Primary Market

4.7 In order to encourage Initial Public Offers (IPOs), the existing SEBI norm for IPO was relaxed by stipulating "ability to pay" in place of "actual payment of dividend". Keeping in view the changes in capital market flowing from free pricing of shares and free access to market for funds, SEBI dispensed with the requirement to issue shares with a fixed par value of Rs.10 and Rs.100 and gave freedom to companies to determine the par value of shares issued by them in accordance with Section 13 (4) of the Companies Act, 1956. Companies with dematerialised shares have been allowed to alter the par value of a share indicated in the Memorandum and Articles of Association. The existing companies, which have issued shares at Rs.10 and Rs. 100 can avail of this facility by consolidating/splitting their existing shares. SEBI finalised the Regulations for Credit Rating Agencies (CRAs). These define a promoter as anyone holding 10 per cent or more of share capital of a CRA, and outline the categories eligible to promote CRAs, etc. With a view to popularise the book building mode of public issue, SEBI prepared a modified framework, which will serve as an alternative to the existing Guidelines. It is optional for investors to use either the existing framework or the modified framework. With a view to facilitating regulation of Collective Investment Schemes (CIS), the Securities Laws (Amendment) Bill, 1999 passed by the parliament in December,1999 incorporates units of CIS also in the expanded definition of securities under the SCRA. Based on the feedback from investors and entities operating CIS on the draft regulations based on the interim report of the Dave Committee, SEBI approved the draft Regulations for CIS. These were notified on October 15,1999.

Modified Framework for Book-Building

4.8 The modified framework for book building is optional as investors are free to use either the existing framework or the modified framework. The modified framework makes display of demand at the terminals optional. The reservation of 15 percent of issue size for individual investors bidding for upto 10 marketable lots is no longer compulsory; this may be offered to the public at price as determined through book building. Allotment and other requirements for this issue shall be the same as any other public issue. The issuer is allowed to disclose either the issue size or the number of securities to be offered to public. Allotment in the book-built portion shall be in demat mode only. Additional disclosures with respect to the scheme for making up the deficit in the sources of financing and the pattern of deployment of excess funds shall be made in the offer document.

Collective Investment Schemes (CIS)

4.9 SEBI's Regulations for CIS were notified on October 15, 1999. Under the SEBI Act and Regulations (Box 4.1) framed thereunder, no person can carry on any CIS unless he obtains a certificate of registration from SEBI. All existing collective investment schemes were required to apply for registration by December 14, 1999. An existing scheme which does not obtain registration from SEBI shall have to wind up and repay the money to the investors. Failure to do so would attract penal action, which may include ban on collection of money from investors and launching any scheme, ban on disposal of property, etc.

Resource Mobilisation

4.10 During April-December, 1999, a sum of Rs. 5723 crore was raised through public and rights issues from the primary market. This represented an increase of 46 percent over the amount raised in the comparable period of the previous financial year. During this period, the proportion of resources raised through public issues declined to 75.8 percent from 89.6 percent in the corresponding period of 1998-99. The average issue size, however, remained virtually unchanged at about Rs. 95 crore during April-December, 1999. The share of Initial Public Offers (IPOs) increased from 7.8 percent to 31.9 percent, indicating improvement in the prospects of new/unlisted companies for resource mobilisation from primary market. Most of the resource mobilisation from primary market in 1999-2000 has been (as in 1998-99) by the private sector. During April-December, 1999, the private sector made 57 issues for raising Rs. 5509 crore (96.3%) compared with 38 issues for Rs. 3825 crore (97.4%) during April-December, 1998.

4.11 As in the previous financial year, banks and financial institutions were at the top, accounting for Rs. 3039 crore from 12 issues during April-December, 1999, followed by the information and technology sector raising Rs. 1393 crore through 20 issues, and cement and construction sector, which together raised Rs. 337 crore. Though banks and FIs raised the largest amount from primary market, their share in total resource mobilisation declined from 84.4 percent during April-December, 1998 to 53.1 percent during April-December, 1999. Debt issues contributed 38.8 percent of total resource mobilisation, closely followed by equity issues on premium with 34.4 percent and equity at par with 26.8 percent. The debt issues accounted for 82.1 percent of the total resource mobilisation from primary market in the previous financial year. The higher proportion of resource mobilisation through equity issues in the current financial year reflects greater investor confidence in the capital market. Table 4.1 presents the trends in resource mobilisation from the primary market.

4.12 SEBI undertook several measures to promote efficiency and investor protection in the secondary market. In view of increased volatility and sharp uptrend in the market, SEBI advised the leading Stock Exchanges in the country to consider additional measures to ensure safety and stability in the market (Box 4.2). Dematerialisation, which provides far-reaching benefits to the market, has therefore been placed at the top of SEBI's agenda. In order to facilitate development and regulation of markets for derivatives of securities, the Securities Laws (Amendment) Bill, 1999 proposing expanded definition of securities including derivatives has been passed by Parliament in December 1999. Other measures relate to rolling settlement, intial public offer (IPOs), internet trade, etc.

