ANNUAL REPORT

2016-17

Securities and Exchange Board of India

This Report is in conformity with the format as per the Securities and Exchange Board of India (Annual Report) Rules, 1994, notified in Official Gazette on April 7, 1994

अजय त्यागी
अध्यक्ष
Ajay Tyagi
Chairman

भारतीय प्रतिभूति और विनिमय बोर्ड
SECURITIES AND EXCHANGE BOARD OF INDIA

डीईपीए/14625/1/2017
22 जून, 2017

सचिव,
भारत सरकार,
आर्थिक कार्य विभाग,
वित्त मंत्रालय, नॉर्थ ब्लॉक,
नई दिल्ली–110 001

प्रिय महोदय,

भारतीय प्रतिभूति और विनिमय बोर्ड अधिनियम, 1992 की धारा 18(2) के प्रावधानों के अनुसार, मैं एतदद्वारा भारत के राजपत्र, असाधारण के भाग II खण्ड 3 उप–खण्ड (1) में, 7 अप्रैल 1994 को अधिसूचित भारतीय प्रतिभूति और विनिमय बोर्ड (वार्षिक रिपोर्ट) नियम, 1994 में निर्धारित किए गए प्रारूप में, 31 मार्च 2017 को समाप्त वर्ष के लिए भारतीय प्रतिभूति और विनिमय बोर्ड की वार्षिक रिपोर्ट की प्रति अग्रेषित कर रहा हूँ।

भवदीय,

(अजय त्यागी)

संलग्न : उपरोक्तानुसार

DEPA/14625/1/2017
22 June, 2017

The Secretary,
Government of India
Department of Economic Affairs
Ministry of Finance, North Block,
New Delhi-110 001

Dear Sir,

In accordance with the provisions of Section 18(2) of the Securities and Exchange Board of India Act, 1992, I forward herewith the copy of the Annual Report of the Securities and Exchange Board of India for the year ended March 31, 2017, in the format prescribed in the Securities and Exchange Board of India (Annual Report) Rules, 1994, notified on April 7, 1994, in Part II Section 3 Sub-section (1) of the Gazette of India Extraordinary.

Yours faithfully,

(Ajay Tyagi)

Encl.: As above

सेबी भवन, प्लॉट सं.सी 4-ए, "जी" ब्लॉक, बांद्रा-कुर्ला कॉम्प्लेक्स, बांद्रा (पूर्व), मुंबई - 400 051. • दूरभाष : 2644 9999 / 4045 9999
फैक्स : 2644 9003 • ई-मेल : chairman@sebi.gov.in • वेब : www.sebi.gov.in

SEBI Bhavan, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051. • Tel.: 2644 9999 / 4045 9999
Fax : 2644 9003 • E-mail : chairman@sebi.gov.in • Web : www.sebi.gov.in

MEMBERS OF THE BOARD

(As on March 31, 2017)

Appointed under Section 4(1)(a) of the SEBI Act, 1992 (15 of 1992)

AJAY TYAGI
CHAIRMAN

Appointed under Section 4(1)(d) of the SEBI Act, 1992 (15 of 1992)

S. RAMAN
WHOLE TIME MEMBER

G. MAHALINGAM
WHOLE TIME MEMBER

MADHABI PURI BUCH
WHOLE TIME MEMBER

ARUN P. SATHE
PART TIME MEMBER

Nominated under Section 4(1)(b) of the SEBI Act, 1992 (15 of 1992)

SHAKTIKANTA DAS
Secretary, Ministry of Finance, Department of Economic Affairs, Government of India

TAPAN RAY
Secretary, Ministry of Corporate Affairs, Government of India

Nominated under Section 4(1)(c) of the SEBI Act, 1992 (15 of 1992)

N. S. VISHWANATHAN
Deputy Governor, Reserve Bank of India

MEMBERS OF THE BOARD

AJAY TYAGI
Chairman

S. RAMAN
Whole Time Member

G. MAHALINGAM
Whole Time Member

MADHABI PURI BUCH
Whole Time Member

ARUN P. SATHE
Part Time Member

SHAKTIKANTA DAS
Secretary Ministry of Finance
Department of Economic Affairs
Government of India

TAPAN RAY
Secretary Ministry of Corporate
Affairs Government of India

N. S. VISHWANATHAN
Deputy Governor
Reserve Bank of India

Chairman, Whole Time Members and Executive Directors

(Left to Right)

Sitting: **Ms. Madhabi Puri Buch,** Whole Time Member; **Shri S. Raman**, Whole Time Member; **Shri Ajay Tyagi**, Chairman; **Shri G.Mahalingam**, Whole Time Member

Standing: **Shri J Ranganayakulu**, Executive Director; **Shri S. Ravindran**, Executive Director; **Shri Amarjeet Singh**, Executive Director; **Shri Ananta Barua**, Executive Director; **Shri S.V. Murali Dhar Rao**, Executive Director; **Shri P. K. Nagpal**, Executive Director; **Shri Nagendraa Parakh**, Executive Director; **Shri S. K. Mohanty**, Executive Director

EXECUTIVE DIRECTORS (As on June 29, 2017)

Shri P. K. Nagpal	Office of International Affairs; Human Resources Division; Official Language Division; RTI Cell; PQ Cell; Board Cell and Chief Vigilance Officer
Shri J Ranganayakulu	Legal Affairs Department; Enforcement Department and Enquiry and Adjudication Department
Shri Ananta Barua	Corporation Finance Department and Office of Investor Assistance and Education
Shri S. Ravindran	Investigation Department; Market Regulation Department and Special Enforcement Cell
Shri S.V. Murali Dhar Rao	Investment Management Department; Foreign Portfolio Investment; Collective Investment Scheme; Regional and Local Offices
Shri S. K. Mohanty	Commodity Derivatives Market Regulation Department and Facilities Management Division, Establishment Division, Treasury & Accounts Division and Protocol & Security in the General Services Department
Shri Nagendraa Parakh	Integrated Surveillance Department and Information Technology Department
Shri Amarjeet Singh	Market Intermediaries Regulation and Supervision Department; Department of Economic and Policy Analysis and National Institute of Securities Market

CHIEF GENERAL MANAGERS (As on June 29, 2017)

Shri P. K. Kuriachen	On Deputation to FSC, Mauritius
Shri P.K. Bindlish	Commodity Derivatives Market Regulation Department
Shri S. V. Krishnamohan	Enquiry and Adjudication Department
Shri G. P .Garg	On Deputation to NISM
Shri A. Rajan	Information Technology Department
Shri Suresh B. Menon	Enquiry and Adjudication Department
Shri Suresh Gupta	Enquiry and Adjudication Department
Shri V. S. Sundaresan	Investigation Department, Special Enforcement Cell
Shri Sujit Prasad	Southern Regional Office
Shri Amit Pradhan	Northern Regional Office
Shri N. Hariharan	Communication Division, Office of Investor Assistance and Education
Shri Piyoosh Gupta	Investment Management Department - Division of Funds (DoF) - 2 & 3
Ms.G. Babita Rayudu	Legal Affairs Department
Shri A. Sunil Kumar	Eastern Regional Office

Shri Jayanta Jash	Corporation Finance Department, Human Resources Department
Shri Parag Basu	Market Intermediaries Regulation and Supervision Department, Board Cell
Ms. Barnali Mukherji	Investment Management Department - Division of Funds (DoF) - 1
Shri Manoj Kumar	Market Regulation Department
Shri Sunil Kadam	Integrated Surveillance Department (ISD) - 1
Shri Santosh Shukla	Western Regional Office
Dr. Prabhakar Patil	Department of Economic and Policy Analysis - 2, ISD - 2
Dr. Sarat Malik	Department of Economic and Policy Analysis - 1

ANNUAL REPORT TEAM

Dr. Sarat Malik	Chief General Manager
Mr. Tathagata Biswas	Assistant General Manager
Ms. Akriti	Manager
Ms. Suvidha Nagpal	Manager
Mr. Kshitij Sorde	Assistant Manager
Mr. Sumit Kumar Verma	Assistant Manager
Mr. Yogesh Chander	Assistant Manager
Mr. A V Subba Rao	Secretary
Depa - 2	

CHAIRMAN'S STATEMENT

The overall positive outlook of the economy led the Indian securities market to perform well during 2016-17, with equity benchmark indices, BSE Sensex and NIFTY registering growth of 16.9 and 18.5 per cent respectively. These benchmark equity indices continued their surge in financial year 2017-18 touching new highs amidst a more positive economic outlook.

As far as investments in the Indian securities market are concerned, with record breaking addition of more than 7.7 million folios, the mutual fund sector in India continued to grow significantly during 2016-17 with net fund mobilization to the tune of ₹3.43 trillion during the year and AUM touching a record level of ₹17.55 trillion as on March 31, 2017. Net investments by foreign portfolio investors (FPIs) were ₹484 billion (US$ 7.18 billion) during the same period with net investments of ₹557 billion (US$8.75 billion) in equities and net sales of ₹73 billion (US$1.15 billion) in bonds.

During 2016-17, SEBI took several policy initiatives to further deepen the securities market in India. Enhancing investor trust by strengthening governance norms, maintaining market integrity through effective supervision and enforcement actions, promoting ease of doing business and financial education, developing the commodity derivatives market by strengthening risk management norms and introducing the framework for options and framework for the operationalization of the International Financial Services Centre (IFSC) remained the main areas of policy thrust during the year.

Going forward, SEBI will continue to play an enabling role in the Indian securities market in efficient mobilization and allocation of financial resources to meet the needs of the fast growing Indian economy. SEBI will stay focused on investor protection by further strengthening the overall governance framework in the market.

The securities market is dynamic and its regulatory framework needs to evolve in tandem with this. SEBI will continue to rationalize the regulatory framework to make it contemporary and user friendly, without compromising on its over-arching objective of investor protection.

Policy refinements for expanding the geographical spread of the securities market in India will also continue. Apart from enhancing investor awareness and improving access to the securities market, technology solutions will also be explored to achieve the objective of scaling up delivery channels in the market including eKYC and online registration processes.

Developing a liquid and vibrant corporate bond market further is an important agenda for enhancing the role of the Indian securities market in channelizing long term finance. SEBI will work with all stakeholders for this. SEBI will also continue to facilitate resource mobilization from the Indian securities market through various fund raising avenues – the primary market, alternative investment funds, REITs, InVITs and municipal bonds. Steps will also be taken to further encourage the securities market as a source of risk capital for start-ups.

Developing the commodity derivatives market is one of SEBI's main agendas. SEBI will take necessary measures for the integration and harmonious development of the commodity derivatives market with the securities market and will explore widening its participants and products to further deepen the commodity derivatives segment.

Market integrity is crucial for promoting confidence among market participants. SEBI will continue to strengthen market supervision through various steps such as Aadhar based identification of investors, effective market surveillance and monitoring of compliances by regulated entities. Deterring, effective and timely enforcement actions against errant entities will also be taken to maintain discipline and the overall integrity of the market.

CONTENTS

PART THREE A : FUNCTIONS OF SEBI IN RESPECT OF MATTERS SPECIFIED IN SECTION 11 OF SEBI ACT, 1992

PART THREE B : REGULATORY ACTIONS

PART FOUR: ORGANIZATIONAL MATTERS

LIST OF BOX ITEMS

LIST OF TABLES

LIST OF FIGURES

This report can also be accessed on internet at: http://www.sebi.gov.in

Conventions used in this Report

₹	:	Rupees
Lakh	:	Hundred thousand
Crore	:	Ten million
Million	:	Ten lakh
Billion	:	Thousand million/hundred crore
NA	:	Not Available
Na	:	Not Applicable
p.a.	:	Per annum

Differences in total are due to rounding off and sometimes they may not exactly add up to hundred percent.

Source of Charts and Tables where not mentioned is SEBI.

ABBREVIATIONS

AA	Appellate Authority
AGM	Assistant General Manager
AIF(s)	Alternative Investment Fund(s)
AM	Assistant Manager
AMBI	Association of Merchant Bankers of India
AMC(s)	Asset Management Company/Companies
AMFI	Association of Mutual Funds in India
AML	Anti-Money Laundering
ANMI	Association of NSE Members of India
AO	Adjudicating Officer
APRC	Asia- Pacific Regional Committee
APs	Authorised Persons
ASBA	Application Supported by Blocked Amount
ASE	Ahmedabad Stock Exchange
ATR(s)	Action Taken Report(s)
AUM	Assets Under Management
BgSE	Bangalore Stock Exchange
BhSE	Bhubaneswar Stock Exchange
BI	Business Intelligence
BOs	Beneficial Owners
BoD	Board of Directors
BPM	Business Process Monitoring
BRLM	Book Running Lead Manager
BSDA	Basic Services Demat Account
BSE	Bombay Stock Exchange Limited
BSEC	Bangladesh Securities and Exchange Commission
C&AG	Comptroller & Auditor General of India
CAD	Current Account Deficit
CAPIO	Central Assistant Public Information Officer
CAS	Consolidated Account Statement
CBLO	Collateralised Borrowing and Lending Obligation
CCD	Completely Convertible Debenture
CCL	Clearing Corporation Limited
CCP	Central Counter Party
CDR	Call Data Record
CDSL	Central Depository Services (India) Limited
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CFO	Chief Financial Officer
CFT	Countering Financing of Terrorism

CGM	Chief General Manager
CIC	Central Information Commission
CIMC	Collective Investment Management Company
CIS	Collective Investment Scheme
CMD	Chairman and Managing Director
CMs	Clearing Members
CoBoSAC	Corporate Bonds and Securitization Advisory Committee
COC	Chamber of Commerce, Hapur (Uttar Pradesh)
Core SGF	Core Settlement Guarantee Fund
CoSE	Cochin Stock Exchange
CPE	Continuing Professional Education
CPF	Customer Protection Fund
CPI	Consumer Price Index
CPIO	Central Public Information Officer
CPMI	Committee on Payments and Market Infrastructure
CPSS	Committee on Payments and Settlement Systems
CRA(s)	Credit Rating Agency/Agencies
CRFR	Committee on Rationalisation of Financial Resources
CRS	Common Reporting Standards
CSE	Calcutta Stock Exchange
CSO	Central Statistics Office
CSX	Coimbatore Stock Exchange
CVO	Chief Vigilance Officer
DDPs	Designated Depository Participants
DEA	Department of Economic Affairs
DFIs	Domestic Financial Institutions
DGM	Deputy General Manager
DIP	Disclosure and Investor Protection
DIS	Delivery Instruction Slip
DJIA	Dow Jones Industrial Average
DMS	Document Management System
DoR	Department of Revenue
DP(s)	Depository Participant(s)
DRG	Development Research Group
DSE	Delhi Stock Exchange
DSRC	Depository Systems Review Committee
DWBIS	Data Warehousing and Business Intelligence System
EAG	Eurasian Group on Combating Money Laundering and Financing of Terrorism
ECB	European Central Bank
ED	Executive Director/Enforcement Directorate
EMIR	European Market Infrastructure Regulation
EPFO	Employee Provident Fund Organisation
ERP	Enterprise Resource Planning

ESMA	European Securities and Markets Authority
ETF(s)	Exchange Traded Fund(s)
EU	European Union
F&O	Futures and Options
FAQ(s)	Frequently Asked Question(s)
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCDs	Fully Convertible Debentures
FDI	Foreign Direct Investments
FEW	Financial Education Website
FIIs	Foreign Institutional Investors
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FIs	Financial Institutions
FIU	Financial Intelligence Unit
FLIS	Financial Literacy and Inclusion Survey
FMC	Forward Markets Commission
FMI	Financial Market Infrastructure
FPI(s)	Foreign Portfolio Investor(s)
FPO(s)	Further Public Offering(s)
FSAP	Financial Sector Assessment Programme
FSB	Financial Stability Board
FSDC	Financial Stability Development Council
FSLRC	Financial Sector Legislative Reforms Commission
FSRB	FATF-Style Regional Body
FSS	Financial Supervisory Service, South Korea
FUTP	Fraudulent and Unfair Trade Practices
FVCI(s)	Foreign Venture Capital Investor(s)
GAAPs	Generally Accepted Accounting Principles
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GDR(s)	Global Depository Receipt(s)
GDS	Gross Domestic Saving
GEM	Growth and Emerging Market
GM	General Manager
GNI	Gross National Income
GoI	Government of India
GSE	Gauhati Stock Exchange
GVA	Gross Value Added
HFT	High Frequency Trading
HNIs	High Net Worth Individuals
HUFs	Hindu Undivided Families
HySE	Hyderabad Stock Exchange
IA	Investment Advisers

IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICAI	Institute of Chartered Accountants of India
ICCL	Indian Clearing Corporation Limited
ICD	Inter Corporate Deposits
ICDR	Issue of Capital and Disclosure Requirements
ICSI	The Institute of Company Secretaries of India
IDFs	Infrastructure Debt Funds
IEPF	Investor Education and Protection Fund
IFC	Infrastructure Finance Companies
IFRS	International Financial Reporting Standards
IFSC	International Financial Service Centre
IIP	Index of Industrial Production
ILDS	Issue and Listing of Debt Securities
IMF	International Monetary Fund
IMSS	Integrated Market Surveillance System
INR	Indian Rupee
InvIT	Infrastructure Investment Trust
IOSCO	International Organisation of Securities Commissions
IPF	Investor Protection Fund
IPO	Initial Public Offer
IPP	Institutional Placement Programme
IPSTA	Indian Pepper and Spice Trade Association, Kochi (Kerala)
IRFs	Interest Rate Futures
ISB	Indian School of Business
ISD	Integrated Surveillance Department
ISE	Inter-Connected Stock Exchange
ISIN	International Securities Identification Number
ISTM	Institute of Secretarial Training and Management
IT	Information Technology
ITP	Institutional Trading Platform
IVD	Investigation Department
JF	Joint Forum
JPY	Japanese Yen
JSE	Jaipur Stock Exchange
KRA	KYC Registration Agency
KYC	Know Your Client
LES(s)	Liquidity Enhancement Scheme(s)
LSE	Ludhiana Stock Exchange
LTP	Last Traded Price
M	Manager
MB(s)	Merchant Banker(s)
MCA	Ministry of Corporate Affairs

MCX-SX	MCX Stock Exchange
MCX-SX CCL	MCX Stock Exchange Clearing Corporation Limited
MD	Managing Director
MF(s)	Mutual Fund(s)
MFAC	Mutual Fund Advisory Committee
MgSE	Mangalore Stock Exchange
MHRD	Ministry of Human Resource Development
MLM	Multi-Level Marketing
MMoU	Multilateral Memorandum of Understanding
MoF	Ministry of Finance
MoSPI	Ministry of Statistics and Programme Implementation
MoU	Memorandum of Understanding
MPS	Minimum Public Shareholding
MPSE	Madhya Pradesh Stock Exchange Limited
MSEI	Metropolitan Stock Exchange of India Limited
NAV	Net Asset Value
NBFC	Non-Banking Finance Company
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
NCD	Non-Convertible Debenture
NCDEX	National Commodity and Derivatives Exchange Limited
NCFE	National Centre for Financial Education
NDP	Net Domestic Product
NDTL	Net Demand and Time Liabilities
NFLAT	National Financial Literacy Assessment Test
NFLIS	National Financial Inclusion Survey
NFO	New Fund Offer
NISM	National Institute of Securities Markets
NMCE	National Multi-Commodity Exchange of India Limited
NNI	Net National Income
NoC	No Objection Certificate
NRI(s)	Non-Resident Indian(s)
NRO	Northern Regional Office
NSCCL	National Securities Clearing Corporation Limited
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
NSFE	National Strategy for Financial Education
OCBs	Off-shore Corporate Bodies
OCRES	Online CPE Registration and Enrolment System
ODI(s)	Off-shore Derivatives Instrument(s)
OECD	Organisation for Economic Co-operation and Development
OFCD(s)	Optionally Fully Convertible Debenture(s)
OFS	Offer for Sale
OTC	Over the Counter

OTCEI	Over the Counter Exchange of India
P/B Ratio	Price to Book Ratio
P/E Ratio	Price-Earnings Ratio
PCD	Partly Convertible Debentures
PE	Private Equity
PFI	Public Financial Institution
PFMIs	Principles for Financial Market Infrastructure
PFs	Pension Funds
PFUTP	Prohibition of Fraudulent and Unfair Trade Practices
PIT	Prohibition of Insider Trading
PMAC	Primary Market Advisory Committee
PMI	Purchasing Managers Index
PMLA	Prevention of Money Laundering
PMO	Project Management Office
PN	Participatory Notes
PSE	Pune Stock Exchange
PSUs	Public Sector Unit(s)
QARC	Qualified Audit Review Committee
QFI(s)	Qualified Foreign Investor(s)
QIB(s)	Qualified Institutional Buyer(s)
QIP(s)	Qualified Institutions' Placement(s)
RA	Research Analyst
RAIN	Registrars Association of India
RBI	Reserve Bank of India
RBSTF	Risk Based Supervision Task Force
RCG	Regional Committee Group
REIT	Real Estate Investment Trust
RHP	Red Herring Prospectus
RIA	Regulatory Impact Assessment
ROW	Rest of the World
RP(s)	Resource Person(s)
RSE(s)	Regional Stock Exchange(s)
RTA	Registrar and Transfer Agent
RTI	Right to Information
SA(s)	Sub Account(s)
SAARC	South Asian Association for Regional Co-operation
Saral AOF	Saral Account Opening Form
SAST	Substantial Acquisition of Shares and Takeovers
SAT	Securities Appellate Tribunal
SCG	School for Corporate Governance
SCI	School for Certification of Intermediaries
SCM	Self-Clearing Member
SCN	Show Cause Notice

SCORES	SEBI Complaints Redress System
SCRA	Securities Contracts (Regulation) Act, 1956
SCRR	Securities Contracts (Regulation) Rules
SDI(s)	Securitised Debt Instrument(s)
SE	Stock Exchange
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SECC	Stock Exchanges and Clearing Corporations
SECL	Securities and Exchange Commission of Sri Lanka
SECP	Securities and Exchange Commission of Pakistan
SGF	Settlement Guarantee Fund
SGX	Singapore Exchange
SIDBI	Small Industries Development Bank of India
SIEFL	School for Investor Education and Financial Literacy
SKSE	Saurashtra Kutch Stock Exchange
SLB	Securities Lending and Borrowing
SMAC	Secondary Market Advisory Committee
SMEs	Small and Medium Enterprises
SMS	Short Message Services
SRO(s)	Self-Regulatory Organisation(s)
SRSS	School for Regulatory Studies and Supervision
SSE	School for Securities Education
SSIR	School for Securities Information and Research
TAC	Technical Advisory Committee
TER	Total Expense Ratio
TFT	Trade For Trade
TSP	Telecom Service Provider
UAT	User Acceptance Test
UK	United Kingdom
UPSE	Uttar Pradesh Stock Exchange Limited
UPSI	Unpublished Price Sensitive Information
US	United States
USD	United States Dollar
USE	United Stock Exchange
UTI	Unit Trust of India
VCF(s)	Venture Capital Fund(s)
VIX	Volatility Index
VPN	Virtual Private Network
VSE	Vadodara Stock Exchange
WDM	Wholesale Debt Market
WFE	World Federation of Exchanges
WPI	Wholesale Price Index
WTM	Whole Time Member

Part One:
Policies And Programmes

Global economic activity picked up modestly towards the end of 2016-17. This was backed by cyclical recovery in investments, manufacturing and trade following a lacklustre out-turn in the beginning of the financial year. Although the growth momentum in India slowed down slightly during the year partly due to external shocks and partly due to temporary repercussions resulting from a series of reforms, the GDP growth rate remained robust compared to other emerging nations. During 2016-17 India initiated a series of structural reforms with a view to achieving medium and long run gains. In its 2017 'Article IV Consultation,' the International Monetary Fund (IMF) highlighted the continued progress in reforms that brightens India's medium-term prospects.

