, and transparency for the survival of regional exchanges in the competitive financial landscape.

With reference to the above case study, answer the following:

- (i) What will be the procedure followed by SEBI for withdrawal of recognition of OARSE?
 - (ii) Will the contracts entered by OARSE before the date of withdrawal of recognition be valid?
 - (iii) Who all are bound at OARSE to produce documents sought by SEBI?
 - (iv) What are the provisions relating to the maintain and preserve books of accounts and other documents by any Recognised Stock Exchange in India?
 - (v) Can business of any Recognised Stock Exchange be suspended?
- [2 marks each]

Answer:

- i. Section 5 of the Securities Contracts (Regulation) Act, 1956 lays down that if the Central Government is of opinion that the recognition granted to a stock exchange should in the interest of the trade or in the public interest, be withdrawn, the Central Government may serve on the governing body of the stock exchange a written notice that the Central Government is considering the withdrawal of the recognition for the reasons stated in the notice and after giving an opportunity to the governing body to be heard in the matter, the Central Government may withdraw, by notification in the Official Gazette, the recognition granted to the stock exchange.
- ii. Section 5 of the Securities Contracts (Regulation) Act, 1956 prescribes that the withdrawal of recognition shall not affect the validity of any contract entered into or made before the date of the notification, and the Central Government may, after consultation with the stock exchange, make such provision as it deems fit in the notification of withdrawal or in any subsequent notification similarly published for the due performance of any contracts outstanding on that date.

Therefore, the contracts entered by the Old Age Regional Stock Exchange (OARSE) before the date of withdrawal of recognition will be valid.

iii. Where an inquiry in relation to the affairs of a recognised stock exchange or the affairs of any of its members in relation to the stock exchange has been undertaken:

- (a) every director, manager, secretary or other officer of such stock exchange;
- (b) every member of such stock exchange;
- (c) if the member of the stock exchange is a firm, every partner, manager, secretary or other officer of the firm and
- (d) every other person or body of persons who has had dealings in the course of business with any of the persons mentioned in clauses (a), (b) and (c), whether directly or indirectly: shall be bound to produce before the authority making the inquiry all such books of account, and other documents in his custody or power relating to or having a bearing on the subject-matter of such inquiry and also to furnish the authorities within such time as may be specified with any such statement or information relating thereto as may be required of him.

iv. Every recognised stock exchange and every member thereof shall maintain and preserve for not exceeding five years such books of accounts, and other documents as the Central Government, after consultation with the stock exchange concerned, may prescribe in the interest of the trade or in the public interest, and such books of account, and other documents shall be subject

to inspection to all reasonable times by SEBI.

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v. Section 12 of the Securities Contracts (Regulation) Act, 1956 states that if in the opinion of the Central Government, an emergency has arisen and for the purpose of meeting the emergency, the Central Government considers it expedient so to do, it may, by notification in the Official Gazette, for reasons to be set out therein, direct a recognized stock exchange to suspend such of its business for such period not exceeding seven days and subject to such conditions as may be specified in the notification, and if, in the opinion of the Central Government, the interest of the trade or the public interest requires that the period should be extended, may, by like notification extend the said period from time to time.

However, where the period of suspension is to be extended beyond the first period, no notification extending the period of suspension shall be issued unless the governing body of the recognized stock exchange has been given an opportunity of being heard in the matter.

Question : 7 (June 2025).

List down the powers Central Government enjoying under the Securities Contracts (Regulation) Act, 1956 and the Rules and Regulations made thereafter.
(5 marks)

Answer :

Various powers Central Government enjoying under the Securities Contracts (Regulation) Act, 1956 and the Rules and Regulations made thereafter are as follow:

- i) To call for periodical returns or direct any inquiries to be made (Section 6): Every recognised stock exchange and every member thereof shall maintain and preserve for such periods not exceeding five years such books of account, and other documents as the Central Government, after consultation with the stock exchange concerned, may prescribe in the interest of the trade or in the public interest.
- ii) To direct rules to be made or to make the rules (Section 8): Section 8 deals with the power of Central Government to make rules or direct rules to be made in respect of recognised stock exchange.
- iii) To Supersede governing body of a Recognised Stock Exchange (Section 11): Where the Central Government is of opinion that the governing body of any recognised stock exchange should be superseded, then, it may, by notification in the Official Gazette, declare the governing body of such stock exchange to be superseded.
- iv) To Suspend Business of a Recognised Stock Exchange (Section 12): If in the opinion of the Central Government, an emergency has arisen and for the purpose of meeting the emergency, the Central Government considers it expedient so to do, it may, by notification in the Official Gazette, for reasons to be set out therein, direct a recognised stock exchange to suspend such of its business for such period not exceeding seven days and subject to such conditions as may be specified in the notification.
- v) To prohibit contracts in certain cases (Section 16): Section 16 stipulates that if the Central Government is of opinion that it is necessary to prevent undesirable speculation in specified securities in any State or area, it may, by notification in the Official Gazette, declare that no person in the State or area specified in the notification shall, save with the permission of the Central Government, enter into any contract for the sale or purchase of any security specified in the notification except to the extent and in the manner, if any, specified therein.
- vi) To grant Immunity (Section 23 O): The Central Government may, on recommendation by the SEBI, grant immunity from prosecution for any offence under Securities Contracts (Regulation) Act, 1956, or the rules or the regulations made thereunder or also from the imposition of any penalty under this Act with respect to the alleged violation.
- vii) To delegate (Section 29A): Section 29A stipulates that the Central Government may, by order published in the Official Gazette, direct that the powers (except the power under section 30) exercisable by it under any provision of Securities Contracts (Regulation) Act, 1956 shall, in relation to such matters and subject to such conditions, if any, as may be specified in the order, be exercisable also by the SEBI or the Reserve Bank of India.
- viii) Power to make Rules (Section 30): Section 30 empowers the Central Government to make rules for the purpose of

carrying into effect the objects of the Securities Contracts (Regulation) Act, 1956 by notification in the Official Gazette.

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Question : 8

A company, ZYX Ltd., is listed on a recognised stock exchange. The Articles of Association of the stock exchange include a rule that limits the voting rights of any single shareholder to 5% of the total voting power, regardless of their shareholding. A shareholder, Mr. Sharma, who owns 8% equity in the exchange, challenges this restriction and claims that he should be allowed to exercise full voting rights equivalent to his shareholding. Is the rule restricting voting rights valid under the provisions of the SCRA? Discuss with reference to the powers of a recognised stock exchange.
(5 marks)

Answer :

Provision Of Law :

Section 7A of the Act stipulates that a recognised stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely: –

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

Powers have been delegated concurrently to SEBI also.

No rules of a recognised stock exchange made or amended in relation to any matter referred to in clauses (a) to (d) shall have effect until they have been approved by the Central Government (Powers are exercisable by SEBI also) and published by that Government in the Official Gazette.

Facts of the Case:

ZYX Ltd. is a listed entity on a recognised stock exchange. Mr. Sharma owns 8% of the share capital, but is allowed to exercise only 5% of the voting rights. He has challenged this restriction on the grounds that it violates his shareholder rights.

Conclusion / Analysis :

As per the provisions stated above, The restriction is valid as it is authorised by law, and its purpose is to avoid undue influence or control by any single shareholder. Mr. Sharma's claim is not tenable, since the restriction is legally backed and uniformly applicable to all shareholders. Hence, the rule made by the stock exchange is enforceable, and Mr. Sharma cannot insist on voting based on full 8% shareholding.

Question : 9

SEBI observed irregularities in the risk management framework and trade settlement procedures of a recognised stock exchange, Alpha Exchange Ltd. Despite repeated reminders, the exchange failed to amend its bye-laws to introduce stricter surveillance and penalty mechanisms. To protect investor interest and ensure orderly functioning of the market, SEBI decided to directly amend the bye-laws of the exchange. The exchange raised an objection, stating that SEBI cannot interfere in its internal bye-laws. Examine the validity of SEBI's action with reference to Section 10 of the Securities Contracts (Regulation) Act, 1956.
(5 marks)

Answer :

Provision Of Law :

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- The SEBI may, either on a request in writing received by it in this behalf from the governing body of a recognised stock exchange or on its own motion, if it is satisfied after consultation with the governing body of the stock exchange that it is necessary or expedient so to do and after recording its reasons for so doing, make bye-laws, for all or any of the matters specified in section 9 or amend any bye-laws made by such stock exchange under that section.
- Where in pursuance of this section any bye-laws have been made or amended, the bye-laws so made or amended shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office of the recognised stock exchange is situated, and on the publication thereof in the Gazette of India.
- The bye-laws so made or amended shall have effect as if they had been made or amended by the recognised stock exchange concerned.
- Where the governing body of a recognised stock exchange objects to any bye-laws made or amended by SEBI on its own motion, it may, within two months of the publication thereof in the Gazette of India apply to SEBI for revision thereof.
- SEBI may, after giving an opportunity to the governing body of the stock exchange to be heard in the matter, revise the bye-laws so made or amended, and where any bye-laws so made or amended are revised as a result of any action taken under this sub-section, the bye-laws so revised shall be published and shall become effective.
- The making or the amendment or revision of any bye-laws shall in all cases be subject to the condition of previous publication.
- However, if the SEBI is satisfied in any case that in the interest of the trade or in the public interest any bye-laws should be made, amended or revised immediately, it may, by order in writing specifying the reasons therefor, dispense with the condition of previous publication.

Conclusion / Analysis :

As per the provisions stated above,

- SEBI has statutory powers to directly amend or introduce bye-laws of a recognised stock exchange if such action is necessary in the interest of investors or market stability.
- Alpha Exchange Ltd.'s objection holds no legal merit, as SEBI acted within its authority to safeguard the orderly conduct of stock exchange operations.
- Therefore, the amendment made by SEBI is binding on the exchange and is deemed to be a bye-law made by the stock exchange itself.

Question : 10 (Dec 2023).

State the penalties against persons who might be found guilty of offences under section 23 of the Securities Contracts (Regulation) Act, 1956.

- Any person who fails to maintain books of accounts or records, as per the listing agreement or conditions, or bye-laws of a recognized Stock Exchange.
 - If any issuer make an excess dematerialisation or delivery of unlisted securities.
- (5 marks)

Answer :

In accordance with Section 23 of the Securities Contracts (Regulation) Act, 1956, any person who might be found guilty of offences under section 23 of the Securities Contracts (Regulation) Act, 1956, shall, without prejudice to any award of penalty by the Adjudicating Officer or the SEBI under the Securities Contracts (Regulation) Act, 1956, on conviction, be punishable with imprisonment for a term which may extend to ten years or with fine, which may extend to twenty five crore rupees, or with both.

- According to Section 23A (b) of the Securities Contracts (Regulation) Act, 1956

Contravention : Any person who fails to maintain books of account or records, as per the listing agreement or conditions, or bye

laws of a recognized stock exchange.

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Penalty : Penalty shall be not less than 1 lakh rupees but may extend to 1 lakh rupees for each day during which such failure continues, subject to a maximum of 1 crore rupees.

ii. According to Section 23 F of the Securities Contracts (Regulation) Act, 1956

Contravention : If any issuer makes an excess dematerialization or delivery of unlisted securities.

Penalty : Penalty shall not be less than 5 lakh rupees which may extend to 25 crores rupees.

Question : 11 (Dec 2023).

“Any person aggrieved by the order or decision of the recognised stock exchange or any other order made by the SEBI may prefer an appeal before this Securities Appellate Tribunal”. Explain the statement.

(5 marks)

Answer :

- Section 23L stipulates that any person aggrieved, by the order or decision of the recognized stock exchange or the adjudicating officer or any order made by the Securities and Exchange Board of India under or sub-section (3) of section 23-1, may prefer an appeal before the Securities Appellate Tribunal.
- Every appeal shall be filed within a period of forty-five days from the date on which a copy of the order or decision is received by the appellant and it shall be in such form and be accompanied by such fee as may be prescribed. However the Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of fortyfive days if it is satisfied that there was sufficient cause for not filing it within that period.
- On receipt of an appeal the Securities Appellate Tribunal may, after giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the order appealed against.
- The Securities Appellant Tribunal shall send a copy of every order made by it to the parties to the appeal and to the concerned adjudicating officer.
- The appeal filed before the Securities Appellate Tribunal shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within six months from the date of receipt of the appeal.
- The appeal may be prefer before the Securities Appellate Tribunal as per the procedure laid down under the Securities Contracts (Regulation) (Appeal to Securities Appellate Tribunal) Rules, 2000.

Question : 12 (Dec 2024).

Gelwel Ltd, a Bombay Stock Exchange listed company, received a penalty order (dated 9th September 2024] from the stock exchange for default in compliance's on 10th December 2024. Being the Company Secretary of Gelwel Ltd, decide the following situations:

- (i) Can Gelwel Ltd. file an appeal against the penalty order, issued by Bombay Stock Exchange, for default in compliance's ?
 - (ii) With whom and within what time period appeal should be filed, if applicable ?
 - (iii) What is the time period, within which such appeals if filed should be disposed off ?
- (2+2+1=5 marks)

Answer :

- i. Section 231 of the Securities Contracts (Regulation) Act, 1956 stipulates that any person aggrieved, by the order or decision of the recognized stock exchange or the adjudicating officer or any order made by the Securities and Exchange Board of India under or sub-section (3) of section 23-1, may prefer an appeal before Securities Appellate Tribunal (SAT).

Therefore, under this case, Gelwel Ltd. is eligible to file an appeal against the penalty order issued by Bombay Stock Exchange.

- ii. The appeal by Gelwel Ltd. should be filed with Securities Appellate Tribunal (SAT) within a period of forty-five days from the

date on which a copy of the order or decision is received by the appellant and it shall be in such form and be accompanied by such fees as may be prescribed.

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- iii. As the penalty order from stock exchange was received by Gelwel Ltd. on 10 December 2024. Therefore, the appeal should be filed within 45 days from the date of receipt of order. However, the SAT may entertain an appeal after the expiry of the said period of forty-five days if it is satisfied that there was sufficient cause for not filing it within that period.

Every appeal filed before the Securities Appellate Tribunal shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within six months from the date of receipt of the appeal.

Question : 13 (Dec 2023).

Jethana Ltd is a listed public sector company since 2014. The company has applied for listing of new securities to BSE. The company is having minimum public shareholding of 15% in 2018. As a company secretary advise the company with respect to following :

- (i) Whether the minimum public shareholding is as per Rule or it requires to be increased in due course of time.
 - (ii) What is the provision of the Rule with regard to minimum public shareholding?
 - (iii) When Central Government can exempt from any or all of the provisions of minimum shareholding.
 - (iv) What is the rule 19(4) of Securities Contracts (Regulation) Rules, 1957 of application for listing of new securities ?
- (5 marks)

Answer :

(i) In terms of Rule 19A (1) of the Securities Contracts (Regulation) Rules, 1957, every listed public sector company which has public shareholding below twenty- five per cent. on the commencement of the Securities Contracts (Regulation) (Second Amendment) Rules, 2018, shall increase its public shareholding to at least twenty-five per cent, within a period of 3 years from the date of such commencement, in the manner specified by the SEBI. Jethana Ltd. is having minimum public shareholding of 15% in 2018 which requires to be increased with in a period of 3 years from the date of such commencement of the Securities Contracts (Regulation) (Second Amendment) Rules, 2018.

(ii) Minimum public Shareholding : Rule 19A (1) of the Securities Contracts (Regulation) Rules, 1957 stipulates that every listed company shall maintain public shareholding of at least twenty-five percent. Sub rule (2) provides that where the public shareholding in a listed company falls below twenty five percent, at any time, such company shall bring the public shareholding to twenty five per cent. within a maximum period of 12 months from the date of such fall in the manner specified by the SEBI.

However, every listed public sector company whose public shareholding falls below twenty five percent. at any time after the commencement of the Securities Contracts (Regulation) (Second Amendment) Rules, 2018, shall increase its public shareholding to at least twenty five per-cent, within a period of 2 years from such fall, in the manner specified by the SEBI.

(iii) The Central Government may, in public interest, exempt any listed entity in which the Central Government or State Government or public sector company, either individually or in any combination with other, hold directly or indirectly, majority of the shares or voting rights or control of such listed entity, from any or all of the provisions of rule 19A.

(iv) Application for listing of new securities: Rule 19(4) of the Securities Contracts (Regulation) Rules, 1957 stipulates that an application for listing shall be necessary in respect of the following:

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

Question : 14

MNC Fintech Ltd., a foreign-owned Indian company, proposed to get its equity shares listed on a recognised stock exchange in India. The company planned to offer only 5% of its post-issue paid-up capital to the public through a prospectus. The stock exchange raised an objection, citing non-compliance with Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957. The company argues that since it is offering shares to the public through a prospectus, there should be no restriction on the percentage. Examine the validity of the company's claim.

Answer :

Provision Of Law :

Rule 19(2)(b) The minimum offer and allotment to public in terms of an offer document shall be :

(i) at least twenty five per cent of each class or kind of equity shares or debenture convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is less than or equal to one thousand six hundred crore rupees;

(ii) at least such percentage of each class or kind of equity shares or debentures convertible into equity shares issued by the company equivalent to the value of four hundred crore rupees, if the post issue capital of the company calculated at offer price is more than one thousand six hundred crore rupees but less than or equal to four thousand crore rupees;

(iii) at least ten percent of each class or kind of equity shares or debentures convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is above four thousand crore rupees but less than or equal to one lakh crore rupees;

(iv) at least such percentage of each class or kind of equity shares or debentures convertible into equity shares issued by the company equivalent to the value of five thousand crore rupees and at least five per cent of each such class or kind of equity shares or debenture convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is above one lakh crore rupees.

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

Conclusion / Analysis :

The company's claim is invalid. Offering only 5% violates Rule 19(2)(b); minimum 10% must be offered. The stock exchange's objection is justified.

Question : 15

What are the provisions for continuous listing requirement under Securities Contracts (Regulation) Rules, 1957? List any six methods for achieving minimum public shareholding by a listed company.

(3 marks)

Answer :

(A) Continuous Listing Requirement:

As per Rule 19A of the Securities Contracts (Regulation) Rules, 1957:

1. Minimum Public Shareholding (MPS):

Every listed company (other than public sector companies) shall maintain at least 25% public shareholding as a continuous listing requirement.

2. Timeline for Compliance:

If public shareholding falls below 25% at any time, the company must restore it to 25% within 12 months from the date of fall.

3. For Public Sector Companies:

Such companies are required to achieve 25% public shareholding within 3 years from the date of notification by the Central Government (with flexibility provided by SEBI).

(B) Six Methods for Achieving Minimum Public Shareholding (MPS):

As per SEBI-prescribed methods, a listed company may achieve 25% MPS through any of the following:

1. Issue of shares to the public through prospectus (Public Issue);

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2. Offer for sale of shares by promoters through the prospectus;
3. Sale of shares by promoters through the stock exchange (OFS Mechanism);
4. Institutional Placement Programme (IPP);
5. Rights issue to public shareholders with promoters forgoing their rights;
6. Bonus issues to public shareholders by excluding promoters.

Note: The company may adopt any other method as permitted by SEBI to comply with Rule 19A.

Question : 16

A promoter of a listed company gifts 2% shares to his family member who is not part of the promoter group. Can this be considered reduction in promoter holding for public shareholding compliance?
(5 marks)

Provision of Law:

- Rule 19A (1) stipulates that every listed company shall maintain public shareholding of at least 25%.
- However every listed public sector company whose public shareholding falls below twenty five per-cent. at any time after the commencement of the Securities Contracts (Regulation) (Second Amendment) Rules, 2018, shall increase its public shareholding to at least twenty five per-cent, within a period of two years from such fall, in the manner specified by the SEBI.
- Rule 19A requires increase in public shareholding, not mere reduction in promoter holding.
- Transfer to a non-promoter but related person may not be considered public shareholding unless they qualify as public as per SEBI (LODR) Regulations.
- SEBI may scrutinize such transfers to prevent misuse.

Facts of the Case:

2% gifted to non-promoter family member.

Conclusion/Analysis :

As per the provisions stated above, unless recipient qualifies as a public shareholder, this transfer does not help in MPS compliance.

Question : 17

A listed company claims that minimum public shareholding was reduced due to merger with an unlisted promoter group company. Can this be a valid ground to delay compliance?
(3 marks)

Provision of Law:

- Rule 19A (1) stipulates that every listed company shall maintain public shareholding of at least 25%.
- Even after corporate actions like mergers or buybacks, Rule 19A(5) requires the listed entity to maintain 25% public shareholding.
- However every listed public sector company whose public shareholding falls below twenty five per-cent. at any time after the commencement of the Securities Contracts (Regulation) (Second Amendment) Rules, 2018, shall increase its public shareholding to at least twenty five per-cent, within a period of two years from such fall, in the manner specified by the

SEBI.

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Facts of the Case:

Merger caused promoter holding to increase, reducing public holding below 25%.

Conclusion:

As per the provisions stated above, The company must comply with MPS norms within 12 months from reduction date. SEBI can direct action if delay persists.

CHAPTER : 4 SECURITIES EXCHANGE BOARD OF INDIA

Question : 1

Write a short note on Securities Exchange Board Of India (SEBI) and state its objectives under the SEBI Act, 1992.
(3 marks)

Answer :

Section 3 of the SEBI Act provides that there shall be a Board by the name of the Securities and Exchange Board of India (SEBI) established as -

- a body corporate;
- having perpetual succession and a common seal;
- with power to acquire, hold and dispose of property, both movable and immovable; and
- to contract, and shall, by the said name, sue or be sued;
- the head office of the Board shall be at Mumbai.
- Further, the Board may establish offices at other places in India.

OBJECTIVES OF SEBI :

- To protect the interests of investors in securities.
- To regulate the securities market and for matters connected therewith or incidental thereto.
- To promote the development of Securities Market.

Question : 2

Describe the composition of the Securities and Exchange Board of India (SEBI) under the SEBI Act, 1992.
(5 marks)

Answer :

Section 4(1) of the SEBI Act provides that the SEBI shall consist of the following members (appointed by the Central Government), namely

- a. Chairman
- b. Two members from amongst the officials of the Ministry of the Central Government dealing with finance and administration of the Companies Act, 2013
- c. One member from amongst the officials of the Reserve bank

- d. Five other members of whom at least three shall be the whole time members, to be appointed by the Central Government.

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- The general superintendence, direction and management of the affairs of the Board shall vest in a Board of members, which may exercise all powers and do all acts and things which may be exercised or done by the Board.
- The Chairman shall also have powers of general superintendence and direction of the affairs of the Board and may also exercise all powers and do all acts and things which may be exercised or done by that Board.
- The Chairman and the other members shall be persons of ability, integrity and standing who have shown capacity in dealing with problems relating to securities market or have special knowledge or experience of law, finance, economics, accountancy, administration or in any other discipline which, in the opinion of the Central Government, shall be useful to the Board.

Question : 3

Enumerate the powers and functions of SEBI under Section 11 of the SEBI Act, 1992.

(5 marks)

Answer :

1. Section 11 of the Act lays down that it shall be the duty of SEBI to protect the interests of the investors in securities and to promote the development of, and to regulate the securities markets by such measures as it thinks fit.
2. Functions Of SEBI :
 - To protect the interests of investors in securities.
 - To regulate the securities market and for matters connected therewith or incidental thereto.
 - To promote the development of Securities Market.
3. Section 11(2A) prescribes that SEBI may take measures to undertake inspection of any book, or register, or other document or record of any listed public company or a public company which intends to get its securities listed on any recognised stock exchange where SEBI has reasonable grounds to believe that such company has been indulging in insider trading or fraudulent and unfair trade practices relating to securities market.
4. SEBI is vested with the same power as that of Civil Court Section 11(3) of the SEBI Act provides that the SEBI has been vested with the same powers as are available to a Civil Court trying a suit in respect of the following matters:
 - (i) the discovery and production of books of account and other documents at such place and such time indicated by SEBI.
 - (ii) summoning and enforcing the attendance of persons and examining them on oath.
 - (iii) inspection of any books, registers and other documents of any person listed referred in section 12 of the Act at any place.
 - (iii) inspection of any book or register or other document or record of any listed company or a public company which intends to get its securities listed on any recognized stock exchange.
 - (v) issuing commissions for the examination of witnesses or documents.

Question : 4 (June 2024, Old Syllabus).

An Investigating Authority was appointed by SEBI to investigate into the affairs of a listed entity. An employee of the entity fails to comply with the directions of the Investigating Authority. Discuss the consequences in this regard.

(4 marks)

Answer :

Section 11C of the SEBI Act, 1992 stipulates that it shall be the duty of :

- a) every manager, managing director, officer and other employee of the company and

- b) every intermediary or
- c) every person associated with the securities market.

to preserve and to produce to the Investigating Authority or any person authorised by it in this behalf, all the books, registers, other documents and record of, or relating to, the company or, as the case may be, of or relating to, the intermediary or such person, which are in their custody or power.

If any person fails without reasonable cause or refuses	Person shall be punishable with
● to produce to the Investigating Authority or any person authorised by it in this behalf any book, register, other document and record which is his duty to produce; or ● to furnish any information which it is his duty to furnish; or ● to appear before the Investigating Authority personally when required to do so or to answer any question which is put to him by the Investigating Authority; or ● to sign the notes of any examination.	● imprisonment for a term which may extend to 1 year; or ● with fine, which may extend to 1 crore rupees; or ● with both; and ● also with a further fine which may extend to five lakh rupees for every day after the first during which the failure or refusal continues.

Question : 5

SEBI received multiple complaints against Delta Equities Pvt. Ltd., a registered intermediary, for allegedly engaging in circular trading through multiple dummy accounts. SEBI initiated an investigation under Section 11C of the SEBI Act, 1992, and conducted a search of Delta's offices with due authorisation. During the search, SEBI seized laptops, mobile phones, and USB drives from key personnel.

The investigation remained incomplete even after 6 months, but SEBI continued to retain the seized electronic devices without providing any formal communication to Delta Equities or obtaining court permission.

Delta Equities argued that: The retention period exceeded 180 days, and SEBI was violating the safeguards provided under the SEBI Act.
(5 marks)

Answer :

Provision Of Law :

As per the Section 11C of the Act :

- a. The Investigating Authority may keep in its custody any books, registers, other documents and record produced for six months and thereafter shall return the same to any intermediary or any person associated with securities market by whom or on whose behalf the books, registers, other documents and record are produced.
- b. However, the investigating officer may call for any book,, register, other document and record if they are needed again.
- c. 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, it 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.
- d. The Investigating Authority shall keep in its custody the books, registers, other documents and record seized under this section for such period not later than the conclusion of the investigation as it considers necessary and thereafter shall return the same to the company or the other body corporate, or, as the case may be, to the managing director or the manager or any other person, from whose custody or power they were seized and inform the Magistrate or Judge of the Designated Court of such return.

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

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Facts of the Case :

SEBI seized electronic devices from Delta Equities. 180 days passed; items not returned and No magistrate approval was obtained.

Conclusion / Analysis :

As per the provisions stated above, SEBI violated Section 11C(9) by retaining items beyond 180 days without court approval. Delta can legally challenge the continued custody. SEBI must comply with statutory procedure for lawful retention.

Question : 6 (June 2025).

RNP Financial Services Limited is registered with SEBI as a merchant banker for providing various capital market services to its clients, including management of public issues, underwriting, etc. With recent changes in its top management, new leadership being more ambitious did not give due importance to the regulatory compliances and more focused on business expansion. As a result, team did lot of non-compliances.

One of their old client, made this complaint with the SEBI. As a result, SEBI conducted their internal enquiry and observed that RNP Financial Services Limited has continuously violating various rules and regulations applicable to merchant bankers. Accordingly, SEBI issued formal show cause notice. But, the new management made couple of false and misleading submissions to SEBI. As a result, SEBI carried out a full-fledge investigation into the affairs of RNP Financial Services Limited by appointing an appropriate Investigating Authority. During the course of investigation, authority appointed by SEBI has also seized various records and books of the company.

In the context of Securities and Exchange Board of India Act, 1992 and the various rules & regulations made thereunder, answer the following :

- (i) What are the powers of SEBI with regard to issue of directions to an intermediary ?
 - (ii) What are the grounds on which SEBI can conduct an investigation into the affairs of the intermediary ?
 - (iii) What are the powers of the Investigating Authority in the case ?
 - (iv) If penalty is imposed on RNP Financial Services Limited, what factors should be taken into account by SEBI or Adjudicating Officer while adjudging the quantum of penalty ?
 - (v) When and how the Investigating Authority should return the seized records of RNP Financial Services Limited ?
- (5 marks)

Answer :

(i) Issue of Directions :

- According to the provisions of Section 11B of SEBI Act, 1992, if SEBI is satisfied, after making or causing to be made an enquiry that it is necessary in the interest of investors or orderly development of securities market; or to prevent the affairs of any intermediary or other persons referred to in section 12 being conducted in a manner detrimental to the interest of investors or securities market; or to secure proper management of such intermediary or person; it may issue such directions to the intermediary as may be appropriate in the interest of investors in securities and the securities market.
- The power to issue directions under this section shall include and always be deemed to have been included the power to direct any person, who made profit or averted loss by indulging in any transaction or activity in contravention of the provisions of this Act or regulations made thereunder, to disgorge an amount equivalent to the wrongful gain made or loss averted by such contravention.

(ii) Grounds for Investigation :

Section 11C of the Act provides that where the SEBI has reasonable ground to believe that:

- a. the transactions in securities are being dealt within a manner detrimental to the investors or the securities market; or
- b. any intermediary or any person associated with the securities market has violated any of the provisions of this Act or the

rules or the regulations made or directions issued by SEBI thereunder;

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it may, at any time by order in writing, direct any person specified in the order to investigate the affairs of such intermediary or persons associated with the securities market and to report thereon to the SEBI.

(iii) **Powers of Investigating Authority :**

The Investigating Authority may require any intermediary or any person associated with securities market in any manner to furnish such information to, or produce such books, or registers, or other documents, or record before him or any person authorised by it in this behalf as it may consider necessary if the furnishing of such information or the production of such books, or registers, or other documents, or record is relevant or necessary for the purposes of its investigation.

(iv) **Factors to be taken into account while adjudging quantum of penalty :**

Section 15J lays down that while adjudging the quantum of penalty, the SEBI or the adjudicating officer shall have due regard to the following factors, viz. -

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

Section 15JA provides that all sums realised by way of penalties under this Act shall be credited to the Consolidated Fund of India.

(v) The Investigating Authority shall keep in its custody the books, registers, other documents and record seized under this section for such period not later than the conclusion of the investigation as it considers necessary and thereafter shall return the same to the company or the other body corporate, or, as the case may be, to the managing director or the manager or any other person, from whose custody or power they were seized and inform the Magistrate or Judge of the Designated Court of such return.

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

Question : 7

Explain the penalty provisions under SEBI Act, 1992 in case of insider trading and fraudulent practices. Mention relevant sections. (3 marks)

Answer :

As per the section 15G of the SEBI Act, 1992 :

If any insider who, —

- i. either on his own behalf or on behalf of any other person, deals in securities of a body corporate listed on any stock exchange on the basis of any unpublished price-sensitive information; or
- ii. communicates any unpublished price-sensitive information to any person, with or without his request for such information except as required in the ordinary course of business or under any law; or
- iii. counsels, or procures for any other person to deal in any securities of any body corporate on the basis of unpublished price-sensitive information.

Penalty of at least 10 lakh rupees but which may extend to 25 crore rupees or 3 times the amount of profits made out of insider

trading, whichever is higher.

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Question : 8

Mr. Y failed to pay the monetary penalty imposed by SEBI under Chapter VIA. SEBI referred the matter for recovery. Explain the recovery mechanism under SEBI Act for unpaid penalties.
(3 marks)

Answer :

As per the SECTION 28A(1) of the SEBI Act:

A person fails to pay the penalty imposed under this Act

1. Fails to comply with any direction of the SEBI for refund of monies or
2. Fails to comply with a direction of disgorgement order issued under section 11B or
3. Fails to pay any fees due to the SEBI;

The Recovery Officer may draw up under his signature a statement in the specified form specifying the amount due from the person (such statement being hereafter in this Chapter referred to as certificate).

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

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

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

Sub-section (2) empowered the Recovery Officer to seek the assistance of the local district administration while exercising the powers.

The recovery of amounts by a Recovery Officer, pursuant to non-compliance with any direction issued by the SEBI under section 11B, shall have precedence over any other claim against such person.

Question : 9 (Dec 2023).

- (i) What is the objective for which SAT is established ?
 - (ii) State the composition of Securities Appellate Tribunal ?
 - (iii) Does a Civil Court have jurisdiction to entertain any suit in respect of any matter for which an Adjudicating Officer appointed under the SEBI Act ?
 - (iv) Mention the time period for filing an appeal with Supreme Court.
 - (v) Why are special courts established by the Central Government ?
- (5 marks)

Answer :

i. Securities Appellate Tribunal (SAT) was established to consider appeal against order of the SEBI or by an order made by an adjudicating officer or by an order of the Insurance Regulatory and Development Authority or the Pension Fund Regulatory and Development Authority.

ii. According to Section 15L of the SEBI Act, 1992, the Securities Appellate Tribunal shall consist of a Presiding Officer and such

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number of Judicial Members and Technical Members as the Central Government may determine, by notification to exercise the powers and discharge the functions conferred on the Securities Appellate Tribunal under SEBI Act, 1992 or any other law for the time being in force.

iii. Section 15Y of the SEBI Act, 1992 lays down that no civil court has jurisdiction to entertain any suit or proceeding in respect of any matter for which an Adjudication Officer has been appointed under the SEBI Act, 1992.

iv. Section 15Z lays down that any person aggrieved by any decision or order of the Securities Appellate Tribunal may file an appeal to the Supreme Court within 60 days from the date of communication of the decision or order of the Securities Appellate Tribunal to him on any question of law arising out of such order.

v. Special courts are established by the Central Government under Section 26A of the SEBI Act, 1992 for providing speedy trial of offences.

Question : 10 (Dec 2023, Old Syllabus).

Hon'ble Justice Z, a retired Chief Justice of a High Court, attained the age of 64 years on 31st December, 2022. The Central Government had appointed him as the Presiding Officer of the Securities Appellate Tribunal (SAT) with effect from 1st January, 2023.

You are required to state with reference to SEBI Act, 1992 :

- (a) The term for which he may be appointed as Presiding Officer of the SAT.
 - (b) Whether he can be re-appointed as such and remains as Presiding Officer of the Securities Appellate Tribunal.
- (4 marks)

Answer :

Provision Of Law :

- As per Section 15M of the SEBI Act, 1992, a person shall not be qualified for appointment as the Presiding Officer of the Securities Appellate Tribunal, unless he is, or has been, a Judge of the Supreme Court or a Chief Justice of a High Court or a Judge of High Court for at least seven years.
- Further, as per Section 15N, the Presiding Officer of the Securities Appellate Tribunal shall hold office for a term of five years from the date on which he enters upon his office, and shall be eligible for reappointment for another term of maximum five years.
- However, a person shall not hold office as the Presiding Officer after he has attained the age of 70 years.

Conclusion/Analysis :

Keeping in view the above provisions, Mr. Z can be appointed as Presiding Officer of SAT since at the date of the appointment he has attained the age of 64 years. After five years, he will attain the age of 69 years and hence can be re-appointed. However, on the attainment of the age of 70 years, Mr. Z shall have to vacate the office of Presiding Officer and he shall not be re-appointed as Presiding Officer of Securities Appellate Tribunal.

Question : 11

ABC Ltd. is a registered stock broker of the Bombay Stock Exchange. SEBI levied a penalty of 2 crore on the company for violation of the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003. ABC Ltd. is contemplating to challenge the SEBI's order before the Securities Appellate Tribunal (SAT) in an appeal. Explain the procedure for making an appeal before the SAT.

(5 marks)

Answer:

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Section 15T and 15U deal with the appeal procedure and powers of Securities Appellate Tribunal.

- Any person aggrieved by an order of the SEBI made or by an order made by an adjudicating officer under this Act or by an order of the IRDA or the PFRDA may prefer an appeal to a SAT having Jurisdiction in the matter.
- Within a period of forty-five days from the date on which a copy of the order made by the SEBI or the Adjudicating Officer or the IRDA or the PFRDA as the case may be, is received by him and it shall be in such form and be accompanied by such fee as prescribed.
- On receipt of appeal and after giving the parties to opportunity of being heard SAT, pass order as thinks fit, confirming, modifying or setting aside the order appealed against.
- The Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of forty-five days if it is satisfied that there was sufficient cause for not filing it within that period.
- SAT shall dispose of the appeal within 6 months.

Question : 12 (Test Your Knowledge)

What is the time period for filling an appeal with SAT and Supreme Court?

Answer :

In case of filing appeal with SAT: Within 45 days from the date of order of the copy made by the SEBI or the adjudicating officer or the IRDA or the PFRDA, as the case may be. In case of filing appeal with Supreme Court: Within 60 days from the date of communication of the decision or order of SAT.

Question : 13 (Dec 2024).

A retail investor, Rajesh, invested in a mutual fund scheme but noticed irregularities in the fund's performance and management. Despite multiple attempts to resolve the issue with the mutual fund company, he receives no satisfactory response. Rajesh decides to approach SEBI's complaints redressal system (SCORES) for assistance. In light of this, answer the following:

- (i) How should Rajesh file a complaint with SEBI ?
 - (ii) What information does Rajesh needs to provide ?
 - (iii) What is the timeline for lodging complaint and one-time Review option?
 - (iv) Can a complaint in SCORES be filed against a company under liquidation ? If yes, state the procedure.
- (1+1+1+2=5 marks)

Answer :

(i) Investors who wish to lodge a Complaint on SCORES (complainant) are required to register themselves on www.scores.gov.in by clicking on "Register here" under the "Investor Corner".

(ii) Rajesh while filing the registration form should give the details like Name of the investor. Permanent Account Number (PAN), contact details, email id, for effective communication and speedy redressal of the grievances.

(iii) In order to enhance ease, speed and accuracy in the redressal of grievance, the investor may lodge the Complaint against any Entity on SCORES within a period of one year from the date of occurrence of the cause of action. If any complaint is filed on SCORES beyond the limitation period specified above, SEBI may reject such complaint. If the complainant is not satisfied with the resolution provided by the entity, the complainant may request for a review of the resolution provided by the entity within 15 calendar days from the date of the Action Taken Report,

(iv) Any complaint against a liquidated company(ies), or company(ies) under liquidation cannot be dealt through SCORES. Therefore, no complaint can be filed against such category of company(ies) in SCORES.

Question : 14 (Dec 2023).

What is the purpose of Informal Guidance ? Who are the persons for making a request for Informal Guidance ? What are forms in which the informal guidance is sought ? What is the time period within which the request may be disposed off by SEBI ?

(5 marks)

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Answer :

In the interests of better regulation of and orderly development of the Securities market, SEBI has issued SEBI (Informal Guidance) Scheme 2003 w.e.f. 24.06.2003. The following persons may make a request for informal Guidance under the scheme:

- any intermediary registered with the SEBI.
- any listed company.
- any company which intends to get any of its securities listed and which has filed either a listing application with any stock exchange or a draft offer document with the SEBI or the Central Listing authority.
- any mutual fund trustee company or asset management company.
- any acquirer or prospective acquirer under the SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997. [Now the SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 2011]

The Guidance Scheme, further deals with various aspects such as the nature of request, fees to be accompanied along with request letter, disposal of requests, the SEBI's discretion not to respond certain types of requests and confidentiality of requests etc.

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

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

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

It should also describe the request, disclose and analyse all material facts and circumstances involved and mention all applicable legal provisions. The SEBI may dispose off the request as early as possible and, in any case, not later than 60 days after the receipt of the request.

Question : 15 (Dec 2024, Old Syllabus).

An intermediary registered with SEBI wants to approach SEBI for some guidance under SEBI (Informal Guidance) Scheme, 2003. Explain the procedure which should be followed by an intermediary for such guidance. Also explain various types of guidance provided by SEBI in this regard.

(5 marks)

Answer :

- a) In the interests of better regulation of and orderly development of the Securities market, SEBI has issued SEBI (Informal Guidance) Scheme 2003.
- b) An intermediary registered with SEBI may make a request for informal Guidance under the scheme.
- c) The request seeking informal guidance should state that it is being made under this scheme and also state whether it is a request for a no-action letter or an interpretive letter and should be accompanied with prescribed fees and addressed to the concerned Department of the SEBI.
- d) It should also describe the request, disclose and analyse all material facts and circumstances involved and mention all applicable legal provisions.

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

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- f) The Department may give a hearing or conduct an interview if it feels necessary to do so.
- g) The requestor shall be entitled only to the reply. The internal records or views of the SEBI shall be confidential.
- h) The informal guidance may be sought for and given in two forms -

1. No-action letters:

The SEBI indicates that the Department would or would not recommend any action under any Act, Rules, Regulations, Guidelines, Circulars or other legal provisions administered by SEBI to the Board if the proposed transaction described in a request made under the SEBI (Informal Guidance) Scheme, 2003, is consummated.

2. Interpretive letters:

The SEBI provides an interpretation of a specific provision of any Act, Rules, Regulations, Guidelines, Circulars or other legal provision being administered by the SEBI in the context of a proposed transaction in securities or a specific factual situation.

Question : 16

SEBI may not respond to certain types of requests under SEBI (Informal Guidance) Scheme, 2003. Explain.
(3 marks)

Answer :

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

- (a) those which are general and those which do not completely and sufficiently describe the factual situation;
- (b) those which involve hypothetical situations;
- (c) those requests in which the requestor has no direct or proximate interest;
- (d) where the applicable legal provisions are not cited;
- (e) where a no-action or interpretive letter has already been issued by that or any other Department on a substantially similar question involving substantially similar facts, as that to which the request relates;
- (f) those cases in which investigation, enquiry or other enforcement action has already been initiated;
- (g) those cases where connected issues are pending before any Tribunal or Court and on issues which are subjudice; and
- (h) those cases where policy concerns require that the Department does not respond.

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

However, SEBI is not be under any obligation to respond to a request for guidance made under this scheme, and shall not be liable to disclose the reasons for declining to reply the request.

Question : 17 (Dec 2023, Old Syllabus).

Explain the term Confidentiality of request under the SEBI (Informal Guidance) Scheme, 2003.
(4 marks)

Answer :

Confidentiality of Request :

- 1. Any person submitting a letter or written communication under this scheme may request that it receive confidential treatment for a specified period of time not exceeding 90 days from the date of the Department's response.

2. The request shall include a statement of the basis for confidential treatment.

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3. If the Department determines to grant the request, the letter or written communication will not be available to the public until the expiration of the specified period.
 4. If it appears to the Department that the request for confidential treatment should be denied, the requestor will be so advised and such person may withdraw the letter or written communication within 30 days of receipt of the advise, in which case the fee, if any, paid by him would be refunded to him.
 5. In case a request has been withdrawn under clause (c), no response will be given and the letter or written communication will remain with the SEBI but will not be made available to the public.
 6. If the letter or written communication is not withdrawn, it shall be available to the public together with any written staff response.
- A no-action letter or an interpretive letter issued by a Department constitutes the view of the Department but will not be binding on the SEBI, though the SEBI may generally act in accordance with such a letter.
 - The letter issued by a Department under this scheme should not be construed as a conclusive decision or determination of any question of law or fact by the SEBI.
 - Such a letter cannot be construed as an order of the SEBI under Section 15T of the Act and shall not be appealable.
 - Where a no action letter is issued by a Department affirmatively, it means that the Department will not recommend enforcement action to the SEBI, subject to other provisions of this scheme.
 - The guidance offered through the letters issued by Departments is conditional upon the requestor acting strictly in accordance with the facts and representations made in the letter.
 - The SEBI shall not be liable for any loss or damage that the requestor or any other person may suffer on account of the request not being replied or being belatedly replied or the SEBI taking a different view from that taken in a letter already issued under this scheme.
 - Where the Department finds that a letter issued by it under this scheme has been obtained by the requestor by fraud or misrepresentation of facts, notwithstanding any legal action that the Department may take, it may declare such letter to be non est and thereupon the case of the requestor will be dealt with as if such letter had never been issued.
 - Where the SEBI issues a letter under this scheme, it may post the letter, together with the incoming request, on the SEBI website in accordance with the Guidance Scheme.

CHAPTER:5 LAWS GOVERNING TO DEPOSITORIES & DEPOSITORY PARTICIPANT

Question : 1 (Dec.2024 Old Syllabus).

The depository functions like a bank but there are some differences between the working of a bank and the working of a depository. Explain four of them.

(4 marks)

Answer :

The Depository System functions very much like the banking system, but following are the differences between the working of a bank and the working of a depository -

BANK	DEPOSITORY
Holds funds in accounts	Holds securities in accounts for its clients.
Transfers funds between accounts on the instruction of the account holder	Transfers securities between accounts on the instruction of the beneficial owner account holder.
Facilitates transfer without having to handle money.	Facilitates transfer of ownership without having to handle securities.
Accountable for the safe keeping of funds only	Accountable safe keeping of securities only.

Question : 2 (Dec 2021).

What is Depository System? What are the features of Depository System in India?

(5 marks each)

Answer :

A depository is an organization which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors through a registered Depository Participant. India has adopted the Depository System for securities trading in which book entry is done electronically and no paper is involved.

The physical form of securities is extinguished and shares or securities are held in an electronic form.

Features of Depository System are given below:

(a) Elimination Of Bad Delivery:

In depository system the question of bad delivery does not arise i.e; they cannot be held under objection.

(b) Elimination Of All Risk Associated With Physical Certificates:

Dealing in physical securities has associated risk of theft, loss of share certificate, mutilation of certificate, etc. These problems do not arise in depository system.

(c) Immediate Transfer & Registration Of Securities:

In depository system, once the securities are credited to investor's account, further such person becomes the legal owner of the securities. Hence, there is no need to register the ownership with the company.

(d) Faster Disbursement Of Non-Cash Corporate Benefits:

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Benefits such as right issue, bonus issue, etc.

(e) Reduction In Brokerage:

Under depository system, normally the cost of brokerage is very less as compared to physical form.

(f) Reduction In Handling Of Huge Volume Of Paper Work.

(g) Elimination Of Problems Relating To Selling Of Securities On Behalf Of A Minor.

(h) Elimination Of Problem Relating To Change Of Address:

In depository system, in case of change of address or transmission of securities the investor is saved from undergoing entire change procedure with each company.

Question : 3 (Dec 2023).

"A depository interfaces with the investors through its agents called Depository Participants. Discuss the statement and explain the characteristics of depository participants and how depository is different from custodian?"

(5 marks each)

Answer :

- 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.
- Just as a broker acts as an agent of the investor at the Stock Exchange, a Depository Participant (DP) is the representative (agent) of the investor in the depository system providing the link between the Company and investor through the Depository.
- 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.

A DP is one with whom an investor needs to open an account to deal in shares in electronic form. While the Depository can be compared to a Bank, DP is like a branch of that bank with which an account can be opened.

Both depository and custodian services are responsible for safe keeping of securities but they are different in the sense that the

Depository can legally transfer beneficial ownership, while a custodian cannot. The main objective of a Depository is to minimize the paper work involved with the ownership, trading and transfer of securities.

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Question : 4 (Module Question)

Who can be a DP?

Answer :

Public financial institutions, scheduled commercial banks, foreign banks operating in India with the approval of the Reserve Bank of India, state financial corporations, custodians, stock-brokers, clearing corporations / clearing houses, NBFCs and registrar to an issue or share transfer agent complying with the requirements prescribed by SEBI can be registered as DP.

Question : 5 (June 2023).

What do you know about Dematerialisation? What is the procedure for Dematerialisation?
(5 marks)

Answer :

- 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/her account in electronic form at the request of the investor.
- An investor will have to first open an account with a Depository Participant and then request for the dematerialization of his/her share certificates through the Depository Participant so that the dematerialized holdings can be credited into that account.
- This is very similar to opening a Bank Account.

Procedure for Dematerialization :

- Investor open account with Depository Participant.
- Fills dematerialization request form (DRF) for registered shares along with share certificate.
- Investor lodges DRF and certificates with Depository Participant.
- Depository Participant intimates the Depository.
- Depository intimates Registrar/Issuer.
- Depository Participant sends certificates and DRF to Registrar/Issuer.
- Registrar/ Issuer confirms demat to Depository.
- Depository credits investor account.

Question : 6 (December 2024).

Rohit is a regular investor in the market, electronically holding one thousand equity shares with special voting right shares of Growmore Ltd. He made a request for rematerialisation of his shares to the Company. Rohit also wanted to know, after how many days of rematerialisation, he can trade his shares. As the Company Secretary of Growmore Ltd, explain the meaning of rematerialisation, procedure to be followed for remat and tradability postremat.
(5 marks)

Answer :

- Rematerialisation is the process of converting securities held in electronic form in a demat account back in physical certificate form.
- For the purpose of rematerialisation, the client has to submit the rematerialisation request form (RRF) to the Depository Participant (DP) with whom he has an account.

- A client can rematerialise his dematerialised holdings at any point of time.

Procedure required for rematerialisation is as under:

- Client submits rematerialisation request form (RRF) to DP.
- DP enters the request in its system which blocks the client's holding.
- DP intimates to Depository and simultaneously, DP sends the RRF to the Registrar/ Issuer.
- Registrar/ Issuer prints certificates and dispatch to the client.
- Registrar/ Issuer electronically confirms remat to Depository.
- Client's account with DP is debited.

The trading is permitted only in electronic form for the listed entities. Hence, the securities sent for rematerialisation cannot be traded. Therefore, Rohit will not be able to trade his securities post-remat.

Question : 7 (June, 2024).

