CAPITAL AND COMMODITY MARKETS

5.77 The capital and commodity markets experienced downturn during 2008 against the backdrop of heightened uncertainties triggered by the international financial crisis, slowdown in the global economic growth, volatility in the international food, commodity and fuel prices and also due to volatility in international financial markets.

Capital Market

5.78 The Indian capital market began the year 2008 on a bullish note, with the BSE and NSE indices touching new peaks of 20,873 and 6,288, respectively, on January 8, 2008 but was affected adversely thereafter reflecting the impact of global financial crisis. The movement in equity prices in Indian capital market was in tandem with trends in major international equity markets; the Indian equity market weakened further during September-December 2008, following sharp decline in stock markets across the globe and perceptible shift in investor preferences. Having regard to these trends, the regulatory measures initiated during the year were aimed at ensuring the soundness and stability of the Indian capital market.

Primary Market

5.79 After recording strong growth during 2006 and 2007, the primary capital market received a set

Table 5.11 : Resource mobilization through primary market

(Rs. crore)

	Mode	Calendar Year 2005	2006	2007	2008 (P)
1.	**Debt**	66	389	594	0
2.	**Equity**	30,325	32,672	58,722	49,485
	of which, IPOs	9,918	24,779	33,912	18,393
	Number of IPOs	55	75	100	37
	Mean IPO size	180	330	339	497
3.	**Private placement**	83,812	1,17,407	1,84,855	1,75,061
4.	**Euro issues (ADR/GDR)**	9,788	11,301	33,136	6,271
	Total (1 to 4)	**1,23,991**	**1,61,769**	**2,77,307**	**2,30,877**

Source : SEBI and RBI (for Euro Issues)
P : Provisional

Table 5.12 : Trends in resource mobilization (net) by mutual funds

(Rs. crore)

Sector		Calendar Year				
		2004	2005	2006	2007	2008
1.	UTI	-1,487	1,237	6,426	9,245	-2,704
2.	Public Sector	-1,262	4,446	12,229	8,259	14,587*
3.	Private Sector	7,524	19,735	86,295	1,20,766	12,506
4.	**Total (1 to 3)**	**4,775**	**25,454**	**1,04,950**	**1,38,270**	**-624**

Source : SEBI

*** The name of BoB Mutual Fund was changed to Baroda Pioneer Mutual Fund on August 2008. Since BoB Mutual Fund was in the public sector for 8 months of the calendar year 2008, it is considered as a public sector mutual fund till the period mentioned above.**

back in 2008. The number of new issues declined sharply in 2008. Total amount of capital raised through equity issues during 2008 was Rs. 49,485 crore, recording a decline of 15.7 per cent as compared to the level in 2007. The total number of initial public offerings (IPOs) were only 37 in 2008 as against 100 in 2007. The amount mobilized by IPOs at Rs. 18,393 crore was also lower by 45.8 per cent during 2008. However, the mean IPO size increased from Rs. 339 crore in 2007 to Rs. 497 crore in 2008. There was no debt issue in 2008. Private placement amounted to Rs. 1,75,061 crore in 2008 i.e., lower by 5.3 per cent over 2007 (Table 5.11).

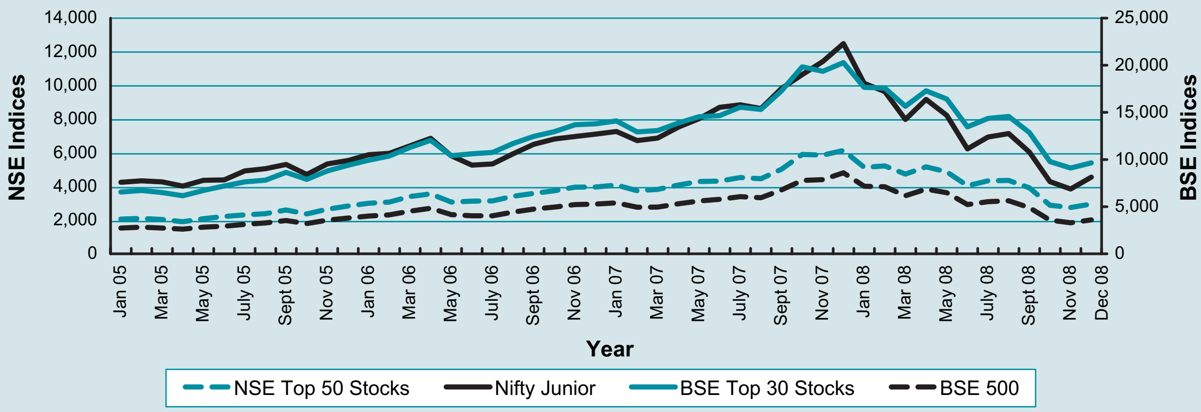
5.80 Reflecting the volatile capital market conditions, the net inflow of saving into mutual funds, which had recorded a steady rise during 2005-07, turned negative in 2008. The private sector mutual funds witnessed heavy redemption pressure in 2008 and recorded a net outflow of Rs. 12,506 crore. The Unit Trust of India (UTI) also recorded net redemption to the extent of Rs. 2,704 crore in 2008, while the public sector mutual funds (other than UTI) mobilized higher amount of Rs. 14,587 crore in 2008. The change reflected changing risk preference of investors towards public sector institutions in times of global financial crisis (Table 5.12).

