Introduction
The Government has set up the Securities & Exchange Board of India (SEBI) in April, 1988. For more than three years, it has no statutory powers. Its interim functions during the period were (i) To collect information and advice the Government on matters relating to Stock and Capital Markets (ii) Licensing and regulation of merchant banks, mutual funds etc. (iii) To prepare the legal drafts for regulatory and development role of SEBI and (iv) To perform any other functions as may be entrusted to it by the Government.

The need for setting up independent Govt. agency to regulate and develop the Stock and Capital Market in India as in many developed countries was recognised since the Sixty Five Year Plan was launched (1985) when some major industrial policy changes like opening up of the economy to outside world and greater role to the Private Sector were initiated. The rampant malpractices noticed in the Stock and Capital Market stood in the way of infusing confidence of investors which is necessary for mobilisation of larger quantity of funds from the public and help the growth of the industry.

The malpractices were noticed in the case of companies, merchants bankers and brokers who are all operating in the Capital Market. The need to curb these malpractices and to promote healthy Capital Market in India was felt. The security industry in India has to develop on the right lines for which a competent Govt. agency as in U.K. (SIB) or in U.S.A. (SEC) is needed.

As referred to earlier, malpractices have been reported in both the primary market and secondary market. A few examples of malpractices in the primary market are as follows:

a. Too many self style Investment Advisors and Consultants.
b. Grey Market or unofficial premiums on the new issues.
c. Manipulation of market prices before new issues are floated.
d. Delay in allotment letters or refund orders or in despatch of share certificates.
e. Delay in listing and commencement of trading in shares.

A few examples of malpractices in the secondary Market are as follows:

a. Lack of transperancy in the trading operations and prices charged to clients.
b. Poor services due to delay in passing contract notes or not passing contract notes, at all.
c. Delay in making payments to clients or in giving delivery of shares.
d. Persistence of odd lots and refusal of companies to stop this practice of allotting shares in odd lots.
e. Insider trading by agents of companies or brokers rigging and manipulating prices.
f. Take over bids to destabilise management.

Objectives
The SEBI has been entrusted with both the regulatory and developmental functions. The objectives of SEBI are as follows:

a. Investor protection, so that there is a steady flow of savings into the Capital Market.
b. Ensuring the fair practices by the issuers of securities, namely, companies so that they can raise resources at least cost.
c. Promotion of efficient services by brokers, merchant bankers and other intermediaries so that they become competitive and professional.

Pending the legislative sanction to SEBI it carried out the functions of supervisory and advisory body of the Govt. It has initiated the basis for control and regulation of the market, arranged for the licensing of merchant banks, mutual funds etc. and performed the advisory functions to the Govt.

The legislation giving powers to SEBI was passed on 4th April 1992 in the form of the Securities & Exchange Board of India Act to protect the interests of investors in securities and to promote the development of and to regulate the securities market and for matters connected therewith or incidental thereto.

Details of SEBI Guidelines - for Capital Market

1. SEBI guidelines were issued after the repeal of the CIC Act whereby the CCI guidelines became out of date. New guidelines by SEBI were issued starting from the month of June, 1992. Some CCI guidelines were still retained, as in the case of those for premium fixation.

2. Guidelines for new issues made by new Companies: They have to be issued at par. Free pricing is permitted only if the new company is promoted by the existing company with not less than 50% of equity.

3. New issues made by Private Limited Companies and Closely held companies can be made by free pricing, for listing purposes if such companies have had three years of track record of consistent profitability out of last 5 years. Not less than 20% of equity is to be offered to the public, in such cases.

4. Public issues by existing listed companies can be made through free pricing, if they are further issues and if they are disclosed in the prospectus. The NAV and the market price have to be considered for the last 3 years. The companies with foreign holding wishing to enhance the limit upto 51% will have to get the prices approved in the general body meeting by a special resolution under Sec. 81 (A) of the Companies Act, and subject to RBI approval.
5. Listing of shares on the O.T.C.: If the new issues are made through OTC, normal guidelines will apply if the sponsor is not taking any share. If the shares are taken by the sponsor, subsequent offer to the public may be made at such a price as the sponsor may deem fit. The promoters should retain 25% quota with a lock in period of 5 years, the sponsor should act as market maker for a period of at least 3 years and also find another market maker for compulsory market making. This condition was relaxed recently to encourage OTC Listing.