As a company secretary, you are required to advise on the following issues:

- Can a foreign bank, operating in India, be registered as a depository participant ?
 - Manoj Soni, a lawyer by profession, has a Demat account with a scheduled commercial bank but he wants to open another account with another depository participant. Can he do so ?
 - Manmohan Reddy holds shares of XYZ Pvt. Ltd. in Demat Form. Advise how he would get the right issue shares?
 - Are debt instruments viz: debentures and commercial papers available for Demat at the Depository?
- (1+1+1+2=5 marks)

Answer :

- Yes, a foreign bank operating in India, with the approval of the Reserve Bank of India can be registered as a depository participant.
- Yes, Manoj Soni has a choice to open another Demat account with any depository participant.
- The concerned company obtains the details of beneficiary holders and their holdings from the depository participant (NSDL or CDSL) as on the record date. The concerned company then issues Right Entitlement (RE) as entitlement to Mr. Manmohan Reddy. The number of shares against those REs will be credited to his Demat account by the company / its RTA.
- All types of equity/ debt instruments viz. equity shares, preference shares, partly paid shares, bonds, debentures, commercial papers, certificates of deposit, government securities (G-SEC) etc. irrespective of whether these instruments are listed / unlisted / privately placed can be dematerialized with depository, if they have been admitted with the depository.

Question : 8

Define the term 'ISIN' and explain its structure and importance in securities transactions.
(3 marks)

Answer :

- ISIN stands for International Securities Identification Number.
- A 12-character alphanumeric code uniquely identifying a security.
- The first two characters represent the country, the other 9 characters are unique identification numbers & the last digit is used to verify the accuracy of the issuer.
- Structured as: Country code + Security Identifier + Check digit.

- Assigned by the National Numbering Agency (NNA) of respective countries.

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- Used worldwide for all types of securities stocks, bonds, warrants etc.
- Helps in facilitating cross-border trading , settlement and clearing processes.
- Required for listing, trading, and tracking securities.
- Ensures uniqueness and standardization in identification.

Question : 9 (Dec 2022).

Due to rapid surge of Initial Public Offers in the primary market, the participation of retail investors in the market has also increased substantially. To tap this opportunity, XYZ Ltd. is planning to start the depository services. Narrate in brief, the eligibility conditions for rendering of depository services.

(4 marks)

Answer :

In order to start the depository services, XYZ Ltd. is required to comply with the following requirements.

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

- Have a net worth of not less than 100 crore;
- It must be formed and registered as a Company under the Companies Act, 2013;
- It must be registered with SEBI as a depository under the SEBI Act, 1992;
- It shall have framed bye-laws with the previous approval of SEBI;
- It shall register itself with one or more participants to render depository services on its behalf;
- It shall have adequate systems and safeguards to prevent manipulation of records and transactions to the satisfaction of SEBI;
- It shall comply with Depositories Act, 1996 and SEBI (Depositories and Participants) Regulations, 2018.
- meets eligibility criteria in terms of constitution, network, etc.

Question : 10 (June 2025)

Under the provisions of the Depositories Act, 1996, a depository is the registered owner for the purpose of effecting transfer of ownership of security; but it is the beneficial owner who owns or has control over the legal entity. What is a 'beneficial owner' and 'depository' under the provisions of the Depositories Act, 1996 ? What are the rights available to a beneficial owner ?

(2+3=5 marks)

Answer :

"Beneficial owner" means a person whose name is recorded as such with a depository.

"Depository" means a company formed and registered under the Companies Act, and which has been granted a certificate of registration under sub-section (1A) of section 12 of the Securities and Exchange Board of India Act, 1992.

Rights of a Beneficial Owner :

- According to Section 10 of the Depositories Act, the rights of a beneficial owner include:
- Section 10 of the Depositories Act, 1996, further lays down that a depository should be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner. Thus, the depository as a registered owner should not have any voting rights or any other rights in respect of securities held by it.

- The beneficial owner is entitled to all the rights and benefits and is subject to all the liabilities in respect of his securities held by a depository. Under the Depositories Act, 1996, beneficial owners have the following rights:

1. Liabilities:

The beneficial owner and is subject to all the liabilities in respect of his securities held by a depository.
(e.g., payment of calls on shares).

2. Right to Opt-Out:

As per the section 14, A beneficial owner may opt out of the depository system in respect of any security by informing the depository.

3. Right to Pledge or Hypothecate:

As per the section 12, A beneficial owner may with the previous approval of the depository create a pledge or hypothecation in respect of a security owned by him through a depository. Every beneficial owner should give intimation of such pledge or hypothecation to the depository and such depository is required to make entries in its records accordingly.

4. Right to Indemnity:

As per section 16, Any loss caused to the beneficial owner due to the negligence of the depository or the participant, would be indemnified by the depository to such beneficial owner.

Question : 11 (Module Question)

What type of instruments are available for demat at Depository?

Answer :

All types of equity/ debt instruments viz. equity shares, preference Shares, partly paid shares, bonds, debentures, commercial papers, certificates of deposit, government securities (G-SEC) etc. irrespective of whether these instruments are listed / unlisted / privately placed can be dematerialized with depository, if they have been admitted with the depository.

Question : 12

X, a shareholder of a listed company holding 1000 equity shares of 100 each in physical form as on 1st January 2022, wants to transfer to another shareholder Y on 1st May, 2022. Can X transfer his shares to Y in physical form?
(3 marks)

Answer :

Provision Of Law :

Restriction on Transfer of Securities :

- SEBI has amended relevant provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to disallow listed companies from accepting request for transfer of securities which are held in physical form.
- The shareholders who continue to hold shares and other types of securities of listed companies in physical form even after this date, will not be able to lodge the shares with company / its RTA for further transfer.
- They will need to convert them to demat form compulsorily if they wish to effect any transfer.
- Transmission or transposition of securities held in physical or dematerialised form shall also be effected only in dematerialised form.
- This amendment will help in curbing fraud and manipulation risk in physical transfer of securities by unscrupulous persons.

- Further, with shares held in demat form will improve ease, convenience and safety of transactions for investors.

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Conclusion/Analysis :

As per the provisions stated above, X shareholder of a listed company cannot transfer his shares to Y shareholder in physical form as it is prohibited under the SEBI Regulations.

Question : 13

Zed Financial, an intermediary, is found violating multiple regulations under the Depositories Act and SEBI Regulations. SEBI decides to initiate an investigation.

- (i) What are the powers of SEBI regarding investigations under the Depositories Act?
 - (ii) What powers can the Investigating Authority exercise during such an investigation?
- (2.5+2.5 marks)

Answer:

(i) Powers of SEBI under the Depositories Act:

1. To Call for Information and Enquiry

Section 18 of the Act provides that the SEBI in the public interest or in the interest of investors may by order in writing-

call upon any issuer, depository, participant or beneficial owner to furnish in writing such information relating to the securities held in a depository as it may require or

authorize any person to make an enquiry or inspection in relation to the affairs of the issuer, beneficial owner, depository or participant, who shall submit a report of such enquiry or inspection to it within such period as may be specified in the order.

Sub-section (2) to Section 18 provides that every director, manager, partner, secretary, officer or employee of the depository or issuer or the participant or beneficial owner shall on demand produce before the person making the enquiry or inspection all information or such records and other documents in his custody having bearing on the subject matter of such enquiry or inspection

2. To Give Directions

Section 19 provides that the SEBI, if after making or causing to be made an enquiry or inspection, the SEBI is satisfied that it is necessary in the interest of investors or the securities market or to prevent the affairs of any depository or participant being conducted in the manner detrimental to the interests of investors or the securities market, it may issue such directions-

- a) to any depository or participant or any person associated with the securities market, or
- b) to any issuer.

3. To Make Regulations

Section 25 of the Act provides that the SEBI may, issue regulations which may provide for-

- the form in which record is to be maintained,
- the form in which the certificate of commencement of business shall be issued:
- the manner in which the certificate of security shall be surrendered:
- the manner of creating a pledge or hypothecation in respect of security owned by a beneficial owner.
- the conditions and the fees payable with respect to the issue of certificate of securities
- the rights and obligations of the depositories, participants and the issuers:
- the eligibility criteria for admission of securities into the depository:

- the terms determined by the Board for settlement of proceedings
- any other matter which is required to be, or may be, specified by regulations or in respect of which provision to be made by regulations.

(ii) Powers of the Investigating Authority:

The Investigating Authority appointed by SEBI has wide-ranging powers under Section 11C of the SEBI Act, including:

1. Call for information, books, and records from the issuer or any associated persons.
2. Examine directors, officers, or employees under oath.
3. Enter premises of the intermediary after obtaining approval from a Magistrate.
4. Seize documents, records, or devices relevant to the investigation with prior court permission.
5. Submit a detailed investigation report to SEBI, which may lead to enforcement action such as penalties, suspension, or cancellation of registration.

These powers are intended to protect investors' interests and uphold the integrity of the securities market.

Question : 14 (Dec.2023).

What is concurrent audit ? Explain its scope with respect to issuance of DIS and verification of DIS.
(5 marks)

Answer :

Concurrent Audit

National Securities Depository Limited vide its Circular No. NSDL/POLICY/2006/0021 dated June 24, 2006 provides for concurrent audit of the Depository Participants. The Circular provides that w.e.f. August 1, 2006, the process of demat account opening, control and verification of Delivery Instruction Slips (DIS) is subject to Concurrent Audit.

Depository Participants have been advised to appoint a firm of qualified Chartered Accountant(s) or Company Secretary(ies) holding a certificate of practice for conducting the concurrent audit.

However, the participants in case they so desire, may entrust the concurrent audit to their Internal Auditors.

In respect of account opening, the auditor should verify all the documents including KYC documents furnished by the clients and verified by the officials of the Participants.

Concurrent audit includes following areas:

- i) Account opening,
- ii) Delivery Instruction Slip (DIS) book issuance,
- iii) Execution of DIS,
- iv) Power of Attorney modifications,
- v) Account closure requests initiated by Participant,
- vi) Investor grievances received by Participant,
- vii) Providing Transaction Statements to clearing members (process level)
- viii) KYC reconfirmation intimated by NSDL and initiated by Participant,

ix) Replacement of Original DIS image in tamper proof storage,

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- x) Non Disposal Undertakings (NDU),
- xi) Modification in the name of client (including minor correction in name),
- xii) Client data modifications,
- xiii) Accreditation of investors (IGP),
- xiv) Freezes due to statutory orders, xv) Pledge & Hypothecation,
- xvi) Margin Pledge / Re-Pledge,
- xvii) Online account closure by client,
- xviii) Execution of Electronic/ E DIS.

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

In case the audit could not be completed, he should ensure that the audit is completed within a week's time.

Question : 15 (June.2022 Old Syllabus)

Write short note on : SARAL Account Opening.
(3 marks)

Answer :

SARAL Account Opening

SARAL account opening is for resident individuals. An individual investors can open a trading account and demat account by filling up a simplified Account Opening Form termed as 'SARAL AOF' and will also have the option to obtain other facilities, whenever they require, on furnishing of additional information as per prescribed regulations/circulars.

Individual investor may open demat account by submitting only one documentary i.e ;proof of address (either residence/correspondence or permanent) while opening a trading account and/or demat account or while undergoing updation.

In case of change in address , individual shall intimate within 2 weeks from change in address to the DP.

Question : 16

M/s Secure Trade Pvt. Ltd., a SEBI-registered Depository Participant, suffered a cyber-attack that disrupted its client data access for several hours. Upon review, it was found that the firm had not conducted its Vulnerability Assessment and Penetration Test (VAPT) or cyber audit during the current financial year. Further, no inventory records of critical assets or certification of compliance had been submitted to the Stock Exchange.

Examine the compliance obligations of Depository Participants under SEBI's Cyber Security Framework in light of the above facts. Assess whether M/s SecureTrade Pvt. Ltd. has violated any provisions, and explain the importance of each compliance measure referred to in this case.

(5 Marks)

Answer :

Provision Of Law :

Cyber-attacks and threats attempt to compromise the Confidentiality, Integrity and Availability (CIA) of the computer systems, networks and databases (Confidentiality refers to limiting access of systems and information to authorized users, Integrity is the assurance that the information is reliable and accurate, and Availability refers to guarantee of reliable access to the systems and information by authorized users).

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

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

The Frameworks inter-alia prescribes the following:

Depository Participants :

- are mandated to conduct comprehensive cyber audit at least once in a financial year.
- shall submit with Stock Exchange/Depository a declaration from the MD/ CEO / Partners/ Proprietors certifying compliance with all SEBI Circulars and advisories related to Cyber security from time to time, along with the Cyber audit report.
- shall identify and classify critical assets based on their sensitivity and criticality for business operations, services and data management. The critical assets shall include business critical systems, internet facing applications /systems, systems that contain sensitive data, sensitive personal data, sensitive financial data, Personally Identifiable Information (PII) data, etc.
- shall maintain up-to-date inventory of its hardware and systems, software and information assets (internal and external), details of its network resources, connections to its network and data flows.
- shall carry out periodic Vulnerability Assessment and Penetration Tests (VAPT) which inter-alia include critical assets and infrastructure components like Servers, Networking systems, Security devices, load balancers, other IT systems pertaining to the activities done as Depository Participants etc., in order to detect security vulnerabilities in the IT environment and in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks.
- Brokers / Depository Participants shall conduct VAPT at least once in a financial year.

Conclusion/Analysis :

M/s Secure Trade Pvt. Ltd. has clearly violated SEBI's Cyber Security and Cyber Resilience Framework by failing to conduct VAPT, cyber audit, maintain critical asset inventory, and file compliance reports. These lapses increase the vulnerability of the capital market ecosystem and undermine investor trust. Prompt corrective actions and future compliance are essential to avoid regulatory penalties and safeguard client data integrity.

Question : 17 (June 2025)

You have been recently appointed as the Company Secretary in S.K. Limited. One of the youngest Board members wanted to understand from you-what Role a Company Secretary may have, under the Laws Governing to Depositories and Depository Participants? Explain in detail.

(5 marks)

Answer :

Right to Legal Representation (Section 23C) :

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

Internal Audit of Depository Participants :

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

Reconciliation of Share Capital Audit :

Company Secretary is authorized to issue quarterly certificate with regard to reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, details of changes in share capital during the quarter, and principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital under SEBI (Depositories and Participants) Regulations, 2018 Regulation 76 of SEBI (Depositories and Participants) Regulations, 2018).

Concurrent Audit of Depository Participants :

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

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CHAPTER : 6 SECURITIES MARKET INTERMEDIARIES

Question : 1 (June 2025).

The capital market intermediaries are vital link between investor, issuer and regulator. Elaborate the concept, with the help of objectives of intermediaries.

(5 marks)

Answer :

- Intermediaries are service providers and are an integral part of any financial system. SEBI regulates various intermediaries in the primary and secondary markets through its regulations for these respective intermediaries.
- SEBI has defined the role of each of the intermediary, the eligibility criteria for granting registration, their functions and responsibilities and the code of conduct to which they are bound.
- With this aim, these intermediaries are working towards their following objectives:

a) To smoothen the process of investment.

b) To establish a link between the investors and the users of funds.

c) Corporations and Governments do not market their securities directly to the investors. Instead, they hire the services of the market intermediaries to represent them to the investors.

d) Investors, particularly small investors, find it difficult to make direct investment. A small investor desiring to invest may be able to diversify across issuers to reduce risk. He may not be equipped to assess and monitor the credit risk of issuers. Market intermediaries help investors to select investments by providing investment consultancy, market analysis and credit rating of investment instruments.

e) In order to operate in secondary market, the investors have to transact through share brokers. Registrars and Share Transfer Agents, Custodians and Depositories Participants are capital market intermediaries that provide important infrastructure services for both primary and secondary markets.

Therefore, it is said that the capital market intermediaries are vital link between investor, issuer and regulators.

Question : 2

Explain the procedure followed by SEBI for granting registration to a securities market intermediary.

(5 marks)

Answer :

Registration of Intermediaries

Application for Registration:

An application, for grant of a certificate to act as an intermediary, has to be made to the SEBI in Form A of Schedule I with such additional information as required to be provided under the relevant regulations, and the application fee, as specified in the relevant regulations.

The applicant seeking registration to act as a stock broker or sub-broker or a trading member or a clearing member or a depository participant has to make the application along with certain additional information through the stock exchange or through the clearing corporation of which the applicant is a member or trading member or through the depository in which the applicant proposes to act as a participant, as the case may be.

Process of Application:

The stock exchange, the clearing corporation, the depository or the specified self regulatory organization, as the case may be,

has to examine the eligibility of the applicant in terms of these regulations, relevant regulations and the rules, regulations or bye-laws of the concerned stock exchange, clearing corporation, depository or the self regulatory organization and forward the

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application with the application fees to the SEBI along with its recommendation as early as possible but not later than 30 days of receipt of the complete application with the specified application fees.

Note: An applicant or an intermediary, as the case may be, may carry on the activities of one or more intermediaries only if it obtains a separate certificate to carry on each such activity.

Additional Information or clarifications:

The SEBI may require the applicant to furnish further information or clarifications, regarding matters relevant to the activity of such an intermediary or which may otherwise be considered necessary by the SEBI, to consider and dispose of the application. The applicant has to furnish such information and clarification to the satisfaction of the SEBI, within the time specified in this regard by the SEBI.

Verification / Inspection:

While considering the application, the information furnished by the applicant and its eligibility, the SEBI may, if it so desires, verify the information by physical verification of documents, office space, and inspect the availability of office space, infrastructure, and technological support which the applicant is required to have.

Consideration of Application :

For considering the eligibility of the applicant and grant of certificate to such applicant, the SEBI shall take into account all matters which it deems relevant to the activities in the securities market, including but not limited to the following –

- whether the applicant have in the past been refused certificate by the SEBI and if so, the ground for such refusal;
- whether the applicant, its directors or partners, or trustees, as the case may be or its principal officer is involved in any pending litigation connected with the securities market which has an adverse bearing on the business of the applicant or on development or functioning of the securities markets;
- whether the applicant satisfies the eligibility criteria;
- whether the grant of a certificate to the applicant is in the interest of the investors ;
- whether the grant of a certificate to the applicant is in the interest of the development of the securities market.

Granting of Certificate:

The SEBI on being satisfied that the applicant is eligible, shall grant a certificate in the form specified in the relevant regulations and send an intimation to the applicant in this regard.

Question : 3 (Dec 2023).

Financial Market Intermediaries are service providers and are an integral part of any financial system. Elucidate and mention the primary market intermediaries and secondary market intermediaries. When the applications for grant of certificate of Financial Market Intermediaries are rejected?

(5 marks)

(June 2024, Old Syllabus).

Every intermediary of securities market has to apply to SEBI for grant of certificate to act as intermediary. Describe various criteria on the basis of which SEBI can reject such application of the intermediary.

(5 marks)

Answer :

- Intermediaries are service providers and are an integral part of any financial system. SEBI regulates various intermediaries in the primary and secondary markets through its regulations for these respective intermediaries.

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

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- These regulations also empower SEBI to inspect the functioning of these intermediaries and to collect fees from them and to impose penalties on erring entities.

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

Rejection of Application :

SEBI can reject the application of the intermediary if -

Any application for grant of certificate:-

- which is not complete in all respects and does not conform to the requirements in Form A and the requirements specified in the relevant regulation;
- which does not contain such additional information as required by the SEBI;
- which is incorrect, false or misleading in nature;
- where the applicant is not in compliance with the eligibility requirements as set out under these regulations or the relevant regulations;
- where the applicant is not a fit and proper person;
- where the principal officer does not have the requisite qualification or experience as required under the relevant regulations;

can be rejected by the SEBI for reasons to be recorded by the SEBI in writing;

However, the applicant has to be given an opportunity in writing to make good the deficiencies within the time specified by the SEBI, for the purpose.

Further, where an application is rejected for the reason that it contains false or misleading information, no such opportunity may be given and the applicant cannot make any application for grant of certificate under these regulations or any other regulations for a period of 1 year from the date of such rejection.

Question : 4 (Dec 2023, Old Syllabus)

Explain the effect of refusal to grant certificate to an intermediary.
(4 marks)

Answer :

Effect of refusal to grant certificate to an intermediary.

Where an intermediary has failed to make an application or where an existing intermediary has been refused grant of certificate under these regulations, the intermediary has to:

- forthwith cease to act as such intermediary;

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- transfer its activities to another intermediary which has been granted a certificate for carrying on such activity and allow its clients or investors to withdraw or transfer their securities or funds held in its custody without any additional cost to such client or investor;
- make provisions as regards liability incurred or assumed by the intermediary;
- take such other action, within the time period and in the manner, as may be required under the relevant regulations or as may be directed by the SEBI.

Question : 5 (Dec 2023, Old Syllabus).

All the registered merchant bankers are hereby advised to disclose on their website. Elucidate the investor charter to be published or disclosed by the merchant banker.
(5 marks)

Answer :

With a view to provide investors an idea about the various activities pertaining to primary market issuances as well as exit options like Takeovers, Buybacks or Delisting, an Investor Charter has been developed in consultation with the Merchant Bankers. This charter is a brief document in an easy to understand language and contains different services to the investors at one single place for ease of reference. All the registered Merchant Bankers have to disclose on their website, Investor

Charter for each of the following categories, as prescribed by SEBI:

1. Initial Public Offer (IPO) and Further Public Offer (FPO) including Offer for Sale (OFS);
2. Rights Issue;
3. Qualified Institutions Placement (QIP);
4. Preferential Issue;
5. SME IPO and FPO including OFS;
6. Buyback of Securities;
5. Delisting of Equity Shares; 8. Substantial Acquisitions of Shares and Takeovers.

Additionally, in order to bring about transparency in the Investor Grievance Redressal Mechanism, it has also been decided that all the registered Merchant bankers shall disclose on their respective websites, the data on complaints received against them or against issues dealt by them and redressal thereof, on each of the aforesaid categories separately as well as collectively, latest by 7th of succeeding month as per the format prescribed by the SEBI.

Question : 6 (June 2024).

Registrars and Share transfer Agents (RTA) ease the burden of a listed entity on day-to-day resolution of matters pertaining to the securities. State in brief, the pre and post issue activities performed by an RTA.
(5 marks)

Answer :

Registrars and Share transfer Agent means the person appointed by a body corporate or any person or group of persons to carry on the various activities as prescribed under the SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993.

Pre-issue Activities:

- Sending instructions to Banks for reporting of collection figures and collection of applications.

- Providing practical inputs to the Lead Manager and Printers regarding the design of the Bid cum-Application form.

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- Facilitate and establish information flow system between clients, Banks and Managers to the issue.
- Liaisoning with Regulatory Authorities such as SEBI & Stock Exchanges.

Post Issue Activities:

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

Question : 7 (June 2025).

Your company has been appointed as a Banker to an issue by ABC Limited. Elaborate, who can be appointed as a Banker to an issue under SEBI (Bankers to an Issue) Regulations, 1994, and what are the activities they are authorised to do? (5 marks)

Answer :

Under the SEBI (Bankers to an Issue) Regulations, 1994, a Banker to an Issue means a scheduled bank or such other banking company as may be specified by the SEBI from time to time, carrying on any of the following activities:

- (i) Acceptance of application and application monies;
 - (ii) Acceptance of allotment or call monies;
 - (iii) Refund of application monies;
 - (iv) Payment of dividend or interest warrants.
 - (v) providing escrow services for the purposes of issue management, buyback, delisting, or open offer, as required under the relevant regulations made by SEBI;
 - (vi) opening of a separate bank account for depositing the proceeds in the initial public offer/ further public offer; and
 - (vii) such other activities as may be specified by SEBI.
- Bankers to the issue, as the name suggests, carries out all the activities of ensuring that the funds are collected and transferred to the Escrow accounts.
 - While one or more banks may function as Bankers to the Issue as well as collection banks, others may do the limited work of collecting the applications for securities along with the remittance in their numerous branches in different centres.
 - The banks are expected to furnish prompt information and records to the company and to the lead manager for monitoring

and progressing the issue work.

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Question : 8

State the definition of Debenture Trustee and their duties under SEBI (Debenture Trustees) Regulations, 1993.
(5 marks)

Answer :

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

Duties of the debenture trustees are: -

- satisfy itself that the prospectus or letter of offer does not contain any matter which is inconsistent with the terms of the issue of debentures or with the trust deed.
- satisfy itself that the covenants in the trust deed are not prejudicial to the interest of the debenture holders.
- call for periodical status/performance reports from the issuer company within 7 days of the relevant board meeting or within 45 days of the respective quarter whichever is earlier.
- communicate promptly to the debenture holders defaults, if any, with regard to payment of interest or redemption of debentures and action taken by the trustee therefor.
- ensure that the company does not commit any breach of the terms of issue of debentures or covenants of the trust deed and take such reasonable steps as may be necessary to remedy any such breach.
- inform the debenture holders immediately of any breach of the terms of issue of debentures or covenants of the trust deed.
- ensure the implementation of the conditions regarding creation of security for the debentures.
- ensure that the assets of the company issuing debentures and guarantors, if any, are sufficient to discharge the interest and principal amount at all times and that such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders.
- do such acts as are necessary in the event the security becomes enforceable.
- call for reports on the utilization of funds raised by the issue of debentures.
- take steps to convene a meeting of the holders of debentures as and when such meeting is required to be held.
- ensure that debentures have been converted or redeemed in accordance with the terms of the issue of debentures.
- perform such acts as are necessary for the protection of the interest of the debenture holders and do all other acts as are necessary in order to resolve the grievances of the debenture holders.
- take possession of trust property in accordance with the provisions of the trust deed.
- to take appropriate measures for protecting the interest of the debenture holders as soon as any breach of the trust deed or law comes to his notice.
- inform the SEBI immediately of any breach of trust deed or provision of any law, which comes to the knowledge of the trustee.
- exercise due diligence to ensure compliance by the body corporate, with the provisions of the Companies Act, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement) Regulations, 2015, the listing agreement of the stock exchange or the trust deed or any other regulations issued by the SEBI pertaining to debt issue.

Question : 9 (Dec 2024, Old Syllabus)

SEBI has imposed additional enhanced obligations and responsibility on the "Qualified Stock Broker". State the criterion to be considered as a designate qualified stock broker and summarize enhanced obligations.
(5 marks)

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Answer :

SEBI may designate a stock broker as a qualified stock broker having regard to its size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, on the basis of the following parameters and the appropriate weightages thereon: -

- a) the total number of active clients;
- b) the available total assets of clients with the stock broker;
- c) the trading volumes of the stock broker;
- d) the end of day margin obligations of all clients of a stock broker;
- e) compliance score as may be specified by the Board;
- f) grievance redressal score as may be specified by SEBI; and
- g) the proprietary trading volumes of the stock broker.

Question : 10

Mr. Ramesh, a high-net-worth individual (HNI), was approached by WealthGrow Capital, a SEBI-registered Portfolio Manager (PM), offering discretionary portfolio management services. After signing the agreement, Mr. Ramesh was not provided a quarterly report for over six months. Later, he also discovered that the portfolio manager had executed transactions outside the agreed investment strategy.

In this context, answer the following:

Elaborate on the obligations of a Portfolio Manager under the SEBI (Portfolio Managers) Regulations, 2020.

(5 marks)

Answer :

“Discretionary portfolio manager” means a portfolio manager who under a contract relating to portfolio management, exercises or may exercise, any degree of discretion as to the investment of funds or management of the portfolio of securities of the client, as the case may be.

- Every portfolio manager shall abide by the Code of Conduct as specified Schedule III of SEBI (Portfolio Managers) Regulations, 2020.
- The portfolio manager shall, before taking up an assignment of management of funds and portfolio on behalf of a client, enter into an agreement in writing with such client that clearly defines the inter se relationship and sets out their mutual rights, liabilities and obligations relating to management of portfolio containing the details as specified in Schedule IV.
- The discretionary portfolio manager shall individually and independently manage the funds of each client in accordance with the needs of the client, in a manner which does not partake character of a Mutual Fund, whereas the non-discretionary portfolio manager shall manage the funds in accordance with the directions of the client.
- The portfolio manager shall not accept from the client, funds or securities worth less than fifty lakh rupees. However the minimum investment amount per client shall be applicable for new clients and fresh investments by existing clients.
- The portfolio manager shall act in a fiduciary capacity with regard to the client's funds. The portfolio manager shall segregate each client's holding in securities in separate accounts.
- The portfolio manager shall keep the funds of all clients in a separate account to be maintained by it in a Scheduled Commercial Bank.
- The portfolio manager shall transact in securities within the limitation placed by the client himself with regard to dealing in securities under the provisions of the Reserve Bank of India Act, 1934.

- The portfolio manager shall not derive any direct or indirect benefit out of the client's funds or securities.
- The portfolio manager shall not borrow funds or securities on behalf of the client.
- The portfolio manager shall not lend securities held on behalf of the clients to a third person except as provided under these regulations.
- The portfolio manager shall ensure proper and timely handling of complaints from his clients and take appropriate action immediately.
- The portfolio manager shall ensure that any person or entity involved in the distribution of its services is carrying out the distribution activities in compliance with these regulations and circulars issued thereunder from time to time.
- Every portfolio manager shall keep and maintain the books of accounts, records and documents as prescribed.
- Every portfolio manager shall furnish to the SEBI a net worth certificate issued by a chartered accountant as and when required by the SEBI.
- The portfolio manager shall preserve the books of account and other records and documents mentioned under this chapter for a minimum period of five years.
- Every portfolio manager shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc., issued by the Board or the Central Government and for redressal of investors' grievances.
- All claims, differences or disputes between investors and the portfolio manager arising out of or in relation to the activities of the portfolio manager in the securities market shall be submitted to a dispute resolution mechanism that includes mediation and/or conciliation and/or arbitration, in accordance with the procedure specified by SEBI.
- The Portfolio Manager shall redress investor grievances promptly but not later than 21 calendar days from the date of receipt of the grievance and in such manner as may be specified by SEBI.

Question : 11 (June 2024).

Write short note on an investment advisor. Explain in brief the general obligations and responsibilities of investment advisors. (5 marks)

Answer :

Investment Adviser

The SEBI (Investment Advisers) Regulations, 2013 defines that the Investment Adviser means any person, who for consideration, is engaged in the business of providing investment advice to clients or other persons or group of persons and includes any person who holds out himself as an investment adviser, by whatever name called.

General Obligations and Responsibilities:

1. An investment adviser shall act in a fiduciary capacity towards its clients and shall disclose all conflicts of interests as and when they arise.
2. An investment adviser shall not receive any consideration by way of remuneration or compensation or in any other form from any person other than the client being advised, in respect of the underlying products or securities for which advice is provided.
3. An investment adviser shall maintain an arms-length relationship between its activities as an investment adviser and other activities.
4. An investment adviser which is also engaged in activities other than investment advisory services shall ensure that its investment advisory services are clearly segregated from all its other activities, in the manner as prescribed.

6. An investment adviser shall ensure that in case of any conflict of interest of the investment advisory activities with other activities, such conflict of interest shall be disclosed to the client.

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7. An investment adviser shall not divulge any confidential information about its client, which has come to its knowledge, without taking prior permission of its clients, except where such disclosures are required to be made in compliance with any law for the time being in force.

7. An investment advisor shall not enter into transactions on its own account which is contrary to its advice given to clients for a period of fifteen days from the day of such advice.

8. An investment advisor shall follow Know Your Client procedure as specified by the SEBI from time to time.

9. An investment adviser shall abide by Code of Conduct.

10. An investment adviser shall not act on its own account, knowingly to sell securities or investment products to or purchase securities or investment product from a client.

11. In case of change in control of the investment adviser, prior approval from the SEBI shall be taken.

12. Investment advisers shall furnish to the SEBI information and reports as may be specified by the SEBI from time to time.

13. It shall be the responsibility of the investment adviser to ensure compliance with the certification and qualification requirements.

Question : 12

Write a short note on Research Analyst under SEBI (Research Analysts) Regulations, 2014.
(3 marks)

Answer :

"Research analyst" means a person who is primarily responsible for :-

- i. preparation or publication of the content of the research report; or
- ii. providing research report; or
- iii. making 'buy/sell/hold' recommendation; or
- iv. giving price target; or
- v. offering an opinion concerning public offer,

with to respect securities that are listed or to be listed in a stock exchange, whether or not any such person has the job title of 'research analyst' and includes any other entities engaged in issuance of research report or research analysis.

- In case of a Body corpo-rate or United liability partner-ship firm -net worth not less than 25 Lakh.
- In case of indi-vidual or part-nership firm - net tangible assets of value not less than 1 Lakh.

Question : 13 (Dec 2024).

What are Credit Rating Agencies ? What is the minimum net worth requirement for Credit Rating Agencies? Explain in brief the general obligations of Credit Rating Agencies.
(5 marks)

Answer :

In terms of the SEBI (Credit Rating Agencies) Regulations, 1999, Credit Rating Agency means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities that are listed or proposed to be listed on a stock exchange recognized by the SEBI.

Minimum net worth requirement for Credit Rating Agency is Rupees 25 crores.

General Obligations of Credit Rating Agency are as under.

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1. Every credit rating agency shall abide by the Code of Conduct.
2. Every credit rating agency shall enter into a written agreement with each client whose securities it proposes to rate.
3. Every credit rating agency shall, during the lifetime of securities rated by it continuously monitor the rating of such securities.
4. Every credit rating agency shall disseminate information regarding newly assigned ratings, and changes in earlier rating promptly through press releases and websites, and, in the case of securities issued by listed companies, such information shall also be provided simultaneously to the concerned regional stock exchange and to all the stock exchanges where the sold securities are listed.
5. Every credit rating agency shall disclose Rating Definitions and Rationale.
6. Where any information is called for by the SEBI from a credit rating agency for the purposes of the SEBI (Credit Rating Agencies) Regulations, 1999, including any report relating to its activities, the credit rating agency shall furnish such information to the SEBI,
7. Every credit rating agency shall comply with such guidelines, directives, circulars and instructions as may be issued by the SEBI from time to time.
8. Every credit rating agency shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines. instructions etc. issued by the SEBI or the Central Government.
9. Every credit rating agency shall keep and maintain books of accounts, records and documents for a minimum period of five years.
10. All claims, differences or disputes between a credit rating agency and its client arising out of or in relation to the activities of the credit rating agency in the securities market shall be submitted to a dispute resolution mechanism that includes mediation and/or conciliation and/or arbitration, in accordance with the procedure specified by SEBI.

Question : 14 (Dec 2024, Old Syllabus).

Credit Rating Agencies rate the financial instruments, not the company. In this context, briefly explain the term credit rating agency. Explain the roles and responsibilities of credit rating agencies.
(5 marks)

Answer :

In terms of the (Credit Rating Agencies) Regulations, 1999, a Credit Rating Agency means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities that are listed or proposed to be listed on a stock exchange recognized by the SEBI.

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

The Roles and responsibilities of Credit rating agency are as follow:

- 1) Every credit rating agency shall abide by the Code of Conduct.
- 2) Every credit rating agency shall enter into a written agreement with each client whose securities it proposes to rate.
- 3) Every credit rating agency shall, during the lifetime of securities rated by it continuously monitor the rating of such securities.
- 4) Every credit rating agency shall disseminate information regarding newly assigned ratings, and changes in earlier rating promptly through press releases and websites, and, in the case of securities issued by listed companies, such information shall also be provided simultaneously to the concerned regional stock exchange and to all the stock exchanges where the said

securities are listed.

5) Every credit rating agency shall disclose Rating definition and rationale.

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6) Where any information is called for by the SEBI from a credit rating agency, including any report relating to its activities, the credit rating agency shall furnish such information to the SEBI.

7) Every credit rating agency shall comply with such guidelines, directives, circulars and instructions as may be issued by the SEBI from time to time.

8) Every credit rating agency shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by the SEBI or the Central Government.

9) Every credit rating agency shall keep and maintain books of accounts, records and documents for a minimum period of five years.

10) All claims, differences or disputes between a credit rating agency and its client arising out of or in relation to the activities of the credit rating agency in the securities market shall be submitted to a dispute resolution mechanism that includes mediation and/or conciliation and/or arbitration, in accordance with the procedure specified by SEBI.

CHAPTER : 7 INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY (IFSCA)

Question : 1

Explain the need and importance of International Financial Services Centres (IFSCs) in India.
(5 marks)

Answer :

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

1. they have contributed enormously to the growth of international financial transactions,
2. these centres have played a pivotal role in accelerating the pace of financial globalization, and
3. these centres have played an invaluable role in accelerating the socio-economic growth of host countries.

In the last three decades, the world has witnessed unprecedented expansion in global trade and commerce. This global churn was primarily fueled by the integration of developing countries, especially in Asia with the global financial system.

These fundamental changes brought about a paradigm shift in the global economy and created huge demand for international financial services amongst developing countries.

As a result, several countries in Asia and Middle East took proactive measures to establish new age International Financial Centres in Dubai, Abu Dhabi, Qatar, etc.

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

Further, the IFSC has been designed as a special international financial jurisdiction by virtue of Foreign Exchange Management Act, 2002 ("FEMA"). Under this, the units in IFSC enjoy the benefits of a non-resident under exchange control provisions. This special carveout enables transactions to be conducted in any freely convertible foreign currency. In other words, while capital control restrictions are applicable in domestic India, the same restrictions are not applicable in the IFSC jurisdiction.

Question : 2

State the fiscal benefits and tax exemptions granted to units operating in GIFT-IFSC.
(3 marks)

Answer :

Income-tax

- a) 100% tax exemption for 10 consecutive years out of 15 years
- b) IFSC Unit has the flexibility to select any 10 years out of 15 years block
- c) MAT / AMT @ 9% of book profits applies to Company / others setup as a unit in IFSC - MAT not applicable to companies in IFSC opting for new tax regime.
- d) Dividend paid to shareholders of company in IFSC .From 01 April 2020, dividend income distributed by Company in IFSC to be taxed in the hands of the shareholder.

Goods and Services Tax (GST)

- a) No GST on services –

(i) received by unit in IFSC;

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(ii) provided to IFSC / SEZ units, Offshore clients.

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

Other taxes duties State Subsidies

Lease rental, PF contribution, electricity charges.

Question : 3

State the fiscal benefits and tax exemptions granted to investors investing in GIFT-IFSC.
(3 marks)

Answer :

Income-tax

(a) Interest income paid to non-residents on: -

(i) Monies lent to IFSC units not taxable

(ii) Long Term Bonds and Rupee Denominated Bonds listed on IFSC exchanges taxable at lower rate of 4%.

(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.

*Specified securities include Bond, GDR, Foreign currency denominated bond, Rupee denominated bond of an Indian company, Derivatives, Unit of a Mutual Fund, Unit of a business trust, Unit of Alternative Investment Fund and Foreign currency denominated equity share of a company.

Goods and Services Tax (GST)

No GST on transactions carried out in IFSC exchanges.

Other taxes duties State Subsidies

Exemption from Securities Transaction Tax, Commodity Transaction Tax, stamp duty in respect of transactions carried out on IFSC exchanges.

Question : 4 (Dec 2023).

Why International Financial Services Centres have assumed prominence in the Financial Services ecosystem ? Do you consider any necessity of IFSC for domestic economy ? How ?
(5 marks)

Answer :

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

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

In the last three decades, the world has witnessed unprecedented expansion in global trade and commerce. This global churn was primarily fuelled by the integration of developing countries, especially in Asia with the global financial system. These fundamental changes brought about a paradigm shift in the global economy and created huge demand for international financial services amongst developing countries.

Necessity of IFSC for domestic economy

Onshoring the offshore international financial services :

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One of the fundamental factors which incentivized India to set up its own IFSC was the fact that as one of the largest and fastest growing major economies in the world, India could no longer afford to play a passive role in the international financial services ecosystem. India had been heavily relying on overseas financial centres for the purchase of international financial services. Therefore, GIFT-IFSC was set up to transform India from being an importer of international financial services to becoming self-sufficient as well as an exporter of international financial services. Thus, the vision was of “onshoring the offshore international financial services”.

India's economic growth trajectory :

More significantly, a vibrant IFSC has the potential to act as a growth catalyst for domestic Indian economy which is striving to become a USD 5 Trillion economy. Services offered in an IFSC, including Banking, Asset Management, Insurance and Capital Markets attract huge amounts of global capital inflows, such inflows can be channelized for the social economic development of India as well as to meet the Sustainable Development Goals -2030. Therefore, the development of an IFSC is an imperative step in India's economic growth trajectory.

Another driving force for setting up an IFSC within the country was to allow bright young Indian talent especially in finance and information technology field to fully exhibit & showcase their talent and expertise, who hitherto, had to travel and work in overseas financial centres.

Question : 5 (June 2025).

After establishing the Gujarat International Finance Tech-city SEZ as India's maiden International Financial Services Centre, how does it boost the Indian economy?

(5 marks)

Answer :

- The establishment of The Gujarat International Finance Tech-city (GIFT)-IFSC, under Section 18 of the Special Economic Zones Act, 2005, will boost the growth of country and GIFT-IFSC is an important gateway to connect India with global opportunities.
- The benefits Indian economy will have, from an IFSC are as under:
 - 1) Internationalization of Rupee – Pathway for calibrated approach to internationalization of domestic currency.
 - 2) Gateway for inbound & outbound Capital Flows – IFSC to serve as a captive centre to procure our own requirement for International Financial Services e.g. Banking, Capital Markets, Insurance etc.
 - 3) Employment Generation – Concentration of financial institutions in IFSC to create middle and high-end job opportunities for professionals (Global in-house Centres, Treasury).
 - 4) Regional Financial Integration – IFSC can enable India to play an important role in regional financial integration and increase global influence.
 - 5) Development of Niche Areas – IFSC to be leveraged for development of niche financial sector activities like Bullion Exchange Aircraft & Ship Leasing.
 - 6) Innovation in Financial Services – IFSC can become a Laboratory for India and the world to test new age financial innovations and technologies (FinTech).

Thus, the setting up and operationalization of India's maiden IFSC was a bold and historic step which has catapulted India into a 21st century modern, resilient, and sustainable economy.

Question : 6

Discuss the powers and functions of the International Financial Services Centres Authority (IFSCA) under the IFSCA Act, 2019. (5 marks)

Answer :

Powers and Functions of the IFSCA

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

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

- Under this section, the Authority is empowered to develop and regulate the financial products, services and institutions independently.
- Further, the authority can take all developmental steps such as authorizing the service providers who aid in assisting the financial service providers, which are an important pillar in providing support services for the entities to function effectively and to build a supporting ecosystem around for the entities in IFSC.
- It is to be noted that, the legislature has envisaged that the Authority might regulate diverse financial products, services and institutions in IFSC and at times need the regulatory flexibility. Thus, by virtue of Section 12, it has enabled the authority to adopt any measures as it deems fit.
- Presently the role of the Authority has broadened as it regulates Bullion exchange, Foreign Universities and Institutions, Aircraft leasing, Ancillary service providers, Finance Companies and Fintech entities, etc.
- These services are either not regulated in the domestic sector or are not regulated as a financial service, like in the IFSC. Thus, Section 12 has enabled the Authority to adopt flexibility in handling the diverse regulatory landscape.

(b) Section 12 (2) empowers the Authority to regulate those financial products, financial services and financial institutions in an IFSC:

(i) which are permitted to operate in IFSC before the commencement of IFSCA Act, by any regulator; and

(ii) those which are notified by Central Government from time to time.

(c) Further, Section 12 (2) enables IFSCA to recommend to the Central Government to notify other financial products, services and institutions in an IFSC. The IFSCA had suggested Central government to notify multiple financial products and services such as Aircraft leasing, Ship leasing, Global in-house companies, etc. which has broadened the business scope in IFSC and also the number of entities registered in IFSC.

IFSC can also be perceived as a laboratory for financial experimentation which would enable the government to experiment with new financial services and based on their adoption and risk perception can be replicated in the domestic economy. IFSCA as a unified regulator exercises control over all the financial services and hence is equipped to provide better oversight on these new generation initiatives.

Powers of the Authority (Section 13 of IFSCA Act, 2019)

(a) Section 13 (1) specifies that, all powers exercisable by an appropriate regulator specified in First Schedule of the IFSCA Act, 2019 under respective acts, in an IFSC shall be exercised by the IFSCA, in so far as it relates to financial products, financial services and financial institutions. This is a unique experimentation wherein the legislature instead of enumerating various powers, a simple reference has enabled, IFSCA to incorporate all the powers of domestic sector financial regulators. This ensures that the jurisprudence developed for the domestic regulators will be applicable for IFSCA, thereby saving a lot of time and effort in coming out with new interpretation.

(b) Section 13 (2) of IFSCA Act, empowers Central Government to amend the First Schedule by including or omitting any financial sector regulator and the law administered by it, through notification. By virtue of Section 13 (2) of IFSCA Act, the Central Government has recently notified the Factoring regulation Act, 2011 under the First Schedule, which is administered by RBI in the domestic market.

Question : 7

Enumerate the types of financial products that can be provided within the IFSC.
(5 marks)

Answer :

Financial Products

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

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

New Financial Products notified by the Central Government:

- (i) Aircraft lease including operating and financial lease and any hybrid of operating and financial lease of aircraft or helicopter and engines of aircraft or helicopter or any other part thereof; The Government of India (GOI) notified aircraft operating lease as a financial product.
- (ii) Bullion spot delivery contract;
- (iii) Bullion depository receipt with underlying bullion; GOI notified bullion spot trading and bullion depository receipts (BDR) with underlying bullion, as financial products and bullion related services as financial services respectively on August 31, 2020.
- (iv) Operating lease including any hybrid of operating and financial lease of such product or equipment as financial product. Under this, IFSCA has been empowered to bring framework for products such as ship leasing and other equipment; In view of the Authority's assessment of a huge potential for operating lease of ships and for various other equipments in the IFSC, the Government of India 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; Under this the Authority has specified operating lease, including an hybrid of operating and financial lease, in respect of 'Aviation training simulation devices', as a financial product.
- (v) Ship lease including operating lease, and hybrid of operating and financial lease, of a ship or ocean vessel, engines of ship or ocean vessel, or any other part thereof, as a financial product

Question : 8

GreenTree Capital Pvt. Ltd., an India-based NBFC, plans to set up operations in GIFT-IFSC to offer portfolio management, fund administration, and insurance-related products to Indian and foreign investors. The promoters are unsure whether these diverse financial services can be offered under one unified license in the IFSC. They seek your advice on: Whether all these services are permissible in IFSC?
(5 marks)

Answer :

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

- (i) Buying, selling, or subscribing to a financial product or agreeing to do so;
- (ii) Acceptance of deposits;
- (iii) Safeguarding and administering assets consisting of financial products, belonging to another person, or agreeing to do so;
- (iv) Effecting contracts of insurance;
- (v) Offering, managing or agreeing to manage assets consisting of financial products belonging to another person;
- (vi) Exercising any right associated with a financial product or financial service;

(vii) Establishing or operating an investment scheme;

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- (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.

Conclusion/Analysis:

As per the provisions stated above, the services qualify as financial services and GreenTree Capital Pvt. Ltd can offer these in IFSC.

Question : 9 (June 2024).

The IFSCA (Issuance and Listing of Securities) Regulations, 2021 allowed a company incorporated in a foreign jurisdiction to list its securities in India. In this context, state the type of listing and eligibility criterion.
(5 marks)

Answer :

The IFSCA (Issuance and Listing of Securities) Regulations, 2021 enables the following types of listing:

- (i) an initial public offer of specified securities by an unlisted issuer;
- (ii) a follow-on public offer of specified securities by a listed issuer;
- (iii) Listing of specified securities by a start-up company or a SME;
- (iv) Secondary listing of specified securities;
- (v) An initial public offer of specified securities by a Special Purpose Acquisition Companies (SPAC);
- (vi) Listing of depository receipts;
- (vii) Listing of debt securities;
- (viii) Listing of ESG debt securities; and
- (ix) issuance and/or listing of any other securities as may be specified by the Authority from time to time.

Further, the following entities would be eligible for listing of securities on the recognised stock exchanges in IFSC:

- (i) A company incorporated in an IFSC;
- (ii) A company incorporated in India; and

(iii) A company incorporated in a foreign jurisdiction.

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The following entities shall also be eligible in respect of listing of debt securities on a recognised stock exchange, -

(a) any supranational, multilateral or statutory organisation/ institution/agency provided such organization/institution/agency is permitted to issue securities as per its constitution. Provided that the entity is registered or headquartered in India, IFSC or a Foreign Jurisdiction;

(b) any municipality or any statutory body or board or corporation, authority, trust or agency established or notified by any Central or State Act or any special purpose vehicle notified by the State Government or Central Government including for the purpose of raising fund by the issuer to develop infrastructure or SMART city; and

(c) An entity whose securities are irrevocably guaranteed by a Sovereign (India or a Foreign Jurisdiction).

An issuer shall be eligible to list its securities under the IFSCA (Issuance and Listing of Securities) Regulations, 2021 in IFSC only if,

(a) the issuer is duly incorporated or established according to the relevant laws of its place of incorporation or establishment;

(b) the issuer is operating in conformity with its constitution; and

(c) the listing of securities in IFSC is in accordance with the applicable laws of the jurisdiction of incorporation.

An issuer shall not be eligible to list securities under these regulations if the issuer or any of its promoters, promoter group, controlling shareholders or directors or selling shareholders is -

(a) debarred from accessing the capital market; or

(b) a wilful defaulter; or

(c) a fugitive economic offender.

Listing of specified securities through IPO :

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 one 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.

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

The start-up fulfilling the following criteria shall be eligible to list on the recognised stock exchanges, with or without making a public offer, in IFSC:

(a) The offer document of the company should be filed within a period of ten years from the date of incorporation/ registration;

(b) The turnover of the company for any of the financial years since incorporation should not have exceeded USD 20 million.

(c) The company is working towards innovation, development or improvement of products or

processes or services, or it is a scalable business model with a high potential of employment generation or wealth creation.

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A small and medium enterprise company shall be eligible to list its specified securities on a recognised stock exchange, with or without making a public offer, if the annual turnover of the company for any of the financial years since incorporation/ registration should not have exceeded USD fifty million.

Listing of Special Purpose Acquisition Companies (SPAC) :

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

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

Listing of Debt Securities :

The following categories of debt securities shall be eligible for listing on recognised stock exchanges in IFSC:

- (a) Debt securities issued by issuers incorporated in IFSC;
- (b) Debt securities issued by issuers incorporated in India or foreign jurisdiction in any currency other than INR;
- (c) Masala Bonds;
- (d) Any other debt securities as permitted by relevant authority from time to time.