Secondary market

5.81 In the secondary market segment, the market activity began on a bullish note with BSE and NSE (S&P CNX Nifty) indices scaling new peaks of 20,873 and 6,287on January 8, 2008. However, this momentum could not be sustained and the indices recorded significant downtrend in line with the decline in all the major international indices during the second half of January 2008. In fact, intraday fall of 1,968 points in absolute terms in BSE Sensex on January 21, 2008 was the highest recorded fall in the history of Sensex. Despite intermittent corrections in the stock market, the market sentiment remained bearish due to the rising domestic inflation, increasing oil prices and volatility in international financial markets (in the wake of uncertainties about US sub-prime mortgage market and credit market exposures) and negative portfolio investment flows during February-March 2008. The indices showed some improvement during April 2008 in line with positive cues from the global markets. However, the market sentiment turned cautious towards the end of May 2008 on account of increase in international crude oil prices, downward trend in major international equity markets, increasing concerns about domestic inflation, widening of trade deficit and depreciation of the rupee. The domestic stock markets exhibited an upward trend from mid-July to the first week of September 2008 but weakened thereafter and recorded losses till end-December 2008. This was attributed to volatility in international equity markets, net outflow of funds from domestic capital market by Foreign Institutional Investors (FIIs) and slowdown in domestic activity. During 2008, on a point-to-point basis, BSE Sensex and Nifty indices declined by 51.8 per cent and 52.4 per cent respectively.

5.82 Amongst the NSE indices, both Nifty and Nifty Junior recorded negative annual equity returns (current year-end index divided by previous year-end index multiplied by 100) of 51.8 per cent and 63.5 per cent respectively during the calendar year 2008 (Figure 5.3).

Figure 5.3 : Movement of indices of NSE and BSE



5.83 In terms of month-to-month movement, the NSE indices (Nifty and Nifty Junior) showed improvements during February, April and July-August 2008 and fell steeply during September-December 2008. The same pattern was observed in the movement of BSE Sensex and BSE 500 indices during the year 2008.

5.84 During 2008, the decline in indices was seen across the Asian stock markets, with the SSE Composite Index (Shanghai, China) recording a fall of 65.4 per cent to 1,821 at end-December 2008, while the BSE Sensex was lower by 52.4 per cent to 9,647 at end-December 2008 as against 20,287 at end-December 2007.

5.85 The cumulative change in global indices at end-December 2008 over end-2003 level is in sharp contrast to the earlier years and is presented in Table 5.13.

5.86 Reflecting the bearish trend in the Indian equity markets, the market capitalization of shares traded on BSE and NSE declined sharply in 2008. On a year-on-year basis, the market capitalization which had reached record levels in 2007, dipped in the range of 48.0 per cent to 54.6 per cent at end-December 2008. Market capitalization to GDP ratio improved from 85.5 per cent at end-March 2007 to 156.7 per cent on January 8, 2008 before declining to 109.5 per cent by end-March 2008 and further dipping to 49.7 per cent at the end of March 2009. The market volatility, as measured by the standard deviation of daily volatility of the Indian indices increased significantly in 2008

Table 5.13 : Cumulative change in movement of global indices*

Index	Cumulative change over end-2003 level				
	2004	2005	2006	2007	2008
BSE Sensex, India	13.1	61.0	136.1	247.4	65.2
Hang Seng Index, Hong Kong	13.2	18.3	58.8	121.2	1.1
Jakarta Composite Index, Indonesia	44.5	68.1	161.0	296.8	35.5
Nikkei 225, Japan	7.6	50.9	61.3	43.4	-22.9
Kospi Index, South Korea	10.5	69.7	76.8	133.9	25.6
Kuala Lumpur Comp Index, Malaysia	14.2	13.4	38.0	82.0	-3.3
TSEC Weighted Index, Taiwan	4.2	11.2	32.8	44.4	-25.2
SSE Composite Index, China	-15.4	-22.4	78.7	251.5	43.7

Source : Derived from various country sources.