6. Underwriting is optional if the issue is made to the public and should not include reserved or preferential quota or employees’ quota. If the subscription is not up to 90% of the total issue from the public including contribution of underwriters, the public should be refunded of their subscription within 120 days from the date of opening the issue. The compulsory underwriting provision was also waived for smaller issues.

7. Composite Issues: Issues to the public by existing company can be priced differently as compared to the rights issued to shareholders.

8. F.C.D. & P.G.D.: The issues of F.C.D.s with a conversion period of more than 36 months will not be permissible unless conversion is optional. In case F.C.D.s are convertible after 18 months, credit rating is compulsory; credit rating is now made compulsory for all issues made to public, order than equity; the D.R.R. has to be created in such issues with a maturity of more than 18 months. In case, the non-convertible portion of the P.G.D. is to be rolled over, non-maturing debenture holders should have option to withdraw from the scheme.

9. New Financial Instruments: The terms and conditions of the new instruments such as Deep Discount Bonds, debentures with warrants and secured premium notes etc. should be disclosed clearly so that the investor can assess the risk and return scenario of the instrument.

10. Reservation in issues: The unreserved portion offered to public should not be less than the minimum required for listing purposes. Preferential allotment can be made to promoters, Companies, shareholders of those companies, NRI, Employees and Associate Companies of the same group. The allotment shall be subject to a lock in period of three years, if it is made on firm basis, outside public issue.

11. Deployment of Issue Proceeds: Where the total proceeds exceed Rs. 250 crores, the company will voluntarily disclose the arrangements made to utilise proceeds. When the total issue proceeds exceed Rs. 500 crores, there is need for making compulsory disclosure and for the financial institutions to monitor the deployment of funds, to the stock exchanges.

12. Minimum interval between two issues: 12 months should elapse between the public or rights issue and Bonus issue. The promoters should bring in their share of the capital before the public issue.

13. Employee’s Stock Option Scheme: The reservation for employees should not be more than 10% at present and this quota is non-transferable for 3 years and subject to a maximum allotment of 200 shares per employee, and the lock in was removed later.

14. Lock in Period: The lock in period for Promoters’ quota is 5 years and the lock in period for preferential allotment for associates and friends is 3 years.

15. Bonus Shares: Bonus issues are to be made out of free reserves, the share premium collected in cash, Development Rebate Reserves and Investment Allowance Reserve. Contingent liabilities disclosed in the audited accounts should be deducted from net profit for calculation of residual reserves. Residual reserves after the bonus issues should be at least 40% of the increased paid-up capital. 30% of the average profits before tax for the previous 3 years should yield a rate of dividend of 10% on the expanded capital base. Reserves out of revaluation should not be used for bonus payment. Bonus issue cannot be made in lieu of dividends, and if there are partly paid up shares; no bonus issue is permitted. Expanded paid-up capital after bonus issue should not exceed authorised share capital.

When a company has P.C.D. or F.C.D., pending conversion, no bonus issue can be made unless this right is kept open to the holders of F.C.D. and P.C.D. falling due for conversion within 12 months.

16. Debenture Issues: All debentures which have a life of more than 18 months should have a D.R.R. created by company out of profits. D.R.R. should be created only for non-convertible portion of the debentures. Contribution to D.R.R. should commence from the date of commercial production and when there are profits after tax, interest and depreciation. The D.R.R. will be considered as a part of the general reserves for payment of the bonus issues. D.R.R. should be created and maintained at 50% of the amount of the debentures before repayment starts. Some liability should have already been redeemed by the company. D.R.R. and the creation of D.C. are necessary only if the debentures have a maturity period exceeding 18 months. The Lead Institution for each issue should monitor the use of debenture funds either from the working capital or from the project finance. The SEBI now insists on prior licensing of debenture Trustees; Trust deed should be ready within 6 months from the date of allotment.

