# CAPITAL MARKETS AND SECURITIES LAWS
## (CS Executive)

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## Securities Laws

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**Note:**

The Chapter named “Issue of Securities” has not been included in these notes. Sorry for the inconvenience caused.

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All the very best to my friends and colleagues,

Enjoy Reading,
M Vikram Bharadhwaj,
CA-Final and CS Professional
[mailto:cavikram94@gmail.com](mailto:cavikram94@gmail.com)
1. OVERVIEW OF CAPITAL MARKET

Regulatory Framework of Financial System in India:

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<tr>
<td>Administered by</td>
<td>Ministry of Corporate Affairs</td>
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<td>under which</td>
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Financial System:

Meaning:
Financial system is a set of arrangements through which financial surpluses are transferred from entities having surplus funds to those who are in need of finance.

Components:
1) Financial Markets
2) Financial Institutions and Intermediaries
3) Financial Products

Functions:
1) Currency regulation through RBI
2) Credit control by RBI
3) Banking functions through banks
4) Management of national reserves of international currencies
5) Maintaining liquidity in the economy
6) Transfer of funds from surplus hands to deficit hands

Components of Financial System:
1) Financial Markets:
Financial market is a place where financial institutions and intermediaries deal on financial products thereby transferring the surplus funds from surplus hands to deficit hands.

Financial markets comprise of
a) Capital market
b) Money market

1. Capital market
- is a market for financial products which has a direct or indirect claim over capital
- includes securities market and also long term borrowings and lending
Securities market

- deals with instruments which are readily transferrable and realizable
- Primary market and Secondary market are two components of Securities markets
- Primary market deals with sale of new securities through public issue, bonus issue and rights issue
- Secondary market deals with previously issued securities through stock exchanges.
- In a secondary market, investors can trade for immediate payment and delivery which is called spot market and can trade for future payment and delivery which is called as future market.

Functions of capital market: (below points are derived from above)
1) Market place for trading in securities
2) Trading both on Long term and readily realizable securities
3) Trading both on new and previously issued securities
4) Trading both for immediate and future payment and delivery

2. Money market

- is a market where short term funds are traded to solve liquidity needs
- has Formal money market (RBI, Commercial banks, UTI) and Informal money market (Chit funds, Nidhis) as its two components.

2) Financial Institutions and Intermediaries:

They are the source of finance in the financial market. They are of four heads:

a. Public Financial Institutions
b. Banks
c. Non-Banking Financial Companies
d. Insurance Organizations

a. Public Financial Institutions:

They provide debts in the form of Long term loans as well as working capital facilities. But their major focus is on debts (loans)

eg. IDBI, IFCI, ICICI, SIDBI, etc.

b. Banks:

They provide debts in the form of Long term loans as well as working capital facilities. But their major focus is on Working capital facilities.

eg. Public sector banks (SBI, Indian bank, BOI)
Private sector banks (ICICI, Axis bank, HDFC bank)
Foreign banks (SCB, City bank, RBS)

c. Non-Banking Financial Companies:

They provide Equipment leasing, hire purchase finance, bills discounting, venture capital, housing finance, etc.

Eg. Tata finance, LIC housing loan, L&T finance
d. **Insurance organizations:**

They provide insurance and allied services. Insurance coverage is for life and non-life business.

Eg. Public sector owned (LIC, GIC, National insurance, NIA), Private sector owned (ICICI prudential, Birla sun life, Tata AIG)

3) **Financial Products:**

Financial products are the instruments or securities dealt in the financial market by the financial institutions and intermediaries.

Eg.
- Shares
- Debentures
- Public deposits
- Bonds
- Miscellaneous instruments
2. **CAPITAL MARKET INSTRUMENTS**

**Introduction:**
It is one of the three components of financial system. They are also called as financial products / Financial Instruments.

Following are the 5 heads of Capital Market Instruments:
1. Shares
2. Debentures
3. Public Deposits
4. Bonds
5. Miscellaneous Instruments

1) **Shares:**
Share is a share in the share capital of the company and includes a stock except where a distinction between shares and stock is expressed or implied.

1. **Preference shares:**
Shares which have a preference over equity shares in terms of dividend payment and capital repayment during winding up are called as preference shares.

   a. **Redeemable and Irredeemable preference shares:**
   Preference shares that can be redeemed after a specific period of time are called as redeemable preference shares and those which cannot be redeemed at all are called as irredeemable preference shares. Company cannot issue preference shares which are redeemable after 20 years.
   
   Note: Preference shares are generally redeemable.

   b. **Participating and Non-Participating preference shares:**
   Preference shares which have the right to participate in profits available even after payment to equity share holders are called as participating preference shares. Non-Participating preference shares don't have such rights.
   
   Note: Preference shares are generally non-participating.

   c. **Cumulative and Non-Cumulative preference shares:**
   Preference shares which have the right to claim for unpaid dividends of previous years, in the subsequent years when adequate profits are available are called as cumulative preference shares. Non-Cumulative preference shares don't have such rights.
   
   Note: Preference shares are generally Cumulative.

   d. **Convertible preference shares:**
   Preference shares which have the right to be converted into equity shares after a specific period are called as convertible preference shares.

   e. **Fully convertible Cumulative preference shares:**
   It is called as "Equipref". It has two parts. Part A gets converted to equity shares automatically and compulsorily. Part B can be either redeemed at par or can be
converted to equity shares after locking period @30% less than market price at the option of investor.

2. Equity shares:
   It is a share except preference share.
   a. Equity shares with equal rights:
      Equity shares which have equal rights in terms of dividend, voting or otherwise are called as equity shares with equal rights.
   b. Equity shares with differential rights:
      Company can issue equity shares with differential rights as to voting, dividends or otherwise subject to below 7 conditions:
      • Articles provide for it.
      • Approval from shareholders in GM.
      • Company had had profits in last 3 years.
      • Company has not defaulted in payment of capital and interest thereon to debenture holders and preference shareholders.
      • Company has not defaulted in filing annual returns for last 3 years.
      • Company’s ESC with preferential rights doesn’t exceed 25% of total share capital.
      • Company has not been convicted under SCRA, SEBI act and FEMA.
   c. Sweat equity shares:
      Shares issued to the employees of the company (including directors) at a price less than the market price, for providing know-how, value-additions or whatever name called.
      Company can issue such shares only if:
      • Shares are of the class already issued.
      • At least 1 year should have lapsed from the commencement of business.
      • Special resolution should be passed in the GM.
      • Resolution should specify number of shares and current market price, consideration if any and to whom they are issued.
      • Shares must be issued in accordance with SEBI rules, if listed and CG rules, if not listed.
   d. Equity shares with detachable warrants:
      Holder of such shares has a right to apply for specified number of shares on a future date @ a pre-determined price.

2) Debentures:
   Debenture refers to an instrument acknowledging a debt by a company to a person(s).
   Debentures include debenture stock, bonds or any other securities whether secured or not.
   i. Redeemable and Irredeemable Debentures:
      Debentures which can be redeemed after a fixed period or before the fixed period at the option of the holder are called as redeemable debentures and those which cannot be redeemed are irredeemable.
      Note: Debentures are generally redeemable.


ii. Registered or Bearer debentures:
Debentures which are made out/issued in the name of the person, which appears on the debenture certificate and in the list of debenture holders, are called as registered debentures. Bearer debentures are like share warrants and is transferrable by mere delivery and not necessarily to the person whose name appears on certificate or debenture holder’s list.

iii. Secured and Unsecured debentures:
Debentures which have a charge over the assets of the company are called as secured debentures and those which don’t have such charge are unsecured.

iv. Convertible and Non-convertible debentures:
Debentures which can be converted to equity shares after a specified period either partly or fully are called as convertible debentures. If not, they are non-convertible.

v. Third party convertible debentures:
Debentures which can be converted to equity shares of another company at a price less than the market price are called as third party convertible debentures.

3) Public deposits:
It is a kind of unsecured borrowing made by the company. Company invites common public to lend deposits to the company which doesn’t have a charge over the assets of the company. These public deposits carry a % interest which is paid by the company to the deposit holder periodically.

4) Bonds:
Bond is a negotiable certificate acknowledging a debt by the company to a person(s). Bond investor lends to the company and company assures to repay the loan on a specified date till which it pays a fixed periodic interest to the investor.

- **Zero coupon bonds:**
  These bonds are issued at discount and redeemed at par. So there are no interest payments. Payment is made only at the maturity of the bond.

- **Deep discount bonds:**
  These bonds are issued at a very high discount rate and are redeemed at par. IDBI and SIDBI have issued such bonds.

- **Convertible bonds:**
  Bonds which can be converted to equity shares @ fixed rate and date are called as convertible bonds.

- **Dual convertible bonds:**
  Bonds which can be converted to either equity shares or preference shares/debentures are called as dual convertible bonds.

- **Stepped coupon bonds:**
  Coupon rate for these bonds fluctuate. i.e., steps up or steps down based on market changes.

- **Floating rate bonds:**
  They are same like stepped coupon bonds where interest rates changes with changes in market conditions.
Commodity bonds: These bonds are issued to the investors to share the risk and profitability of future commodity prices i.e., market price of these bonds move with the movement of various commodities like petrol, gold and silver. Eg., petrol bonds, gold bonds, silver bonds.

Capital indexed bonds: These bonds provide protection to investors against the risk of inflation. So the returns to the investor are connected with wholesale index price.

Disaster bonds: These bonds are issued by the company to share the risk of unexpected losses. Investors return is linked with the extent of unexpected losses incurred by the company.