*** End year closing.**

Table 5.14 : Equity returns, volatility, market capitalization & P/E ratio

Index	Calendar Year			
	2005	2006	2007	2008
Nifty :				
Returns (per cent)	36.34	39.83	54.77	-51.79
End-year market capitalization (Rs. cr.)	13,50,394	19,75,603	35,22,527	18,32,610
Daily volatility *	1.11	1.64	1.60	2.81
End-year P/E	17.07	21.26	27.62	12.97
Nifty Junior :				
Returns (per cent)	24.43	28.24	75.73	-63.52
End-year market capitalization (Rs. cr.)	2,18,575	3,33,693	6,43,625	2,95,471
Daily volatility *	1.22	1.96	1.71	3.15
End-year P/E	17.11	21.78	26.48	8.99
BSE Sensex :				
Returns (per cent)	42.3	46.7	47.2	-52.48
End-year market capitalization (Rs. cr.)	12,13,867	17,58,865	28,61,341	14,63,165
Daily volatility *	1.1	1.6	1.5	2.85
End-year P/E	18.6	22.8	27. 7	12.36
BSE 500 :				
Returns (per cent)	36.6	38.9	63.0	-58.74
End-year market capitalization (Rs. cr.)	22,81,579	33,36,509	64,70,881	29,40,741
Daily volatility *	1.1	1.6	1.5	2.75
End-year P/E	17.5	20.2	29.1	12.4

Source : NSE and BSE.
*** Standard deviation values.**

(Table 5.14). The price-to-earnings (P/E) ratio, which partly discounts future corporate earnings reflecting investors' expectations of corporate profit, declined in all the market segments reflecting the downward trend in stock prices.

5.87 The volatility of weekly returns of Indian indices increased in 2008 and was even higher than that of indices outside India such as S&P 500 of United States of America and Kospi of South Korea (Table 5.15).

5.88 Notwithstanding the sharp correction in the valuation of Indian stocks, the year-end valuation of stocks in terms of P/E ratio of Indian indices at 12.4-12.9 at end-December 2008 was the highest amongst select emerging market economies such as South Korea, Thailand, Malaysia and Taiwan (Table 5.16).

5.89 The price of a security depends largely on demand and supply conditions and is influenced by the impact cost, which represents the cost of executing a transaction in a given security, for a pre-defined order size, at any given point of time. The market liquidity and the impact cost are inversely related. The impact cost for purchase or sale of Nifty Junior portfolio, which had improved between 2004 and 2007, increased to 0.19 per cent in 2008.

Table 5.15 : Volatility of weekly returns on the equity markets (standard deviation)

Class of stocks	Period	
	Jan 2006 Dec 2007	Jan 2007 Dec 2008
India		
Top 50 (Nifty)	2.45	4.30
Next 50 (Nifty Junior)	2.85	4.89
Sensex	3.17	4.57
BSE 500	3.30	4.68
Outside India		
U.S (S&P 500)	1.28	3.83
Korea (Kospi)	2.17	4.19

Source : NSE and BSE

Table 5.16 : P/E ratios in select emerging markets

Index/Market	Mar. 2008	Dec. 2008
South Korea, KOSPI	14.23	10.95
Thailand, SET	16.61	7.26
Indonesia, JCI	16.90	8.26
Malaysia, KLCI	13.65	10.09
Taiwan, TWSE	18.36	9.31
India, BSE Sensex	20.11	12.36
India, S&P CNX Nifty	20.63	12.97

Source : SEBI and Bloomberg Financial Services

Table 5.17 : Equity spot market liquidity: impact cost (%)

Portfolio	Calendar year			
	2005	2006	2007	2008
Nifty :				
NSE impact cost				
at Rs.50 lakh	0.08	0.08	0.08	0.11
Nifty Junior :				
NSE impact cost				
at Rs. 25 lakh	0.16	0.16	0.14	0.19

Source : NSE

It was also higher for the Nifty portfolio at 0.11 per cent in 2008 as compared to the previous years (Table 5.17).

5.90 The turnover in the spot market on the NSE continued its upward trend in 2008, while the BSE spot market turnover registered a decline of 6.4 per cent. However, the turnover in the derivatives market on NSE and BSE were lower by 2.4 per cent and 65.8 per cent respectively in 2008 (Table 5.18).

5.91 The spot market turnover (one-way) for NSE and BSE amounted to Rs. 45,12,563 crore (Rs. 45,08,709 crore in 2007). The turnover in the derivatives segment for NSE and BSE, taken together, was marginally lower at Rs. 1,17,29,553 crore during 2008. The turnover in NSE spot and derivative markets, as a proportion of market capitalization of Nifty was 173.9 per cent and 635 per cent respectively. The turnover in BSE spot and derivatives was 45 and 3 per cent respectively of market capitalization of BSE (500) Index.