17. By a recent amendment to Listing Agreement, the Companies have been asked to provide unabridged Balance Sheet to Shareholders. The companies have to give the disposition of the funds raised in public issues and compare the actuals with targets every six months, when they present balance sheet to investors.

SEBI Reforms on Stock Exchanges
The SEBI regulation of stock exchanges and their members had started as early as February 1992 and the reforms later introduced have been on a continuous basis. It was started with the licensing and registration of brokers and sub-brokers in the recognised stock exchanges. This was later extended to underwriters, portfolio managers and other categories of players in the stock market including foreign securities firms, FFI, OCBs, FII, Debenture Trustees, Collecting bankers, etc.
The other reforms are briefly summarised below:

1. Compulsory audit and inspection of stock exchanges and their member brokers and their accounts.
2. Transparency in the prices and brokerage charged by brokers by showing them in their contract notes.
3. Broker accounts and client accounts are to be kept separately and clients' money are to be separately maintained in bank's accounts and the same to be reported to the stock exchanges.
4. Board of Directors of stock exchanges has to be reconstituted so as to include non-brokers, public representatives, and Govt. representatives to the extent of 50% of the total number of members.
5. Capital adequacy norms have been laid down for members of various stock exchanges separately and depending on their turnover of trade and other factors.
6. Guidelines have been laid down for dealings of FFIs and Foreign broker firms in the Indian stock exchanges through Indian brokers.
7. Badla and carry forward business which was banned on major exchanges early in 1995 was reintroduced in October 1996 and renewal business was also subject to close scrutiny, for cash shares.
8. New guidelines for corporate members have been laid down with limited liability of directors and opening up of their membership to more than one stock of directors and opening up of their membership to more than one stock exchange without the limiting requirement of experience of five years in one exchange, as imposed earlier.

The term “Investor Protection” is a wide term encompassing various measures designed to protect the investors from malpractices of companies, brokers, merchant bankers, issue managers, Registrars of new issues, etc. “Investors Beware” should be the watchword of all programmes for mobilisation of savings for investment. As all investments have some risk element, this risk factor should be borne in mind by the investors and they should take all precautions to protect their interests in the first place. If caution is thrown to the winds and they invest in any venture without a proper assessment of the risk, they have only to blame themselves. But if there are malpractices by companies, brokers etc., they have every reason to complain. Such grievances have been increasing in number in more recent years.

The complaints of investors come from two major sources:

i. against member broker of Stock Exchanges;
ii. against companies listed for trading on the Stock Exchanges.

Besides, there can be complaints against sub-brokers, agents, merchant bankers, issue managers, etc., which cannot be entertained by the stock exchanges as per their rules.

**Complaints Against Members**

Investors have complaints against brokers regarding the price, quantity etc. at which transactions are put through, defective delivery or delayed delivery, delayed payment or non-payment etc., non-settlement of vyaj badla dues, non-payment of agreed brokerage to authorised assistants, etc. In the event of default of a member broker, the dues of clients are also to be looked into. There is a Grievance Cell in all Stock Exchanges which attends to investor complaints. Of the total, nearly 95% are against companies and they are more difficult to settle, as many companies do not attend to the complaints promptly despite reminders and warnings by the stock exchange, in view of the fact that penal powers of the Exchange are limited.

The grievance procedure in respect of complaints against members is as follows:

a. Joint meeting of members vis-a-vis the clients for an amicable settlement.
b. Arbitration proceedings by the committee under the byelaws.
c. Special committee appointed by the Executive Director for settlement.
d. Disciplinary proceedings including warnings, fines, penalties, etc. particularly in cases of fraud, cheating etc. by the members.

**Grievances Cell**

Complaints against members were in the nature of non-payment of sale proceeds, non-settlement of accounts etc. Of the total complaints against members, about 85% settled during the year, itself.