Easy exit bonds: Investor in these bonds can easily exit/sell off these bonds and can readily encash the proceeds even before the maturity of bonds.

Clip and strip bonds: Here, two separate instruments are sold to the investor. Interest payments are stripped away or paid out and principal amount is sold as a deep discount bond.

Industrial revenue bonds: These bonds are issued by institutions which are connected with development of industrial and manufacturing business.

Carrot and stick bond: It is a variation of convertible debentures redeemable at premium. “Carrot” is lower than the normal conversion premium. i.e., premium over the current market price of equity shares is fixed at reasonable level so that market price needn’t increase significantly. “Stick” is the company’s right to call the issue@ a specified premium if market price of equity shares are traded above a specified % of conversion price.

5) Miscellaneous instruments:

Tracking stock: It is a type of common stock which tracks the performance of a specified unit operational division of the company rather than the company as a whole. This means that the value of the tracking stock changes with the performance of that unit or division with which the stock is associated irrespective of the performance of the company as a whole.

Debt for equity swap: These Instruments give the offer to debenture holders to convert the debt into equity shares of the company. This increases the capital base of the company thereby improving the debt equity ratios and enhancing debt issuing capacity. These swaps increase the market value of shares.

Zero coupon convertible notes: These are debt convertible into equity shares after a stipulated period. Under conversion, investor has to forego all the accrued and unpaid interest.
- **Extendable notes:**
  These are issued for a 10 years period with the company reviewing the interest rate every 2 years. i.e., interest rate is adjusted every 2 years to reflect prevailing market conditions. Investors have the option to sell the bond at the end of every 2 years at a fixed rate.

- **Secured premium notes with detachable warrants:**
  These notes are issued along with detachable warrants which are redeemable only after the locking period of 4 to 7 years. If after the locking period, investor redeems it, he has to forego all the unpaid interests. If he continues, he will be repaid the principal along with interest. Warrant attached gives the right to SPN holder to get allotted the fixed number of shares at a fixed rate and on a fixed date if SPN has been paid fully.

- **Dual option warrants:**
  Warrants which can be converted into 2 options as equity shares and debt or preference shares are called as dual option warrants.

- **Asset/Mortgage backed securities:**
  These securities assure a fixed return which is derived from the performance of specific assets. These are issued with maturity period of 3 to 10 years which are backed by financial assets like mortgages, credit cards, receivables, etc.

- **Stockinvest:**
  It is an instrument which helps the investor to earn interest till allotment is made by the company for the applied shares. So the investor is not blocked with the amount without any interest for the time gap between the application stage and allotment stage.

- **Application supported by blocked amount (ASBA):**
  Under this system, investor has to submit ASBA to banks where their bank accounts are maintained. Banks, then block the application money till it gets allotted or rejected, as the case may be.

Capital market instruments can also be classified as:

1) **Pure instruments**
   These instruments are issued with their own characteristics without mixing the features of other instruments. Eg., Non-convertible debentures.

2) **Hybrid instruments**
   These instruments are issued with the characteristics of many instruments. Eg., Convertible debentures, SPN with detachable warrants, etc.

3) **Derivatives**
   Instruments which derive their values from value of one or more underlying assets are called as derivates. Eg. Futures, options, etc.
Importance of debt over Equity:

a) For Equity share holders:
   Debt providers don’t have controlling interest in the company.

b) For the company:
   Cost of raising debt is lower than raising equity in the point of view of tax.

c) For investors:
   ESH face the Risk of non-payment of dividend. But Debt carries an assured interest.
3. CREDIT RATING

1) Meaning of Credit rating:

Credit rating is the evaluation of credit worthiness of an instrument of a company based on overall risk of the company’s business and expected returns from company’s business.

It provides a link between risk and returns and helps the investor to assess the same and take decisions on investment.

“Credit rating is not a recommendation but just an opinion whether to invest in those instruments or not”.

2) Credit Rating Agencies (CRA):

Credit Rating Agency is a body corporate involved in the business of rating of securities of companies.

Examples: CARE, ICRA, CRISIL

Only those CRAs’ which are registered with SEBI can carry on the business of credit rating.

3) Who can promote CRA?

i. Public Financial Institutions (PFI)
ii. Scheduled Commercial banks
iii. Foreign banks
iv. Foreign CRA having minimum 5 years’ experience in credit rating
v. Any body corporate with net worth Rs.100 crores in each of the last 5 years.

4) Agreement with Client:

Every CRA shall enter into an agreement with the company which proposes to rate its instruments. Such agreement shall contain:

- Rights and Liabilities of each party
- Fee to be charged for credit rating services
- CRA shall agree to disclose the rating to the company
- Company should agree to disclose the CRA rating to public.
- Company shall agree to periodic review of credit rating by CRA.

5) Review and Monitoring of Credit Ratings:

Every CRA shall conduct periodic reviews of instruments rated by it and in case of non-cooperation by company, shall review based on best available information.

Every CRA shall monitor continuously the ratings of the rated securities.

These reviews and monitoring should be updated to the stock exchanges.

6) Procedure for Credit rating:

a) Enter into agreement with client
b) Seek information required from the company for rating its securities
c) Discuss with the company and visit the company, if required.
d) Prepare an analytical assessment report
e) Present the report to the committee of senior executives of CRA.
f) Committee based on reports and discussions, assigns and communicates the rating to the company.
g) Monitor and review the ratings regularly and continuously.

7) Uses of Credit rating:
- **Investors:** Investors make investment decisions based on the credit ratings which helps them to assess the risk and return.
- **Issuers:** It helps them in self-assessment and also market players’ assessment.
- **Intermediaries:** It helps merchant bankers to assess the company’s issue in considering the grant of loans and advances.
- **Regulators:** SEBI protects the investors interest by exposing to them the credit ratings given by CRA.

8) Factors making Credit Rating System (CRS) a success:
   a. Independency of CRA from their client
   b. Impartiality of opinions of CRA
   c. Professionalism of CRA
   d. Confidentiality of CRA
   e. Ability to reach mass investors
   f. Continuous monitoring and review of ratings

9) Various Ratings based on the risk:

   **(A) Long term Instruments:**

<table>
<thead>
<tr>
<th>#</th>
<th>Degree of safety or risk</th>
<th>Ratings for Long term</th>
<th>Debt instruments</th>
<th>Structured Financial Instruments</th>
<th>Mutual Fund Scheme (mfs)</th>
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<tbody>
<tr>
<td>1</td>
<td>Highest safety</td>
<td>AAA</td>
<td>AAA (SO)</td>
<td>AAAamfs</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>High safety</td>
<td>AA</td>
<td>AA (SO)</td>
<td>AAmfs</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Adequate safety</td>
<td>A</td>
<td>A (SO)</td>
<td>Amfs</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Moderate safety</td>
<td>BBB</td>
<td>BBB (SO)</td>
<td>BBbmfs</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Moderate risk</td>
<td>BB</td>
<td>BB (SO)</td>
<td>BBmfs</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>High risk</td>
<td>B</td>
<td>B (SO)</td>
<td>Bmfs</td>
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<tr>
<td>7</td>
<td>Highest risk</td>
<td>C</td>
<td>C (SO)</td>
<td>Cmfs</td>
<td></td>
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<tr>
<td>8</td>
<td>Defaulted / expected to default soon</td>
<td>D</td>
<td>D (SO)</td>
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(B) Short term Instruments:

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<td></td>
<td></td>
<td>Debt instruments</td>
</tr>
<tr>
<td>1</td>
<td>Strongest safety</td>
<td>A1</td>
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<tr>
<td>2</td>
<td>Strong safety</td>
<td>A2</td>
</tr>
<tr>
<td>3</td>
<td>Moderate safety</td>
<td>A3</td>
</tr>
<tr>
<td>4</td>
<td>Minimal safety</td>
<td>A4</td>
</tr>
<tr>
<td>5</td>
<td>Defaulted / expected to default soon</td>
<td>D</td>
</tr>
</tbody>
</table>

10) Modifiers:

Modifiers are plus (+) and minus (-) signs following the credit rating which helps in intra-category comparison between instruments.

Modifiers can be used only for the below categories:

- Long term instruments: [AA, AA (SO), AAmfs] to [C, C (SO), Cmfs]
- Short term instruments: [A1, A1 (SO), A1mfs] to [A4, A4 (SO), A4mfs]
Entities that help the issuing company and investing investors to perform various transactions in capital market are called as capital market intermediaries.

Kinds of Capital Market Intermediaries:

1. Merchant banker
2. Lead Merchant banker / Lead Manager
3. Registrars and Share Transfer agents (RTA)
4. Underwriters
5. Debenture trustee
6. Bankers to an issue
7. Portfolio Manager
8. Stock broker and Sub broker

1) Merchant banker:
   He is the person who
   - Is engaged in the business of issue management or
   - Acts as a manager, advisor or consultant in relation to issue management.

Activities:
- In the business of issue management
  - Preparation of prospectus
  - Preparation of other information regarding issue
  - Tie-up with financiers
  - Final allotment and refund of application money
- Manager, advisor, consultant, underwriter and portfolio manager

2) Lead manager / Lead merchant banker:
   An issue can be managed by a merchant banker as said before. But all public issues and rights issues should be managed by Lead merchant banker / Lead manager.