5.92 The institutional players, viz., FIIs and mutual funds, de-leveraged their activity in the equity market during 2008. The net investment by FIIs in spot market recorded an outflow during 2008 as against an inflow of Rs. 80,915 crore in 2007 (Table 5.19). The number of registered FIIs rose to 1,591 at the end of 2008 from 1,219 at the end of 2007. The number of sub-accounts also increased to 4,864 from 3,644 over the same period.

Table 5.18 : Market turnover

(Rs. crore)

Market	Calendar year			
	2005	2006	2007	2008
NSE Spot	18,88,112	19,16,227	30,93,982	31,88,510
BSE Spot	7,01,025	9,61,653	14,14,727	13,24,053
NSE Derivatives	39,26,843	70,46,665	1,19,40,877	1,16,54,375
BSE Derivatives	1,965	18,071	2,19,824	75,178

Source: NSE and BSE

Table 5.19 : Transactions of FIIs

(Rs. crore)

Transactions	Calendar year		
	2006	2007	2008
End-year number of FIIs	1,044	1,219	1,591
End-year number of sub-accounts	3,045	3,644	4,864
1. Equity market activity			
Spot			
Gross buy	4,75,623	8,14,877	7,21,607
Gross sell	4,39,083	7,43,391	7,74,594
Net (Gross buy-Gross sell)	36,540	71,486	-52,987
2. Debt			
Gross buy	11,061	31,418	48,020
Gross sell	7,012	21,990	36,248
Net (Gross buy-Gross sell)	4,049	9,428	11,772
3. Total FII Investment (1+2)			
Gross buy	4,86,683	8,46,295	7,69,625
Gross sell	4,46,095	7,65,380	8,10,841
Net (Gross buy-Gross sell)	40,589	80,915	-41,216

Source : SEBI

5.93 Assets under management of mutual funds declined sharply from Rs. 5,49,936 crore at the end of 2007 to Rs. 4,13,365 crore at the end of 2008. A perceptible shift was noticed from growth-oriented schemes to income/debt oriented schemes. Assets under income-oriented schemes in 2008 were almost at their previous year's level and accounted for 47.7 per cent of total assets under management at the end of 2008. Assets under growth-oriented schemes were only Rs. 99,081 crore at end-December 2008 as against Rs. 1,92,129 crore at end-December 2007. The decline in assets was seen across the schemes; the exceptions being Gilt and Gold ETF Schemes, which showed larger assets under management in 2008 (Table 5.20).

Debt market

5.94 Indian debt market has two segments, viz., Government securities market and corporate debt market.

Government securities market

5.95 The fresh issuance of Government of India (GoI) dated securities in 2008 amounted to Rs.1,76,000 crore as against Rs. 1,62,000 crore in 2007. The outstanding dated securities of the GoI increased from Rs. 13,17,133 crore at end-December 2007 to Rs. 14,16,443 crore at end-December 2008. Yields on securities showed large intra-year variations in 2008 as compared with the previous year. The range of yield-to-maturity (YTM) on one-year bond (fresh issuance) widened from 6.27-7.90 per cent in 2007 to 5.02-9.40 per cent in 2008. The range of YTM on 10-year bonds also widened to 5.61-9.54 per cent in 2008 from 7.49-8.35 per cent in 2007.

5.96 A liquid and well developed secondary market for government securities is crucial for effective management of government debt. The volume of secondary market transactions (outright) in government securities has improved, with the turnover ratio (volume of transactions as a ratio of end-period stock) increasing to 1.4 in the calendar year 2008, compared to 0.8 in 2007.

5.97 In the secondary market, the yield on dated government securities tracked the policy rate hikes during the first half of 2008 and the 10-year and 30-year yields touched their highest levels by the end of July 2008. In the second half, following the policy measures announced by the Reserve Bank, the liquidity in the system increased; the secondary market yields mirrored the impact of the emerging liquidity conditions. However, during January-March 2009, the secondary market yields edged up, attributable to higher level of borrowing of the Government of India.