Indian securities markets performed well amid external headwinds as indicated by soaring indices, expansion of market capitalization of the exchanges and assets under management in the mutual funds industry. Despite a setback in the third quarter of 2016-17, foreign portfolio investments for the year increased compared to the previous year. Primary market issues also increased both in number as well as in terms of the amount mobilized. On the other hand, new policy measures have been initiated to develop the commodity derivatives market.

SEBI's Annual Report 2016-17 covers a major account of its activities, policies and programmes during the year.

Part One of the report covers the general economic environment and the investment climate followed by a review of the policies and programmes adopted by SEBI in the Indian securities market.

1. REVIEW OF THE GENERAL ECONOMIC ENVIRONMENT AND INVESTMENT CLIMATE

I. GLOBAL ECONOMY: RECENT DEVELOPMENTS

Following a lacklustre out-turn, economic activity picked up towards the end of 2016-17 especially in emerging markets and developing economies supported by a recovery in investments, manufacturing and trade. The World Economic Outlook (WEO) published by the International Monetary Fund (IMF) in April 2017 has upgraded expected world growth from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. The tailwind is coming from stronger economic activities, expectations of more robust global demand, amicable inflationary conditions and optimistic financial markets. However, structural impediments to a stronger recovery appear as headwinds over the medium term.

Advanced economies are tending towards protectionism to deal with persistent structural problems such as low productivity growth and high income inequalities. This tendency might affect global economic integration between advanced economies and emerging markets and developing economies. As per WEO's forecasts, growth in advanced economies may go up from 1.7 per cent in 2016 to 2.0 per cent in 2017 and 2018. The outlook for the United States has brightened as a result of proposed fiscal policy easing by the newly elected government. Great Britain, on the other hand, recorded faster recovery fuelled by increased spending after it decided to leave the European Union in June 2016. Backed by strong net exports the Japanese economy too has expanded. Meanwhile, recovery also continues in the Euro-zone supported by domestic demand, falling unemployment and recovery in peripheral economies. Nevertheless, the current high sovereign debt levels and weak banking sectors in some economies may thwart recovery (see Table 1.1).

Table 1.1: The world economy – Recent trends in growth (per cent change)

Region / Country	2016	2015
World output	**3.1**	**3.4**
Advanced economies	**1.7**	**2.1**
United States	1.6	2.6
Euro-area	1.7	2
Germany	1.8	1.5
France	1.2	1.3
Italy	0.9	0.8
Spain	3.2	3.2
Japan	1	1.2
United Kingdom	1.8	2.2
Canada	1.4	0.9
Emerging markets and developing economies	**4.1**	**4.2**
Brazil	–3.6	-3.8
Russia	–0.2	-2.8
India[1]	6.8	7.9
China	6.7	6.9
South Africa	0.3	1.3

Note: [1] For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011-12 as the base year.

Source: IMF, *World Economic Outlook*.

The economic performance of emerging markets and developing economies has been somewhat mixed with a number of countries expanding faster than expected, while a few are experiencing a slowdown. WEO predicts that growth rates in emerging and developing nations will improve from 4.1 per cent in 2016 to 4.5 per cent in 2017 and to 4.8 per cent in 2018. Growth in the two largest emerging market economies, India and China, has remained strong. However, growth in China is expected to decelerate from 6.7 per cent in 2016 to 6.6 per cent in 2017 and 6.5 per cent in 2018. In India, the impact of demonetization has ebbed and as per WEO, India is expected to grow at 7.2 per cent in 2017 and 7.7 per cent in 2018; this is substantially higher than the 6.8 per cent growth recorded in 2016.

Commodity prices showed an uptrend during 2016-17. As a result, headline inflation has been picking up in advanced economies, although core inflation has remained subdued. A number of emerging markets and developing economies also witnessed spiralling of headline inflation due to higher commodity prices. Looking ahead, downside risks remain heightened due to a number of factors. Firstly, protectionist policies being pursued in the US may work as a major impediment to global growth by hampering cross-border trade and capital flows. Secondly, a hike in interest rates by the Federal Reserve in the United States might further tighten international currency markets and may result in sharp dollar appreciation, which may have adverse repercussions on importing nations. Thirdly, high leverage and economic rebalancing in the second largest economy in the world, China remains a risk for global markets. Fourthly, geopolitical issues such as increasing tension between the US and North Korea could also destabilize markets across the world.

II. THE INDIAN ECONOMY: RECENT DEVELOPMENTS

The Indian economy recorded robust expansion during 2016-17 albeit at a slightly slower pace as compared to the previous year. The strong growth was backed by private and government consumption. However this was offset by slowing fixed investments, subdued industrial activity and sluggish exports. Lower energy costs, revision of public sector salaries and pensions and a favourable monsoon boosted urban and rural incomes which resulted in increased consumption. Economic activity also benefitted from foreign investments and increase in public infrastructure spending. With foreign exchange reserves at around US$ 370 billion at the end of 2016-17 external vulnerabilities are in check.

The Government of India has initiated a number of reforms that are going to benefit the economy in the medium and long run. With a view to curbing black money and tax evasion, and to deal a body blow to terrorist activities and counterfeiting, the Indian government undertook 'demonetization'[1] of large-denomination currency notes. In other major policy initiatives, a constitutional amendment was done to pave the way for the Goods and Services Tax (GST) to create a common Indian market, improving tax compliance and boosting investments. The Insolvency and Bankruptcy Code, 2016 was passed by Parliament which will help in cleaning up bank balance sheets. Besides, the government has opened up defence, civil aviation and the single-brand retail and pharmaceutical sectors to more foreign direct investments.

Considering the inflationary trend consumer price index (CPI) inflation is expected to be below 5 per cent during 2017-18. In 2016-17 CPI inflation was 4.5 per cent, which is below the Reserve Bank of India's (RBI's) target of 5 per cent. The *Economic Survey 2016-17* forecast that India may record real GDP growth in the 6.8 to 7.5 per cent range in 2017-18. Fitch Ratings in its recent update has maintained a stable outlook for India, supported by a strong medium-term growth outlook.

[1] On November 8, 2016, the Government of India announced discontinuation of large-denomination currency notes of ₹ 500 and ₹ 1,000, representing 86 per cent of the total currency in circulation as legal tender. On the same day new ₹ 500 and ₹ 2,000 currency notes were introduced. The withdrawal from circulation started immediately and ended on December 30, 2016.

A. GROWTH

The Indian economy is estimated to have grown by 7.1 per cent during 2016-17 on top of a growth of 8.0 per cent in 2015-16 (Figure 1.1). Gross value added (GVA) at basic prices grew at 6.6 per cent during 2016-17 against 7.9 per cent in 2015-16 (Table 1.2). The gross national income (GNI) at constant prices rose by 7.0 per cent in 2016-17 compared to 8.0 per cent growth during 2015-16. Slowing down of the industrial and services sectors accounted for deceleration of growth during the year. The primary sector on the other hand recorded faster expansion.

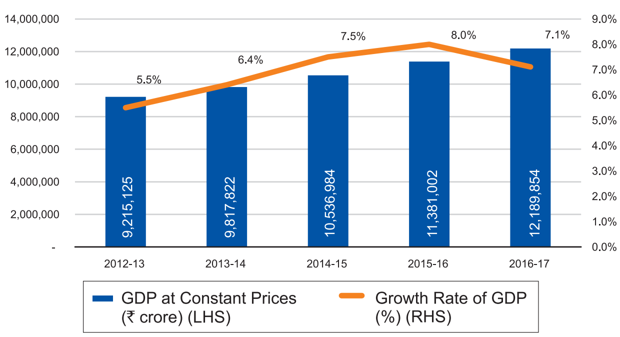
Table 1.2: National income (at 2011-12 prices)

(₹ crore)

Item	2014-15	2015-16	2016-17 (Provisional Estimates)	*Percentage change over previous year*	
				2015-16	*2016-17*
1	*2*	*3*	*4*	*5*	*6*
A. Estimates at the Aggregate Level					
I. National Product					
1.1 Gross National Income (GNI)	1,04,12,280	1,12,46,305	1,20,34,713	*8.0*	*7.0*
1.2 Net National Income (NNI)	92,31,556	99,82,112	1,06,86,776	*8.1*	*7.1*
II. Domestic Product					
2.1 Gross Value Added (GVA) at basic prices	97,19,023	1,04,90,514	1,11,85,440	*7.9*	*6.6*
2.2 Gross Domestic Product (GDP)	1,05,36,984	1,13,81,002	1,21,89,854	*8.0*	*7.1*
2.3 Net Domestic Product (NDP)	93,56,260	1,01,16,809	1,08,41,917	*8.1*	*7.2*
B. Estimate at Per Capita Level					
1. Population (million)	1,267	1,283	1,299	*1.3*	*1.2*
2. Per Capita Net National Income (NNI) (₹)	72,862	77,803	82,269	*6.8*	*5.7*
3. Per Capita Gross Domestic Product (GDP) (₹)	83,165	88,706	93,840	*6.7*	*5.8*

Source: Ministry of Statistics and Programme Implementation (MoSPI).

Figure 1.1: GDP growth rates



The shares of the different sectors of the economy in the overall gross value added (GVA) during 2014-15 to 2016-17 and the corresponding annual growth rates are given in Table 1.3.

Table 1.3: Advance estimates of GDP at basic price by economic activity (at 2011-12 prices)

(₹ crore)

	Industry	2014-15	2015-16	2016-17 (Provisional Estimate)	*Percentage change over previous year*	
					2015-16	*2016-17*
1	**Agriculture, Forestry & Fishing**	**16,06,140**	**16,17,208**	**16,96,175**	***0.7***	***4.9***
2	Mining and Quarrying	2,93,821	3,24,740	3,30,485	*10.5*	*1.8*
3	Manufacturing	16,89,504	18,72,115	20,19,927	*10.8*	*7.9*
4	Electricity, Gas and Water Supply & other utility services	2,13,744	2,24,447	2,40,590	*5.0*	*7.2*
	Industry (2+3+4)	**21,97,069**	**24,21,302**	**25,91,002**	***10.2***	***7.0***
5	Construction	8,38,203	8,79,782	8,94,668	*5.0*	*1.7*
6	Trade, Hotels, Transport and Communication and services related to broadcasting	18,00,919	19,89,161	21,43,956	*10.5*	*7.8*
7	Financing, Real Estate and Professional Services	20,75,549	22,98,798	24,29,638	*10.8*	*5.7*
8	Public Administration, Defence and other services	12,01,143	12,84,263	14,30,002	*6.9*	*11.3*
	Services (5+6+7+8)	**59,15,814**	**64,52,004**	**68,98,264**	***9.1***	***6.9***
9	**GVA at Basic Price**	**97,19,023**	**1,04,90,514**	**1,11,85,440**	***7.9***	***6.6***
10	Net Taxes on Products including import duties	8,17,961	8,90,488	10,04,414	*8.9*	*12.8*
	GDP at Basic Price (9+10)	**1,05,36,984**	**1,13,81,002**	**1,21,89,854**	***8.0***	***7.1***

Source: MoSPI.

B. AGRICULTURE

As per the Central Statistics Office's (CSO's) second advanced estimates, GVA at constant prices of the 'agriculture, forestry and fishing' sector grew by 4.9 per cent during 2016-17 against a 0.7 per cent growth during the previous year.

C. INDUSTRY

Growth of the industrial sector decelerated in 2016-17 from the previous year mainly due to a slowdown in mining and quarrying activities (GVA growth rate fell from 10.5 per cent in 2015-16 to 1.8 per cent in 2016-17), coupled with a weakening of manufacturing activity (GVA growth rate fell from 10.8 per cent in 2015-16 to 7.9 per cent in 2016-17). The government revised the base year for the Index of Industrial Production (IIP) to 2011-12 from 2004-05. As per the new series, IIP during 2016-17 (5.0 per cent) showed a pickup in the industrial activities compared to 2015-16 (3.4 per cent) (Table 1.4). During 2016-17, the IIP of mining registered growth of 5.3 per cent and IIP of manufacturing registered a growth rate of 4.9 per cent. On the other hand, positive impetus came from electricity, gas and water supply & other utility services as the sector witnessed mild improvement in its GVA growth rate, which rose from 5.0 per cent in 2015-16 to 7.2 per cent in 2016-17.

Table 1.4: Index of Industrial Production (Base: 2011-12=100)

Month	Mining		Manufacturing		Electricity		General	
	143.73		776.33		79.94		1000	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
Average								
April-March	97.3	102.5	116.2	121.9	133.8	141.6	114.9	120.7
Growth over the corresponding period in the previous year								
March*	4.7	9.7	5.0	1.2	11.9	6.2	5.5	2.7
April-March	4.3	5.3	3.0	4.9	5.7	5.8	3.4	5.0

Note: * Indices for March 2017 are Quick Estimates.

Source: MoSPI

D. SERVICES

The services sector is a major contributor to India's GDP. This sector accounted for 61.7 per cent of the GVA in 2016-17. Growth in GVA in the services sector decelerated to 6.9 per cent in 2016-17 from 9.1 per cent in the previous year. The slowdown was mainly caused by softening of activities in the trade, hotels, transport and communication and services related to broadcasting as well as financing, real estate and professional services sectors. On the other hand, construction and public administration, defence and other services witnessed expansion during the year as compared to the previous year.

E. SAVINGS AND INVESTMENTS

During 2015-16, gross saving is estimated at ₹ 44.05 lakh crore as compared to ₹ 40.98 lakh crore during 2014-15. The rate of gross saving to GDP stood at 32.2 per cent for 2015-16, as compared to 32.9 per cent in 2014-15 (Table 1.5). Even with a decline in its share, the household sector continued to be the highest contributor to gross savings with a share of 59.2 per cent in 2015-16. A decline in household savings in physical assets resulted in the share of the household sector in gross savings falling to 59.2 per cent in 2015-16 (62.0 per cent in 2014-15). The share of non-financial corporations increased from 34.3 per cent in 2014-15 to 37.3 per cent in 2015-16. The share of saving of the financial corporations in the gross savings decreased from 8.3 per cent in 2014-15 to 6.5 per cent in 2015-16. The dis-saving of the general government decreased from 4.6 per cent of gross savings in 2014-15 to 3.1 per cent in 2015-16.

The gross capital formation (GCF) at current prices is estimated at ₹ 45.45 lakh crore for 2015-16 as compared to ₹ 42.58 lakh crore during 2014-15. The rate of GCF to GDP declined from 34.2 per cent during 2014-15 to 33.2 per cent in 2015-16. The rate of capital formation in 2011-12 to 2015-16 was marginally higher than the rate of savings because of net capital inflow from the rest of the world (RoW).

Table 1.5: Gross domestic savings and investments

Sl. No	Item	(₹ Crore)					(per cent of GDP)				
		2011-12*	2012-13*	2013-14*	2014-15#	2015-16@	2011-12*	2012-13*	2013-14*	2014-15#	2015-16@
	1	2	3	4	5	6	7	8	9	10	11
1	Household Saving Of which:	20,65,453	22,32,749	22,80,912	25,42,960	26,09,921	23.6	22.5	20.3	20.4	19.1
	a) Net Financial Assets	6,42,609	7,33,616	8,32,091	9,19,248	10,82,452	7.4	7.4	7.4	7.4	7.9
	b) Physical Assets	13,89,209	14,62,483	14,12,039	15,78,151	14,83,539	15.9	14.7	12.6	12.7	10.8
	c) Saving in Valuables	33,635	36,650	36,782	45,562	43,930	0.4	0.4	0.3	0.4	0.3
2	Non-Financial Corporations	8,47,134	9,90,323	12,03,570	14,04,527	16,42,949	9.7	10.0	10.7	11.3	12.0
3	Financial Corporations	2,72,371	3,00,607	2,92,972	3,39,041	2,87,639	3.1	3.0	2.6	2.7	2.1
4	General Government	-1,58,234	-1,58,911	-1,73,848	-1,88,076	-1,35,422	-1.8	-1.6	-1.5	-1.5	-1.0
5	Gross Savings	30,26,724	33,64,767	36,03,605	40,98,453	44,05,086	34.6	33.8	32.1	32.9	32.2
6	Net Capital Inflow from ROW	3,76,171	4,77,920	1,85,942	1,59,822	1,40,400	4.3	4.8	1.7	1.3	1.0
7	Gross Capital Formation	34,02,895	38,42,687	37,89,548	42,58,274	45,45,486	39.0	38.6	33.7	34.2	33.2
	Total Consumption Expenditure (a+b)	58,78,822	67,28,468	76,94,735	85,31,439	93,43,791	67.3	67.7	68.5	68.6	68.3
8	a) Private Final Consumption Expenditure	49,10,447	56,66,522	65,38,719	72,32,800	79,32,331	56.2	57.0	58.2	58.1	58.0
	b) Government Final Consumption Expenditure	9,68,375	10,61,946	11,56,016	12,98,639	14,11,460	11.1	10.7	10.3	10.4	10.3
	Memo Item										
	Saving Investment Balance (5-7)	-3,76,171	-4,77,920	-1,85,943	-1,59,821	-1,40,400	-4.3	-4.8	-1.7	-1.3	-1.0

Notes: 1. The presentation of the table is as per the new terminology used after the revision in the base year.
2. GDP refers to 'GDP at market prices.'
3. Data have been revised as per the new series of national accounts.

@ 1st Revised Estimates
# 2nd Revised Estimates
* Third Revised Estimates (New Series)

Source: MoSPI

F. BALANCE OF PAYMENTS

India's trade deficit narrowed to US$ 82.8 billion in April-December 2016 from US$ 105.3 billion during the same period in 2015-16. Aided by a contraction in the trade deficit, the current account deficit (CAD) on a cumulative basis narrowed to 0.7 per cent of GDP in 2016 (April-December) from 1.4 per cent in the corresponding period of 2015-16. Net FDI inflows during April-December 2015 rose sharply by 12.3 per cent over those in the corresponding period in the previous year. However, nationalistic and protectionist policies adopted by the new US government may diminish export revenue from the United States which may be a cause for concern in the medium and long term. Foreign portfolio investments, however, witnessed a net outflow of US$ 3.2 billion during April-December 2016 as compared to US$ 3.7 billion outflow a year ago. During April-December 2016, the level of foreign exchange reserves (on a BoP basis) went up by US$ 14.2 billion. IMF, in its *Staff Report for the 2017 Article IV Consultation*, observed that on a positive side India's external vulnerabilities were in check and the current account deficit was expected to remain contained. Forex reserves were also robust which covers around 8 months of imports. On a downside, weak external demand continues to constrain India's exports.

G. FISCAL DEFICIT

The Government of India has placed added emphasis on bringing down the fiscal deficit to 3.0 per cent of GDP by 2018-19. In the backdrop of higher public expenditure and subdued private investments, the government is following the principle of gradual adjustments for improving the fiscal condition. The Union Budget 2017-18 declared that in 2016-17 the fiscal deficit was 3.5 per cent of GDP (Revised Estimates). As per Budget Estimates, fiscal deficit for 2017-18 is 3.2 per cent of GDP, that is, ₹ 5,46,531 crore. Revenue deficit, which needs to be contained at 2.0 per cent under the existing Fiscal Responsibility and Budget Management (FRBM) Act's provisions, was estimated at 1.9 per cent of GDP, that is, ₹ 3,21,163 crore (Budget Estimates) in 2017-18 against 2.1 per cent of GDP in 2016-17 (Revised Estimates).

H. EXCHANGE RATE

Volatility in the USD-INR exchange rate remained contained during the first half of 2016-17. However, there was an uptick in volatility during the second half owing to various factors. The Indian rupee depreciated sharply vis-à-vis the US dollar during November 8-28, 2016 in the aftermath of the US presidential election results. However, since end of January 2017, there has been a steady appreciation of the rupee, mainly due to strong capital inflows which include portfolio inflows into equities as well as into debt markets in February and March 2017. During 2016-17, the Indian rupee touched a low of 68.7 (November 28, 2016) against the US dollar and a high of 62.2 (April 04, 2016) against the US dollar. The Indian rupee closed at 64.8 against the US dollar on March 31, 2017. During the year, forex reserves increased considerably by about US$ 9.8 billion from US$ 359.8 billion as of April 01, 2016 to US$ 369.9 billion as on March 31, 2017.

2. REVIEW OF POLICIES AND PROGRAMMES

SEBI initiated a host of policies and programmes during 2016-17 with the objectives of:

(i) protecting investors' interests in securities;

(ii) promoting the development of the securities market; and

(iii) regulating the securities market.

This section presents a brief review of SEBI's policies and programmes during 2016-17.

The policies and programmes are categorized under eight major heads: The Primary Securities Market, Secondary Securities Market, Commodity Derivatives Market, Mutual Funds, Intermediaries Associated with the Securities Market, Foreign Portfolio Investors, Corporate Debt Market and Other Policies and Programmes. All of these have a bearing on the working of the securities market.

I. THE PRIMARY SECURITIES MARKET

A developed primary market is crucial for resource mobilization as it brings together investors seeking investment opportunities and issuers seeking to mobilize resources to finance their businesses. Developing the securities market being one of its preambles, SEBI has been adopting various measures to make the primary securities market more efficient and vibrant. During financial year 2016-17, SEBI implemented certain important reforms related to the primary market and also other regulations on delisting, takeovers and buy-backs. Details of these major initiatives are now outlined.

A. Streamlining the Process of Stock Exchange Mechanism for Tender Offers

SEBI has put in place a framework for the stock exchange mechanism to facilitate tendering of shares by investors in takeover, buy-back and delisting tender offers and their settlement. With a view to reducing systematic risks for investors and easing implementation, in consultations with stock exchanges and depositories, the process under this mechanism has been further streamlined. Under the revised process, transfer of shares of shareholders is made directly to the account maintained by the clearing corporation and further, consideration for the accepted shares in the tender offer and shares tendered but not accepted under such an offer will be credited directly to shareholders' bank and demat accounts respectively. Earlier, the shares and payment of consideration were routed through stock brokers.

Box 1.1: Regulatory Framework on Schemes of Arrangement Strengthened

In order to streamline and simplify the regulatory framework governing schemes of arrangement and to prevent the misuse of schemes to bypass regulatory requirements, SEBI revised the regulatory framework governing the schemes of arrangement. A summary of the revised framework is as follows:

1) In case of a merger of an unlisted company with a listed company:

   a) The unlisted company *inter-alia* shall comply with the requirement of disclosure of material information as specified in the format for an abridged prospectus.

   b) The holding of pre-scheme public shareholders of the listed entity and the qualified institutional buyers (QIBs) of the unlisted company, in the post scheme shareholding pattern of the 'merged' company shall not be less than 25 per cent.

c) An unlisted company can be merged with a listed company if it is listed on a stock exchange having nationwide trading terminals.