Activities:
- In the business of issue management
  - Financial structure determination
  - Issue size determination
  - Preparation of prospectus
  - Meeting the prospective investors
  - Tie-up with financiers
- Manager, advisor, consultant, underwriter and portfolio manager.
3) Registrars and Share transfer agents (RTA)

RTA is a combination of two expressions:

- Registrar to an issue (Primary market)
- Share transfer agent (Secondary market)

A category of RTA can act as both registrar and share transfer agent.
A category of RTA can act either as registrar or share transfer agent.

Registrar to an issue:
He is the person authorized by the company to
- Collect applications from investors along with application money
- Keep record of collected applications and moneys received
- Assist company in allotment stage, how to allot, when to be allotted and sending allotment letters.

Share transfer agent:
He is the person appointed by the company to
- Maintain records of existing shareholders of the company
- Deal with transfer or redemption of securities

4) Underwriters:
Underwriting is an agreement between underwriter and the company stating that the underwriter would subscribe, with or without conditions, to the securities of the company, when existing shareholders or public doesn’t subscribe for the securities offered to them.

Underwriter is a person who engages in the business of underwriting an issue of securities of a company.
Banks, Financial institutions, merchant bankers, etc do the work of underwriting.

5) Debenture trustee:
It means a trustee of a trust deed for securing the issue of debentures of a company.
Scheduled commercial banks, PFI, Insurance Company, a body corporate do the work of a debenture trustee.

6) Bankers to an issue:
Bankers to an issue means any scheduled bank which
- Accepts application money
- Accepts allotment and call money
- Refunds the application money
- Pays the dividend / interest
7) Portfolio manager (PM):
   He is the person who advises, directs and manages the portfolio of securities of his client.
   - **Discretionary PM:**
     He manages the portfolio of his client independently and with his full discretion.
   - **Non-discretionary PM:**
     He manages the portfolio of his client by the instructions of his client.
   - **Portfolio:**
     Portfolio refers to the total holdings of securities belonging to the person.
   - **Managing:**
     Managing means to decide on whether to invest in new funds or old funds or in what mix the investment should be made on various scrips. These depend on market situation, fluctuation and expectation.

8) Stock broker / Sub broker:
   Stock broker is a person registered with SEBI, as a member, to help both seller and buyer of securities to enter into a transaction. This means he acts as a communication channel between company and the investor.
   Sub broker is a person, not registered with SEBI as a member, but authorized by SEBI to assist stock broker in executing his broking services.
5. STOCK EXCHANGE TRADING MECHANISMS

1) Margin trading mechanism:

Margin:
Margin, in terms of stock exchange, refers to any advance payment of a % of value of stock to be placed to the broker by his client (investor).

Initial margin:
It is the minimum amount, which is calculated as a % of value of stock proposed to be traded, to be placed to the broker by the client, before the actual purchase. Broker then advances the balance amount to meet full settlement obligations.

Maintenance margin:
It is the minimum amount, which is calculated as a % of value of stock, calculated with respect to last trading day’s closing price, which is to be maintained by client with the broker.

Margin trading:
So, margin trading is the mechanism of trading on securities through the broker by placing orders and initial margin and maintaining maintenance margin with the broker.

Advantages of margin trading:
- It prevents investors who place orders without having sufficient money, just to manipulate market.
- It enables transparency in dealing of securities as all information about the investor (client) are collected by the broker before accepting the initial money and maintenance money.
- Short selling and short buying are curtailed by this margin trading mechanism.

2) Trend Line:
Trend line is the line depicting the movement of value of shares in the market.

Bullish:
If the trend line moves in upward direction, it represents a bullish trend. Buyers dominate the bull market in expectation that market will boom so that they will buy now at a lesser price and sell at a higher price in a bull market.

Bearish:
If the trend line moves in downward direction, it represents a bearish trend. Sellers dominate the bear market in expectation that market will fall so that they will sell now at a higher price and buy at a lower price in a bear market.

3) Market making:
Market making means creating markets for trading on stock which don’t have demand.
SEBI has appointed a person called market maker who
- Looks for securities which has very less or no demand.
- Provides a buy and sell quote for such selective securities
- Enhances liquidity of such securities in the market.
Advantages of market making:
- It provides a market place for securities which are not frequently traded.
- It provides a good balance in SENSEX as it curtails the high demand scrips to rule or determine the market situation.
- It enables low demand scrips to compete in the same market with high demand scrips.

4) Securities lending and borrowing:
   It is a trading mechanism where securities are temporarily lent by one party to another party through an approved intermediary.
   Party with idle shares lend them to a party who don’t have any shares. On borrowing, he fulfils his obligations under a trade finalised by him.
   Borrower should return the securities borrowed, on demand by lender or at the end of an agreed term.

5) Short selling:
   Short selling is defined as selling a stock which the seller doesn’t own at the time of trade.
   All classes of investors are permitted to short sell.

6) Settlement system:
   Settlement means
   - Netting of transactions (receipts and payments)
   - Actual delivery of securities or receipt of securities for the agreed receipt / payment amount.
   Types of settlement system:
   - Accounting period settlement / Batch settlement
     Securities transacted on any day during a specified period are settled only on the last day of the specified period.
   - Rolling settlement:
     Securities transacted on a day are settled on the same day or the next day. So the settlements usually happen on a daily basis making every day a settlement period.

7) Pay-in and Pay-out:
   Pay-in and Pay-out of funds and securities should be viewed from the point of view of stock exchange.
   If funds / securities are transferred from client / client’s demat account to the broker and thereby from broker to the stock exchange, it is pay-in for the stock exchange.
   If funds / securities are transferred from stock exchange to the broker and thereby from broker to client / client’s demat account, it is pay-out for the stock exchange.
   Note:
   - Funds flow from and to the client
   - Securities flow from and to the client’s demat account.

8) Auction of securities:
   If the client doesn’t deliver / transfer the securities, agreed to do so on the pay-in day, stock exchange puts those securities on auction. This enables the buyer to receive the securities for which he has paid / transferred funds.
Stock exchange, thus, buys the securities on auction and gives or delivers it to the buyer on the pay-out day when both funds and securities flow out from the stock exchange.

9) Basket trading system:
In this system, investors can buy all the scrips in one go in proportion to their index weights. This helps them to reduce market risk and increase profit probability.

10) Market abuse and Preventive mechanisms:
Market abuse refers to misusing the market situation like:
- Artificial transactions
- False or misleading advertisements
- Insider trading
- Hostile takeover

Various market trading mechanisms like margin trading, market making, and auction of securities were introduced by SEBI to curb these market abuses.
Effect of these abuses is abnormal price fluctuations of shares and securities.

Preventive mechanisms to market abuse:
a) Price monitoring mechanisms
b) Position monitoring mechanisms

a) Price monitoring mechanisms:
- **Online surveillance:**
  It is a system to detect online the potential market abuses and reduce the influence of such abuses on market price and volume of stock. This system has some preset parameters in terms of tolerable price and volume fluctuations and if such parameters are violated, it will generate an alert online reporting the abnormalities in price and volume trends in the market.

- **Offline surveillance:**
  Unlike alerts automatically getting generated during abnormal market fluctuations and market abuses, this system of offline surveillance is a system to detect such abnormalities based on reports generated on how the preset parameters have been violated. Based on the reports, investigations are undertaken.

- **Investigation in depth:**
  It is a part of offline surveillance system where investigations are carried out by exchange in depth based on reports generated on
  - High/Low price fluctuations
  - Top scrips by turnover
  - Trading on scrips not frequently traded
  - Scrips hitting new high/low.

- **Special margins:**
  Special margins as a % of value of scrips are imposed by stock exchanges for those scrips which witnesses abnormal price/volume fluctuations.
• **Circuit breakers:**
  It is a system which maintains and monitors price limits for scrips on daily and weekly basis, to prevent abnormal and illegal price fluctuations.
  Daily price limit is compared with closing price on the last trading day.
  Weekly price limit is compared with closing price on the last trading day of last week.
  Investigations are carried out on any major discrepancies in these limits.

• **Trade-to-trade:**
  Under this system, buying and selling of shares are done by mere giving and taking of delivery of shares at gross level and no intra-day settlement (settlement on the same day) would be permitted.
  It is to reduce volatility and abnormal fluctuation in scrip for the day.

• **Suspension of scrip:**
  Scrip may be suspended by the stock exchange under 2 cases:
  - If the scrip is pending investigation
  - If the scrip has been suspended by any other stock exchange.

b) Position monitoring mechanisms:

  • Statement of top 100 purchasers / sellers
  • Trading on scrips having low demand
  • Abnormalities in SENSEX positions of scrips of various market players
  • Pay- in above a threshold limit.

11) **Straight through processing (STP):**
  STP is an online processing mechanism which automates end-to-end processing of transactions in market.
  Processing of transactions means
  - Placing the order
  - Confirming the order
  - Giving and taking delivery of scrips
  - Setting for the delivery made.

(+ points about STP:
  + Reduced paper work
  + Reduced processing time
  + Reduced risk
  + Reduced cost
  + Increased transparency
  + Increased market for investors
  + Increased efficiency on large volume trading
  + Increased investor attractions/demands
12) Direct Market Access (DMA):

 DMA is a facility offered to investors (clients) by the brokers for the client to have a direct access to trading system through broker’s infrastructure without manual intervention by the broker. This makes processing faster, cheaper and less risky.

13) Demutualization of stock exchanges:

 It is the process of converting the legal status of stock exchange from mutually owned association to a company owned by shareholders. By this way, ownership and management falls in the hands of different persons unlike association where both fall with few persons mutually.