Table 5.20 : Assets under management of mutual funds

(Rs. crore)

Schemes	At the end of			
	2005	2006	2007	2008
Money market	64,711 (32.5)	97,757 (30.2)	1,12,349 (20.4)	82,776 (20.0)
Gilt	3,730 (1.9)	2,057 (0.6)	1,975 (0.4)	6,368 (1.50)
Income	52,903 (26.6)	86,349 (26.7)	1,97,342 (35.9)	1,97,132 (47.69)
Growth	67,144 (33.7)	1,19,539 (36.9)	1,92,129 (34.9)	99,081 (23.97)
Balanced	6,833 (3.4)	9,170 (2.8)	19,938 (3.6)	11,349 (2.75)
ELSS	3,927 (2.0)	8,725 (2.7)	19,063 (3.5)	11,577 (2.80)
Gold ETF	NA	NA	467 (0.1)	734 (0.18)
Other ETFs	NA	NA	6,674 (1.2)	1,761 (0.43)
FoF investing overseas				2,588 (0.63)
Total	**1,99,248**	**3,23,598**	**5,49,936**	**4,13,365**

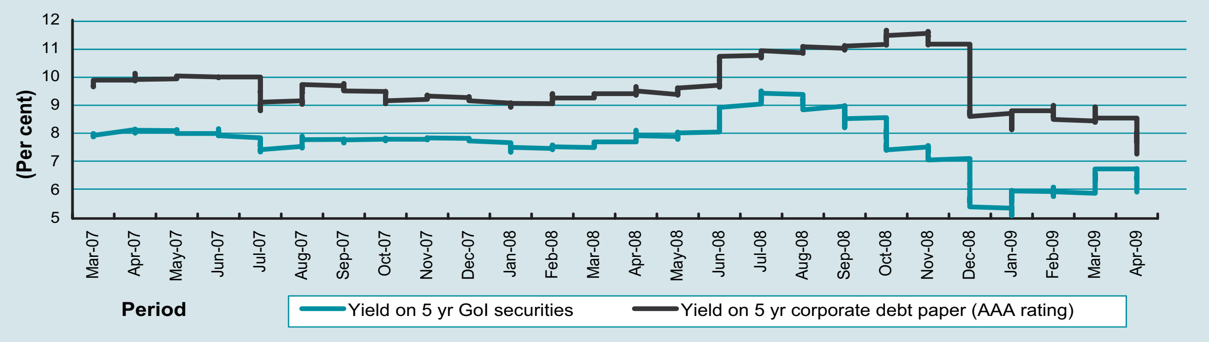
Source : SEBI

Corporate debt market

5.98 In pursuance of the guidelines of the High Level Expert Committee on Corporate Bonds and Securitisation (December 2005) and the subsequent announcement made in the Union Budget 2006-07, SEBI authorised BSE (January 2007), NSE (March 2007) and Fixed Income Money Market and Derivatives Association of India (FIMMDA) (August 2007) to set up and maintain corporate bond reporting platforms for capturing all information related to trading in corporate bonds as accurately as possible. In the second phase of development, BSE and NSE put in place corporate bonds trading platforms in July 2007 to enable efficient price discovery in the market. Reflecting these developments, trading in corporate bonds increased significantly in terms of number of trades and amount in 2008-09; the increase in terms of amount was from Rs. 96,119 crore in 2007-08 to Rs. 1,48,747 crore in 2008-09.

5.99 The yield on corporate debt paper (with AAA rating) for five-year maturity ranged between 8.13

Figure 5.4 : Yield on 5 year GoI securities and corporate debt paper



per cent and 11.64 per cent during 2008-09.The spread between yield on five-year GoI bonds and Indian corporate debt paper (AAA rating) with five-year maturity, which had moved in a range of 133-223 basis points between April-August 2008, widened thereafter to reach as high as 416 basis points in November 2008, which reflected tight liquidity conditions in the market. However, it narrowed down from December 2008 and was around 200 basis points by the end of March 2009 (Figure 5.4).

Currency derivatives

5.100 RBI and SEBI had jointly constituted a Standing Technical Committee to analyze the Currency Forward and Future market around the world and lay down the guidelines to introduce Exchange Traded Currency Futures in the Indian market. The Committee submitted its report on May 29, 2008 and the operational guidelines were issued on August 6, 2008. The underlying idea was to facilitate transparency and efficiency in price discovery, eliminate counterparty credit risk, provide access to all types of market participants, standardise products and provide transparent trading platform. Trading in the currency futures segment commenced at NSE in August 2008. Later, BSE and Multi Commodity Exchange of India Ltd. (MCX) were also given permission to trade in currency derivatives. The number of contracts and traded value in the currency futures have increased considerably. During August-March 2008-09, as many as 327.39 lakh currency derivative contracts were traded at NSE. Total traded value of the contracts during the same period was Rs. 1,62,563 crore. The average daily trading value has shown an increase from month-to-month (Table 5.21).