**Complaints Against Companies**

The complaints against companies are in the nature of non-receipt of allotment letters, refund orders, non-receipt of dividends, interest, etc., delay in transfer of shares and in splitting and consolidation. The clearance of these complaints is also attended to by the Cell by writing to the companies, follow-up telexes, etc. and finally by warning to delist the companies concerned. But the clearances of these complaints is slow due to the non-compliance or slow compliance by the companies to the references made by the Cell. The powers of the Stock Exchange are limited to warnings and delisting of shares and as such compliance by the companies as poor. SEBI has now powers to penalise companies violating the listing norms.

**Customer’s Protection Fund**

The Customer’s Protection Fund is constituted by the Stock Exchanges to safeguard the interests of the investor clients from default of the stock brokers. The Fund is financed by way of a levy on the turnover of members and from out of the listing fees, earmarked by the Exchanges.

The Fund is being administered by the Stock Exchange for the benefit of the clients of the member brokers, in case of a default of a member. The compensation of any single client is, however, limited to Rs. 2 lakh in BSF at present. When a member is declared a defaulter, the net assets in the hands of the defaulter’s Committee after defraying costs, charges, expenses etc., relating to the realisation of the assets will be used to meet the claims of the Exchange, clearing house and the admitted claims of the members of the Exchange against the defaulter. After meeting all these claims, if anything is left over, the claims of the clients of the defaulter will be satisfied. If nothing is left over, the genuine claims of
clients can be met from the Customer’s Protection Fund. This is the same procedure adopted by other Exchanges also where this Fund was set up.

**Investors Beware**
Investors in stock and capital markets need a word of caution. Firstly, these investments are more risky, returns are uncertain and share values are subject to wide fluctuations. Secondly, such investments require an art and expertise to pick up the right stocks, failing which the investors would burn their fingers. Thirdly, the players in the market, namely, brokers and issuers of securities, namely, companies, are not rated high for their honesty with the result that investor complaints against stockbrokers and companies have been increasing over the years. It would, therefore, be necessary for investors to prepare themselves well before entering this market.

**Specific Goals**
The investor should be clear in his objectives of income, capital appreciation, short-term gains or long-term gains, etc. He should have made already enough investment in housing and for a regular income to meet his minimum needs and comforts of life. Even if all the stock market investments are wiped out due to a market crash continued bearishness as in 1997 and 1998, the investor should not be a pauper on the streets. Besides, if the investor spends sleepless nights on the fall of share prices, he cannot be a good stock market investor. Nor can he boast over a sporadic success and be a spendthrift.

**Pre-requisites of Investor**
The investor should have abundant common sense and a strong heart to withstand the vicissitudes of fortune. He need not be a holder of high academic degrees like an MBA from Harvard or a finance graduation from the Wharton School. Nor does he need to have hereditary characteristics or family tradition of investment. The only requirement he should have is a common sense and some knowledge and research and analysis. This shows that it is expertise combined with intuition that plays a vital role in this game on the Dalal Street. Unlike a chess game which requires intelligence or a football game which needs physical prowess, the stock market game requires both an art and a scientific basis.

Although Peter Lynch calls it an art and is skeptical of the application of academic scientific theories, the fact remains that he attributes the success of investors to personal preparation, hard work involved in the collection of relevant information, knowledge and research and analysis. This shows that it is expertise combined with intuition that plays a role in this game on the Dalal Street. Unlike a chess game which requires intelligence or a football game which needs physical prowess, the stock market game requires both an art and a scientific technique.

**Preparation to Invest**
Investors desiring to invest in stocks require a lot of preparation. The weak-hearted and risk-averters should first make an entry by buying only debentures, particularly convertible debentures of good companies, or subscribe to new issues of promising and well-established companies. After sufficient study and preparation, the investor should act like rag-pickers in the market, picking up scrips on a selective basis. That means selected companies from promising and growing industries should be picked up after collection of all relevant information. The undervalued scrips should be purchased at the right time with the help of technical analysis. Rumours and advice of so-called consultants have to be carefully scrutinized. As the market investment is both a science and an art, it requires both expertise and intuition. There is need for prior preparation and a lot of home work before investments are undertaken. A high degree of caution and planning is necessary but the scientific basis and knowledge are to be acquired by a proper study.