Advantages of demutualization:

✓ Publicly owned stock exchanges can expand the business as large public funds can be pooled together.
✓ Publicly owned stock exchanges can be managed efficiently and professionally than broker owned.
✓ Publicly owned stock exchanges work for the interest of market as a whole unlike member owned stock exchanges which work for the interest of members.

14) Algorithmic Trading:

 It is a trading mechanism which generates orders using automated execution logics.

SEBI has formulated guidelines to be followed in algorithmic trading by stock exchanges and brokers thereby:

• Transaction happens and order is generated in a secure way
• Order placing is done a high speed.

Other related concepts:

1) Types of securities traded on exchange:

• Listed cleared securities:
  
  These securities are allowed to deal on stock exchanges after complying all listing requirements.
• Permitted securities:
  
  These securities are permitted to be traded on a stock exchange where they are not listed but are listed on some other stock exchange.

2) Types of Delivery:

• Spot delivery: Delivery and payment on the same day or next day
• Hand delivery: Delivery and payment on a future date fixed by exchange
• Clearing delivery: Delivery and payment through clearing house
• Special delivery: Delivery and payment after the date fixed by exchange.

3) Derivatives trading:

• Derivatives:
  
  They are instruments which derive their values from one or more underlying assets eg., futures, options.
• Futures trading:
  
  It is a mechanism where scrips are agreed to be traded on a future date at a fixed rate.
Options trading:

It is a contract between two parties in which maker of the option agrees to buy or sell a specified number of shares at a future date for an agreed price to the holder of the option. Now the holder has the option either to go with the offer or cancel the option. There are two types of options:

Call option: Right to buy (Investor takes this option in expectation that market booms)
Put option: Right to sell (Investor takes this option in expectation that market falls)

4) Investment strategies:

- **Straddle**: It is a combination of one put and one call option. Here, the investor is insured on either side, so the profit probability is more.
- **Strap**: It is a combination of one put and two call options. Here, investor expects the price to go up than go down.
- **Strip**: It is a combination of two put and one call options. Here, investor expects the price to go down than go up.

5) Forward contract and Future contract:

<table>
<thead>
<tr>
<th>Basis</th>
<th>Forward contract</th>
<th>Future contract</th>
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</thead>
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<tr>
<td>Trading on exchange</td>
<td>Not traded</td>
<td>Traded</td>
</tr>
<tr>
<td>Terms of contract</td>
<td>Varies from trade to trade</td>
<td>Standard terms</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Poor</td>
<td>High</td>
</tr>
<tr>
<td>Risk of Non-delivery or payment</td>
<td>High</td>
<td>Nil</td>
</tr>
</tbody>
</table>

6) Swaps:

It means exchange of financial obligations between two parties. There are 2 types of swaps:

- **Interest rate swaps**: where fixed interest rate is exchanged with floating interest rate.
- **Currency swaps**: where obligations in one currency are exchanged with that of another currency.

Note:

1) **Kerb Trading**: Transaction which is carried out after the official working hours of the exchange, even though illegal, is called as kerb trading.

2) **Jobber**: Member broker of exchange, who is specialised in giving 2 way quotations i.e., both buying and selling quotations to and from fellow members is called as a jobber.

3) **Abbreviations**:

<table>
<thead>
<tr>
<th>Abbreviations</th>
<th>Description</th>
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<tbody>
<tr>
<td>BSE – Bombay Stock Exchange</td>
<td>NSE – National Stock Exchange</td>
</tr>
<tr>
<td>NSCCL – National Securities Clearing Corporation Limited</td>
<td>BOLT – Bombay stock exchange Online Trading</td>
</tr>
<tr>
<td>NEAT – National Exchange for Automated Trading</td>
<td>OTCEI – Over The Counter Exchange of India</td>
</tr>
<tr>
<td>ISE – Inter connected Stock Exchange of India</td>
<td>SMEE – Small and Medium Enterprise Exchange</td>
</tr>
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</table>
6. **DEBT MARKET**

Debt market is a market where securities bearing fixed interest/income payments are issued, purchased, sold and settled.

It comprises two segments:

a) Corporate debentures / bonds
b) Government debentures / bonds

1) Corporate debentures/bonds:

   Debenture / bond is a debt security issued by companies acknowledging a debt by the company to a person or persons for a specified period during which interest will be paid by the company to the investor at regular intervals irrespective of adequacy of profits.

   Unlike other fixed income instruments, these debentures are freely transferrable from one person to another.

   Based on convertible, debentures are non-convertible, fully convertible, partly convertible and optimally convertible and based on security; they are either secured or unsecured.

2) Deposits:

   Deposits are savings made by the investor in banks and financial institutions for which interest is paid at a fixed rate. Banks have 3 types of deposits:
   - Term deposit (FD and RD)
   - Savings account
   - Current account

3) Fixed deposit:

   FDs’ are savings made by the investor in banks and NBFCs’. FDs’ carry an interest rate which is paid on regular intervals to the investors.

4) Coupon bonds:

   These bonds pay periodic interest at fixed interest rates called as coupon rates and dates on which payments are made is called as coupon due date.

5) Zero coupon bonds:

   These are issued at discount and redeemed at par after a specified period. So there is no interest payment. Difference between discounted issue price and redeemed par value constitutes the interest portion.

6) Mortgage bonds:

   They are backed up by assets of the issuer. Value of such bonds derives the values from the mortgaged assets.

7) Pass through certificates:
When mortgages are pooled together and the undivided interest in the pool are sold, pass through certificates are created. They ensure that the cash flow from the underlying mortgages would be passed through to the holders in the form of monthly interest payments and principal payment.

8) Participation certificate:

When a bank contracts with another bank for supporting the working capital requirements for short term, participation certificate is created. This participation certificates concept is confined to scheduled commercial banks. These are generally 90 days instruments.

9) Benchmarked instruments:

These are debt instruments where fixed income earned is based on a benchmark. Eg., Floating rate bonds are either benchmarked to LIBOR or MIBOR.

10) Inflation linked bonds:

Value of these bonds is linked to the inflation index. If there is inflation, value of these bonds rise. The difference will be adjusted either with interest payments or principal or both.

11) Call money:

Call money is the amount borrowed for a very short period, say, from 1 day to 14 days by the commercial and cooperative banks.

12) Treasury bills (T-bill):

These are issued by RBI for short term liquidity requirements. Usually banks are the major investors. Eg., 91 days T-bill, 182 days T-bill, 364 days T-bill, etc. T-bills are the lowest risk instruments in short term.

13) Certificate of deposits (COD):

Banks invest in T-bills issued by RBI and Corporate invests in COD issued by banks and other FI. This is the next lowest risk instrument after T-bills.

14) Commercial papers (CP):

They are issued by well rated corporate and companies to the common public through public issue or banks. They are similar to zero coupon bonds as they are also issued at discount and redeemed at par.

15) Inter-Corporate deposits (ICD):

It is an unsecured loan extended by one corporate to another. So, this is another way for corporate to satisfy their financial needs like COD, where corporate are given finance by banks instead of another corporate.

16) Commercial bills (bill of exchange):

They are negotiable instruments drawn on buyer of the goods by the seller of the goods for the value of goods delivered.
Conditions for issue and listing:

a) Convertible debentures:
   - Credit rating from at least one agency
   - Appointment of at least one debenture trustee
   - Creation of debenture redemption reserve
   - In case of charge of assets,
     - Assets worth should be sufficient
     - Assets should be free from encumbrance

b) Non-convertible debentures:
   - Credit rating from at least one agency
   - Application should be made to at least one stock exchange for listing
   - In-principle approval has been obtained from stock exchange
   - Issuer has not prohibited by SEBI to deal on securities.
7. **MONEY MARKET**

Money market is a market for trading in short term instruments for satisfying the short term needs and solving liquidity needs.

Characteristics of money market:
- Short duration (less than a year)
- High liquidity
- High safety
- Market determined interest rates.

Money market instruments:

1) **Commercial bills:**
   - It is a negotiable instrument drawn on buyer of the goods by the seller of the goods for the value of goods sold.

2) **Certificate of deposit (COD):**
   - Banks invest in T-bills issued by RBI and Corporate invests in COD issued by banks and other FI. This is the next lowest risk instrument after T-bills.

3) **Commercial paper:**
   - They are issued by well rated corporate and companies to the common public through public issue or banks. They are similar to zero coupon bonds as they are also issued at discount and redeemed at par.

4) **Money at call and Money at short notice:**
   - Money at call is outright money (immediately payable money). It is advanced by non-bankers to bankers for or up to 14 days and repayable at maturity / demand.
   - Money at short notice is also similar to money at call but are financed by banks to non-bankers like corporate, public, etc.

5) **Term money:**
   - Term money refers to amount lent for a maximum period of 14 days. Interest rates depend on demand and supply in the market.

6) **Bills re-discounting:**
   - Seller discounts the bills receivable, drawn by him and accepted by the buyer, with the bank. This is called as bills re-discounting. Seller gains adequacy of funds to satisfy working capital needs and bank gains the interest for the fund released by it on discounting.

7) **Inter-bank participation (Participation Certificates):**
   - When a bank enters into a contract to satisfy the working capital needs of the other, participation certificate is created. This is called as Inter Bank Participation (IBP).
   - IBP can be with risk sharing if issued for 90 to 180 days.
IBP can be without risk sharing if issued for less than or equal to 90 days.

8) Government securities:
   RBI issues these securities on behalf of government (central and state) to finance the fiscal deficit.

9) Treasury bills:
   These are issued by RBI for short term liquidity requirements. Usually banks are the major investors.
   Eg., 91 days T-bill, 182 days T-bill, 364 days T-bill, etc. T-bills are the lowest risk instruments in short term.