Question : 10 (Dec 2024).

Green Tech Solutions, is a Tech Start-up Company. It develops eco-friendly energy storage systems. Founded in 2022, it promoters are focused on products relating to sustainable technology to reduce carbon footprints in urban areas, seeking to revolutionize green energy. This company wishes to list on the recognised stock exchanges in IFSC. Considering these facts:

- (a) State the criteria for listing of Start-up companies on recognised stock exchanges in IFSC.
 - (b) State the salient features related to Direct Listing and Minimum Subscription.
- (3+2=5 marks)

Answer :

a) in terms of Regulation 50 of the International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021, the start-up fulfilling the following criteria shall be eligible to list on the recognised stock exchanges in IFSC, with or without making a public offer:

- (a) The offer document of the company should be filed within a period of ten years from the date of incorporation/registration:
- (b) The annual turnover of the company for any of the financial years since incorporation/registration should not have exceeded USD twenty million; and
- (c) The company is working towards innovation, development or improvement of products or processes or services, or it is a scalable business model with a high potential of employment generation or wealth creation.

b) The salient features for the framework for listing of start-up and SME companies related to listing of Direct Listing and Minimum subscription are as follows:

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The start-ups and SMEs are permitted to list on the recognised stock exchanges in IFSC without public offer. This would encourage start-ups (including Fintech companies) to list in IFSC and would be a step towards developing IFSC as a hub for Fintech companies. Regulation 55 of the IFSCA (Issuance and Listing of Securities) Regulations, 2021 states that the company shall file the information document along with the prescribed fees. The lead manager(s) shall submit a due diligence certificate along with the information document. The issuer shall simultaneously file the information document with the recognised stock exchange(s).

Minimum subscription

Regulation 63 of the International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021 requires the minimum number of subscribers as 50 or as may be satisfied by the IFSC Authority and that at least 75% of the offer size should be subscribed for the offer to be successful.

Question : 11 (Dec 2023).

A startup working towards innovation of products, its turnover are 8, 10, 12, 15, 18 USD million for last 5 years since its incorporation. What is your opinion about eligibility of this SME to list on the recognised stock exchange in IFSC ? (5 marks)

Answer :

Provision Of Law :

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

- a. The offer document of the company should be filed within a period of ten years from the date of incorporation/ registration.
- b. The annual turnover of the company for any of the financial years since incorporation should not have exceeded USD 20 Million.
- c. The company is working towards innovation, development or improvement of products or processes or services, or it is a scalable business model with a high potential of employment generation or wealth creation.

Conclusion/Analysis :

In the given case, start-up fulfils the requirements of listing on the recognized stock exchange in IFSC as the turnover of the company are 8, 10, 12, 15, 18 USD Million for last five years since its incorporation which has not exceeded USD 20 Million in any financial year. Further, this start-up is working towards innovation of product and it is in existence for less than 10 years since its incorporation. Therefore, a start-up fulfils the eligibility conditions to list on the recognized stock exchange in IFSC.

Alternate Answer :

A small and medium enterprise company shall be eligible to list its specified securities on a recognised stock exchange in an IFSC, with or without making a public offer, if the annual turnover of the company for any of the financial years since incorporation/registration should not have exceeded USD 50 million.

Question : 12 (June 2025).

You have been appointed as Company Secretary of SkyBlue Limited, a Special Purpose Acquisition Company. This company is in the process of issuing Specified Security under Section 23(3) of the Companies Act, 2013 through an IPO, and get them listed with an IFSC recognised stock exchange. Please advise the following :

- (a) Is SkyBlue Limited eligible to issue such an IPO ? If 'Yes' - under what conditions, and if 'No' - why ? (2 marks)
- (b) What should be the offer size, and how much percentage the sponsors should minimum hold ? (1 mark)
- (c) What should be the minimum application size ?

(1 mark)

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(d) What should be the acquisition time line ?
(1 mark)

Answer :

(a) In accordance with IFSCA (Listing) Regulations, 2024, SkyBlu Limited, as a Special Purpose Acquisition Company (SPAC), shall be eligible to raise capital through initial public offer of specified securities on the recognised stock exchange(s), only where-

- The target business combination has not been identified prior to the IPO;
- The SPAC has the provisions for redemption and liquidation in line with these Regulations;
- The sponsor of the SPAC issuer has a good track record in SPAC transactions, business combinations, fund management or investment banking activities and the same shall be disclosed in the offer document.

Here, sponsor shall mean a person sponsoring the formation of the SPAC and shall include persons holding any specified securities of the SPAC prior to the IPO.

However, SkyBlu Limited, as a Special Purpose Acquisition Company (SPAC), shall not be eligible to raise capital through initial public offer or list specified securities on the recognised stock exchange(s):

If the issuer or any of its sponsors is –

- (a) debarred from accessing the capital market; or
- (b) a wilful defaulter; or
- (c) a fugitive economic offender.

(b) The offer size should not be less than USD 50 million or any other amount as may be specified by the Authority from time to time. Further, the sponsors shall hold at least 15% and not more than 20% of the post issue paid up capital.

(c) Minimum Application Size: The minimum application size in an initial public offer of SPAC shall be USD 100,000. Allotment to investors shall be on proportionate basis or discretionary basis, as disclosed in the offer document.

(d) SPAC Specific Obligations: Requirements have also been prescribed with respect to maintenance of escrow account, eligible investments pending utilisation, acquisition timeline of 3 years, right of disenting shareholders, liquidation provisions etc.

Question : 13

GloboTech Solutions Ltd., a tech firm incorporated outside India, plans to raise capital by issuing specified securities on a recognized stock exchange in an International Financial Services Centre (IFSC). Given its financials, state the eligibility requirements to list its specified securities through an IPO in an IFSC.

(Marks: 5)

Answer :

Eligibility An issuer shall be eligible to make an initial public offer of specified securities, only if:

- (a) the issuer has an operating revenue, based on consolidated audited accounts, of at least USD twenty million in the last financial year or averaged over the last three financial years; or
- (b) the issuer has a pre-tax profit, based on consolidated audited accounts, of at least USD one million in the last financial year or averaged over the last three financial years; or
- (c) The issuer has a post issue market capitalization of at least USD twenty five million; or
- (d) It qualifies under any other eligibility criteria specified by the IFSCA.

b) Filing of Offer Document An Issuer is required to file offer document with IFSCA for observations. Issuers with issue size of USD 50 million or less are exempted from filing offer document with IFSCA.

C) Offer Timing : The offer shall be made by the issuer within a period of not more than twelve months from the date of issuance of observations by the Authority.

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d) Offer Period : The initial public offer shall be kept open for at least one working day and not more than ten working days.

e) Minimum Public Offer

1. Where the issuer is a company incorporated in India, including in an IFSC, such issuer shall comply with the minimum offer and allotment to public and minimum public shareholding norms prescribed under the Securities Contracts (Regulation) Rules, 1957.

2. Where the issuer is a company incorporated outside India, the minimum offer and allotment to public shall be at least ten per cent. of the post issue capital and such issuer shall also maintain the minimum public shareholding of ten per cent. of the post issue capital on a continuous basis.

f) Minimum subscription An offer shall be considered successful only if the minimum subscription as disclosed in the offer document is received.

g) Lockup of securities The pre-issue shareholding of promoters and controlling shareholders of the issuer shall be locked-up for a period of 180 days from the date of allotment in the initial public offer.

Question : 14

NovaMed Inc., a pharmaceutical company incorporated in Europe, proposes to raise funds by issuing depository receipts (DRs) and list them on a recognized stock exchange in an International Financial Services Centre (IFSC). The underlying securities are fully paid and maintained in electronic form. The company is compliant with its home country's regulations. For its initial issue, NovaMed proposes to raise USD 600,000 and plans to complete the allotment and refund process within 10 working days from the issue closing date.

Evaluate whether NovaMed Inc. is eligible to proceed with the public issue of depository receipts in IFSC.
(Marks: 5)

Answer :

Provision Of Law :

Public Offer of Depository Receipts

An issuer incorporated outside an IFSC shall be eligible to make an issue of depository receipts only if -

- (i) It is authorised to issue depository receipts as per the applicable laws of its home jurisdiction;
- (ii) The underlying securities represented by such depository receipts is in dematerialised form, fully paid and free from all encumbrances.

The salient features of the framework for Public Offer of Depository Receipts are as under:

Offer size: Not less than USD 7,00,000 or any other amount as may be specified by the Authority from time to time.

Minimum Subscription: The listing of DRs shall be permitted only if the subscription in the offer is not less than USD 700,000 or any other amount as may be specified by IFSCA.

Pricing: The price of the DRs can be determined through consultation with the lead managers(s) through fixed price or through book building process.

Allotment: The allotment, payments and refunds must be completed within 5 working days from the date of closure of the issue.

Conclusion/Analysis :

As per the provisions stated above, Novamed Inc. Is ineligible to proceed with the public issue of depository receipts in IFSC, as it does not complies with the minimum subscription and allotment requirements under the Act.

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Enumerate the provisions relating to Listing of Commercial Paper or Certificates of Deposit or other financial products, under the IFSCA (Issuance and Listing of Securities) Regulations, 2021.

(5 marks)

Answer :

Listing of Commercial Paper or Certificates of Deposit or other financial products

An issuer may list commercial paper, certificate of deposit and other financial product on a recognised stock exchange in such manner and subject to such conditions as may be specified by the IFSCA.

Further, an issuer may list a fund or an investment trust on a recognised stock exchange in terms of IFSCA (Fund Management) Regulations, 2022.

a) Commercial Paper Depository: The issuer shall ensure that the CP listed on a recognised stock exchange in the IFSC is in demat form and held with a recognised depository in the IFSC or an international central securities depository.

Maturity: The issuer shall ensure that the maturity of the CP proposed to be listed on a recognized stock exchange in the IFSC is not less than 7 days and not more than 1 year.

Other conditions:

- a. CP shall be issued at a discount to face value.
- b. The issuance of a CP with options (call/put) is not permitted.
- c. The issuance of a CP is not permitted to be underwritten or co-accepted.

Listing Application An issuer desirous of listing its CP on a recognised stock exchange shall file the listing application along with a copy of offer document or information memorandum, as applicable, with the recognised stock exchange in accordance with the requirements specified by the exchange.

The application shall be accompanied with regulatory fee of USD 1000. The regulatory fees received by the stock exchange shall be remitted to the Authority.

b) Certificate of Deposits

Depository: The issuer shall ensure that the CD listed on a recognised stock exchange in the IFSC is in demat form and held with a recognised depository in the IFSC or an international central securities depository.

Listing Application An issuer desirous of listing its CD on a recognised stock exchange shall file the listing application along with a copy of the offer document or information memorandum, as applicable, with the recognised stock exchange in accordance with the requirements specified by the exchange. The application shall be accompanied with regulatory fee of USD 1000. The regulatory fees received by the stock exchange shall be remitted to the Authority.

CHAPTER: 8 ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS

Question: 1

What disclosures are required in the Draft Red Herring Prospectus (DRHP)?
(5 Marks)

Answer:

- "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.
- An RHP for an FPO can be filed with the ROC without the price band and the issuer, in such a case will notify the floor price or a price band by way of an advertisement one day prior to the opening of the issue.
- In the case of book-built issues, it is a process of price discovery and the price cannot be determined until the bidding process is completed.
- Hence, such details are not shown in the RHP filed with ROC as per the Companies Act, 2013. Only on completion of the bidding process, the details of the final price are included in the offer document.
- The offer document filed thereafter with ROC is called a prospectus.

Question: 2 (Dec 2024).

Differentiate between Initial Public Offer (IPO) and Further Public Offer (FPO). Which entities are not entitled to make an Initial Public Offer (IPO).
(5 marks)

Answer:

- A public issue of specified securities by an issuer can be either an Initial Public Offer (IPO) or a Further Public Offer (FPO).
- An IPO is done by an unlisted issuer while a FPO is done by a listed Issuer.
- As per the SEBI (issue of Capital and Disclosure Requirements) Regulations, 2018, the issuer shall comply with the conditions mentioned thereunder before making an IPO or FPO of specified securities.
- The conditions need to be satisfied both at the time of fling the draft offer document (commonly referred to as the Draft Red Herring Prospectus) and the time of filing the final offer document (commonly referred to as the Prospectus) with the Registrar of Companies.

- Under Regulation 5(1) & [2] of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, following entities are not eligible to make an Initial Public Offer:

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

(b) If any of the promoters or directors of the issuer is a promoter or a director of any other company which is debarred from accessing the capital market.

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

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

(e) if there are any outstanding convertible securities or any other right which would entitle any person with any option to receive equity shares of the issuer. This requirement shall not apply to:

- outstanding options granted to employees, whether currently an employee or not, pursuant to an employee stock option scheme in compliance with the Companies Act, 2013, the relevant Guidance Note or accounting standards, if any, issued by the Institute of Chartered Accountants of India or pursuant to the Companies Act, 2013, in this regard:
- fully paid-up outstanding convertible securities which are required to be converted on or before 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.

Question: 3 (Dec 2023, Old Syllabus).

State with reasons whether the companies are allowed to make public issue under SEBI (ICDR) Regulations, 2018.

- Jain, a promoter of XY Ltd. is categorized as a willful defaulter by SBI in accordance with the guidelines issued by the RBI. The company requires funds for its business expansion and plans to make IPO.
- Sinha is one of the Board of Directors of VG Garments Ltd., against whom a warrant for arrest in relation to a Scheduled offence has been issued by the Court. Sinha left India to keep off criminal prosecution and refused to return to India. (4 marks)

Answer :

- As per the Regulations of 5(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, an issuer shall not be eligible to make an initial public offer :

If the issuer or any of its promoters or directors is a wilful defaulter or a fraudulent borrower.

Conclusion/Analysis :

In the given case, Jain, one of the promoters of XY Ltd. is categorized as a wilful defaulter by SBI in accordance with the guidelines issued by the RBI.

Hence, XY Ltd. cannot proceed to IPO for its business expansion.

- Further, an issuer shall not be eligible to make an initial public offer if any of its promoters or directors is a fugitive economic offender.

Conclusion/Analysis :

Sinha, the director of VG Garments Ltd., against whom a warrant for arrest was issued by the Court and he left India to keep off criminal prosecution and refused to return to India.

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Hence, Mr. Sinha being fugitive economic offender, his company is not permitted to make a public issue under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Question: 4 (Dec 2023).

XYZ Ltd. an unlisted company and now wishes to expand its business. For expansion, company decided to bring an initial public offer. Referring to provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulation, 2018, advise the company:

- (i) Eligibility requirements for an initial public offer.
 - (ii) What company will do if eligibility conditions are not met?
- (2+3=5 marks)

Answer:

(i) Eligibility requirements for an initial public offer [Regulation 6(1) & 6(2) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018] An issuer shall be eligible to make an IPO only if:

a. The issuer has net tangible assets of at least 3 crores, calculated on a restated and consolidated basis, in each of the preceding three full years (of 12 months each), of which not more than 50% are held in monetary assets.

However, if more than 50% of the net tangible assets are held in monetary assets, the issuer has utilized or made firm commitments to utilize such excess monetary assets in its business or project.

This limit of 50% on monetary assets shall not apply in case of IPO is made entirely through an offer for sale.

b. The issuer has an average operating profit of at least 15 crores, calculated on a restated and consolidated basis, during the three preceding 3 years, with operating profit in each of the three preceding years.

c. The issuer has a network of atleast 1 crore in each of the preceding three full years, calculated on a restated and consolidated basis.

d. In case the issuer has changed its name within the last one year, atleast 50% of the revenue calculated on a restated and consolidated basis, for the preceding one full year has been earned by it from the activity indicated by the new name.

(ii) In case the Eligibility conditions are not met-

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

Question: 5

Bharat Ltd. is a listed company, manufacturing auto ancillary components. One of the directors of the company is a fugitive offender. The company wants to bring Further Public Offer (FPO). You being the company secretary of the company, advise

whether the company can issue FPO. State the general conditions and the eligibility requirements for FPO under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
(5 marks)

Answer:

Provision Of Law:

General Conditions for FPO [Regulation 104]

- An issuer making an FPO shall ensure that:
 - a) An application is made for listing of the specified securities to one or more of the recognized stock exchanges and choose one of the exchanges as the designated stock exchange.
 - b) An agreement is entered into with a depository for dematerialization of specified securities already issued and proposed to be issued.
 - c) All its existing partly paid-up equity shares have either been fully paid up or have been forfeited. In other words, if a company has partly paid-up equity shares, they shall not be permitted to make a public issue.
 - d) The Issuer should make firm arrangements of finance through verifiable means towards 75% of the stated means of finance for the 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.
 - e) Amount for General Corporate Purposes as mentioned in objects of the issue in the draft offer document and the offer document shall not exceed 25% of the amount being raised by the issuer.

The amount for:

- i. general corporate purposes, and
 - ii. such objects where the issuer company has not identified acquisition or investment target or mentioned in objects of the issue in the draft offer document and the offer document,

shall not exceed 35% of the amount being raised by the issuer.
- However, the amount raised for such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 25% of the amount being raised by the issuer.
 - However, such limits shall not apply if the proposed acquisition or strategic investment object has been identified and suitable specific disclosures about such acquisitions or investments are made in the draft offer document and the offer document at the time of filing of offer documents.

Eligibility requirements for FPO [Regulation 103]

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

However, if an issuer has changed its name in the last one year period immediately preceding the date of filing the relevant offer document, such an issuer shall make further public offer if at least 50% of the revenue for the preceding one full year has been earned by it from the activity indicated by its new name.
- b. An issuer not satisfying the condition stipulated above, shall make a further public offer only if the issue is made through the book building process and the issuer undertakes to allot at least 75% of the net offer, to qualified institutional buyers and to refund full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.

Conclusion/Analysis :

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Since one of the directors of Bharat Ltd. is a fugitive economic offender, the company does not fulfil the eligibility criteria under Regulation 103(1)(f) of the ICDR Regulations.

- Therefore, Bharat Ltd. is not eligible to bring a Further Public Offer (FPO) unless the said director is removed, and the company becomes compliant with the eligibility norms.

Question: 6

ABC Infra Ltd., a Central Public Sector Enterprise (CPSE), is a listed government company engaged in large-scale infrastructure development. The Government of India proposes to divest a 7% stake through the Offer for Sale (OFS) route via stock exchange. The company's equity shares are listed and frequently traded, but its average daily trading turnover during the six months preceding the offer is ₹8 crore across all stock exchanges. The Government contends that certain additional conditions for OFS may not be applicable to ABC Infra Ltd., given its status and sector.

Evaluate whether the additional conditions for OFS through stock exchange are applicable to ABC Infra Ltd., and justify if any exemptions are available in this case., under SEBI (Issue Of Capital And Disclosure Requirements) Regulations, 2018.

(5 marks)

Answer:

Provision Of Law:

Additional conditions for an offer for sale [Regulation 8]

1. Shares must be fully paid-up.
2. Shall be held by the sellers for a period of at least one year prior to the filing of the draft offer document.
3. The holding period of such convertible securities, including depository receipts, as well as that of resultant equity shares together shall be considered for the purpose of calculation of one year period.
4. In case the equity shares received on conversion or exchange of fully paid-up compulsorily convertible securities including depository receipts are being offered for sale.
5. Further, such holding period of one year shall be required to be complied with at the time of filing of the draft offer document.
6. Equity shares arising out of the conversion or exchange of the fully paid-up compulsorily convertible securities are being offered for sale, the conversion or exchange should be completed prior to filing of the offer document (i.e. red herring prospectus in the case of a book built issue and prospectus in the case of a fixed price issue), provided full disclosures of the terms of conversion or exchange are made in the draft offer document.

Non-Applicability :

- a) The offer for sale of a government company or statutory authority or corporation or any special purpose vehicle set up and controlled by any one or more of them, which is engaged in the infrastructure sector.
- b) Equity shares offered for sale were acquired pursuant to any scheme approved by a High Court, or approved by a tribunal or the Central Government under the sections 230 to 234 of Companies Act, 2013, as applicable, in lieu of business and Invested capital which had been in existence for a period of more than one year prior to approval of such scheme .
- c) If the equity shares offered for sale were issued under a bonus issue on securities held for a period of at least one year prior to the filing of the draft offer document with the SEBI and further subject to the following:
 - i. Such specified securities being issued out of free reserves and share premium existing in the books of account as at the end of the financial year preceding the financial year in which the draft offer document is filed with SEBI.

AND

ii. Such equity shares not being issued by utilisation of revaluation reserves or unrealized profits of the Issuer.

Facts of the Case:

ABC Infra Ltd. is a listed CPSE in the infrastructure sector. Government proposes 7% divestment via OFS. & the Average trading turnover during past 6 months: ₹8 crore. OFS is being used for disinvestment.

Conclusion/Analysis:

Being a government infrastructure company, ABC Infra Ltd. falls under the exempted category as per SEBI regulations.

Therefore, additional OFS conditions do not apply in this case.

Question: 7

Regulation 8A of SEBI (ICDR) Regulations, 2018 prescribes certain conditions applicable only for IPOs through book building or QIB route. Explain these conditions with respect to the shareholders' shareholding thresholds and lock-in requirements.

(3 marks)

Answer:

Additional condition for offer for sale through QIB route i.e. Option II of IPO as discussed earlier:

These conditions only apply for IPO through Option II i.e. QIB route Regulation 8A prescribed that for issues where draft offer document is filed under sub-regulation (2) of regulation 6 of these regulations:

- shares offered for sale to the public by shareholders holding, individually or with persons acting in concert, more than 20% of pre-issue shareholding of the issuer based on fully diluted basis, shall not exceed more than 50% of their pre-issue shareholding on fully diluted basis;
- shares offered for sale to the public by shareholders holding, individually or with persons acting in concert, less than 20% of pre-issue shareholding of the issuer based on fully diluted basis, shall not exceed more than 10% of pre-issue shareholding of the issuer on fully diluted basis;
- for shareholders holding, individually or with persons acting in concert, more than 20% of pre-issue shareholding of the issuer based on fully diluted basis, provisions of lock-in shall be applicable.

Question: 8

You are the Company Secretary of Stellar Tech Innovations Ltd., a company planning to make an initial public offer (IPO) The company wants to include warrants along with specified securities in its IPO structure. The management proposes that the tenure of these warrants be 24 months and that 15% of the consideration amount based on the exercise price be collected upfront. They also plan to use a formula-based pricing method for the exercise price but haven't clearly disclosed the formula in the draft offer document.

Based on the above case, answer the following: (1 MARK EACH)

1. What is the maximum permissible tenure for warrants issued in an IPO?
2. What is the minimum upfront consideration required for such warrants based on the exercise price?
3. Is it mandatory to disclose the price or pricing formula for the exercise of warrants in the offer document?
4. What is the consequence if a warrant holder does not exercise the option to convert within the specified period after paying the consideration?
5. As Company Secretary, what corrective advice would you give to ensure compliance with the eligibility norms for issuing warrants in an IPO?

Answer:

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1. The maximum tenure of warrants issued in an IPO shall not exceed 18 months from the date of allotment.
2. Minimum 25% of the consideration amount based on the exercise price shall be collected upfront at the time of warrant allotment.
3. Yes, the price or the formula for determining the exercise price of warrants must be clearly disclosed in the offer document.
4. The amount paid by the warrant holder will be forfeited if the option to convert into equity shares is not exercised within the specified tenure.
5. Advise management to:
 - Reduce the warrant tenure to not exceed 18 months as per regulations.
 - Collect at least 25% upfront consideration based on exercise price.
 - Clearly disclose the exercise price or pricing formula in the draft offer document before filing with SEBI.
 - Include explicit terms on forfeiture of upfront consideration in case warrants are not exercised.

Question : 9 (June 2024).

PBR Ltd. is a toy manufacturing listed company with its head office in Jaipur, Rajasthan. PBR Ltd. wishes to issue Further Public Offer (FPO). It has changed its name in the last one year immediately preceding the date of filing the documents for FPO. Being a Company law consultant, advise the management for eligibility for issue of FPO and lock-in period requirements for promoters' holding, which is in excess of minimum promoters' contribution.
(5 marks)

Answer :

Provision of Law:

Eligibility Requirements for further public offer (FPO)

- Regulation 103 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 stipulates
- that an issuer shall be eligible to make a further public offer, if it has not changed its name in the last one year period immediately preceding the date of filing the relevant offer document.
- However, if an issuer has changed its name in the last one-year period immediately preceding the date of filing the relevant offer document, such an issuer shall make further public offer if at least 50% of the revenue for the preceding one full year has been earned by it from the activity indicated by its new name.
- Further provided that an issuer not satisfying the condition stipulated above, shall make a further public offer only if the issue is made through the book building process and the issuer undertakes to allot at least 75% of the net offer, to qualified institutional buyers and the issue shall be made through book building method and to refund full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.
- Lock-in of specified securities held by the promoters in excess of minimum promoters' contribution Regulation 115 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 prescribed that Promoters' holding in excess of minimum promoters' contribution shall be locked in for a period of 6 months.
- However, lock in period shall be 1 year in case the majority of the issue proceeds excluding the portion of offer for sale is proposed to be utilized for capital expenditure.

Conclusion/Analysis :

Therefore, PBR Ltd. shall ensure compliance with the above to issue Further Public Offer (FPO).

Question: 10 (June 2024).

Exotica venture capital fund (leading foreign fund house) had invested in a startup company & qualified as promoter. The company is willing to come up with Initial Public Offer. Exotica fund is thinking of selling its entire shareholding just after the listing of shares. Advise the Exotica fund by referring SEBI regulations for lock-in period of pre-issue shareholding. What will be your answer, if the majority of the IPO proceeds is used for capital expenditure?

(5 marks)

Answer :

Provision of Law :

- a) Regulation 16 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 states that the minimum promoters' contribution including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India referred to in proviso to sub-regulation (1) of regulation 14, or any non-individual public shareholder holding at least five per cent. of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) referred to in proviso to sub-regulation (1) of regulation 14, shall be locked-in for a period of eighteen months from the date of allotment in the initial public offer.
- b) Provided that in case the majority of the issue proceeds excluding the portion of offer for sale is proposed to be utilized for capital expenditure, then the lock-in period shall be three years from the date of allotment in the initial public offer.
- c) Further provided that, promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of six months from the date of allotment in the initial public offer.
- d) In case the majority of the issue proceeds excluding the portion of offer for sale is proposed to be utilized for capital expenditure, then the lock-in period shall be one year from the date of allotment in the initial public offer.

Conclusion/Analysis :

Therefore, Exotica venture capital fund's pre-issue shareholding will be locked-in as mentioned above to the extent of minimum contribution or excess contribution, hence it cannot sell its shareholding just after the listing of shares.

Question : 11 (Dec 2024, Old Syllabus).

Nidhi, one of the promoters, invested in a start-up company, at an early stage. Now, the company is planning to enter into the primary market, by way of issue of shares to public. The holding of Nidhi, after post issue will be 7%. Nidhi is willing to sell shares on the day of listing. With reference to SEBI regulations, advise Nidhi for her intention to sell the shares.

(4 marks)

Answer :

Provision of Law :

- Lock-in of specified securities held by the promoters [Regulation 16(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018] The specified securities held by the promoters shall not be transferable (hereinafter referred to as "lock-in") for the periods as stipulated hereunder:
- Minimum promoters' contribution including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India or any non-individual public shareholder holding at least five per cent. of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) referred to in proviso to sub-regulation (1) of regulation 14, shall be locked-in for a period of eighteen months from the

date of allotment in the initial public offer.

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

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

Conclusion/Analysis :

In view of above, Nidhi is not allowed to sell the share on the day of listing. The share will be under lock in period for a minimum of 18 months, if contribution of Nidhi with other promoters is within the minimum promoter's contribution.

In case, contribution of Nidhi which is in excess of minimum promoter's contribution, shall be locked-in for a period of 6 months.

Question : 12 (Dec 2024).

Explain the guidelines issued by SEBI, for returning of the draft offer document and its resubmission relating to issue of Capital and Disclosure Requirements.

(5 marks)

Answer :

In order to ensure completeness of the offer document for investors and provide greater clarity & consistency in the disclosures and for timely processing. SEBI has issued 'Guidelines for returning of draft offer document and its resubmission'.

The Broad guidelines for returning of the draft offer document are as under:

Return of Draft Offer document :

The draft offer document/draft letter of offer filed with SEBI for public issue/rights issue of securities shall be scrutinized based on the broad guidelines specified as under and accordingly, the draft offer document shall be returned to the Issuer and the Lead Manager(s) for resubmission in accordance with the following guidelines, if-

Disclosures made in the draft offer document do not satisfy one or more of the following requirements:

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

Resubmission of Draft Offer Document

- (i) While there shall be no requirement for payment of any fees on account of resubmission of draft offer document, the requirement for paying applicable fees for the changes, if any, in terms of changes specified in Schedule XVI of the ICDR Regulations for the updated offer document shall continue to apply as is applicable to issuer for updation in offer document.
- (ii) There shall be no refund of the filing fees on account of non-submission of draft offer document by the issuer after return.
- (iii) The issuer, within two days of resubmission of draft offer document with the SEBI, shall make a public announcement in the mode and manner as prescribed under ICDR Regulations, as applicable, and the issuer shall also include a disclosure that it is a

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(iv) Issuer shall make written intimation to its sectoral regulator, if any, informing about the return and resubmission of the draft offer document, as applicable.

Question: 13 (Dec 2024, Old Syllabus).

Write short notes on the following: Application Supported by Block Amount (ASBA)
(3 marks)

Answer :

- 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 authorisation to self-certified syndicate bank to block the application money in a bank account.
- It is mandate by SEBI to use Unified Payment Interface (UPI) as Payment mechanism with ASBA for Retail Individual Investors, for applications by Retail Individual Investors (RIIs) submitted through Intermediaries

Question : 14 (Dec 2024, Old Syllabus).

XYZ Ltd. is manufacturing Namkeen in Bikaner, Rajasthan. To expand its footprint on PAN India basis and to meet out its future capex plan, XYZ Ltd. floated an Initial Public Offer. It provided 4 days' time to make bids for the IPO. However, due to flood situation in the country, the response to the IPO is not good even after two days. XYZ Ltd. intends to extend the time of bid for 2 more days. Is it allowable under SEBI regulation ? What would be your answer, if XYZ is an SME company ?
(4 marks)

Answer :

Provision of Law :

- a) Period of Subscription Initial Public Offer Regulation 46(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 provides that an Initial Public Offer (IPO) shall be kept open for at least 3 working days and not more than 10 working days.
- b) Further, Regulation 46(3) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 stipulates that in case of force majeure, banking strike or similar unforeseen circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), for a minimum period of one working day subject to the provisions of regulation 46(1).
- c) Hence, total period shall not exceed 10 working days including extended period.

Conclusion/Analysis :

- i. In the given situation, XYZ Ltd. opened bid for 4 days and therefore, XYZ Ltd. can extend the time of bid for 2 more days.
- ii. Period of subscription in case of Initial Public Offer by Small and Medium Enterprises (SME) Regulation 266(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 provides that a public issue shall be kept open for at least 3 working days and not more than 10 working days.
- iii. Further, Regulation 266(3) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 stipulates that in case of force majeure, banking strike or similar unforeseen circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), for a minimum period of one working day subject to the provisions of regulation 266(1).
- iv. Hence, total period shall not exceed 10 working days including extended period. In the given situation XYZ Ltd. opened bid

for 4 days and therefore, XYZ Ltd. can extend the time of bid for 2 more days.

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Question : 15 (June 2024, Old Syllabus).

With reference to the SEBI (ICDR), Regulations, 2018, answer in brief (with reasons) :

- a) If a company did not receive minimum subscription of 90%, state the time period within which the amount should be refunded.
 - b) Is there any mechanism for monitoring of utilization of IPO proceeds, if the issue size exceeds one hundred crore rupees.
 - c) Lock-in of specified securities held by the promoters in case of Initial Public Offer.
 - d) Cap on the price band.
- (4 marks)

Answer :

As per the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, in the event of non-receipt of minimum subscription of 90%, all application monies received shall be refunded to the applicants forthwith, but not later than 4 days from the closure of the issue.

- a. Yes, there is a mechanism for monitoring of utilization of IPO proceeds, if the issue size exceeds one hundred crore rupees. Regulation 41 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 states that if the issue size, excluding the size of offer for sale by selling shareholders, exceeds one hundred crore rupees, the issuer shall make arrangements for the use of proceeds of the issue to be monitored only by a credit rating agency registered with the SEBI.

This shall not apply to an issue of specified securities made by a bank or public financial institution or an insurance company.

- b. Regulation 16(1)(a) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 prescribes that the minimum promoters' contribution by the promoters shall be locked in for a period of eighteen months (in case the majority of the issue proceeds is proposed to be utilized for capital expenditure, then the lock-in period shall be three years) from the date of allotment in the Initial Public Offer.
- c. Promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of six months (in case the majority of the issue proceeds is proposed to be utilized for capital expenditure, then the lock-in period shall be one year) from the date of allotment in the initial public offer.
- d. As per the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the cap on the price band, shall be less than or equal to 120% of the floor price. Provided that the cap of the price band shall be at least 105% of the floor price.

Question: 16

What is the Fast Track Issue route and what are its conditions?
(5 Marks)

Answer:

Eligibility

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

- (a) Listing
Equity shares of the issuer have been listed on any stock exchange for a period of at least three years immediately preceding the reference date Therefore, Fast track route cannot be availed by issuer company if three years has not elapsed from listing.
- (b) Demat form Entire shareholding of the promoter group of the issuer is held in dematerialised form on the reference date
- (c) Market Capitalisation Average market capitalisation of public shareholding of the issuer is at least `1000 crores in case of public.
- (d) Trading Turnover 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

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annualised trading turnover of its equity shares has been at least 2% of the weighted average number of equity shares available as free float during such six months' period.

(e) Delivery based trading Annualized delivery-based trading turnover of the equity shares during six calendar months immediately preceding the month of the reference date has been at least 10% of the annualised trading turnover of the equity shares during such six months period

(f) Compliance with SEBI (LODR) Regulations, 2015 The issuer has been in compliance with the equity listing agreement or Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as applicable, for a period of at least three years immediately preceding the reference date However, if the issuer has not complied with the provisions of the listing agreement or SEBI (LODR) Regulations, 2015, as applicable, relating to composition of board of directors, for any quarter during the last three years immediately preceding the reference date, but is compliant with such provisions at the time of filing of RHP with the Registrar of Companies, and adequate disclosures are made in the RHP about such non-compliances during the three years immediately preceding the reference date, it shall be deemed as compliance with the condition Further, imposition of monetary fines by stock exchange on the issuer shall not be a ground for ineligibility for undertaking issuances under these regulations

(g) Investor Complaints Issuer has redressed at least 95% of the complaints received from the investors till the end of the quarter immediately preceding the month of the reference date

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

i) show-cause notice(s) has been issued by the Board or the Adjudicating Officer, in a proceeding for imposition of penalty; or
ii) prosecution proceedings have been initiated by the Board; necessary disclosures in respect of such action(s) along-with its potential adverse impact on the issuer shall be made in the letter of offer.

(i) No alleged violations 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 (j) Disciplinary measures Equity shares of the issuer have not been suspended from trading as a disciplinary measure during last three years immediately preceding the reference date (k) Conflict of interest There shall be no conflict of interest between the lead merchant banker(s) and the issuer or its group or associate company in accordance with applicable regulations (l) Audit Qualification 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.

Question: 17 (June 2025).

Write Short Notes on the following: Entities not eligible for Right Issue.

Answer:

Entities not eligible to make a rights issue [Regulation 61] An issuer shall not be eligible to make a rights issue of specified securities:

- (a) if the issuer, any of its promoters, promoter group or directors of the issuer are debarred from accessing the capital market by the SEBI
- (b) if any of the promoters or directors of the issuer is a promoter or director of any other company which is debarred from accessing the capital market by the SEBI
- (c) if any of its promoters or directors is a fugitive economic offender

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

Question: 18

State the conditions for a Rights Issue under SEBI ICDR Regulations.
(5 Marks)

Answer:

General conditions [Regulation 62] (1)

The issuer making a rights issue of specified securities shall ensure that:

- it has made an application to one or more stock exchanges to seek an in-principle approval for listing of its specified securities on such stock exchanges and has chosen one of them as the designated stock exchange;
- all its existing partly paid-up equity shares have either been fully paid-up or have been forfeited;
- it has made firm arrangements of finance through verifiable means towards 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.
- Explanation - For the purpose of this regulation 'finance for the specific project' shall mean finance of capital expenditures only.

(2) 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.

(2A) The amount for:

- (i) general corporate purposes, and
- (ii) such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 35% of the amount being raised by the issuer. However, the amount raised for such objects where the issuer company has not identified acquisition or investment target, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 25% of the amount being raised by the issuer.

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

(3) 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.

(4) 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.

SEBI has introduced dematerialized Rights Entitlements (REs) which are credited to the demat account of existing shareholder as their rights. Such REs are also tradeable on exchange in case shareholder does not want to subscribe the rights issue. Investors holding REs in dematerialized mode shall be able to renounce their entitlements by trading on stock exchange platform or off-market transfer.

Question: 19

Briefly explain the process and conditions of Preferential Allotment under SEBI ICDR.
(5 Marks)

Answer:

"Preferential issue" means an issue of specified securities by a listed issuer to any select person or group of persons on a private placement basis in accordance with Chapter V of these regulations and does not include an offer of specified securities made through employee stock option scheme, employee stock purchase scheme or an issue of sweat equity shares or depository

receipts issued in a country outside India or foreign securities.

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An issuer offering specified securities through preferential issue shall satisfy the conditions of Chapter V of SEBI (ICDR) Regulations, 2018. Issuers ineligible to make a Preferential Issue [Regulation 159] a) An issuer shall not be eligible to make a preferential issue if any of its promoters or directors is a fugitive economic offender.

b) It has any outstanding dues to the SEBI, 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.

c) 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.

- However, in respect of the preferential issue of equity shares and compulsorily convertible debt instruments, whether fully or partly, the SEBI may grant relaxation from the requirements of this sub-regulation, if the SEBI has granted relaxation in terms of regulation 11(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 to such a preferential allotment.
- Explanation: Where any person belonging to promoter(s) or the promoter group has sold/ transferred their equity shares in the issuer during the 90 trading days preceding the relevant date, the promoter(s) and promoter group shall be ineligible for allotment of specified securities on preferential basis.
- However the above restriction shall not apply to any sale of equity shares by any person belonging to promoter(s) of the promoter group which qualifies for inter-se transfer amongst qualifying persons under regulation 10(1)(a) of the SEBI (Substantial Acquisition of Shares and Takeover Regulations), 2011 or in case of transfer of shares held by the promoters or promoter group on account of invocation of pledge by a scheduled commercial bank or public financial institution or a systemically important non-banking finance company or mutual fund or insurance company registered with the Insurance Regulatory and Development Authority.

d) Any person belonging to promoter(s) or the promoter group has previously subscribed to warrants of an issuer but has failed to exercise the warrants, the promoter(s) and promoter group shall be ineligible for issue of specified securities of such issuer on preferential basis for a period of one year from:

- the date of expiry of the tenure of the warrants due to non-exercise of the option to convert; or
- the date of cancellation of the warrants, as the case may be.
- Conditions for preferential issue [Regulation 160]
- A listed issuer making a preferential issue of specified securities shall ensure that:
- Fully Paid-up: All equity shares allotted by way of preferential issue shall be made fully paid up at the time of the allotment.
- Special Resolution: A special resolution has been passed by its shareholders.
- Demat form: All equity shares held by the proposed allottees in the issuer are in dematerialised form before an application seeking in-principle approval is made by the issuer to the stock exchange(s) where its equity shares are listed.
- Compliance: The issuer is in compliance with the conditions for continuous listing of equity shares as specified in the listing agreement with the stock exchange where the equity shares of the issuer are listed and SEBI (LODR) Regulations, 2015 as amended, and any circular or notification issued by the SEBI thereunder.
- PAN: The issuer has obtained the Permanent Account Numbers (PAN) of the proposed allottees, except those allottees which may be exempt from specifying their PAN for transacting in the securities market by the SEBI before an application seeking in-principle approval is made by the issuer to the stock exchange(s) where its equity shares are listed.
- Application for in-principle approval: The issuer has made an application seeking in-principle approval to the stock

exchange(s), where its equity shares are listed, on the same day when the notice has been sent in respect of the general meeting seeking shareholders' approval by way of special resolution.

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Question: 20

Zeta Infra Ltd., a company listed on both NSE and BSE, proposes to raise ₹600 crores through a Qualified Institutional Placement (QIP). The Board of Directors approved the issue on 10th August 2025, and the floor price has been duly calculated. The QIP is proposed to be made by issuing compulsorily convertible debentures (CCDs) to six Qualified Institutional Buyers (QIBs), including mutual funds and insurance companies.

The company made its previous QIP on 1st May 2025 using a shareholder resolution dated 10th April 2025. The promoters currently hold 80% of the total equity capital of the company, and the public shareholding is at 20%.

Answer the following based on SEBI (ICDR) Regulations, 2018:

- (a) Within what time period must the allotment under QIP be completed once the issue opens?
 - (b) What type or class of securities can be issued under QIP as per the regulations?
 - (c) Is it mandatory for the company to pass a fresh special resolution if the earlier resolution was passed less than a year ago?
 - (d) Can the company proceed with a second QIP on 10th August 2025 under the same resolution dated 10th April 2025?
 - (e) Is the current promoter holding compliant with the minimum public shareholding norms under the QIP framework?
- (1 marks each)

Answer:

- a. The allotment pursuant to the special resolution referred to in regulation 172(a) shall be completed within a period of 365 days from the date of passing of the resolution.
- b. The equity shares of the same class, which are proposed to be allotted through qualified institutions placement or pursuant to conversion or exchange of eligible securities offered through qualified institutions placement, have been listed on a stock exchange for a period of at least one year prior to the date of issuance of notice to its shareholders for convening the meeting to pass the special resolution;

Provided that where an issuer, being a transferee company in a scheme of compromise, arrangement and amalgamation sanctioned by a High Court or approved by a tribunal or the Central Government under sections 230 to 234 of the Companies Act, 2013, whichever is applicable makes qualified institutions placement, the period for which the equity shares of the same class of the transferor company were listed on a stock exchange having nationwide trading terminals shall also be considered for the purpose of computation of the period of one year.

- c. As per Regulation 172, a special resolution passed under QIP is valid for 1 year. If the previous resolution was passed less than a year ago, no fresh resolution is required, provided it has not been used for a QIP within the past 6 months.
- d. According to Regulation 183, a company cannot make two QIPs within 6 months under the same shareholder resolution. Since the previous QIP was made on 1st May 2025, the second QIP on 10th August 2025 would fall within 6 months.
- e. As per SEBI norms, minimum public shareholding (MPS) must be at least 25%. With promoter holding at 80%, public shareholding is only 20%, which violates MPS norms. QIP cannot proceed unless the company first complies with the MPS requirement.

No, promoter holding violates the 75% cap; public shareholding must be $\geq 25\%$.

Question : 21

M/s BioNext Tech Private Limited is a company operating in the field of biotechnology and data analytics. The company proposes to raise funds by getting its equity shares listed on a special platform offered under SEBI regulations for innovative and technology-intensive businesses. As on the date of filing the draft offer document with SEBI, 30% of its pre-issue capital has been held for over a year by a mix of Qualified Institutional Buyers and regulated Foreign Portfolio Investors.

The management seeks clarity on further regulatory expectations before proceeding.

Based on the above facts, answer these questions:

- 1. Based on the facts, assess whether the company meets the eligibility requirements for accessing the platform. (1.5 Mark)
- 2. Examine if the nature of the company's business aligns with the purpose of the platform. (2 Marks)

3. Highlight the minimum regulatory terms of: the company must fulfil in terms of :

- a. Investor allocation,
- b. Minimum application size, and
- c. Number of allottees in the IPO. (1. 5 Marks)

Answer :

1. Provision Of Law :

At least 25% of pre-issue capital is held by QIBs, Innovators Growth Platform Investors, any other class of investors as specified by SEBI, for atleast a 1 year.

Listing is allowed with or without IPO. SEBI will issue its observations in both the cases.

Conclusion/Analysis :

Yes, the company meets the eligibility criteria under Regulation 283(1), since:

30% of the pre-issue capital is held by a mix of QIBs and regulated FPIs.

This holding has been maintained for over 1 year, satisfying the revised minimum holding period requirement for IGP.

2. Provision Of Law :

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

Aimed to list startups which are intensive in the use of technology, information technology, intellectual property, data analytics, bio-technology or nano-technology to provide products, services or business platform with substantial value addition.

Conclusion/Analysis :

The company is engaged in biotechnology and data analytics, both of which fall within the scope of: Technology-intensive sectors & Innovation-driven businesses Sectors intended to be supported under the IGP Hence, the company's business aligns well with the intended scope and objectives of the Innovators Growth Platform.

- 3. a. The issuer may allocate up to sixty per cent of the issue size on a discretionary basis, prior to the issue opening, to eligible investors as identified under sub-regulation (1) of regulation 283, in accordance with the requirements with respect to anchor investors for public issue made on the SME exchange as may be specified.
- b. Minimum application size shall be two lakh rupees and in multiples thereof.
- c. Number of allottees in the initial public offer shall at least be fifty.

Question : 22 (June 2024, Old Syllabus).

- With an aim to list startups, which are making intensive use of technology and intellectual property, SEBI had introduced 'Innovators Growth Platform' in the SEBI (ICDR) Regulations, 2018. Considering the statement, answer the followings :

- (a) What is Innovators Growth Platform ?
 - (b) What are the conditions for such startups to be fulfilled for being listed on Innovators Growth Platform ?
- (1+3=4 marks)

Answer :

(a) "Innovators growth platform" means the trading platform for listing and trading of specified securities of issuers that comply with the eligibility criteria specified in Regulation 283 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Regulation 283 states that an issuer which is intensive in the use of technology, information technology, intellectual property, data analytics, bio- technology or nano-technology to provide products services or business platforms with substantial value

addition shall be eligible for listing on the innovators growth platform.

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Provided that as on the date of filing of draft information document or draft offer document with the SEBI, as the case may be, 25% of the pre-issue capital of the Issuer Company for at least a period of one year, should have been held by Qualified Institutional Buyers(QIBs)

Innovators Growth Platform Investors and any other class of investors as specified by SEBI.

(b) Such startups (issuer) shall comply with following conditions in terms of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 to get itself listed on Innovators Growth Platform –

- Listing is allowed with or without initial public offer.
- An issuer shall be eligible for listing on the Innovators Growth Platform if none of the promoters or directors of the issuer company is a fugitive economic offender.
- The issuer shall be in compliance with minimum public shareholding requirements specified in the Securities Contracts (Regulation) Rules, 1957.
- The minimum offer size shall be Rs. 10 crores in case of IPO.
- Minimum application size shall be Rs. two lakhs and in multiples thereof .
- Number of allottees in the initial public offer shall be at least fifty.
- Minimum trading lot shall be Rs. two lakhs and in multiples thereof.

Question : 23 (June 2024,Old Syllabus).

SEBI has recently introduced the concept of Social Stock Exchange? Define the Social Stock Exchange and nature of entity eligible for listing on the Social Stock Exchange platform.
(4 marks)

Answer :

In accordance to the provisions of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the Social Stock Exchange means a separate segment of a recognized stock exchange having nationwide trading terminals permitted to register Not for Profit Organizations and / or list the securities issued by Not for Profit Organizations in accordance with provisions of these regulations.

Regulation 292J of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 prescribes that a Social Enterprise which is a Not for Profit Organization registered with a Social Stock Exchange may make an issue of Zero Coupon Zero Principal Instruments and list them on such Social Stock Exchange.

“Not for Profit Organization” means a Social Enterprise which is any of the following entities:

- a charitable trust registered under the Indian Trusts Act, 1882;
- a charitable trust registered under the public trust statute of the relevant state;
- a charitable society registered under the Societies Registration Act, 1860;
- a company incorporated under section 8 of the Companies Act, 2013;
- any other entity as may be specified by SEBI.

Question : 24 (June 2024,Old Syllabus).

Harish Ltd. and Monish Ltd. are planning to float an IPO in March 2025 worth ` 600 crore and 500 crore respectively. Harish Ltd. is a pharmaceutical company and incorporated five years ago and is satisfying the conditions of regulation 6(1) of the SEBI (ICDR)

Regulations 2018. Monish Ltd. is a start-up, engaged in the business of Organic farming technology and is operational since last two years. Many private equity players have already invested in the company and planning to sell their holding during the IPO.

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Calculate, the maximum permissible allotment to an anchor investor by both companies (assuming face value of ₹ 10 in each case).

(5 marks)

Answer :

Provision of Law :

- Regulation 32 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, prescribes that the companies, who comply the requirement of regulation 6(1),
- the portion available for allocation shall be not more than 50% for QIBs, not less than 35% for retail individual investors and not less than 15% for non-institutional investors.
- Companies that do not meet the regulation 6(1) requirements, the portion available for allocation shall be not less than 75% to QIBs, not more than 15% to non-institutional investors and not more than 10% to retail individual investors.
- In an issue made through the book building process, the issuer may allocate up to sixty per cent. of the portion available for allocation to qualified institutional buyers to anchor investors.

Conclusion/Analysis :

In case of Harish Ltd. which is satisfying the conditions of Regulation 6(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the maximum number of shares to be issued to anchor investors are:

Issue size = ₹ 600 crore

Shares = ₹ 600 / ₹ 10 = 60 crore

Reservation for QIB = 60 crore * 50% = 30 crore

Allocation to anchor investor (out of QIB) = 30 crore * 60% = 18 crore.

In case of Monish Ltd., who is not satisfying the requirements of Regulation 6(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the maximum number of shares to be issued to anchor investors are:

Issue size = ₹ 500 crore

Shares = ₹ 500 / ₹ 10 = 50 crore

Reservation for QIB = 50 crore * 75% = 37.5 crore

Allocation to anchor investor (out of QIB) = 37.5 crore * 60% = 22.5 crore.