BOX 4.1

SEBI Regulations on Collective Investment Schemes (CIS)

The salient features of SEBI Regulations notified on October 15,1999 are the following:—

- CIS includes any scheme or arrangement with respect to property of any description, which enables investors to participate in the scheme by way of subscriptions and to receive profits or income or produce arising from the management of such property.
- Schemes structured for investment in shares/ bonds and other marketable securities would not be treated as CIS.
- CIS can be floated only by companies registered under the Companies Act, 1956; the company floating CIS has to seek registration with SEBI as Collective Investment Management Company (CIMC).
- CIS shall be constituted as a two-tier structure comprising a Trust and a CIMC. At the time of registration as CIMC, the company should have a minimum net worth of Rs. 3 crore, which has to be raised to Rs. 5 crore.
- The CIS is prohibited from guaranteeing assured returns; indicative returns, if any, should be based on the projections in the appraisal report.
- The duration of the scheme shall be for a minimum period of three years.
- The assets of the scheme would be covered by compulsory insurance.
- Units issued under CIS should be listed on recognised stock exchanges.
- Entities operating CIS on the date of notification of SEBI Regulations would be treated as existing CIS, who should seek registration from SEBI within two months from the date of notification of the Regulations.

TABLE 4.1

Resource Mobilisation from Primary Market

(Rs. Crore)

Type of Issue	1998-99		April-December 1998-99		April-December 1999-2000	
	No.	Amount	No.	Amount	No.	Amount
Public	32	5019	23	3519	38	4340
Rights	26	568	18	410	22	1383
Total	58	5587	41	3929	60	5723
(Debt)	(18)	(4730)	(13)	(3224)	(7)	(2221)
(Equity)	(40)	(857)	(28)	(705)	(53)	(3502)

Source : SEBI.

Dematerialisation

4.13 The process of dematerialisation of shares progressed further during the current financial year. SEBI's Working Group on dematerialisation decided to add 96 scrips in two phases (56 from November 29, 1999 and 40 from January 17, 2000) to the existing list of 104 scrips for compulsory dematerialised trading by all investors, bringing total number of such scrips to 200. The number of demat shares increased by 295 percent from 1.8 billion as on March 31,1998 to 7.0 billion as on March 31,1999 and further up by 83 percent to 12.7 billion by end-December, 1999. The addition to the list of shares under compulsory demat trading is expected to raise the proportion of market deliveries in demat form from the current level of about 75 percent to 90 percent. The progress in dematerialisation is also indicated by a dramatic rise in the proportion of demat shares in the total delivery value at NSE from 2.5 percent in April,1998 to 79.3 percent in December, 1999 (Figure 4.1). In the interest of small investors, SEBI has allowed investors with very small holdings to sell in the stock exchanges in physical form under a special scheme. Such securities are then dematerialsed by the buyers. The market capitalisation of demat shares rose by 38.9 percent from Rs.2883 billion as at end-March 1998 to Rs.4006 billion as at end-March 1999 and further by 51.7 per cent to Rs.6076 billion at end-December, 1999.

Market Making

4.14 The extensive reforms over the last two years have enhanced the integrity, transparency and efficiency of operations of the securities market. The introduction of electronic trading and order matching system in all the 23 stock exchanges in the country have reduced transaction costs. However, there are still a large number of shares that are not actively traded despite the fact that many of them have some intrinsic value. A Committee on 'Market Making' under the Chairmanship of Shri. G.P. Gupta (Chairman, IDBI) was therefore set up by SEBI to study the various facets of market making, including the merits and demerits of the two trading systems, viz. the order-driven system and the quote-driven system. The Committee was of the view that shares could be classified into two categories viz. liquid and illiquid and that market making facility should be provided for illiquid shares. The Committee stressed the obligation of market makers to offer continuos two-way quotes and indicated that this would force them to carry an inventory of stocks . The Committee also underscored the need to keep in mind the implications of this aspect in terms of commitment to capital and exposure to market risks while working out the operating mechanism for market making.

BOX 4.2

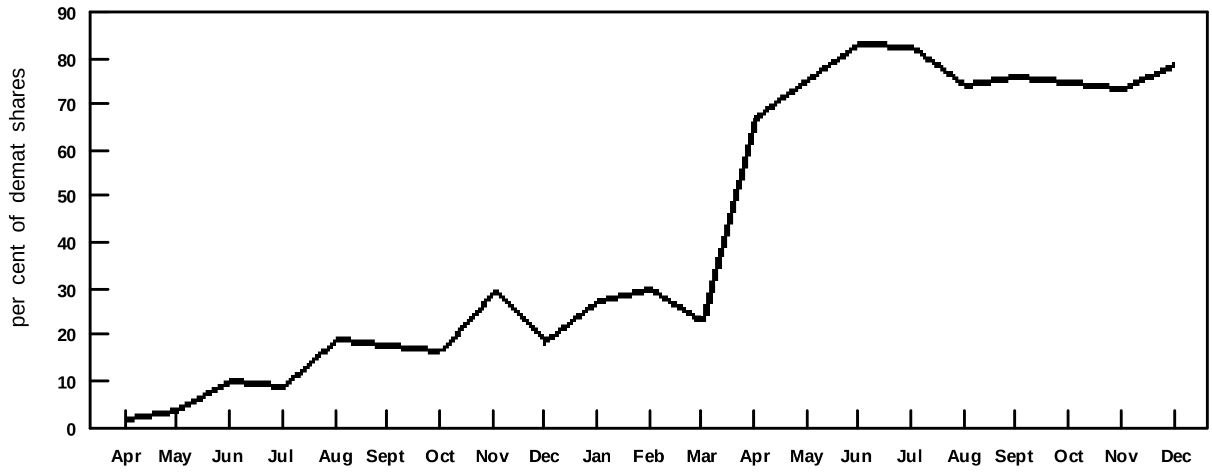
Additional Measures for Safety and Stability in Stock Market Suggested by SEBI in January, 2000