   Auction of treasury bills:

<table>
<thead>
<tr>
<th>Basis</th>
<th>French auction</th>
<th>Dutch auction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury bill</td>
<td>364 days</td>
<td>91 days</td>
</tr>
<tr>
<td>Acceptance</td>
<td>Bids equal to or more than cut-off price are accepted at bidding price</td>
<td>Bids equal to or more than cut-off price are accepted at cut-off price</td>
</tr>
<tr>
<td>Maximum acceptable price</td>
<td>Bidding price (if, Bidding price &gt; Cut-off price)</td>
<td>Cut-off price (if, Cut-off price &gt; Bidding price)</td>
</tr>
<tr>
<td>Also called as</td>
<td>Multiple price based auction</td>
<td>Uniform price based auction</td>
</tr>
</tbody>
</table>

   - Cut-off yield is the price at which bid is accepted. Bids higher than cut-off yield are rejected and lesser than the same are accepted.
   - Cut-off price is the minimum price accepted for any bid. Bids above the cut-off price are accepted and below the same are rejected.

11) Dated securities:
   Securities which carry fixed interest rate and fixed future maturity date, which are named after their coupon rate and maturity date are called as dated securities. Eg., 9% GOI 2015.
8. COLLECTIVE INVESTMENT VEHICLES (CIV)

CIV is an entity that collects the moneys from various investors and invests the pooled money in a stock.

Categories:
1) Mutual Funds (MFs’)
2) Collective Investment Schemes (CIS)
3) Venture Capital Funds (VCF)

1) Mutual Funds:
Mutual fund is a fund established in the form of a trust, collected from public as units to invest in various securities.

- **Asset Management Company (AMC):**
  It is a company established under companies act to manage the funds in the mutual fund. i.e., to invest in securities.

- **Trustees:**
  It means board of trustees or trustee company, which protects the interest of the unit holders (like shareholders in a company, it is unit holders in mutual fund). Approval from trustees is required by AMC to float new or different schemes.

- **Sponsor:**
  Sponsor is a person who establishes the mutual fund (promoter of MFs’)
  Sponsor forms the trust, appoints trustees and also floats AMC.

- **Custodian:**
  Custodian is a person appointed by trustees to keep the physical possession of securities invested.

Eligibility of sponsor to promote MFs’:
- ✓ He should contribute at least 40% to the net worth of AMC.
- ✓ He should have a good track record and reputation.
- ✓ He shouldn’t have been convicted under any act for any fraudulent activity.

Types of MFs’:

a) Based on Maturity:
- **Open ended MFs:**
  It is a fund which doesn’t fix maximum units that can be invested and it can be redeemed at any time on demand.

- **Closed ended MFs:**
  It is a fund which has a limit to maximum units that can be invested and it cannot be redeemed at any time before maturity on demand.
b) Based on Investment objective:

- **Income oriented MFs**: These MFs invest in fixed income securities like bonds.
- **Growth oriented MFs**: These MFs invest in securities giving high income as dividend and rapid capital appreciation.
- **Hybrid MFs**: These MFs invest in both fixed income as well as rapid capital appreciation scrips.
- **High growth schemes**: These MFs invest in scrips of high risk and high returns.
- **Tax saving schemes**: These MFs invest in tax saving scrips which offer tax rebates to the investors under tax laws.
- **Hedge funds**: These are unregistered private partnership funds which invest in various schemes, securities, strategies and instruments thereby reducing the risk of loss to some extent.
- **Leverage funds**: These funds increase the size and value of portfolio thereby increasing the benefits to the members overriding the cost incurred.
- **Private equity fund**: It is a fund which pools the money to invest in common stock.
- **Exchange traded funds (Basket trading)**: They are the funds which are invested in a basket of various securities.
- **Funds of funds**: MFs which invest its units in its own or other MFs instead of investing in securities are called as Funds of funds.
- **Money market MFs**: These MFs invest in short term instruments like COD, CP, T-bill, etc.
- **Real estate funds**: These MFs invest in the scrips of real estate sector.
- **Gold exchange traded fund scheme**: These MFs invest in Gold and gold related instruments.
- **Capital protection orientation scheme**: These Fs are invested in such schemes which protect the capital invested thereby making the investment zero risky.
MF investment strategies:

- **Top-down investing:**
  Strategy which first takes the view of economy and then the view of company and its scrips is called as top-down investing.
  Eg., How is the economy performing? How is the sector performing? How the industry performs? How the company performs? How scrip performs?

- **Bottom-up investing:**
  Strategy which first takes the view of scrip and then the view of the economy as a whole is called as bottom-up investing.
  Eg., How scrip performs? How the company performs? the industry performs? How is the sector performing? How is the economy performing?

**Net Assets Value (NAV):**

NAV represents the value of assets of each units of the scheme.

MF units are sold by the AMC to the unit holders' @Face value and redeemed @NAV.

- If NAV > FV, Appreciation in investment
- If NAV < FV, Depreciation in investment

**Costs incurred by AMC:**

- **Operating costs:**
  Costs incurred in operating the mutual fund like advisory fees paid, audit fees, custodian fees, etc are called as operating costs. They are borne by AMC itself.

- **Sales charges / Loads:**
  Payments to agent’s commission, distribution and marketing expenses are called as Loads. They are charged by AMC to investors.
  - Front End Load (FEL): is the fee paid by the investor during purchase.
    \[
    \text{Purchase price} = \frac{\text{NAV}}{1-\text{FEL}}
    \]
  - Back End Load (BEL): is the fee paid by the investor during sale (redemption)
    \[
    \text{Sales price} = \frac{\text{NAV}}{1+\text{BEL}}
    \]

2) **Collective Investment Schemes (CIS):**

Any scheme / arrangement made by the company where
- Contributions from investors are pooled and utilized for the purpose of the scheme
- Contributions are made for earning profits, income, etc.
- Property of the scheme are managed on behalf of the investors
- Investors doesn’t have day-day control over the management of the scheme
  is called as CIS.

3) **Venture Capital Funds (VCF):**

It is a fund established to raise money through loans, donations, units, etc to invest in new start-up companies or technocrats who lack money but possess high technical know-how, where risk of loss is very high.

Main advantage of VCF is high capital appreciation in a short period of time.
9. RESOURCE MOBILIZATION IN INTERNATIONAL CAPITAL MARKETS

A) EURO ISSUES:

Euro issues are issues through which Indian companies tap international capital markets. It can be made through two routes;

a) GDR / ADR:

GDR / ADR are issued by issuing company registered in India, to the overseas depository bank, which instructs the foreign depository to transfer those shares as GDR / ADR to non-resident investors.

- **Issuing company:** is the company registered in India and has a place of business in India, which issues its shares as GDR / ADR to foreign investors through overseas depository bank and foreign depository.

- **Overseas depository bank:** is the custodian of securities issued by Indian companies, which instructs the foreign depository to issue those shares to foreign investors as GDR / ADR.

- **Foreign depository:** is a depository registered outside India which is authorized to transfer the GDR / ADR, issued by Indian company, from overseas depository bank to the foreign investors.

- **Domestic custodian bank:** is another intermediary in this issue process which acts as an agent of overseas depository bank and it has the physical possession of equity shares of Indian companies.

**Note:**
- ADR is issued by Indian companies to tap the American capital market.
- GDR is issued by Indian companies to tap the other capital markets.
- Regulations and rules for issue of ADR are stricter than issue of GDR by Indian companies.

**Sponsored GDR:**

Sponsored GDR is a programme where Indian shareholders of Indian companies sell their shares in International market which are then converted to GDRs and sold by the same Indian companies to foreign investors.

In this method, Indian companies can shift their capital base from India to foreign countries, without increasing the capital base.

Proceeds realised from such sale to foreign investors are distributed to Indian shareholders in proportion to the shares sold by them in the international market.
b) Foreign Currency Convertible Bonds (FCCB):

FCCB is an unsecured bond issued by Indian companies to foreign investors which has an option attached to get converted into a fixed number of equity shares of the Indian company after a fixed date, whether wholly or partly.

ADVANTAGES OF EURO ISSUES:

- Cost of raising funds from foreign market is much cheaper than from domestic.
- These help in expanding the business to international level.
- It enables tapping the international markets.
- It provides an opportunity for the foreign players to invest in Indian companies.

MORE ABOUT EURO ISSUES:

- Approvals required for Indian companies to make Euro issues
- Agencies involved in Euro issues
- Documentations in Euro issues

a) Approvals required for Indian companies to make Euro issues:

- **Board of directors:**
  Board resolution should be passed in the board meeting for Euro issues.
- **Shareholders:**
  Special resolution should be passed in general meeting for Euro issues.
- **Ministry of Finance:**
  Indian company should obtain In-principal and final approval from Ministry of finance.
- **RBI:**
  Indian company should obtain necessary approvals from RBI.
- **MCA:**
  When convertible bonds are issued, company has to obtain approval from MCA also.
- **Stock exchange:**
  In-principal listing of shares of issuing company, after being sold by foreign investors which will be traded on Indian capital market, should be obtained from SE in India.

b) Agencies involved in Euro issues:

- **Lead manager:**
  He helps the Indian company to structure the issue and arrange for marketing of the same. So, the company should consult him regarding coupon rates, conversion prices, etc.
- **Co-lead or Co-manager:**
  He coordinates between lead manager and the company for smooth launching of Euro issue.
- **Overseas Depository Bank:**
  It is the bank authorized by Indian company to issue GDR / FCCB to foreign investors.
- **Domestic Custodian Bank:**
  It is an agent of overseas depository bank to have physical possession of shares issued by Indian company.
Underwriters:
They undertake Euro issues which are unsubscribed by investors.