Question : 25 (June 2024, Old Syllabus).

Rajesh, is an ace investors in the primary capital market. Due to rising response of High net-worth individual investors in the IPO market, the non-institutional quota generally subscribed multifold, thus very few chances remain to get allotment in the non-institutional category. State by quoting the SEBI provisions, the application sizes under the non-institutional category and how and when he gets more chances for shares allotment.

(5 Marks)

Answer :

Provision of Law :

Allocation in the net offer [Regulation 32(3A) and 129 (3A) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018]

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

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

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

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

Conclusion/Analysis :

In view of above, if Rajesh, applied with application size of more than Rs. 10 lakh, the reserved portion will be 2/3rd, hence there will be high chance to get the shares allotted under the IPO.

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CHAPTER : 9 SHARE BASED EMPLOYEE BENEFITS AND SWEAT EQUITY

Question : 1 (Dec 2024, Old Syllabus).

The management of a listed entity is desirous to implement employee stock option scheme. You being company law expert, advise the management about the eligible employees under SEBI (Share Based Employee Benefits and Sweat Equity), Regulations, 2021.
(4 marks)

Answer :

In terms of regulation 2(1)(i) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 employee, except in relation to issue of sweat equity shares, means, -

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

but does not include -

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

Question : 2 (Module Question)

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

Answer :

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

Question : 3

Aurum Ltd., a listed company, plans to introduce an Employee Stock Purchase Scheme (ESPS) where it will acquire shares from the secondary market for employee benefit. The company is considering whether to implement the scheme directly or through a Trust.

The Board proposes to appoint three employees, including a whole-time director, as trustees. Further, the trust deed mentions that the trust may vote at general meetings and deal in derivatives to hedge share price risk.

The company is also unsure whether a single trust can manage multiple employee benefit schemes.
(2 marks each):

- (a) When is it mandatory for a company to implement an employee benefit scheme through a Trust under SEBI regulations?
- (b) Can multiple schemes be implemented through a single trust? If yes, under what condition?
- (c) Can a trustee vote in respect of shares held by the trust under a scheme?
- (d) Can the trust deal in derivatives to hedge employee share benefit exposures?
- (e) What is the maximum limit prescribed for secondary acquisition of shares by the trust?

Answer:

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(a) If the scheme is to be implemented through a trust, the same has to be decided upfront at the time of taking approval of the shareholders for setting up the scheme(s). However, if prevailing circumstances so warrant, the company may change the mode of implementation of the scheme subject to the condition that a fresh approval of the shareholders by a special resolution is obtained prior to implementing such a change and that such a change is not prejudicial to the interests of the employees. Further provided that, if the scheme(s) involves secondary acquisition or gift or both, then it shall be mandatory for the company to implement such scheme(s) through a trust(s).

(b) A company may implement several schemes as permitted under these regulations through a single trust.

However, such single trust shall keep and maintain-

- proper books of account;
- records and documents;

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

(c) The trustees of a trust, which is governed under these regulations, shall not vote in respect of the shares held by such trust, so as to avoid any misuse arising out of exercising such voting rights. 6. The trustee should ensure that the requisite approval from the shareholders has been obtained by the company in order to enable the trust to implement the scheme(s) and undertake secondary acquisition for the purposes of the scheme(s).

(d) The trust shall not deal in derivatives and shall undertake only delivery-based transactions for the purposes of secondary acquisition as permitted by these regulations. 8. Subject to the requirements of the Companies Act, 2013 read with Companies (Share Capital and Debenture) Rules, 2014, as amended from time to time, as may be applicable, the company may lend monies to the trust on appropriate terms and conditions to acquire the shares either through new issue or secondary acquisition, for the purpose of implementation of the scheme(s).

(e) Secondary acquisition in a financial year by the trust shall not exceed two per cent of the paid up equity capital of the company as at the end of the previous financial year.

Question : 4 (Dec 2023, Old Syllabus).

State with reasons whether the following persons can be appointed as 'Trustee' of Joe Pharma Ltd., a listed company, which has proposed to implement Share Based Employee Benefit Schemes :

- (a) Excellent Consultants Ltd. is holding 9% of paid-up capital in the company.
(b) Karnatak Bank Securities Ltd. has been one of the leading promoters of the company.
(4 marks)

Answer :

In accordance with Regulation 3(4) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021:

(a) Provision Of Law :

any person shall not be appointed as a trustee of the trust if such person, beneficially holds 10% or more of the paid-up share capital or the voting rights of the company.

Conclusion/Analysis :

In the given case, Excellent Consultants Ltd. is holding 9%, which is less than 10% of the paid-up capital of the company. So, Excellent Consultants Ltd. can be appointed as a Trustee.

(b) Provision Of Law :

any person shall not be appointed as trustee if he 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.

Conclusion/Analysis :

Karnatak Bank Securities Ltd. has been one of the leading promoters of the Joe Pharma Ltd. and hence, cannot be appointed as

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Trustee.

Question : 5 (Dec 2023, Old Syllabus).

Samrudhi Enterprises Ltd. established a Trust. The Trust holds some shares of the company obtained by it for the purpose of implementation of Share Based Employee Benefit Scheme in the company.

Answer the following in the light of SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 :

- (i) In what manner the shares held by the Trust will be disclosed to the stock exchange ?
 - (ii) Can shares held by the Trust be included in the category of public holding?
- (4 marks)

Answer :

- Regulation 3(9) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 provides the manner of disclosing shares held by the Trust. It is prescribed that for the purpose of disclosures to the recognised stock exchange, the shareholding of the trust shall be shown as "non-promoter and non-public" shareholding.
 - The shares held by the trust shall not form part of the public shareholding which needs to be maintained at a minimum of twenty five per cent as prescribed under the Securities Contracts (Regulation) Rules, 1957.
 - Accordingly,
- (i) Shares held by the Trust of Samrudhi Enterprises Ltd. are required to be shown as "non-promoter and non-public shareholding" while disclosing the shareholding pattern to the stock exchange.
- (ii) Shares held by the Trust of Samrudhi Enterprises Ltd. shall not form part of the public shareholding which needs to be maintained at a minimum of 25% as prescribed under the Securities Contracts (Regulation) Rules, 1957.

Question : 6 (June 2024, Old Syllabus).

Mohan has been granted 200 options under ESOP scheme by a listed company. Mohan is in need of money; he intends to mortgage the options with the private moneylender to avail loan. Is intention of Mohan valid in law (answer with reason) ?
(4 marks)

Answer :

Provision Of Law :

As per the Regulation 9 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021,

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

Conclusion/Analysis :

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In the given case, a listed company has granted 200 options under ESOP scheme to Mohan and he intends to mortgage the options with private moneylender to avail loan.

In view of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, the mortgage is not permissible for options granted by a listed company, hence the intention of Mohan is not valid in law.

Question : 7

Answer with reference to Employee Stock Purchase Scheme (ESPS) :

- i. Administration and Implementation (1 mark)
- ii. Pricing and Lock-In (4 marks).

Answer :

Provision Of Law :

Administration and Implementation

An ESPS scheme shall contain the details of the manner in which the scheme will be implemented and operated.

Pricing and Lock-In

- 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 shall be locked-in for a minimum period of one year from the date of allotment.
- If ESPS is part of a public issue and the shares are issued to employees at the same price as in the public issue, the shares issued to employees pursuant to ESPS shall not be subject to lock-in.

Conclusion/Analysis :

Under SEBI's framework, ESPS must be administered by a Compensation Committee, ensuring compliance and fairness. The pricing is flexible, but a 1-year lock-in is generally applicable unless specific exemptions apply. These provisions help balance employee incentives with market integrity and shareholder protection.

Question : 8

Distinguish between Employee Stock Option Scheme (ESOS) and Employee Stock Option Purchase (ESPS).

Answer :

Employee Stock Option Scheme (ESOS)

- **Administration and Implementation :** An ESOS shall contain the details of the manner in which the scheme will be implemented and operated. ESOS shall not be offered unless the disclosures, as specified by SEBI in this regard, are made by the company to the prospective option grantees.
- **Pricing :** The company granting options to its employees pursuant to an ESOS shall be free to determine the exercise price subject to conforming to the accounting policies specified in these regulation.
- **Vesting Period :**
 - a. There shall be a minimum vesting period of one year in case of ESOS.
 - b. The company may specify the lock-in period for the shares issued pursuant to exercise of option.
- **Rights of the option holder :** An employee shall not have right to receive any dividend or to vote or in any manner enjoy the

benefits of a shareholder in respect of option granted to him/her, till shares are issued upon exercise of option.

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- Consequence of failure to exercise option
- a. The amount paid by the employee, if any, at the time of grant, vesting or exercise of option,
- b. may be forfeited by the company if the option is not exercised by the employee within the exercise period; or
- c. may be refunded to the employee if the options are not vested due to non-fulfilment of conditions relating to vesting of option as per the ESOS.

Employee Stock Purchase Scheme (ESPS)

Administration and Implementation : An ESPS scheme shall contain the details of the manner in which the scheme will be implemented and operated.

Pricing and Lock-In :

- 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 shall be locked-in for a minimum period of one year from the date of allotment.
- If ESPS is part of a public issue and the shares are issued to employees at the same price as in the public issue, the shares issued to employees pursuant to ESPS shall not be subject to lock-in.

Question : 9 (June 2025).

The Board of Directors of XYZ Limited are in the process of finalizing their policy relating to Sweat Equity and Share based Employee Benefits. Therefore, before this policy being adopted by the Board, Managing Director wants to understand the provisions of SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 as applicable to General Employee Benefit Scheme (GEBS) and Retirement Benefit Scheme (RBS). Being Company Secretary, you are being instructed to explain the above in detail.

(5 marks)

Answer :

- Provisions relating to the General Employee Benefits Scheme (GEBS) in accordance with regulation 26 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 are as under:
 - (i) GEBS shall contain the details of the scheme and the manner in which the scheme shall be implemented and operated.
 - (ii) The shares of the company or shares of its listed holding company shall not exceed ten per cent of the book value or market value or fair value of the total assets of the scheme, whichever is lower, as appearing in its latest balance sheet (whether audited or limited reviewed) for the purposes of GEBS.
 - (iii) (3) The secretarial auditor of the company shall certify compliance with sub-regulation (2) at the time of adoption of such balance sheet by the company.
- Provisions relating to the Retirement Benefit Scheme (RBS) in accordance with regulation 27 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 are as under:
 1. Retirement benefit scheme may be implemented by a company subject to compliance with these regulations and provisions of any other law in force in relation to retirement benefits.
 2. The retirement benefit scheme shall contain the details of the benefits under the scheme and the manner in which the scheme shall be implemented and operated.
 3. The shares of the company or shares of its listed holding company shall not exceed ten per cent of the book value or market value or fair value of the total assets of the scheme, whichever is lower, as appearing in its latest balance sheet (whether audited or limited reviewed) for the purposes of RBS.
 4. (4) The secretarial auditor of the company shall certify compliance with sub-regulation (3) at the time of adoption of such balance sheet by the company.

Question : 10

Asterix Innovations Ltd. wishes to issue sweat equity shares to individuals who contributed to product development. The shortlisted individuals are:

1. Mr. Rajiv – Full-time software engineer (Bengaluru).
 2. Ms. Alina – Machine learning consultant (long-term contract, USA).
 3. Mr. Arvind – Non-executive director, strategic input provider.
 4. Mr. Shankar – Whole-time director, led R&D team.
 5. Ms. Pooja – Founder's sister, informal marketing support, no contract or board position.
- As Company Secretary, identify who qualifies as "employee" for sweat equity issuance and justify.
(5 marks)

Answer :

Provision Of Law :

Section 2(77) of the Companies Act, 2013 defines "employee" for the purpose of sweat equity shares as:

"Employee" means—

- (a) A permanent employee of the company (whether working in India or outside India); or
- (b) A director of the company, whether a whole-time director or not.

SEBI (Issue of Sweat Equity) Regulations also broadly follow this definition.

Consultants or contractual workers are not considered employees unless they have a permanent employment contract.

Conclusion/Analysis :

Eligible for Sweat Equity Shares:

- Mr. Rajiv (Permanent employee).
Mr. Arvind (Non-executive director).
Mr. Shankar (Whole-time director).

Not Eligible:

- Ms. Alina (Consultant, contractual).
Ms. Pooja (Informal support, no formal status).

Question : 11 (Dec 2024)

PQR Ltd. is a pharmaceutical company, whose equity shares are listed on BSE. Company management wish to issue sweat equity shares in accordance with provisions of the Companies Act, 2013. As a company secretary of PQR Ltd. you are required to advise its management on the following:

- (a) Maximum quantum of sweat equity shares
 - (b) Pricing of sweat equity shares
 - (c) Ceiling on managerial remunerations.
- (2+1+2=5 marks)

Answer :

Section 54 of the Companies Act, 2013 inter alia prescribed that where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the SEBI in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed.

In the given case, PQR Ltd. is a pharmaceutical company, whose shares are listed on BSE. Therefore, the company is required to comply with the provisions of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

(a) Maximum quantum of sweat equity shares

In accordance with the regulations 31 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, a company shall not issue sweat equity shares for more than fifteen percent of the existing paid-up equity share capital in a year. However, the issuance of sweat equity shares in the company shall not exceed twenty five percent of the paid-up equity share capital of the company at any time.

Further, a company listed on Innovators Growth Platform shall be permitted to issue not more than fifteen percent of the paid-up equity share capital in a financial year subject to overall limit not exceeding fifty percent of the paid-up equity share capital of the company, up to ten years from the date of its incorporation or registration.

(b) Pricing of sweat equity shares

In accordance with the regulations 33 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, the price of sweat equity shares shall be determined in accordance with the pricing requirements stipulated for a preferential issue to a person other than a qualified institutional buyer under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

(c) Ceiling on managerial remuneration

In accordance with regulations 37 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, the amount of sweat equity shares issued shall be treated as part of managerial remuneration for the purpose of sections 196, 197 and other applicable provisions of the Companies Act, 2013, if the following conditions are fulfilled:

- (i) the sweat equity shares are issued to any director or manager; and
- (ii) the sweat equity shares are issued for non-cash consideration, which does not take the form of an asset which can be carried to the balance sheet of the company in accordance with the relevant accounting standards.

Question : 12 (June 2024).

Sanaya Ltd. (a listed company) wants to implement Sweat Equity shares scheme for its employees. The company is also willing to issue shares under the scheme to one its whole-time director 'Jeevan'. Jeevan holds 21% of the outstanding equity share of the company. Whether the company can issue Sweat Equity shares to Jeevan? What type of information to be disclosed to the stock exchange after issue of Sweat Equity shares?

(5 marks)

Answer :

As per Regulation 29 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, the term 'employee' in relation to issue of sweat equity shares means,

- (i) an employee of the company working in India or abroad; or
- (ii) a director of the company whether a whole-time director or not.

Further, Regulation 30 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 states that a company whose equity shares are listed on a recognised stock exchange may issue sweat equity shares in accordance with Section 54 of the Companies Act, 2013 and these regulations to its employees for their providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

In light of the above-mentioned provisions, Sweat Equity Shares can be issued to any director, whether whole-time or not and there is no threshold for holding any equity shares of the company.

Hence, Jeevan, who is a whole-time director and who holds 21% of the outstanding equity shares of Sanaya Ltd, is eligible for Sweat Equity Shares of Sanaya Ltd.

According to the Regulation 41 of the SEBI (Share Based Employee Benefits and Sweat Equity)

Regulations, 2021, the company, within seven days of the issue of sweat equity shares, sends a statement to the recognised stock exchange, disclosing:

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- (i) number of sweat equity shares issued;
- (ii) price at which the sweat equity shares are issued;
- (iii) total amount received towards sweat equity shares;
- (iv) details of the persons to whom sweat equity shares have been issued; and
- (v) the consequent changes in the capital structure and the shareholding pattern before and after the issue of sweat equity shares.

Question : 13 (Dec 2023).

RMM Ltd is a listed company engaged in automobile sector, manufacturing cars in India. Due to the growing demand of the cars in the market, the requirement of manufacturing more cars becomes essential. The competitors are also thinking in this line. The management of the company has the apprehension that the experienced employees may leave the company in order to get higher package.

The CEO desires to issue Sweat Equity Shares to the employee to retain them. You being the company secretary advise the management about issue of sweat equity shares to employees, maximum quantum and pricing of equity shares under SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

(5 marks)

Answer :

Issue of sweat equity shares to employees under the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

A company whose equity shares are listed on a recognised stock exchange may issue sweat equity shares in accordance with section 54 of the Companies Act, 2013 and SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 to its employees for their providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

The term 'employee' means,

- (i) an employee of the company working in India or abroad; or
- (ii) a director of the company whether a whole time director or not.

Maximum quantum of sweat equity shares under the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

A company shall not issue sweat equity shares for more than fifteen percent of the existing paid-up equity share capital in a year. However, the issuance of sweat equity shares in the company shall not exceed twenty five percent of the paid-up equity share capital of the company at any time.

Further, a company listed on Innovators Growth Platform shall be permitted to issue not more than fifteen percent of the paid-up equity share capital in a financial year subject to overall limit not exceeding fifty percent of the paid-up equity share capital of the company, up to ten years from the date of its incorporation or registration.

Pricing of sweat equity shares under the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

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

Question : 14 (Dec 2023, Old Syllabus).

Elucidate the obligations of the Company under the SEBI (Issue of Sweat Equity) Regulations, 2002.

(4 marks)

Answer :

The obligations of the Company had been specified under the SEBI (Issue of Sweat Equity) Regulations, 2002, where it was prescribed that the company shall ensure –

(a) The explanatory statement to the notice for general meeting shall contain disclosures as specified.

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(b) The Auditor's certificate shall be placed in the general meeting of shareholders.

(c) The company shall within seven days of the issue of sweat equity, issue or send statement to the exchange, disclosing:

(i) number of sweat equity shares;

(ii) price at which the sweat equity shares are issued;

(iii) total amount invested in sweat equity shares;

(iii) details of the persons to whom sweat equity shares are issued; and

(iv) the consequent changes in the capital structure and the shareholding pattern after and before the issues of sweat equity.

However, SEBI has notified the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, hence the SEBI (Issue of Sweat Equity) Regulations, 2002 has been repealed.

Therefore, in accordance with Regulation 41 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, the obligations of the Company are as under:

(a) the explanatory statement to the notice for a general meeting shall contain disclosures as are specified under section 54(1)(b) of the Companies Act, 2013 and Regulation 32(1) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

(b) the secretarial auditor's certificate required under regulation 36 is placed in the general meeting of the shareholders.

(c) the company, within seven days of the issue of sweat equity shares, sends a statement to the recognised stock exchange, disclosing:

i. number of sweat equity shares issued;

ii. price at which the sweat equity shares are issued;

iii. total amount received towards sweat equity shares;

iv. details of the persons to whom sweat equity shares have been issued; and v. the consequent changes in the capital structure and the shareholding pattern before and after the issue of sweat equity shares.

CHAPTER : 10 ISSUE AND LISTING OF NON - CONVERTIBLE SECURITIES

Question : 1

A company proposes to make a public issue of NCDs but has defaulted on payment of interest to debenture holders in the past year. Can it proceed with the issue? Examine with reference to eligibility criteria as per the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.

(5 marks)

Answer:

Provision of Law:

Eligible issuers (Regulation 5)

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

(a) The issuer, any of its promoters, promoter group or directors are debarred from accessing the securities market or dealing in securities by the SEBI;

(b) Any of the promoters or directors of the issuer is a promoter or director of another company which is debarred from accessing the securities market or dealing in securities by the SEBI;

(c) The issuer or any of its promoters or directors is a wilful defaulter;

(d) Any of the promoters or whole-time directors of the issuer is a promoter or whole-time director of another company which is a wilful defaulter;

(e) Any of its promoters or directors is a fugitive economic offender; or

(f) Any fine or penalties levied by the SEBI/Stock Exchanges is pending to be paid by the issuer at the time of filing the offer document.

However, the:

(i) Restrictions mentioned at (b) and (d) above shall not be applicable in case of a person who was appointed as a director only by virtue of nomination by a debenture trustee in other company.

(ii) Restrictions mentioned in (a) and (b) above shall not be applicable if the period of debarment is over as on date of filing of the draft offer document with the SEBI.

(iii) Restrictions mentioned at (c) and (d) shall not be applicable in case of private placement of nonconvertible securities.

(2) Issuer shall not make a public issue of non-convertible securities if as on the date of filing of draft offer document or offer document, the issuer is in default of payment of interest or repayment of principal amount in respect of non-convertible securities, if any, for a period of more than six months.

A company proposes to make a public issue of NCDs but has defaulted on payment of interest to debenture holders in the past year.

Conclusion/Analysis:

As per the provisions stated above, since the company has defaulted on payment of interest to debenture holders in the past year, shall be ineligible to proceed to make an issue of non-convertible securities.

Question : 2

XYZ Ltd., a listed entity, issued Non-Convertible Debentures (NCDs) to the public, which were scheduled to mature in 7 years. However, after 4 years, due to improved cash flows, the company decided to redeem the NCDs prior to their original maturity.

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Certain investors objected, stating they had invested based on the longer tenure and expected higher interest accrual. The company argues that the debenture terms allow such a right. Discuss the validity of XYZ Ltd.'s action in light of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.

(5 marks)

Answer:

Provision Of Law :

- Right to recall or redeem prior to maturity (Regulation 15) An issuer making issuance of non-convertible securities shall:
 - (a) have the right to recall such securities prior to the maturity date (call option); or,
 - (b) shall have a right to provide such right of redemption of debt securities prior to the maturity date (put option) to all the investors or only to retail investors.
- Such right to recall non-convertible securities or redeem debt securities prior to the maturity date shall be exercised in accordance with the terms of issue and detailed disclosure in this regard shall be made in offer document including date from which such right is exercisable, period of exercise (which shall not be less than three working days) and redemption amount (including the premium or discount at which such redemption shall take place).
- The issuer or investor may exercise such right with respect to all the non-convertible securities issued or held by them respectively or with respect to a part of the non-convertible securities so issued or held.
- In case of partial exercise of such right in accordance with the terms of the issue by the issuer, it shall be done on proportionate basis only.
- No such right shall be exercisable before the expiry of one year from the date of issue of such non-convertible securities.
- The issuer shall send a notice regarding recall or redemption of nonconvertible securities, prior to maturity, to all the eligible holders of such securities and the debenture trustee(s), at least twenty-one days before the date from which such right is exercisable and the notice to the eligible holders shall be sent in the following manner:
 - (i) soft copy of such notice shall be sent to the eligible holders who have registered their email address(es) either with the listed entity or with any depository; and
 - (ii) hard copy of the notice shall be sent to the eligible holders who have not registered their email address(es) either with the listed entity or with any depository.
- The issuer shall simultaneously provide a copy of such notice to the stock exchange(s) where the non-convertible securities of the issuer are listed, for dissemination on its website. Issuer shall pay interest at the rate of fifteen percent per annum for the period of delay, if any.
- After the completion of the exercise of such right, the issuer shall:
 - (a) submit a report to the stock exchange(s) where the non-convertible securities are listed for public dissemination regarding the details of non-convertible securities redeemed during the exercise period and details of redemption thereof;
 - (b) inform the debenture trustee regarding the debt securities redeemed during the exercise period and details of redemption thereof; and
 - (b) inform the depositories for extinguishing the non-convertible securities that have been redeemed.

Facts of the Case :

XYZ Ltd. issued 7-year NCDs. Redeemed them after 4 years and the Investors objected; XYZ relied on terms in the offer document.

Conclusion / Analysis :

If early redemption was clearly disclosed, action is valid under Regulation 15.

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If not disclosed, early redemption is non-compliant, and investor objections are justified.

Question : 3 (Dec 2024).

Write short note on : Trust Deed under SEBI (Issue & Listing of Non-Convertible Securities) Regulations, 2021
(3 marks)

Answer:

Trust Deed :

- Under the SEBI (Issue and Listing of Non-Convertible Securities) Regulation, 2021, trust deed means a deed executed between the issuer and the debenture trustee for the benefit of the holders of the debt securities.
- The Regulations requires that the issuer and the debenture trustee shall execute the trust deed within such timelines as may be specified by the SEBI.
- Where an issuer fails to execute the trust deed within the specified period, the issuer shall also pay interest of at least 2 percent per annum or such other rate, as specified by the SEBI to the holder of debt securities, over and above the agreed coupon rate, till the execution of the trust deed.
- Every debenture trustee shall amongst other matters, accept the trust deeds which shall contain the matters as provided under Section 71 of the Companies Act, 2013 and Form No. SH.12 of the Companies (Share Capital and Debentures) Rules, 2014.
- Such trust deed shall consist of two parts:
 - a. Part A containing statutory/standard information pertaining to the debt issue.
 - b. Part B containing details specific to the particular debt issue

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

1. Limiting or extinguishing the obligations and liabilities of the debenture trustees or the issuer in relation to any rights or interests of the holders of the debt securities.
 2. Limiting or restricting or waiving the provisions of the Act, these regulations and circulars or guidelines issued by the SEBI.
 3. Indemnifying the debenture trustees or the issuer for loss or damage caused by their act of negligence or commission or omission.
- The trust deed shall contain the issuer's bank details from which it proposes to pay the Interest and redemption amount of the debt securities and the issuer shall pre-authorise the debenture trustee at the time of executing the trust deed to allow the debenture trustee to seek information about interest payment and redemption payment from such bank.
 - The trust deed shall contain a provision, mandating the issuer to appoint the person nominated by the debenture trustee(s) in terms of the SEBI (Debenture Trustees) Regulations, 1993, as a director on its Board of Directors at the earliest and not later than one month from the date of receipt of nomination from the debenture trustee(s).
 - The trust deed shall also contain such other particulars as may be specified by SEBI.

Question : 4 (June 2025).

Global Air Limited, is a listed company with Bombay Stock Exchange and is planning to issue 3,00,000 non-convertible debentures (NCDs) @ 6% of ₹ 1,000 each, to strengthening its future projects. List the obligations the company has as required in the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.

(5 marks)

Answer:

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Under Regulation 23 of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 the obligations of the issuer are prescribed which are as follow:

- 1) 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.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) If an issuer is a company, it shall ensure that its Articles of Association require its Board of Directors to appoint the person nominated by the debenture trustee(s) in terms of clause (e) of sub-regulation(1) of regulation 15 of the SEBI (Debenture Trustees) Regulations, 1993 as a director on its Board of Directors.
- 7) The issuer shall fix a record date for the purposes of payment of interest, dividend and payment of redemption or repayment amount or for such other purposes as specified by the SEBI. Such record date shall be fixed at 15 days prior to the due date of payment interest or dividend, repayment of principal or any other corporate actions.

Question : 5 (June 2024).

The concept of "Green debt security" has been introduced in SEBI regulations; narrate any five purposes for which money raised through green debt security can be utilized.
(5 marks)

(Dec 2023).

Write short notes on the following : Green debt security
(3 marks)

Answer :

"Green debt security" is defined under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 which means a debt security issued for raising funds subject to the conditions as may be specified by the SEBI from time to time, to be utilised for project(s) and/ or asset(s) falling under any of the following categories:

- (i) renewable and sustainable energy including wind, bioenergy, other sources of energy which use clean technology,
- (ii) clean transportation including mass/public transportation,
- (iii) climate change adaptation including efforts to make infrastructure more resilient to impacts of climate change and information support systems such as climate observation and early warning systems,
- (iv) energy efficiency including efficient and green buildings,

(v) sustainable waste management including recycling, waste to energy, efficient disposal of wastage,

(vi) sustainable land use including sustainable forestry and agriculture, afforestation,

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(vii) biodiversity conservation,

(viii) pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy efficient or emission efficient waste to energy) and sectors mentioned under the India Cooling Action Plan launched by the Ministry of Environment, Forest and Climate Change,

(ix) circular economy adapted products, production technologies and processes (such as the design and introduction of reusable, recyclable and refurbished materials, components and products, circular tools and services) and/or eco efficient products.

(x) blue bonds which comprise of funds raised for sustainable water management including clean water and water recycling, and sustainable maritime sector including sustainable shipping, sustainable fishing, fully traceable sustainable seafood, ocean energy and ocean mapping,

(xi) yellow bonds which comprise of funds raised for solar energy generation and the upstream industries and downstream industries associated with it,

(xii) transition bonds which comprise of funds raised for transitioning to a more sustainable form of operations, in line with India's Intended Nationally Determined Contributions, and

Explanation: Intended Nationally Determined Contributions (INDCs) refer to the climate targets determined by India under the Paris Agreement at the Conference of Parties 21 in 2015, and at the Conference of Parties 26 in 2021, as revised from time to time.

(xiii) any other category, as may be specified by SEBI from time to time.

Question : 6 (Dec 2023, Old syllabus)

Comment on the following under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.

- (i) Can a Debenture Trustee act for issue of debentures of an associate ?
 - (ii) Is appointment of Debenture Trustee compulsory ?
 - (iii) Can a debenture issue be transferred ? If so, when can a debenture trustee relinquish his assignments ?
 - (iv) Is there any registration fee to be paid by the Debenture Trustee ?
- (4 marks)

Answer :

(i) A debenture trustee cannot act for issue of debentures of an associate.

(ii) Debenture Trustee appointment is compulsory in the following cases:

Section 71(5) of the Companies Act, 2013, stipulate that no company shall issue a prospectus or make an offer or invitation to the public or to its members exceeding 500 for the subscription of its debentures, unless the company has, before such issue or offer, appointed one or more debenture trustees and the conditions governing the appointment of such trustees shall be such as may be prescribed.

- SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 states that the issuer shall appoint a debenture trustee in case of an issue of debt securities.
- SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, provides that an issuer making an initial public offer of convertible debt instruments shall also appoint at least one debenture trustee in accordance with the provisions of the Companies Act, 2013 and the SEBI (Debenture Trustees) Regulations, 1993.

(iii) Yes, a debenture issue can be transferred. A debenture trustee can relinquish its assignments in respect of the debenture issue of any body corporate only when another debenture trustee is appointed in its place by the body corporate.

(iv) Fees for the initial as well as permanent registration is to be paid by the applicant for Debenture Trustee. The break-up of fee is given below:

Question : 7

MNO Ltd., a public company, intends to raise ₹600 crore through a public issue of Non-Convertible Debentures (NCDs). The

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company finalises its draft offer document and begins engaging merchant bankers and distributors for the issue. In its eagerness to ensure full subscription, MNO Ltd. proposes to keep the issue open for 21 days and offers upfront commission to early subscribers through its intermediaries. It also starts issuing advertisements aggressively through various media platforms. However, there are gaps in disclosures in the offer document, and the information is not uniformly updated across all platforms. The Compliance Officer is unsure about the correctness of these practices.

Based on the above facts and SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.
answer the following sub-questions:

- (a) What is the permissible period for which the subscription list of a public issue of Non-Convertible Securities can remain open?
 - (b) Is it permissible for MNO Ltd. to offer incentives or commission to investors or distributors for early or additional subscriptions? Discuss.
 - (c) What are the regulatory guidelines governing the content and manner of advertisements for public issues of NCS?
 - (d) What is the prescribed mode and platform for making disclosures to the public in a public issue of NCS?
 - (e) List any three key disclosures that must be mandatorily included in the offer document of a public issue of Non-Convertible Debentures.
- (2 marks each)

Answer :

- a. A public issue of debt securities or, non-convertible redeemable preference shares shall be kept open for a minimum of two working days and a maximum of ten working days. In case of a revision in the price band or yield, the issuer shall extend the bidding (issue) period disclosed in the offer document for a minimum period of one working day. However, the overall bidding (issue) period shall not exceed the maximum number of days as provided above. In case of force majeure, banking strike or similar circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the offer document. However, the overall bidding (issue) period shall not exceed the maximum number of days as provided above.
- b. Any person connected with the issue shall not offer any incentive, whether direct or indirect, in any manner, whether in cash or kind or services or otherwise to any person for making an application in the issue, except for fees or commission for services rendered in relation to the issue.
- c. The issuer shall make an advertisement through electronic modes such as online newspaper or website of the issuer or the stock exchange or in an English national daily and regional daily with wide circulation at the place where the registered office of the issuer is situated, on or before the issue opening date and such advertisement shall, amongst other things, contain the disclosures as specified in Schedule V. However, the issuers opting to advertise the public issue through electronic modes shall publish a notice, in an English national daily and regional daily newspaper with wide circulation at the place where the registered office of the issuer is situated, exhibiting a QR Code and link to the complete advertisement.
- d. The offer document shall be displayed on the websites of stock exchange, issuer and lead manager which shall be available for download in PDF or any other format as may be specified by the SEBI. The issuer shall file the offer document with the stock exchange, simultaneously while filing thereof with the Registrar of Companies, for dissemination on their respective websites prior to the opening of the issue.
- e. The offer document shall contain all material true, fair and adequate disclosures which are necessary for the subscribers of the debt securities and non-convertible redeemable preference shares to take an informed investment decision and shall not omit/ include any material fact which may make the statements made therein, in light of the circumstances under which they are made, misleading or untrue.

Question : 8

ABC Ltd. made a public issue of NCS, but failed to receive 60% subscription within the stipulated timeline. Analyze the regulatory consequences and obligations of the issuer in such a case under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.
(5 marks)

Answer :

Provision Of Law :

- 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.

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- In the event of non-receipt of minimum subscription, all blocked application money shall be unblocked forthwith, but not later than 8 working days from the date of closure of the issue or such time as may be specified by the SEBI.
- The issuer shall ensure that in case of listing of debt securities and non-convertible redeemable preference shares issued to public, allotment of securities offered to public shall be made within such timeline as may be specified by the SEBI.
- Where the debt securities and non-convertible redeemable preference shares are not allotted and/or application monies are not unblocked within the period stipulated, the issuer shall undertake to pay interest at the rate of 15% per annum to the investors.

Facts Of the Case :

ABC Ltd. made a public issue of NCS. Subscription received was only 60% of base issue size.

Conclusion/Analysis :

The issue fails minimum subscription norms. ABC Ltd. must refund all application money within 12 days. Interest @15% p.a. applies if refund is delayed beyond that.

Question : 9

What are the due diligence obligations of the Debenture Trustee under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, before a public issue?
(3 marks)

Answer :

Due Diligence by Debenture trustee

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

Due Diligence Certificate

In case of secured debt securities :
in the format as specified in Part A of Schedule IV of these.

In case of unsecured debt securities :
in the format as specified in Part B of Schedule IV of these regulations

(2) The debenture trustee shall at the time of filing of the listing application by the issuer, furnish to the Board and to the stock exchange(s), a due diligence certificate: a. in case of secured debt securities, in the format as specified in Part B of Schedule IV of these regulations; and b. in case of unsecured debt securities, in the format as specified in Part B of Schedule IV of these regulations.

(3) The stock exchange shall disclose the offer document and due diligence certificates provided by the debenture trustee on its website.

Question : 10 (June 2025).

Write a short note on : Filing of information documents while Issuance and Listing of Non-convertible Securities issued on a Private Placement Basis
(3 marks)

Answer :

- Filing of information document while Issuance and Listing of Non-convertible Securities issued on a Private Placement Basis
- Regulation 50A of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 provides that an issuer making a

private placement of non-convertible securities, and seeking listing thereof on stock exchange(s), shall file a general information document with the stock exchange(s), which shall contain the following disclosures, namely-

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- (a) disclosures specified in Schedule I of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021,
 - (b) disclosures specified in the Companies Act, 2013, as applicable, and
 - (c) additional disclosures as may be specified by the SEBI.
- The general information document shall be valid for a period of one year from the date of opening of the first offer of non-convertible securities made under that general information document.
 - In respect of a second or subsequent offer of non-convertible securities, during the period of validity for a period of one year of that general information document, no further general information document shall be required to be filed.
 - An issuer making a private placement of second or subsequent offer of non-convertible securities, during the validity of the general information document or a shelf prospectus or a shelf placement memorandum, as the case may be, shall file a key information document for each such second or subsequent offer of non-convertible securities, with the stock exchange(s).

Question : 11

Enumerate the key regulatory requirements for the listing of Commercial Paper (CP) under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021.

(5 marks)

Answer :

LISTING OF COMMERCIAL PAPER [CHAPTER VI]

- Issuers desirous of listing of commercial paper shall comply with the conditions as may be specified by the SEBI from time to time.
- An issuer that has filed a general information document under these regulations and subsequently intends to issue commercial paper and seeks listing thereof, during the validity period of such general information document, shall file a key information document with the disclosures as may be specified by the Board.
- An issuer that has filed a shelf prospectus in case of public issue under these regulations and subsequently intends to issue Commercial Paper and seeks listing thereof, during the validity period of such shelf prospectus, shall not be required to file a general information document so long as the key information document is filed in accordance with these regulations.
- The designated stock exchange shall collect a regulatory fee as specified in the regulations from an issuer of commercial paper at the time of their listing.
- The issuer shall apply for Securities and Exchange Board of India Complaints Redress System (SCORES) authentication in the format specified by the Board and shall use the same for issuance and listing of commercial paper.

CHAPTER : 11 LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS (LODR) REGULATIONS, 2015

Question : 1 (Module Illustration).

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

Answer :

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

Question : 2 (June,2024)

State with reasons, the composition of directors in a listed company :

(i) PQR Limited is a listed entity having one Executive woman Director on the Board. The Company is in the list of top 1000 listed entities. Whether the Company still requires appointment of another woman Director ?

(ii) X is non-executive director of RST Limited. A, B and C are promoters of RST Limited. X is a Chairperson of the company and he is related to A.

Suggest the requirement of independent directors of RST Limited.

(2+2=4 marks)

Answer :

Provision of Law :

(i) Regulation 17(1)(a) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provides that the top 1000 listed entities shall have at least one independent woman director.

Conclusion/Analysis :

In the given case, PQR Limited is having one Executive woman director and hence, it will be required to appoint one independent woman director to meet the requirement as stated above.

Provision of Law :

(ii) Regulation 17(1)(b) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 inter alia provides that where the regular non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, at least half of the board of directors of the listed entity shall consist of independent directors.

Conclusion/Analysis :

In the given case, X is Chairperson of RST Limited, who is non-executive director and X is related to promoter A of the company. Thus, RST Limited will be required to appoint at least half of the board of directors as independent directors.

Question : 3 (Dec 2024)

PTS Ltd. is forming part of top 1000 listed entities. Being the company secretary of the company, advise on the following issues :

(i) What is the maximum age of non-executive directors ?

(ii) Can the minimum directors of the company be five ?

(iii) How many times board shall meet and the gap of 14 days between the two board meetings is sufficient ?

(i) How many directors constitute the quorum for a board meeting ?

(ii) Composition of Nomination and Remuneration Committee.
(5 marks)

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Answer :

In light with the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the answer is provided below:

- (i) 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. [Regulation 17(1A) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]
- (ii) The board of directors of the top 1000 listed entities shall comprise of not less than six directors. [Regulation 17(1)(c) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]
- (iii) The Board of Directors shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings. Thus, the maximum gap between two meetings can be of 120 days and therefore, gap of 14 days between the two board meetings is sufficient provided the minimum number of meetings in a year shall be complied with. [Regulation 17(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]
- (iv) The quorum for every meeting of the board of directors of the top 1000 listed entities shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.

Explanation: For removal of doubts, it is clarified that the participation of the directors by video conferencing or by other audio-visual means shall also be counted for the purposes of such quorum. [Regulation 17(2A) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]

- (v) The committee shall comprise of at least three directors. All directors of the committee shall be non- executive directors. At least two-thirds of the directors shall be independent directors. [Regulation 19(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]

Question : 4 (June,2024).

Neeraj, an experienced technocrat, worked as an Executive director of an unlisted company. One of the leading listed companies (top 10), offered him Chief Executive Officer's post, at a higher pay scale. Neeraj knows that there is numerous SEBI compliance applicable for a listed company. Being a company secretary in practice, advise Neeraj about SEBI regulations on following :

- (i) Requirement of appointment of women director.
- (ii) Meeting & Quorum of the Board Meeting.
- (iii) Composition of an Audit Committee.

(1+2+2=5 marks)

Answer :

- (iii) Requirement of Appointment of Woman Director:

The Board of Directors shall have an optimum combination of executive and non-executive directors with at least one woman director. The Board of directors of the top 1000 listed entities shall have at least one independent woman director. [Regulation 17(1)(a) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]

- (iv) Meetings & Quorum of the Board Meeting:

The Board of directors shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings. The quorum for every meeting of the board of directors of the top 2000 listed entities shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director. [Regulation 17(2) & 17(2A) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]

- (v) Composition of an Audit Committee:

The audit committee shall comprise minimum three directors as members. At least Two-third of the members of audit committee shall be independent directors. In case of a listed entity having outstanding SR equity shares, the audit committee

shall only comprise of independent directors. All members of audit committee shall be financial literate and at least one

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member shall have accounting or related financial management expertise. The chairperson of the audit committee shall be an independent director. [Regulation 18 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]

Accordingly, Neeraj is advised.

Question : 5 (Dec,2023).

ABC Ltd. is a listed entity and having its board of directors. As the Company Secretary, suggest about the composition and role of audit committee.
(5 marks)

Answer :

Composition of the Audit Committee :

Regulation 18 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 stipulates the provisions pertaining to the composition and role of the Audit Committee which provides that:

- The audit committee shall have minimum three directors as members.
- At least two-thirds of the members of audit committee shall be independent directors.
- In case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors.
- The Chairperson of the audit committee shall be an independent director.
- The Company Secretary shall act as the secretary to the audit committee.
- The audit committee at its discretion shall invite the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee.
- However, occasionally the audit committee may meet without the presence of any executives of the listed entity.
- All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Role of Audit Committee :

The role of the audit committee and the information to be reviewed by the audit committee shall be as specified in Part C of Schedule II to the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015. The role of the audit committee includes the following:

- (1) oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- (2) recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;
- (3) approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- (4) reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
 - (a) matters required to be included in the director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;
 - (b) changes, if any, in accounting policies and practices and reasons for the same;

(c) major accounting entries involving estimates based on the exercise of judgment by management;

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- (d) significant adjustments made in the financial statements arising out of audit findings;
 - (e) compliance with listing and other legal requirements relating to financial statements;
 - (f) disclosure of any related party transactions;
 - (g) modified opinion(s) in the draft audit report;
- (5) reviewing, with the management, the quarterly financial statements before submission to the board for approval;
- (6) reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilization of proceeds of a public issue or rights issue or preferential issue or qualified institutions placement, and making appropriate recommendations to the board to take up steps in this matter;
- (7) reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
- (8) approval or any subsequent modification of transactions of the listed entity with related parties;
- (9) scrutiny of inter-corporate loans and investments;
- (10) valuation of undertakings or assets of the listed entity, wherever it is necessary;
- (11) evaluation of internal financial controls and risk management systems;
- (12) reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- (13) reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
- (14) discussion with internal auditors of any significant findings and follow up there on;
- (15) reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
- (16) discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
- (17) to look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
- (18) to review the functioning of the whistle blower mechanism;
- (19) approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
- (20) Carrying out any other function as is mentioned in the terms of reference of the audit committee;
- (21) reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing as on the date of coming into force of this provision;
- (22) consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the listed entity and its shareholders.

Question : 6

Delta Ltd., a listed company, is in the process of reconstituting its Audit Committee. Currently, the Board proposes a five-

member committee comprising 2 executive directors and 3 independent directors including the chairman. The chairperson is not present at the AGM due to personal reasons. The company also has outstanding shares with Superior Voting Rights (SR equity shares). The CFO has recommended including a nominee director with financial experience.

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As the Company Secretary of Delta Ltd., examine whether the proposed constitution of the Audit Committee is in compliance with SEBI (LODR) Regulations.
(3 marks)

Answer :

Provision Of Law :

- Provisions of SEBI (LODR) Regulations, 2015 – Regulation 18:
- The committee shall comprise of at least three directors.
- At least Two-thirds of the members of audit committee shall be independent directors.
- In case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors.
- All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
- The chairperson shall be an independent director.
- The Chairperson shall be present at Annual general meeting to answer shareholder queries.

Conclusion/Analysis :

- As per the provisions stated above, the Chairperson's absence at the AGM does violate SEBI LODR provision.
- Further, since the company has outstanding SR equity shares, the audit committee shall only comprise of independent directors
- Delta Ltd. must reconstitute the Audit Committee ensuring that all members are independent directors, with an independent director as chairperson, to comply with SEBI (LODR) Regulations.

Question : 7 (Dec 2023).

XYZ Limited is a listed company. It has constituted all committees in compliance with listing regulations. Its audit committee having 6 directors, out of which 5 directors are independent. In the meeting of audit committee 2 directors were present (1 non-executive and one independent). Is this audit committee meeting valid?
(5 marks)

Answer :

Provision of Law :

As per regulation 18(2)(b) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the quorum for audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors.

Conclusion/Analysis :

In the given case, in terms of the aforesaid listing regulation, quorum requirement will be either two members or one third of the six members, whichever is greater.

Therefore, it shall be two members who shall be independent directors only to fulfil the requirement of Quorum.

In the given case, though two directors were present but one non-executive director and one independent director.

Therefore, the aforesaid meeting is not invalid as only one independent director was present.

Question : 8 (June,2024).

Excel Limited is a listed company having all committees constituted in compliance with the listing regulations. Its audit committee having 5 directors, out of which 4 directors are independent. In a meeting of the Audit Committee, 2 directors were present (one non executive and one independent). Whether the quorum of meeting is valid ?
(4 marks)

Answer :

Provision of Law :

Validity of Meeting: Regulation 18 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provides that the quorum for audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors.

Facts of the Case :

In the given case, Excel Limited is having 5 directors in the Audit committee and 2 directors were present at the meeting. However, one director was non-executive and other was independent.

Conclusion/Analysis :

Assuming that Excel Limited is not exempted under Regulation 15 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Excel Limited shall comply with the above requirements. Therefore, the aforesaid meeting is invalid as only one independent director was present instead of two independent directors as required under the Regulations.

Question : 9 (June,2024).

SEBI has necessitated the listed companies to have Stakeholders Relationship Committee as per SEBI (LODR) Regulations, 2015. Briefly explain the composition and role of Stakeholders Relationship Committee.
(5 marks)

Answer :

In terms of the regulation 20 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Stakeholders Relationship Committee of a listed company shall comprise of at least three directors, including 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.

The chairperson of Stakeholders Relationship Committee shall be a non executive director.

The role of the Stakeholders Relationship Committee has been specified in Part D of the Schedule II of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The role of Stakeholders Relationship Committee shall inter-alia include the following:

1. Resolving the grievances of the security holders of the listed entity including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.
2. Review of measures taken for effective exercise of voting rights by shareholders.
3. Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent.
4. Review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and

ensuring timely receipt of dividend warrants / annual reports / statutory notices by the shareholders of the company.

Question : 10 (Dec.2023).

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A) Discuss the compliance requirement under the SEBI (LODR) Regulations, 2015 pertaining to Risk Management Committee. Examine the validity of the agenda, 'RNG Ltd. intends to pass ordinary resolution in relation to appointment of independent director' with respect to Regulation 25 of SEBI (LODR) Regulations, 2015. Whether the appointment of X, as an alternate director is valid at the place of independent director Y ?
(8 marks)

Answer :

Provision of Law :

The provisions for Risk Management Committee are covered under the Regulation 21 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and provided as under:

- (1) The board of directors shall constitute a Risk Management Committee.
- (2) The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least One Independent Director and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise Independent Directors.
- (3) The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.
- (4) The risk management committee shall meet at least twice in a year.
- (4) The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.
- (5) The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than 210 days shall elapse between any two consecutive meetings.
- (6) The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit such function shall specifically cover cyber security. The role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II.
- (7) The provisions of this regulation shall be applicable to:
 - (i) the top 1000 listed entities, determined on the basis of market capitalization as at the end of the immediately preceding financial year, and,
 - (ii) a high value debt listed entity.
- (8) The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

As per the Regulation 25 (2A) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, any appointment or reappointment or removal of an independent director shall be subject to the approval of shareholders through special resolution in a general meeting.

Hence, appointment of independent director is not valid under the SEBI (LODR) Regulations, 2015 unless passed by way of special resolution.

No person shall be appointed or continued as an Alternate director for an independent director of a listed company.

Conclusion/Analysis :

As per the provisions stated above;

Hence, appointment of independent director is not valid under the SEBI (LODR) Regulations, 2015 unless passed by way of

special resolution.

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In the given case, X is intended to be appointed as Alternate director at the place of independent director Y, which is not valid.

Question : 11 (June,2024).

Write short note on the following : Composition of Risk Management Committee.
(3 marks)

Answer :

The provisions for Risk Management Committee are covered under the Regulation 21 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and provided as under:

- The board of directors shall constitute a Risk Management Committee.
- The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least One Independent Director and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise Independent Directors.
- The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.
- (4) The risk management committee shall meet at least twice in a year.
- The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.
- The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than 210 days shall elapse between any two consecutive meetings.
- The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit such function shall specifically cover cyber security. The role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II.
- The provisions of this regulation shall be applicable to:
 - (iii) the top 1000 listed entities, determined on the basis of market capitalization as at the end of the immediately preceding financial year, and,
 - (iv) a high value debt listed entity.
- The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

Question: 12 (Module Illustration).

Mr. A is a Director of ABC Listed company. He holds following membership / chairmanship in following companies -

1. Chairman of Audit Committee of ABC Listed company
2. Chairman of Nomination & Remuneration Committee of ABC Listed company
3. Chairman of Stakeholders' Relationship Committee of ABC Listed company
4. Chairman of Audit Committee of XYZ Limited company
5. Chairman of Nomination & Remuneration Committee of XYZ Limited company
6. Chairman of Stakeholders' Relationship Committee of XYZ Limited company

Please advise the limit of membership / chairpersonship.