**Balance Sheet Study**
Investors entering the stock market should also get into the habit of detailed and careful study of the balance sheets of companies in which they wish to invest. Similarly, they should examine carefully the detailed prospectus before subscribing to the new issues of companies. The habit of relying on rumours, or advice of brokers or friends should be replaced by the habit of self study of balance sheets and prospectus of companies. The factors which should be looked into and ratios that should be analysed and the aspects that should be examined are set out under fundamental analysis.

**Choice of a Broker**
Investors should as far as possible deal only with registered members of recognised stock exchanges. In place where there are no stock exchanges, they may deal with those sub-brokers who have connections with registered brokers. An honest and dependable broker is to be chosen through proper introduction and orders should be placed with him in a proper manner with limits on price at which sales or purchases can be made. As and when a transaction is completed, he should insist on a contract note in due time.

**Protection in the New Issues Market**
The main source of information on which investors depend in the new issues market is the prospectus, which should contain correct statements of facts. Any false statements, fraud, etc. are punishable under the Companies Act. Under Section 56 of the Companies Act, the Directors are subject to civil liability for any misstatement of facts or untrue statements.

Under Section 63 and 68 of the Companies Act, the Directors are also liable criminally for any fraud of false statements in the prospectus. Companies’ liability for misstatements arises from the need for statements and statements which are material for investors and particulars on which investors depend to make investments. The directors or promoters of the company are thus subject to both criminal and civil liability under the Act for any misstatements in the prospectus. Even so, the small investors cannot afford to go to court and, should therefore, carefully read and examine the prospectus for viability of the project and marketability of the product and for the integrity and dependability of the promoters. The investors have also a responsibility to assess the prospects and the risk involved in the project before making any investment.

**Protection for Fixed Deposits**
Section 58A of the Companies Act deals with the subject of Fixed Deposits. There are some rules which apply to non-banking companies, private and public limited companies, who wish to raise deposits from the public. The Stock Exchange and SEBI have however no jurisdiction on the company deposits. No deposits can be invited from investors or the public unless the companies follow the rules and guidelines made by the Department of Company Affairs in consultation with the RBI.
Interest rates, maturity period of deposits, and the amount permissible to be raised by the companies are all given in the form of guidelines by the Department of Company Affairs. The companies have to follow these guidelines while accepting deposits from the public. Renewal and repayment are also regulated by the Companies Act and the rules framed by the Department of Company Affairs. When a company fails to repay the deposit, the depositor can complain to the Company Law Board (CLB) in the specified form duly filled in, together with the fees for non-payment of interest or non-repayment of deposit. The order of the CLB is final and binding on the company and the company has to comply with it. Any non-compliance with the order of the CLB or violation of the provisions of the company law would (CLB) in the specified form duly filled in, together with the fees for non-payment of interest or non-repayment of deposit. The order of the CLB is final and binding on the company and the company has to comply with it. Any non-compliance with the order of the CLB or violation of the provisions of the company law would invite penalty of imprisonment and fine. This provision however does not apply to sick companies. The business of NBFCs is now being controlled by RBI after they are registered with the RBI, since Jan. 1999.