2) In order to prevent shares to a select group of shareholders instead of all shareholders, pursuant to the scheme it is clarified that the pricing formula for preferential allotment specified under Issue of Capital and Disclosure Requirements (ICDR) Regulations shall be applicable in such cases.

3) To ensure larger participation of public shareholders, the requirement to obtain their approval through e-voting has been extended to the following cases:

   a) Schemes involving the merger of an unlisted company resulting in a reduction in the voting share percentage of pre-scheme public shareholders by more than 5 per cent of the total capital of the merged entity.

   b) Schemes involving transfer of whole or substantially the whole of the undertaking of a listed company and consideration for such a transfer is not in the form of listed equity shares.

   c) Schemes involving the merger of an unlisted subsidiary with a listed holding company where the shares of the unlisted subsidiary have been acquired by the holding company directly or indirectly from the promoters/promoter group.

4) Companies will be required to submit compliance reports confirming compliance with the circular and accounting standards duly certified by the Company Secretary, CFO and Managing Director.

5) With a view to simplifying the process, schemes which provide for merger of a wholly-owned subsidiary (WoS) with the parent company are not required to be filed with SEBI. Such schemes will be filed with stock exchanges for the limited purpose of disclosures only.

Relevant amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 were notified on February 15, 2017 and March 06, 2017 respectively and the revised circular incorporating these amendments was issued on March 10, 2017.

Box 1.2: Compulsory Delisting of Companies

There are a number of companies that are listed on stock exchanges but are not active. Many of them have been suspended from trading by the stock exchanges. The high number of inactive companies makes supervision difficult and increases the regulatory burden of the stock exchanges and SEBI. SEBI has initiated a process of delisting these inactive companies in accordance with the relevant provisions of SEBI Regulations.

In terms of Section 21A of the Securities Contracts (Regulation) Act, 1956 a recognized stock exchange may compulsorily delist the equity shares of a listed company on certain grounds.

Regulation 23(3) of the Delisting Regulations provides that pursuant to compulsory delisting of a company, the promoter will acquire delisted equity shares from public shareholders, subject to their option of retaining their equity shares by paying them fair value as determined by the independent valuer appointed by the concerned recognized stock exchange.

In terms of Regulation 24 of the Delisting Regulations, a company which has been compulsorily delisted, its whole-time directors, its promoters and the companies promoted by any such person, will not directly or indirectly access the securities market for a period of ten years from the date of compulsory delisting.

In addition to the restrictions imposed under Regulation 24 of the Delisting Regulations, in order to ensure effective enforcement of an exit option to public shareholders in case of compulsory delisting and taking into account investors' interests, it was felt necessary to strengthen the regulatory mechanism. Accordingly, it was decided that in the case of companies whose fair value is positive:

i. such a company and the depositories shall not effect transfer by way of sale, pledge, etc., of any equity shares and corporate benefits like dividend, rights, bonus shares and split will be frozen for all the equity shares held by the promoters/promoter group till the promoters of the company provide an exit option to public shareholders in compliance with Regulation 23(3) of the Delisting Regulations as certified by the concerned recognized stock exchange;

ii. the promoters and whole-time directors of the compulsorily delisted company will not be eligible to become directors of any listed company till the exit option as stated above is provided.

Around 400 such companies have been delisted in the recent past. Further process is on.

B. Empowerment of Stock Exchanges for Effective Regulation of Listed Entities

In order to empower the stock exchanges for effective regulations of listed entities, amendments have been notified to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations) to enable actions such as imposition of fines and suspension of trading by stock exchanges for contravention of ICDR Regulations. This will be much more important in case of minor violations where current actions by SEBI such as prohibiting access to the market and adjudication/quasi-judicial action may be time and effort-consuming and not proportionate to the seriousness of the violation.

Box 1.3: Integrated Reporting by Listed Entities

SEBI has mandated submission of Business Responsibility Reports (BRRs) for top 500 listed entities. The key principles which are required to be reported by the entities pertain to areas such as environment, governance, stakeholder relationships, etc.

For improving disclosure standards of non-financial information further, SEBI in consultation with industry bodies and stock exchanges specified a framework for integrated reporting (IR) by listed entities. An Integrated Report shows a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect an organization's ability to create value over time.

The International Integrated Reporting Council (IIRC) has categorized the following six forms of capital to be disclosed to stakeholders to enable informed investment decision making:

- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Social and relationship capital
- Natural capital

The integrated reporting framework provides seven guiding principles that can help create a concise, comprehensive and clear report. The eight content elements provided in this framework are aspects that should be there in a thoroughly integrated report. Together, they provide information about past performance and the short, medium and long term outlook of the company and how it plans to achieve that outlook. These elements also ensure that integrated reports are consistent and comparable across peer organizations.

7 Guiding principles	8 Content elements
Strategic focus and future orientation	Organizational overview and the external environment
Connectivity of information	Governance
Stakeholder relationships	Business model
Materiality	Risks and opportunities
Conciseness	Strategy and resource allocation
Reliability and completeness	Performance
Consistency and comparability	Outlook
	Basis of presentation

SEBI has clarified that integrated reporting may be adopted on a voluntary basis from financial year 2017-18 by the top 500 companies which are required to prepare BRRs. Information related to integrated reporting may be provided in the annual reports separately or by incorporating it in the Management Discussion & Analysis or by preparing a separate report (annual report prepared as per the IR framework).

As a green initiative, companies may host their integrated reports on their websites and provide appropriate reference to it in their annual reports. Further, to avoid duplication, cross-referencing to other reports prepared in accordance with national/international requirements/ framework is also permitted.

It is significant to point out that the concept of integrated reporting is being discussed at international forums and is yet to be implemented in many of the jurisdictions. The move is aimed at providing stakeholders relevant information that is useful for making investment decisions.

C. Extension of the Applicability of Business Responsibility Reporting Requirements

SEBI had earlier mandated publishing of Business Responsibility Reports (BRRs) in the annual reports of the top 100 listed entities based on market capitalization. The key principles which are required to be reported by the listed entities include environmental, social and economic responsibilities, governance and stakeholders' relationships. The applicability of BRR requirements has now been extended to the top 500 listed entities based on market capitalization as on March 31 of every year. Further, as a green initiative, BRRs are permitted to be made available on the websites of the companies with links to the websites being made available in their annual reports.

D. Streamlining the Process of System-driven Disclosures

SEBI has put in place a framework for system-driven disclosures wherein the onus of disclosures has been shifted from individuals/companies to the securities market infrastructure through an integration among depositories, stock exchanges and the registrar and transfer agents (RTAs). Such a system will help in eliminating the possibility of inadvertent violations by the entities and will also help in providing information to investors on a timely basis to take investment decisions thus leading to fairness in the markets. Initially, the system has been made operational parallel to disclosures by promoters/promoter group and once this stabilizes, it will replace manual disclosure obligations. Based on the experience gained by implementing the system, the process has been further streamlined pursuant to which the depositories will provide transaction data of promoters/promoter group on a daily basis directly to the stock exchanges instead of routing it through RTAs for dissemination of necessary disclosures.

E. Implementation of New Accounting Standards Ind-AS by Listed Entities

In accordance with the rules prescribed by the Ministry of Corporate Affairs, listed entities are required to comply with new accounting standards Ind-AS, which are on the lines of international accounting standards in a phased manner beginning from financial year 2016-17.

In order to facilitate a smooth transition during the first year of Ind-AS implementation, SEBI, in consultation with the market participants -- listed entities, stock exchanges and members of the Institute of Chartered Accountants of India (ICAI), issued detailed guidelines. The formats for financial results were also aligned with those prescribed under the Companies Act/the Banking Regulation Act/IRDAI Act.

Box 1.4: Disclosure of Impact of Audit Qualifications by Listed Entities

SEBI has put in place a mechanism to review the audit qualifications contained in listed entities' audit reports. The detailed procedure for this has been prescribed in Schedule VIII read with Regulation 33 and Regulation 52 of the SEBI (Listing and Other Disclosure Requirements) Regulations, 2015 (Listing Regulations) and SEBI circular dated November 30, 2015.

In consultations with SEBI's advisory committees, ICAI, stock exchanges and industry bodies, it has been decided to streamline the existing process as:

(i) to make the listed entities disseminate the cumulative impact of all the audit qualifications in a separate format simultaneously while submitting their annual audited financial results to the stock exchanges. This will ensure that the information is available to investors without delay enabling them to take well informed investment decisions;

(ii) to dispense with the existing requirement of filing Form A or Form B for the audit report with unmodified or modified opinions respectively; and

(iii) to dispense with the existing requirement of making adjustments in the book of accounts of the subsequent year.

This was issued vide circular dated May 27, 2016.

F. Transparency in Listed Companies' Dividend Distribution Policies

In order to bring in more transparency with respect to listed companies' dividend policies, a new Regulation 43A has been introduced in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. This requires the top 500 listed companies (by way of market capitalization) to formulate and disclose their dividend distribution policies in their annual reports and on their websites.

The policy includes:

a) The circumstances under which shareholders can or cannot expect a dividend;

b) Financial parameters that will be considered while declaring a dividend;

c) Internal and external factors that will be considered for declaring a dividend;

d) Policy as to how the retained earnings will be utilized;

e) Provisions with regard to various classes of shares.

In case a company proposes to declare a dividend on the basis of parameters which are not part of this policy or proposes to change its dividend distribution policy, it is required to disclose this along with the rationale behind such an action. This policy was formulated in order to provide investors with a better understanding of the dividend policies of listed companies to be able to take informed decisions.

G. Enhanced Corporate Governance Standards

To address concerns related to private equity funds entering into compensation agreements to incentivize promoters, directors and key managerial personnel of listed investee companies which could potentially lead to unfair practices, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2016 (Listing Regulations) were amended to put in place provisions for disclosures and approval of the board and shareholders. The revised norms are:

a) No employee including key managerial personnel or director or promoter of a listed entity shall enter into any agreement for himself or on behalf of any other person, with any shareholder or any other third party with regard to compensation or profit sharing in connection with dealings in the securities of such a listed entity unless prior approval has been obtained from the board of directors as well as public shareholders by way of an ordinary resolution.

b) Such an agreement, if any, whether subsisting or expired, entered during the preceding three years from the date of this sub-regulation coming into force, shall be disclosed to the stock exchanges for public dissemination.

c) A subsisting agreement, if any, as on the date of this sub-regulation coming into force shall be placed for approval before the board of directors in the forthcoming board meeting.

d) If the board of directors approves such an agreement, this shall be placed before the public shareholders for approval by way of an ordinary resolution in the forthcoming general meeting.

e) All interested persons involved in the transaction covered under the agreement shall abstain from voting in the general meeting. For the purposes of this sub-regulation and 'interested person' means any person holding voting rights in the listed entity and who is in any manner, whether directly or indirectly, interested in an agreement or a proposed agreement, entered into or to be entered into by such a person or by any employee or key managerial personnel or director or promoter of such a listed entity with any shareholder or any other third party with respect to compensation or profit sharing in connection with the securities of such a listed entity.

Box 1.5: Guidance on Board Evaluation

The evaluation of the performance of the board of directors and its committees is an important component of corporate governance. The provisions on board evaluation are contained in the Companies Act, 2013 and the SEBI Listing Regulations, 2015. SEBI studied the various practices of board evaluation by listed companies in India as well as by companies in jurisdictions abroad. SEBI also organized a conference in association with OECD focusing on board evaluation, bringing in an amalgam of views from various regulators from around the world.

After consulting the market participants and making an extensive study, SEBI issued a guidance note on the matter of board evaluation in January 2017 in order to provide guidance to listed entities by elaborating various aspects of the board evaluation that may help them to improve the evaluation process, derive the best possible benefits and achieve the objective of the entire process.

The guidance note covers all major aspects of a board evaluation including:

a. Subject of evaluation, that is, who is to be evaluated;
b. Process of evaluation including laying down objectives and criteria to be adopted for evaluating different persons;
c. Feedback to the persons being evaluated;
d. Action plan based on the results of the evaluation process;
e. Disclosure to stakeholders on various aspects;
f. Frequency of board evaluations;
g. Responsibility for board evaluation; and
h. Review of the entire evaluation process periodically.

The purpose of the guidance note is to educate listed entities and their boards of directors about various aspects involved in the board evaluation process and improve their overall performance as well as corporate governance standards to benefit all stakeholders.

H. Effective Regulation of Listed Entities

SEBI had earlier prescribed a uniform fine structure for non-compliance with certain provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) and Standard Operating Procedure for suspension and revocation of trading of specified securities. However, some of the non-compliant listed entities have not paid the fines levied by the recognized stock exchange(s). In order to ensure effective enforcement, a policy was put in place to freeze the holdings of their promoters and promoter group entities in the following manner:

a) Where a non-compliant listed entity fails to pay a fine levied as per the notice issued by the concerned recognized stock exchange for non-compliance within the period indicated in the notice, the concerned recognized stock exchange intimates the depositories to freeze holdings in other securities in the demat accounts of the promoter and promoter group to the extent of liability which is to be calculated on a quarterly basis.

b) In case of non-compliance for two consecutive periods and failure to comply with the notice issued by the concerned recognized stock exchange, the exchange intimates the depositories to freeze the entire shareholding of the promoter and promoter group in such a listed entity and a further freeze of holdings in the demat accounts of the promoter and promoter group in other securities to the extent of liability which is to be calculated on a quarterly basis.

c) While freezing the holdings of other securities in the demat accounts of the promoter and promoter group, the recognized stock exchange has the discretion to determine which of the securities and holdings of which promoter or promoter group entity are to be frozen.

I. Enhancing the Ceiling on Employee Reservation in Issues

As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, an issuer can make reservation for employees not exceeding 5 per cent of the post issue capital of the issuer. The value of allotment to any employee in pursuance of reservation was restricted to ₹ 2 lakh.

SEBI has now allowed allotment to employees in excess of the extant limit of ₹ 2 lakh per employee under the employee reservation quota. Accordingly, vide an amendment to the Regulations, SEBI specified that the application for shares of the value in excess of ₹ 2 lakh shall be considered as application for additional shares and shall be considered only in the event of under-subscription in the employee reservation portion. The unsubscribed shares available in the employee reservation portion shall be allotted on a proportionate basis to the employees who have applied for additional shares. The value of total allotment to an employee under the employee reservation portion, including the additional allotment shall not exceed ₹ 5 lakh.

II. THE SECONDARY SECURITIES MARKET

A. Cyber Security and a Cyber Resilience Framework for Stock Exchanges, Clearing Corporations and Depositories

SEBI has laid down a detailed framework with regard to cyber security and cyber resilience that stock exchanges, clearing corporations and depositories are required to adopt. The framework *inter-alia* covers areas such as governance, identification of critical assets and cyber risks (threats and vulnerabilities), access controls, physical security, network security management, security of data, hardening of hardware and software, application security and testing, patch management, disposal of systems and storage devices, vulnerability assessment and penetration testing (VAPT), monitoring and detection, response and recovery, sharing of information, training and periodic audits.

During 2016-17 SEBI constituted a High Powered Steering Committee on Cyber Security (HPSC-CS) chaired by a Whole Time Member. Further, a Cyber Security Cell was also created which has issued the following two advisories to market infrastructure institutions (MIIs):

a. To further strengthen vigil and surveillance of their critical IT assets including website and network traffic, monitor internal network communications closely to detect and/or block unauthorized or atypical network communications amongst servers, systems and endpoint devices, enact a mechanism to detect and/or block behavioural anomalies on systems, servers and endpoint devices.

b. To strengthen the cyber security framework of MIIs' websites, Web Application Firewall (WAF), the Web Server Security Policy, Application Security Audit and Security Audit of Software Vendors.

B. Review of Guidelines for Co-Location/ Proximity Hosting Facility Offered by Stock Exchanges

In consultation with its Technical Advisory Committee (TAC), SEBI reviewed the guidelines to be followed by stock exchanges while facilitating co-location/proximity hosting wherein, *inter- alia*, stock exchanges were advised:

a) To allow direct connectivity between the co-location facility of one recognized stock exchange and the co-location facility of other recognized stock exchanges.

b) To allow direct connectivity between servers of a stock broker placed in co-location facility of a recognized stock exchange and servers of the same stock broker placed in a co-location facility of a different recognized stock exchange. This facility should be available to all the co-located brokers who are desirous to avail such connectivity in a fair and equitable manner.

In addition, the following were clarified to stock exchanges:

a) Co-location services provided by a third party or outsourced from a third party are deemed to be provided by the stock exchanges. Further, stock exchange will remain responsible and accountable for actions of such outsourced entities with respect to co-location services.

b) A facility that allows stock brokers/data vendors to connect to the stock exchange trading system over a Local Area Network (LAN) shall fall within the definition of 'Co-location/proximity hosting' as defined by SEBI.

C. Fair and Transparent Access to Stock Exchanges' Data Feeds

Stock exchanges have been advised to formulate a comprehensive policy document for providing stock market related data to market participants in a fair and transparent manner irrespective of the type of mechanism used by them for broadcasting the data. In this context, stock exchanges shall ensure the following:

a) Appropriate tools are deployed so as to monitor the service quality of data feeds;

b) Appropriate mechanisms (load balancers, randomizers, etc.) to manage load across systems disseminating data in order to ensure consistent response time to all market participants;

c) All communication to market participants, especially on all technology related matters such as monitoring tool, load balancer and randomization are abundantly clear and precise providing all necessary details related to the concerned facility/service including information on features, benefits and risks of the concerned facility/service, particularly for participants who have opted for a co-location facility. Earlier SEBI had directed stock exchanges to synchronize their system clocks with an atomic clock before the start of the market such that their clocks have precision of at least one microsecond and accuracy of at least +/- one millisecond. In this regard, the stock exchange should ensure that all clocks of the servers and other related systems are synchronized. Stock exchanges may adopt suitable mechanisms to ensure such synchronization of system clocks.

D. Review of the Framework of Position Limits for Currency Derivatives Contracts

With a view to easing trading requirements in the currency derivatives segment, it was clarified to market participants that the position limit linked to open interest will be applicable at the time of opening a position and such positions will not be required to be unwound in the event of a drop of total open interest in a currency pair at the stock exchange. It was also clarified that in such a scenario, eligible market participants will not be allowed to increase their existing positions or create new positions in the currency pair till they comply with the applicable position limits.

E. Review of the Position Limits Available to Stock Brokers / Foreign Portfolio Investors (FPIs) - Category I & II / Mutual Funds (MFs) for Stock Derivatives Contracts

In order to ease trading requirements of stock brokers/foreign portfolio investors (FPIs) - Category I & II/mutual funds (MFs) in the equity derivatives segment, it was decided to modify their position limits for stock derivatives contracts as given below.

The extant sub-position limits applicable on stock futures including quantitative/value based restrictions on position limits for stock derivatives were removed. Accordingly, it was decided that the combined futures and options position limit for stock brokers/FPIs (Category I & II)/mutual funds shall be 20 per cent of the applicable market wide position limit (MWPL).

F. Restriction on acceptance of Fixed deposits as collateral by clearing corporations

Based on the recommendations of the Risk Management Review Committee, SEBI further aligned the risk management practices of the Clearing Corporations with the Principles for Financial Market Infrastructures (PFMIs). SEBI advised the clearing corporations not to accept as collateral those fixed deposits that are issued by trading members/clearing members themselves or issued by banks that are associates of the trading members/clearing members. Trading members/clearing members who had already offered such fixed deposits as collateral prior to the issuance of the circular were advised to replace such deposits with eligible collateral within six months.

G. Specification of Investment Policy and liquid assets for the purpose calculation of Net Worth of Clearing Corporation and transfer of profits to the core Settlement Guarantee Fund (SGF)

In line with the recommendations of the Expert Committee on Clearing Corporations, SEBI advised the clearing corporations to build their investment policy on the premise of highest degree of safety and least market risk. Clearing corporations were advised to broadly invest in central government securities, liquid scheme of debt mutual funds (up to 10 per cent of its total investible resources at any point of time) and fixed deposits of banks that have a net worth of more than ₹ 500 crore and are rated A1/AI+ or equivalent. SEBI further advised that the clearing corporations' investments in the above instruments, cash and bank balance and investment in other eligible instruments as specified by SEBI be considered as liquid assets for the purpose of calculation of net worth of a clearing corporation.

Additionally, having regard to the recommendations of the Expert Committee on clearing corporations and the recommendations of Risk Management Review Committee of SEBI and noting that the core Settlement Guarantee Fund (SGF) of the clearing corporations has been built up, it was decided to do away with the requirement of transfer of 25 per cent of profits by stock exchanges towards the core SGF in terms of the Securities Contracts (Regulation) (Stock Exchange and Clearing Corporation) Regulations, 2012 (SECC Regulations). In this regard, SEBI advised that the provisions that were made by the stock exchanges in their books of account towards the 'Transfer of Profit' requirement, be transferred to the core SGF of the clearing corporation in a time bound manner. The SECC regulations were also amended to specify that in case of a shortfall in the core SGF at any point of time, the clearing corporation and the stock exchange shall replenish the fund to the threshold levels as may be specified by the Board from time to time.

H. Disclosures on websites of Clearing Corporations relating to regulatory orders and arbitration matters

In order to improve transparency in disclosing the regulatory orders and arbitration awards issued by clearing corporations, it was decided that clearing corporations should post all regulatory orders i.e. orders against clearing members and arbitration / appellate awards by arbitrators issued since the notification of the SECC Regulations in June 20, 2012, on their websites. In addition, clearing corporations were advised to disseminate information with respect to brief profile, qualification, areas of experience / expertise, number of arbitration matters handled, pre-arbitration experience, etc. of the arbitrators on their websites.

I. Investor Protection Fund (IPF) of Depositories

SEBI has prescribed guidelines with regard to IPF of depositories on June 07, 2016 which includes guidelines regarding utilization of IPF, constitution and management of IPF, contribution to IPF and investments of funds of the IPF Trust.

J. Amendment Pursuant to a Comprehensive Review of the Investor Grievance Redressal Mechanism

SEBI reviewed the existing framework related to strengthening of the arbitration mechanism and investor protection mechanism to enhance the effectiveness of the grievance redressal mechanisms in market infrastructure institutions (MIIs).

Guidelines related to effective utilization of interest income on the Investor Protection Fund (IPF) and better management and control on the contributions and utilization of the Investor Service Fund (ISF) have been laid down. Further, the functions and composition of various statutory committees and the IPF Trust were also specified.

K. Facilitating Transactions in Mutual Fund Schemes through Stock Exchange Infrastructure

SEBI allowed SEBI registered investment advisors (RIAs) to use infrastructure of recognized stock exchanges to purchase and redeem mutual fund units directly from mutual fund/assets management companies on behalf of their clients, including direct plans. SEBI had earlier allowed mutual fund distributors registered with the Association of Mutual Funds in India (AMFI) and who have been permitted by the concerned recognized stock exchange to use recognized stock exchanges' infrastructure to purchase and redeem mutual fund units from mutual funds/asset management companies on behalf of their clients.