Table 5.21 : Currency futures segment at NSE

Month/Year	No. of contracts traded	Trading value (Rs. crore)	Average daily trading value (Rs. crore)	Open interest at the end of the month	
				No. of contracts	Trading value (Rs. crore)
August 2008	65,798	291		16,332	72
September 2008	12,58,099	5,763	262	90,871	428
October 2008	22,75,261	11,142	557	1,70,202	851
November 2008	32,33,679	15,969	887	1,46,262	737
December 2008	46,81,593	22,840	1,088	1,77,520	861
January 2009	49,00,904	23,980	1,199	2,54,797	1,247
February 2009	64,16,059	31,761	1,672	3,15,317	1,612
March 2009	99,07,173	50,817	2,675	2,57,554	1,313
August-March 2008-09	**3,27,38,566**	**1,62,563**		**2,57,554**	**1,313**

Source : SEBI

Policy Developments

5.101 Some of the salient policy initiatives relating to the capital market taken during the year 2008 were:

I. Primary Market

The amendments made to the SEBI Disclosure and Investment Protection (DIP) Guidelines, 2000 included the following:

- Introduction of a supplementary process of applying in public issues, viz., the "applications supported by blocked amount" (ASBA) process for IPO applications to ensure that the funds are debited from the investors' accounts only upon confirmed allotment of securities and only to the extent of allotment made to the investor. The ASBA process was also extended to rights issues.
- Reduction in timelines for rights issues like the notice period required for calling a board meeting of the issuer to consider the rights issue; and the period stipulated for completion of allotment and commencement of listing and trading of the shares so issued.
- Expansion of the eligibility criteria for listed companies desirous of making Qualified Institutional Placement (QIP) to cover companies, which have been listed during the preceding one year pursuant to approved scheme(s) of merger/ demerger/ arrangement entered into with companies which have been listed for more than one year in such stock exchange(s).
- Modification in the pricing guidelines for QIP through change in the floor price formula and definition of relevant date and extending these guidelines to preferential allotment to QIBs, provided that the number of QIB allottees in such preferential allotment does not exceed five.
- The lock-in period of shares in preferential allotment, pursuant to exercise of warrants to be the full lock-in period of one year or three years, as the case may be, from the date of allotment of such shares.
- Permission to a listed company to make a combined offering of Non-Convertible Debentures (NCDs) with warrants through the QIP mechanism. NCDs and warrants issued pursuant to a combined offering can be listed and traded separately. The minimum contract value for trading of NCDs/ warrants was set at Rs.1 lakh.
- Timeline for completion of bonus issues by listed companies stipulated at 15 days from the date of approval by the board of directors of the issuer (in case shareholders' approval is not required) and at 60 days from the date of meeting of the board of directors wherein the bonus was announced subject to shareholders' approval.
- A simplified listing agreement for debt securities prescribed, in case the equity of an issuer is already listed.

II. Secondary Market

The salient policy initiatives concerning the secondary market segment were:

- The broad framework for short selling and securities lending and borrowing (SLB) scheme for all market participants was operationalized with effect from April 21, 2008. The key modifications made to SLB Scheme included an increase in tenure for SLB to 30 days from 7 days, extending the time for SLB session to the normal trade timings of 9:55 am to 3:30 pm, and allowing margins in SLB in the form of cash and cash equivalents.
- Margining of institutional trades was made mandatory with effect from April 21, 2008 and collection of margins from institutional investors on a T+1 basis.
- Direct Market Access facility was introduced for institutional investors, allowing brokers to offer clients direct access to the exchange trading system through the broker's infrastructure without manual intervention by the broker, subject to proper risk management of clients by the broker.
- The cross margining facility was extended to all market participants for offsetting positions in cash and derivatives market.
- The Securities Contracts "Manner of Increasing and Maintaining Public Share holding in recognized stock exchanges" (MIMPS) Regulation 2006 was amended to allow six categories of shareholders namely, public financial institutions, stock exchanges, depositories, clearing corporations, banks and insurance companies to hold directly or indirectly up to 15 per cent of the paid-up equity share capital of the concerned stock exchange. Any shareholder other than the aforesaid six categories of investors can hold directly or indirectly not more than 5 per cent of the paid-up equity share capital of a stock exchange.
- Approval was granted to NSE and BSE for operationalizing the exchange traded currency derivatives segment; and MCX Stock Exchange

Ltd. was recognized as a stock exchange for a period of one year commencing on September 16, 2008 for operationalizing the exchange traded currency derivatives segment only.

- Broad guidelines were approved for providing an exit option to regional stock exchanges whose recognition is withdrawn and/or renewal of recognition is refused by SEBI and those exchanges that are desirous of surrendering their recognition.
- Framework for recognition and supervision of stock exchanges/platforms of stock exchanges for small and medium enterprises was specified by SEBI.