**Guidelines to Investors**

1. Deal with a registered member of the stock exchange. If you are dealing with a sub-broker, make sure that all bills and contracts are made in the name of a registered broker.
2. Insist that all your deals are done in the trading ring, or electronically recorded.
3. Give specific orders to buy or sell within the fixed price limits and/or time periods within which orders have to be executed.
4. Insist on contract notes to be passed on to you on the dates, when the orders are executed.
5. Make sure that your deal is registered with the stock exchange in a soured Block Book or recorded electronically. In the case of a dispute, this will help track the details of the deal easily.
6. Collect a settlement table from the stock exchange mentioning the pay-in and pay-out days. Each stock exchange has its own trading periods which are called settlements. All transactions done within this period are settled at the end of it. All payments for shares bought and their deliveries take place on the pay-in day. An awareness of pay-in and pay-out days is useful when a broker tries to make excuses.
7. Keep separate records of dealings in specified shares (Group A) and non-specified shares (Group B1 and B2). The settlement for each is on different days.
8. Execute periodic settlements of dues and delivery of shares to avoid accumulation of transactions.
9. Insist on delivery. If the company returns your papers and shares with objections, contact your broker immediately.
10. Ensure that shares bought are transferred in your name before the company’s book closure date. This is necessary to make sure that you receive benefits like dividend, interest and bonus shares. All companies have to book closure date on which the list of shareholders in the company is finalised.
11. Complain if the broker does not deliver the shares bought in your name. Proceed to contact another broker with the bill/contract given to you by the earlier broker, and the earlier broker, and the Exchange authorities and the latter will purchase the shares on your behalf. In such an event, the first broker will have to pay the shares on your behalf. In such an event, the first broker will have to pay the difference in price. Do not sell shares that are not transferred in your name after the book closure as these are not valid in the market.
12. Do not sell/deal in shares where any one of the holders has passed away. In cases where the holder has died, a succession certificate is necessary. In cases where one of the joint shareholders passes away, the surviving holder should send the shares along with the death certificate to the company. Only after the name of the deceased has been deleted from the shares, can they be transferred.
13. Do not expect the money for shares to come immediately. It will take at least a fortnight at present from the date of transaction.
14. Do not expect the money for shares to come immediately. It will take at least a fortnight at present from the date of transaction.
15. Unless you have a special arrangement with the broker, do not expect the adjustment of purchases and sales against one another. One pays first and receives later.
16. Do not trade in shares where the holder has died. You have to complain to the Grievance Cell of the stock exchange or the Securities and Exchange Board of India (SEBI) in case of delay or harassment.

**CRISIL Rating and Investor Protection**

Investor should also be familiar with the ratings given by the Credit Rating and Information Services of India Ltd. (CRISIL) for protecting their interest. The CRISIL ratings are given only for debt instruments of companies, namely, Commercial Papers (CP), debentures, bonds and fixed deposits. Since early 1992, the ratings of Investment Information and Credit Rating Agency (ICRA) are also used by companies. CARE is another agency int eh credit Rating Agency (ICRA) are also used by companies. CARE is another agency in the credit rating business, operating since 1993. Duff & Phelps is another private agency set up in 1996 for rating purposes. These are given on a voluntary basis and may be publicised or not, dependign upon the company’s own perception of the impact of these on the investors. The ratings in use by the companies are published by the CRISIL in their “CRISIL Rating Scan.” The companies use them only when the ratings are favourable to them and when they are making only public offer for deposits or debentures. The investors should examine these symbols with regard to their benefits and their implication. Since a rating given can be revised upwards or downwards, the investors should keep a watch on any such revision. Unfortunately, the CRISIL itself would not publicise them for the benefit of the investors as it is a private and autonomous organisation and is under no obligation to do so. The SEBI
guidelines now insist that all companies should get these ratings and publicise them compulsorily, if they are borrowing through issue of debentures. Many companies accepting fixed deposits are also using these CRISIL ratings. Rating of company deposits is made compulsory under the New Companies Bill 1993 and by RBI in the case of NBFCs. The SEBI proposed to bring these agencies under its control through giving directives and a Code of Conduct.

The implications of the ratings used are as follows:

- For debentures, simple 'A' and 'B' are used; for preference shares, "PP" is prefixed. For fixed deposits and short-term instruments, "F" and "P" are prefixed.