L. Guidelines for Functioning of Stock Exchanges and Clearing Corporations in the International Financial Services Centre (IFSC)

SEBI prescribed a broad framework for the functioning of stock exchanges and clearing corporations in IFSC with regard to market structure, trading hours and settlement, product category, position limits, trading in rupee denominated bonds issued overseas (Masala bonds), the risk management framework, the dispute resolution mechanism and business continuity plan & disaster recovery.

Box 1.6: Milestones - India's first Financial Services Centre (IFSC)

With the objective of facilitating the operation of a securities market at International Financial Services Centre (IFSC) SEBI issued the SEBI (International Financial Services Centres) Guidelines, 2015. Subsequently, to facilitate the participation of market participants at IFSC, SEBI also took several other steps. To begin with, it prescribed the framework for market structure and risk management to operationalize stock exchanges/ clearing corporations at IFSC. Some of the steps taken are:

- ***Market Structure:*** In order to achieve synergies in terms of various operations and to facilitate ease of doing business, a single market structure has been prescribed in IFSC.
- ***Trading Hours and Settlement:*** Stock exchanges have been permitted to conduct trading for 23 hours and 30 minutes in a day with settlement at least twice a day.
- ***Product Categories:*** All categories of exchange-traded products as available for trading in stock exchanges in Financial Action Task Force (FATF)/International Organization of Securities Commission (IOSCO) compliant jurisdictions have been made eligible for trading on exchanges in IFSC.
- ***Risk Management Framework:*** Clearing corporations have been given the freedom to evolve margining frameworks based on best practices in clearing corporations globally, with the Committee on Payments and Market Infrastructures (CPMI) IOSCO PFMIs.
- ***Dispute Resolution Mechanism:*** To resolve securities market-related disputes, the International Arbitration Centre in IFSC has been allowed to offer arbitration, mediation and other dispute resolution mechanisms.

In addition, commodity derivatives have been specified as eligible securities for trading on exchanges in IFSC.

SEBI issued guidelines for participation/functioning of foreign portfolio investors (FPIs) and eligible foreign investors (EFIs) in IFSC. SEBI-registered FPIs proposing to operate in IFSC have been permitted without any additional documentation and/or prior approval process. In order to provide ease of registration and the account opening process by clients, trading members of recognized stock exchanges at IFSC have been permitted to rely on the due diligence process already carried out by a SEBI registered intermediary. In case of EFIs not registered with SEBI as FPIs, trading members are allowed to rely on the due diligence carried out by a bank permitted by RBI to operate in IFSC.

SEBI has granted recognition to the India International Exchange (IFSC) Ltd. (India INX) and the India International Clearing Corporation (IFSC) Limited (India ICC) for a period of one year. NSE IFSC Limited and NSE IFSC Clearing Corporation Ltd. have been granted in-principle approval for setting up stock exchanges and clearing corporations in GIFT IFSC. India INX and India ICC were inaugurated by the Prime Minister Narendra Modi in January 2017.

III. THE COMMODITY DERIVATIVES MARKET

The steps taken by SEBI for the regulation and development of the commodity derivatives market are:

A. Goods Notified under SCRA

There were 113 goods notified by the central government under the Forward Contract Regulation Act, 1952 (FCRA) on the basis of which, the Forward Market Commission (FMC) granted permission to the exchanges to launch futures on different commodities. Apart from these notified goods, there were a few commodities which were neither notified under Section 15 of FCRA, nor were they prohibited under FCRA Section 17, futures on which were permitted by erstwhile FMC for trading on commodity derivatives exchanges. In exercise of the powers conferred by clause (bc) of Section 2 of the Securities Contracts (Regulation) Act, 1956 (SCRA) and in consultation with SEBI, the central government notified 91 goods for derivatives trading. These notified goods include earlier notified goods after reorganizing/clubbing names of the related commodities and also include six new goods for derivatives trading -- diamonds, brass, pig iron, eggs, cocoa and tea.

B. Introduction of Options in the Commodity Derivatives Market

In his Union Budget speech for 2016-17, the Finance Minister announced that 'new derivatives products will be developed by SEBI in the commodity derivatives market.' Introduction of new commodity derivatives' products has been a subject of deliberations as their introduction is considered to be conducive for the overall development of the commodity derivatives market by attracting broad based participation, enhancing liquidity, facilitating hedging and bringing in more depth to the commodity derivatives market. The recommendations made by the Commodity Derivatives Advisory Committee (CDAC) *inter-alia*, on the introduction of new products were considered by the Board and subsequently in September 2016, SEBI allowed trading in options subject to detailed guidelines that it will issue.

C. Strengthening Risk Management

Immediately after the merger of FMC with SEBI, a comprehensive risk management framework was prescribed to streamline and strengthen risk management at the national commodity derivatives exchanges and align these to the extent appropriate with the securities market's norms. To further strengthen the risk management framework of national commodity derivatives market and to avoid any systemic risks, additional risk management norms were issued during September 2016. Some important features of the new system are:

- Enhancement in initial margins to have better risk coverage.
- Concentration margins on big positions.
- Tools for handling default such as liquidation in the normal market, auction of positions, voluntary tear-up and partial tear-up.

Box 1.7: Strengthening Risk Management in National Commodity Derivatives Exchanges

A SEBI Task Force was constituted in February 2016, with the objective of reviewing and giving suggestions to further strengthen the regulation of the commodity derivatives market and to avoid any systemic risks. Based on its recommendations and further discussions in the Risk Management Review Committee (RMRC), additional / modified risk management norms, some of which are unique to commodity derivatives, were prescribed to further strengthen risk management systems of commodity derivatives exchanges:

1. **Initial margin based on the peculiarity of the product including its level of liquidity:** Initial margins are the first level of defence against default. As per the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI), initial margins should be *sufficient to cover potential future exposure in the interval between the last margin collection and the close out of positions following a participant default.*

   The initial margins being imposed by national commodity derivatives exchanges were designed to cover 99 per cent value at risk over a one day horizon and they thus covered price risk between consecutive daily mark-to-market settlements only. Thus, the price risk subsequent to any pay-in default till the time of liquidation of open positions was not covered. The risk was especially more in illiquid contracts where more than one day may be required to close a defaulter's positions.

   Accordingly, exchanges were required to scale up initial margins based on the liquidity of each product and a minimum of two days risk coverage by initial margins was specified for all commodity derivatives contracts.

2. **Concentration margins:** Default in concentrated positions pose a greater risk as a longer period will be required to liquidate the concentrated positions. Thus, concentrated positions warrant higher safeguards commensurate with the risks that they pose. Exchanges were therefore required to impose higher margins on concentrated positions based on the size of the position and the available liquidity.

3. **Tools to regain matched book:** There may be situations of drying up of market liquidity and exchanges not being able to liquidate positions following default by a member. To eliminate the risk of such open positions, the following tools were prescribed to be preferably utilized in order of priority so as to avoid market disruptions:

   o Liquidation in the normal market in an orderly manner

   o Auction of positions

   o Voluntary tear-up with compensation to impacted parties

   o Partial tear-up with higher compensation to impacted parties

4. **Proactive measures to avoid default:** Repeated shortfalls in margins/pay-ins by a member are an indication of the stressed condition of the member. To avert any potential risk from such a member, the following preventive measures were prescribed:

   o Require the member to reduce positions

   o Higher initial margins/exposure free deposits for a month for such members

5. **Default waterfall:** In order to instil greater confidence in participants of the clearing and settlement system and till the clearing and settlement of commodity derivatives is transferred to clearing corporations, a uniform default waterfall was prescribed for commodity derivatives exchanges in alignment with that prescribed for clearing corporations in the securities market.

6. **Exchanges' contribution to SGF:** Exchanges were required to make good any shortfalls in SGF based on the results of stress tests without any upper ceiling (which was earlier capped at 5 per cent of the gross revenue in any year).

D. Strengthening Delivery Infrastructure

In order to have robust and credible warehousing infrastructure in the commodity derivatives market, SEBI reviewed the existing norms for exchange accredited warehouse service providers (WSPs), warehouses and assayers. Based on the feedback, in September 2016 SEBI issued revised warehousing norms for agricultural & agri-processed commodities traded on the national commodity derivatives exchanges to ensure good delivery and to maintain the integrity of the delivery mechanism in the interest of trade. The key features of the norms for WSPs are:

- Minimum net worth requirement of ₹ 25 crore for multi-commodity WSPs.
- Storage value of goods in the warehouse not to exceed 33 times the net worth of WSP.
- Fit and proper criteria.
- Compulsory accreditation of assayers.

E. Criteria for Eligibility, Retention and Re-introduction of Derivative Contracts on Commodities

Since the nature/properties of one commodity differ from another, all commodities may not be suitable for commodity derivatives trading. Hence, before allowing any derivatives contracts on any commodity, the appropriateness/usefulness of commencing futures trading in products (not necessarily of just commodities), needs to be ascertained. Therefore, in January 2017 SEBI laid down criteria for eligibility, retention and re-introduction of derivative contracts on commodities which will be followed by all national commodity derivatives exchanges.

F. Various Norms Prescribed by SEBI

During the course of the financial year, SEBI issued guidelines/norms for developing markets through various circulars:

i) **Position Limits for Hedgers:** In order to facilitate wider participation by genuine hedgers, SEBI issued broad guidelines to be followed by exchanges while granting such additional position limits to hedgers.

ii) **Programmes Sponsored by the Exchanges through Media Channels:** Exchanges were prohibited from sponsoring or associating themselves in any manner, either as an institution or through their functionaries, with programmes / seminars / workshops / activities etc. at various fora including but not limited to TV / radio / social networks / websites or any other media in which the discussions/suggestions are related to price behaviour, price outlook, trading strategy, buying / selling recommendations or similar subjects related to commodity derivatives.

iii) **Price Dissemination through the SMS/ Electronic Communication Facility:** SEBI prescribed norms for exchanges for providing a facility of price dissemination to market participants.

iv) **Trading Hours / Trading Holidays on Commodity Derivatives Exchanges:** SEBI prescribed norms related to trading hours / trading holidays.

v) **Spot Price Polling Mechanism:** SEBI directed commodity derivatives exchanges to have a documented policy for the spot price polling mechanism. Exchanges were directed to display the spot price polling mechanism adopted for every contract on their websites.

vi) **Daily Price Limits (DPLs) for Non-Agricultural Commodity Derivatives/ First Day DPLs for all Commodity Derivatives:** SEBI introduced norms with regard to daily price limits (DPLs) of non-agricultural commodity derivatives as well as norms for determining DPLs on the first trading day of the derivatives contract on agricultural as well as non-agricultural commodities.

vii) **Guidelines for Due Date Rate (DDR) fixation for Regional Commodity Derivatives Exchanges:** A framework for computing due date rates at which futures contracts are to be settled on expiry covering constitution of Due Date Rate (DDR) committee, eligibility criteria for polling participants, mode of polling, record keeping, etc. were prescribed by SEBI.

viii) **Mechanism for Regular Monitoring of and Penalty for Short Collection / Non-collection of Margins from Clients:** SEBI specified penalties in case of various scenarios of short collection / non-collection of client margins by members and maintained that the penalties are to be credited to the Investor Protection Fund.

ix) **Settlement Guarantee Fund, Stress Testing and Base Minimum Capital:** SEBI specified norms on the Settlement Guarantee Fund, stress test to determine the adequacy of the Settlement Guarantee Fund and the base minimum capital requirements for various types of members.

x) **Unique Client Code:** SEBI issued directions regarding a unique client code (UCC) and mandatory requirement of a permanent account number (PAN).

xi) **Permission for Trading in Futures Contracts and Modification in Contract Specifications at the Exchange Level:** SEBI specified a check-list of information to be submitted by exchanges while seeking permission for trading in futures contracts, the terms and conditions governing contracts approved on a continuous basis and the parameters which exchanges are permitted to modify on their own and the conditions therefor.

xii) **Staggered Delivery, Early Delivery System, Early Pay-in Facility, Penalty on Delivery Default, Fixation of FSP and Changes in Expiry Dates:** SEBI prescribed the framework for staggered delivery, early delivery, early pay-in facility and norms for delivery default penalty, fixing of the final settlement price (FSP) and change in expiry dates of futures contracts.

xiii) **Commodity Derivatives – Miscellaneous Norms:** SEBI *inter-alia* updated the norms with regard to the disclosure of disablement of member terminals, timelines for marking delivery intention and location premium/ discount.

xiv) **Investor Protection Fund and Related Matters:** SEBI issued detailed norms with regard to the Investor Protection Fund (IPF) and its related matters.

xv) **Algorithmic Trading:** SEBI issued broad guidelines on algorithmic trading for national commodity derivatives exchanges.

xvi) **Disclosure by Commodity Derivatives Exchanges on their Websites:** SEBI issued directives with regard to disclosures by commodity derivatives exchanges on their websites to promote transparency in the markets.

xvii) **Position Limits:** SEBI issued direction regarding position limits for commodity derivatives, clubbing of open positions and penalties for violation of position limits with an objective of consolidating and updating norms regarding position limits and also for prescribed numerical position limits for all commodities which are presently being traded on commodity derivatives exchanges.

xviii) **Portfolio Management Services:** SEBI informed the commodity exchanges and their members that it is reviewing norms with regard to participation in the commodity derivatives market. Therefore, the norms issued earlier by FMC with regard to portfolio management services (PMS) will be continued and hence PMS will not be permissible in commodity markets.

xix) **Alignment with Norms Applicable in the Securities (other than commodity derivatives) Markets:** SEBI aligned and streamlined the norms governing commodity derivatives exchanges with that of the stock exchanges on the following issues:

a) Modification of client codes post execution of trades on national and regional commodity derivatives exchanges.

b) The cyber security and cyber resilience framework of national commodity derivatives exchanges.

c) Transaction charges by commodity derivatives exchanges.

d) Annual system audit of stock brokers / trading members of national commodity derivatives exchanges.

e) Maintaining and preserving records.

f) Disclosure of proprietary trading by commodity derivatives broker to client and the 'pro – account' trading terminal.

g) Sharing of information in case of declaration of member as a defaulter in case of multiple memberships.

xx) **Bullion as Collateral and Spread Margin Benefits:** SEBI permitted higher limits for bullion as collateral; exchanges are required to remove margin benefits on spread positions latest by the start of the tender period or the start of the expiry day, whichever is earlier.

G. Consultative Approach

Policy decisions and reform measures taken by SEBI generally emanate after extensive consultative processes through various advisory committees. While evolving policy changes, SEBI endeavours to seek comments from the investing public and stakeholders through the public comments process.

a) Advisory Committee

In order to advise SEBI to effectively regulate and develop the commodity derivatives market, an advisory committee, the Commodity Derivatives Advisory Committee (CDAC) was constituted under the Chairmanship of Professor Ramesh Chand, Member, NITI Aayog. CDAC in its first meeting held on March 04, 2016 constituted three sub-groups:

i. Group-I to examine the impact and utilization of commodity derivatives market and frame objective criteria for inclusion / exclusion of commodities from derivatives trading. This group conducted five meetings during the financial year and deliberated on various issues and presented its reports and recommendations to CDAC on the following matters:

a. Guidelines for permitting derivatives on commodities

b. Criteria for exit of commodities for derivative contract

c. Notification of commodities and new commodities

d. Increasing participation in the commodity derivatives market

e. Introduction of new products in the commodity derivatives market

f. Promoting hedgers' participation in the commodity derivatives market

ii. Group–II was formed for improving spot polling prices.

iii. Group–III to review position limits. It conducted two meetings during the financial year.

b) **Stakeholders Meeting**

SEBI organized various meetings with stakeholders and market participants such as mutual funds and alternative investment funds (AIFs) to deliberate on issues related to participation by MFs and AIFs in the commodity derivatives meetings. Besides this, SEBI organized meetings for various stakeholders -- members of commodity derivatives exchanges, value chain participants of commodities such as diamonds, castor seeds, sugar, soya complex including meal and soya oil, nickel, aluminium and cotton as well as various hedgers.

IV. MUTUAL FUNDS

A. Restriction on Redemption of Mutual Funds

Extant provisions on restriction of redemption were general in nature and did not specifically spell out the circumstances in which restriction on redemption may be applied leading to discretionary disclosures and practices in the industry. Therefore, in order to bring more clarity and to protect the interests of the investors, SEBI vide its circular dated May 31, 2016, now prescribed that the following should be observed before imposing restrictions on redemptions:

a. Restrictions may be imposed when there are circumstances leading to a systemic crisis or event that severely constricts market liquidity or the efficient functioning of markets such as:

i. **Liquidity Issues** - when the market at large becomes illiquid affecting almost all securities rather than any issuer specific security. Further, restriction on redemption is not allowed in instances where a specific security becomes illiquid in the portfolio of scheme due to a poor investment decision.

ii. **Market Failures, Exchange Closures** - when markets are affected by unexpected events which impact the functioning of exchanges or the regular course of transactions.

iii. **Operational Issues** – when exceptional circumstances are caused by force majeure, unpredictable operational problems and technical failures (for example, a black out).

b. Restrictions on redemption can be imposed for a specified period of time not exceeding 10 working days in any 90-day period.

c. Any imposition of restrictions will require specific approval of the boards of asset management companies (AMCs) and trustees and SEBI should be informed about this immediately.

d. When restrictions on redemption are imposed, the following procedure shall be applied:

i. All redemptions requests up to ₹ 2 lakh shall not be subject to such restrictions.

ii. Where redemption requests are above ₹ 2 lakh, AMCs shall redeem the first ₹ 2 lakh without such restrictions and the remaining part over and above ₹ 2 lakh shall be subject to such restrictions.

This information should be disclosed prominently and extensively in scheme related documents.

B. Prudential Limits in Sector Exposure for Housing Finance Companies (HFCs)

In light of the role of housing finance companies (HFCs) especially in the affordable housing space, it has been decided on February 22, 2017 to expand the exposure limits provided for HFCs in the financial services sector to 15 per cent with respect to limits on sectoral exposure for debt schemes. Such securities have to be rated AA and above and the issuer HFCs should be registered with the National Housing Bank (NHB). However, the total investments in HFCs cannot exceed 25 per cent of the net assets of the scheme.

Box 1.8: Exchange Traded Funds (ETFs)

ETFs are mutual fund products that provide exposure to an index or a basket of securities that trade on the exchange like a single stock. As with any listed security, investors may trade ETF units continuously at market prices. Through ETFs, investors can gain portfolio exposure to specific sectors, styles, asset classes, industries or countries. ETFs offer lower operating costs as compared to traditional open-end funds; they also provide flexible trading, diversification and greater transparency.

ETFs are usually passively managed funds wherein the subscription / redemption of units works on the concept of exchange with underlying securities. In other words, large investors / institutions can purchase units by depositing the underlying securities with the mutual fund / asset management company and can redeem by receiving the underlying shares in exchange of units. Units can also be bought and sold directly on the exchange.

ETFs can be of various types -- Index ETF, Physical ETF, Synthetic ETF, Inverse ETF, Leverage ETF and Actively Managed ETF. Gold ETF is a form of a physical ETF wherein the underlying is physical gold and gold related instruments.

In India the first ETF, called Nifty BeEs, was launched in 2002 by Benchmark MF. The first Gold ETF was launched by Benchmark in 2007. The total assets under management (AUM) and number of ETFs in India as on March 31, 2017 are given in Table 1C.

Table 1C: AUM and number of ETFs in India (as on March 31, 2017)

Type of ETFs	Number	AUM (₹ crore)
Gold ETFs	12	5,479.81
Other than Gold ETFs	51	44,435.66
Total	**63**	**49,915.47**

CPSE ETF (Central Public Sector Enterprise ETF)

As a part of its disinvestment programme, on May 02, 2013 the Government of India (GoI) approved the setting up of a central public sector enterprise (CPSE) exchange traded fund comprising of equity shares of 10 CPSEs, which would be launched as a CPSE ETF scheme. The fund will invest in the 10 PSU stocks, which are the constituents of the Nifty CPSE Index, in the same proportion as the index.

The ETF launched in March 2014 raised ₹ 3,000 crore during the New Fund Offer (NFO) of the scheme. Thereafter, in January 2017 GoI disinvested ₹ 6,000 crore through the scheme by launching a Further Fund Offer (FFO). The scheme received a total subscription of ₹ 13,557 crore and was oversubscribed by around ₹ 7,557 crore. In March 2017, through another FFO, GoI divested ₹ 2,500 crore. The scheme was again oversubscribed to the tune of ₹ 6,792 crore. The units of the scheme were offered at an upfront discount of 3.5 per cent- 5.00 per cent to all the investors who invested during the NFO/FFO.

As on March 31, 2017, the total AUM of CPSE ETF was ₹ 7,732.53 crore and it had 2,49,844 folios.

Retail Participation in CPSE ETF

It was observed that there was huge retail participation during all the three launches of the CPSE ETF and retail investors had oversubscribed during NFO/FFOs.

The total amount and number of subscriptions received from retail investors at the launch of the three tranches of the ETF is given in Table 1D.

Table 1D: Amount and number of subscriptions from retail investors at the launch of three tranches of ETF

CPSE ETF tranches	Total subscriptions received (₹ crore)	Total no. of applications received
First Tranch – NFO	320	38,602
Second Tranch – FFO	2,406	2,66,726
Third Tranch – FFO 2	1,616	1,64,321

In Union Budget 2017-18 it was announced that ETF will continue to be used as a vehicle for further disinvestment of shares and accordingly, a new ETF with diversified CPSE stocks and other government holdings will be launched in 2017-18.

C. Disclosure of Votes Cast by Mutual Funds

Vide SEBI circular dated August 10, 2016, it was decided that the certification on the voting reports being disclosed by AMCs on a quarterly basis in line with the circular dated March 24, 2014 will be obtained from the 'scrutinizer' in terms of Rule 20 (3) (ix) of the Companies (Management and Administration) Rules, 2014. This will be submitted to the trustees and also disclosed in the relevant portion of the mutual funds' annual reports and on their websites. The boards of AMCs and trustees of mutual funds will be required to review and ensure that AMCs have voted on important decisions that may affect investor interests and that the rationale recorded for vote decisions is prudent and adequate. Confirmation of this, along with any adverse comments made by the scrutinizer, have to be reported to SEBI in the half yearly trustee reports.

D. Submission of Final Copy of Scheme Information Document (SID) Prior to the Launch of a Scheme

SEBI on August 10, 2016 decided that soft copies of SIDs along with printed/ final copies will be submitted to SEBI seven working days prior to the launch of a scheme instead of two working days earlier.

E. Consolidated Account Statement (CAS)

As per SEBI's new directions consolidated account statements (CAS) issued for the half-year (September / March) will also have to provide:

a. The amount of actual commission paid by AMCs/ MFs to distributors (in absolute terms) during the half-year period against the concerned investor's total investments in each MF scheme. Further, a mention may be made in such CAS indicating that the commission disclosed is gross commission and does not exclude costs incurred by distributors such as service tax (wherever applicable, as per existing rates) and operating expenses.

b. The scheme's average total expense ratio (in percentage terms) for the half-year period for each scheme's applicable plan (regular or direct or both) where the concerned investor has actually invested.