III. Mutual Funds

Some of the important initiatives relating to mutual funds were:

- Allow existing mutual fund schemes to engage in short selling of securities as well as lending and borrowing of securities after making additional disclosures including risk factors in the Scheme Information Document.
- SEBI guidelines for parking of funds in short-term deposits of scheduled commercial banks were not to apply to term deposits placed as margins for trading in cash and derivatives market.
- The aggregate ceiling for overseas investments by mutual funds was enhanced from US$ 5 billion to US$ 7 billion.
- The amendments to the SEBI (Mutual Funds) Regulations, 1996 with regard to Real Estate Mutual Funds included the following:
  - Sponsors seeking to set up new mutual funds, for launching only real estate mutual fund schemes, shall be carrying on business in real estate for a period not less than five years. They shall also fulfill all other eligibility criteria applicable for sponsoring a mutual fund.
  - An existing mutual fund may launch a real estate mutual fund scheme if it has an adequate number of key personnel and directors having adequate experience in real estate.
  - A real estate mutual fund scheme is required to be close-ended and its units shall be listed on a recognized stock exchange.
  - A real estate mutual fund shall invest at least 35 per cent of the net assets of the scheme directly in real estate assets.
  - The AMC, its directors, the trustees and the real estate valuer shall ensure that the valuation of assets held by a real estate mutual fund scheme is done in good faith in accordance with the norms specified.
- In order to bring about uniformity in the contents of Abridged Scheme-wise Annual Report prepared by the mutual funds, a new format was prescribed.
- It was decided that in case of large applications for purchase of income/debt oriented schemes other than liquid fund schemes with amount equal to or more than Rs. 1 crore, the closing NAV of the day on which the funds were available for utilization would be applicable
- The units under close-ended schemes are required to be mandatorily listed. It was stipulated that a close-ended debt scheme shall invest only in such securities which mature on or before the date of the maturity of the scheme.
- It was decided in October 2008 to enhance on a case to case basis the prescribed borrowing limit of mutual funds to 40 per cent of the net assets for a period of six months to enable them to meet the redemption requests in an orderly manner.
- It was mandated that liquid fund schemes and plans should make investment in/purchase debt and money market securities with maturity up to 182 days only w.e.f. February 1, 2009 and in such instruments with maturity up to 91 days only w.e.f May 1, 2009.
- Asset management companies are required to disclose on their respective websites the portfolio of debt-oriented close-ended and interval schemes/plans as on the last day of a month, on or before the third working day of the succeeding month.

IV. Foreign Institutional Investment

- The eligible categories of the Foreign Institutional Investor (FII) applicants were expanded to allow for NRI-owned investment managers to register as FIIs subject to the condition that they did not invest their proprietary funds.
- It was decided to do away with the quantitative restrictions imposed on Overseas Derivative Instrument (ODI) issuance capabilities and restrictions on ODIs on derivatives with effect from October 7, 2008,
- In June 2008, the limit for investments in debt by the FIIs in the government securities was increased from US$ 3.2 billion to US$ 5 billion

and in corporate debt from US$ 1.5 billion to US$ 3 billion. The corporate bond investment limits were further increased to US$ 6 billion in October 2008 and to US$ 15 billion in January 2009.

- The restriction on investment of FIIs in the ratio of 70:30 in equity and debt respectively was done away with.

V. Corporate Debt Market

- In order to facilitate development of a vibrant primary market for corporate bonds in India, SEBI notified "Issue and Listing of Debt Securities Regulations" on June 6, 2008 to provide for simplified regulatory framework for issuance and listing of non-convertible debt securities (excluding bonds issued by the Government) issued by any company, public sector undertaking or statutory corporation. The new regulations prescribe rationalized disclosure norms for public and private placements, reduction of timelines involved during draft prospectus stage, enhanced responsibilities of merchant bankers for exercising due diligence, etc.
- SEBI set up a Standing Advisory Committee named "Corporate Bonds and Securitisation Advisory Committee" (CoBoSAC) under the chairmanship of Dr R.H. Patil for making recommendations to SEBI from time to time regarding the market for corporate bonds and securitized debt instruments.