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<tr>
<th>Debenture Ratings</th>
<th>Implication</th>
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<tbody>
<tr>
<td>Triple A - (AAA)</td>
<td>Highest Safety</td>
</tr>
<tr>
<td>Double A - (AA)</td>
<td>High Safety</td>
</tr>
<tr>
<td>Single A - (A)</td>
<td>Adequate Safety</td>
</tr>
<tr>
<td>Triple B - (BBB)</td>
<td>Moderate Safety</td>
</tr>
<tr>
<td>Double B - (BB)</td>
<td>Inadequate Safety</td>
</tr>
<tr>
<td>B, C &amp; D</td>
<td>High risk and default-prone</td>
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<tr>
<th>Fixed Deposits Ratings</th>
<th>F Triple A - (FAAA)</th>
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<tr>
<td>-</td>
<td>Highest Safety</td>
</tr>
<tr>
<td>F Double A - (FAA)</td>
<td>High safety</td>
</tr>
<tr>
<td>F Single A - (FA)</td>
<td>Adequate Safety</td>
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</tbody>
</table>

FB, FC and FD are inadequate, high-risk and default-prone instruments.

**SEBI on IPOs**

The SEBI has announced in Sept. 1999 that I.T. companies are subject to a minimum public offer of only 10% of the issued capital instead of 25% for other companies. But I.T. companies have to offer at least Rs. 50 crores or give out at least 20 lakh shares. This relaxation is not applicable to Telecom and Multimedia sectors as they already enjoy some concessions under Infrastructure industries. Thus infrastructure Companies get exemption from minimum public offer of 25% of the Issued Capital. It is not mandatory for them to secure 90% of minimum subscription before closing the issue and allotment of shares.

The requirement of 5 shareholders for every Rs. 1 lakh of offer is waived for them. But all their public issues should be an Demat form.

The number of Mandatory collection centres for public issues of above Rs. 10 crores was reduced to 4 metro centres in addition to the place where the Regional Stock Exchange is situated. This is the minimum requirement and companies can have as many collection centres as they want. Besides, the threshold limit for issues that can be sold through book building route is reduced to Rs. 25 crores from Rs. 100 crores fixed earlier. This was intended to encourage the use of this route by the merchant bankers and reduce the cost of issues. The fixed par value of Rs. 10 per share is now dropped and companies can have any value of share.

The SEBI has listed companies whose shares have to be traded and settled in electronic book entry form from 4th January 2000. The demat form of issue of initial public offers of new issues is made compulsory (from the date to be fixed by the SEBI). This is made compulsory for all companies, so as to encourage demat form of trading through electronic book entry system.

To develop the debt market, in collaboration with the RBI, a committee was appointed, as per the SEBI announcement early in Feb. 2000. The SEBI also announced that Registrars of new issues under I.P.O. could also undertake the depository functions for those issues.

Some of the Reforms in the primary market were referred to earlier in this book. The major reforms relate to registration and enforcement of a code of conduct on all the intermediaries in the market, extension of regulation to UTI along with all mutual funds in the private and public sectors and to Money Market Mutual Funds which were so far regulated by the RBI and enforcement of all regulations on venture capital funds on pari with all mutual funds and on FIIs and FFIs with along with the powers exercised by the RBI under the FERMA. Even credit rating Agencies are brought under the guidelines of the SEBI.

New issues under IOPs are brought compulsorily under the fold of Demat form of allotment in some cases. The SEBI has successfully reduced the time gap for allotment of new issues to 30 days and enforced stricter surveillance on end use of funds raised through public offer, reduced the mal practices in the new issue market, such s price rigging and insider trading etc. The problems of bad delivery, and delays in transfer of shares odd lots etc. were solve by making the trading as well as transfers in demat form of electronic book entry.

**Sebi in the New Millennium**

By beginning of the new millennium in 2000 SEBI has strengthened and established itself as an all powerful regulatory body for the capital market, all intermediaries in it, SROs, stock Exchanges, listed companies, Venture Funds, Mutual Funds including M.M.F.s, etc. Already it has been regulating the FFIs and FIIs and other foreign bodies in respect of their operations in the capital market. A code of conduct has been laid down for each of the category of players in the capital market.