Auditors:
Auditor prepares audit report where he reconciles company’s accounts between Indian GAAP, UK GAAP and US GAAP.

c) Documentations in Euro Issues:

Subscription agreement:
It is an agreement between Lead managers and managers with the company, for subscription of GDRs at a fixed price, subject to certain conditions.

Depositary agreement:
It is an agreement between company and depository regarding terms and conditions of Euro issues.

Custodian agreement:
It is an agreement between domestic custodian bank in India and overseas depository bank outside India.

Agency agreement:
In case of FCCBs, company enters into this agreement with few agents for making principal and interest payments to holders of FCCB from funds provided by the company.

Trust deed:
In case of FCCBs, company enters into trust deed with trustee of the holder for guaranteeing the payments to the holder or his trustee as the case may be.

Eligibility to make Euro issues:
+ Issuer should be a company registered in India
+ It should have a good track record for at least past 3 years.
+ It should have obtained prior approval of Ministry of finance and other approvals.

Road shows:
They are the meeting arrangements between issuers, analysts, agencies and potential investors about the proposed Euro issues. They contain information like:
- History of the company
- Organizational structure of the company
- Objects of the company
- Business lines of the company
- Past performance of the company
- Projected future performance of the company
- Future plans of the company
- Valuation of shares
Offering circular:
Circular offered to prospective investors is called as offering circular. It contains:
- Background of the company
- Euro issue size
- How the company is going to use the funds
- Company’s track record
- Terms and conditions of issue
- Credit rating by CRA
- Market price of securities
- Value of net worth of the business
- Audit report
- All other approvals.

B) EXTERNAL COMMERCIAL BORROWINGS (ECB):
ECB refers to commercial bank loans, commercial borrowings, and buyer’s credit from multinational financial institutions to eligible borrowers (Indian companies).
Eligible Indian companies can borrow from ECB through 2 routes.
  a) Automatic route
  b) Approval route

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<tr>
<th>Basis</th>
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<th>Approval route</th>
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<td>Eligible borrowers</td>
<td>• Corporate registered under companies act&lt;br&gt;• NGO engaged in micro finance&lt;br&gt;• Units in SEZ</td>
<td>• Financial institutions&lt;br&gt;• Banks approved by Government&lt;br&gt;• Finance companies&lt;br&gt;• Other companies not in automatic route.</td>
</tr>
<tr>
<td>Recognized Lenders</td>
<td>• International banks&lt;br&gt;• International financial institutions&lt;br&gt;• Export credit agencies</td>
<td></td>
</tr>
<tr>
<td>Prepayment</td>
<td>permitted up to US$ 500 Million without RBI approval</td>
<td>permitted more than US$ 500 million with RBI approval</td>
</tr>
<tr>
<td>End use of ECB funds</td>
<td>Can be used for investment in&lt;br&gt;  ✓ Industrial sector&lt;br&gt;  ✓ Infrastructure sector&lt;br&gt;  ✓ Joint venture&lt;br&gt;  ✓ Wholly owned subsidiary&lt;br&gt;  ✓ Public sector units.</td>
<td>Cannot be used for&lt;br&gt;  ✓ Lending and investment in capital market&lt;br&gt;  ✓ Investment in real estate&lt;br&gt;  ✓ Working capital requirements&lt;br&gt;  ✓ General corporate purpose&lt;br&gt;  ✓ Repayment of existing loan.</td>
</tr>
</tbody>
</table>
Parking of ECB proceeds:

ECB obtained by eligible Indian companies can be either parked outside India or can be remitted to India, depending upon the immediate needs for appropriate utilization of those ECB proceeds.

Such parked ECB proceeds can be invested in following liquid assets:

- Deposits of banks abroad
- Treasury bills of 1 year maturity
- Deposits in the branches of Indian banks abroad.

Realization in such investments should be highly liquid so that it can be repatriated to India whenever need arises for permissible end-uses (purposes).
10. INDIAN DEPOSITORY RECEIPTS

IDR are issued against the underlying equity shares of an issuing company which is incorporated outside India, which delivers the shares to overseas custodian bank which then instructs the domestic depository to issue those IDRs' to Indian residents.

- **Issuing company:**
  It is a company incorporated outside India which makes the issue of IDRs to Indian residents through overseas custodian bank and domestic depository in India.

- **Overseas custodian bank:**
  It is a bank established in a country outside India but has a place of business in India and acts as a custodian of equity shares of issuing company against which IDRs are issued after getting approval from Ministry of finance.

- **Domestic depository:**
  It is the custodian of securities registered with SEBI and authorized by issuing company to issue IDRs.

Eligibility to issue IDR:

<table>
<thead>
<tr>
<th>Under Companies rules</th>
<th>Under SEBI rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid up capital and free reserves before IDR issue &gt;= US$ 100 million</td>
<td>Should be listed in its home country</td>
</tr>
<tr>
<td>Average turnover in last 3 years before IRD issue &gt;= US$ 500 million</td>
<td></td>
</tr>
<tr>
<td>Should have made profits for at least 5 years and should have declared dividend at least 10% every year for last 5 years</td>
<td>Has not been prohibited under any regulatory authority to issue securities</td>
</tr>
<tr>
<td>Pre-issue debt equity ratio &lt;= 2:1</td>
<td>Has a good track record with respect to compliance with securities market rules.</td>
</tr>
<tr>
<td>Fulfil the eligibilities under SEBI rules</td>
<td>Fulfil the eligibilities under companies rules</td>
</tr>
</tbody>
</table>

Requirements to invest in IDR:

- Indian residents can invest in IDR. However, NRI and FII cannot purchase or possess IDRs unless special permission of RBI is taken.
- Investments in IDRs by Indian companies shall not exceed the limit specified under companies act.
- At least 50% of issue shall be subscribed to by Qualified Institutional Buyers (QIBs) and balance shall be available for subscription by Non-Institutional Investor (NII) and Retail Individual Investor (RII).

Procedure for making IDR issue and Listing the same:

- Obtain necessary approvals / exemptions from appropriate authority in home country.
- Appoint overseas custodian bank, domestic depository and merchant banker.
- Obtain permission from SEBI by making an application 90 days prior to opening date of issue.
- File due diligence report with registrar and SEBI through OCB or merchant banker.
File draft prospectus with SEBI at least 21 days prior to filing of application.

Obtain In-principal listing permission from one or more stock exchange in India.

May appoint underwriters registered with SEBI to underwrite the issue of IDRs.

Those IDRs issued, should be listed on recognized stock exchanges in India and can be purchased or possessed and transferred only by person resident in India.

Procedure for Transfer and redemption:

- IDR holder may transfer the IDR or may ask domestic depository to redeem the same, subject to provisions of FEMA.
- In case of redemption, domestic depository can request OCB to get those shares released for sale directly on behalf for the holder or transfer in the books of the issuing company in the name of IDR holder.
- IDR holder can nominate any person at any time for transferring the IDR to that nominated person after his death.

Minimum issue size and subscription:

- The size of an IDR issue shall be at least Rs.50 crores.
- Minimum subscription should be at least 90% of issued amount. If not received, company becomes liable for refunding the subscription amount which becomes due on the closing date of IDR issue. Company would become liable for payment of interest@15% p.a, if subscription amount is not refunded within 15 days from the due date of payment.
11. SEcurities Contracts RegULAtions ACT, 1956

1) Objectives of SCRA:
   - Regulation of Stock exchanges
   - Regulation of Transactions of stock exchanges
   - Regulation of Transactions outside the limits of stock exchanges
   - Prevent undesirable speculations

2) What is a Stock Exchange?
   - Any body of Individuals, whether incorporated or not, constituted before corporatization and demutualization under SCRA.
   - Any body corporate established under companies act, whether under the scheme of corporatization and demutualization or otherwise.
   Stock exchange is the primary player in the secondary market.

3) What is Corporatization?
   Process of converting the stock exchange from Non-Corporate organization structure to Corporate organizational structure.
   Example: Stock exchanges established as AOP are converted as company under Companies Act.

4) What is Demutualization?
   Transition of Stock exchange from Mutually owned association to a company owned by Shareholders.
   Due to this transition, ownership and management are separated.

5) Trading procedure at Stock Exchange:
   - Placing the order by client
   - Broker enters the order in order book.
   - Execution of order
   - Preparation of contract note
   - Entry in client register and settlement register
   - Delivery of securities by broker/client
   - Preparing the bill
   - Entry in client register
   - Payment

6) Additional Trading floor:
   It is a trading facility offered by stock exchange outside its area of operation to enable the investors to transact easily.
   Stock exchange can establish such trading floors after getting approvals from SEBI.

7) Recognized Stock Exchange (RSE):
   Stock exchange which is recognized by Central Government from time to time is called as RSE.
8) Application for recognition:
   - Apply to Central Government with by-laws and other rules to constitute a stock exchange.
   - CG enquires and checks whether rules and by-laws are fair.
   - CG grants recognition to Stock exchange.
   - The Grant shall be published in Gazette of India and official gazette of state where stock exchange’s registered office is located.
   - If after granting, CG feels so to withdraw the same, it shall do so after giving stock exchange and SEBI an option of being heard and publishing in the official gazette.