F. Investment / Trading in Securities by Employees of AMC(s) and Trustees of Mutual Funds

With an objective of bringing about alignment of SEBI circulars providing guidelines for investment/ trading in securities by employees of AMC(s) and trustees with the principles laid down in SEBI (Prohibition of Insider Trading) Regulations, 2015, and to remove difficulties in the implementation of these guidelines, the following provisions have been modified:

a. Investments in units of schemes floated by Mutual Funds / AMCs, where the concerned persons (in terms of the applicability of the circular) are employed, shall be as per SEBI guidelines for investment / trading by employees of AMC(s) and Trustees of Mutual Funds. However, investments in schemes of other Mutual Funds have been removed from the scope of these guidelines.

b. The applicability of these guidelines has been widened to include transactions for sale or purchase of securities made in the name of employees' parents, siblings and children of the employee or of the spouse, any of whom is either dependent financially on such an employee, or consults such an employee in taking decisions relating to trading in securities.

c. Prior to this circular, an AMC access person was not permitted to trade in any share and/ or debenture and/or bond and/or warrant of the company or derivatives wherein any scheme of the concerned MF had traded in the last 15 days prior to the date of the written application by the such an access person ('cooling off period'). However, pursuant to this circular, trades executed pursuant to trading plans submitted by employees in terms of SEBI (Prohibition of Insider Trading) (PIT) Regulations, 2015 are exempt from the requirement of a 'cooling off period,' provided that such trading plans:

   (i) are in compliance with the norms prescribed in SEBI (PIT) Regulations, 2015.

   (ii) are publicly disclosed on the website of the concerned MF.

d. Further, the compliance officer is required to properly monitor trades of the MF scheme and that of the access person as per the trading plan in order to ensure that such a trading plan does not entail trading in securities for market abuse.

e. The validity of approval given by the compliance officer to an access person for carrying out a sale or purchase of a security has been modified from seven calendar days to seven trading days.

G. Mutual Funds' Participation in the Derivatives Market

In February 2017 SEBI decided that the provision for obtaining positive consent from a majority of the unit holders for participation in derivative instruments by existing schemes will be removed because of the challenges involved in obtaining positive consent from existing investors. However, before a scheme's participation in derivatives, all investors of the scheme will be given an exit option with no exit load for 30 days as against an exit option for only dissenting unit holders mandated earlier.

H. Investments in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) by Mutual Fund schemes

Mutual funds have been allowed to invest in hybrid securities such as units of REITs and InvITs subject to investment restrictions vide amendment dated February 15, 2017. Any existing scheme intending to invest in units of REITs/InvITs will have to abide by the provisions of Regulation 18 (15A) of SEBI (Mutual Funds) Regulations, 1996. For investment in units of REITs/InvITs by an existing MF scheme, unit holders of the scheme will be given a time period of at least 15 days for the purpose of exercising the exit option.

I. Disclosure of Performance Related Information in Mutual Fund Advertisements

With an objective to disclose a MF scheme's performance related information in a more effective and simple manner in advertisements, in March 2017 SEBI decided that:

a. Performance of MF schemes will be advertised in terms of the compound annual growth rate (CAGR) for the past year, three years, five years and since inception in place of the earlier requirement to publish the scheme's returns for as many 12-month periods as possible for the past three years.

b. Performance advertisements of MF schemes should provide information based on the last day of the month-end preceding the date of advertisement, instead of the earlier requirement of publishing such data based on last day of preceding quarter-end.

c. Performance of other schemes managed by the fund manager will be disclosed in a summarized manner and MFs will be permitted to provide an exact link to such summarized information in internet-enabled media.

It was also decided that celebrity endorsements of mutual funds will be permitted at the industry level and not for endorsing a particular MF scheme or as a branding exercise of a MF house. Further, SEBI prior approval will be required for issuing advertisements which feature celebrities.

J. Advisory Committee on Mutual Funds (MFAC)

SEBI has an Advisory Committee on Mutual Funds (MFAC) which comprises industry representatives, investor associations, government representatives and other stakeholders. The committee provides a platform for interaction and deliberations on issues related to the MF industry. It acts as a platform for SEBI to place its various regulatory development activities and at the same time the industry places its agenda before SEBI for further consideration. During financial year 2016-17, the committee under the Chairmanship of Shri Janki Ballabh, the former Chairman of the State Bank of India, met twice on November 17, 2016 and December 23, 2016 and gave its recommendations on various policy issues encompassing the MF industry.

V. INTERMEDIARIES ASSOCIATED WITH THE SECURITIES MARKET

A. Enhanced Supervision

In order to enhance supervisory mechanisms for protection of investors, SEBI issued a circular on September 26, 2016, effective from April 01, 2017, covering the following broad areas:

i. Uniform nomenclature to be followed by stock brokers for naming / tagging of bank and demat accounts and reporting of such accounts to stock exchanges / depositories.

ii. Stock exchanges to monitor clients' funds lying with stock brokers through a sophisticated alerting and reconciliation mechanism to detect any mis-utilization of these funds.

iii. Changes in the existing system of internal audit for stock brokers/depository participants' -- appointment, rotation of internal auditors, formulating objective sample criteria, monitoring the quality of internal audit reports and the timeline for submission of these reports etc.

iv. Stock exchanges to monitor the financial strength of stock brokers so as to detect any sign of their deteriorating financial health and serve as an early warning system to take pre-emptive and remedial measures.

v. Imposition of uniform penal action on stock brokers/depository participants by the stock exchanges/depositories in the event of non-compliance with specified requirements.

vi. Other requirements:

   a. Uploading clients' funds and securities balance by stock brokers to the stock exchange system and its onward transmission to clients for better transparency.

   b. Clarification on running account settlement.

   c. Providing PAN details of directors, key management personnel and dealers to stock exchanges and any change thereof.

B. Simplification of Account Opening Kit :

To simplify the account opening kit, in July 2016 SEBI directed stock brokers / depository participants to make available standard documents -- rights and obligations, uniform risk disclosure documents, guidance note detailing dos and don'ts for trading on stock exchanges, etc. to clients either in electronic or physical form depending on the preference of the client.

Box 1.9: Client Registration Documents in Local Languages and Simplification of Account Opening Kit

In the interest of investors and for ease in the account opening process, SEBI enabled the availability of standard account opening documents in local languages to help investors to better understand the nuances of the securities market in their native language other than English. Further, such documents will be provided in electronic mode to clients to reduce the number of pages in the account opening form. SEBI directed the stock exchanges to provide the following documents to investors in local languages:

- Rights and obligations of the stock broker, sub-broker and clients (including additional rights and obligations in case of internet / wireless technology based trading).
- Uniform risk disclosure documents (for all segments / exchanges).
- Guidance note detailing dos and don'ts for trading on exchange(s).

Accordingly, stock exchanges / stock brokers have these documents available in 15 local languages -- Bengali, Gujarati, Hindi, Kannada, Kashmiri, Konkani, Malayalam, Marathi, Odiya, Punjabi, Sindhi, Tamil, Telugu and Urdu on their websites.

In order to further reduce the number of pages in an account opening form, in consultation with market participants, SEBI directed stock brokers / depository participants to make available the standard documents – rights and obligations of stock brokers, sub-brokers and client for trading on exchanges (including additional rights and obligations in case of internet / wireless technology based trading), rights and obligations of beneficial owner and depository participant as prescribed by SEBI and the depositories, uniform risk disclosure documents (for all segments / exchanges) and a guidance note the detailing dos and don'ts for trading on stock exchanges to their clients, either in electronic or physical form, depending on the preference of the client as part of the account opening kit and that the preference of the client shall be sought as part of the account opening form.

C. Enhancing Recovery Powers of Debenture Trustees

In line with a Government of India notification, SARFAESI has been amended giving recovery powers of secured assets in case of defaults by issuer companies to debenture trustees by including 'debenture trustee' in the definition of secured creditors. Prior to the amendment, under the SARFAESI Act the power of recovery of assets was only with banks and financial institutions.

D. Standardization and Simplification of Procedures for Transmission of Securities in the Event of Death

The process of transmission of securities has been made more efficient and investor friendly defining additional documentary requirements in accordance with the Indian Succession Act with respect to securities held in physical mode.

E. Regulatory Framework for Commodity Derivatives Brokers

Consequent to the merger of the Forwards Market Commission (FMC) with SEBI, regulatory provisions for stock brokers across equity and commodity derivatives markets were harmonized in September 2016.

F. Initiative to Improve the Complaint Redressal Mechanism through SCORES

To improve the complaint redressal mechanism through SCORES, SEBI issued a Circular on March 10, 2017 regarding Redressal of Complaints against Stock Brokers and Depository Participants through the SEBI Complaints Redress System (SCORES), directing all stock brokers and depository participants to address / redress complaints within a period of 15 days from the receipt of a complaint. In case additional information is required from the complainant, this should be sought within seven days of the receipt of the complaint. In such cases, 15 days will begin from day of receipt of additional information.

Box 1.10: Permanent Registration for Market Intermediaries

SEBI had been following a two-step process of granting registration to market intermediaries viz. initial and permanent was being followed. The concept of initial registration was introduced in order to enable periodic review of the performance of the intermediaries when they applied for permanent registration. Considering the various measures taken by SEBI to continuously review the performance of intermediaries such as disclosure of change in information or particulars previously furnished by the intermediary, which have a bearing on the certificate granted to it, half-yearly internal audit, inspection by depositories / SEBI, periodic reports, applicability of fit and proper person criteria, risk based supervision, to prevent duplication of the registration process, to save cost of compliance and to facilitate ease of doing business for intermediaries the SEBI Board in its meeting held on September 23, 2016 decided that henceforth a one-step permanent registration will be granted to market intermediaries. Accordingly, relevant SEBI Regulations were amended by notifying SEBI (Change in Conditions of Registration of Certain Intermediaries) (Amendment) Regulation, 2016 on December 08, 2016, to facilitate ease of doing business for the following market intermediaries:

- Merchant bankers
- Registrar to an issue and share transfer agent
- Bankers to an issue
- Underwriter
- Credit rating agencies
- Debenture trustees
- Depository participants
- KYC registration agency (KRA)

Box 1.11: Initiatives for Strengthening the Guidelines and Raising Industry Standards for Credit Rating Agencies (CRAs)

With a view to strengthening the functioning of CRAs and to harmonize the best practices in the industry, SEBI constituted a Committee on Strengthening the Guidelines and Raising Industry Standards for Credit Rating Agencies (CRAs), comprising representatives from all CRAs. The objective of the committee was to deliberate on measures and guidelines to bring about greater transparency in the policies of CRAs, enhance the standards followed by the industry thus facilitating ease of understanding of the ratings by investors.

Accordingly, SEBI issued a circular dated November 01, 2016 and March 31, 2017 on Enhanced Standards for Credit Rating Agencies which prescribed the following:

I. Policy with respect to non-co-operation by the issuer:

SEBI has made it mandatory for CRAs to review the rated instrument on an on-going basis throughout the instrument's lifetime, on the basis of best available information, even in case of non-cooperation by the issuer. The format of press release and the rating symbol, in case of non-co-operation by the issuer has been standardized across CRAs.

II. Accountability and managing conflict of interest:

CRAs have been advised to set out the obligations, responsibilities, management of conflict of interest, eligibility, composition, system of voting etc. of rating committee members and the roles, responsibilities and desired timelines for analysts in their operational manuals. Persons having business responsibilities have been prohibited from being part of the Rating Committee, barring the MD/ CEO, provided that a majority of the Rating Committee members are independent. An annual review of the functioning of the rating committees is required to be carried out by all CRAs.

III. Standardization of format of press release for rating actions:

CRAs have been directed to follow a standardized template for a press release communicating rating action. The template specifies the minimum information to be disclosed in the press release – rating action and rating outlook, details of the instrument, key rating drivers, rating history, reference to applicable criteria, contact details of the rating analyst, etc.

IV. Mandatory disclosures on CRAs' websites:

It has been made mandatory for CRAs to make certain disclosures on their websites. These include the criteria used for rating various instruments and sectors and for default recognition, rating process and policies and any changes therein, all rating history, press releases and rating reports by the CRAs, including ratings withdrawn and those non-accepted by the issuer, even in case of non-public issues, rating transition/ rating history of the issuer, details of all such ratings where the review became due but was not completed by the due date by the CRA, etc.

V. Withdrawal of bank loan and mutual fund ratings

While CRAs may withdraw the ratings of open-ended mutual fund schemes on request from the asset management company, the ratings will be placed on notice of withdrawal for at least 30 days and this will be publicly available on a CRA's website. In case of bank facilities, ratings may be withdrawn on request from the borrower along with a no-objection from the lending bank(s). Further, at the time of withdrawal, the CRA shall assign a rating to such facility/ security and issue a press release as per the prescribed format, mentioning the reason(s) for withdrawal.

VI. FOREIGN PORTFOLIO INVESTMENTS

A. Offshore Derivatives Instruments (ODIs)

SEBI took the following steps to further tighten norms relating to issuance and transfer of ODIs:

i. Regulation 22 (2) of SEBI (Foreign Portfolio Investors) Regulations, 2014 (FPI Regulations) has been amended as follows:

a foreign portfolio investor shall ensure that any transfer of any offshore derivative instruments issued by or on behalf of it, is made subject to the following conditions :

a) The offshore derivative instrument are transferred to persons subject to fulfilment of sub-regulation (1)[2]; and

b) Prior consent of the foreign portfolio investor is obtained for such transfer,

[2] [Regulation 22 (1)] - No foreign portfolio investor may issue, subscribe to or otherwise deal in offshore derivative instruments, directly or indirectly, unless the following conditions are satisfied:
(a) such offshore derivative instruments are issued only to persons who are regulated by an appropriate foreign regulatory authority;
(b) such offshore derivative instruments are issued after compliance with know your client norms.

except when the persons to whom the offshore derivative instruments are to be transferred to are pre-approved by the foreign portfolio investor.

ii. In June 2016, SEBI issued the following instructions on Know Your Client (KYC) norms for ODI subscribers, transferability of ODIs, reporting of suspicious transactions, periodic review of systems and the modified ODI reporting format:

a) **Applicability of Indian KYC/AML Norms for Client Due Diligence:** ODI issuers are now required to identify and verify beneficial owners (BOs) in subscriber entities, who hold in excess of the threshold 25 per cent in case of a company and 15 per cent in case of partnership firms / trusts / unincorporated bodies. This is defined under Rule 9 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005, that is, 25 per cent in case of a company and 15 per cent in case of partnership firms/ trusts/ unincorporated bodies.

b) **KYC Review: A** KYC review will be done on the basis of the risk criteria as determined by ODI issuers.

c) **Reporting Suspicious Transactions:** ODI issuers are required to file suspicious transaction reports, if any, with the Indian Financial Intelligence Unit in relation to the ODIs issued by them.

d) **Reporting of Complete Transfer Trail of ODIs:** ODI issuers are also required to report all intermediate transfers during the month in monthly reports on ODIs.

e) **Reconfirmation of ODI Positions:** ODI issuers are required to carry out reconfirmation of ODI positions on a semi-annual basis. In case of any divergence from the reported monthly data, SEBI should be informed in the format provided.

f) **Periodic Operational Evaluation:** ODI issuers are required to put in place necessary systems and carry out a periodical review and evaluation of its controls, systems and procedures with respect to ODIs. A certificate should be submitted on an annual basis to SEBI by the Chief Executive Officer or equivalent of an ODI issuer.

iii. It was further clarified that ODI subscribers who have subscribed to ODIs under SEBI (Foreign Institutional Investors) Regulations, 1995 can continue to subscribe to ODIs under the FPI regime subject to the condition that they comply with Regulation 22 of FPI Regulations and meet the eligibility criteria as laid down in the SEBI circular dated November 24, 2014 along with other norms which may be notified by SEBI from time to time. Those ODI subscribers who do not meet the aforementioned norms, including unregulated funds whose investment manager is appropriately regulated, can continue to hold the position till the date of expiry of such positions or till December 31, 2020, whichever is earlier. Such subscribers cannot take fresh positions or renew old positions.

B. Foreign Investments in Rupee Denominated Bonds Issued both Onshore and Overseas by Indian Corporates

The corporate debt limit of US$ 51 billion (equivalent to ₹ 2,44,323 crore) has been redefined as the 'Combined Corporate' debt limit for all foreign investments in rupee denominated bonds issued both onshore and overseas by Indian corporates. It has also been decided that foreign investments in overseas rupee denominated bonds will be reckoned against the combined corporate debt limit. However, these investments will not be treated as FPI investments and hence will not be under the purview of the SEBI (Foreign Portfolio Investors), Regulations, 2014. The criteria for foreign investments in overseas rupee denominated bonds will be as defined by the Reserve Bank of India from time to time.

C. Increase in Government Debt Investment Limits for FPIs

In October 2016 SEBI enhanced the limit for investments by FPIs in government securities (Table 1.6).

Table 1.6: Limit for investments by FPIs in government securities

Type of Instrument	Revised upper cap with effect from October 03, 2016 (₹ crore)	Revised upper Cap with effect from January 02, 2017 (₹ crore)
Government Debt	1,48,000	1,52,000
Government Debt – Long Term	62,000	68,000
State Development Loans	17,500	21,000
Total	**2,27,500**	**2,41,000**

The incremental limits for long-term FPIs were made available for investment on tap with effect from October 03, 2016 and January 02, 2017 respectively. The incremental limits of ₹ 3,500 crore each for investments by FPIs in state development loans (SDLs) was also made available for investment on tap with effect from October 03, 2016 and January 02, 2017 respectively.

D. Permission to FPIs to Trade Directly in Corporate Bonds Without a Broker

SEBI has taken the following decisions for permitting FPIs to trade directly in corporate bonds:

i. Category I and Category II FPIs will have an option to directly access corporate bond markets without brokers as has been allowed to banks, insurance companies, pension funds etc. Access to over-the-counter (OTC), request for quote (RFQ) and electronic book provider (EBP) platforms of RSE will be provided to FPIs only for proprietary trading.

ii. A proposal for amending Rule 8(4) of the Securities Contracts (Regulation) Rules, 1957 will be taken up with the Government of India to permit FPIs to become members of RSEs for the limited purpose of proprietary trading.

E. Review of Requirement of PAN Card to FPI Accounts

In November 2016 SEBI clarified that intermediaries can verify the PAN of FPIs online from websites authorized by Income Tax Department at the time of account-opening for FPIs. However, FPIs need to provide a copy of the PAN card within 60 days of account-opening or before remitting funds out of India, whichever is earlier to their intermediaries.

F. Participation of Eligible Foreign Investors (EFIs) and FPIs in the International Financial Services Centre (IFSC)

In January 2017 SEBI permitted registered FPIs, proposing to operate in IFSC to do so without undergoing any additional documentation and / or prior approval process. In case of FPIs' participation in IFSC, a trading member of the recognized stock exchange in IFSC may rely on the due diligence process already carried out by a SEBI registered intermediary during the course of registration and account-opening process in India.

In case of participation of an EFI not registered with SEBI as a FPI but desirous of operating in IFSC, a trading member of the recognized stock exchange in IFSC may rely on the due diligence carried out by a bank which is permitted by RBI to operate in IFSC during the EFI's account-opening process.

G. Investments by FPIs in Unlisted Corporate Debt Securities and Securitized Debt Instruments

In February 2017 SEBI permitted FPIs to invest in the following instruments:

a) Unlisted corporate debt securities in the form of non-convertible debentures / bonds issued by public or private Indian companies subject to the guidelines issued by the Ministry of Corporate Affairs, Government of India from time to time and also subject to minimum residual maturity of three years and end-use restrictions on investments in the real estate business, capital market and purchase of land.

b) Securitized debt instruments which may be:

   (i) any certificate or instrument issued by a special purpose vehicle (SPV) set up for securitization of asset(s) with banks, financial institutions or non-banking financial corporations are originators; and / or

   (ii) any certificate or instrument issued and listed in terms of the SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations, 2008.

It was also decided that investments by FPIs in unlisted corporate debt securities and securitized debt instruments shall not exceed ₹ 35,000 crore within the extant corporate debt limit which is currently ₹ 2,44,323 crore.

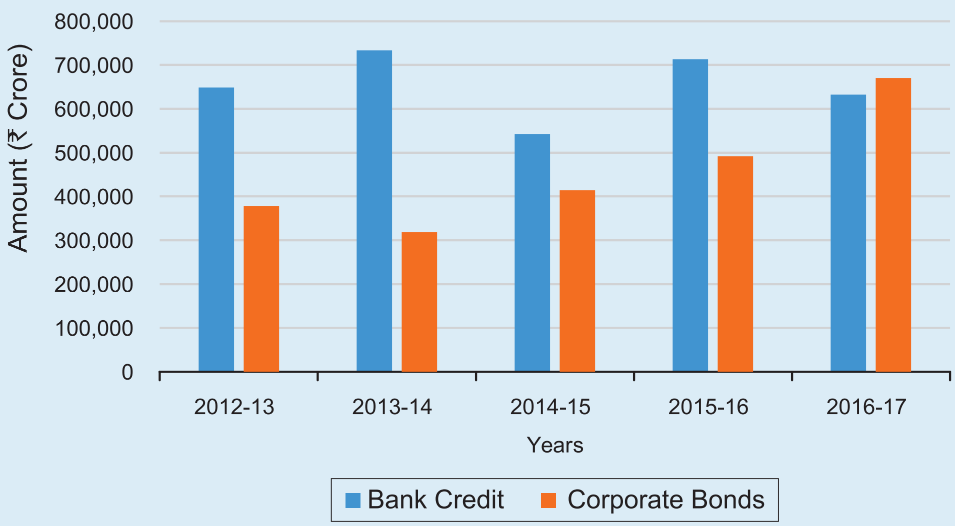
VII. THE CORPORATE DEBT MARKET

Box 1. 12: The Corporate Bond Market in India

India's financial system has traditionally been largely dominated by the banking system where a majority of the corporate entities depend on loans from banks and financial institutions and they have not shown much interest in raising even a small part of the required long term resources from the market through bonds and other debt instruments. The various sources of funding for the industry for its business needs are bank credit, external commercial borrowings, commercial papers and certificate of deposits. There is a need for mobilizing funds from the corporate bond market as it provides an alternative source of finance and supplements the banking system to meet the requirements of the corporate sector to raise funds for long-term investments.

However, of late there has been a change and it is observed that the industry is gradually expanding its reach towards the corporate bond market and reducing its reliance on bank credit. Chart 4 gives a comparison of bank credit to corporate bonds.

Chart 4: Comparison of bank credit to corporate bonds



Source: Care ratings and SEBI.

It can be seen in Chart 4 that since FY 2012-13, there has been an increase in lending through bank loans as compared to corporate bonds. However, there was a slight dip in bank credit in FY 2014-15 as compared to FY 2013-14. Further, in FY 2016-17, there was lending of only ₹ 6.32 lakh crore through bank credit (till March 31, 2017) whereas around ₹ 6.7 lakh crore was raised through the issuance of corporate bonds.

The growth in bank credit was lower primarily due to less demand from the corporate sector as well as banks being saddled by huge NPAs and stringent capital requirements under Basel norms.

The size of the corporate bond market is increasing every year which shows that corporates and borrowers are gradually favouring raising funds through the corporate bond market. Better transmission of policy rate changes to the bond market and increased transparency and price discovery could be possible reasons for a spike in the corporate bond market.

It is understood that when a corporate issues bonds/debentures which are subsequently listed and traded on the stock exchange, the financials, credit ratings of such bonds/issuers and details such as defaults made by the issuer in honouring its debt obligations are available in the public domain. The availability of such information in the public domain enables investors to assess the health of the company and make prudent investment decisions. Thus, corporate bonds are emerging as one of the preferred sources of financing by investors.