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Answer:

Provision Of Law :

A director shall not be a member in more than ten committees or act as chairperson of more than five committees across all listed entities in which he / she is a director which shall be determined as follows:

(a) the limit of the committees on which a director may serve in all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies, high value debt listed entities and companies under Section 8 of the Companies Act, 2013 shall be excluded;

(b) for the purpose of determination of limit, chairpersonship and membership of the audit committee and the Stakeholders' Relationship Committee alone shall be considered

Conclusion/Analysis :

Mr. A, in the given case, is chairman of above mentioned committees. Only Audit Committee and Stakeholders Relationship Committee will be counted for the purpose and both ABC Listed company and XYZ Limited, being public limited company will be considered.

In view of the above, his total chairperson is 4 which is within the limit of 5 committee chairpersonship as permitted.

Question : 13 (Dec.2023).

Mr. P is working as Managing Director in ABC limited company. He holds following chairmanship directorship in the following :

- (a) Whole time director in XYZ limited company.
- (b) Managing director in KLM limited company.
- (c) Member of Nomination and Remuneration committee of ABC Ltd.

You are required to advise him the limit of directorship.

(5 marks)

Answer:

Provision of Law :

Section 203(3) of the Companies Act, provides that a whole-time key managerial personnel shall not hold office in more than one company (except in its subsidiary company) at the same time.

However, third proviso to Section 203(3) of the Companies Act, 2013 provides that a company may appoint or employ a person as its managing director, if he is the managing director or manager of one, and of not more than one, other company and such appointment or employment is made or approved by a resolution passed at a meeting of the Board with the consent of all the directors present at the meeting (unanimous resolution) and of which meeting, and of the resolution to be moved thereat, specific notice has been given to all the directors then in India.

However, in terms of count of directorship,

- i. Section 165 of the Companies Act, 2013, states that a person shall not hold office as a director, including any alternate directorship, in more than 20 companies at the same time. However, the maximum number of public companies in which a person can be appointed as a director shall not exceed 10.
- ii. Further, in the case of listed company, the maximum number of directorships is provided in Regulation 17A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, which states that a person shall not be a director in more than seven listed entities.

Maximum Number of Directorships / Committee Membership & Chairpersonship

A person shall not be a director in more than seven listed entities.

However, a person shall not serve as an independent director in more than seven listed entities.

Any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities.

[Explanation - For the purpose of this regulation, the count for the number of listed entities on which a person is a director/independent director shall be only those whose equity shares are listed on a stock exchange.]

A director shall not be a member in more than ten committees or act as chairperson of more than five committees across all listed entities in which he / she is a director which shall be determined as follows:

(a) the limit of the committees on which a director may serve in all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies, high value debt listed entities and companies under Section 8 of the Companies Act, 2013 shall be excluded;

(b) for the purpose of determination of limit, chairpersonship and membership of the audit committee and the Stakeholders' Relationship Committee alone shall be considered.

Conclusion/Analysis :

In the given case, Mr. P is managing director/whole time director in total 3 companies i.e. ABC Ltd., XYZ Ltd. and KLM Ltd., which is in contravention to the provisions of the Companies Act, 2013.

Therefore, in terms of count of directorship, Mr. P being managing director/whole time director in total 3 companies i.e. ABC Ltd., XYZ Ltd. and KLM Ltd., is within the limit of Section 165 of the Companies Act, 2013 and Regulation 17A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as stated above.

Question: 14

ABC Ltd., a listed company, entered into a contract to provide software development services to DEF Technologies, a company in which the spouse of ABC Ltd.'s promoter holds 15% equity directly. ABC Ltd. and DEF Technologies are subsidiaries of different groups but ABC Ltd. controls its subsidiary MNO Ltd. The contract price is at arm's length. ABC Ltd. did not disclose this transaction as a related party transaction in its quarterly report. Whether the contract between ABC Ltd. and DEF Technologies qualifies as a Related Party Transaction under SEBI LODR Regulations, and if disclosure was required. (5 marks)

Answer:

Provision Of Law :

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

Provided that:

- a. any person or entity forming a part of the promoter or promoter group of the listed entity; or
- b. any person or any entity, holding equity shares:
 - of twenty per cent or more; or
 - of ten per cent or more;

in the listed entity either directly or on a beneficial interest basis as provided under section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year, shall be deemed to be a related party.

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

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

- a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or

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- a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, regardless of whether a price is charged and a “transaction” with a related party shall be construed to include a single transaction or a group of transactions in a contract.

Conclusion/Analysis :

As per the provisions stated above, the contract is a related party transaction even if it is at arm's length. SEBI LODR Regulations require prior approval of the Audit Committee and disclosure of all related party transactions to stock exchanges and shareholders. Non-disclosure violates Regulation 23 and may attract penalties or regulatory scrutiny.

Question : 15

Gamma Ltd., a listed entity, plans to initiate a rights issue of equity shares to raise additional capital. The rights issue will be offered uniformly to all existing shareholders, including the promoter group and certain entities classified as related parties under SEBI (LODR) Regulations. Additionally, Gamma Ltd also plans to pay a final dividend and conduct a buy-back of shares, both of which are also proposed to be applied uniformly to all shareholders.

As the Company Secretary of Gamma Ltd., advise the Board whether the above transactions would be treated as Related Party Transactions requiring compliance under Regulation 23 of SEBI (LODR) Regulations, 2015.
(5 marks)

Answer :

Provision of Law :

Regulation 23 of SEBI (LODR) Regulations, 2015:

Regulation 23 governs Related Party Transactions (RPTs).

RPTs must be approved by the Audit Committee and in some cases by the shareholders.

However, certain transactions are exempt from the definition of RPT for compliance purposes, even if they involve related parties.

Following shall not be related party transactions :

- (a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- (b) the following corporate actions by the listed entity which are uniformly applicable/offered to all shareholders in proportion to their shareholding:
 - i. payment of dividend;
 - ii. subdivision or consolidation of securities;
 - iii. issuance of securities by way of a rights issue or a bonus issue; and
 - iv. buy-back of securities.
- (c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the SEBI.

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

Facts of the Case:

Gamma Ltd. is offering : A rights issue of equity shares to all shareholders (including related parties); A final dividend payable to all shareholders; A buy-back of shares proposed uniformly for all shareholders. All these transactions are proposed uniformly, without any special benefit to related parties.

Conclusion/Analysis:

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As per the provisions stated above, the transactions shall not require compliance with RPT provisions. Therefore, none of the above transactions will be considered as Related Party Transactions under Regulation 23. The Board of Gamma Ltd. need not seek separate approval under RPT norms for these actions.

The Company may proceed with the proposed rights issue, dividend, and buy-back without treating them as Related Party Transactions, as long as they are done uniformly and in compliance with relevant SEBI regulations.

Question: 16 (Module Illustration).

A company ABC Limited, listed entity, entered into a transaction with related party namely XYZ Limited for an amount of 26 crore. The turnover of ABC Limited is 240 crore on standalone basis and after considering consolidation of subsidiaries & associates is 290 crore. Please advise whether the transaction is a material related party transaction or not.

Answer:

A material related party transaction is transaction which either individually or taken together with previous transactions during a financial year, exceeds 10% of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

In the above case, ABC Limited has a consolidated turnover of 290 crore and therefore, threshold for materiality would be 29 crore for a transaction with related party.

In case ABC Limited has not entered into any transaction during the financial year 2019-20, which crosses the overall limit of 29 crore including the existing 26 crore transaction then it is not material related party transaction.

Question : 17 (June 2024)

Yaksha Motors Ltd. is a listed company. It had a turnover of 450 crore on standalone basis as per the latest audited financial statements. It also has only one subsidiary/ associate company - Yaksha Auto Components Ltd. whose standalone turnover as per the latest audited financial statements was 70 crore. Yaksha Motors Ltd. entered into transactions with related parties during the current financial year as follows:

- (i) Purchase of goods amounting to 60 crore.
- (ii) Payment of royalty amounting to 30 crore.
- (iii) Payment of 15 crore towards supply of services.

Decide, whether the above related party transactions are material or not?
(5 marks)

Answer :

Provision of Law :

As per the Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, a transaction with a related party shall be considered material, if the transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds rupees one thousand crore or ten per cent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.

Further, a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transactions to be entered into individually or taken together with previous transactions during a financial year, exceed 5% of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

Conclusion/Analysis :

The consolidated turnover of the listed company Yaksha Motors Ltd. amounts to (₹450+ ₹70) i.e. ₹ 520 crores as per the latest audited financial statements. The threshold for material related party transaction, would be lower of 1000 crore or 10% of annual consolidated turnover (i.e. ₹52 crore) of Yaksha Motors Limited. Therefore, it would be ₹52 crore.

For royalty transaction, the threshold for material related party transaction, would be 5% of annual consolidated turnover of Yaksha Motors Limited. Therefore, it would be ₹26 crore.

(i) Purchase of goods amounting to ₹60 crores is a material related party transaction as it exceeds 10% of the annual consolidated turnover of the listed entity (i.e. ₹ 52 crore).

(ii) Payment of royalty amounting to 30 crores is a material related party transaction as it exceeds 5% of the annual consolidated turnover of the listed entity (i.e. ₹26 crore).

(iii) Payment of 15 crores towards supply of service is not a material related party transaction as it is below 10% of the annual consolidated turnover of the listed entity (i.e. ₹52 crore).

Question : 18

The Audit Committee of a listed company has been regularly granting approvals for transactions involving certain related parties, citing them as repetitive in nature. However, during a regulatory inspection, it was found that some of these transactions were neither reviewed periodically nor were specific transaction details available at the time of granting approval. Additionally, some transactions exceeded the permitted value limits.

Examine the compliance issues involved and discuss the procedural requirements that the Audit Committee must follow while granting omnibus approvals for related party transactions.

(5 marks)

Answer :

Provision Of Law:

All related party transactions and subsequent material modifications shall require prior approval of the audit committee of the listed entity.

However, only those members of the audit committee, who are independent directors, shall approve related party transactions.

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

(a) the audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity and such approval shall be applicable in respect of transactions which are repetitive in nature;

(b) the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;

(c) the omnibus approval shall specify:

(i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into;

(ii) the indicative base price / current contracted price and the formula for variation in the price if any; and

(iii) such other conditions as the audit committee may deem fit.

However, where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

(d) the audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.

(e) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

Conclusion/Analysis :

The Audit Committee in the case failed to follow essential procedural safeguards and disclosure norms while granting omnibus approvals for RPTs. The non-compliance may attract regulatory penalties and erode stakeholder trust. The company should immediately rectify the process, conduct internal audits, and implement stricter governance practices.

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Elegance Limited, is the Subsidiary of Prosperity Limited as on 31st March, 2021. The Holding company is listed with National Stock Exchange. Elaborate the Corporate Governance requirements relating to the subsidiary company to be complied by Prosperity Limited under SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015.

(5 marks)

Answer :

Corporate Governance requirements related to Subsidiary [Regulation 24]

The corporate governance requirements with respect to subsidiary of listed entity are specified under Regulation 24 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

In terms of the said regulation, Prosperity Limited being the holding company, shall meet the following compliances with respect to Elegance Limited:

- a. 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 term "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.

- b. The audit committee of the listed entity shall review the financial statements, in particular, the investments made by the unlisted subsidiary.
- c. 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.
- d. 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.

The term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed ten percent of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted subsidiary for the immediately preceding accounting year.

- e. A listed entity shall not dispose of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than or equal to fifty percent or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved.
- f. Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved.
- g. Where a listed entity has a listed subsidiary, which is itself a holding company, the provisions of this regulation shall apply to the listed subsidiary in so far as its subsidiaries are concerned.

Question : 20 (Dec 2024).

One of the leading IT services listed company is planning to consider the buyback of its shares in the ensuing Board meeting. The management does not want to disclose the event to the stock exchange prior to the Board meeting. Being a Company Secretary of the company, advise the management for legal provisions under SEBI regulations for the prior intimation to Stock exchanges about certain events.

(4 marks)

Answer :

Regulation 29(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provides that the listed entity shall give prior intimation of at least two working days in advance, excluding the date of the intimation and date of the meeting, to stock exchange about the meeting of the board of directors in which any of the following proposals is due to be considered:

- a) financial results viz. quarterly, half yearly, or annual, as the case may be;
 - b) proposal for buyback of securities;
 - c) proposal for voluntary delisting by the listed entity from the stock exchange(s);
 - d) fund raising by way of issue of securities (excluding security receipts, securitized debt instruments or money market instruments regulated by the Reserve Bank of India), through further public offer, rights issue, American Depository Receipts/Global Depository Receipts/ Foreign Currency Convertible Bonds, qualified institutions placement, debt issue, preferential issue or any other method and for determination of issue price:
- Provided that intimation shall also be given in case of any annual general meeting or extraordinary general meeting or postal ballot that is proposed to be held for obtaining shareholder approval for further fund raising indicating type of issuance.
- Provided further that intimation for determination of issue price in a qualified institutions placement is not required if such placement is done in accordance with the provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- e) declaration/ recommendation of dividend, issue of convertible securities. including convertible debentures or of debentures carrying a right to subscribe to equity shares or the passing over of dividend;
 - f) the proposal for declaration of bonus securities;
 - g) any alteration in the form or nature of any of its securities that are listed on the stock exchange or in the rights or privileges of the holders thereof;
 - h) any alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.

Further, Regulation 29(2) provides that the intimation required under sub-regulation (1) shall mention the date of such meeting of board of directors.

Question : 21 (Dec.2024).

ABC Limited, is a newly formed manufacturing company by a prominent industrial house. Within 3 years of its incorporation, it has issued its first bonus shares. Considering its overall business performance, shares prices of ABC Limited is transacted around 18 times of its PE in Bombay Stock Exchange. But, due to some difference with its management, the Company Secretary has vacated the post of KMP. Looking at your past performance, ABC Limited has appointed you as their new Company Secretary. One of your junior Company Secretary wanted to know, which outcomes of the board meeting should be disclosed to the Bombay Stock Exchange within 30 minutes of the closure of these meetings ? Please explain.
(5 marks)

Answer :

Various outcomes of the Board Meetings which are essential to be disclosed to the Stock Exchange in which the Company is listed within 30 minutes of the closure of the meeting, are as under:

1. dividends and/or cash bonuses recommended or declared or the decision to pass any dividend and the date on which dividend shall be paid/ dispatched,
2. any cancellation of dividend with reasons thereof,
3. the decision on buyback of securities,

4. the decision with respect to fund raising proposed to be undertaken.

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5. increase in capital by issue of bonus shares through capitalization including the date on which such bonus shares shall be credited/ dispatched,
6. reissue of forfeited shares or securities, or the issue of shares or securities held in reserve for future issue or the creation in any form or manner of new shares or securities or any other rights, privileges or benefits to subscribe to,
7. short particulars of any other alterations of capital, including calls,
8. financial results,
9. decision on voluntary delisting by the listed entity from stock exchange(s).

In case of board meetings being held for more than one day, the financial results shall be disclosed within thirty minutes of end of the meeting for the day on which it has been considered.

Question: 22 (Module Illustration).

What happens if the Board Meeting held for more than one day?

Answer :

In case of Board Meetings being held for more than one day, the financial results shall be disclosed within 30 minutes of the end of the meeting for the day on which it has been considered.

Question : 23

A whistleblower files a complaint to the audit committee of Nova Enterprises Ltd. about misstatement in accounts. The committee does not record the issue or respond. What are the LODR obligations of the audit committee in dealing with whistleblower complaints?

(3 marks)

Answer :

Regulation : 22 Vigil Mechanism

- The listed entity shall formulate a vigil mechanism/whistle blower policy for directors and employees to report genuine concerns.
- The vigil mechanism shall provide for adequate safeguards against victimization of director(s) or employee(s) or any other person who avail the mechanism.
- The vigil mechanism shall also provide for direct access to the chairperson of the audit committee in appropriate or exceptional cases.
- The audit committee shall oversee the vigil mechanism to ensure that adequate safeguards are in place against victimization of whistleblowers. (Regulation 4(2)(d))
- All complaints received through the vigil mechanism must be recorded and appropriately dealt with by the audit committee. Failure to record or act on complaints violates the obligation under LODR.
- The audit committee is responsible for ensuring independent and prompt investigation of the complaints made by whistleblowers. (Regulation 4(2)(d))
- The audit committee shall report to the Board of Directors periodically about the vigilance mechanism and complaints received, including their resolution status.

Question : 24 (June,2025).

Since 29th August, 2023, VXL Limited has listed its three specified securities, with National Stock Exchange. As part of

compliances, specify the compliance requirements it has to do as one-time compliance relating to these specified securities.

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(5 marks)

Answer :

- VXL Limited shall be required to comply with following requirements as One-time compliance under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:
 - i) Under Regulation 6(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, a listed entity shall appoint a Company Secretary as the Compliance Officer.
 - Any vacancy in the office of the Compliance Officer shall be filled by the listed entity at the earliest and in any case not later than three months from the date of such vacancy.
 - However, the listed entity shall not fill such vacancy by appointing a person in interim capacity, unless such appointment is made in accordance with the laws applicable in case of a fresh appointment to such office and the obligations under such laws are made applicable to such person.

(ii) Under Regulation 7(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the listed entity shall appoint a share transfer agent or manage the share transfer facility in house.

However, in the case of in-house share transfer facility, as and when the total number of holders of securities of the listed entity exceeds one lakh, the listed entity shall either register with the SEBI as a Category II share transfer agent or appoint Registrar to an issue and share transfer agent registered with the SEBI.

Question : 25

Sigma Tech Ltd., a listed company, recently concluded its board meeting on 29th July where quarterly (financial results were approved. The company has also received a Monitoring Agency Report related to its recent rights issue. Additionally, the company wants to confirm when to submit its shareholding pattern and investor complaint status to the stock exchange. However, the Company is unsure about the timelines for these various quarterly filings under SEBI (LODR), 2015, and has approached you, the Company Secretary, for guidance.

As the Company Secretary of Sigma Tech Ltd., advise on the correct time limits for the following filings for the quarter ending 30th June.

(5 marks)

Answer :

Provision of Law:

Under SEBI (LODR) Regulations, 2015, listed companies are required to comply with quarterly disclosure requirements within specific time limits to ensure transparency, investor protection, and timely dissemination of material information.

13(3) Investor complaints Statement :

The listed entity shall file with the recognised stock exchange, a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter.

Within 21 days from end of quarter.

27(2) Quarterly Compliance report on Corporate Governance :

The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by SEBI from time to time to the recognized stock exchange(s).

Within 21 days from the end of each quarter.

31(1)(b) Shareholding pattern:

The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern

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separately for each class of securities, in the format specified by SEBI from time to time.

Within 21 days from the end of each quarter.

32(1) Statement of deviation(s) or Variation(s) :

The listed entity shall submit to the stock exchange a statement of deviation or variation (for public issue, rights issue, preferential issue etc.)

On quarterly Basis till such time the issue proceeds have been fully utilized or the purpose for which these proceeds were raised has been achieved.

32(6) Monitoring Agency Report :

Where the listed entity has appointed a monitoring agency to monitor utilisation of proceeds of a public or rights issue, the listed entity shall submit to the stock exchange(s) any comments or report received from the monitoring agency.

Within 45 days from the end of each quarter.

33(3) Financial results :

The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange. In case the listed entity has subsidiaries, the listed entity shall also submit quarterly/ year- to date consolidated financial results.

Within 45 days of end of each quarter, other than the last quarter.

47 Advertisements in Newspapers :

Financial results, along-with the modified opinion(s) or reservation(s), if any, expressed by the auditor.

Within 48 hours of conclusion of the meeting of board of directors at which the financial results were approved.

Conclusion/Analysis :

As Company Secretary, one must ensure strict adherence to these filing timelines to remain compliant under SEBI (LODR), 2015. Non-compliance may result in penalties and reputational risk. A compliance calendar should be maintained and reviewed regularly by the Compliance Officer.

Question : 26

XYZ Ltd., a listed company, is preparing for its annual compliance under SEBI LODR Regulations for the financial year ending March 31, 2025. The compliance team is reviewing all key yearly obligations under the regulations, including compliance certificate, secretarial audit, financial results filing, and annual report disclosures.

- (a) What is the requirement regarding the compliance certificate under Regulation 7(3)?
 - (b) Explain the secretarial audit and secretarial compliance report obligations under Regulation 24A.
 - (c) What are the obligations related to submission of annual financial results under Regulation 33(3)?
 - (d) What are the requirements for the Annual Report under Regulation 34?
 - (e) What changes were introduced relating to Annual Report disclosures under Regulation 34(1)(b)?
- (5 marks)

Answer :

- a) 7(3) Compliance Certificate

The listed entity shall submit a compliance certificate to the exchange, duly signed by both the compliance officer of the listed entity and the authorised representative of the share transfer agent certifying that all activities in relation to share transfer facility of the listed entity are maintained either in house or by Registrar to an issue and share transfer agent registered with the SEBI Within 30 from the end of the financial year.

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The listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity. Within 60 days from end of each financial year.

c) 33(3) Annual Financial results

The listed entity shall submit annual audited standalone financial results with audit report and Statement on Impact of Audit Qualifications applicable only for audit report with modified opinion, to the stock exchange Within 60 days from the end of the financial year.

d) 34 Annual Report

The listed entity shall submit to the stock exchange and publish on its website the annual report along with the Notice of the Annual General Meeting Not later than the day of commencement of dispatch to its shareholders

e) 34(1)(b) Changes to annual report

In case any changes to the annual report, the revised copy along with the details of and explanation for the changes shall be sent Not later than 48 hours after the annual general meeting.

Question : 27 (June,2024).

Following persons desires to change their status from promoters to public i.e. re-classification of promoters shareholders to public shareholders. With reference to SEBI regulations, advise whether they are eligible for reclassification ?

- (i) Raman is acting as a Company Secretary.
 - (ii) Naina defaulted repayment of loans and declared as wilful defaulter as per RBI Guidelines.
 - (iii) Mayank is holding 15% of shares.
 - (iv) The trading of equity shares of the company suspended by the stock exchange.
 - (v) Minal acting as a Chief Financial Officer.
- (5 marks)

Answer :

(i) As per regulation 31A(3)(b)(v) of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, the promoters seeking re-classification and persons related to the promoters seeking re-classification shall not act as key managerial personnel in the listed entity. Raman is acting as Company Secretary of the listed entity.

Therefore, Raman is a key managerial person of the listed entity. As promoter is acting as a key managerial person in the listed entity, therefore he is not eligible to apply for re- classification as public shareholder.

(ii) As per regulation 31A(3)(b)(vi) of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, the promoters seeking re-classification and persons related to the promoters seeking re-classification shall not be a 'wilful defaulter' as per the Reserve Bank of India Guidelines.

Naina, being a promoter, is declared as wilful defaulter as per RBI guidelines. In this case, Naina is not eligible to apply for re-classification as public shareholder.

(iii) As per regulation 31A(3)(b)(i) of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, the promoters seeking re-classification and persons related to the promoters seeking re-classification shall not together, hold more than ten percent of the total voting rights in the listed entity.

Mayank is holding 15% of total voting rights in the listed entity. As Mayank, being a promoter, holds more than ten percent of the total voting rights in the listed entity, hence he is not eligible for re-classification as public shareholder.

(iv) As per Regulation 31A(3)(c)(ii) of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, the listed entity shall not have trading in its shares suspended by the stock exchanges.

As trading of equity shares of the company is suspended by the stock exchange, hence reclassification will not be allowed.

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(v) As per regulation 31A(3)(b)(v) of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, the promoters seeking re-classification and persons related to the promoters seeking re-classification shall not act as key managerial personnel in the listed entity.

Minal is acting as Chief Finance Officer of the listed entity. Therefore, Minal is a key managerial person of the listed entity. As promoter is acting as a key managerial person in the listed entity, and therefore not eligible to apply for re- classification.

Question : 28

Write a short note on Regulation 42(2) of the SEBI (LODR) Regulations, 2015.
(3 marks)

Answer :

Regulation 42(2) Record Date / Book Closure

The listed entity shall intimate the record date or date of closure of transfer books to all the stock exchange(s) specifying the purpose of the record date where it is listed or where stock derivatives are available on the stock of the listed entity or where listed entity's stock form part of an index on which derivatives are available. The listed entity shall intimate the following events:

- (a) declaration of dividend
- (b) issue of right or bonus shares
- (c) issue of shares for conversion of debentures or any other convertible security
- (d) shares arising out of rights attached to debentures or any other convertible security
- (e) corporate actions like mergers, demergers, splits, etc.
- (f) such other purposes as may be specified by the stock exchange(s)

* For securities held in physical form the listed entity may announce transfer book closure

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)

Question : 29 (June 2025).

Earth Limited is a leading manufacturer of electrical two-wheeler vehicles. In terms of market capitalisation, it is among top 1,000 listed companies. You have been recently appointed as its Company Secretary. Immediately on joining, one of your assistants wanted to know from you what are the regulatory compliances Company has to comply with under the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Explain the requirements.
(5 marks)

Answer :

Compliances required to be complied with under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 by Earth Limited being among top 1,000 listed companies are as under:

- a) Board of directors shall have at least one independent woman director.
- b) Entities shall undertake Directors and Officers insurance ('D and O insurance') for all their independent directors of such quantum and for such risks as may be determined by its board of directors.
- c) The provisions of Risk Management Committee shall be applicable to top 1000 listed entities.
- d) The top 1000 listed entities bas on impact capitalisation shall formulate a dividend distribution policy which shall be disclosed on the website of the listed entity and a web-link shall also be provided in their annual reports.
- e) The Annual Report shall contain for the top 1000 listed entities based on market capitalization, a Business Responsibility

and Sustainability Report (BRSR) on the environmental, social and governance disclosures, in the format as may be specified by SEBI from time to time.

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CHAPTER : 12 ACQUISITION OF SHARES AND TAKEOVERS - CONCEPTS

Question : 1 (June 2025).

What are the objectives that C. Achutan Committee had recommended with respect to SEBI (Substantial Acquisition of Shares and Takeovers) Regulation, 2011.

(5 marks)

Answer :

Shri C. Achutan Committee had provided for following objectives of the then proposed Takeover SEBI (SAST), Regulation, 2011:

- a. To provide a transparent legal framework for facilitating takeover activities;
- b. To protect the interests of investors in the securities market, taking into account that the acquirer, shareholders, and investors need a fair, equitable and transparent framework.;
- c. To balance the various conflicting objectives and interests of all stakeholders in the context of substantial acquisition of shares and takeover in the listed companies;
- d. To provide each shareholder an opportunity to exit his investment in the target company when a substantial acquisition of shares, or takeover of a target company takes place, on terms that are not inferior to the terms on which substantial shareholders exit their investments;
- e. To provide acquirers with a transparent legal framework to acquire shares or control of the target company and to make an open offer;
- f. To ensure that the affairs of the target company are conducted in the ordinary course when a target company is subject matter of an open offer;
- g. To ensure that fair and accurate disclosure of all the material information is made by the person responsible for making them to various stakeholders to enable them to take informed decisions;
- h. To regulate and provide for fair and effective competition among acquirers desirous of taking over the same target company; and
- i. To ensure that only those acquirers who are capable of actually fulfilling their obligations under the Takeover Regulations make open offers.

Question : 2 (June 2024).

Write short notes on the following : Enterprise Value

(3 marks)

Answer :

Enterprise Value

Regulation 2(1)(h) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 defines the term Enterprise Value which means the value calculated as market capitalization of a company plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Enterprise Value= Market capitalization+ Debt+ Minority Interest + Preferred Shares - Total Cash and Cash Equivalents.

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Three entities — Alpha Ltd., Beta LLP, and Mr. Z — jointly subscribe to a memorandum of understanding (MoU) to acquire management control of Target Ltd., a listed company.

Alpha Ltd. is a private company held by Mr. Z's family.

Beta LLP is a professional investment advisory firm providing consultancy to Alpha Ltd.

Mr. Z is the director of Alpha Ltd. and also a limited partner in Beta LLP.

They plan to acquire 20% shares each, individually, and deny any coordinated acquisition. Later, SEBI issues a show-cause notice alleging that they acted as Persons Acting in Concert (PAC). The entities claim that they were independently acquiring shares and should not be considered PACs.

Based on the definition of PAC under SAST Regulations, examine whether SEBI's allegation holds merit.

(5 marks)

Answer :

Provision Of Law :

Persons Acting in Concert [Reg. 2(1)(q)]

“Persons acting in concert” means, –

(1) 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.

(2) 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, –

(i) a company, its holding company, subsidiary company and any company under the same management or control;

(ii) a company, its directors, and any person entrusted with the management of the company;

(iii) directors of companies referred to in item (i) and (ii) of this sub-clause and associates of such directors;

(iv) promoters and members of the promoter group;

(v) immediate relatives;

(vi) a mutual fund, its sponsor, trustees, trustee company, and asset management company;

(vii) a collective investment scheme and its collective investment management company, trustees and trustee company;

(viii) a venture capital fund and its sponsor, trustees, trustee company and asset management company;

(ix) an alternate investment fund and its sponsor, trustees, trustee company and manager;

(x) a merchant banker and its client, who is an acquirer;

(xi) a portfolio manager and its client, who is an acquirer;

(xii) 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;

(xiii) 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.

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Conclusion/Analysis :

The existence of a MoU with a shared objective of acquisition of control clearly indicates concerted action. Mr. Z's overlapping roles and control over the other two entities strengthens the inference of coordinated behavior. Even if acquisitions were made separately, the common intent and cooperation qualifies them as Persons Acting in Concert.

Therefore, SEBI's allegation is justified as per the definition under Regulation 2(1)(q).

Question : 4 (Module Illustration).

What is the basis of computation of the creeping acquisitions limit under Regulation 3(2) of Takeover Regulations 2011?

Answer :

For computing acquisitions limits for creeping acquisition specified under regulation 3(2), gross acquisitions/ purchases shall be taken in to account thereby ignoring any intermittent fall in shareholding or voting rights whether owing to disposal of shares or dilution of voting rights on account of fresh issue of shares by the target company. SEBI in the interpretative letter dated 18th September, 2015 issued under the SEBI (Informal Guidance) Scheme, 2003 as requested by M/s Adani Properties Private Limited has held that an exempt acquisition would not be counted towards computing acquisitions on a gross basis.

Question : 5 (Module Illustration).

Mr. A is contemplating acquisition of XYZ Limited, a listed entity. He presently holds 23% and his brother, who is having common objective holds 3%. Together their holding is 26%. Mr. A, in view of creeping acquisition limits, desires to further acquire 3% assuming the 5% ceiling in every financial year.

Answer :

In view of Regulation 3(3) as discussed above, though together they hold 26% and can avail 5% ceiling, but in case Mr. A on individual basis crossing the threshold of 25% or more (since presently he holds 23% and further contemplates to acquire 3% more), he will be required to make open offer.

However, in given case, if his brother only acquires 3% and increase their total holding to 29% then their will be no requirement of Open Offer.

Question : 6

Mr. A holds 22% of the equity shares in XYZ Ltd., a listed company. Persons Acting in Concert (PAC) with him hold an additional 5%. Mr. A now proposes to acquire a further 3% shares. He claims that the acquisition will not trigger an open offer as it is within the 5% limit of creeping acquisition. Examine the validity of his claim under SEBI (SAST) Regulations, 2011. (5 marks)

Answer :

Provision Of Law :

- Regulation 3(1) of the SEBI Takeover Regulations, 2011 provides that the Acquirer to give an open offer to the shareholders of Target Company on the acquisition of shares or voting rights entitling the Acquirer along with the persons acting in concert with him to exercise 25% or more voting rights in the Target Company.
- An acquirer who holds 25% or more but less than maximum permissible non-public shareholding of the Target Company, can acquire such additional shares as would entitle him to exercise more than 5% of the voting rights in any financial year ending March 31 only after making a Public Announcement to acquire minimum twenty six percent shares of Target Company from the shareholders through an Open Offer.
- Regulation 3(2) of the SEBI Takeover Regulations, 2011 provides that any Acquirer who holds shares between 25%-75%, together with PACs can acquire further 5% shares as creeping acquisition without giving an Open Offer to the shareholders of the Target Company upto a maximum of 75%.
- The quantum of acquisition of additional voting rights shall be calculated after considering the following:

(a) No Netting off allowed: For the purpose of determining the quantum of acquisition of additional voting rights, the gross acquisitions without considering the disposal of shares or dilution of voting rights owing to fresh issue of shares by the target company shall be taken into account.

(b) Incremental voting rights in case of fresh issue : In the case of acquisition of shares by way of issue of new shares by the target company, the difference between the pre-allotment and the post-allotment percentage voting rights shall be regarded as the quantum of additional acquisition.

- Acquisition of shares by any person, such that the individual shareholding of such person acquiring shares exceed the stipulated thresholds, shall also be attracting the obligation to make an open offer for acquiring shares of the target company irrespective of where there is a change in the aggregate shareholding with persons action in concert. [Regulation 3(3)]
- This entire Regulation shall not apply to acquisition of shares or voting rights of a company by the promoters or shareholders in control, in terms of the provisions of Schedule XX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. [Regulation 3(4)]
- Further for the purpose of this regulation, any reference to "twenty-five per cent" in case of listed entity which has listed its specified securities on Innovators Growth Platform shall be read as "forty-nine per cent".

Conclusion/Analysis :

As per the provisions stated above, Mr. A's claim is invalid. Acquisition of shares by any person, such that the individual shareholding of such person acquiring shares exceed the stipulated thresholds, shall also be attracting the obligation to make an open offer even if the acquisition is within the 5% limit of creeping acquisition.

Question : 7

ABC Pvt. Ltd., an unlisted company, proposes to acquire 100% shareholding of DEF Ltd., another unlisted company. DEF Ltd. holds 85% of the equity share capital of PQR Ltd., a listed company. The proportionate NAV of PQR Ltd. represents 82% of the consolidated NAV of DEF Ltd., and the proportionate turnover of PQR Ltd. also exceeds 80% of DEF Ltd.'s consolidated turnover. Analyze whether ABC Pvt. Ltd. will be required to make a mandatory open offer under SEBI (SAST) Regulations, 2011. (5 marks)

Answer :

Provision Of Law :

- The concept of Indirect acquisition of shares has been recognized under Regulation 5 of the SEBI Takeover Regulations, 2011.
- It explains indirect acquisition as the acquisition of shares, voting rights or control over any other company which would enable the acquirer of shares, voting rights or control to exercise such percentage of voting rights, which would otherwise have triggered an open offer process over which would enable the acquirer to exercise control over a company.
- Certain indirect acquisitions are regarded as 'deemed direct acquisitions' if such indirect acquisition satisfy the following conditions such as:
 - a) proportionate NAV of the target company as % of the consolidated NAV of the entity or business being acquired exceeds 80 %
 - b) proportionate sales turnover of the target company as % of the consolidated sales turnover of the entity or business being acquired exceeds 80 %
 - c) proportionate market cap. of the target company as % of the enterprise value of the entity or business being acquired exceeds 80 %
- The 'deemed direct acquisition' has to follow the same mandatory open offer related requirements as a direct acquisition of shares, voting rights or control.

Conclusion/Analysis :

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The acquisition meets the 80% threshold; hence it is a deemed direct acquisition.

ABC Pvt. Ltd. will be required to make a mandatory open offer for at least 26% shares of PQR Ltd. in compliance with SEBI (SAST) Regulations, 2011.

Question : 8

Mr. X, along with Persons Acting in Concert (PAC), holds 35% of the equity shares in LMN Ltd., a listed company. They wish to consolidate their shareholding by making a Voluntary Open Offer to acquire an additional 10% shares from public shareholders. LMN Ltd. is a widely held listed company with the minimum public shareholding requirement of 25%. Mr. X has not made any open offer in the past 12 months.

- a) What is the minimum existing shareholding required to be eligible for making a Voluntary Open Offer under SEBI (SAST) Regulations, 2011?
 - b) Can Mr. X make a Voluntary Open Offer when his current shareholding is 35%?
 - c) What is the maximum shareholding Mr. X and PAC can hold after completion of the Voluntary Open Offer?
 - d) Is Mr. X allowed to acquire further shares during the Offer Period apart from the offer shares?
 - e) After completing this Voluntary Open Offer, within how many months can Mr. X make another Voluntary Open Offer for LMN Ltd.?
- (1 mark each)

Answer :

- a) An acquirer, who together with persons acting in concert with him, holds shares or voting rights in a target company entitling them to exercise twenty-five per cent or more but less than the maximum permissible nonpublic shareholding, shall be entitled to voluntarily make a public announcement of an open offer for acquiring shares in accordance with these regulations, subject to their aggregate shareholding after completion of the open offer not exceeding the maximum permissible non-public shareholding.
- b) Since Mr. X shareholding is more than twenty-five per cent or more but less than the maximum permissible nonpublic shareholding, he can make a Voluntary Open Offer
- c) The maximum shareholding Mr. X and PAC can hold after completion of the Voluntary Open Offer shall be 10% of the voting rights in the Target Company of the company. The post offer shareholding of the Acquirer and PACs in such case shall not exceed the maximum permissible non-public shareholding.
- d) An acquirer and persons acting in concert with him, who have made a public announcement under this regulation to acquire shares of a target company shall not be entitled to acquire any shares of the target company for a period of six months after completion of the open offer except pursuant to another voluntary open offer.
- However, such restriction shall not prohibit the acquirer from making a competing offer upon any other person making an open offer for acquiring shares of the target company. Shares acquired through bonus issue or stock splits shall not be considered for purposes of the dis-entitlement set out in this regulation.
- e) Where an acquirer or any person acting in concert with him has acquired shares of the target company in the preceding fifty-two weeks without attracting the obligation to make a public announcement of an open offer, he shall not be eligible to voluntarily make a public announcement of an open offer for acquiring shares under this regulation.

Question : 9 (Dec 2024).

Zubin has been declared by a private bank PB Ltd, as a willful defaulter under SEBI (Substantial Acquisition of shares and Takeovers) Regulations, 2011. But, he is interested to acquire shares of XYZ Ltd. Explain the meaning of the willful defaulter. He is declared as willful defaulter by the private bank, therefore discuss about any option available with Zubin to acquire shares of XYZ Ltd ?

(5 marks)

Answer :

Provision Of Law :

- Wilful defaulter means any person who is categorized as a wilful defaulter by any bank or financial institution or consortium thereof, in accordance with the guidelines on wilful defaulters issued by the Reserve Bank of India and includes any person whose director, promoter or partner is categorized as such.
- As per Regulation 6A of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, no person who is a wilful defaulter shall make a public announcement of an open offer for acquiring shares or enter into any transaction that would attract the obligation to make a public announcement of an open offer for acquiring shares under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.
- However, this regulation shall not prohibit the wilful defaulter from making a competing offer in accordance with regulation 20 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 upon any other person making an open offer for acquiring shares of the target company.

Conclusion/Analysis :

Hence, Zubin cannot make open offer under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

Therefore, the route available with Zubin, who is declared wilful defaulter, is to make competing offer if the threshold of 25% or more in terms of regulation 3 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 is triggered.

Question : 10 (June 2024, Old Syllabus).

An acquirer, along with persons acting in concert (PAC) may come up with an Open Offer for acquisition of shares of a listed entity either voluntarily or compulsorily. Differentiate between the two processes.
(4 marks)

Answer :

SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 provides certain trigger events wherein the Acquirer is required to give Open Offer to the shareholders of the Target Company to provide them exit opportunity.

However, it also allows the Acquirer to make voluntary offer as well.

Basis	Voluntary Offer	Compulsory open offer
Meaning	the Open Offer given by the acquirer voluntarily without triggering the mandatory Open Offer obligations as envisaged under these regulations.	the Acquirer to give an open offer to the shareholders of Target Company on the acquisition of shares or voting rights entitling the Acquirer along with the persons acting in concert with him to exercise 25% or more voting rights in the Target Company.
Eligibility	can be triggered by acquirer holding more than 25% or more. Further in this case, the acquirer or person acting in concert should not have acquired shares of target company without the obligation to make compulsory offer during the preceding 52 weeks.	can be triggered through both direct and indirect acquisition.
Applicability	no such applicability is required.	on crossing the threshold or the creeping acquisition or by way of control.

Minimum Size of Open Offer	the minimum size shall be 10% of the voting rights in the target company.	the acquirer must give an open offer to the shareholders for acquisition of at least 26% of the total shares of the Target

		Company.	
Public Disclosure	Voluntary Announcement	Public Mandatory Announcement	Public
Purpose	Strategic or Tactical Reasons, Investment, or Control Objectives	Regulatory Compliance and Fairness to Shareholders	
Compliance Consequences	No Direct Regulatory Penalties for Not Making an Offer	Regulatory Penalties for NonCompliance	

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Question : 11 (Dec 2023, Old Syllabus).

PQR Ltd. listed its shares in NSE. Its promoters hold 56.5% of paid-up equity share capital as on 31st March, 2022. On 10th October, 2022, some of the promoters who were having convertible warrants in the company, has converted their 12 lakh into equity shares. Consequent to the conversion, the Promoters' holdings increased by 3.95%. Prakash, one of the promoters of the company was holding 16.5% of equity share capital in the company. He proposed to gift 2% of equity shares of the company through transfer to his immediate relative, Vipin.

Answer the following in the light of SEBI(SAST) Regulations, 2011.

- (i) Whether the proposed transfer trigger an obligation upon Vipin for open offer ?
 - (ii) Would the transaction be covered under creeping acquisition ?
 - (iii) Would the promoters be permitted to avail any exemption under the regulations ?
- (2+2+1=5 marks)

Answer :

Under Regulation 3 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, no acquirer, who together with persons acting in concert with him, has acquired and holds shares or voting rights in a target company entitling them to exercise twenty-five per cent or more of the voting rights in the target company but less than the maximum permissible non-public shareholding, shall acquire within any financial year additional shares or voting rights in such target company entitling them to exercise more than five per cent of the voting rights, unless the acquirer makes a public announcement of an open offer for acquiring shares of such target company in accordance with these regulations.

(i) By virtue of conversion of warrants into shares, the promoter shareholding in the company has already enhanced by 3.95%. A further transfer of shares(gift) constituting 2 % of the equity share capital of the company to an immediate relative in the same financial year would increase the gross acquisition of shares by the promoter group in excess of 5 % threshold under regulation 3(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

Therefore, the requirement to make an open offer is triggered in the given case unless promoters fulfil the conditions for exemption under Regulation 10 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

(ii) In other words, the transactions including the proposed transfer would be considered for the purpose of calculating the creeping acquisition limit of 5 %.

(iii) Regulation 10 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 provides that the acquisitions shall be exempt from the obligation to make an open offer under regulation 3 on acquisition pursuant to inter se transfer of shares amongst qualifying immediate relatives or among persons named as promoters in the shareholding pattern filed by the target company for not less than 3 years prior to the proposed acquisition.

In the given situation, the transfer would qualify as inter se transfer between immediate relatives under the Regulation 10 and so it is exempt from the requirement of making an open offer provided that acquirer shall, within twenty-one working days of the date of acquisition, submit a report in such form as may be specified along with supporting documents to the SEBI.

Question : 12 (Dec 2024, Old Syllabus).

Kunal is thinking of acquiring shares in Dream Real Estate Ltd. (listed company). Under the provisions of SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011, whether the provisions of event-based disclosure would apply to Kunal in the following situations (give reasons) :

- (i) Kunal already has 6% shares and he intends to acquire additional 1.50% shares.

- (ii) Kunal already has 6% shares and he intends to acquire additional 3% shares.
(iii) Kunal already has 3% shares and he intends to acquire additional 1.50% shares.
State the time limit within which the disclosure should be made.
(3+2 marks)

Answer :

Provision Of Law :

- According to Regulation 29(1) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011,
- any acquirer together with 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.
- Further, according to Regulation 29(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, any person together with 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.
- According to Regulation 29(3) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, the disclosure should be made 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, to every stock exchange where the shares of the target company are listed and the target company at its registered office.

Conclusion/Analysis :

- (i) Kunal already has 6% shares of Dream Real Estate Ltd. (listed company) and he intends to acquire 1.50% shares more, since the additional acquisition is less than 2%, Kunal is not required to disclose the changes arising due to this acquisition.
- (ii) Kunal already has 6% shares of Dream Real Estate Ltd. (listed company) and he intends to acquire 3% shares more, since the additional acquisition is more than 2%, Kunal is required to disclose the changes arising due to this acquisition.
- (iii) Kunal already has 3% shares of Dream Real Estate Ltd. (listed company) and he intends to acquire 1.50% shares more, since the total acquisition is less than 5% i.e. the below the threshold for initial disclosure, Kunal is not required to disclose the changes arising due to this acquisition.

Question : 13 (June 2024).

Miraj Ltd. ('Target Company') is a listed company. The existing holding of promoters' group in Miraj Ltd. is 45%. One of the promoters' groups wants to transfer 2% shares to another promoters' group. Miraj Ltd sought your expert opinion on the requirement of open offer and applicability of exemption under SEBI (SAST), Regulations, 2011 for making compulsory open offer.
(5 marks)

Answer :

Regulation 3(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 prescribed that no acquirer, who together with persons acting in concert with him, has acquired and holds in accordance with these regulations shares or voting rights in a target company entitling them to exercise twenty-five per cent or more of the voting rights in the target company but less than the maximum permissible non-public shareholding, shall acquire within any financial year additional shares or voting rights in such target company entitling them to exercise more than five per cent of the voting rights, unless the acquirer makes a public announcement of an open offer for acquiring shares of such target company in accordance with these regulations.

- Regulation 10 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 inter alia provides for

automatic exemptions from the applicability of making Open Offer to the shareholders of the Target Company in respect of acquisition pursuant to inter se transfer of shares amongst persons named as promoters in the shareholding pattern filed

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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 may be noted that exemption provided under Regulation 10 applies only in case of obligation to make open offer as provided under Regulations 3 and 4 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, subject to fulfillment of conditions as mentioned therein.

Conclusion/Analysis :

- In the given problem matter, an inter-se transfer of 2% shares among promoter group being proposed.
- The current promoters' holding in Miraj Ltd. is 45%. Thus, Regulation 3(2) would be triggered only in case of acquisition of more than 5% shares within the financial year.
- However, in the given case of Miraj Ltd., the proposed transaction is for 2% shares, which is within the limit of 5% shares in the financial year.
- Thus, the proposed transaction would not trigger the requirement of making open offer as provided under Regulations 3 and 4 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and therefore question of applicability of exemption as provided under Regulation 10 would not arise.

Question : 14

You are the Company Secretary of a listed company. One of the promoter group entities is planning to acquire a substantial number of shares from another promoter group member. Both entities are disclosed as promoters in the shareholding pattern filed with the stock exchange. The acquirer also holds a controlling interest in another unlisted subsidiary company of the listed entity. The acquisition is proposed to be executed off-market.

Advise whether this acquisition would necessitate a public announcement of an open offer under SEBI Takeover Regulations. (5 marks)

Answer :

Provisions of Law :

As per the Regulation 10(1) of SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011,

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;

(iv) 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;

(v) 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;

(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 fi under the listing regulations or as the case may be, the listing agreement, and any company in which the entire equity share capital is owned by such shareholders in the same proportion as their holdings in the target company without any differential.

At least four working days prior to the proposed acquisition, intimate the Stock Exchanges and the Target company with details of proposed acquisition.

Conclusion/Analysis :

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As per the provisions stated above, this acquisition wouldn't necessitate a public announcement of an open offer under SEBI Takeover Regulations.

Question : 15 (June 2025).

Write a short note on : Exemption by SEBI under Regulation 11 of SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011.

(3 marks)

Answer :

Regulation 11 – Exemption by SEBI

- Regulation 11 provides that 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.
- For instance, in case where the exemptions is sought from the Open Offer obligations which has been triggered pursuant to the issue of shares by way preferential allotment, SEBI may require that the approval of shareholders should be obtained by way of postal ballot.
- Further, along with the application, the acquirer is also required to pay a non-refundable fee of Rs.5,00,000, by way of direct credit in the bank account.
- However, it is to be noted that the Acquirer is not exempted from making other compliances related to the disclosure requirements as provided under regulation 29, 30 and 31 of the SEBI Takeover Regulations, 2011.

Question : 16 (Module Illustration).

Mr. X Is Promoter of ABC (India) Limited (Target Company). Mr. X is presently holding 53,073 shares constituting 0.52% of the paid up equity capital of the Target Company. Further, Mr. X has been allotted 75,000 convertible warrants, convertible in to equity. After conversion of warrant in to equity the shareholding of Mr. X will increase from 0.52% to 1.26% of the paid up equity capital. Further, Ms. Z who Is Mr. X's elder sister's daughter and holding 7,80,000 equity shares constituting 7.76% of the paid up equity share capital of the Company. Ms. Z is a foreign shareholder and she wanted to gift (Off Market Transaction) her entire shareholding to her mother Mrs. Y and in turn Mrs. Y wanted to gift the entire shareholding to Mr. X.

If the entire transaction as contemplated, if concluded, then the shareholding of Mr. X will Increase from 0.52% to 9.02% and the shareholding of the promoter group will increase from 34.28% to 43.30%. You have been engaged as Practising Company Secretary by Mr. X to advise on the following:

- a) is this increase in the promoter group shareholding would trigger open offer requirements in terms of Regulation 3(2) of the SEBI (SAST) Regulation, 2011.
- b) Further, Whether such transaction would be exempted under Regulation 10 of the SEBI (SAST) Regulations, 2011.

Answer :

The set of facts as disclosed in the question contains three transactions. First, conversion of convertible warrants in to equity. Secondly, transfer of shares through off market transaction from Ms. Z to Mrs. Y and thirdly, transfer of shares through off market transaction from Mrs. Y to Mr. X. Regarding the first transaction, the trigger and open offer requirements, if any has to be considered at the time of conversion of warrants in to equity as the same would depends on the shareholding pattern of the promoter and promoter's group prevailing at the time of conversion of warrants in to equity shares. Regarding the second and third transaction, considering that Ms. Z, Mrs. Y and Mr. X are immediate relative thus they would be considered as PAC in terms of Regulation 2(1)(q) of the SEBI (SAST) Regulations, 2011. Therefore, the shareholding of the promoters along with PACs would increase more than 5% limit and would trigger open offer requirements under Regulation 3(2) of the SEBI (SAST), 2011. However, the transaction is between Immediate relatives, the transaction would be exempt from the obligation to make an open offer as per Regulation 10(1)(a)(i) of the SEBI (SAST), Regulations, 2011 subject to the compliance with the conditions as mentioned under the proviso to Regulation 10(1)(a)(i) and Regulation 10(5), (6) and (7) of the SEBI (SAST), Regulations, 2011.