9) Powers and Rights as per SCRA:

<table>
<thead>
<tr>
<th>#</th>
<th>Powers of</th>
<th>Powers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Government</td>
<td>i. Call for Periodical Returns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ii. Make / Amend rules of RSE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>iii. Suspend the business of RSE</td>
</tr>
<tr>
<td>2</td>
<td>RSE</td>
<td>i. Make by-laws on its own</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ii. Make rules restricting voting rights</td>
</tr>
<tr>
<td>3</td>
<td>SEBI</td>
<td>i. Make / Amend by-laws of RSE</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Rights of</th>
<th>Rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Investors</td>
<td>i. Receive dividend declared</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ii. Receive income from Collective Investment Scheme (CIS)</td>
</tr>
</tbody>
</table>

10) Listing of Scrips / Securities:
   - **Initial Listing:**
     - Listing of shares for the first time by the company
   - **Listing for Public issue:**
     - Listing for fresh public issue of the company whose shares are already listed.
   - **Listing for rights issue:**
     - Listing of shares issued by the company on rights basis to the existing shareholders.
   - **Listing of bonus shares:**
     - Listing of shares issued at free of cost by the company to the existing shareholders.
   - **Listing for Merger:**
     - Listing of new shares issued by the purchasing company to the selling company.
12. SEcurities AND eXCHANGE BOARD OF INdIA ACT, 1992

1) What is SEBI?
SEBI is a body corporate having
- Protect
- Common seal
- Separate property
- Right to sue and be sued
- Right to enter contracts on its own

2) Where is it situated?
Head office – Mumbai
Other offices – Chennai, Kolkata and Delhi.

3) Who manages SEBI?
Board of Members (BOM) manages SEBI. They exercise all the powers and do all acts on behalf of SEBI.

4) Composition of BOM:
- 1 chairman appointed by CG
- 1 member from officials of RBI
- 2 members from officials of CG
- 5 other members appointed by CG, out of which at least 3 shall be whole time members.

5) Functions of SEBI:

<table>
<thead>
<tr>
<th>Regulate Securities Market</th>
<th>Promote Development of Securities Market</th>
<th>Protect Investors interest in Securities market</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Regulating the business in Stock exchange</td>
<td>+ Inspection, Inquiries and audits of Stock exchanges, Mutual funds and other persons</td>
<td>➢ Promoting Investor’s education</td>
</tr>
<tr>
<td>✓ Regulating the work of intermediaries</td>
<td></td>
<td>➢ Prohibiting insider trading</td>
</tr>
<tr>
<td>✓ Regulating the work of Depositories and Depository participants</td>
<td></td>
<td>➢ Prohibiting fraudulent and unfair trade practices</td>
</tr>
<tr>
<td>✓ Regulating the work of Foreign Institutional Investors and Credit Rating agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Regulating the work of Collective Investment Vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Regulating the takeover</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6) Powers of SEBI:

<table>
<thead>
<tr>
<th>Power to prohibit issue of prospectus</th>
<th>SEBI has the power to prohibit the issue of prospectus, if such prospectus contains any information which affects the investor’s interest.</th>
</tr>
</thead>
</table>
| Power to investigate the affairs of intermediaries | SEBI may appoint a person called as Investigating officer, who shall investigate into the affairs of the intermediary if
- Transactions are believed to have been carried based on unfair trade practices
- Intermediary has violated any provisions of SEBI act. |
| Power to make cease and desist orders | SEBI can issue and desist orders requiring a person to cease and desist from committing violation of SEBI act, after conducting an enquiry. |

7) Penalties under SEBI Act:

<table>
<thead>
<tr>
<th>#</th>
<th>Sec #</th>
<th>Violation / Contravention</th>
<th>Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>15A</td>
<td>If a person fails to furnish and file returns, documents and maintain books of accounts</td>
<td>Rs. 1,00,000/- for every day of Default or Rs. 1 Crore, whichever is less</td>
</tr>
<tr>
<td>2</td>
<td>15B</td>
<td>If an intermediary fails to enter into agreement with his client</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>15C</td>
<td>If a listed company or intermediary fails to redress the investor grievances within time stipulated by SEBI</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>15D</td>
<td>If a person sponsors a collective investment vehicle without obtaining certificate of registration</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>15E</td>
<td>If an Asset Management Company (AMC) of a mutual fund fails to comply with regulations providing for restrictions on activities of the company.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>15F</td>
<td>If a stock broker fails to deliver securities or make payments within time specified</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>15G</td>
<td>If an insider deals or communicates any Unpublished Price sensitive information to any other person</td>
<td>Rs, 25 Crores or 3 times the amount of profits made out of such violation, whichever is higher.</td>
</tr>
</tbody>
</table>
| 8 | 15H   | If a person fails to
- Make public announcement to acquire shares of target company
- Disclose the total shareholdings in target company | |
| 9 | 15HA  | If a person indulges in any fraudulent trade practices | |
| 10| 15HB  | If there is no separate penalty for any violation of the act | Maximum Rs. 1 Crore |

8) What are Consent Orders?

It is an order issued by SEBI and its adjudicating officers to resolve the disputes smoothly through negotiations and discussions rather than lengthy litigations.

So, it is an order settling administrative or civil proceedings between the regulator and the person who is found to have violated securities laws.
9) Securities Appellate Tribunal (SAT):
SAT is set up for the purpose of making appeals against the orders of SEBI and its adjudicating officers.

10) Composition of SAT:

<table>
<thead>
<tr>
<th>Basis</th>
<th>Presiding officer</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appointed by</td>
<td>Central Government</td>
<td></td>
</tr>
<tr>
<td>Period of office</td>
<td>5 years or up to the age of 68, whichever is earlier.</td>
<td>5 years or up to the age of 62, whichever is earlier.</td>
</tr>
<tr>
<td>Qualification</td>
<td>- Sitting / retired judge of Supreme court or High court</td>
<td>- Person of ability and integrity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Person having experience of corporate laws</td>
</tr>
<tr>
<td>Disqualification</td>
<td>Member of SEBI or holding a position equivalent to Executive director in SEBI cannot be appointed until 2 years from the end of vacating of office at SEBI.</td>
<td></td>
</tr>
</tbody>
</table>

11) How to appeal against SEBI and SAT orders?

<table>
<thead>
<tr>
<th>Appeal against the orders of</th>
<th>SEBI and its adjudicating officers</th>
<th>SEBI, its Adj. officers and SAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeal is now made to</td>
<td>SAT</td>
<td>Supreme court</td>
</tr>
<tr>
<td>Time limit to make an appeal</td>
<td>45 days of order</td>
<td>60 days of order</td>
</tr>
<tr>
<td>Extended time limit</td>
<td>After 45 days with sufficient and acceptable reasons</td>
<td>After 60 days with sufficient and acceptable reasons</td>
</tr>
</tbody>
</table>

Appeal is reviewed and checked regarding its adherence to laws by SAT / Supreme Court as the case may be.

Order is confirmed, modified or set aside by SAT / Supreme court, as the case may be

Copy of the revised order is sent to SEBI, Adjudicating officers, SAT and parties to appeal.
13. DEPOSITORIES ACT, 1996

1) What is a Depository?
Depository is a company registered under Companies Act and granted certificate under SEBI Act to hold the securities of the investors in E-form at his request through the medium called Depository participant.
Examples: National Securities Depository Limited (NSDL), Central Depository Service Limited (CDSL).

2) What is a Depository Participant (DP)?
DP is the agent of the depository who connects investor with the depository. Financial Institutions, banks, etc can act as a DP.
Example: HDFC Bank, ICICI Bank, HSBC, SCB, etc.
Investor should open a beneficiary account with DP before utilizing the services of a depository.

3) Opening a Beneficiary account:
- Fill account opening form and attach photographs
- Provide PAN to DP.
- Sign the agreement with DP
- DP intimates account number which shall be quoted in all correspondences with DP.

4) What is Fungibility?
All the securities held in the depository shall be fungible. i.e., certificates of various investors of the same security type are interchangeable.
This means that the investor won’t get the exact certificate that he surrendered at the time of entry into depository. It is like withdrawing money from an ATM without bothering about the distinctive number of currencies.

5) What is Immobilization?
Physical security certificates are stored with the depository for safe custody and subsequent transactions takes place in e-form. Investors can withdraw the physical securities whenever they desire. This is called as Immobilization.

6) Process of Dematerialization:

- Submit Demat Request Form (DRF) along with Share Certificate to DP.
- Deface the Share certificate as “Surrendered for Dematerialization”
- DP transfers physical share certificates and physical DRF to the company
- Depository sends physical share certificates in electronic form, the DRF to Depository
- Depository checks authenticity and confirms to depository
- Company checks authenticity and confirms to depository
- Investors account with DP is credited
- DP sends statement of transactions to investor.

Company checks authenticity and confirms to depository
Depository confirms Demat request to DP
Investors account with DP is credited
DP sends statement of transactions to investor.
7) Process of Rematerialization:

- Investor submits remat request form (RRF) to DP.
- DP sends the DRF to depository in electronic form.
- Depository confirms remat request to company.
- Depository updates account, prints certificate and confirms the depository.
- Company dispatches the certificates to the holder directly.
- Depository updates account and forwards to DP.
- DP also intimates the client.

8) How to pledge the securities?

- Pledger (one who owns the security and wishes to pledge) submits the application to depository through DP.
- Depositor gets confirmation from pledgee (one who wishes to get the pledge)
- Depository intimates the confirmation to pledger.
- Depository creates and records the pledge and intimates the same to pledger, pledgee and DP.
- Depository should be intimated by the pledger / pledgee for cancellation of pledge.