The Government of India has also been proactive and taken a number of measures for the deepening of the corporate bond market in India. The implementation of the Bankruptcy and Insolvency Code, 2016 and the measures taken by RBI such as Credit Supply for Large Borrowers through the Market Mechanism for pushing corporates towards market borrowings and away from bank denominated lending may contribute to the overall growth of the corporate bond market. These statistics only point towards a developing corporate bond market in India. A vibrant and a deep corporate market will go a long way in improving the growth of the economy and sustaining its huge infrastructure requirements.

A. Electronic Book Mechanism for Issuing Debt Securities on a Private Placement Basis

SEBI laid down a framework for issuing of debt securities on a private placement basis through an electronic book mechanism in order to streamline procedures for issuance of debt securities on a private placement basis and enhancing transparency to discover prices.

Box 1.13: Electronic Book Mechanism for Private Placement of Corporate Bonds

Over the past several years various measures have been taken by SEBI, the government and RBI for developing the corporate bond market. The Indian corporate bond market has evolved gradually over a period of time. Earlier, the price discovery of privately placed debt securities was being done either over the telephone among identified investors and issuers with the help of arrangers or by physical bids sent to the issuer by investors or by submitting individual bids on the portal provided by the issuer. These methods were opaque since most of the investors were brought in by the arranger(s) appointed by the issuer and there were hardly investors directly approaching the issuer. This resulted in many market malfunctioning like poor price discovery, arrangers taking a significant portion of the issue on their books and down-selling it without disclosing the price at which the securities were bought.

Keeping in view these issues and challenges, in April 2016 SEBI laid down a framework for an electronic book mechanism (EBM) for issuing of debt securities on a private placement basis in order to streamline procedures for issuing debt securities on a private placement basis and enhancing transparency in discovering prices. Accordingly, from July 01, 2016, NSE and BSE started their operations as electronic book providers (EBPs).

Salient Features of EBM:

The electronic book mechanism is an online portal wherein the issuer enters issue related details which can only be seen by eligible investors. Further, the investors need to get enrolled on the EBP before they can start bidding. EBP has the following participants:

- **Issuer**
- **Arranger:** RBI registered non-banking financial companies (NBFCs), SEBI registered merchant bankers
- **Sub-arrangers:** As appointed by the arranger. They may be SEBI registered brokers
- **Investors**: They may be institutional investors (qualified institutional buyers (QIBs) and non-qualified institutional buyers (non-QIBs)) and non-institutional investors such as HNIs. Once enrolled with EBPs, QIBs are eligible to directly bid for any of the issuance on the EBPs, whereas non-QIBs can only bid once they have been made eligible by the issuer.

To start with, the mechanism has been made mandatory for all issuances of ₹ 500 crore and above, inclusive of the green shoe option, if any, in a financial year. It is voluntary for issuances less than ₹ 500 crore. It is also voluntary for those issuances wherein there is only one investor.

Mechanism for Price discovery: Investors put their bids on a yield basis. Once the bidding is over, the bid book is provided to the issuer which in turn does the allotment. Such bidding is not mandatory on the part of the issuer to make allotments, that is, it may seek another round of bids for the same issue. SEBI has provided broad operational guidelines and accordingly EBPs have notified their own operational guidelines which include:

- ➢ Bidding procedure – whether open or closed bidding
- ➢ Negotiation window – EBPs also provide a mechanism for negotiations among the issuer and investors through the portal
- ➢ Issue parameters – EBPs set issue specific parameters in consultation with the issuer
- ➢ Mandatory uploads – once the allotment has been done by the issuer it provides the data to the EBP which get uploaded on its website on an anonymous basis

The key benefits of an electronic book vis-à-vis over-the-telephone market, *inter-alia*, are improvements in efficiency, transparency of the price discovery mechanism and reduction in cost and time taken for such issuances. Apart from these, eligible institutional investors (which are predominantly investors in the privately placed debt market) can directly bid on the EBPs and can also negotiate on the EBPs. The mechanism has helped in reducing information asymmetry since eligible investors can directly access issue related information and can bid directly on the EBPs irrespective of their physical location. It has created a win-win situation for issuers and investors alike. As a result, the yield spread between 10-year G Sec and AAA rated corporate bonds of a similar tenure shrunk substantially in the last quarter of the FY 2016-17.

B. Restrictions on Wilful Defaulters

SEBI amended the SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations (NCRPS Regulations) and the SEBI (Issue and Listing of Debt Securities) Regulations (ILDS Regulations), 2008 to impose restrictions on wilful defaulters. As per the amendments to NCRPS Regulations, no issuer will make any public issue of NCRPS / debt securities, if as on the date of filing of draft offer document or final offer document, the issuer or any of its promoters or directors is a wilful defaulter or it is in default of payment of interest or repayment of principal amount with respect to non-convertible redeemable preference shares issued by it to the public, if any, for a period of more than six months.

Further, the following disclosures also have to be made in case of listing of NCRPS / debt securities made on private placement:

a) Name of the bank declaring the entity as a wilful defaulter;

b) The year in which the entity was declared a wilful defaulter;

c) Outstanding amount when the entity was declared a wilful defaulter;

d) Name of the entity declared a wilful defaulter;

e) Steps taken, if any, for removal from the list of wilful defaulters;

f) Other disclosures, as deemed fit by the issuer in order to enable investors to take informed decisions; and

g) Any other disclosure as specified by the Board.

Besides the amendments, the fact that the issuer or any of its promoters or directors is a wilful defaulter will be disclosed prominently on the cover page with suitable cross referencing to the pages.

C. Revised Formats for Financial Results

SEBI prescribed the revised formats for financial results and implementation of Ind AS by listed entities which have listed their debt securities and / or non-cumulative redeemable preference shares. As per the revised formats, from 2017 onwards the disclosure of half yearly and annual financial results, that is, the balance sheet and the statement of profit and loss will be as per the formats prescribed in Schedule III to the Companies Act, 2013. However, banking and insurance companies have to follow the formats prescribed under their respective acts / regulations as specified by their regulators. SEBI also prescribed that until the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS Rules) become applicable for a listed entity, the listed entity shall adopt Companies (Accounting Standards) Rules, 2006 (AS Rules) as prescribed by the Ministry of Corporate Affairs (MCA).

SEBI has also specified the format for financial results to be published in the newspapers, which is in terms of Regulation 52 (8) of the Listing Regulations. It is now mandatory for listed entities, adopting the Indian Accounting Standards, to ensure that while publishing the half yearly/annual financial results the comparative financial results, filed along with the said half yearly / annual financial results, are also Ind AS compliant.

D. Alternative to 'Net worth' for Municipalities

The SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015 have been amended to provide for a criteria alternative to 'net worth' for municipalities making public issues of debt securities under these regulations. In order to facilitate issuance of debt securities under these regulations by entities other than the Corporate Municipal Entity (CME), it has been provided that the municipalities making public issues of debt securities under these regulations shall have surplus as per their income and expenditure statements in any of the immediately preceding three financial years or any other financial criteria as specified by SEBI from time to time.

E. Dispensation Provided to the Municipalities with respect to Submission of Accounts

In following the operational procedures for submission of accounts, it is difficult for municipalities to submit audited accounts for the immediately preceding financial year in the information memorandum submitted to the stock exchanges for private placement issues of debt securities. Hence, in order to kick-start and provide an impetus to the municipal bond market in India, SEBI has provided certain dispensations to the municipalities with respect to submission of accounts for private placement issues of debt securities under the SEBI (Issue and Listing of Debt Securities by Municipalities) Regulations, 2015. An issuer proposing to issue debt securities under these regulations in the financial year 2017-18 is required to submit the audited accounts for financial years 2013-14, 2014-15 and 2015-16 in the information memorandum to the stock exchanges. For the immediately preceding financial year (2016-17), the issuer is required to submit half yearly financial statements as available (audited or unaudited) as on September 2016.

Issuers are also required to submit audited accounts for 2016-17 within one year from the end of that 2017-18 to recognized stock exchanges, where the debt securities have been listed. Such audited accounts are to be displayed on the websites of recognized stock exchanges and the issuers. Issuers are also required to provide on request a copy (physical or electronic) of such audited accounts to its investors.

Box 1.14: Trade Repository for corporate bonds in India

Corporate bond market in India is mainly institutional market dominated by Banks, Mutual Funds, Insurance companies and Provident Funds etc. These institutions prefer to trade in corporate bonds in the OTC market. SEBI mandated reporting of OTC trades in corporate bond in reporting platform provided by NSE, BSE, FIMMDA (currently phased out) and MSEI. Presently, there are multiple reporting platforms available for reporting of the OTC trades in the corporate bonds. As a result consolidated trade data for trades executed in corporate bonds and other information about corporate bonds such as rating migration, primary issuance and bond yields with different maturities etc. are not available at a central place.

A Trade Repository aggregates and disseminates trade related data such as price, yield and volume & other relevant information in different financial instruments such as bonds derivatives to market participants. A Trade Repository for corporate bonds would bring greater level of post trade transparency and bring greater level of information to the market participants in bond market by disseminating data such as price, yield, volume, specific maturities and credit migrations of a corporate paper etc. Further such consolidation of data may be useful tool to know client level exposures/ concentration in particular bonds (e.g. exposure of any mutual fund to particular corporate paper etc.).

SEBI has decided to set up Trade Repository for corporate bonds in two phases. Phase I covers integration of secondary market data pertaining to corporate bonds. While Phase II covers integration of data across primary and secondary market. Exchanges and Depositories have been permitted to set up trade repositories. Phase I has been implemented with effect from June 30, 2016 and Phase II of Trade repository has been implemented from October 30, 2016. Accordingly, Stock Exchanges (NSE, BSE & MSEI) and Depositories (NSDL & CDSL) have been disseminating primary and secondary market related data in an integrated manner to provide holistic view about corporate bonds in India to market participants.

VIII. OTHER POLICIES AND PROGRAMMES HAVING A BEARING ON THE WORKING OF THE SECURITIES MARKET

A. Surveillance of Stock Exchanges

India is home to the largest number of listed companies in the world. The number of companies traded daily on the Indian stock exchanges is more than the total number of listed companies in many jurisdictions. However, it has been observed that the shares of many low cap companies / companies with poor fundamentals traded on stock exchange platforms have witnessed abnormal price rises which are not supported by any significant financial/operational performance.

SEBI and the stock exchanges have surveillance mechanisms in place and have taken action (suspension of trading in scrips, debarment of suspected entities, etc.) after analysing internal alerts as well as external references. Surveillance measures like the introduction of periodic price bands, shifting to trade for trade (TfT) and tightening the price bands are taken by stock exchanges based on the alerts generated in the surveillance system and an analysis of trading in scrips.

With a view to pre-empt the misuse of trading platforms of stock exchanges, it was decided to also put in place certain preventive measures to check the abnormal increases in the prices of scrips, more particularly in the case of companies which have poor fundamentals. Subsequent to discussions with stock exchanges, a joint proposal was finalized by the stock exchanges on implementing graded surveillance measures.

Box 1.15: Implementation of Graded Surveillance Measures (GSMs) by Stock Exchanges

In a market economy, the price of a financial asset is determined by the interaction of the forces of demand and supply. The screen-based order-driven anonymous trading platform ensures a nation-wide market for the securities listed on the stock exchanges. However, in the case of many companies which have low capital bases / poor fundamentals and infrequent trading history, the equilibrium price so discovered was not in sync with their financial health and / or operational performance. This happened as certain market participants could abuse the stock exchange trading systems. Concerned about such misuse of the stock exchange platforms, it was felt that certain preventive measures need to be taken to put a check on the abnormal increases in the prices of scrips, more particularly in the case of companies which have poor fundamentals.

Subsequent to discussions with stock exchanges it was decided to introduce graded surveillance measures (GSMs). These measures work as pre-emptive steps to reduce/check instances of market manipulation in identified scrips. GSMs are intended to deal with the abnormal increases in share prices of companies which are apparently not in line with their disclosed fundamentals or business models, more particularly companies which have poor fundamentals.

The graded surveillance measures cover two phases:

a) Shortlisting of companies with surveillance-related concerns, based on the pre-defined objective criteria. The criteria will be subject to review.

b) The operationalization of the GSM framework which includes restrictions such as placing / continuing the securities in the trade for trade (TfT) category, once-in–a-week trading, once-in-a-month trading and imposing additional surveillance deposits as may be required upon breaching the prescribed threshold. The broader framework for initiating GSMs was identified as:

Stage	Graded Surveillance Measures
I	Transfer to the TfT category with a price band of 5 per cent or lower, as applicable.
II	Continuance in the TfT category with a price band of 5 per cent or lower as applicable and additional surveillance deposit (ASD) of 100 per cent of the trade value to be collected from the buyer.
III	Trading permitted only once-in-a-week (every Monday) and ASD of 100 per cent of the trade value to be deposited by the buyers.
IV	Trading permitted only once-in-a-week (every Monday) and ASD of 200 per cent of the trade value to be deposited by the buyers.
V	Trading permitted only once-in-a-month (first Monday of the month) with ASD of 200 per cent of the trade value to be deposited by the buyers.
VI	Trading permitted only once-in-a-month (first Monday of the month) with no upward quote in the price of the security with ASD of 200 per cent of the trade value to be deposited by the buyers.

Notes: 1) Identified Securities would be moving from one stage to another stage based on certain pre-defined objective criteria.

2) A periodic review of the securities under Graded Surveillance Measures to assess the relaxation of the surveillance action, if any, shall be carried out on a quarterly basis.

Only securities under Stage II onwards shall be eligible for the quarterly review. Accordingly all the stock exchanges issued the notices/circulars so as to inform the market and to put in place the Graded Surveillance Measures.

B. Infrastructure Investment Trusts (InvITs)

SEBI issued guidelines for the public issue of units of the infrastructure investment trusts (InvITs) with details regarding the requirements related to appointment of merchant bankers, the process for filing offer documents, manner of allocation to be made in public issues, details of the bidding and allotment process, public communications, obligation of the merchant bankers, etc. Later, guidelines for the disclosure of financial information in offer documents/placement memoranda for InvITs mentioning period, nature and content of the financial information to be provided in the offer documents/placement memoranda were issued. Further, SEBI came up with details of the continuous disclosures to be made by an InvIT and the regular compliances to be followed by it where details like time period for disclosures, key financial statements to be disclosed, approval and authentication of financial information and audit of financial information were provided. In addition to these, SEBI amended the SEBI (Infrastructure Investment Trust) Regulations, 2014 to ease the process of registration of InvITs with SEBI and for rationalizing and streamlining the process of structuring of and fund raising by InvITs.

C. Real Estate Investment Trusts (REITs)

SEBI amended the SEBI (Infrastructure Investment Trust) Regulations, 2014 to ease the process of registration of REITs with SEBI and for rationalizing and streamlining the process of structuring of and fund raising by REITs. Guidelines for the public issue of units of the REITs were issued subsequently, providing details regarding requirements related to appointment of merchant banker, the process for filing the offer document, manner of allocation to be made in the public issue, details of the bidding and allotment process, public communications, obligation of the merchant bankers, etc. SEBI also issued guidelines for the disclosure of financial information in offer documents for REITs mentioning the period, nature and content of the financial information to be provided in the offer document. Subsequently, SEBI came up with a list of continuous disclosures to be made by a REIT and the regular compliances that it had to follow.

D. Portfolio Management Services (PMS)

SEBI notified an amendment to SEBI (Portfolio Managers) Regulations, 1993 to insert a new Chapter II-A for 'Eligible Fund Managers,' providing a framework for existing portfolio managers as well as new applicants, compliant with requirements specified under Section 9A of Income Tax Act, 1961, to act as 'Eligible Fund Managers.'

E. Alternative Investment Funds

SEBI notified an amendment to Chapter III-A of SEBI (Alternative Investment Funds) Regulations, 2012, which is with respect to 'Angel Funds,' providing more flexibility to angel funds for accessing capital resulting in further ease of doing business, entrepreneurial activities, etc.

IX. ASSESSMENT AND PROSPECTS

I. ASSESSMENT

An efficient, fair and vibrant securities market facilitates the channelization of both domestic and international flows into investments and capital formation. This in turn translates into growth for the economy. The Indian securities market has kept good pace with the positive economic environment in the country.

A. Overall Policy Direction

SEBI has been taking a number of transformative steps for developing and strengthening a well regulated, modern securities market in India that can play the vital role of meeting the capital needs of the economy. The main thrust of these steps has been towards enhancing market trust, increasing the penetration of the securities market, enhancing investor education and awareness, enhancing governance norms, strengthening enforcement, facilitating fund raising by corporates and aligning the development of the securities market with the needs of the economy.

B. Steady Market Growth

India today features among the top 10 markets in terms of market capitalization; market capitalization in India has increased from less than one-third to more than four-fifth of its GDP in the last 25 years. This compares very well with other emerging markets. The value of trading on the major exchanges has also more than quadrupled in the last 20 years. Cumulative FII/FPI investments grew 100 fold over this period. Resources mobilized through public and rights issues increased by more than 50 times in the same period. Equity oriented assets under management (AUM) of mutual funds increased by over 30 times in just 15 years and AUM of non-equity oriented assets of mutual funds increased by over 15 times during the same period.

C. Policy Initiatives in 2016-17

2016-17 saw SEBI continuing its journey on the path of building a stronger and more vibrant Indian capital market while giving paramount importance to upholding investor protection. SEBI endeavoured to meet its objectives of protecting investor interests, regulation and development of the Indian securities market by ushering in several policy initiatives in various areas of the market. Some of the major directions of policy initiatives undertaken by SEBI during 2016-17, *inter-alia*, include the following:

Development of the Commodity Derivatives Market

SEBI assumed the task of regulating the commodity derivatives market in September 2015. Since then it has been taking several policy measures to strengthen the regulation of the market and also for further developing the commodity derivatives market in India. Some of the important measures taken by SEBI during 2016-17 include formulating a framework for the introduction of 'Options' in commodities and the revision and strengthening of risk management practices and warehousing norms for commodities. The Commodity Derivatives Advisory Committee (CDAC) was constituted to advise SEBI on effectively regulating and developing the commodity derivatives market.

Framework for the International Financial Services Centre (IFSC)

To make IFSC at GIFT City, Gandhi Nagar operational, a broad framework for the functioning of stock exchanges and clearing corporations in IFSC was put in place during 2016-17. Steps were also taken for putting in place other necessary measures such as the inclusion of derivatives on equity shares of companies incorporated in India as permissible securities in IFSC and a framework for mutual funds and portfolio managers in IFSC.

Ease of Doing Business

Ease of doing business in the Indian securities market is an important area of focus for SEBI which in line with the overall national agenda. For this SEBI initiated several important measures such as rationalization of the know your client (KYC) regime for the securities market in line with the centralized KYC regime being implemented for the Indian financial market; client registration forms were simplified and made available in 15 local languages on the stock exchanges/brokers' websites; the procedure for transmission of securities in the event of death were standardized and simplified; various intermediaries were provided permanent registration as against the earlier practice of registration for a period of three years/ five years; arbitration mechanisms at stock exchanges were strengthened and the number of arbitration centres was increased to enhance investors and brokers' access to the stock exchange arbitration mechanisms; FPIs (Category I and II) were allowed to access the corporate bond market directly without the help of brokers; SEBI Alternative Investment Regulations, 2012 were amended providing more flexibility and access to capital from angel funds; the position limits available to stock brokers/FPIs/MFs for stock derivatives contracts were reviewed; an electronic book building mechanism was introduced for private placement with issue size of ₹ 500 crore and above; and fees imposed on various market participants was calibrated to rationalize the cost of doing business.

Governance

Effective governance is a necessary and important tool for protecting the interests of various stakeholders, particularly small investors, in the market. This has been an important area of focus for SEBI. Continuing with the initiatives taken in previous years to strengthen the norms for governance in the Indian securities market, 2016-17 saw measures like disclosures of executive remunerations by mutual funds; disclosure of dividend distribution policies by the top 500 listed entities by market capitalization; extending the applicability of business responsibility reporting requirements to the top 500 listed entities based on market capitalization from the earlier top 100 listed entities; implementation of new accounting standards Ind-AS by listed entities; empowerment of stock exchanges for effective regulation of listed entities; strengthening of disclosure of votes by mutual funds and putting in place norms to address concerns related to private equity funds entering into compensation agreements to incentivize promoters, directors and key managerial personnel of listed investee companies in a manner that could potentially lead to unfair practices.

Market Integrity and Investor Protection

Market integrity is key for investor protection and the overall fairness of the market. SEBI took some important steps during the year to further this objective which, *inter-alia*, included tightening of offshore derivatives instruments (ODI), norms relating to issuance and transfer of ODIs; norms for restrictions on redemptions by MFs; restrictions on fund raising by wilful defaulters; delisting of around 400 suspended listed companies on various stock exchanges; enhanced standards for credit rating agencies (CRAs); an enhanced supervisory mechanism for protection of clients' assets with brokers; graded surveillance mechanisms by stock exchanges to check abnormal rises, if any, in prices of scrips; strengthening the capacity of SEBI's enforcement function; reviewing of guidelines for co-location / proximity hosting facilities offered by stock exchanges; comprehensive policy documents by stock exchanges for providing stock market related data to market participants; initiation of a consultation to revisit the SEBI Investment Advisers Regulations; and a decision to implement a three-tier structure for tackling cyber security of market infrastructure institutions in the Indian securities market.

Market Development

In order to further develop the Indian securities market as an avenue for fund raising, SEBI followed steps required for further facilitating activation of fund raising through REITs, InvITs, and municipal bonds through coordination with the government to iron out tax related and other operational issues. Norms for mutual funds, which are getting significant inflows of funds, were simplified for their participation in the derivatives market and investments by FPIs were permitted in unlisted corporate debt securities and securitized debt instruments. In order to expand the scope of the National Institute of Securities Market (NISM) established by SEBI, the new NISM campus at Patalganga was inaugurated by the Prime Minister in December 2016. With improved infrastructure, NISM will be in a better position to play an even greater role in building the capacity of the securities market.

Market Oversight and Enforcement

Market oversight through inspections, market surveillance and effective enforcement actions against violations of provisions under the SEBI Act are important for maintaining market integrity and promoting overall confidence in the market. SEBI undertook inspections of market infrastructure institutions like stock exchanges, clearing corporations and depositories. An increased number of inspections were undertaken for various types of market intermediaries identified in terms of their risk assessments. In order to tackle the menace of illegal fund raising by unauthorized collective investment schemes and by companies through deemed public issues (DPIs) of securities, SEBI passed a number of appropriate interim/ final orders. SEBI issued warning/ deficiency letters to intermediaries for various non-compliances of SEBI regulations/ guidelines.

Stock exchanges undertook several surveillance actions like shifting of scrips to the trade for trade segment, imposition of restrictive price bands and initiation of preliminary investigations. SEBI also initiated various regulatory actions based on the findings of investigations undertaken by it. With regard to enforcement, SEBI disposed of 140 enforcement actions under Sections 11, 11B and 11D of the SEBI Act, 1992; seven enquiry proceedings; 83 adjudication proceedings and 87 prosecution proceedings; and three summary proceedings during 2016-17.