- Imposition of higher special/ad-hoc margins in respect of scrips which have relatively low floating stock.
- Suitable reduction in the existing capital adequacy linked gross exposure limit, by not less than 10 percent of the existing limit. However, this reduction may not be made applicable for brokers having exposures upto Rs. 3 crores.
- Increasing the existing daily margin and carry forward margin being levied by the respective exchanges by additional 5%.
- In respect of brokers, which according to exchanges, have taken large and concentrated position, specific measures by way of exposure reduction/additional margins/early pay-in, etc.
- Increasing the volatility margins as per the rates given hereunder:—

Volatility in % terms	Existing rates of Volatility Margin	Revised Rates of Volatility Margin
40% & above but less than 50%	5%	6%
50% & above but less than 70%	10%	12%
70% & above but less than 90%	15%	20%
90% & above but less than 110%	20%	25%
110% and above	20%	30%

- The Stock Exchanges have also been advised by SEBI to properly disseminate the measures taken for the information of the investors/market participants. Further, considering the increased volatility in the market, investors, particularly small investors, have also been advised that they should exercise due caution and diligence before transacting in the securities.

Fig. 4.1 Percentage of the Value of Demat Shares to the Total Value of Shares Delivered at NSE (April 1998 to December, 1999)



Rolling Settlement

4.15 Rolling settlement was introduced by SEBI for the first time in 1998 by making it optional for demat scrips. Accordingly, trading in demat shares commenced on the basis of a T+5 rolling settlement cycle with effect from January 15,1998. Based on experience, SEBI has selected 10 scrips for rolling settlement on a T+5 basis with effect from January 10, 2000.This select list has been chosen on the basis of the criteria that they appear on the demat list and that each selected share has a daily turnover of Rs. one crore and above. The risk containment measures like margin requirements, exposure limits, etc. for rolling settlement would be the same as those for other settlements. After gaining experience, the list for rolling settlement will be expanded. The list of ten select scrips does not include badla or carry forward scrips, which would be covered in the next phase in the light of Varma Panel's recommendations on introduction of daily and weekly badla in a rolling settlement mode.

Initial Public Offers (IPOs) through Secondary Market

4.16 SEBI considered and accepted a system envisaging the use of the existing infrastructure of stock exchanges for marketing IPOs. The essential features are the following:—

- The broker would place orders on behalf of his clients. After finalisation of share allocation, the broker will advise successful allottees to submit the application form and the amount payable for shares.
- The broker will open a separate escrow account for the primary market issue.
- The clearing house of the exchange will debit the primary issue account of the broker and credit the issuer's account.
- The certificates will be delivered to investors or their depository account will be credited

Internet Trade

4.17 SEBI has proposed internet trading in a limited way under Order Routing System (ORS) through registered stock brokers on behalf of clients for execution of trades on stock exchanges. Investors can place buy/sell orders through the internet and would be able to execute trade on their computers by the brokers filter. While executing the trades, all the necessary safety and integrity measures need to be adhered to in the transactions. The stock exchanges must ensure that the systems used by brokers have provision for security, reliability and confidentiality of data through the use of encryption technology. Brokers must enter into an agreement with clients spelling out all obligations and rights. The exchanges also are required to ensure that the brokers have a system-based control on the trading limits of clients and exposures taken by them. The brokers on the other hand must set pre-defined limits on the exposure and turnover of each client.

Negotiated Deals

4.18 According to earlier guidelines of SEBI, all negotiated deals had to be reported to stock exchanges within fifteen minutes of negotiation, and information in respect of such trades was disseminated by the stock exchanges. A negotiated deal was defined as any transaction which either had a value of Rs. 25 lakh or a trade volume of not less than 10,000 shares at one price, not formed through the stock exchange and order matching system. In order to introduce transparency and price discovery in negotiated deals, SEBI issued guidelines that such transactions will be permitted only if they are executed on the screen of the stock exchange, following the price and order matching system of the exchange just like any other deals on stock exchanges.

Corporate Governance

4.19 Corporate governance is an important informational tool for investors' protection. It is expected that publication/dissemination of code/measures based on the receommendations of the SEBI Committee on corporate governance will raise awareness level and help in raising the standard of corporate governance in India.