9) Advantages of DEMAT:

a. No stamp duty on transfers
b. Faster delivery and settlement
c. No risk of non-delivery of physical securities
d. No large usage of paper
e. Helps in pledge and hypothecation.
14. AN OVERVIEW OF LAW RELATING TO INSIDER TRADING AND TAKEOVERS

1) What is Insider Trading?

Buying, selling or dealing in any securities of the company, which has any Unpublished Price Sensitive Information (UPSI), by any person who is aware of such information, for the purpose of personal gains, is called as Insider Trading.

Investors lose confidence in the company if those few persons indulge in Insider trading and get benefited as they are aware of UPSI.

So in order to prevent such misutilization of information, Insider trading should be prohibited.

2) Who is an Insider?

- A person who have / had access to UPSI.
- A person who is / was connected with the company or deemed to have been connected with the company AND who is expected to have / had access to UPSI.

3) Connected Person:

- A person who is director of company or deemed to be a director of the company
- A person who is officer / employee or holds position of a professional or in business relationship with the company.

4) Deemed to be a Connected person:

- Companies under same management or group
- Company’s holding or subsidiary company
- All the intermediaries connected to the company
- Relatives of the above persons

5) What is Price Sensitive Information (PSI)?

Information which relates directly / indirectly to the company, which if published, will affect the market price of the securities of that company are called as PSI.

Examples: Periodical financials results, Proposed dividend, issue of new scrips, Expansion plans, Amalgamation, Mergers, Winding up, significant policy changes, etc.

6) Unpublished Price Sensitive Information (UPSI):

If the information which relates to the company directly or indirectly, and which affects the market price of its scrips, are unpublished but are known only to the few insiders, such information is called as UPSI.

7) Close Period:

- Close period is a period during which trading or dealing in securities of company is prohibited.
- Generally, close period starts from the start of board of meeting and ends only after 24 hours of the end of board meeting.
- This is to avoid fluctuations in market prices due to influence of few insiders who were only aware of UPSI.
Close period is fixed on the day of board meeting because lots of UPSIs’ arise on the day of board meeting especially.

8) What is the meaning of Dealing?

Dealing in securities is prohibited during the close period. So what does dealing mean?

- Buy shares
- Sell shares
- Agree to buy
- Agree to sell

9) Who are the designated employees?

- Officers (Top 3 tiers of the management)
- Employees (to whom the trading restrictions apply)

10) Chinese Wall Policy:

Organization separates those areas of organization which normally have access to UPSI from those areas for whom trading restrictions apply. This kind of separation made by the company to prevent misuse of UPSI is called as Chinese Wall Policy.

Employees / officers in inside the wall should not communicate any UPSI to employees / officers outside the wall.

Not only communicational separation, but also physical separation is highly recommended to prohibit Insider Trading to a greater extent.

11) What is Takeover?

When the acquirer takes over the control of the target company, it is called as takeover.

12) Substantial acquisition of shares:

When the acquirer acquires the substantial quantity of shares or voting rights of the target company, it is called as Substantial acquisition of shares.

13) Who is an Acquirer?

Person who directly / indirectly

- Acquires or agrees to acquire shares / voting rights by himself.
- Acquires or agrees to acquire shares / voting rights through a person or with a person acting in concert with him.

14) Who is a target company?

Target company is a company or a body corporate established under central / state / provincial legislation, whose shares are listed on a stock exchange AND are targeted for substantial acquisition of shares by the acquirer company.

15) Person acting in concert (PAC):

PAC are any individuals or companies or any other legal entity which acts or agrees to act together with the acquirer to acquire substantially the shares or voting powers of the target company, whether directly or indirectly.
16) What are the kinds of takeover?
   a. Friendly takeover:
      Takeover by an acquirer, with the consent and agreement of the target company is
called as friendly takeover. Here, there is an agreement between managements of
both the companies.

   b. Hostile takeover:
      Takeover by the acquirer without the consent or agreement of target company silently
and unilaterally to gain control over the business of the target company is called as
hostile takeover.

17) How to prevent hostile takeovers?
    There are 4 strategies to prevent such hostile takeovers. They are:

    a. Packman Defence:
       Target company purchases the shares of acquirer, if there is substantial cash flow or
liquid asset.

    b. Shark Repellents:
       Target company incorporates few anti-takeover provisions in AOA.

    c. Poison pills:
       Target company issues securities which provides special rights to holders, which can
be exercised only after a specified period of time.

    d. Refusal to register:
       Board of directors of target company can refuse to register the transfer of shares to
the acquirer.
15. **LISTING AGREEMENT**

1) What is Listing agreement?

   It is an agreement between the company and the stock exchange with which the shares of the company are listed. Relationship between company and stock exchange is regulated through this agreement.

2) Explain few important clauses in Listing Agreement.

<table>
<thead>
<tr>
<th>Clause #</th>
<th>Clause Name</th>
<th>Clause explains about</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>Book closure and record date</td>
<td>7 days’ notice should be given to stock exchange before the book closure and record date</td>
</tr>
<tr>
<td>20</td>
<td>Intimation about any UPSI</td>
<td>Intimation about any UPSI should be given within 15 minutes from the end of board meeting to the stock exchanges</td>
</tr>
<tr>
<td>41</td>
<td>Unaudited Quarterly Financial results</td>
<td>Company should furnish the unaudited quarterly financial results to the stock exchange within 45 days from the end of the quarter. A Notice of board meeting should be sent at least before 7 days of the meeting to the stock exchange. Board of directors should announce the results to the stock exchange within 15 minutes from the end of the meeting.</td>
</tr>
</tbody>
</table>
| 52       | Corporate Filing and Dissemination System (CFDS) | - Company agrees to file on CFDS, all the statements & reports.  
- Company agrees to appoint compliance officer and hold & jointly share the responsibility with him, the responsibility to correctness, authenticity to filings.  
- Company agrees to do such filing on CFDS within the time specified.  
- Company agrees to put in place such infrastructure required to comply with this clause. |
| 54       | Website Maintenance                        | Company shall maintain a website which contains details of the business, background of the company, Financial details, corporate governance, investor grievance redressal, etc |
| 55       | Business responsibility report             | As a part of annual report, company submits to stock exchange, this report which explains the initiatives taken by the company in environmental and social perspectives. |

3) What happens if Listing agreement is violated?

   - Necessary action by stock exchange after giving the company an opportunity of being heard.
   - Suspend / withdraw the admission to deal on scrips after giving an opportunity of being heard.
   - After 3 months of suspension / withdrawal, company may approach SEBI.
   - SEBI may vary or set aside the decision of stock exchange.
   - Stock exchange, then acts in accordance with the order of SEBI.
16. INVESTOR PROTECTION

1) What is Investor Protection?
   It is protecting the investors from being deceived / cheated by the companies. Investor education is one among many techniques to protect the investors’ interest.
   SEBI has also taken many other measures to protect the investors’ interest.

2) What is Caveat Emptor?
   This means that the investor should protect his own interest before investing and cannot complain later for any loss caused due to his negligence.

3) Common grievances in India:
   - In case of public issue – Interest on delayed refund, Non-refund of application money, delayed delivery of share certificate.
   - In case of Listed debentures – Non-payment of interest due, proceeds on redemption, interest on delayed payments
   - Grievances in shares and debentures of unlisted companies
   - Grievances in deposits of Collective Investment Vehicles.

4) Whom shall the aggrieved investor approach for any grievance caused?
   Aggrieved investor based on the nature of grievance caused, can approach any of the below:
   ✓ Registrar of companies
   ✓ Ministry of Corporate Affairs (MCA)
   ✓ SEBI and Recognized Stock Exchange (RSE)
   ✓ Company Law Board (CLB)
   ✓ Investor grievance centres of RSE
   ✓ Court

5) What are the rights and duties of the members?
   (A) Rights of members:
   ➢ To receive share certificate
   ➢ To receive copies of notice to general meetings
   ➢ To attend general meetings
   ➢ To receive copies of financial statements
   ➢ To receive dividends declared
   ➢ To receive other benefits like bonus shares, rights shares, etc if proposed
   ➢ To inspect books of the company
   ➢ To receive residual proceeds on winding up.

   (B) Duties of members:
   ➢ To be active to the happenings in the company
   ➢ To participate and vote in general meeting
   ➢ To remain informed.
6) Investor Education and Protection Fund (IEPF):
   IEPF was established by central government for
   ✷ Promotion of Investor’s awareness
   ✷ Protection of Investor’s interest
   Every company has to establish and maintain a separate fund for the above 2 purposes called as IEPF.

   Various meetings are carried out by companies for investor’s awareness and protection like:
   ✷ Conducting and organizing awareness meetups
   ✷ Educating through online and offline modes
   ✷ Making available the required documents open to investors.

7) Who is Ombudsman?
   Ombudsman generally means a person appointed to hear and act upon the complaints if citizens of the
country about the government services.
   Here, Ombudsman means a person appointed to hear and act on complaints of investors or common
public regarding the activities in the capital and securities market.

8) Who can be an Ombudsman?
   He should
   ✷ Have held judicial post in central / state government for at least 10 years
   ✷ Have been legal practitioner for at least 10 years
   ✷ Have served in public financial institutions for at least 10 years
   ✷ Have got an experience in investor protection for at least 10 years

I sincerely wish all my friends and colleagues to score good marks and reach greater heights.

With best wishes and prayers,
M Vikram Bharadhwaj,
CA-Final and CS Professional
cavikram94@gmail.com