D. Highlights of the Indian Securities Market

Market Performance

In 2016-17, the benchmark stock market index NIFTY increased by 18.55 per cent (as compared to -9.87 per cent in 2015-16). This was better than the movements of benchmark indices in most of the other major markets during 2016-17: China (7.28 per cent), Japan (12.83 per cent), South Korea (8.24 per cent), Hong Kong (16.05 per cent) and South Africa (0.91 per cent).

Improved Fund Raising from the Capital Market

Total funds raised from capital market through various channels like public issues, right issues, qualified institutional placements, preferential issues, private placements of debt and funds raised by alternative investment funds (AIFs) is gradually increasing. In 2016-17 the capital raised through all these channels was ₹ 7,735 billion; y-o-y this was 30 per cent more as compared to 2015-16.

AIFs play an important role in financing new generation entrepreneurs. Fund raising by AIFs has consistently increased since the inception of their regulations by SEBI in 2012. In 2016-17, AIFs raised ₹182.65 billion; y-o-y this was 38 per cent more as compared to 2015-16.

Encouraging Trend in Mutual Fund Investments

There have been increasing net investment flows to mutual funds with more than ₹3.4 trillion inflow during 2016-17 as a result of which MFs' AUM reached an all-time high of more than ₹17.5 trillion by the end of 2016-17. From a negative investment scenario in equity oriented MFs during 2013-14, the industry witnessed consistent positive net inflows of more than ₹700 billion into equity oriented MFs in each of the last three financial years, making the net investments in equity oriented mutual funds more than ₹2.25 trillion during the last three years.

Even while FPI net investments exhibited some volatility, investments in mutual funds have consistently increased in recent years, which in turn have been invested by mutual funds in equities and debt. This acted as an effective force in containing market volatility even when the FPIs were divesting.

II. PROSPECTS

Economic Outlook

According to the World Economic Outlook update April 2017, global economic activity is picking up with a long-awaited cyclical recovery in investments, manufacturing and trade. World growth is expected to increase from 3.1 per cent in 2016 to 3.5 per cent in 2017 and 3.6 per cent in 2018. As far as the Indian economic outlook is concerned, multilateral agencies like IMF have reiterated in the recent past that the Indian economy today is in a 'bright spot.' Recent results of state elections have further strengthened political stability in the country and have raised expectations of an accelerated reform programme, leading to an overall positive business sentiment. According to IMF projections, India will grow by 7.2 per cent in 2017 and 7.7 per cent in 2018; this is significantly higher than the 6.8 per cent growth in 2016.

Greater Role for Market Based Financing

With the Indian economy poised to grow faster, the Indian securities market will have to play an increasingly bigger role in financing various economic activities. Further, there is a need for concerted efforts towards further developing the Indian securities market to increase market based financing and supply of risk capital. SEBI's endeavour in the coming years will, therefore, will be to create the right regulatory environment and facilitate the development of market infrastructure to meet the financing needs of economic activities through the securities market. SEBI will continue to facilitate financing though the primary market, REITs, InvITs, municipal bonds and the institutional trading platform (ITP) by regularly reviewing relevant regulations to make them more attuned to the changing market dynamics, while striking a balance between market regulation and market development.

Further Development of a Corporate Bond Market

The securities market can be a good source of debt financing only in the presence of a liquid and vibrant corporate bond market. Further development of the corporate bond market through trading of securitized receipts, increased participation of domestic institutional investors and though other relevant policy and operational measures will continue to engage the attention of SEBI going forward.

Channelizing Household Savings

Increasing the role of the Indian securities market hinges on a transformational change in the current allocation of households' savings between physical and financial assets. There is also a need to channelize more and more savings to productive financial assets. SEBI's endeavour will be to provide the right infrastructure and processes for household investors to have easier access to investments in financial products. For scaling up this effort, SEBI will work with industry to help leverage technology solutions to provide more efficient delivery channels, *inter-alia*, for financial education, investment products and grievance redressal.

More Informed Investors

Financial education will remain an important area of focus for SEBI in making investors aware of financial planning and about their rights and obligations in investments. SEBI will continue to expand financial literacy and investor awareness, both through physical and technology led interventions. Investors need to know that investments are serious business and need medium- to long-term investment strategies, as opposed to short term speculative investments to be able to meet investment goals. Given the recent success in the performance of mutual funds in India, retail investors will be encouraged to invest more professionally with the help of mutual funds and to opt for systemic investment strategies over a medium to long term investment horizon.

Continued Investor Confidence

More and more investors will come to the market only when they feel that the market is safe and fair. A right governance framework and a transparent and clean market go a long way in meeting these expectations of investors at large. SEBI will focus on further enhancing overall governance standards in the market be it for issuers, intermediaries or market infrastructure providers. To increase the role of institutional investors in corporate governance, SEBI will develop a draft framework on the lines of the Stewardship Code that some jurisdictions have adopted. To make the market more fair, SEBI will keep a vigil on market activities and will take active steps to make the market more transparent. SEBI will also try to enhance market integrity through measures like timely enforcement actions, delisting of suspended/ inactive listed companies, linking of individual demat accounts with Aadhar and further strengthening the framework for market surveillance.

Development of the Commodity Derivatives Market

SEBI has been given the responsibility of regulating and developing the commodity derivatives market in India. SEBI will try and create a commodity derivatives market as advanced as the securities market by building a harmonious regulatory ecosystem between the securities market and the commodity derivatives market segments. SEBI will take necessary steps to effectively implement the announcement made in Union Budget 2017-18 of the integration of the commodity derivatives and securities markets by harmonizing various regulatory aspects between the two markets. Steps will also be taken to widen both the products and the participants in the commodity derivatives market.

Harnessing Financial Technologies

Application of technology in financial markets is changing the way these markets functioned traditionally. With technology driven evolution of financial markets, regulators are faced with both challenges and opportunities to evolve their own functioning to be more effective through the adoption of new technology solutions. SEBI will undertake consultations for evolving a policy framework to harness the opportunities provided by financial technologies for both technology driven development and regulation of the securities market in India as also to deal with potential challenges that may be posed by advances in technology.

Continuous Professionalization of the Market

A professional market is important for its overall development. In this regard, SEBI will review skill-set requirements of a dynamic and vibrant securities market suitable to the changing requirements and position the National Institute of Securities Market (NISM) to lead the efforts of skill mapping, skill development and capacity building.

Overall Approach

Markets have increasingly integrated globally and are getting more and more complex with the emergence of new products and cutting edge technologies and processes. In this scenario, regulators need to upgrade their skills as per the requirements of their regulated space to be effective. Regulators also need to have high quality information by engaging with analysts to capture emerging market trends. Being fully aware of these facts, SEBI will continue to actively engage with market experts through the setting up of issue specific expert groups; through wider stakeholder consultations; and by effectively leveraging technology solutions across its various areas of operations. SEBI will strive to have a well-considered and balanced approach in its endeavours to meet the mandated objectives of regulating and developing the Indian securities market and protecting investor interests in securities.

Part Two:
Trends and Operations in the Securities Market

1. THE PRIMARY SECURITIES MARKET

The primary market was characterized by heightened activities in 2016-17 with the initial public offering (IPO) revival gathering momentum. A positive investment climate supported by robust macroeconomic performance, easing inflationary pressures, stable FDI inflows, continuous regulatory reforms and structural reforms by the government improved the business confidence and attracted investors to the primary market. Several mega issues apart, a number of small companies from diverse growth sectors of the economy entered the market. There was an overwhelming response to a majority of the public issues from foreign portfolio investors (FPIs), other institutional investors and the retail investors. A large number of the issues were over-subscribed indicating the quality of issues and the appetite for public issues by the investors. Globally, trends in IPO statistics indicate that Asia-Pacific was the epicentre of IPO activity in the 2016 calendar year with India being the key highlight.

I. Resource Mobilization through Public and Rights' Issues

During 2016-17, ₹ 62,067 crore was mobilized through 122 public and 12 rights issues as against ₹ 57,866 crore raised in 2015-16 through 94 public and 13 rights issues (Table 2.1); 2016-17 was the year of the IPO market as there was a quantum jump in the number of IPOs and the amount mobilized by them. Of the 106 IPOs in 2016-17, 77 were listed on the SME platform. The companies which came out with IPOs were from diverse and unconventional sectors in contrast to the trend of dominance by companies from a few sectors like banking, finance and IT in the IPO market since 2000. While this indicates the gradual rise of capital market as a mode of finance among large and small corporates, it also provides an enormous opportunity for investors to invest in a cross-section of firms which represent the growth economy. The amount raised through IPOs in 2016-17 nearly doubled by 96.4 per cent to ₹ 29,104 crore as compared to ₹ 14,815 crore during 2015-16. As in the previous year, there was no follow on public offer (FPO) in 2016-17.

The share of public issues in the total resources mobilized increased to 94.5 per cent in 2016-17 from 84.0 per cent in 2015-16, while the share of rights' issues decreased from 16.0 per cent to 5.5 per cent during the same period. The share of debt issues in total resource mobilization stood at 47.6 per cent in 2016-17 as compared to 58.4 per cent in the previous year. During 2016-17, ₹18,038 crore was mobilized through offers for sale by existing shareholders as against ₹7,712 crore in 2015-16.

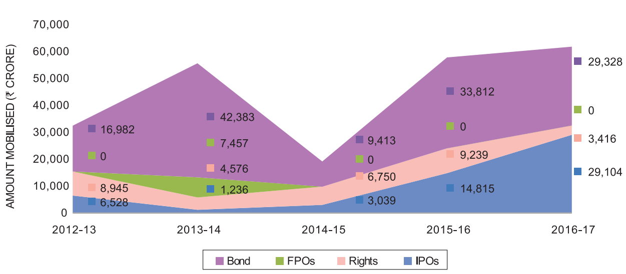
Table 2.1: Resource mobilization through public and rights' issues

Particulars	2015-16		2016-17		Percentage share in total amount	
	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)	2015-16	2016-17
1	*2*	*3*	*4*	*5*	*6*	*7*
1. Public Issues (i) + (ii)	**94**	**48,627**	**122**	**58,651**	***84.0***	***94.5***
(i) Public Issues	74	14,815	106	29,104	*25.6*	*46.9*
(Equity/PCD/FCD), of which						
IPOs	74	14,815	106	29,104	*25.6*	*46.9*
FPOs	0	0	0	0	*0.0*	*0.0*
(ii) Public Issues (Bond / NCD)	20	33,812	16	29,547	*58.4*	*47.6*
2. Rights Issues	**13**	**9,239**	**12**	**3,416**	***16.0***	***5.5***
Total Equity Issues (1(i)+2)	***87***	***24,054***	***118***	***32,520***	***41.6***	***52.4***
Total Equity and Bond (1+2)	**107**	**57,866**	**134**	**62,067**	***100.0***	***100.0***

Notes: 1. The primary market resource mobilization is inclusive of the amount raised on the SME platform.
2. All offers for sale are already counted under the head of IPOs/FPOs.
3. Debt issues have been taken on the basis of their opening date.

Figure 2.1 gives the relative share of the four modes of resource mobilization -- IPOs, FPOs, bonds and rights issues - since 2012-13. The share of IPOs has gone up significantly from 15.8 per cent in 2014-15 and 25.6 per cent in 2015-16 to 46.9 per cent in 2016-17. While FPOs have had a scant presence in the primary market since 2012-13 except in 2013-14, the share of debt and rights' issues declined during 2016-17 vis-à-vis 2015-16.

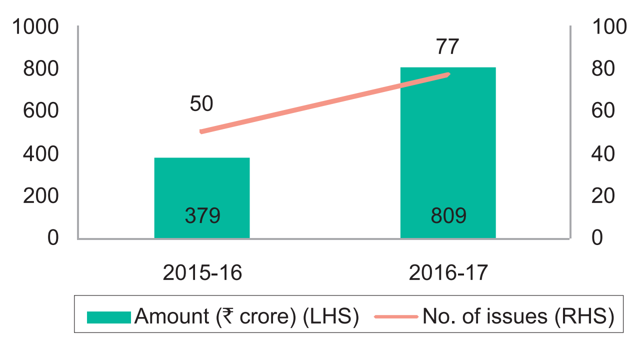
Figure 2.1: Share of broad categories of issues in resource mobilization (₹ *crore)*



A. Resource Mobilization via SME Platform

The SME platforms of the exchanges are intended for small and medium sized companies with high growth potential and whose post-issue paid up capital is less than or equal to ₹ 25 crore. In 2016-17, 77 companies were listed on the SME platforms raising ₹ 809 crore as compared to ₹ 379 crore raised through 50 issues in 2015-16, registering an increase of 113.5 per cent in resource mobilization **(Figure 2.2)**.

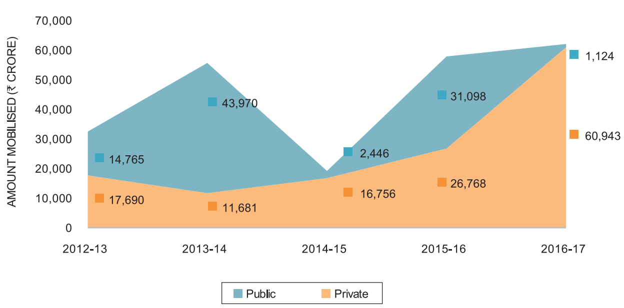
Figure 2.2: Resource mobilization through the SME Platform



B. Sector-wise Resource Mobilisation

Sector-wise classification of the resources mobilization shows that the private sector dominated resource mobilization efforts in 2016-17 with a 98.2 per cent share in the total resources mobilized (Figure 2.3). Of the 134 issues, 133 were from the private sector which raised ₹ 60,943 crore compared to 96 issues which raised ₹ 26,768 crore in 2015-16. The single public sector issue garnered ₹ 1,124 crore compared to 11 public sector issues raising ₹ 31,098 crore in 2015-16. The dominance of the private sector in the mobilization of resources from the primary market can be attributed to several factors including, *inter-alia*, resurgence of industrial activity, buoyancy in the secondary market and corporate and investor confidence in the capital market and its regulatory environment.

Figure 2.3: Sector-wise resource mobilization (*₹ crore*)



C. Size-wise Resource Mobilisation

The size-wise distribution of capital raised is presented in Table 2.2. While there were more issues for issue sizes up to ₹ 100 crore, the amount mobilized continued to remain high in the cluster between ₹ 100 crore and ₹ 500 crore. In 2016-17, issues above ₹ 500 crore had a share of 90.1 per cent in the resources mobilized, as compared to 85.5 per cent in 2015-16. There were 29 issues of size equal to or greater than ₹ 500 crore in 2016-17 compared to 25 such issues in 2015-16.

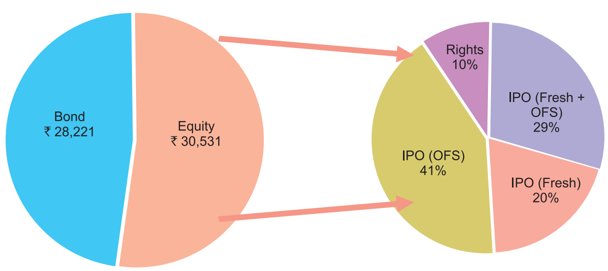
The average size of an issue (including public and rights' issues) which accessed the primary market in 2016-17 was ₹ 463.2 crore as compared to ₹ 540.8 crore in 2015-16. In 2016-17, the mean public issue size declined to ₹ 481 crore as compared to ₹ 517 crore in 2015-16. However, the mean IPO size increased to ₹ 275 crore in 2016-17 from ₹ 200 crore in 2015-16.

Table 2.2: Size-wise resource mobilization

Issue Site	2015-16		2016-17		Percentage share in total amount	
	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)	2015-16	2016-17
1	*2*	*3*	*4*	*5*	*6*	*7*
< ₹5 crore	29	80	26	90	*0.1*	*0.1*
≥ ₹5 crore & < ₹10 crore	13	82	25	175	*0.1*	*0.3*
≥ ₹10 crore & < ₹50 crore	9	166	33	701	*0.3*	*1.1*
≥ ₹50 crore & < ₹100 crore	7	487	4	264	*0.8*	*0.4*
≥ ₹100 crore & < ₹500 crore	24	7,555	17	4,905	*13.1*	*7.9*
≥ ₹500 crore	25	49,495	29	55,932	*85.5*	*90.1*
Total	**107**	**57,866**	**134**	**62,067**	***100.0***	***100.0***

There were 36 large issues in 2016-17 within the cluster of the issue size of above ₹ 300 crore. The amount raised by the 36 large issues constituted 95.0 per cent of the total resource mobilisation through public and rights issues. Out of the total ₹ 58,752 crore mega issues raised during 2016-17, nearly 52 per cent were raised through equity. Figure 2.4 gives a further classification of equity mega issues and it can be seen from the figure that IPOs (through offer for sale (OFS)) constituted 41 per cent. The largest issue raised during 2016-17 was Dewan Housing Finance Corporation Limited's debt issue (₹ 10,000 crore), which was followed by India Bulls Housing Finance Limited's debt issue (₹ 7,000 crore) and ICICI Prudential Life Insurance Company Limited's IPO (₹ 6,057 crore).

Figure 2.4: Types of issues in resource mobilization (₹ *crore and per cent)*



D. Industry-wise Resource Mobilisation

During 2016-17, bank/financial institutions/ finance industry raised the largest amount in the industry-wise classification of resource mobilization and contributed 65.2 per cent to the total resources mobilized through 26 issues, as compared to a contribution of 32.4 per cent through 22 issues in 2015-16 (Table 2.3). The food processing industry accounted for 3.1 per cent of the total resources mobilized through six issues, followed by the healthcare industry which contributed 3.0 per cent to the total amount mobilized through six issues.

Table 2.3: Industry-wise resource mobilization

Industry	2015-16		2016-17		Percentage share in total amount	
	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)	2015-16	2016-17
Airlines	1	3,009	0	0	5.2	0.0
Automobiles	3	7,504	1	1,162	13.0	1.9
Banks/FIs	6	15,698	8	10,930	27.1	17.6
Cement & Construction	4	172	10	328	0.3	0.5
Chemical	3	1,179	9	504	2.0	0.8
Electrical Equipment/Production	1	59	2	28	0.1	0.0
Engineering	2	373	4	902	0.6	1.5
Entertainment	2	21	2	491	0.0	0.8
Finance	15	2,986	18	29,577	5.2	47.7
Food Processing	2	700	6	1,938	1.2	3.1
Healthcare	7	3,793	6	1,866	6.6	3.0
Hotels	2	1,152	0	0	2.0	0.0
Information Technology	6	921	4	1,266	1.6	2.0
Insurance	1	80	1	6,057	0.1	9.8
Paper & Pulp	0	0	0	0	0.0	0.0
Plastic	2	104	1	150	0.2	0.2
Power	4	2,106	1	4	3.6	0.0
Printing	1	3	0	0	0.0	0.0
Roads & Highways	6	3,112	2	659	5.4	1.1
Telecommunication	0	0	1	11	0.0	0.0
Textile	5	16	16	942	0.0	1.5
Miscellaneous	34	14,878	42	5,254	25.7	8.5
Total	**107**	**57,866**	**134**	**62,067**	**100**	**100**

II. Resource Mobilization through QIP

A. Qualified Institutions' Placement (QIP)

QIP is an alternative mechanism introduced in 2006 to facilitate listed companies to raise capital in the Indian securities market. QIP enables a listed company to issue equity shares, full or/and partly convertible debentures or any securities other than warrants to a qualified institutional buyers (QIBs). During 2016-17, 20 issues garnered a total of ₹ 8,464 crore through the QIP route as compared to ₹ 14,588 crore raised in 2015-16 (Table 2.4).

Table 2.4: Resource mobilization through QIP

Year	Only NSE		Only BSE		Common		Total	
	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
2015-16	0	0	2	462	22	14,126	24	14,588
2016-17	0	0	0	0	20	8,464	20	8,464

Source: BSE and NSE.

B. Offer for Sale through the Stock Exchange Mechanism

In 2016-17, 23 companies used the OFS route through BSE and NSE to conform to public shareholding norms as compared to 24 companies in 2015-16. These 23 companies came out with 29 OFS issues during 2016-17. The total resources mobilization through OFS declined by 60.4 per cent to ₹ 7,843 crore in 2016-17 from ₹ 19,817 crore in 2015-16 (Table 2.5).

Table 2.5: Offer for sale through the stock exchange mechanism

Year	No. of Companies	No. of issues	Total Resource Mobilised (₹ crore)
1	*2*	*3*	*4*
2015-16	24	26	19,817
2016-17	23*	29	7,843

Note: * Indicates companies undertaking 29 issues.
Source: BSE and NSE.

III. Resource Mobilization through Preferential Allotment

Preferential allotments are covered under Chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. This mode of resource mobilization is used by a listed company to issue equity shares/ fully convertible debentures (FCDs)/partly convertible debentures (PCDs) or any other financial instruments which will be converted to or exchanged with equity shares at a later date. The allotments are done on a preferential basis to a select group of investors under Section 81(1A) of the Companies Act, 2013. Further, the issuer is required to take the shareholders' permission and should comply with various provisions as specified in the SEBI (ICDR) Regulations, 2009 vis-à-vis the Companies Act, 2013.

During 2016-17, ₹ 44,250 crore were raised through 410 preferential issues as compared to ₹ 50,514 crore raised through 353 preferential issues in 2015-16 (Table 2.6).

Table 2.6: Resource mobilisation through preferential allotments

Year	Only NSE		Only BSE		Common		Total	
	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
2015-16	143	1,761	22	983	188	47,770	353	50,514
2016-17	188	2,957	17	1,219	205	40,073	410	44,250

Source: BSE and NSE.

IV. Resource Mobilization through Private Placement of Corporate Debt

Indian companies raised a record ₹ 6,40,716 crore in 2016-17 through private placements, which is 39.9 per cent higher as compared to ₹ 4,58,073 crore raised in the previous financial year (Table 2.7). In terms of the number of issues, 3,377 issuances were made in 2016-17, as compared to 2,975 issues in 2015-16, an increase of 13.5 per cent.

Table 2.7: Private placement of corporate bonds reported to BSE and NSE

Year	Only NSE		Only BSE		Common		Total	
	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
2015-16	1,198	2,06,676	1,619	1,52,281	158	99,116	2,975	4,58,073
2016-17	1,023	2,19,721	2,177	2,54,213	177	1,66,782	3,377	6,40,716

Source: BSE and NSE.

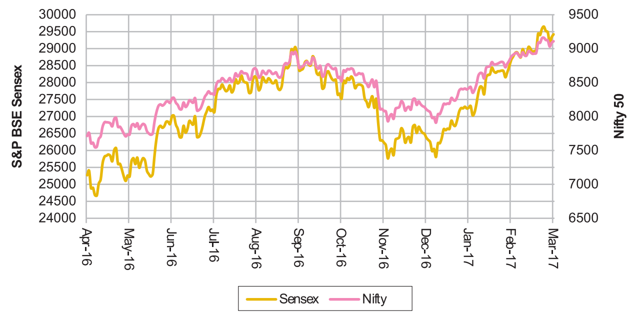
2. THE SECONDARY SECURITIES MARKET

I. Equity Markets in India

2016-17 witnessed the benchmark indices rising significantly backed by resurgence post the demonetization, political outcomes in state elections and rising foreign inflows even as the international developments were not very encouraging. There were a multitude of global events in 2016-17 which influenced the markets including the slowdown in Chinese economy, weak global trade growth, the Brexit, US presidential elections, policy normalization by the Federal Reserve and the attendant uncertainties around each of these events. Nonetheless, the domestic macro-economic and political conditions remained favourable. Strong growth rates, benign inflation and contained twin deficits despite the recovery of global crude oil prices, positive policy actions including implementation of key structural reforms like demonetization, progress on the GST, Aadhar linked public policy initiatives, return to a normal monsoon rainfall, and reduced external vulnerabilities were vital for institutional investors' confidence in the India growth story and also in its markets.