VI. Regulatory Changes

- SEBI notified the SEBI (Intermediaries) Regulation, 2008 on May 26, 2008 for putting in place a comprehensive regulation applicable to all intermediaries. The registration process has been simplified. The *fit and proper* criteria has been modified to make it principle based. Apart from specifying common code of conduct, the registration granted to intermediaries was made permanent subject to the compliance of the SEBI Act, regulations, updation of relevant disclosures and payment of fees. Procedure for action in case of default and manner of suspension or cancellation of certificate has been simplified to shorten the time faced by the parties without compromising with the right of reasonable opportunity to be heard. The procedure for surrender of certificate has been simplified.
- In terms of an amendment to the SEBI (Depositories and Participants) Regulations, 1996 on August 8, 2008, the requirement of the depositories to ensure payments before effecting the transfer in the demat system was dispensed with, as the Depositories Act did not cast an obligation on the depositories to ensure that payment had been made in respect of transfer of security.
- An amendment to SEBI (Portfolio Managers) Regulations, 1993 on August 11, 2008 relaxed the criteria for considering the application for registration as portfolio manager and increased the net worth for carrying portfolio management service from Rs. 50 lakh to Rs. 2 crore.
- The SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 was amended on August 11, 2008 for facilitating the trading in currency derivatives on the platform of stock exchanges.
- The SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 was amended on October 30, 2008. It was clarified that no acquirer, who together with persons acting in concert with him held 55 per cent or more but less than 75 per cent of the shares or voting rights in a target company, should acquire either by himself or through persons acting in concert with him any additional shares entitling him to exercise voting rights unless he made public announcement in accordance with the regulations.
- Clause 35 of the Equity Listing Agreement was amended in February 2009 to include details of shares pledged or otherwise encumbered by promoters and promoter group entities.

Commodity Futures Market

5.102 Commodities traded on the commodity futures market during 2008 included a variety of agricultural commodities, bullion, crude oil, energy and metal products. Several new commodities were permitted for trading in 2008, such as aviation turbine fuel, carbon credit, carbon financial instrument, red arecanut, coriander seeds, garlic, steel long (ingots/billets) and thermal coal**.** Total value of trading in the commodity futures market rose from Rs. 36,54,487 crore in 2007 to Rs. 50,33,884 crore during 2008 (Table 5.22)

5.103 The average daily value of trades in the commodity exchanges improved from Rs. 15,000 crore during 2007 to Rs. 18,500 crore in 2008. Agricultural commodities, bullion and energy products accounted for a large share of the commodities traded in the commodities futures market.

5.104 The MCX recorded the highest turnover in terms of value of trade during 2008, followed by

Table 5.22 : Turnover on commodity futures markets

(Rs. crore)

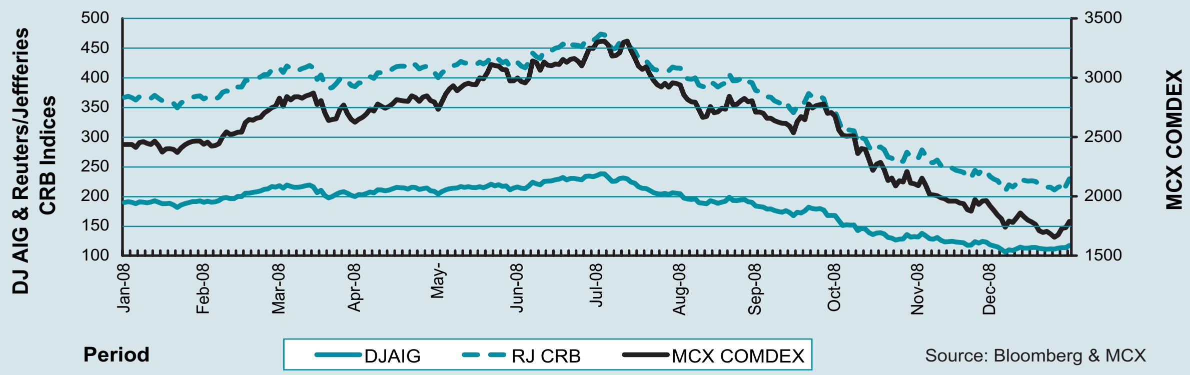
Name of the Exchange	Calendar Year		
	2006	2007	2008
Multi Commodity Exchange (MCX), Mumbai	20,25,663	27,30,415	42,84,653
National Multi Commodity Exchange (NMCE), Ahmedabad	1,11,462	25,056	37,272
National Commodity and Derivative Exchange (NCDEX), Mumbai	12,43,327	7,74,965	6,28,074
Others	1,04,033	1,24,051	83,885
Total	34,84,485	36,54,487	50,33,884

Source : Ministry of Consumer Affairs

National Commodity & Derivatives Exchange Ltd. (NCDEX) and National Multi-Commodity Exchange of India Ltd. (NMCE) respectively (Table 5.22).

5.105 The MCX commodity index fell by 24.7 per cent during 2008. The decline in international commodity futures indices viz., Dow Jones AIG Commodity Index (DJAIG) and Reuters/Jefferies Commodity Research Bureau (RJCRB) index was even sharper at 36.6 per cent and 36.0 per cent respectively (Figure 5.5).

Figure 5.5: Movement of MCX and other international indices



Source: Bloomberg & MCX