CHAPTER : 13 PROHIBITION OF INSIDER TRADING

Question : 1 (June 2024, Old Syllabus).

Can a senior person, say a Company Secretary or Chief Financial Officer, who is not reporting to the Board, act as Compliance Officer and update the Board on the transactions related to insider Trading Quarterly. Can the company appoint more than one person as the Compliance Officer under the code?

(5 marks)

Answer :

- Regulation 2(1) (c) of the SEBI (Prohibition of Insider Trading) Regulations, 2015 defines Compliance Officer as any senior officer, designated so and reporting to the Board of Directors or Head of the Organization in case Board is not there, who is financially literate and is capable of appreciating requirements for legal and regulatory compliance under these regulations and who shall be responsible for
 - a. compliance of policies, procedures, maintenance of records, monitoring adherence to the rules for the preservation of unpublished price sensitive information,
 - b. monitoring of trades and the implementation of the codes specified in these regulations under the overall supervision of the Board of Directors of the listed company or the Head of the Organization, as the case may be.
- Further, in terms of regulation 9(1) of the SEBI (Prohibition of Insider Trading) Regulations, 2015 read with Schedule B, the compliance officer shall report to the board of directors and in particular, shall provide reports to the Chairman of the Audit Committee, if any, or to the Chairman of the board of directors at such frequency as may be stipulated by the board of directors, but not less than once in a year.
- The functions and responsibility of the Compliance Officer are specified in Regulation 2(1) (c) of the SEBI (Prohibition of Insider Trading) Regulations, 2015.
- The company may at its discretion appoint any senior officer as the Compliance Officer, who necessarily report to the Board of Directors or Head of the Organization as the case may be.
- Appointing any other person shall not be in accordance with the Regulations.
- In light of the above provision, a senior person, either Company Secretary or Chief Financial Officer, who is not reporting to the Board cannot as a Compliance Officer.
- However, in case of appointing more than one person as Compliance Office, they shall be held jointly and severally responsible.

Question : 2 (June 2024, Old Syllabus).

Following information is given to you about Jaina Fashions Ltd., a listed company. In light of SEBI (Prohibition of Insider Trading) Regulations, 2015, briefly explain the concept of connected person and state with reasons whether the following persons are 'Insider' as on date, or not-

- (i) Ajay was the General Manager of the company, but he resigned 8 months ago.
- (ii) Rahul is working as a Senior Trainee in the office of Secretarial Auditor of the company.
- (iii) Jyoti is the spouse of an Executive Director of the Company.

(5 marks)

Answer :

Provision Of Law :

According to the provisions of Regulation 2(1)(d) of the SEBI (Prohibition of Insider Trading) Regulations, 2015, "Connected Person" means:

- any person who is or has during six months prior to the concerned act, has been associated with the 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 relation); or
- is a director, officer or an employee of the company or holds any position including a professional or business relationship between himself and the company, whether temporary or permanent,

that allows such person, directly or indirectly, access to unpublished price-sensitive information or reasonably expected to allow such access.

Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be connected persons unless the contrary is established-

- (a) an immediate relative of connected persons; or
- (b) a holding company or associate company or subsidiary company; or
- (c) an intermediary as specified in section 12 of the SEBI Act, 1992 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 per cent, of the holding or interest.

It is to be noted that the above definition intends to bring into its ambit persons who may not seemingly occupy any position in a company but are in regular touch with the company and its officers and are involved in the know of the company's operations.

According to the provisions of Regulation 2(1)(g) of the SEBI (Prohibition of Insider Trading) Regulations, 2015, an "Insider" means any person who is:

- (1) a connected person; or
- (2) in possession of or having access to unpublished price sensitive information.

Conclusion/Analysis :

(i) Ajay was the General Manager of the company, but he resigned 8 months ago. Ajay has completed more than six months since his resignation as General Manager of the company. He is not a connected person and is not in possession of any unpublished price sensitive information.

Therefore, he is not an insider as on date, as per the Regulations.

(ii) Rahul works as a Senior Trainee in the office of Secretarial Auditor of the company. Rahul is the Senior Trainee in the office of Secretarial Auditor and thus, being a part of Audit team, he will have access to unpublished price sensitive information due to the nature of work performed by him in the office of Secretarial Auditor.

Therefore, he is an insider as on date. as per the Regulations.

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(iii) Jyoti is the spouse of an Executive Director of the company. Executive Director is connected person in terms of the Regulations. Spouse, an immediate relative of the connected person, is considered as deemed to be connected person.

Therefore, Jyoti is an insider as on date, as per the Regulations.

Question : 3

Arjun Mehta, a Chartered Accountant, had been providing tax advisory services to Neuronix Ltd., a listed company, for the past eight months. Though his engagement ended two months ago, he maintains occasional contact with the CFO regarding ongoing financial structuring strategies. Recently, Neuronix Ltd. announced a significant acquisition, causing a sharp rise in its share price. It was discovered that Arjun had purchased a large quantity of shares of the company just days before the announcement.

As a Company Secretary of Neuronix Ltd., examine whether Arjun can be treated as a connected person under SEBI regulations. (3 marks)

Answer :

Provision of Law :

SEBI (Prohibition of Insider Trading) Regulations, 2015:

According to the provisions of Regulation 2(1)(d) of the SEBI (Prohibition of Insider Trading) Regulations, 2015, "Connected Person" means:

- any person who is or has during six months prior to the concerned act, has been associated with the 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 relation); or
- is a director, officer or an employee of the company or holds any position including a professional or business relationship between himself and the company, whether temporary or permanent,

that allows such person, directly or indirectly, access to unpublished price-sensitive information or reasonably expected to allow such access.

Facts of the Case:

Arjun Mehta, a CA, advised Neuronix Ltd. until two months ago, i.e., within the six-month look-back window. He had access to financial strategies and maintains occasional contact with the CFO. He purchased a large number of shares just days before a major price-sensitive announcement (acquisition). The share price rose sharply after the acquisition, implying potential misuse of UPSI.

Conclusion/Analysis:

Arjun Mehta qualifies as a connected person under SEBI (PIT) Regulations, 2015 due to:

His recent professional engagement (within 6 months);

Nature of services involving financial strategy;

Ongoing contact with the CFO, indicating possible continued access to UPSI.

His purchase of shares just before the acquisition suggests he may have traded while in possession of UPSI, which is prohibited under Regulation 4 of SEBI (PIT) Regulations.

Question : 4 (Module Illustration).

If a spouse is financially independent and does not consult an insider while taking trading decisions, is that spouse exempted from the definition of 'immediate relative'?

Answer:

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“Immediate Relative” means

- spouse of a person,
- parents,
- sibling, and
- child of such person or of the spouse,
- any of whom is either dependent financially on such person,
- or consults such person in taking decisions relating to trading in securities.

➤ A spouse is presumed to be an 'immediate relative', unless rebutted so.

Question : 5

Write a short note on : “Unpublished price sensitive information” under SEBI (Prohibition of Insider Trading] Regulation. 2015. (3 marks)

Answer :

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

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

Question : 6

XYZ Ltd., a listed infrastructure company, is in discussions with a foreign strategic partner for a long-term technology collaboration. The transaction will not attract the obligation to make an open offer under the SEBI (SAST) Regulations, 2011. However, certain confidential financial and operational UPSI needs to be shared with the foreign partner for due diligence.

The Board of Directors of XYZ Ltd., after deliberation, passes a resolution stating that sharing such information is in the best interest of the company. Confidentiality agreements are executed, and the company records the details of the recipient in its structured digital database.

Analyse the permissibility of such communication under the PIT Regulations. (5 Marks)

Answer :

Provision of Law:

According to the provisions of Regulation 3 of the SEBI (Prohibition of Insider Trading) Regulations, 2015,

(1) No insider shall communicate, provide, or allow access to any unpublished price sensitive information, relating to a company or securities listed or proposed to be listed, to any person including other insiders except where such communication is in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

(2) No person shall procure from or cause the communication by any insider of unpublished price sensitive information, relating to a company or securities listed or proposed to be listed, except in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

Note: This provision is intended to impose a prohibition on unlawfully procuring possession of unpublished price sensitive information. Inducement and procurement of unpublished price sensitive information not in furtherance of one's legitimate duties and discharge of obligations would be illegal under this provision.

(2A) The board of directors of a listed company shall make a policy for determination of "legitimate purposes" as a part of "Codes of Fair Disclosure and Conduct" formulated under regulation 8.

(2B) Any person in receipt of unpublished price sensitive information pursuant to a "legitimate purpose" shall be considered an "insider" for purposes of these regulations and due notice shall be given to such persons to maintain confidentiality of such unpublished price sensitive information in compliance with these regulations.

(3) Notwithstanding anything contained in this regulation, an unpublished price sensitive information may be communicated, provided, allowed access to or procured, in connection with a transaction that would:-

(i) entail an obligation to make an open offer under the takeover regulations where the board of directors of the listed company is of informed opinion that sharing of such information is in the best interests of the company;

(ii) not attract the obligation to make an open offer under the takeover regulations but where the board of directors of the listed company is of informed opinion that sharing of such information is in the best interests of the company and the information that constitute unpublished price sensitive information is disseminated to be made generally available at least two trading days prior to the proposed transaction being effected in such form as the board of directors may determine to be adequate and fair to cover all relevant and material facts.

Note: It is intended to permit communicating, providing, allowing access to or procuring UPSI also in transactions that do not entail an open offer obligation under the takeover regulations when authorised by the board of directors if sharing of such information is in the best interests of the company. The board of directors, however, would cause public disclosures of such unpublished price sensitive information well before the proposed transaction to rule out any information asymmetry in the market.

(4) For purposes of sub-regulation (3), the board of directors shall require the parties to execute agreements to contract confidentiality and non-disclosure obligations on the part of such parties and such parties shall keep information so received confidential, except for the purpose of sub-regulation (3), and shall not otherwise trade in securities of the company when in possession of unpublished price sensitive information.

Conclusion/Analysis:

The communication of UPSI in this case is permissible, as the transaction does not attract an open offer under SEBI (SAST) Regulations. The Board has formally opined it is in the company's best interest and confidentiality safeguards and proper record-keeping are ensured. Therefore, XYZ Ltd. has complied with the regulatory framework while sharing UPSI.

Question : 7

The compliance officer of ABC Ltd. maintains a digital structured database of UPSI recipients. During SEBI's inspection, it is found that details of the time and purpose of sharing UPSI are missing.

Analyse whether this is a non-compliance under the SEBI (Prohibition Of Insider Trading) Regulations, 2015.

(5 marks)

Answer :

According to the provisions of Regulation 3 of the SEBI (Prohibition of Insider Trading) Regulations, 2015,

- Maintenance of structured database with names of persons with whom UPSI is shared and names of persons who shared the same
- The Board of Directors or head(s) of the organisation of every person required to handle unpublished price sensitive

information shall ensure that a structured digital database is maintained containing the nature of unpublished price sensitive information and the names of such persons who have shared the information and also the names of such persons

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with whom information is shared under this regulation along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available.

- Such database shall not be outsourced and shall be maintained internally with adequate internal controls and checks such as time stamping and audit trails to ensure non-tampering of the database.
- The board of directors or head(s) of the organisation 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.

Facts Of the Case :

Compliance officer maintains a structured digital database of UPSI recipients and SEBI finds missing details of time and purpose of sharing UPSI.

Conclusion/Analysis:

As per the provisions stated above, this is non-compliance with Regulation 3(5) of PIT Regulations, which mandates recording of name, PAN, postal address, and also time and purpose of sharing UPSI.

Question : 8 (Module Illustration).

What information should a listed Company maintain in its structured digital database under Regulation 3(5), in case the designated person is a fiduciary or intermediary?

Answer :

The listed company should maintain the names of the fiduciary or intermediary with whom they have shared information along with the Permanent Account Number (PAN) or other unique identifier authorized by law, in case PAN is not available. The fiduciary / intermediary, shall at their end, be required to maintain details as required under the Schedule C in respect of persons having access to UPSI.

For example: If the listed company has appointed a law firm or Merchant Banker in respect of fund raising activity, it should obtain the name of the entity, so appointed, along with the PAN or other identifier, in case PAN is not available. The law firm or the Merchant Banker would in turn maintain its list of persons along with PAN or other unique identifier (in case PAN is not available), in accordance with Regulation 9A(2)(d) and as required under Schedule C, with whom they have shared the unpublished price sensitive information.

Question : 9

A Portfolio Manager of XYZ Asset Management Company took a trading decision to purchase shares of a listed company. The Portfolio Manager did not have access to any Unpublished Price Sensitive Information (UPSI). A Research Analyst of the same company was in possession of UPSI, but he was not involved in the decision-making process. The Compliance Officer states that an effective "Chinese Wall" policy was in place between the research division and the portfolio management division.

In light of the SEBI (Prohibition of Insider Trading) Regulations, 2015, examine whether the trade executed amounts to Insider Trading.
(5 marks)

Answer :

Provision of Law:

- Regulation 4 prescribes that an insider shall not trade in securities, which are listed or proposed to be listed on stock exchange, when in possession of unpublished price sensitive information, except in the following situations:
- where there is an off-market inter-se transfer between insiders who were in possession of the same UPSI, or

- the transaction was carried through the block deal window mechanism between persons who were in the possession of the UPSI.

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Block deal is a trade, with a minimum quantity of 5 lakh shares or minimum value of Rs. 5 crore, executed through a single transaction, on the special "Block Deal window".

Provided that:

- a. there should be no breach of Regulation 3;
- b. both the parties had made a conscious and informed trade decision;
- c. UPSI should not have been obtained under Regulation (3).

Provided further that, off-market trades shall be reported by the insiders to the Company within two working days which shall further notify the particulars of these trades to the stock exchange(s) where the securities are listed within two working days of receipt of such disclosure or from becoming aware of such information.

- the transaction in question, was carried out pursuant to a statutory or regulatory obligation to carry out a bonafide transaction,
- the transaction in question, was undertaken pursuant to the exercise of stock options in respect of which the exercise price was pre-determined in compliance of with applicable regulations,
- in case of non-individual insiders, individuals taking the trade decision & individuals possessing the UPSI are different from each other and while taking the trade decision the individuals were not in possession of such UPSI and appropriate & adequate precautionary arrangements were made to ensure that these regulations are not violated and there are no evidence also of such arrangements having been breached,
- the trades were in accordance to trading plan set up in accordance with Regulation 5

Facts of the Case:

Portfolio manager decided the trade without access to UPSI and the Research analyst had UPSI but was not part of the decision. The Compliance officer claims "Chinese Wall" was in place.

Conclusion/Analysis:

As per the provisions stated above, the contention of the officer is correct. Since, there is separation of roles i.e; the individuals taking the trade decision & individuals possessing the UPSI are different from each other it does not constitute violation.

Question : 10 (Module Illustration).

Whether creation of a pledge or invocation of pledge is allowed when trading window is closed?

Answer :

Yes, however, the pledgor or pledgee may demonstrate that the creation of the pledge or invocation of pledge was bona-fide and prove this innocence under proviso to sub-regulation (1) of Regulation 4.

Mr. X traded in shares of company as per trading plan approved by the compliance officer. If at a later stage any unpublished price sensitive information comes to his knowledge, it will not affect the transaction, since Mr. X has already determined to make such transaction as per trading plan.

Question : 11

Mr. Arjun, a senior executive and designated person in Medisphere Ltd., a listed healthcare company, formulated a trading plan on 10th February 2025 for buying 15,000 shares of the company. He submitted the plan to the compliance officer for approval. The compliance officer approved the plan on 20th February 2025, and the plan was disclosed to the stock exchange. As per the plan, the trades were scheduled to begin from 1st March 2025. However, before the execution of the trade, the company entered into confidential discussions for a potential acquisition, which was considered as UPSI. Mr. Arjun went ahead and executed the trades on the dates mentioned in the plan, arguing that the trading plan had already been approved.

Based on the above facts, answer the following questions:

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- (i) What is the minimum cooling-off period required between the approval and commencement of a trading plan?
(ii) Can trades be executed under a trading plan when the insider is in possession of UPSI?
(iii) Is a trading plan irrevocable once approved and disclosed?
(iv) What is the role of the compliance officer with respect to a trading plan?
(v) Under which Regulation of SEBI (PIT) Regulations, 2015 is the concept of trading plan covered?
(1 mark each)

Answer :

- i. Commencement of trading not earlier than 120 calendar days from the public disclosure of plan.
- ii. Yes. Regulation 5(1) allows insiders to trade pursuant to a trading plan irrespective of possession of UPSI, provided the plan was approved and disclosed in advance and is in compliance with all conditions.
- iii. As per Regulation 5(4), The trading plan once approved shall be irrevocable and the insider shall mandatorily have to implement the plan, without being entitled to either execute any trade in the securities outside the scope of the trading plan or to deviate from it except due to the permanent incapacity or bankruptcy or operation of law.
- iv. The Compliance Officer shall review the trading plan to assess whether the plan would have any potential for violation of these regulations and shall be entitled to seek such express undertakings as may be necessary to enable such assessment and to approve and monitor the implementation of the plan.
 - Approve the plan and ensure public disclosure on the stock exchange.
 - Maintain records of approval and compliance.
 - Monitor trades executed under the plan.
- v. Regulation 5 of the SEBI (Prohibition of Insider Trading) Regulations, 2015 covers the provisions relating to trading plans.

Question : 12

Describe the role of compliance officer in case of non-implementation of the trading plan under Regulation 5 of the SEBI (Prohibition of Insider Trading) Regulations, 2015 covers the provisions relating to trading plans.
(5 marks)

Answer :

In case of non-implementation (full/partial) of trading plan due to either reasons enumerated in sub-regulation 4 or failure of execution of trade due to inadequate liquidity in the scrip, the following procedure shall be adopted:

- (i) The insider shall intimate non-implementation (full/partial) of trading plan to the compliance officer within two trading days of end of tenure of the trading plan with reasons thereof and supporting documents, if any.
- (ii) Upon receipt of information from the insider, the compliance officer, shall place such information along with his recommendation to accept or reject the submissions of the insider, before the Audit Committee in the immediate next meeting. The Audit Committee shall decide whether such non-implementation (full/partial) was bona fide or not.
- (iii) The decision of the Audit Committee shall be notified by the compliance officer on the same day to the stock exchanges on which the securities are listed.
- (iv) In case the Audit Committee does not accept the submissions made by the insider, then the compliance officer shall take action as per the Code of Conduct.

The compliance officer shall approve or reject the trading plan within two trading days of receipt of the trading plan and notify the approved plan to the stock exchanges on which the securities are listed, on the day of approval.

Question : 13 (Dec 2024, Old Syllabus).

Namish, CFO of the ZenEX Ltd. (a listed company) has submitted a Trading Plan to the Compliance Officer of the company for approval under the provisions of SEBI regulations. What are the conditions to be taken care of by the compliance officer, while

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giving approval to the Trading Plan?
(7 marks)

Answer :

- As per Regulation 5 of the SEBI (Prohibition of Insider Trading) Regulations, 2015, an insider shall be entitled to formulate a trading plan and present it to the compliance officer for approval and public disclosure pursuant to which trades may be carried out on his behalf in accordance with such plan.
- The Compliance Officer shall review the trading plan to assess whether the plan would have any potential for violation of these regulations and shall be entitled to seek such express undertakings as may be necessary to enable such assessment and to approve and monitor the implementation of the plan.
- The following conditions shall be attached to the Trading Plan which the Compliance Officer shall assess while giving approval -
 - a) It shall not entail Commencement of trading not earlier than 120 calendar days from the public disclosure of plan.
 - b) Unpublished Price sensitive information shall not be in possession from formulation of the plan to implementation.
 - c) It shall entail trading for a period of not less than twelve months.
 - d) It shall not entail overlap of any period for which another trading plan is already in existence.
 - e) It shall set out either the value of trades to be effected or the number of securities to be traded along with the nature of the trade and the intervals at, or dates on which such trades shall be effected.
 - f) It shall not entail trading in securities for market abuse.
 - g) The trading plan once approved shall be irrevocable and the insider shall mandatorily have to implement the plan, without being entitled to either deviate from it or to execute any trade in the securities outside the scope of the trading plan.

Question : 14 (Module Illustration).

Who will be approving authority for trades done by the Compliance Officer or his immediate relatives, as Insiders?

Answer :

The Board of Directors of the company shall be the approving authority in such cases and may stipulate such procedures as are deemed necessary to ensure compliance with these regulations.

Extracts from SEBI's Interpretive Letter dated 19th July, 2018 issued under the SEBI (Informal Guidance) Scheme, 2003 in the matter of Hawkins Cookers Ltd. (HCL) regarding sale of shares by an Independent Director.

Facts of the case:

- a) One of the company's independent directors wants to sell his equity shares of the company.
- b) The sale shall be done as per a trading plan in accordance with regulation 4(ii) of the SEBI (PIT) Regulations, 2015.
- c) As per para 8 of Schedule B to the PIT Regulations, while applying for preclearance, the said director will have to submit an undertaking to the company to the effect that he is not in possession of any Unpublished Price Sensitive Information (UPSI).
- d) By virtue of participation in the Board meetings and access to the information that is shared at such meetings, the said director is deemed to be perpetually in possession of UPSI. Therefore, the said undertaking is not possible.

Question : 15 (Module Illustration).

- a) Whether the said director may submit a trading plan as required for a plan to trade shares above INR 20 lakh in value and proceed with executing the same without giving the said undertaking.

b) What procedure should be followed by the company and/or the said director such that the said director may lawfully execute the trade?

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Answer :

a) Regulation 5 of the PIT Regulations provides exception to the general rule that prohibits trading by insiders when in possession of UPSI. Further, regulation 5, inter alia, states that the trading plan shall be approved by the compliance officer and shall not entail trading in securities for market abuse. In this regard, regulation 5 (3) especially states that the compliance officer shall review the trading plan to assess whether the plan would have any potential for violation of PIT Regulations and shall be entitled to seek such express undertakings as may be necessary to enable such assessment and to approve and monitor the implementation of the plan.

b) In the absence of an approved trading plan, designated persons are subject to the requirements of code of conduct formulated by the company in terms of regulation 9 read with schedule B to the PIT Regulations.

Question : 16 (Dec 2024).

Write a short note on : Continual disclosures under SEBI (Prohibition of Insider Trading] Regulation. 2015.
(3 marks)

Answer :

Continual Disclosures under the SEBI (Prohibition of Insider Trading) Regulation, 2015

Under Regulation 7(2) of the SEBI (Prohibition of Insider Trading) Regulation, 2015:

(a) Every promoter, member of the promoter group, designated person and director of every company shall disclose to the company the number of such securities acquired or disposed of within two trading days of such transaction if the value of the securities traded, whether in one transaction or a series of transactions over any calendar quarter, aggregates to a traded value in excess of ten lakh rupees or such other value as may be specified.

(b) Every company shall notify the particulars of such trading to the stock exchange on which the securities are listed within two trading days of receipt of the disclosure or from becoming aware of such information.

Explanation. It is clarified for the avoidance of doubts that the disclosure of the incremental transactions after any disclosure under this sub-regulation, shall be made when the transactions effected after the prior disclosure cross the threshold specified in clause (a) of sub-regulation (2).

The above disclosures shall be made in such form and such manner as may be specified by SEBI from time to time.

Question : 17

Mr. A, one of the promoters of a listed entity, TechNova Ltd., holds 8 lakh equity shares. On 15th July 2025, he acquires an additional 2.2 lakh shares through market purchase in a single day. He makes a disclosure of the transaction on 25th July 2025 to the company. The Compliance Officer reports this matter to SEBI for possible delay in disclosure under SEBI (Prohibition of Insider Trading) Regulations, 2015.

(5 marks)

Answer:

Provision Of Law :

- The promoter/member of promoter group, director, KMP, shall make an Initial Disclosure within 7 days from the date of their appointment/becoming promoter or member of promoter group.
- Further, they shall make a continual disclosure with respect to the 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.
- The designated person shall also make a continual disclosure with respect to 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

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value as may be specified.

- 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 to notify to the exchange within 2 trading days of receipt of disclosure.

Facts of the Case :

Mr. A, promoter of TechNova Ltd., held 8 lakh shares. On 15 July 2025, he bought 2.2 lakh shares in one day & Disclosure to company made on 25 July 2025 (10 days later).

Conclusion/Analysis :

As per the provisions mentioned above, disclosure by promoter must be made within 2 trading days if transaction value exceeds ₹10 lakh. In the given case, since there is a delay of 8 days which amounts to non-compliance, and shall be liable for penalty.

Question : 18 (June 2025).

You are the Company Secretary of Green Grains Limited, a listed entity. In the last board meeting, one of the Board members wanted to understand the principles of fair disclosure under the SEBI (Prohibition of Insider Trading) Regulation, 2015. Elaborate the requirements under the Codes of Fair Disclosure.

(5 marks)

Answer :

- As per Regulation 8 of the SEBI (Prohibition of Insider Trading) Regulations, 2015, the Principles of Fair Disclosure for purposes of Code of Practices and Procedures for Fair Disclosure of Unpublished Price Sensitive Information as covered in Schedule A to the SEBI (Prohibition of Insider Trading) Regulations 2015, shall be as follows:
 - a) Prompt public disclosure of unpublished price sensitive information that would impact price discovery no sooner than credible and concrete information comes into being in order to make such information generally available,
 - b) Uniform and universal dissemination of unpublished price sensitive information to avoid selective disclosure,
 - c) Designation of a senior officer as a chief investor relations officer to deal with dissemination of information and disclosure of unpublished price sensitive information,
 - d) Prompt dissemination of unpublished price sensitive information that gets disclosed selectively, inadvertently or otherwise to make such information generally available,
 - e) Appropriate and fair response to queries on news reports and requests for verification of market rumours by regulatory authorities,
 - f) Ensuring that information shared with analysts and research personnel is not unpublished price sensitive information,
 - g) Developing best practices to make transcripts or records of proceedings of meetings with analysts and other investor relations conferences on the official website to ensure official confirmation and documentation of disclosures made,
 - h) Handling of all unpublished price sensitive information on a need-to-know basis.

Question : 19 (Dec 2024, Old Syllabus).

SJR company is a listed company, wants to follow the minimum standard of code of conduct, as prescribed under SEBI (Prohibition of Insider Trading) Regulations, 2015. You being the company secretary, state the correctness of the below facts, with respect to the regulation.

- (i) The compliance officer has reported to CEO after one year.
- (ii) The norms and procedures followed by S, a director of the Company, was self-made.
- (iii) The trading window is opened after forty-eight hours, when the information becomes generally available.
- (iv) Designated person is governed by the internal code of conduct governing securities dealing.
- (v) Designated person traded in securities, when trading window was closed.

(5 marks)

Answer:

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In light with the provisions of the SEBI (Prohibition of Insider Trading) Regulations, 2015 relating to Minimum Standards for Code of Conduct for Listed Companies to Regulate, Monitor and Report Trading by Designated Persons, the answer is provided below:

(i) Incorrect. The compliance officer shall report to the board of directors and in particular, shall provide reports to the Chairman of the Audit Committee, if any, or to the Chairman of the board of directors at such frequency as may be stipulated by the board of directors but not less once in year.

(ii) Incorrect. The code of conduct shall contain norms for appropriate Chinese Walls procedures, and processes for permitting any designated person to 'cross the wall'.

(iii) Correct. The timing for re-opening of the trading window shall be determined by the compliance officer taking into account various factors including the unpublished price sensitive information in question becoming generally available and being capable of assimilation by the market, which in any event shall not be earlier than forty-eight hours after the information becomes generally available.

(iv) Correct. Designated persons and immediate relatives of designated persons in the organisation shall be governed by an internal code of conduct governing dealing in securities.

(v) Incorrect. Designated persons and their immediate relatives shall not trade in securities when the trading window is closed.

Question : 20 (Dec 2023, Old Syllabus).

Morgan Care Limited ("MCL") is a public limited company, which has its equity shares listed on both BSE Limited and National Stock Exchange of India Limited. Carlton Price Private Limited ("CPPL") is a part of the promoter group of MCL since it is closely held by certain promoters of MCL. However, currently CPPL neither holds any equity shares in MCL nor has any role in the management of MCL. The 'Promoter and Promoter Group' of MCL collectively hold 65.44% of the total paidup capital of CPPL, as on date. Being a public listed company, MCL has issued a 'Code of practice and procedures for fair disclosure of unpublished price sensitive information ("UPSI") and code of conduct to regulate, monitor and report trading by insiders of MCL in accordance with the SEBI (Prohibition of Insider Trading Regulations), 2015. CPPL now intends to acquire 50,000 equity shares, constituting 0.06% of the paid-up capital of MCL ("Proposed Acquisition"), which is beyond the thresholds stipulated by the board of directors of MCL for trading by designated persons. In view of the above facts, answer the following questions :

- (i) What category of persons are required to obtain a pre-clearance from the compliance officer of a listed entity prior to trading ?
 - (ii) Will CPPL be required to obtain a pre-clearance from the compliance officer of MCL for the Proposed Acquisition ?
 - (iii) Does the compliance officer have discretionary powers under the SEBI (PIT Regulations) to reject a pre-clearance request on any reason it deems fit ?
 - (iv) Is the compliance officer required to consider certain factors while approving or rejecting an application seeking pre-clearance for a proposed transaction ?
 - (v) Is there any provision in the SEBI (PIT Regulations) that provides for the examination of acts of a compliance officer ?
- (1+1+1+1+1=5 marks)

Answer :

When the Trading window is open, trading by designated persons shall be subject to pre-clearance by the Compliance Officer, if the value of the proposed trades is above such thresholds as the board of directors may stipulate.

Further, Regulation 9 of the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations) states that board of directors or such other analogous authority shall in consultation with the compliance officer specify the designated persons to be covered by the code of conduct on the basis of their role and function in the organisation.

(ii) CPPL will be required to obtain a pre-clearance from the compliance officer of MCL for the Proposed Acquisition only if it is designated as a 'designated person' by the board of directors of MCL, in consultation with the compliance officer.

(iii) The compliance officer, under the provisions of the PIT Regulations, is entrusted with ensuring adherence to the PIT Regulations. A compliance officer is not empowered to make any decision based on subjective criteria or reject an application for pre-clearance of a transaction for any ground other than those pertaining to PIT Regulations.

(iv) The compliance officer is required to approve or reject a request for pre-clearance after necessary assessment limited to the PIT Regulations and the Code of Conduct of the company. Clause 8 of Schedule B states that prior to approving any trades, the

compliance officer shall be entitled to seek declarations to the effect that the applicant for pre-clearance is not in possession of any unpublished price sensitive information. He shall also have regard to whether any such declaration is reasonably capable of being rendered inaccurate.

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(v) Regulation 2(1)(c) of the PIT Regulations lays down that the compliance officer acts under the overall supervision of the board of directors of the listed company or the head of the organization, as the case may be. Additionally, Clause 1 of Schedule B of the PIT Regulations also requires the compliance officer to report to the board of directors and provide reports to the Chairman of the audit committee or board of directors at such frequency as may be stipulated by the board of directors, but not less than once in a year.

Hence, any act of the compliance officer may be referred to the board of directors and the audit committee for examination with the extant laws.

Question : 21 (Module Illustration).

Whether Chief Investor Relations Officer (CIRO) will also be responsible along with Compliance Officer for not disseminating information or non-disclosure of UPSI?

Answer :

Regulation 2(c) clearly the functions and provides responsibilities of the compliance officer. Specific responsibilities to deal with dissemination of information and disclosure of UPSI are given to CIRO under clause 30 of Schedule A. It is company's discretion to designate two separate persons as CIRO and compliance officer, respectively for fulfilling specified responsibilities in cases where CIRO and compliance officer have been designated for overlapping functions, they shall be jointly and severally responsible.

Question : 22

What are the responsibilities of a compliance officer under SEBI (PIT) Regulations.
(5 marks)

Answer :

ROLE OF COMPANY SECRETARY AS COMPLIANCE OFFICER

The obligations cast upon the Company Secretary in relation to insider trading regulations are summarized here under. The Company Secretary shall:

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. Receive from every Promoter, designated persons and director, continual disclosures of the number of securities acquired or disposed of and changes therein, even if the value of the securities traded, exceeds Rs. 10 lakh with single or series of transaction in any calendar quarter in prescribed form within two trading days of:
receipt of the disclosure, or from becoming aware of such information. Submit the disclosures received as above to the stock exchanges as applicable.
6. Pre Clear the trade pursuant to the requests received from the designated persons and also monitor trading in accordance with the regulations.
7. Ensure that no trading shall between 20th day prior to closure of financial period and 2nd trading day after disclosure of financial results.

8. Approve the trading plan and after the approval of the trading plan, as compliance officer shall notify the plan to the stock

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exchanges on which the securities are listed.

9. 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.

10. 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.

11. Monitor trades and the implementation of the code of conduct under the overall supervision of the Board of Directors of the listed company.

12. Frame and then monitor adherence to the rules for the preservation of "Price sensitive information".

13. Ensure that proper internal control system is in place and continuously monitor and review of its functioning.

14. Suggest any improvements required in the policies, procedures, etc. to ensure effective implementation of the code.

15. Assist in addressing any clarifications regarding the SEBI (Prohibition of Insider Trading) Regulations, 2015 and the company's code of conduct.

16. Maintain a list of all information termed as 'price sensitive information'.

17. Maintain a record of names of files containing confidential information deemed to be price sensitive information and persons in charge of the same.

18. Ensure that files containing confidential information are kept secured.

19. Keep records of periods specified as 'Close period' and the "Trading window".

20. 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.

21. Receive and maintain records of periodic and annual statement of holdings from directors/officers/designated employees and their dependent family members.

22. Ensure that the "Trading Window" is closed at the time of:

a) Declaration of financial results (quarterly, half-yearly and annual).

b) Declaration of dividends (interim and final).

c) Issue of securities by way of public/right/bonus etc.

d) Any Major expansion plans or execution of new projects.

e) Amalgamation, mergers, takeovers and buy-back.

f) Disposal of whole or substantially whole of the undertaking.

g) Any change in policies, plans or operations of the company.

23. Maintain a structured digital database of name(s) of persons and entities with whom unpublished price sensitive information are shared along with their PAN and other details.

24. Serve due notices to maintain confidentiality for every such person(s) with whom information are shared for legitimate purposes.

25. Educate the employees, board of directors regarding the provisions of the regulations and amendments from time to time

for their better understanding and compliances.

26. Assist the board of directors to undertake enquiry or investigation in case of any suspected violation of the regulation and

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advising on taking appropriate disciplinary actions including transfer of all unlawful gain to the SEBI Investor Protection and Education Fund.

27. Place before the Chief Executive Officer/Partner or a committee notified by the organization/firm, as a Compliance Officer, on a monthly basis all the details of the dealing in the securities by designated employees/directors/partners of the organization/firm.

Question : 23

Explain the concept of "internal controls" under the SEBI (Prohibition of Insider Trading) Regulations, 2015.
(3 marks)

Answer :

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.

Question : 24

What safeguards must be in place to prevent leak or misuse of UPSI under the SEBI (Prohibition of Insider Trading) Regulations, 2015.
(5 marks)

Answer :

Institutional Mechanism for Prevention of Insider trading [Regulation 9A]

- 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 board of directors of every listed company and the board of directors or head(s) of the organisation of intermediaries and fiduciaries shall ensure that the Chief Executive Officer or the Managing Director or such other analogous person ensures compliance with these regulations.
- The Audit Committee of a listed company or other analogous body for intermediary or fiduciary shall review compliance with the provisions of these regulations at least once in a financial year and shall verify that the systems for internal control are adequate and are operating effectively.
- Every listed company shall formulate written policies and procedures for inquiry in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, which shall be approved by board of

directors of the company.

- The listed company shall have a whistle-blower policy and make employees aware of such policy to enable employees to

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report instances of leak of unpublished price sensitive information.

- Every listed company shall formulate written policies and procedures for inquiry in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, which shall be approved by board of directors of the company and accordingly initiate appropriate inquiries on becoming aware of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information and inform the Board promptly of such leaks, inquiries and results of such inquiries.

The listed company shall have a whistle-blower policy and make employees aware of such policy to enable employees to report instances of leak of unpublished price sensitive information.

If an inquiry has been initiated by a listed company in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, the relevant intermediaries and fiduciaries shall co-operate with the listed company in connection with such inquiry conducted by listed company.

CHAPTER : 14 PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET

Question : 1 (June 2024).

Write a short note on : Fraud under SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.
(3 marks)

Answer :

Fraud

As per regulation 2(1)(c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, 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 –

- a) a knowing misrepresentation of the truth or concealment of material fact in order that another person may act to his detriment;
- b) a suggestion as to a fact which is not true by one who does not believe it to be true;
- c) an active concealment of a fact by a person having knowledge or belief of the fact;
- d) a promise made without any intention of performing it;
- e) a representation made in a reckless and careless manner whether it be true or false;
- f) any such act or omission as any other law specifically declares to be fraudulent;
- g) deceptive behaviour by a person depriving another of informed consent or full participation;
- h) a false statement made without reasonable ground for believing it to be true;
- i) 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.

And “fraudulent” shall be construed accordingly;

Nothing contained in this clause shall apply to any general comments made in good faith in regard to–

- (a) the economic policy of the government
- (b) the economic situation of the country
- (c) trends in the securities market or
- (d) any other matter of a like nature whether such comments are made in public or in private.

Question : 2 (Dec 2023).

Sarala Ltd., public limited company is listed in Bombay Stock Exchange. Kamla is the Chief Financial Officer who works on the instruction of the Premlata. CEO of the Company. On the instruction of Premlata, Kamla has dealt in securities trading Kamla indulged in front running by using information received from Premlata for trading in some script and squared off trades along with trades of Premlata for making wrongful gain. Whether the action of Kamla is appropriate? You are also required to mention

the prohibition of certain dealings in securities and manner of service of summons and notices issued by the SEBI under SEBI

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(Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulation, 2003.

(5 marks)

Answer :

On the instruction of Premlata, CEO of the Company, Kamla has dealt in securities trading and indulged in front running by using information received from Premlata for trading in some script and squared off trades along with trades of Premlata for making wrongful gain which is not an appropriate action of Kamla.

Regulation 3 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 lays down the provisions on prohibition of certain dealings in securities. It is provided that no person shall directly or indirectly –

a) buy, sell or otherwise deal in securities in a fraudulent manner;

b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the SEBI Act, 1992 or the rules or the regulations made there under;

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

d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the SEBI Act, 1992 or the rules and the regulations made there under.

Further, Regulation 11A of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 provides the manner of service of summons and notices issued by the SEBI. It is provided that-

(1) A summons or notice issued by the SEBI shall be served on the person through any of the following modes, namely—

(a) by delivering or tendering it to that person or his duly authorised agent; or

(b) by sending it to the person by fax or electronic mail or electronic instant messaging services along with electronic mail or by courier or speed post or registered post.

However, the courier or speed post or registered post shall be sent to the address of his place of residence or his last known place of residence or the place where he carried on, or last carried on, business or personally works, or last worked, for gain, with acknowledgment due.

Further, a summons or notice sent by fax shall bear a note that the same is being sent by fax and in case the document contains annexure, the number of pages being sent shall also be mentioned.

Also, a summons or notice sent through electronic mail or electronic instant messaging services along with electronic mail shall be digitally signed by the competent authority and bouncing of the electronic mail shall not constitute valid service.

(2) In case of failure to serve a summons or notice through any one of the modes as mentioned above, the summons or notice may be affixed on the outer door or some other conspicuous part of the premises in which the person resides or is known to have last resided, or carried on business or personally works, or last worked, for gain and a written report thereof shall be prepared in the presence of two witnesses.

(3) In case of failure to affix the summons or notice on the outer door, the summons or notice shall be published in at least two newspapers, one of which shall be in an English daily newspaper having nationwide circulation and another shall be in a newspaper having wide circulation published in the language of the region where that person was last known to have resided or carried on business or personally worked for gain.

Question : 3 (June 2025).

Elaborate the prohibitions of certain dealings in securities under the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulation, 2003.

(5 marks)

Answer:

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Prohibition of certain dealings in securities [Regulation 3]

Regulation 3 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 deals with the prohibition of certain dealings in securities. It provides, no person shall directly or indirectly:

- a) buy, sell or otherwise deal in securities in a fraudulent manner;
- b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the SEBI Act or the rules or the regulations made there under;
- c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;
- d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the SEBI Act or the rules and the regulations made there under.

Question : 4

Enumerate the activities considered as manipulative, fraudulent, or unfair trade practices in securities markets under the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulation, 2003.
(5 marks)

Answer :

Prohibition of Manipulative, Fraudulent and Unfair Trade Practices [Regulation 4]

- (1) Regulation 4 provides that no person shall indulge in a manipulative fraudulent or an unfair trade practice in securities markets. Any act of diversion, mis-utilisation or siphoning off of assets or earnings of a company whose securities are listed or any concealment of such act or any device, scheme or artifice to manipulate the books of accounts or financial statement of such a company that would directly or indirectly manipulate the price of securities of that company or transactions through mule accounts for indulging in manipulative, fraudulent and unfair trade practice shall be and shall always be deemed to have been considered as manipulative, fraudulent and an unfair trade practice in the securities market.
- (2) 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;

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(h) selling, dealing or pledging of stolen, counterfeit or fraudulently issued securities whether in physical or dematerialized form: Provided that if:-

(i) the person selling, dealing in or pledging stolen, counterfeit or fraudulently issued securities was a holder in due course; or
(ii) the stolen, counterfeit or fraudulently issued securities were previously traded on the market through a bonafide transaction;
(iii) 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 misutilizing 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; an intermediary predating or otherwise falsifying records including contract notes, client instructions, balance of securities statement, client account statements;

(m) 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;

(n) Knowingly planting false or misleading news which may induce sale or purchase of securities;

(o) 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-

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.

(p) 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.

Question : 5

Explain the concept of "mis-selling of securities" under the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulation, 2003. When can it be considered fraudulent?

Answer :

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-

- 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.

Question : 6

Write a short note on Suspension or cancellation of registration under the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulation, 2003.

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Answer :

Suspension or cancellation of registration [Regulation 12]

(1) The SEBI may, without prejudice to any action under the securities laws or directions or circulars issued thereunder, by an order, for reasons to be recorded in writing, in the interests of investors and securities market take the following action against an intermediary:

- (a) issue a warning or censure;
- (b) suspend the registration of the intermediary; or
- (c) cancel of the registration of the intermediary.

However, no final order of suspension or cancellation of an intermediary for violation of these regulations shall be passed unless the procedure specified in the regulations applicable to such intermediary under the SEBI [(Intermediaries) Regulations, 2008] is complied with.

CHAPTER : 15 DELISTING OF EQUITY SHARES

Question : 1

Elucidate the non-applicability of SEBI (Delisting of Equity Shares) Regulations, 2021.
(3 marks)

Answer :

NON-APPLICABILITY

These regulation shall not be applicable to :-

- securities listed and traded on the innovators growth platform of a recognised stock exchange, without making a public issue;
- any delisting of equity shares of a listed entity made pursuant to a resolution plan approved under section 31 of the Insolvency Code, if such plan, –
 - (a) provides for delisting of such share; or
 - (b) provides an exit opportunity to the existing public shareholders at a specified price.
- However, the existing public shareholders shall be provided an exit opportunity at a price which shall not be less than the price, by whatever name called, at which a promoter or any entity belonging to the promoter group or any other shareholder, directly or indirectly, is provided an exit opportunity:
- Further, the details of delisting of such shares along with the justification for exit price in respect of delisting proposed shall be disclosed to the recognized stock exchanges within one day of resolution plan being approved under section 31 of the Insolvency Code.

Question : 2 (Dec 2024, Old Syllabus).

With reference to the SEBI regulations, answer (with reasons), whether a company can delist its equity shares from a recognised stock exchange, having nationwide trading terminals, in the following cases :

- (a) It has completed buy-back of its equity shares three months ago.
 - (b) It has issued preferential shares to its promoters five months ago.
 - (c) It has been listed for five years.
 - (d) It is having Fully Convertible Debentures (FCDs) still outstanding.
- (4 marks)

Answer :

Provision Of Law :

According to Regulation 4 provides that neither any company shall apply for nor any recognised stock exchange shall permit delisting of equity shares of a company:

- Pursuant to Buy-back of equity shares by the company
- Pursuant to Preferential allotment made by the company
- Unless a period of 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 the funds of the company to finance an exit opportunity or an acquisition of shares made pursuant to delisting provided under these regulation.

An acquirer shall not propose delisting of equity shares of a company, if the acquirer had sold equity shares of the company

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during the a period of six months prior to the date of the initial public announcement.

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.

Conclusion/Analysis :

In view of the above:

- (a) The company cannot go in for delisting as only 3 months have elapsed from the date of completion of buy-back.
- (b) The company cannot go in for delisting as only 5 months have elapsed from the date of completion of preferential allotment.
- (c) The company can delist its equity shares as the company has been listed for 5 years.
- (d) The company cannot go in for delisting as the Fully Convertible Debentures (FCDs) of the company are still outstanding

Question : 3

Regulation 5 of SEBI (Delisting of Equity Shares) Regulations, 2021 provides that a company may delist its equity shares from one or more of the recognised stock exchanges on which it is listed without providing an exit opportunity to the public shareholders, if after the proposed delisting, the equity shares remain listed on any recognised stock exchange that has nationwide trading terminals. Comment.

(5 marks)

Answer :

"Voluntary Delisting" means the delisting of equity shares of a company voluntarily on an application made by the company under Chapter III of these regulations. In voluntary delisting, the promoters of the listed company decides on their own to permanently remove its securities from a stock exchange.

Conditions and procedure for delisting where exit opportunity is not required :

Regulation 5 of SEBI (Delisting of Equity Shares) Regulations, 2021 provides that a company may delist its equity shares from one or more of the recognised stock exchanges on which it is listed without providing an exit opportunity to the public shareholders, if after the proposed delisting, the equity shares remain listed on any recognised stock exchange that has nationwide trading terminals. Any company desirous of delisting its equity shares where no exit opportunity is required shall-

- obtain the prior approval of its Board of Directors
- make an application to the relevant recognised stock exchange for delisting its equity shares
- issue a public notice of the proposed delisting in at least one English national newspaper, one Hindi national newspaper with wide circulation in their all India editions and one vernacular newspaper of the region where the relevant stock exchange is located
- disclose the fact of delisting in its first annual report post delisting

An application for delisting shall be disposed of by the recognised stock exchange within a period not exceeding thirty working days from the date of receipt of such application that is complete in all respects

The following details shall be provided in the above mentioned Public notice:

- (a) The names of the recognized stock exchanges from where the equity shares of the company are intended to be delisted.

(b) The reasons for such delisting.

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(c) The fact of continuation of listing of equity shares on recognized stock exchange having nationwide trading terminals.

Question : 4 (June 2024).

HM Ltd is a public company with a paid up capital of 30 crores as per the latest audited balance sheet. The net worth of the company for the year ending 31st March 2023 is 59 crores. The company is listed on Bombay Stock Exchange (BSE) and National Stock Exchange. The Board of Director plans for voluntary delisting from National Stock Exchange.

As a company secretary advise the Board regarding the conditions and procedures for delisting where exit opportunity is not required and conditions and procedures for delisting where exit opportunity is required.

(5 marks)

Answer :

Conditions and procedure for delisting where exit opportunity is not required Regulation 5 of the SEBI (Delisting of Equity Shares) Regulations, 2021 provides that a company may delist its equity shares from one or more of the recognised stock exchanges on which it is listed without providing an exit opportunity to the public shareholders, if after the proposed delisting, the equity shares remain listed on any recognised stock exchange that has nationwide trading terminals.

Any company desirous of delisting its equity shares where no exit opportunity is required shall—

- a) obtain prior approval of its Board of Directors;
- b) make an application to the relevant recognised stock exchange for delisting its equity shares;
- c) issue a public notice of the proposed delisting in at least one English national newspaper, one Hindi national newspaper with wide circulation in their all India editions and one vernacular newspaper of the region where the relevant stock exchange is located;
- d) disclose the fact of delisting in its first annual report post delisting

An application for delisting shall be disposed of by the recognised stock exchange within a period not exceeding thirty working days from the date of receipt of such application that is complete in all respects.

The following details shall be provided in the above-mentioned public notice:

- (a) The names of the recognized stock exchanges from where the equity shares of the company are intended to be delisted.
- (b) The reasons for such delisting.
- (c) The fact of continuation of listing of equity shares on recognized stock exchange having nationwide trading terminals.

Conditions and procedure for delisting where exit opportunity is required Regulation 7 the SEBI (Delisting of Equity Shares) Regulations, 2021 provides that the equity shares of a company may be delisted from all the recognised stock exchanges having nationwide trading terminals on which they are listed, after an exit opportunity has been provided by the acquirer to all the public shareholders holding the equity shares sought to be delisted, in accordance with Chapter IV of these regulations.

● Initial public announcement :

On the date when the acquirer decides to voluntarily delist the equity shares of the company, it shall make an initial public announcement to all the stock exchanges on which the shares of the company are listed and the stock exchanges shall forthwith disseminate the same to the public.

A copy of the initial public announcement shall also be sent to the company at its registered office not later than one working day from the date of the initial public announcement.

● Appointment of the Manager to the offer :

Prior to making an initial public announcement, the acquirer shall appoint a merchant banker registered with SEBI as the Manager to the offer.

- Approval by the Board of Directors :

The company shall obtain the approval of its Board of Directors in respect of the proposal of the acquirer to delist the equity shares of the company, not later than twenty-one days from the date of the initial public announcement.