Early in January 2000, the SEBI has come out with a series of measures to enhance transparency and deepen the capital market. These measures include permission for e-broking, share trading via net with orders to be routed through the websites of brokers, acceptance of K umaramangalan Birla Report on Corporate Governance and of K.B. Chandrashekhar Panel Report on Venture Funds. The SEBI has given directives to the listed companies and to the top 150 companies in particular to observe the code of corporate governance by March end 2001. The SEBI has relaxed the entry norms for IPOs of Venture Funds, I.T. Companies and knowledge based companies for listing purposes and entry exit norms were relaxed for high networth foreign individuals and companies to operate in the capital market as in teh case of FIIs and FFIs.

It is understood that, SEBI has set a creditable record of regulation for growth of capital market on healthy lines during the quinquennium of 1995-2000. In the coming years the tasks set for itself are the following in particular.
1. Strengthening the Rolling settlement system which has already been initiated.
2. Pursuit of healthy corporate Governance Regulations by listed companies.
3. Development of Internet trading practices by brokers on their websites.
4. Promotion of trading in debt market and in securitised debt instruments.
5. Introduction and development of trading in derivative instruments.

In Feb. 2000, the SEBI has asked the Stock Exchanges to amend their listing Agreement with companies by adding clause 49 providing for observance of the Rules of Corporate governance mandatory for companies, seeking listing for the first time. For the existing listed companies, the observance of corporate governance Rules was subject to a time schedule, as shown below:

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<thead>
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<th>Time Limit</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Group A Companies and those included in B.S.F. sensex and in Nifty Index of BSE</td>
<td>March 31, 2001</td>
</tr>
<tr>
<td>2. All Listed Companies with paid-up Capital of above s. 10, crores or Net Worth of above Rs. 25 crores</td>
<td>March 31, 2002</td>
</tr>
<tr>
<td>3. Other Listed Companies with paid up Capital of Rs. 3 crores and above</td>
<td>March 31, 2003</td>
</tr>
</tbody>
</table>

The SEBI has set up a committee to streamline existing Risk containment Measures on Stock Exchanges, such as Margin system, circuit breakers etc., with a view to streamline and simplify the systems and procedures in this regard. The SEBI has directed all listed companies to reduce the no delivery period to one week in respect of their Demat Shares.

The SEBI has approved by Y.H. Malegaon Committee Report on accounting standards and issued guidelines in this regard in Jan. 2000. The disclosure norms were widened and relevant accounting standards upgraded to those of internationally accepted standards. Additional disclosures in the unaudited quarterly statements are required to be given to make them more meaningful and transparent. All listed companies are now obliged to observe compulsorily the clauses of listing Agreement and SEBI is given powers to enforce them through the Stock Exchange. All announcements of companies have to be made after the trading hours.

The SEBI has allowed the domestic Mutual Funds to invest in foreign listed securities and to manage foreign funds and foreign portfolios. The Mutual Funds and Venture Funds are now put on par for regulation. The MMFs, so far regulated by RBI have been brought under the control of SEBI. The Mutual Funds are now required to send a complete statement of their portfolios to all unitholders within one month of the close of half year. In order to deter the Mutual Funds from delay in despatch of redemption warrants, SEBI has directed Mutual Funds to provide for payment of interest to unit holders for this delayed period, whenever applicable.

All FIIs together can invest upto 24% or 30% of a company’s paid up capital, if it is approved by the company’s general body. This limit of 30% was raised to 40% in the Central Budget form 2000-01. There was also an individual limit of 5% for foreign individuals and foreign corporates investing in India Companies.

In 2001, SEBI introduced Compulsory Rolling Settlement System in selected scrips, with a view to reducing the price manipulation by brokers and companies. Following Ketan Prekh Scam involving Madhavpur Cooperative Urban Bank and Global Trust Bank, Control on Banks’ involvement in lending against shares and in the capital market operations was streamlined. Trading in futures and options against individual scrips, in addition to Stock Index was also permitted. Margin trading was allowed on a Selective basis, to help boost the market sentiment in a sagging market.

Notes