The Board of Directors of the company, before considering the proposal of delisting, shall appoint a Peer Review Company Secretary and provide the required information to such Company Secretary for carrying out due-diligence.

- Approval by shareholders :

The company shall obtain the approval of the shareholders through a special resolution, not later than forty-five days from the date of obtaining the approval of Board of Directors.

The special resolution shall be acted upon only if the votes cast by the public shareholders in favour of the proposal are at least two times the number of votes cast by the public shareholders against it.

- In-principle approval of the stock exchange :

The company shall make an application to the relevant recognised stock exchange for in-principle approval of the proposed delisting of its equity shares in the Form specified by the recognised stock exchange from time to time, not later than fifteen working days from the date of passing of the special resolution or receipt of any other statutory or regulatory approval, whichever is later.

- Escrow Account :

The acquirer shall open an interest bearing escrow account with a Scheduled Commercial Bank, not later than seven working days from the date of obtaining the shareholders' approval.

- Detailed Public Announcement :

The acquirer shall, within one working day from the date of receipt of in-principle approval for delisting of equity shares from the recognised stock exchange, make a detailed public announcement.

- Dispatch of Letter of Offer :

The acquirer shall dispatch the letter of offer to the public shareholders not later than two working days from the date of the detailed public announcement made.

- Bidding Mechanism :

The bidding period shall start not later than seven working days from the date of the detailed public announcement and shall remain open for five working days.

- Discovered price :

The discovered price shall be determined through the reverse book building process.

- Counter Offer :

In case the discovered price is not acceptable to the acquirer, a counter offer may be made by the acquirer to the public shareholders within two working days of the closure of bidding period.

- Release of shares in case failure of offer :

In case of failure of the delisting offer, the equity shares tendered / offered, shall be released.

- Payment upon success of the offer :

All the public shareholders, whose bids are accepted, shall be paid the discovered price or a higher price, if any, offered by the

acquirer.

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- Final application to the stock exchange after successful delisting :

The acquirer shall make the final application for delisting to the relevant recognised stock exchange within five working days from the date of making the payment to the public shareholders.

Question : 5 (June 2025).

Power Trends Limited, a listed company, wants to go in for voluntary delisting. The company has decided, to come out with an Exit Offer for the public shareholders. As your organisation is a SEBI Registered Merchant Banker, hence the company has appointed your organisation as the 'Manager to the Exit Offer'. Describe the obligations, you will have before making the detailed public announcement.

(5 marks)

Answer :

Obligation of the manager to the offer (Regulation 29)

Under Regulation 29 of the SEBI (Delisting of Equity Shares) Regulations, 2021, before making the detailed public announcement, the obligations of Manager to the Offer are as follows:

the Manager to the offer for delisting of equity shares shall ensure that –

- 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.

Question : 6

Write a short note on Approval by the Board of Directors as per the provisions of the SEBI (Delisting of Equity Shares) Regulations, 2021.

(3 marks)

Answer :

Approval by the Board of Directors (Regulation 10)

The company shall obtain the approval of its Board of Directors in respect of the proposal, not later than twenty one days from the date of the initial public announcement.

The Board of Directors of the company, while considering the proposal for delisting, shall certify that—

- (a) the company is in compliance with the applicable provisions of securities laws;
- (b) the acquirer and its related entities are in compliance with the applicable provisions of securities laws in terms of the Company Secretary including compliance with sub-regulation (5) of regulation 4 of these regulations;

(d) the delisting, in their opinion, is in the interest of the shareholders of the company.

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While communicating the decision of the Board of Directors on the proposal for delisting of equity shares, the company shall also submit to the recognized stock exchanges on which the equity shares of the company are listed, the due - diligence report of the Company Secretary and the audit report as per regulation 76 of the SEBI (Depositories and Participants) Regulations, 2018.

Upon receipt of the above mentioned communication from the company, the stock exchanges shall forthwith disseminate the same to the public.

Question : 7 (Dec 2024, Old Syllabus).

The Board of Directors of the company, before considering the proposal of delisting, shall appoint a Peer Reviewing Company Secretary. What information are to be provided to Company Secretary for carrying out due diligence ?
(4 marks)

Answer :

Appointment of peer review Company Secretary to carry out the Due-Diligence.

The Board of Directors of the company, before considering the proposal of delisting, shall appoint a Peer Review Company Secretary and provide the following information to such Company Secretary for carrying out due-diligence: -

- (a) the details of buying, selling and dealing in the equity shares of the company by the acquirer or its related entities during the period of two years prior to the date of board meeting held to consider the proposal for delisting, including the details of the top twenty five shareholders, for the said period;
- (b) the details of off-market transactions of all the shareholders mentioned in clause (a) for a period of two years;
- (c) any additional information if the Company Secretary is of the opinion that the information provided under clauses (a) and (b) is not sufficient for providing the certification.

After obtaining the information from the Board of Directors of the company, the Company Secretary shall carry out the due-diligence and submit a report to the Board of Directors of the company certifying that the buying, selling and dealing in the equity shares of the company carried out by the acquirer or its related entities and the top twenty five shareholders is in compliance with the applicable provisions of securities laws including these regulations.

Question : 8 (June 2025).

Sun Limited, is a leader in the domestic paper manufacturing industry and also a part of Nifty 50 list of National Stock Exchange. Despite the company is doing its best, the Board of Directors have in-principle decided and are in the process of approving the delisting proposal in the next Board meeting. You being the Compliance Officer, have been advised by the Board for Due-Diligence to be carried out by a Peer Review Company Secretary. Elaborate the relevant provisions relating to this process.
(3 marks)

Answer :

Appointment of peer review Company Secretary to carry out the Due-Diligence.

As per regulation 10 of the SEBI (Delisting of Equity Shares) Regulations, 2021, the Board of Directors of the company, before considering the proposal of delisting, shall appoint a Peer Review Company Secretary and provide the following information to such Company Secretary for carrying out due diligence:

- (a) during the period of two years prior to the date of board meeting held to consider the proposal for delisting, including the details of the top twenty five shareholders, for the said period;
- (b) the details of off-market transactions of all the shareholders mentioned in clause (a) for a period of two years;
- (c) any additional information if the Company Secretary is of the opinion that the information provided under clauses (a) and (b) is not sufficient for providing the certification.

- After obtaining the information from the Board of Directors of the company, the Company Secretary shall carry out the due-diligence and submit a report to the Board of Directors of the company certifying that the buying, selling and dealing in the

equity shares of the company carried out by the acquirer or its related entities and the top twenty five shareholders is in compliance with the applicable provisions of securities laws including these regulations.

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- While communicating the decision of the Board of Directors on the proposal for delisting of equity shares, the company shall also submit to the recognized stock exchanges on which the equity shares of the company are listed, the due -diligence report of the Company Secretary.

Question : 9 (Dec 2023, Old Syllabus).

Tata Aviation Ltd., having nation-wide terminals, is in the process of delisting its equity shares from recognized stock exchange. As per the provision of the delisting regulation, the company is providing exit opportunity to its public shareholder; so the company has got approval from shareholders of the company on 18th March, 2023.

Following details are made available to you by the company :

No. of equity shares outstanding are 43,48,33,000
Shares hold by promoters : 14,87,67,800
Shares hold by public shareholders : 28,60,65,200
Floor price : 90 per shares
Indicative price : 97 per share

You are required to calculate the amount to be deposited at the time of opening Escrow account and mention the date of opening of Escrow account as per the provisions of the SEBI (Delisting of Equity Shares) Regulations, 2021.
(5 marks)

Answer :

Provision Of Law :

In the delisting offer, as per the provisions of the SEBI (Delisting of Equity Shares) Regulations, 2021, the acquirer shall open an interest bearing escrow account with a Scheduled Commercial Bank, not later than seven working days from the date of obtaining the shareholders' approval,

And deposit therein an amount equivalent to twenty five percent of the total consideration, calculated as below :

- in case delisting is proposed through reverse book building process; the total consideration shall be calculated on the basis of the number of equity shares outstanding with the public shareholders multiplied with the floor price or the indicative price, if any given by the acquirer in terms of sub-regulation (4) of regulation 20 of these regulations; whichever is higher,
- in case delisting is proposed through the fixed price process; the total consideration shall be calculated on the basis of the number of equity shares outstanding with the public shareholders multiplied with the fixed delisting price offered by the acquirer.

The acquirer shall enter into a tripartite agreement with the Manager to the offer and the Bank for the purpose of opening the escrow account and shall authorize the Manager to the offer to operate such account.

Calculation/Analysis :

In the given question, Indicative price is higher than floor price.

Hence, Indicative price shall be considered while calculating total consideration.

Therefore, amount to be deposited to the Bank at the time of opening of escrow account is 25% of the total consideration.

$$\begin{aligned} &= 25\% \text{ of } (28,60,65,200 \times ₹ 97) \\ &= ₹ 6,93,70,81,100 \end{aligned}$$

Based on the SEBI (Delisting of Equity Shares) Regulations, 2021 the acquirer is required to open an escrow account not later than seven working days from the date of shareholders' approval.

The shareholders' approval is obtained on 18th March, 2023 and hence, the escrow account must be opened not later than 26th March 2023 (considering Sunday as one holiday and ignoring other holidays as they are not provided in the question).

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GreenTech Ltd., a company listed on both NSE and BSE, is planning to voluntarily delist its equity shares. The promoters, holding 70% stake, want to acquire the remaining 30% shares from the public shareholders. The promoters have decided to initiate the delisting process as per SEBI (Delisting of Equity Shares) Regulations, 2021.

The company made a detailed public announcement regarding the delisting proposal, including the rationale and the indicative price band. Subsequently, GreenTech Ltd. prepared a letter of offer to be sent to all public shareholders containing all material information about the delisting offer, terms, and conditions.

To finalize the acquisition price, the company decided to use a reverse book-building process (bidding/tendering mechanism) to determine the price at which public shareholders are willing to sell their shares.

The promoters intend to acquire a minimum number of shares as prescribed under the regulations to ensure the delisting offer is successful.

There is considerable interest from the public shareholders regarding their right to participate in the delisting process and whether they can accept or reject the offer.

- (a) What should be included in the detailed Public Announcement made by GreenTech Ltd. as part of the delisting process?
 - (b) What are the key components and disclosures that must be included in the Letter of Offer sent to the public shareholders?
 - (c) Explain the bidding/tendering mechanism (reverse book-building process) that GreenTech Ltd. will follow to determine the final offer price.
 - (d) What is the minimum number or percentage of equity shares that the promoters must acquire from the public shareholders for the delisting to be successful?
 - (e) What rights do the public shareholders have to participate in the delisting process? Can they reject the offer, and what happens if the minimum acceptance is not met?
- (2 marks each)

Answer :

A. The detailed public announcement shall contain all material information including the information specified in Schedule I of these regulations and shall not contain any false or misleading statement. The detailed public announcement shall also specify a date, being a day not later than one working day from the date of the detailed public announcement, which shall be the 'specified date' for determining the names of the shareholders to whom the letter of offer shall be sent. The detailed public announcement shall be dated and signed by the acquirer.

B. The acquirer shall dispatch the letter of offer to the public shareholders not later than two working days from the date of the detailed public announcement made. The letter of offer shall be sent to all public shareholders, holding equity shares of the class sought to be delisted, whose names appear on the register of the company or depository as on the date specified in the detailed public announcement.

- A copy of the letter of offer shall also be made available on the websites of the company and the Manager to the offer for the benefit of the public shareholders. The letter of offer shall contain all the disclosures made in the detailed public announcement and such other disclosures as may be necessary for the shareholders to take an informed decision.
- C. In case delisting is proposed through the reverse book building process or through fixed price process, the bidding period or the tendering period, as the case may be, shall begin within seven working days from the date of the detailed public announcement and shall remain open for five working days.
- The acquirer shall facilitate the tendering of shares by the shareholders and settlement of the same, through the stock exchange mechanism as specified by the SEBI.
 - The Manager to the offer shall ensure that the outcome of the reverse book building process or the fixed price process, as the case may be, is announced within two hours of the closure of the bidding period or the tendering period.
 - The acquirer through the Manager to the offer shall, within two working days from the closure of the bidding period or the tendering period, make a public announcement in the same newspapers in which the detailed public announcement under Regulation 15 (1) of these regulations was made, of the success or failure of the fixed price delisting process or the reverse book building process and also disclose the discovered price accepted by acquirer, in the event of success of the reverse book building process.

D. An offer made or a counter offer made by the acquirer, as the case may be, shall be deemed to be successful if,- the post offer promoter shareholding (along with the persons acting in concert with the promoter) taken together with the shares

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accepted through eligible bids at the final price determined, reaches 90% of the total issued shares.

E. The public shareholders holding the equity shares of the company, which are sought to be delisted, shall be entitled to participate in the fixed price process or in the reverse book building process in the manner specified in Schedule II of these regulations.

- The Manager to the issue shall take necessary steps to ensure compliance with the same.
- Any holder of depository receipts issued on the basis of the underlying equity shares and a custodian keeping custody of such equity shares shall not be entitled to participate in the delisting process. However, any holder of depository receipts may participate in the delisting process after converting such depository receipts into equity shares of the company that are proposed to be delisted.

Question : 11

Write a short note on : Floor Price.
(3 marks)

Answer :

Floor Price (Regulation 19A)

The floor price of the equity shares proposed to be delisted through reverse book building process or through fixed price process, as the case may be, shall not be less than the highest of the following:

- volume weighted average price paid or payable for acquisitions by the acquirer along with persons acting in concert, during the 52 weeks immediately preceding the reference date;
- the highest price paid or payable for any acquisition by the acquirer along with persons acting in concert during the 26 weeks immediately preceding the reference date;
- adjusted book value (considering consolidated financials) as determined by an independent registered valuer: Provided that adjusted book value shall not be applicable in case of delisting of Public Sector Undertakings.
- the volume weighted average market price for a period of 60 trading days immediately preceding the reference date on the stock exchange where the maximum trading volume of the equity shares is recorded, provided such shares are frequently traded;
- the price determined by an independent registered valuer taking into account valuation parameters such as the book value, comparable trading multiples and any other customary valuation metrics for valuation of shares of companies in the same industry where the shares are not frequently traded.

Question : 12

Write a short note on : Discovered price.
(3 marks)

Answer :

Discovered price (Regulation 20)

- After fixation of the floor price in terms of Regulation 19A, the discovered price shall be determined through the reverse book building process in the manner specified in Schedule II of these regulations, and shall be disclosed in the detailed public announcement and the letter of offer by the manager of the offer.
- 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 calculated in terms of Regulation 19A.
- The acquirer shall also have the option to revise the indicative price upwards before the start of the bidding period and the same shall be duly disclosed to the shareholders by the manner of the offer.

- The acquirer may, if it deems fit, pay a price higher than the discovered price. In case the discovered price is not acceptable

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to the acquirer, a counter offer may be made by the acquirer to the public shareholders within two working days of the closure of bidding period.

Question : 13 (June 2025).

Write a short note on : Fixed Delisting Price.
(3 marks)

Answer :

- Regulation 20A of the SEBI (Delisting of Equity Shares) Regulations, 2021, deals with the Fixed Delisting Price, under this:

(1) In case the acquirer has proposed delisting through fixed price process; the acquirer shall provide a fixed delisting price which shall be at least 15% more than the floor price calculated in terms of regulation 19A.

(2) The acquirer shall be eligible to undertake delisting through fixed price process only if the shares of the company are frequently traded.

(3) The acquirer shall be bound to accept the equity shares tendered or offered in the delisting offer, if the post-offer shareholding of the acquirer along with the shares tendered by the public shareholders reaches 90% at the fixed delisting price, offered by the acquirer.

Question : 14

XYZ Infra Ltd., a listed company, initiated a voluntary delisting of its equity shares through the reverse book building process. At the end of the bidding period, the acquirer, along with the shares tendered by public shareholders, reached a total holding of 78% of the company's equity share capital. Out of the total public shareholding, 55% was tendered in the process.

The discovered price after bidding was ₹640 per share, whereas the acquirer had given an indicative price of ₹620 per share. The acquirer is unwilling to accept the discovered price and is considering making a counter-offer within the permissible timelines.

As per the Regulation 22 of SEBI (Delisting of Equity Shares) Regulations, 2021, examine whether the acquirer can make a valid counter-offer and determine the minimum price that can be offered in the counter-offer.

(5 marks)

Answer :

Provision Of Law :

- As per the Regulation 22 of SEBI (Delisting of Equity Shares) Regulations, 2021,
- Regulation 22 relating to Option to accept or reject the discovered price or counter offer, sub-regulation (4) and (5) are :
- In case of delisting through reverse book building process; a counter-offer may be made by the acquirer to the public shareholders, provided -
 - i. the post-offer shareholding of the acquirer, along with the shares tendered by public shareholders, is not less than seventy-five percent; and
 - ii. not less than fifty percent of the public shareholding has been tendered.
- The counter-offer in terms of sub-regulation (4) may be made within two working days of the closure of the bidding period and thereafter the acquirer shall ensure compliance with the provisions of these regulations in accordance with the timelines provided in Schedule IV of these regulations.
- The counter offer price shall not be less than the higher of
 - i. volume weighted average price of the shares tendered/offered in the reverse book building process; and

ii. the indicative price, if any, offered by the acquirer.

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- Explanation-If the cumulative shareholding of the acquirer, along with the shares tendered or offered by the public shareholders is less than ninety percent; the volume weighted average price shall be calculated taking into account all the shares tendered or offered and if the cumulative shareholding is equal to or higher than ninety percent, the volume weighted average price shall be calculated taking into account the shares tendered or offered up to ninety percent.”

Conclusion/Analysis :

As per the provisions stated above, the promoter can make a counter offer.

Question : 15 (Dec 2023.Old Syllabus).

(RRR Ltd. is a listed company. It has not satisfied the requirements of listing agreement with the Recognized Stock Exchange. The Stock Exchange decided for compulsory delisting of the securities from the trading platform. In the light of SEBI (Delisting of Equity Shares) Regulations, 2021, answer the following :

- Whether the Stock Exchange can initiate compulsory delisting of shares of the company ?
- Who are the members included in the Panel constituted by the Stock Exchange ?
- What is the timeline stipulated by the Stock Exchange to make representation by the company ?
- In the case of compulsory delisted company, whether the promoter of the company can act as an intermediary in the securities market ?

(4 marks)

Answer :

a) As per the Regulation 32(1) of the SEBI (Delisting of Equity Shares) Regulations, 2021, a Recognized Stock Exchange may by a reasoned order, delist equity shares of a company on any of the grounds prescribed in the rules specified under the Securities Contracts (Regulation) Act, 1956. Provided that no order shall be issued under this sub-regulation unless the company has been given a reasonable opportunity of being heard.

b) The decision regarding the compulsory delisting shall be taken by a panel to be constituted by the recognised stock exchange consisting of:

- Two directors of the recognized stock exchange and among the two one shall be a public representative.
- One representative of an investor association recognized by the SEBI.
- One representative of the Ministry of Corporate Affairs or Registrar of Companies.
- The Executive Director or Secretary of the recognized stock exchange.

c) Before passing an order, the recognised stock exchange shall give a notice in at least one English national newspaper with wide circulation, one Hindi national newspaper with wide circulation in their all India editions and one vernacular newspaper of the region where the relevant recognised stock exchange is located, of the proposed delisting, giving a time period of not less than fifteen working days from the date of such notice, within which representations, if any, may be made to the recognised stock exchange by any person aggrieved by the proposed delisting and shall also display such notice on its trading systems and website.

The recognised stock exchange shall, while passing any order of compulsory delisting, consider the representation, if any, made by the company and also any representation received in response to the notice.

d) Where a company has been compulsorily delisted, the company, its wholtime directors, persons responsible for ensuring compliance with the securities laws, its promoters and the companies which are promoted by any of them shall not act as an intermediary in the securities market for a period of ten years from the date of such delisting.

Question : 16 (Dec 2024).

ABC Ltd. is an auto component manufacturing company, incorporated under the provisions of the Companies Act, 2013. This company is listed on Bombay Stock Exchange. The paid up capital of the company is 400 crore as per the latest audited balance sheet. The company fails to comply with the various requirements set out in the listing agreement within the prescribed time period. The stock exchange orders for the compulsory delisting of the equity shares of ABC Ltd. Being the Company Secretary of ABC Ltd, you are required to advise regarding:

- (i) Public notice before delisting order
 - (ii) Rights of public shareholders
- (2+3=5 marks)

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Answer :

(i) Public notice before delisting order

As per the provisions of Regulation 32(3) of the SEBI (Delisting of Equity Shares) Regulations, 2021, before passing an order, the recognized stock exchange shall give a notice in at least one English national newspaper with wide circulation, one Hindi national newspaper with wide circulation in their all India editions and one vernacular newspaper of the region where the relevant recognized stock exchange is located, of the proposed delisting, giving a time period of not less than fifteen working days from the date of such notice, within which representations, if any, may be made to the recognized stock exchange by any person aggrieved by the proposed delisting and shall also display such notice on its trading systems and website.

(ii) Rights of public shareholders

- As per the provisions of Regulation 33 of the SEBI (Delisting of Equity Shares) Regulations, 2021, where the equity shares of a company are compulsorily delisted by a recognized stock exchange, the recognised stock exchange shall appoint an independent valuer who shall determine the fair value of the delisted equity shares.
- The recognised stock exchange shall form a Panel of expert valuers and from the said Panel, the valuer shall be appointed. The value of the delisted equity shares shall be determined by the valuer as prescribed.
- 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 of 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 specified time.
- However, in case the delay was not attributable to any act or omission of the acquirer or was caused due to the circumstances beyond the control of the acquirer, the SEBI may grant waiver from the payment of such interest.

Question : 17 (Module Question)

The equity Shares of XYZ limited have been delisted from the stock exchange. When can an application be made for listing of such equity shares of XYZ limited?

Answer :

No application for listing shall be made in respect of equity shares of a company which have been delisted under Chapter III (Voluntary Delisting) or under Chapter VI (Exit Opportunity in case delisting of equity shares of a company from all the recognised stock exchanges), for a period of 3 years from the delisting and which have been delisted under Chapter V (Compulsory Delisting), for a period of 10 years from the delisting, except the following: (a) whose equity shares have been delisted pursuant to a resolution plan under section 31 of the Insolvency Code; (b) whose equity shares are listed and traded on the innovators growth platform pursuant to an initial public offer and which is delisted from the said platform; (c) whose equity shares have been delisted in terms of regulation 35 (Delisting of equity shares of small companies).

Question : 18

Hawai Ltd. is public company with a paid-up share capital of Rs.8 crores as per the latest audited balance sheet. The net worth of the company for the year 2020-21 was 22 crores. The company is listed on Bombay Stock Exchange (BSE). The Board plans for the delisting of its Equity Shares from the exchange. As a Company Secretary, advice the Board.

(5 marks)

Answer :

Provision Of Law :

Delisting of equity shares of small companies 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

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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 finalisation 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 seventy five working days mentioned in clause (e).

- The communication made to the public shareholders under clause (c) shall contain justification for the offer price and specifically mention that consent for the proposal would include consent for dispensing with the exit price discovery through reverse book building method.
- The acquirer shall be liable to pay interest at the rate of ten percent per annum to all the shareholders, whose bids have been accepted in the delisting offer, is not paid to all the shareholders within the time specified thereunder.
- However, in case the delay was not attributable to any act or omission of the acquirer or was caused due to the circumstances beyond the control of the acquirer, the SEBI may grant waiver from the payment of such interest.
- The relevant recognised stock exchange may delist such equity shares upon satisfying itself of compliance with this regulation.

Conclusion/Analysis :

In accordance with the provisions stated above, the company may delist its equity shares in compliance with the conditions stated above.

Question : 19

State the special provisions applicable for voluntary delisting of equity shares from the Innovators Growth Platform (IGP) under the SEBI (Delisting of Equity Shares) Regulations, 2021.

(5 marks)

Answer :

Delisting of Equity Shares of Companies Listed on Innovators Growth Platform after making an Initial Public Offer (Regulation 36)

A company whose equity shares are listed and traded on the innovators growth platform pursuant to an initial public offer may be delisted from the innovators growth platform, if –

(a) such delisting is approved by the Board of Directors of the company;

(b) such delisting is approved by the shareholders of the company by a special resolution passed through postal ballot or e-voting, after disclosure of all material facts in the explanatory statement sent to the shareholders in relation to such resolution. However, the special resolution shall be acted upon only if the votes cast by the majority of public shareholders are in favour of such exit proposal;

(c) delisting price is based on a floor price determined in terms of regulation 8 of Takeover Regulations, as may be applicable, and an additional delisting premium justified by the acquirer;

(d) the post offer shareholding of the acquirer along with the persons acting in concert with it, taken together with the shares tendered reaches seventy five per cent of the total issued shares of that class and at least fifty per cent shares of the public shareholders as on date of the board meeting are tendered and accepted; and

(e) the recognised stock exchange, on which its shares are listed, approves of such delisting.

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CHAPTER : 16 BUY BACK OF SECURITIES

Question : 1 (Dec 2024, Old Syllabus).

“One of the objectives of the buy-back is to use additional cash flow available with the company”. Explain the Statement and elucidate the other objectives and factors which influence the buy-back decision of the company.

(5 marks)

Answer :

A buy-back represents a more flexible way of returning surplus cash to its shareholders as it is governed by a process laid down by law, it is carried out through the stock exchange mechanism and is more tax efficient as it does not involve the company to make payment of dividend distribution tax and it has the benefits of long term capital gains. Buy-back leads to reduction in outstanding number of equity shares, which may lead to improvement in earnings per equity share and enhance return on net worth and create long term value for continuing shareholders. In India, while buy-back of securities is not permitted as a treasury option under which the securities may be reissued later, a company can resort to buy back to reduce the number of shares issued and return surplus cash to the shareholders. Objectives of Buy-Back

1. To strategically increase promoters' shareholding subject to compliance with the SEBI (Substantial Acquisition of Shares and Takeovers) 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 shareholders 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;
10. To provide an additional exit route to shareholders when shares are under-valued or are thinly traded. Factors which influence the buy-back decision of the Company The decision to buy-back is also influenced by various other factors relating to the company, such as growth opportunities, capital structure, sourcing of funds, cost of capital and optimum allocation of funds generated.

Question : 2

Zenith Ltd., a listed company, proposes to buy-back 8% of its equity shares. The management intends to acquire these shares directly from two institutional investors through a negotiated private arrangement, with settlement off-market and without using the tender offer or open market route.

Examine the validity of the company's proposal and state the conditions for buy back of securities in light of the provisions of the Companies Act, 2013 and the SEBI (Buy-back of Securities) Regulations, 2018.

(5 marks)

Answer :

Provision Of Law :

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, whichever sets out a lower

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amount.

- All shares or other specified securities for buy-back shall be fully paid-up.
- Note: In respect of the number of equity shares bought back in any financial year, the maximum limit shall be 25% and be construed with respect to the total paid-up equity shares capital of the company in that financial year.
- 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 is lower. 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 is lower, 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.

All the filings to the SEBI shall be made only in electronic mode after being digitally signed by the Company Secretary or the person authorized by the board of the Company.

Facts Of the Case :

Zenith Ltd., a listed company, plans to buy-back 8% shares from two institutional investors through a negotiated private off-market deal.

Conclusion/Analysis :

Such buy-back is prohibited under Regulation 4(v) of SEBI (Buy-back) Regulations, 2018; company must use permitted routes like tender offer or open market.

Question : 3(Dec 2024.Old Syllabus).

Divine Dwellings Ltd. is a listed company and it wants to buy-back its equity shares. Under the provisions of SEBI (Buy-Back of Securities) Regulations, 2018, answer (with reasons) whether the company can proceed to buy-back its equity shares under the following circumstances ?

- (i) The ratio of aggregate of its secured and unsecured debts to the paid-up capital and free reserves is currently 1.8 : 1 and is expected to be 2.05 : 1 after buy-back.
 - (ii) The company intends to raise funds for buy-back by issuing debentures.
- (4 marks)

Answer :

(i) Provision Of Law :

According to the provisions of regulation 4(ii) of the SEBI (Buy-Back of Securities) Regulations, 2018, the ratio of the aggregate of

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secured and unsecured debts owed by the company to the paid-up capital and free reserves after buy-back shall) 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; be less than or equal to 2:1, based on the standalone or 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, the 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.

Conclusion/Analysis :

In the given case, the ratio of aggregate of its secured and unsecured debts to the paid-up capital and free reserves is expected to be 2.05:1 after buy-back, which is higher than the requirements prescribed under the SEBI (Buy-Back of Securities) Regulations, 2018. Hence, the company cannot proceed for buy-back.

(ii) According to regulation 4(ix) of the SEBI (Buy-Back of Securities) Regulations, 2018, a company may buy-back shares or other securities out of its free reserves or the securities premium account or the proceeds of the issue of any shares or other specified securities.

Buy back shall not be made out of the proceeds of an earlier issue of the same kind of shares or same kind of specified securities. In the given situation, the company intends to raise funds for buy-back of equity shares by issuing debentures (other securities). Therefore, the company can proceed for buy-back.

Question : 4 (Module Illustration)

Extract of Balance Sheet of X Ltd consist of:

Equity Share Capital = Rs. 6,00,000 of Rs. 10 each

12% Preference Share Capital = Rs. 1,00,000 of Rs. 100 each

14% Debenture Capital = Rs. 3,00,000 of Rs. 100

What is the maximum equity share capital and number of equity shares that can be bought back?

Answer :

(i) Maximum equity share capital that can be bought back = Rs. 6,00,000 * 25% = Rs. 1,50,000

(ii) Maximum number of equity shares that can be bought back = Rs. 1,50,000/10 = 15,000 equity shares.

Question : 5 (Dec 2024).

Sun & Moon Ltd. is a Mumbai based construction company. The company is listed in National Stock Exchange. The extract of the balance sheet of Sun & Moon Ltd. is as follows:

Equity Share Capital = 10,00,000 of rupees 25 each

12% preference share capital 2,00,000 of rupees 50 each (Series A)

10.5% preference share capital 10,00,000 of rupees 100 each [Series B]

14% debenture capital 4,00,000 of rupees 50 each

(i) What is the maximum equity share capital that can be bought back ?

(ii) What is the maximum number of equity shares that can be bought back ?

(2+3=5 marks)

Answer :

Explanation to regulation 4(i) of the SEBI (Buy-Back of Securities) Regulations, 2018 provides that in respect of the number of equity shares bought back in any financial year, the maximum limit shall be twenty-five per cent and be construed with respect to the total paid-up equity share capital of the company in that financial year.

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(i) Total No. of Equity Shares with Sun & Moon Ltd.

= ₹10,00,000/₹25

= 40000 shares

Maximum number of equity shares that can be bought back by Sun & Moon Ltd. will be:

40000 shares x 25%

= 10000 equity shares

Maximum equity share capital that can be bought back:

10000 equity shares x 25 per share

= 2,50,000

(ii) Total No. of Equity Shares with Sun & Moon Ltd.

= ₹10,00,000/₹25

- 40000 shares

Maximum number of equity shares that can be bought back by Sun & Moon Ltd. will be:

40000 shares x 25%

10000 equity shares.

Question : 6 (Dec 2023, Old Syllabus).

The following information is available from the audited balance sheet of SZ Ltd.

(₹ in lakh)

Equity Share capital (3,000 lakh share of ₹ 10 each) 30,000

Share Premium A/c 3,000

General Reserve 10,000

Secured Loans 40,000

Unsecured Loans 22,000

Compute the maximum limit up to which buy-back is permitted in the financial year 2022-2023.

(7 marks)

Answer :

In accordance with Regulation 4 of the SEBI (Buy-Back of Securities) Regulations, 2018 the maximum limit of any buy-back shall be twenty-five per cent or less of the aggregate of paid-up capital and free reserves of the company, based on the standalone or consolidated financial statements of the company, whichever sets out a lower amount.

In respect of the number of equity shares bought back in any financial year, the maximum limit shall be twenty-five per cent and be construed with respect to the total paid-up equity share capital of the company in that financial year.

Further, Section 68 of the Companies Act, 2013 provides that the buy-back is twenty-five per cent or less of the aggregate of paid-up capital and free reserves of the company. Provided that in respect of the buy-back of equity shares in any financial year, the reference to twenty-five per cent in this clause shall be construed with respect to its total paid-up equity capital in that financial year.

Therefore, the buy-back of equity shares in any financial year should not exceed 25% of its total paid up equity capital in that

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financial year (₹ 30,000 lakh × 25% = ₹ 7,500 Lakh).

Further, Section 68 of the Companies Act, 2013 provides that the ratio of the aggregate of secured and unsecured debts owed by the company after buy-back is not more than twice the paid-up capital and its free reserves.

In case buyback of shares is done out of free reserves and securities premium, a company is required transfer a sum equal to the nominal value of the shares buyback to Capital Redemption Reserve ('CRR').

Thus, shareholders' fund after buyback would also include CRR.

Therefore, X is to be deducted from free reserve as well.

Let the amount of buy-back be

$$\frac{x \text{ (secured + unsecured debts)}}{\text{(paid up capital + Free Reserves)}} \leq 2 \quad \frac{₹ 62000}{[₹ 30000 - x + (₹ 3000 + ₹ 10000 - x)]} \leq 2$$
$$₹ 62000 / (₹ 43000 - 2x) = 2 \quad ₹ 62000 = 86000 - 4x - ₹ 24000 = -4x \quad x = ₹ 6000$$

From the above two situations, the maximum limit upto which buy-back is permitted in the financial year 2022-23 is ₹ 6000 lakhs.

Question : 7 (Module Illustration)

The financial data of a listed company as on 31st March, 2022 are as follows : Authorized equity share capital ` 10 crore (1 crore shares of ` 10 each) Paid-up equity share capital ` 5 crore General reserve ` 3 crore Debenture redemption reserve ` 2 crore. The Board of directors of your company passed resolution by circulation for buy-back of shares to the extent of 9% of the company's paid-up share capital and free reserves. You are required to examine the validity of the proposal with reference to the provisions of the SEBI Regulations.

Answer :

According to the regulation 5 of the SEBI (Buy-back of Securities) Regulations, 2018, the company shall not authorize any buy-back (whether by way of tender offer or from open market or odd lot) unless a special resolution has been passed at a general meeting of the company authorising the buy-back. However, special resolution is not required, where the buy-back is, ten per cent or less of the total paid-up equity capital and free reserves of the company; and such buy-back has been authorised by the board of directors by means of a resolution passed at its meeting. In the given case, the company desired to buy-back of shares to the extent of 9% of paid-up capital and free reserves by way of passing of board resolution through circulation, However, as per above regulations, the board resolution should be passed at its meeting not through circulation. Therefore, with reference to the above stated provisions, the proposal of buy-back is not valid.

Question : 8 (Dec 2023).

(iii) ABC Limited is a listed company. Its financial data as on 31st March, 2022 are as follows :

Authorised equity share capital 20 Crore (2 Crore shares of 10 each)

Paid up equity share capital 10 Crore

General reserve 6 Crore

Debenture redemption reserve 4 Crore

The board of directors of your company passed resolution by circulation for buyback of shares to the extent of 8% of the company's paid-up share capital and free reserves.

- (a) You are required to examine the validity of the proposal with reference to the provisions of the SEBI regulation.
(b) What will be your suggestion if buy back will be of 12% of the company's paid up share capital and free reserves ?
(5 marks)

Answer :

- According to regulation 5 of the SEBI (Buy-back of Securities) Regulations, 2018, the company shall not authorize any buy

back (whether by way of tender offer or from open market) unless a special resolution has been passed at a general meeting of the company authorizing the buy back.

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- However, special resolution is not required, where the buy back is ten percent or less of the total paid up equity capital and free reserves of the company; and such buy back has been authorized by the board of directors by means of a resolution passed at its meeting.

(a) In the given situation, the company desired to buy back of shares to the extent of 8% of paid up capital and free reserves by way of passing of board resolution through circulation. However, as per above regulations and Section 179 of the Companies Act, 2013, the board resolution pertaining to buy-back should be passed at its meeting and not through circulation. Therefore, with reference to above stated provisions, the proposal of buy back is not valid.

(b) In second given case, the buy back is 12% which is more than 10% limit of company's paid-up share capital and free reserves. In this case, buy back must be authorized by special resolution.

Question : 9 (Dec 2024, Old Syllabus).

With reference to SEBI regulations, is it permissible for a company to buy-back of its equity shares in the below situations.

- (a) It had defaulted in repayment of its term loan four years ago, but the default was remedied two years ago.
 (b) It intends to buy-back 5% of its total paid-up equity capital and free reserves by way of board resolution passed in a meeting of the board.
 (4 marks)

Answer :

(a) Regulation 4(x)(c) of the SEBI (Buy-Back of Securities) Regulations, 2018 stipulates that the Company shall not directly or indirectly purchase its own shares or other specified securities 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.

However, the buyback is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist. In the given case, only two years have elapsed since the default has been remedied, the company cannot buy-back its equity shares.

(b) In terms of regulation 5(i)(b) of the SEBI (Buy-Back of Securities) Regulations, 2018, special resolution in general meeting is not required where the buy-back is 10% or less of the total paid-up equity capital and free reserves of the company based on the standalone or consolidated financial statements of the company, whichever sets out a lower amount and such buy-back has been authorised by the board of directors by means of a resolution passed at its meeting of Board.

In the given case, the company intends to buy-back 5% of its total paid-up equity capital and free reserves by way of board resolution passed in a meeting. Hence, the company can proceed for buy-back.

Question : 10

MNO Ltd., a listed company, intends to undertake a buy-back of its equity shares. Its Articles of Association contain a clause authorising buy-back. The Board of Directors, in a meeting held on 1st August 2025, approved the buy-back of 8% of the company's total paid-up equity capital and free reserves through the tender offer route. The resolution specifies the maximum price for buy-back. The company has not defaulted on any repayment obligations.

The Board plans to file the copy of the Board Resolution with SEBI and the stock exchanges on 8th August 2025. It also proposes to complete the buy-back within 18 months from the date of passing the resolution.

- (a) Is a special resolution required for this buy-back? Give reasons.
 (b) Within how many working days must the company file the Board Resolution with SEBI and stock exchanges?
 (c) What is the maximum time limit allowed for completion of buy-back from the date of resolution?
 (d) Is the proposed filing of the Board Resolution on 8th August 2025 in compliance with the regulations?
 (e) State the sources of buy back.

Answer :

- a) A special resolution is required to be passed at a general meeting of the company for such authorisation. No special resolution is required where the buyback is 10% or less of the total paid-up equity capital and free reserves of the company and such

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buy-back has been authorised by the board of directors by means of a resolution passed at its meeting. In the given case, the company is not required to pass a special resolution for proposed buy back.

- b) In case of Special Resolution, a copy of the resolution passed at the general meeting shall be filed with SEBI and the stock exchanges where the shares or other specified securities of the company are listed, within seven working days from the date of passing of the resolution.
- In case of only Board Resolution, a copy of Board Resolution passed in the meeting of the Board of Directors, shall file with SEBI and the stock exchanges, where the shares or other specified securities of the company are listed, within two working days of the date of the passing of the resolution.
- c) Every buy-back shall be completed within a period of one year from the date of passing of the special resolution at general meeting, or the resolution passed by the board of directors of the company, as the case may be.
- d) In case of only Board Resolution, a copy of Board Resolution passed in the meeting of the Board of Directors, shall file with SEBI and the stock exchanges, where the shares or other specified securities of the company are listed, within two working days of the date of the passing of the resolution.
- 2 working days from 1st August 2025 would expire on 3rd August 2025 (assuming 2nd & 4th are working days and excluding weekends/holidays).
- No, filing on 8th August breaches the 2-working-day limit from 1st August.
- e) A Company may buy-back shares or other securities out of :-
 - its free reserves.
 - the securities premium account.
 - the proceeds of the issue of any shares or other specified securities.

Note: Buy-back shall not be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

Question : 11

Write a short note on the confirmation required from the Board of Directors regarding the company's solvency and prospects before a specified meeting.

(3 marks)

Answer :

A confirmation that the Board of Directors has made a full enquiry into the affairs and prospects of the company and that they have formed the opinion:

- (a) that immediately following the date on which the General Meeting or the meeting of the Board of Directors is convened there will be no grounds on which the company could be found unable to pay its debts;
- (b) as regards its prospects for the year immediately following that date that, having regard to their intentions with respect to the management of the company's business during that year and to the amount and character of the financial resources which will in their view be available to the company during that year, the company will be able to meet its liabilities as and when they fall due and will not be rendered insolvent within a period of one year from that date; and
- (c) in forming their opinion for the above purposes, the directors shall take into account the liabilities as if the company were being wound up under the provisions of the Companies Act, 1956 or Companies Act, 2013 or the Insolvency and Bankruptcy Code 2016 (including prospective and contingent liabilities).

Question : 12

Enumerate the disclosures, filing requirements and timelines for public announcement and draft letter of offer for buy back made through tender offer under SEBI (Buy back of Securities) Regulations, 2018.

(5 marks)

Answer:

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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.
- The company shall, simultaneously with the public announcement made, along with the fees specified in Schedule V, file a copy of the public announcement in electronic mode, with the SEBI and the stock exchanges on which its shares or other specified securities are listed.
- The stock exchanges shall forthwith disseminate the public announcement to the public.
- A copy of the public announcement shall be placed on the respective websites of the stock exchange(s), merchant banker and the company.

2. Filing with SEBI

The company shall within two working days from the record date, file the following in electronic mode with the SEBI:

- a) a letter of offer, containing disclosures as specified in Schedule III, through a merchant banker who is not an associate of the company.
- b) a certificate in the form specified by the SEBI, issued by the merchant banker, who is not an associate of the company, certifying that the buyback offer is in compliance of these regulations and that the letter of offer contains the information required under these regulations.
- c) a declaration of solvency in specified form and in a manner provided in sub-section (6) of section 68 of the Companies Act. In case of buy-back through tender offer, no draft letter of offer is required to be filed with the SEBI.

Question : 13

ABC Ltd., a listed company, has announced a buy-back of equity shares through the tender offer route. Mr. S, an eligible public shareholder, did not receive the tender offer letter or the tender form. However, he intends to participate in the buy-back and tender his shares as per SEBI regulations.

Explain the rights of Mr. S to participate in the buy-back and the procedure he must follow to tender his shares despite not receiving the tender offer form as per SEBI (Buy-Back of Securities) Regulations, 2018.
(5 marks)

Answer :

Provision Of Law :

- While making buy-back offer, the company shall announce a record date in the public announcement for the purpose of determining the entitlement and the names of the security holders, who are eligible to participate in the proposed buy-back offer.
- The company shall dispatch the letter of offer along with the tender form to all securities holders which are eligible to participate in the buy-back offer.
- Note: 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.
- 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 date of the opening of the offer shall be not later than four working days from the record date. It shall be remain open

for a period of five working days.

- The company shall provide the facilities for tendering of shares by the shareholders and settlement of the same, through

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the stock exchange mechanism in the manner as provided by the SEBI.

Conclusion/Analysis :

As per the provisions stated above, an eligible public shareholder who has not received the tender offer or tender form can still participate in the buy-back by submitting a valid tender through the company's registrar or the merchant banker, following the prescribed procedure for tendering shares within the buy-back timeline.

Question : 14 (June 2024, Old Syllabus).

Answer the following questions with reference to SEBI (Buy-back of Securities), Regulations, 2018 :

- (a) Under what circumstances, SEBI may relax strict enforcement of Buy-back Regulations ?
(b) Can an unregistered shareholder tender his shares for buy-back ?
(4 marks)

Answer :

(a) SEBI may, in the interest of investors and the securities market, relax the strict enforcement of any requirement of the SEBI (Buy-back of Securities) Regulations, 2018 except the provisions incorporated from the Companies Act, 2013, if SEBI is satisfied that:

- the requirement is procedural in nature; or
 - the requirement may cause undue hardship to investors. For seeking relaxation as above, the company shall file an application with the SEBI, supported by a duly sworn affidavit, giving details and the grounds on which such relaxation has been sought. Further, SEBI may, exempt any person or class of persons from-
- a) the operation of all or
- b) any of the provisions of SEBI (Buy-back of Securities) Regulations, 2018 for a period as may be specified but not exceeding twelve months, for furthering innovation relating to testing new products, processes, services, business models, etc. in live environment of regulatory sandbox in the securities markets.
- Any exemption granted by SEBI shall be subject to the applicant satisfying such conditions as may be specified by SEBI including conditions to be complied with on a continuous basis.
 - Regulatory Sandbox means a live testing environment where new products, processes, services, business models, etc. may be deployed on a limited set of eligible customers for a specified period of time, for furthering innovation in the securities market, subject to such conditions as may be specified by SEBI.

(b) As per the provision of Regulation 9 of the SEBI (Buy-Back of Securities) Regulations, 2018, an unregistered shareholder may also tender his shares for buy-back by submitting the duly executed Transfer Deed for transfer of shares in his name, along with the Offer Form and other relevant documents as required for transfer, if any.

Question : 15 (June 2024, Old Syllabus).

Due to outbreak of war between two countries, the stock prices of a listed IT company falls drastically. The management after due deliberations, decided to offer buy-back of its equity shares amounting to 200 crore. However, the company is not having immediate cash reserves but it is expecting a major deal for sale of surplus assets which will be materialized in near future and money will be available only at the time of final payment for buy-back offer. In light of SEBI (Buy-back of Securities) Regulations, 2018, state with reasons, whether the company is eligible for buy-back.
(5 marks)

Answer :

As per Regulation 9 of the SEBI (Buy-Back of Securities) Regulations, 2018, the company shall, within two working days of the public announcement, as and by way of security for performance of its obligations under the regulations, deposit in an escrow account such sum as specified. The amount in the escrow account shall be deposited in the following manner:

- (i) if the consideration payable does not exceed Rupees 100 crore; 25 per cent of the consideration payable;
- (ii) if the consideration payable exceeds Rupees 100 crore; 25 per cent upto Rupees 100 crore and 10 per cent thereafter.

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In view of the SEBI (Buy-Back of Securities) Regulations, 2018, the company contention that money will be available only at the time of final payment for buy-back offer, will not be in accordance with the requirements under the SEBI (Buy-Back of Securities) Regulations, 2018. In the escrow account money should be deposited within two working days of the public announcement.

Question : 16 (June 2024).

The share price of a listed industrial paint manufacturing company is continuously falling for the last one month, due to rising price of the crude oil, which is the prime raw material for the company's products. The management feels that the product situation will improve in near future. The CEO of the company advised to buy-back its shares, as he considers this as a right time to do so. Advise the management about the approval requirement from Board/ shareholders and opening of escrow account for funding of buy-back offer.
(5 marks)

Answer :

- As per Regulation 5 of the SEBI (Buy-Back of Securities) Regulations, 2018, the company shall not authorise any buy-back unless a special resolution has been passed at a general meeting of the company authorising the buy-back. However, special resolution is not required where the buy-back is, ten per cent or less of the total paid-up equity capital and free reserves of the company, based on the standalone or consolidated financial statements of the company, whichever sets out a lower amount and such buy-back has been authorised by the board of directors by means of a resolution passed at its meeting.
- A company is required to deposit in an escrow account such sum as specified under the SEBI (Buy-Back of Securities) Regulations, 2018.
- In case company buy-back its shares through Tender Offer:
- Regulation 9 of the SEBI (Buy-Back of Securities) Regulations, 2018, stipulates that the company shall, within two working days of the public announcement, as and by way of security for performance of its obligations under the regulations, deposit in an escrow account such sum as specified below.

(i) if the consideration payable does not exceed Rupees 100 crores; 25 per cent of the consideration payable;

(ii) if the consideration payable exceeds Rupees 100 crores; 25 per cent upto Rupees 100 crores and 10 per cent thereafter.

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

- (i) Cash including bank deposits deposited with any scheduled commercial bank, or
- (ii) Bank guarantee issued in favour of the merchant banker by any scheduled commercial bank, or
- (iii) Deposit of frequently traded and freely transferable equity shares or other freely transferable securities, or
- (iv) Government securities, or
- (v) Units of mutual funds invested in gilt funds and overnight schemes, or
- (vi) A combination of above.

Question : 17

PQR Ltd., a listed company, is undertaking a buy-back of its equity shares through the tender offer route. The company has created an escrow account to ensure availability of funds for the buy-back consideration. The escrow account includes:

A cash component maintained in an interest-bearing account. A bank guarantee issued by a scheduled commercial bank in favour of the merchant banker. Approved securities deposited as part of the escrow. A cash deposit with the scheduled

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commercial bank equivalent to 2.5% of the total buy-back amount as security for obligations.

After completion of the buy-back, the company wishes to release the funds, securities, and bank guarantee from the escrow account.

- a) Explain the conditions under which the cash component of the escrow account can be maintained.
 - b) What powers should the company grant to the merchant banker regarding the bank account and bank guarantee?
 - c) What obligations does the merchant banker have concerning the bank guarantee and approved securities in the escrow account?
 - d) Explain the requirement related to the cash deposit of 2.5% in the escrow account when part of the escrow is non-cash.
 - e) What happens to the escrow amount and bank guarantee after completion of the buy-back, and what are the consequences of non-fulfillment of obligations by the company?
- (5 marks)

Answer :

- a) The cash component of the escrow account may be maintained in an interest bearing account, provided that the merchant banker ensures that the funds are available at the time of making payment to shareholders. Where the escrow account consists of deposit with a scheduled commercial bank, the company shall, while opening the account, empower the merchant banker to instruct the bank to make payment the amount lying to the credit of the escrow account, as provided in the regulations.
- b) Where the escrow account consists of a bank guarantee, such bank guarantee shall be in favour of the merchant banker and shall be valid until thirty working days after the expiry of buyback period or until the completion of all obligations under these regulations, whichever is later. The bank guarantee shall not be returned by the merchant banker until the completion of all obligations under the SEBI (Buy-back of Securities) Regulations, 2018.
- c) The company shall, in case the escrow account consists of securities, empower the merchant banker to realise the value of such escrow account by sale or otherwise and if there is any deficit on realisation of the value of the securities, the merchant banker shall be liable to make good any such deficit. In case the escrow account consists of approved securities, these shall not be returned by the merchant banker till completion of all obligations under the regulations.
- d) 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 buyback 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.
- e) On payment of consideration to all the securities holders who have accepted the offer and after completion of all formalities of buy-back, the amount, guarantee and securities in the escrow, if any, shall be released to the company. The SEBI in the interest of the securities holders may in case of nonfulfillment of obligations under the regulations by the company forfeit the escrow account either in full or in part. The amount forfeited may be distributed pro rata amongst the securities holders who accepted the offer and balance, if any, shall be utilised for investor protection.

Question : 18 (June 2024, Old Syllabus).

The Board of Directors of Mystique Enterprises Ltd. wants to buy-back the shares of the company through Book Building procedure. Explain the offer procedure to be followed by the company.

(8 marks)

Answer :

A company may buy-back its shares or other specified securities from its existing securities holders through the book building process. In case Mystique Enterprises Ltd. wants to buy-back the shares of the company through Book Building, the offer procedure for the same is prescribed under Regulation 22B of the SEBI (Buy-Back of Securities) Regulations, 2018, which is as follows:

1. The company making the buy-back offer shall disclose the maximum buy-back price, being the upper end of the price range, as approved by the Board of Directors of the company or its shareholders, as the case may be and the book value of the shares or other specified securities of the company.

2. The company shall publish the offer opening announcement on the date of commencement of the buy-back.
3. In case of frequently traded securities, the lower end of the price range shall not be less than the higher of:

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- the closing price of the securities of the company on the date of the Notice as specified in Schedule- VI to the Regulations; and
- the volume weighted average market price of the shares or other specified securities of the company in the fifteen trading days prior to the date of the intimation of the meeting of the Board of Directors approving the buy-back.

4. In case of infrequently traded securities, the lower end of the price range shall not be less than the price of the securities of the company determined on the basis of the report of a registered valuer.

5. The buy-back price shall depend upon the price discovered through the bids received from the shareholders within the price range.

Question : 19

Explain the Methodology of acceptance of bids under buy back through book building process under SEBI (Buy Back of Securities), 2018.

(3 marks)

Answer :

- Methodology of acceptance of bids
- The buy-back offer shall be kept open for a minimum of two trading days.
- Securities holders can submit bids for any number of shares or other specified securities of the company, not exceeding the total number of securities in the relevant category, at a price within the price range.
- In the event that, the bids are more than the buy-back size:
 - a) The price at which hundred per cent of the buy-back size is reached shall be the buy-back price; and
 - b) shares or other specified securities tendered at or below the buyback price shall be accepted at the buy-back price and in proportion to the size of the bids received.
- In the event that the bids are less than the buy-back size; all the shares or other specified securities tendered shall be accepted at the highest bid price.
- Once the public announcement is made, the buy-back shall not be withdrawn or terminated and bids once placed shall not be withdrawn.

Question : 20

Write a short note on Obligations of Merchant Banker under the SEBI (Buy-Back of Securities) Regulations, 2018.

(5 marks)

Answer :

Obligations of the Company

- 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 and 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 period for the offer made under these regulations except in discharge of subsisting obligations through conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity shares
- However, the relevant details and the potential impact of such subsisting obligations, if any, shall be disclosed in the public announcement.

- 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

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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.
- No public announcement of buy-back shall be made during the pendency of any scheme of amalgamation or compromise or arrangement pursuant to the provisions of the Companies Act, 2013.
- The company shall nominate a compliance officer and investors service centre for compliance with the buy-back 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 where the shares or other specified securities of the company are listed within seven working days of extinguishment and destruction of the certificates.
- The company shall not buy-back the locked-in shares or other specified securities and non-transferable shares or other specified securities till the pendency of the lock-in or till the shares or other specified securities become transferable.
- The company shall within two working days of expiry of buy-back period issue a public advertisement in a national daily, inter alia, disclosing:
 - a) number of shares or other specified securities bought;
 - b) price at which the shares or other specified securities bought;
 - c) total amount invested in the buy-back;
 - d) details of the securities holders from whom shares or other specified securities exceeding one percent of total shares or other specified securities are bought back; and
 - e) the consequent changes in the capital structure and the shareholding pattern after and before the buy-back.
- The company in addition to these regulations shall comply with the provisions of buy-back as contained in the Companies Act and other applicable laws.

Question : 21

Write a short note on Obligations of Merchant Banker under the SEBI (Buy-Back of Securities) Regulations, 2018.
(3 marks)

Answer :

Obligations of the Merchant Banker

- The merchant banker shall ensure that –
- the company is able to implement the offer; I 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;
- 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;

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- 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;
- 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.

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CHAPTER : 17 MUTUAL FUNDS

Question : 1 (Dec 2024, Old Syllabus).

The investment directly made in a particular share may be riskier for general public. To mitigate this risk, to some extent, the investor chooses mutual funds due to its professionalism and management diversification". Comment on the statement and explain the structure and agencies involved in mutual fund. Briefly differentiate the term open- ended and close ended ? (8 marks)

Answer :

- Mutual Funds are a vehicle that collects money from investors to buy securities. These investors have a common objective, and this pool of money is advised by the fund manager who decides how to invest the money.
- With good fund management, the Mutual Fund Manager (or Portfolio Manager) generates returns for the investors, which are passed back to investor. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time.
- The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with SEBI before it can collect funds from public.
- The investors should compare the risks and expected yields after adjustment of tax on various instruments while taking investment decisions. Structure and Agencies involved in Mutual Fund A mutual fund is set up in the form of a trust, which has sponsor, trustees, asset management company and a custodian.
- SEBI prescribes comprehensive set of guidelines in the functioning of a mutual fund through the SEBI (Mutual Funds) Regulations, 1996. These regulations stipulate that a mutual fund must consist of five important entities:

1. Sponsor - Sponsor is the principal body, who brings the capital as per the guideline issued by SEBI to start a mutual fund.
2. Trust & Trustee - Trust is created by sponsor and trustees are appointed to manage the operations of a trust. The trustees' job is to ensure that all the funds are managed as per the defined objective and investors' interest is protected.
3. Asset Management Company (AMC) - Trustee appoints AMC to manage the funds of the investors and, in return, get the fee to manage the fund.
4. Custodian - Custodian job is to the safekeeping of the investors' fund and securities and to ensure that it would be used for intended purpose only.
5. Registrar and Transfer Agent (RTA)- RTAs job is to manage the backend operation of the mutual fund and managing investors' transaction request and other related services.

Difference Between Open Ended and Close Ended Schemes of Mutual Funds

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

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Distinguish between Regular Plan and Direct Plans.
(3 marks)

Answer :

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)

Question : 3 (Dec 2024).

Write short notes on : Asset Management Company
(3 marks)

Answer :

(a) 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.

Question : 4

Explain the structure of a Mutual Fund in India, highlighting the role of Sponsor, Trustee, AMC, and Custodian.
(5 marks)

Answer :

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 :

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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.

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.
- Every custodian should have adequate facilities, sufficient capital and financial strength to manage the custodial services. The SEBI (Custodian of Securities) Regulations, 1996 prescribe the roles and responsibilities of the custodians.
- The roles and responsibilities of the custodians are to administrate and protect the assets of the clients; Open a separate custody account and deposit account in the name of each client; Record assets; and Conduct registration of securities.

Question : 5

State the disclosure requirements of offer documents for Mutual Fund schemes as per SEBI guidelines.
(5 marks)

Answer :

A. Offer Document

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

Two parts:

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.

Key Contents:

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

Key Contents:

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

B. Key Information Memorandum (KIM)

- Essentially a summary of SID & SAI

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- 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

- 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

Question : 6

Define Systematic Investment Plan (SIP) in Mutual Fund.
(3 marks)

Answer :

Systematic Investment Plan (SIP) in Mutual Fund

- Systematic Investment Plan (SIP) is an investment plan (methodology) offered by Mutual Funds wherein one could invest a fixed amount in a mutual fund scheme periodically, at fixed intervals – say once a month, instead of making a lump-sum investment.
- The SIP instalment amount could be as little as Rs.500 per month.
- SIP is similar to a recurring deposit where you deposit a small /fixed amount every month.
- SIP has been gaining popularity among Indian MF investors, as it helps in investing in a disciplined manner.
- Systematic Investment Plans offered by mutual funds are easily the best way to enter the world of investments over the long term.

Question : 7 (June 2024).

Nirav attained the age of 18 years recently. He understands the concept of compounded return, thus started investing in a Systematic Investment Plan (SIP) from his monthly pocket money for an amount of ₹ 5,000 per month at the beginning of every month. The NAV of the scheme at the beginning of each month is given as below :

Month 1 : ₹ 10, Month 2 : ₹ 10.50, Month 3 : ₹ 10.80, Month 4 : ₹ 11.00, Month 5 : ₹ 11.30

The NAV at the end of the 5th month is ₹ 12.10

What will be the value of holding of Nirav the end of 5th month under this SIP plan ?

(5 marks)

Answer :

Calculation of total number of units with Nirav at the end of 5th Month:

Month (1)	Amount Invested (in Rs) (2)	NAV (in Rs) (3)	No. of Units (2/3)
1	5,000	10	500
2	5,000	10.50	476.19
3	5,000	10.80	462.96
4	5,000	11.00	454.55
5	5,000	11.30	442.48
Total			2336.18

Present value of holding = No of units x closing NAV

$$= 2,336.18 \times 12.10$$

$$= ₹ 28,267.78$$

Question : 8 (Dec 2023, Old Syllabus).

Edelweiss Mutual Fund's portfolio related information are as below : Stock No. of Shares Price in (₹) Reliance 1,10,000 1,548.24 Tata 2,57,000 548.65 Suzlon 5,05,000 329.51 Wipro 4,75,000 913.67 Richard 3,20,000 517.29 The fund does not involve borrowed money, but its accrued management fee with the portfolio manager is ₹ 25,00,000. The number of units outstanding is 8,65,63,000. You are required to compute the value of the portfolio and NAV. (5 marks)

Answer :

Stock	No. Of shares	Price in Rs.	Total Price in Rs.
Reliance	1,10,000	1548.24	17,03,06,400
Tata	2,57,000	548.65	14,10,03,050
Suzlon	5,05,000	329.51	16,64,02,550
Wipro	4,75,000	913.67	43,49,93,250
Richard	3,20,000	517.29	16,55,32,800

Value of Portfolio = ₹ 1,07,72,38,050

NAV per unit = (Investment + Recoverable + Accrued Income - Liabilities - Accrued expenses) / No. Of units NAV

$$= ₹ 1,07,72,38,050 - ₹ 25,00,000 / 8,65,63,000$$

$$= ₹ 1,07,47,38,050 / 8,65,63,000 \text{ NAV}$$

$$= ₹ 12.415 \text{ per unit}$$

Question : 9 (Dec 2023).

Consider a mutual fund that manages a portfolio of securities worth 240 million. Suppose the fund owes 8 million to its investment advisors and owes another 2 million for wages, rent and another expenses. The fund has 5 million shares outstanding.

- What do you mean by NAV ?
 - How NAV is calculated ?
 - What was the net asset value of the fund ?
- (2+2+1=5 marks)

Answer :

- 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.

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Mutual funds invest the money collected from investors in securities markets. Since market value of securities changes every day, NAV of a scheme also varies on day-to-day basis.

(ii) 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.

Net Asset Value = Net Asset of the Scheme/ 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

(iii) Net Asset Value = 240 million - 8 million - 2 million / 5 million Shares
= 230 million / 5 million Shares
= 46.

Question :10 (Dec 2024).

(a) Money Plus Ltd. manages a mutual fund. The details of the mutual fund is as follows:

Value of invested securities: 7.5 crore

Cash and cash equivalents: ₹1.5 crore

Accrued income: ₹2.3 crore

Short-term liabilities: ₹10 lakh

Long-term liabilities: ₹1.2 crore

Accrued expense: 5 lakh

Number of units outstanding: 2 crore of ₹1 each

X is holding 50,000 unit of this mutual fund, he got an offer from Y to purchase his entire holding at 110% of the net asset value. Determine the value of transaction that Y will pay to X.

(5 marks)

Answer :

Net Asset Value per unit Net Asset value of the Scheme/Number of outstanding units

Net Asset Value of the Scheme Market value of investments + Receivables + Accrued income + Other Assets-Accrued Expenses - Other Payables - Other Liabilities

Putting these values into the formula:

NAV $(27.5 + ₹1.5 + ₹2.3 - (₹0.1 + ₹1.2 + ₹0.05)) / 2$ NAV $(211.3 - ₹1.35) / 2$ NAV = 4.975 per unit.

Since, X is holding 50,000 units, hence total value of his holding: $4.975 \times 50,000$ units 2,48,750/-

As Y proposed an offer @ 110%,

therefore value of transaction that Y will pay to X will be:

$₹2,48,750/- \times 110\% = ₹2,73,625/-$

Question : 11

Mr. Rohan submits a purchase application for units of an equity mutual fund scheme at 2:30 PM on 10th August. He claims that since the application was submitted before 3:00 PM on 10th August, the NAV of that date should be applicable.

As per SEBI (Mutual Funds) Regulations, 1996 and relevant SEBI circulars on cut-off timings for NAV applicability, examine

whether Mr. Rohan's claim is valid.

Answer :

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Type of Scheme	Transaction type	Cut-off timings
Liquid Funds & Overnight Funds	Subscription (including Switch-in from other schemes)	1:30 p.m.
Liquid Funds & Overnight Funds	Redemption (including Switch-in from other schemes)	3:00 p.m.
All other schemes (other than Liquid Funds / Overnight Funds)	Subscription (including Switch-in from other schemes) Redemption (including Switch-in from other schemes)	3:00 p.m.

As per SEBI Provisions cut-off applicability : ON NAV

For mutual fund purchases (other than liquid/overnight funds), the applicable NAV is determined based on both:

1. The time of application submission (before cut-off), and
2. The date of realization of funds in the AMC's account.

In Mr. Rohan's case, the form was submitted before 3:00 PM on 10th August. Therefore, the NAV of 10th August will apply and Mr. Rohan's claim for 10th August NAV is valid.

Question : 12 (June 2025).

The Expense Ratio of a mutual fund scheme is the cost of running and managing a mutual fund, which is charged to the scheme. What expenses are covered in the Expense Ratio and how does it affect the NAV ?
(5 marks)

Answer :

- Under SEBI (Mutual Funds) Regulations, 1996, Mutual Funds are permitted to incur / charge certain operating expenses for managing a mutual fund scheme such as sales & marketing/ advertising expenses, administrative expenses, transaction costs, investment management fees, registrar fees, custodian fees, audit fees as a percentage of the fund's daily net assets. This is commonly referred to as 'Expense Ratio'.
- This covers the following expense items:
 - a) Fees paid to service providers like trustees, Registrar & Transfer Agents, Custodian, Auditor, etc.
 - b) Asset management expenses,
 - c) Commissions paid to distributors,
 - d) Other selling expenses including advertising expenses,
 - e) Expenses on investor communication, account statements, dividend/ redemption cheques/ warrants,
 - f) Listing fees and Depository fees, or
 - g) Goods & Service tax.
- Expense ratio is the cost of running and managing a mutual fund which is charged to the scheme. All expenses incurred by a Mutual Fund and Asset Management Company will have to be managed within the limits specified under Regulation 52(6) & (6A) of the SEBI (Mutual Funds) Regulations, 1996.

- The expense ratio is calculated as a percentage of the Scheme's average Net Asset Value (NAV). The daily NAV of a mutual fund is disclosed after deducting the expenses.

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- Thus, the expense ratio has a direct bearing on a scheme's NAV – the lower the expense ratio of a scheme, the higher the NAV.

Question : 13 (Module Illustration)

Name of the Scheme XYZ
 Size of the Scheme Rs.100 Lakh
 Face Value of the Share Rs.10
 Number of the outstanding shares 10 Lakhs
 Market value of the fund's investments Receivables Rs.180 Lakhs
 Accrued Income Rs.1 Lakhs
 Receivables Rs.1 Lakh
 Liabilities Rs.50,000
 Accrued expenses Rs.50,000
 Find NAV per unit?

Answer :

NAV per unit = (Investment + Recoverable + Accrued Income – Liabilities – Accrued expenses/No of units (mutual fund))

= (180 Lakhs + 1 Lakh + 1 – 0.50 Lakh – 0.50 Lakh)/10 Lakhs

NAV = Rs.18.10 per unit

Question : 14 (Module Illustration)

ABC mutual Fund has the following assets in scheme XYZ at the close business on 31st March, 2022.

Company	No. of Shares	Market Price Per Share
N Ltd	25000	Rs. 20
D Ltd	35000	Rs. 300
S Ltd	29000	Rs. 380
C Ltd	40000	Rs. 500

The total number of units of scheme XYZ are 10 Lakh. The Scheme XYZ has accrued expenses of Rs. 2,50,000 and other Liabilities of Rs 2,00,000. Calculate the NAV per unit of the scheme XYZ

Answer :

Company	No. of Shares	Market Price Per Share	Value of Assets/ Liabilities
N Ltd	25000	Rs. 20	500000
D Ltd	35000	Rs. 300	10500000
S Ltd	29000	Rs. 380	11020000
C Ltd	40000	Rs. 500	20000000

Accrued Expenses (250000)
 Liabilities (200000)
 Net Assets 41570000
 No. of Units 1000000
 NAV 41.57

Question : 15 (Module Illustration)

The redemption price of mutual fund unit is Rs.48 while the front end load and back end load charges are 2% and 3% respectively.

Compute:

- NAV per unit
- Public offer price of the unit.

Answer:

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Redemption Price = NAV (1+ Back End Load)
48 = NAV (1+0.03)
= 48x1.03
NAV= Rs.49.44.

Public Offer Price = N A V (1- Front End Load)
= 49.44 (1-0.02)
= 49.44 0.98
Public Offer Price = Rs. 50.45

Question : 16 (Dec 2024).

What is the meaning of Holding Period Return? Calculate holding period return for an unit holder who bought a unit at 24.60 and received a dividend of 3 per unit during the period. Face value of the unit is 10 and current unit price is 28.69.
(5.marks)

Answer :

- 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 of asset. It is particularly useful for comparing returns between investments held for different periods of time.

Calculation of Holding Period Return:

$$= \frac{\text{Income (Current Unit Price - Original Value)} \times 100}{\text{Original Value}}$$

Original Value

$$= \frac{3 + (28.69 - ₹24.60)}{₹24.60} \times 100$$

₹24.60

$$= \frac{₹7.09 \times 100}{24.6}$$

$$= 28.82\%$$

Therefore, the holding period return for the unit holder is 28.82%.

Question : 17 (June 2025).

Zebra invested in a mutual fund scheme at a time when its net asset value (NAV) was ` 12.65 per unit. 60 days later, the NAV of the scheme was ` 12.25 per unit. In the meantime, the scheme distributed ` 0.60 per unit as dividend.

- Calculate the holding period return for Zebra.
 - Calculate the annualized return for Zebra.
- (2+3=5 marks)

Answer :

(i) Holding Period Return for Zebra =

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

$$= \frac{₹0.60 + (₹12.25 - ₹12.65)}{₹12.65}$$

$$= 0.0158 \text{ or } 1.58\%$$

(ii) Annualized return for Zebra = Holding Period Returns $\times 365 / 60$ (assuming 365 days in a year)

$$= 1.58\% \times 365 / 60 = 9.61\%$$

Alternate Answer to 5(c) (ii) as per the Applied Mathematics

$$\text{Annualized return for Zebra} = (1 + \text{Absolute Rate of Return})^{(365 / \text{Number of Days})} - 1$$

$$\text{Therefore, Annualized Return for Zebra} = (1 + 0.0158)^{6.0833} - 1$$

$$= (1.0158)^{6.0833} - 1$$

$$= 0.10006 \text{ or } 10.01\%$$

Question : 18 (June 2024, Old Syllabus).

“Investment in securities market involves a number of risks. An investor should analyze and assess the risks.” Explain various risks involved in investing in securities market.

(5 marks)

Answer :

Investment in securities market involves following risks —

- **Market risk or Systematic Risk:** It means that an investor may experience losses due to factors affecting the overall performance of financial markets and general economy of the country.
- **Unsystematic Risk:** Unsystematic risk can be described as the uncertainty attached with a particular company or industry.
- **Inflation risk:** Inflation risk is also called as purchasing power risk. It is defined as the chance that the cash flows from an investment would lose their value in future because of a decline in its purchasing power due to inflation.
- **Liquidity risk:** Liquidity risk arises when an investment cannot be bought or sold quickly enough.
- **Business Risk:** It refers to the risk that a business of a company might be affected or may stop its operations due to any unfavourable operational, market or financial situation.
- **Volatility Risk:** Volatility risk arises as the Companies' stock prices may fluctuate over time.
- **Currency Risk:** It refers to the potential risk of loss from fluctuating foreign exchange rates that an investor may face when he has invested in foreign currency or made foreign currency traded investments.

Therefore, an investor should analyze and assess the above risks while making investment in the securities market.

Question : 19

Define Mutual Fund as per SEBI (Mutual Funds) Regulations, 1996.

(3 marks)

Answer :

“Mutual Fund” means 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,

silver or silver related instruments, real estate assets and such other assets and instruments as may be specified by the Board

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from time to time.

However, infrastructure debt fund schemes may raise monies through private placement of units, subject to conditions specified in these regulations:

Further, mutual fund schemes investing in exchange traded commodity derivatives may hold the underlying goods in case of physical settlement of such contracts.

Question : 20

Sunrise Financial Services, with a financial services business of 4 years and a positive net worth for the last 4 years, proposes to sponsor a new mutual fund. Its current net worth is ₹120 crore, and it plans to contribute ₹100 crore as capital to the Asset Management Company (AMC). The company does not have a net profit in two of the preceding five years.

Sunrise requests SEBI registration as a mutual fund sponsor but is unable to meet the standard eligibility criteria fully. To fulfill SEBI requirements, it proposes to:

Capitalize the AMC with ₹150 crore,

Lock-in its shareholding equivalent to ₹150 crore for five years, and

Appoint experienced personnel with a combined experience of over 30 years across key AMC roles.

Evaluate Sunrise Financial Services' eligibility for registration as a mutual fund sponsor based on SEBI regulations and alternative conditions.

(5 marks)

Answer :

Provision Of Law :

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 business transactions.

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

- (i) be carrying on business in financial services for a period of not less than five years; and
- (ii) ensure that the network is positive in all the immediately preceding five years; and
- (iii) ensure that the positive liquid network 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 positive liquid net worth of the sponsor or funds tied up by the sponsor is to the extent of aggregate par value or market value of the shares proposed to be acquired, whichever is higher; and
- (iv) have net profit after providing for depreciation, interest and tax in each of the immediately preceding five years; and
- (v) have average net annual profit after depreciation, interest and tax during the immediately preceding five years of at least rupees ten crore:

Provided that if the requirements specified under Explanation to clause (a) are not fulfilled, the sponsor shall,-

1. adequately capitalize the asset management company such that 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

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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.

Conclusion/Analysis :

Sunrise Financial Services does not fulfill the standard eligibility criteria as it falls short in years of business, net worth, and profitability requirements. However, by meeting the alternative conditions—capitalizing the AMC with at least ₹150 crore, locking in shareholding for five years, and appointing experienced personnel—it becomes eligible for registration as a mutual fund sponsor under SEBI regulations.

Question : 21

PQR Bank is the sponsor of Alpha Mutual Fund. It holds 12% equity in the Asset Management Company (AMC) of another mutual fund, Beta Mutual Fund, and also has one nominee director on the board of Beta Mutual Fund's AMC.

Separately, Mr. X holds 15% shares in Alpha Mutual Fund's AMC. He recently acquired 12% shares in the trustee company of Gamma Mutual Fund, along with a seat on its board.

PQR Bank argues that the cross-holdings are permissible as the shareholding is below 25% and there is no intention to control management. Mr. X claims that being an individual shareholder, these restrictions do not apply to him.

Examine the compliance status of PQR Bank and Mr. X under the SEBI (Mutual Funds) Regulations, 1996 norms for shareholding and governance in mutual funds.

(5 marks)

Answer :

Provision Of Law :

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 -

(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.

(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, -

(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.

However, in the event of a merger, acquisition, scheme of arrangement or any other arrangement involving the sponsors of the mutual funds, shareholders of the asset management companies or trustee companies, their associates or group companies

which results in the incidental acquisition of shares, voting rights or representation on the board of the asset management companies or trustee companies, this regulation shall be complied with within a period of one year of coming into force of such an arrangement.

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Conclusion/Analysis :

PQR Bank's 12% shareholding and board seat in another mutual fund's AMC violates SEBI norms. Similarly, Mr. X holding over 10% and board representation in two AMCs breaches the rules. Both are non-compliant and must rectify within one year if due to mergers; otherwise, immediately.

Question : 22

ABC Ltd., incorporated in India, applies to be appointed as the Asset Management Company (AMC) for a newly proposed mutual fund. The company has a net worth of ₹45 crore, two of its directors were earlier involved in a financial fraud case, and it has been blacklisted by a foreign securities regulator. The sponsor argues that since the company meets the capital requirement, it should be eligible for appointment as AMC.

Examine whether ABC Ltd. qualifies for appointment as AMC as per the eligibility criteria prescribed under SEBI (Mutual Funds) Regulations, 1996.

(5 marks)

Answer :**Provision Of Law :**

- 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 deployed in assets as specified by the SEBI.
- The networth of Asset Management Company as mentioned above shall be maintained on continuous basis and it shall be responsibility of the sponsor to ensure the same.

Conclusion/Analysis :

Since ABC Ltd. has a net worth of only ₹45 crore (below the prescribed ₹50 crore) and two directors have a history of financial fraud with foreign regulatory blacklisting, it fails to meet the eligibility requirements.

Therefore, ABC Ltd. cannot be appointed as an AMC.

Question : 23 (Dec 2024).

Write short note on : Code of conduct of Mutual Fund
(3 marks)

Answer :

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The code of conduct of mutual fund are as follows:

(i) 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:

(8) It shall ensure the adequate dissemination of adequate, fair, accurate and timely information of all the stake holders:

(ii) The excessive concentration of business with the broking firm or associates should be avoided:

(iv) The scheme-wise segregation of bank accounts and securities accounts must be ensured;

(v) The investment should be made in accordance with the investment objectives stated on the offer documents:

(vi) It must not use any unethical means to sell, market or induce any investor to buy their schemes:

(vii) The high standards of integrity and fairness in all the dealings should be maintained by the trustees and AMCS:

(viii) The AMCs shall not make any exaggerated statements.

Question : 24 (June 2024).

A large mutual fund asset management company holding a portfolio of ₹ 2,000 crore. It has launched a new Multi Cap Fund and wishes to engage Bollywood celebrity to popularize this scheme. Is it permissible under SEBI regulations? Will it make any difference, if the company intends to disseminate the awareness in general about the mutual fund industry?

(5 marks)

Answer :

- The Advertisement Code as specified under Sixth Schedule of the SEBI (Mutual Funds) Regulations, 1996, states that celebrities shall not form part of the advertisement.
- In view of above, the engagement of celebrity for a particular scheme like Multi Cap Fund is not permissible.
- In case the asset management company desires to disseminate the awareness in general about the mutual fund industry, then it is allowed subject to the conditions explained hereunder:
- SEBI vide its Circular reviewed advertisement guidelines for mutual funds. In this respect, it has been decided by SEBI to permit celebrity endorsements at industry level, for the purpose of increasing awareness of Mutual Funds as a financial product category.
- However, such celebrity endorsements of Mutual Funds at industry level, shall be subject to the following conditions:
 - i. Celebrity endorsement shall be allowed only at industry level, for the purpose of increasing awareness of Mutual Funds as a financial product category. Such celebrity endorsements should not promote a scheme of a particular Mutual Fund or be used as a branding exercise of a Mutual Fund house / AMC.
 - ii. Expenses towards such celebrity endorsements for increasing awareness of Mutual Funds shall be limited to the amounts that are aggregated by Mutual Funds at industry level for the purpose of conducting investor education and awareness initiatives, in terms of clause F of SEBI circular dated September 13, 2012.
 - iii. Prior approval of SEBI shall be required for issuance of any endorsement of Mutual Funds as a financial product, which features a celebrity for the purpose of increasing awareness of Mutual Funds.

Question : 25 (June 2025).

Write a short note on : Advertisement code for Mutual Funds
(3 marks)

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Answer :

- Advertisement Code for Mutual Funds The Advertisement Code for Mutual Funds in accordance with the SEBI (Mutual Funds) Regulations, 1996 are as under:
 - i. Advertisement shall be accurate, true, fair, clear, complete, unambiguous and concise.
 - ii. Advertisement shall not contain statements which are false, misleading, biased or deceptive, based on assumptions and shall not contain any testimonials or any ranking based on any criteria.
 - iii. No celebrities shall form part of advertisement,
 - iv. No advertisement shall directly or indirectly discredit other advertisements or make unfair comparisons.
 - v. 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. Advertisements in vernacular language(s) shall contain this standard warning in the vernacular language.
 - vi. 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 example, 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.
 - vii. Advertisement shall not be so designed as likely to be misunderstood or likely to disguise the significance of any statement. Advertisements shall not contain statements which directly or by implication or by omission may mislead the investor.
 - viii. Advertisements shall not carry any slogan that is exaggerated or unwarranted or slogan that is inconsistent with or unrelated to the nature and risk and return profile of the product.
 - ix. Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the investors should be avoided.
 - x. Advertisements shall contain information which is timely and consistent with the disclosures made in the Scheme Information Document, Statement of Additional Information and the Key Information Memorandum.

Question : 26 (Dec 2023).

An investor buy shares in a mutual fund for 400. At the end of the year, the fund distributes a dividend of 11.20 and after the distribution the net asset value of a share is 468.80. What would be the investor's return on the investment ?
(5 marks)

Answer :

$$\text{Return on Investment (ROI)} = \frac{\text{Net Return}}{\text{Cost of Investment}} \times 100$$

$$= \frac{(468.80 + 11.20) - 400}{400} \times 100$$

$$= \frac{80}{400} \times 100$$

$$\text{Return on Investment} = 20\%$$

Question : 27 (Module Question)

What are the avenues available to Indian Mutual Funds for investment abroad?

Answer :

Indian Mutual Funds registered with SEBI are permitted to invest in the following:

(i) ADRs and GDRs;

(ii) Equity of overseas company;

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- (iii) Foreign debt securities;
- (iv) Money market instruments;
- (v) Government securities;
- (vi) Derivative;
- (vi) Short - term deposits;
- (viii) Units issued by overseas mutual funds.

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CHAPTER : 18 COLLECTIVE INVESTMENT SCHEMES

Question : 1

As per SEBI regulations, certain schemes are not considered as Collective Investment Scheme (CIS). What are the schemes that fall outside the definition of CIS?

(5 marks)

Answer :

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

- (i) made or offered by a co-operative society registered under the Co-operative Societies Act, 1912 or a society being a society registered or deemed to be registered under any law relating to co-operative societies for the time being in force in any State;
- (ii) being a contract of insurance to which the Insurance Act, 1938, applies;
- (iii) such other scheme or arrangement which the Central Government may, in consultation with SEBI, notify, shall not be a collective investment scheme.
- (iv) under which deposits are accepted under section 74 of the Companies Act, 2013;
- (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) under which deposits are accepted by non-banking financial companies as defined in clause (f) of section 45-I of the Reserve Bank of India Act, 1934;
- (vii) falling within the meaning of Chit business as defined in clause (d) of section 2 of the Chit Fund Act, 1982;
- (viii) under which contributions made are in the nature of subscription to a mutual fund;
- (ix) providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provisions Act, 1952;

Question : 2

Define a 'Collective Investment Scheme Property' as per the SEBI (CIS) Regulations, 1999.

(3 marks)

Answer :

Collective Investment Scheme Property Collective investment scheme property includes:

- (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 referred to in item (i) or (ii).

Question : 3

What are the restrictions placed on the business activities of a CIMC under the CIS Regulations?

(3 marks)

Answer :

Restrictions on Business Activities :

The Collective Investment Management Company (CIMC) should not:

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- undertake any activity other than that of managing the CIS.
- act as a trustee of any CIS.
- launch any CIS for the purpose of investing in securities.
- invest in any CIS floated by it.

Question : 4

State the eligibility criteria for a Collective Investment Management Company (CIMC) under the SEBI (CIS) Regulations, 1999.
(5 marks)

Answer :

SEBI shall not consider an application for the grant of a certificate unless the applicant satisfies the following conditions, namely:—

- (a) the applicant is set up and registered as a company under the Companies Act;
- (b) the applicant has, in its Memorandum of Association specified the managing of collective investment scheme as one of its main objects;
- (c) the applicant or its promoters should have a sound track record and general reputation of fairness and integrity in all their business transactions.
- (d) the applicant is a fit and proper person for the grant of such certificate;
- (e) the applicant has adequate infrastructure to enable it to operate collective investment scheme in accordance with the provision of these regulations;
- (f) 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;
- (g) 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;
- (h) no person, directly or indirectly connected with the applicant has in the past been refused registration by the Board under the Act.
- (i) 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;
- (j) the Collective Investment Management Company is not a trustee of any collective investment scheme;
- (k) in case the applicant is an existing collective investment scheme, it complies with the provisions of Chapter IX of these regulations.

Question : 5

You are the Compliance Officer of a Collective Investment Management Company (CIMC) registered with SEBI. The Board of Directors of your company did not hold any meeting in the last six months due to ongoing litigation among shareholders. Additionally, a few employees were found to have shared sensitive investment strategy documents of the CIS with an associated entity for potential business collaboration.

SEBI has now issued a show cause notice, alleging multiple violations of regulatory obligations under the CIS framework.

As the Company Secretary, prepare a note analyzing the regulatory obligations of CIMCs in the context of the situation above.

(5 marks)

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Answer :

Provision of Law :

Regulatory Obligations under SEBI (Collective Investment Schemes) Regulations, 1999:

Under the SEBI (CIS) Regulations, a Collective Investment Management Company (CIMC) is subject to several critical regulatory obligations, including:

- be responsible for managing the funds or properties of the CIS on behalf of the unit holders and take all reasonable steps and exercise due diligence to ensure that the CIS is managed in accordance with the provisions of these regulations, the offer document and the trust deed.
- exercise due diligence and care in managing assets and funds of the CIS and also be responsible for the acts of commissions and omissions by its employees or the persons whose services have been availed by it.
- remain liable to the unit holders for its acts of commission or omissions.
- be incompetent to enter into any transaction with or through its associates, or their relatives relating to the CIS.
- appoint registrar and share transfer agents and should also abide by their respective Code of Conducts.
- give receipts for all monies received and report of the receipts and payments to SEBI, on monthly basis.
- hold a meeting of Board of Directors to consider the affairs of CIS, at least twice in every three months and also ensures that its officers or employees do not make improper use of their position or information to gain, directly or indirectly, an advantage for themselves or for any other person or to cause detriment to the CIS.
- obtain adequate insurance against the properties of the CIS and comply with such guidelines, directives, circulars and instructions as may be issued by SEBI from time to time on the subject of Collective Investment Scheme.

Conclusion/Analysis :

The CIMC has violated key regulatory obligations under SEBI (CIS) Regulations.

As the Company Secretary, you should:

- Immediately convene a Board meeting, citing urgency.
- Conduct an internal investigation into the data breach.
- Review and strengthen internal control systems for data confidentiality.
- Submit a detailed reply to SEBI outlining corrective actions and preventive mechanisms.
- Ensure training of employees on regulatory compliance and code of conduct.

Question : 6 (Dec 2023).

Shibu Ltd. and its directors had mobilised funds from investors through different land and plot allotment schemes which satisfied four requirements of a collective investment scheme as defined in section 11AA. It was noticed that these schemes were being carried out without obtaining registration from SEBI under section 12(1B).

- (i) Explain the action to be initiated by SEBI on Shibu Ltd. and its directors.
 - (ii) What are the requirements of section 11AA for CIS under SEBI Act, 1992 ?
 - (iii) What are the provisions for registration and application for grant of certificate under SEBI Act, 1992.
- (5 marks)

Answer :

(i) As per Section 15D of the SEBI Act, 1992, if any person, who is required to obtain a certificate of registration from the SEBI for sponsoring or carrying on any collective investment scheme, sponsors or carries on any collective investment scheme, without obtaining such certificate of registration, he shall be liable to a penalty which shall not be less than one lakh rupees but which

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may extend to one lakh rupees for each day during which he sponsors or carries on any such collective investment scheme subject to a maximum of one crore rupees.

Further, Regulation 65 of the SEBI (Collective Investment Schemes) Regulations, 1999 states that the SEBI may, in the interests of the securities market and the investors give such directions as it deems fit in order to ensure effective observance of these regulations, including directions requiring the person concerned to refund any money or the assets to the concerned investors along with the requisite interest or otherwise, collected under the collective investment scheme.

Therefore, in view of the above-mentioned provisions, Shibu Ltd. and its directors can be directed to refund illegally mobilised funds to investors and penalised with the amount as stated above.

(ii) Requirements of section 11AA for Collective Investment Schemes (CIS) under the SEBI Act, 1992 :

(1) Any scheme or arrangement which satisfies the conditions referred to in sub-section.

(2) or sub-section (2A) of section 11AA of the SEBI Act, 1992 shall be a collective investment scheme. However, any pooling of funds under any scheme or arrangement, which is not registered with the SEBI or is not covered under sub-section (3), involving a corpus amount of one hundred crore rupees or more shall be deemed to be a collective investment scheme.

(2) Any scheme or arrangement made or offered by any person under which,—

(i) the contributions, or payments made by the investors, by whatever name called, are pooled and utilized for the purposes of the scheme or arrangement;

(ii) the contributions 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;

(iii) the property, contribution or investment forming part of scheme or arrangement, whether identifiable or not, is managed on behalf of the investors;

(iv) the investors do not have day-to-day control over the management and operation of the scheme or arrangement. (2A) Any scheme or arrangement made or offered by any person satisfying the conditions as may be specified in accordance with the regulations made under SEBI Act, 1992.

(3) The following scheme or arrangements shall not be Collective Investment Scheme (CIS):

(i) made or offered by a co-operative society registered under the Co-operative Societies Act, 1912 or a society being a society registered or deemed to be registered under any law relating to co-operative societies for the time being in force in any State;

(ii) being a contract of insurance to which the Insurance Act, 1938, applies;

(iii) such other scheme or arrangement which the Central Government may, in consultation with SEBI, notify, shall not be a collective investment scheme.

(iv) under which deposits are accepted under section 74 of the Companies Act, 2013;

(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) under which deposits are accepted by non-banking financial companies as defined in clause (f) of section 45-I of the Reserve Bank of India Act, 1934;

(vii) falling within the meaning of Chit business as defined in clause (d) of section 2 of the Chit Fund Act, 1982;

(viii) under which contributions made are in the nature of subscription to a mutual fund;

(ix) providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provisions Act, 1952;

(iii) Provisions for registration under the SEBI Act, 1992 Section 12 (1B) of the SEBI Act, 1992 states that-

“No person shall sponsor or cause to be sponsored or carry on or caused to be carried on any venture capital funds or collective

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investment schemes including mutual funds, unless he obtains a certificate of registration from the SEBI in accordance with the regulations.”

With this provision, a ban was imposed on a person carrying on any CIS, unless a certificate of registration is obtained in accordance with the regulations framed by SEBI.

Provisions for Application for Grant of Certificate under the SEBI Act, 1992 Regulation 4 of the SEBI (Collective Investment Schemes) Regulations, 1999 provides that any person proposing to carry any activity as a Collective Investment Management Company on or after the commencement of these regulations shall make an application to the SEBI for the grant of registration as specified under these regulations.

Question : 7 (June 2024, Old Syllabus).

Once a Collective Investment Scheme (CIS) is launched, it can also be wind-up upon happening of certain events. State these events and duties of trustee in this regard.

(7 marks)

Answer :

In accordance with the regulation 37 of the SEBI (Collective Investment Schemes) Regulations, 1999, a scheme shall be wound up upon expiry of duration specified in the collective investment scheme or on the accomplishment of the objective of the collective investment scheme as specified in the offer document. A collective investment scheme may also be wound up:

- a) 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
- b) 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 collective investment scheme be wound up and the approval of SEBI is obtained thereto; or
- c) if in the opinion of SEBI, the continuance of the collective investment scheme is prejudicial to the interests of the unit-holders; or
- d) if in the opinion of the Collective Investment Management Company, the purpose of the collective investment scheme cannot be accomplished and it obtains the approval of the trustees and also 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.

Duties of Trustee:

- Where a collective investment scheme is to be wound up, the trustee shall give notice disclosing the circumstances leading the winding up of the collective investment scheme in a daily newspaper having nationwide circulation and in the newspaper published in the language of the region where the Collective Investment Management Company is registered.
- The trustee shall dispose of the assets of the collective investment scheme concerned in the best interest of the unit holders of that collective investment scheme.
- The proceeds of sale realized, should be first utilized towards the discharge of such liabilities as are due and payable under the collective investment scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the unit holders in proportion to their unit holding.
- After the completion of the winding up, the trustee shall forward to SEBI and the unit holders —
 - (a) a report on the steps taken for realization of assets of the collective investment scheme, expenses for winding up and net assets available for distribution to the unit holders, and
 - (b) a certificate from auditors of the collective investment scheme to the effect that all the assets of the collective investment scheme are realized and details of the distribution of the proceeds.

The unclaimed money if any at the time of winding up shall be kept separately in a bank account by the trustee for a period of

three years for the purpose of meeting investors' claims and thereafter shall be transferred to investor protection fund, as may be specified by SEBI.

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Question : 8 (Dec 2024).

Zenith Wealth Management is a leading collective investment management company. dedicated to delivering exceptional financial services. Its focus remains on data-driven strategies and personalized solutions, In this context, explain general provisions of collective investment company in terms of:

- (i) Maintaining proper books of accounts and records, etc.
 - (ii) Dispatch of warrants and proceeds.
- (3+2-5 marks)

Answer :

(i) Regulation 40 of the SEBI (Collective Investment Schemes) Regulations, 1999 provides that:

(a) Every Collective Investment Management Company shall-

- keep and maintain proper books of account, records and documents, for each collective investment scheme so as to explain its transactions and to disclose any point of time the financial position of each collective investment scheme and in particular give a true and fair view of the state of affairs of the collective investment scheme, and
- intimate to the SEBI and the trustees the place where such books of account. records and documents including computer records are maintained.

(b) Every Collective Investment Management Company shall continue to maintain and preserve, for a period of five years after the close of each collective investment scheme, its books of account, records, computer data and documents.

(ii) (Regulation 42 of the SEBI (Collective Investment Schemes) Regulations. 1999 stipulates that the Collective Investment Management Company shall-

(a) Dispatch to the unit holders the warrants within 42 days of the declaration of the interim returns

(b) Dispatch the redemption proceeds within 30 days of the closure or the winding up of the collective investment scheme.

Question : 9 (June 2024).

Write a short note on : Quarterly disclosures by a Collective Investment Management Company.
(3 marks)

Answer :

Quarterly disclosures

Regulation 49 of the SEBI (Collective Investment Schemes) Regulations, 1999 specify the provisions related to quarterly disclosures by a Collective Investment Management Company.

It is prescribed that 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.

However, the quarterly unaudited report shall contain details as specified in the SEBI (Collective Investment Schemes) Regulations, 1999 and such other details as specified in the regulations and as are necessary for the purpose of providing a true and fair view of the operations of the collective investment scheme.

Question : 10 (Dec 2023, Old Syllabus).

Comment on the following in light of SEBI (Collective Investment Schemes) Regulations, 1999 :

- (i) Can a collective investment scheme provide guaranteed returns ?

(ii) What is the offer period for the CIS ?

(iii) State the period for issue of Unit Certificates by a Collective Investment Management Company ? (iv) What is the penal interest payable by the person registered under a Collective Investment Scheme on his failure to refund the amount within the

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specified period to the applicant investor.
(4 marks)

Answer :

(i) The Collective Investment Scheme is prohibited to provide guaranteed assured returns, as per the SEBI (Collective Investment Schemes) Regulations, 1999. However, the indicative return may be indicated in the offer document only, if the same is assessed by the appraising agency and expressed in monetary terms.

(ii) Collective investment scheme shall not be open for subscription for more than fifteen days. However, collective investment scheme may be kept open for subscription for a maximum of another fifteen days subject to issuance of public notice by the Collective Investment Management Company before the expiry of initial fifteen days.

(iii) SEBI (Collective Investment Schemes) (Amendment) Regulations, 2022 had dispensed the requirement of unit certificates. It now requires that the Collective Investment Management Company shall issue to the applicant, whose application has been accepted, the units only in dematerialized form within a period of five working days from the date of closure of the subscription list.

(iv) The Collective Investment Management Company shall refund the application money to the applicants, if the collective investment scheme fails to receive the minimum subscription amount. In the event of failure to refund the amounts within the specified period, the Collective Investment Management Company shall pay interest to the applicants at a rate of 15% per annum on the expiry of five working days from the date of closure of the subscription list.

Question : 11

Rajat Ltd. had launched a scheme named as Malamal scheme. The scheme entailed a onetime payment of 10,000 in lieu of a unit of 10 Teakwood trees with a holding period of 20 years and on maturity, the contributor/investor have an option to get the teak trees or the realised sale proceeds thereof. The scheme was launched by the company for two calendar years. Within such short span of time, the scheme mobilized 2 crore from 2,000 contributors/investors. The scheme was being carried on without obtaining registration from SEBI.

Referring to the SEBI Regulations, answer the following:

- (i) State the provisions under which the registration was required.
- (ii) What are the powers of SEBI in this regard?
- (iii) What should be the minimum duration of the scheme?

(5 marks)

Answer :

(i) Provision of Law :

SEBI (Collective Investment Schemes) Regulations, 1999

Key criteria under Section 11AA(2) for identification of a CIS include :

Any scheme or arrangement made or offered by any person under which, -

(i) the contributions, or payments made by the investors, by whatever name called, are pooled and utilized for the purposes of the scheme or arrangement;

(ii) the contributions 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;

(iii) the property, contribution or investment forming part of scheme or arrangement, whether identifiable or not, is managed on behalf of the investors;

(v) the investors do not have day-to-day control over the management and operation of the scheme or arrangement.

In the present case :

One-time payment of ₹10,000 per unit for 10 Teakwood trees;

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Promise of return after 20 years (either trees or sale proceeds);

Investors have no control over the trees or management;

Hence, the scheme fulfills the CIS criteria.

Conclusion/Analysis :

The scheme launched by Rajat Ltd. qualifies as a Collective Investment Scheme (CIS) under Section 11AA of the SEBI Act, 1992. Therefore, Rajat Ltd. was required to obtain registration under Regulation 3 of SEBI (Collective Investment Schemes) Regulations, 1999, before launching such a scheme.

(ii) Powers of SEBI

Under Section 11, 11B, and 11C of SEBI Act, 1992, SEBI has wide powers, including:

- SEBI can investigate the affairs of Rajat Ltd. and its scheme under Section 11C if there's any suspicion of unregistered CIS.
- SEBI can restrain the company from collecting further funds,
- Direct refund of money to the investors,
- Seize and impound bank accounts or properties if needed.
- Launching or operating a CIS without registration is a violation of SEBI Regulations.
- SEBI can initiate prosecution, levy penalties, and attach properties of the defaulters.
- Under Regulation 38, SEBI may order winding up of the scheme if it is operating illegally.

(iii) As per Regulation 11 of SEBI (Collective Investment Schemes) Regulations, 1999, The minimum tenure of a Collective Investment Scheme shall be 3 years.

In this case, since the scheme had a maturity of 20 years, it satisfies the minimum duration condition.

Question : 12

Sundar Investments Pvt. Ltd. received SEBI approval as a CIMC. Later, it was found that the company also managed a real estate project and provided portfolio management services. An investor complained to SEBI regarding these multiple businesses under the same entity.

- (a) Can a CIMC carry out multiple business activities?
 - (b) What is SEBI's stance on conflict of interest in CIS?
 - (c) Can the registration of CIMC be cancelled for breach of regulations?
 - (d) What are the consequences for violating business restrictions?
 - (e) Is investor grievance redressal part of CIMC's obligations?
- (5 marks)

Answer :

- (a) No, a Collective Investment Management Company (CIMC) must carry out only the activity of managing collective investment schemes.
- (b) SEBI prohibits any activity that may lead to conflict of interest in Collective Investment Schemes.
- (c) Yes, SEBI can cancel CIMC registration for breach of regulations.
- (d) Violation of business restrictions can attract penalties, suspension, or cancellation of registration.

(e) The Collective Investment Management Company shall redress investor grievances promptly but not later than 21 calendar days from the date of receipt of the grievance and in such manner as may be specified by the SEBI. SEBI may also recognize a

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body corporate for handling and monitoring the process of grievance redressal within such time and in such manner as may be specified.

Question : 13

A scheme was launched in 2022 with a term of 5 years. In 2025, due to a drastic fall in market conditions, the CIMC decides to terminate the scheme prematurely. However, it did not obtain the consent of the majority of unit holders or inform SEBI.

- (a) Is CIMC allowed to terminate a scheme before maturity?
 - (b) What are the preconditions for winding up of a scheme?
 - (c) Can the CIMC act unilaterally in such matters?
 - (d) What is the role of SEBI in such premature terminations?
 - (e) What protection is available to investors?
- (5 marks)

Answer :

- a) No, a CIMC cannot terminate a scheme before maturity without following prescribed procedures.
- b) Winding up requires consent of at least 75% unit holders and prior intimation to SEBI.
- c) No, CIMC cannot act unilaterally; it must comply with unit holder approval and SEBI guidelines.
- d) SEBI reviews and oversees the winding-up process to protect investor interests.
- e) Investors are protected through mandatory approval processes, disclosures, and SEBI's supervision.



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