At the end of 2016-17, the benchmark indices S&P BSE Sensex (henceforth referred to as Sensex) and NIFTY 50 (henceforth referred to as NIFTY) increased by a significant 16.9 per cent and 18.5 per cent respectively over March 31, 2016 (Figure 2.5). The Sensex closed at 29,621 on March 31, 2017, recording an increase of 4,279 points over 25,342 as on March 31, 2016. The Nifty registered an increase of 1,435 points to close at 9,174 on March 31, 2017 over 7,738 at the end of March 31, 2016.

Figure 2.5: Movement of benchmark stock market indices

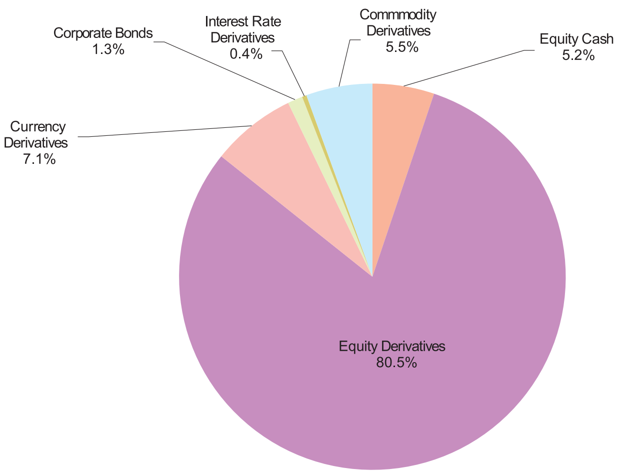


The Sensex reached its highest level on March 17, 2017, touching 29,649 while the NIFTY attained its highest level of 9,174 on March 31, 2017. The lowest level attained by the Sensex was 24,674 on April 08, 2016 while the NIFTY recorded its lowest level of 7,546 on April 07, 2016. The biggest gains in benchmark indices were observed on May 25, 2016 when the Sensex appreciated by 2.3 per cent while the NIFTY increased by 2.4 per cent. Subsequent to the demonetization of currency notes of higher denominations of ₹ 500 and ₹ 1,000 on November 08, 2016, both the indices recorded their biggest fall on the next trading day, November 11, 2016 with the Sensex falling by 2.5 per cent and the NIFTY by 2.7 per cent.

In the cash segment, the turnovers at BSE and NSE recorded substantial improvements of 34.9 and 19.3 per cent respectively during 2016-17 as compared to a decline of 13.4 per cent and 2.1 per cent respectively during the previous financial year. In the equity derivatives segment, BSE's turnover declined by 99.8 per cent while NSE's turnover increased by 45.6 per cent during 2016-17 as compared to a decrease of 78.0 per cent at BSE and an increase of 16.6 per cent at NSE during 2015-16. MSEI recorded insignificant volumes in the cash segment and no trading was observed in its equity derivatives segment (Table 2.8).

The segment-wise composition of the value traded in the secondary market is shown in Figure 2.6. In the Indian secondary market, the highest share in terms of traded turnover was held by equity derivatives at 80.5 per cent, followed by currency derivatives (7.1 per cent), commodity derivatives (5.5 per cent), the equity cash segment (5.2 per cent), corporate bonds (1.3 per cent) and interest rate derivatives (0.4 per cent)

Figure 2.6: Percentage share in traded value in the secondary market



Source: Various exchanges.

Reflecting buoyant markets, the market capitalization of BSE and NSE indicated an upturn with an increase of 28.3 and 28.7 per cent respectively in 2016-17. There was sharp increase in P/E ratios over the past year and Indian markets were overpriced compared to other emerging and developed markets. The annualized volatility of the Sensex decreased to 12.1 in 2016-17 compared to 16.9 in 2015-16. For NIFTY, the volatility went down to 12.3 in 2016-17 as compared to 17.1 in 2015-16. The P/E ratios for Sensex and NIFTY stood at 22.6 and 23.3 respectively in 2016-17.

Table 2.8: Major Indicators of the Indian securities markets

Item	2015-16	2016-17	*Percentage variation over the previous year*	
			2015-16	***2016-17***
1	***2***	***3***	***4***	***5***
A. Indices				
S&P BSE Sensex				
Year-end	25,342	29,621	*-9.4*	*16.9*
Average	26,322	27,338	*-0.9*	*3.9*
NIFTY 50				
Year-end	7,738	9,174	*-8.9*	*18.5*
Average	7,984	8,421	*0.2*	*5.5*
SX40				
Year-end	15,335	17,858	*-8.1*	*16.5*
Average	15,737	16,492	*0.4*	*4.8*
B. Annualized Volatility (per cent)				
S&P BSE Sensex	17	12.1	25.7	-28.7
NIFTY 50	17.1	12.3	26.7	-27.9
SX40	16.6	12	28.7	-27.6

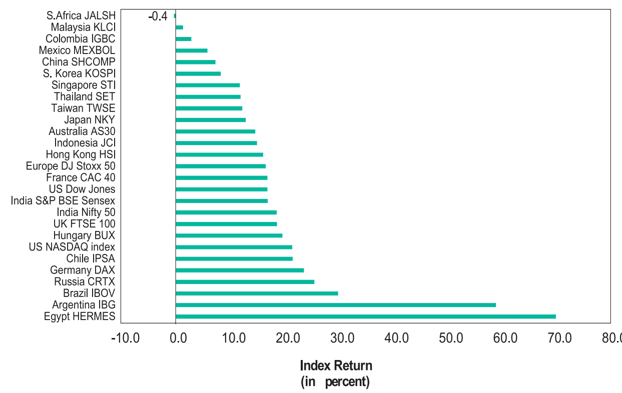
Item	2015-16	2016-17	Percentage variation over the previous year	
			2015-16	2016-17
1	2	3	4	5
C. Total Turnover (₹ crore)				
Equity Cash Segment	49,77,278	60,54,422	-4.0	21.6
of which				
BSE	7,40,089	9,98,261	-13.4	34.9
NSE	42,36,983	50,55,913	-2.1	19.3
MSEI	206	248	Na	20.7
Equity Derivatives Segment	6,93,00,843	9,43,77,241	-8.8	36.2
of which				
BSE	44,75,008	6,939	-78.0	-99.8
NSE	6,48,25,834	9,43,70,302	16.6	45.6
MSEI	Na	Na	Na	Na
Currency Derivatives Segment	75,90,387	83,26,651	34.7	9.7
of which				
BSE	27,63,926	31,71,648	44.8	14.8
NSE	45,01,886	48,57,076	48.9	7.9
MSEI	3,24,576	2,97,928	-50.1	-8.2
Interest Rate Derivatives Segment	6,63,359	4,38,341	40.0	-33.9
of which				
BSE	1,14,121	1,27,979	172.3	12.1
NSE	5,26,425	3,07,809	24.9	-41.5
MSEI	22,814	2,552	121.2	-88.8
Commodity Derivatives Segment	66,96,381	64,99,637	9.1	-2.9
of which				
NCDEX	10,19,588	5,96,852	12.8	-41.5
MCX	56,34,194	58,65,661	8.7	4.1
NMCE	29,368	28,442	-18.5	-3.2
Rajkot Commodity Exchange Ltd.	1,976	759	-37.5	-61.6
Chamber of Commerce, Hapur	11,192	7,923	31.3	-29.2
IPSTA	63	0	-97.2	Na
D. Market Capitalization (₹ crore)				
BSE	94,75,328	1,21,54,525	-6.6	28.3
NSE	93,10,471	1,19,78,421	-6.2	28.7
MSEI	91,82,759	1,18,31,271	-6.5	28.8
E. No. of Listed Companies				
BSE	5,911	5,834	5.1	-1.3
NSE	1,808	1,817	4.3	0.5
MSEI	80	80	-2.4	0
F. P/E Ratio				
S&P BSE Sensex	19.3	22.6	0.8	17.6
NIFTY 50	20.9	23.3	-8.0	11.3
SX40	21.4	22.7	-12.9	6

Notes: 1. In 2014-15, MSEI recorded insignificants volume in the cash segment.
2. In 2015-16, no trading was observed in MSEI's equity derivative segment.
3. Na: Not Applicable
Source: Various exchanges.

With divergent growth patterns across developed and emerging market economies, global economic growth slowed down in 2016. Weak economic growth in major advanced economies such as the United States, Japan and in Euro-area, dragged down overall global growth. While capital inflows to emerging market economies improved in 2016, appreciation in the US dollar following the presidential election led to tight financial conditions in some emerging markets. An increase in the US government bond yields increased long term inflation expectations and prospects of higher interest rates. Among major emerging markets, economic growth in China, India, Brazil, Mexico and Argentina weakened during 2016, while Bangladesh, Pakistan, Indonesia and Thailand recorded higher economic growth during the year. Amid weak investment and global trade, commodity prices recovered from the declining trend witnessed in the past two years. During 2016-17, there was a sharp increase in energy and metal prices with moderate growth in food prices. The oil market witnessed a steady, broad-based growth in demand, while coal prices increased on strong demand and supply constraints in China.

Global equity markets across the world recorded an uptrend during 2016-17. Among the emerging markets, the year-on-year index change was 69.9 per cent for Egypt's HERMES index, followed by Argentina's IBG Index (58.9 per cent) and Brazil's IBOV Index (29.8 per cent) (Figure 2.7). Among developed equity markets, the year-on-year index change for Germany's DAX Index was 23.6 per cent, followed by US NASDAQ (21.4 per cent) and the UK FTSE 100 Index (18.6 per cent). Among the markets analysed, only South Africa recorded a negative return (0.4 per cent).

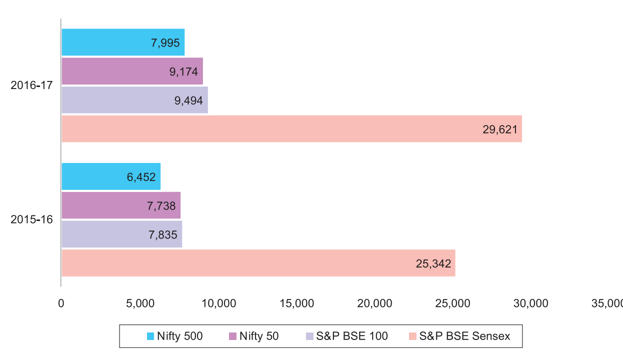
Figure 2.7: Year-on-year return of international indices



II. Performance of Major Stock and Sectoral Indices

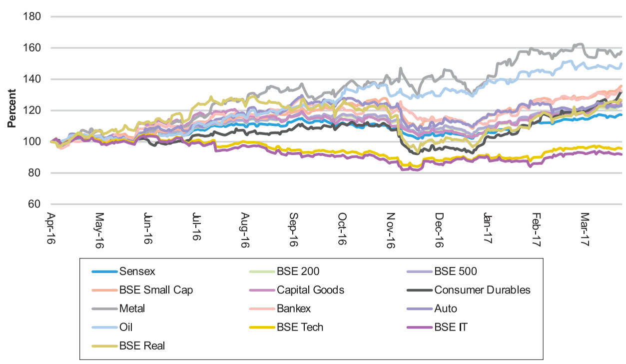
The sectoral and broad based indices showed promising growth during 2016-17. The trends of these indices are shown in figures below. Among the broad-based BSE indices, BSE 100, BSE 200 and BSE 500 recorded year-on-year positive index gains of 21.2 per cent, 22.5 per cent and 24.0 per cent respectively over the previous year. The BSE Small-Cap Index also increased by 36.9 per cent during 2016-17. Similarly, among major NSE indices, the NIFTY Midcap 50, NIFTY Next 50 (formerly known as the CNX NIFTY Junior) and NIFTY 500 increased by 37.0, 33.9 and 23.9 per cent respectively in 2016-17.

Figure 2.8: Performance of major stock indices



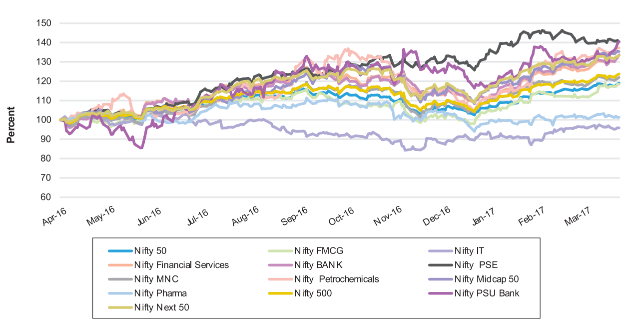
During 2016-17, In BSE's sectoral indices, BSE Tech and BSE IT registered a decline of 5.5 and 9 per cent respectively. The highest increment was recorded for S&P BSE Metal (56.5 per cent), followed by S&P BSE Oil (48 per cent), S&P BSE Small Cap (36.9 per cent) and S&P BSE Bankex (32.8 per cent) (Figure 2.9).

Figure 2.9: Movement of BSE's sectoral indices



Among the sectoral indices at NSE, NIFTY PSU Bank (44 per cent) recorded the highest increase in 2016-17, followed by NIFTY PSE (40.9 per cent), NIFTY Petrochemicals (40 per cent) and NIFTY Midcap 50 (37 per cent), whereas NIFTY IT declined by 5.4 per cent (Figure 2.10).

Figure 2.10: Movement of NSE's sectoral indices



III. Turnover in the Indian Stock Market

The turnover of all stock exchanges in the cash segment increased by 21.6 per cent to ₹ 60,54,422 crore in 2016-17 from ₹ 49,77,278 crore in 2015-16. Of the aggregate turnover, NSE accounted for 83.5 per cent of the total turnover whereas the BSE accounted for 16.5 per cent of the total turnover. Reflecting increased activity in the market, NSE's turnover increased from ₹ 42,36,983 crore in 2015-16 to ₹ 50,55,913 crore in 2016-17, an increase of 19.3 per cent. Similarly, BSE too witnessed an increase in turnover of 34.9 per cent from ₹ 7,40,089 crore to ₹ 9,98,261 crore during the same period. MSEI registered a turnover of ₹ 248 crore during 2016-17 compared to ₹ 206 crore during the previous year, an increase of 20.4 per cent (Table 2.9).

Table 2.9: Exchange-wise cash segment turnover *(₹ crore)*

Stock Exchange	2015-16	2016-17	*Percentage share in total turnover*	*Percentage variation over 2015-16*
1	*2*	*3*	*4*	*5*
BSE	7,40,089	9,98,261	*16.5*	*34.9*
MSEI	206	248	*0.0*	*20.4*
NSE	42,36,983	50,55,913	*83.5*	*19.3*
Total	**49,77,278**	**60,54,422**	***100.0***	***21.6***

Source: Various Stock Exchanges

Trading data for the top-20 cities in India shows that 55.9 per cent of BSE's total turnover in the equity cash segment and 60.0 per cent of NSE's total turnover in the equity cash segment was concentrated in Mumbai and Thane, the financial hub of the country. At NSE, Delhi/Ghaziabad contributed 6.7 per cent to the total turnover, followed by Bengaluru (6.3 per cent) and Kolkata/Howrah, which accounted for 4.8 per cent of the turnover. At the BSE, Gurgaon contributed 5.9 per cent to the total turnover, followed by Kolkata (3.5 per cent) and Ahmedabad (3.2 per cent). The top five cities accounted for 82 per cent of the turnover at NSE during 2016-17, compared to 84 per cent in 2015-16. At BSE, the top-five cities contributed 71.5 per cent to the turnover 2016-17 as compared to 90.3 per cent in 2015-16 (Table 2.10).

Table 2.10: City-wise turnover of the top-20 cities in the cash segment

BSE			NSE		
City	Turnover (₹ crore)	Percentage share in cash turnover	City	Turnover (₹ crore)	Percentage share in cash turnover
1	*2*	*3*	*4*	*5*	*6*
Mumbai	5,58,447	55.9	Mumbai / Thane	30,32,164	60
Gurgaon	58,413	5.9	Delhi	3,39,123	6.7
Kolkata	34,786	3.5	Bangalore	3,18,736	6.3
Ahmedabad	31,665	3.2	Kolkata / Howrah	2,42,177	4.8
New Delhi	30,912	3.1	Gurgaon	2,12,170	4.2
Rajkot	17,499	1.8	Hyderabad/Secunderabad/ Kukatpally	1,81,208	3.6
Vadodara	8,688	0.9	Ahmedabad	1,51,122	3
Chennai	6,905	0.7	Ghaziabad/Noida/Sahibabad	1,11,695	2.2
Surat	6,067	0.6	Haryana	91,282	1.8
Jaipur	5,958	0.6	Rajkot	62,730	1.2
Ghaziabad	5,825	0.6	Cochin/Ernakulam/Parur/ Kalamserry/Alwaye	54,529	1.1
Hyderabad	3,541	0.4	Chennai	52,441	1
Bengaluru	3,455	0.3	Surat	31,025	0.6
Kanpur	3,320	0.3	Jaipur	24,106	0.5
Indore	3,288	0.3	Indore	22,860	0.5
Pune	3,213	0.3	Baroda	17,022	0.3
Jodhpur	1,920	0.2	Chandigarh/Mohali/Panchkula	11,515	0.2
Nagpur	1,780	0.2	Pune	7,500	0.1
Noida	1,630	0.2	Jodhpur	7,147	0.1
Chandigarh	1,628	0.2	Faridabad	6,619	0.1
Others	2,09,321	21	Others	78,741	1.6
Total	**9,98,261**	**100**	**Total**	**50,55,913**	**100**

In 2016-17, shares of 640 exclusively listed companies at regional stock exchanges (RSEs) were made available for buying/selling on NSE's dissemination board as compared to 372 exclusively listed companies available for buying/selling on the dissemination board in 2015-16. Similarly at BSE, the shares of 1,485 exclusively listed companies at RSEs were made available for buying/selling on the dissemination board in 2016-17 as compared to 1,517 companies in 2015-16 (Table 2.11).

Table 2.11: Dissemination board statistics at NSE and BSE

S. No.	Name of the RSE	No. of companies exclusively listed on RSEs (shares available for buying/ selling on the dissemination board)	No. of vanishing companies (as categorized by RSEs) (shares not available for buying/ selling on the dissemination board)
1	*2*	*3*	*4*
	NSE		
1	Ahmedabad Stock Exchange Limited	295	407
2	Madhya Pradesh Stock Exchange Limited	5	14
3	Ludhiana Stock Exchange Limited	18	1
4	Madras Stock Exchange Limited	226	51
5	Pune Stock Exchange Limited	2	1
6	UP Stock Exchange Limited	94	17
	Total	**640**	**491**
	BSE		
1	Hyderabad Stock Exchange	3	0
2	OTCEI	42	3
3	Jaipur Stock Exchange	2	0
4	Inter- Connected Stock Exchange	1	0
5	Vadodara Stock Exchange	64	121
6	Delhi Stock Exchange	1,290	0
7	Guwahati Stock Exchange	20	61
8	Bangalore Stock Exchange	63	6
	Total	**1,485**	**191**

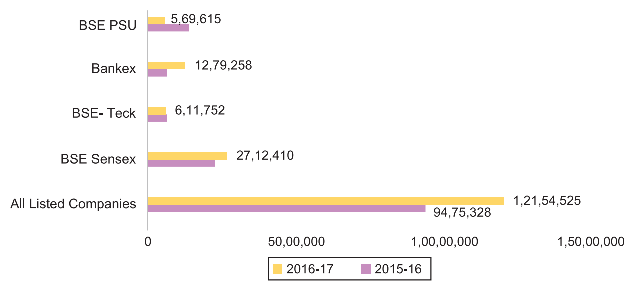
Source: BSE and NSE.

IV. Market Capitalization

Market capitalization is the total value of a publicly traded company's outstanding shares at any point. It is a major indicator that reflects the size of the stock market. In consonance with the market uptrend, market capitalization surged at both the exchanges. The market capitalization at BSE increased by 28.3 per cent to ₹ 1,21,54,525 crore in 2016-17 from ₹ 94,75,328 crore in 2015-16 (Figure 2.11). On the other hand, market capitalization at NSE increased by 28.7 per cent to ₹ 1,19,78,421 crore in 2016-17 from ₹ 93,10,471 crore in 2015-16 (Table 2.12).

At BSE, the market capitalization of the shares included in the BSE benchmark index, the S&P BSE increased by 18.7 per cent in 2016-17. Among BSE's sectoral indices market cap of the BSE Capital Goods Index recorded a growth of 31.5 per cent in 2016-17 while that of BSE Teck declined by 4.6 per cent. During the year, market capitalization of the shares included in the NIFTY 50 Index increased by 23.6 per cent. Among the sectoral indices at NSE, NIFTY Bank recorded a 38.1 per cent increase in market capitalization in 2016-17, followed by NIFTY Next 50 (22.0 per cent).

Figure 2.11: Market capitalization at BSE (₹ *crore)*



Note: All listed companies' market capitalization is the total market capitalization while the indices market capitalization is free float market capitalization.
Source: BSE.

Table 2.12: Market capitalization at NSE (₹ *crore)*

Year/ Month	All listed Companies	Percentage Variation	Nifty 50	Percentage Variation	Nifty Next 50	Percentage Variation	Nifty IT	Percentage Variation	Nifty Bank	Percentage Variation
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*
2015-16	93,10,471	-6.2	27,71,733	-5.9	5,32,376	-13.7	2,84,570	-46.5	6,61,589	-9.0
2016-17	1,19,78,421	28.7	34,24,913	23.6	6,49,581	22.0	2,60,298	-8.5	9,13,866	38.1

Note: All listed companies' market capitalisation is the total market capitalisation while the indices market capitalisation is free float market capitalisation.
Source: NSE.

V. Stock Market Indicators

Market capitalization to GDP (m-cap ratio) ratio provides an overview of developments in stock markets vis-a-vis growth in the economy. It measures the size of the stock market relative to the economy. After a decline in market capitalization ratios in 2015-16, a significant increase was registered during 2016-17. The BSE market capitalization to GDP ratio increased from 69.3 per cent in 2015-16 to 80.0 per cent in 2016-17. Similarly, at NSE the ratio increased from 68.0 per cent in 2015-16 to 78.9 per cent in 2016-17 (Table 2.13). The all-India equity cash segment turnover to GDP ratio increased to 39.9 per cent from 36.4 per cent in 2015-16. The turnover to GDP ratio for the equity derivatives segment increased from 506.5 per cent in 2015-16 to 621.6 per cent in 2016-17.

Table 2.13: Select ratios relating to the stock market *(per cent)*

Year	BSE Market Capitalization to GDP Ratio	NSE Market Capitalization to GDP Ratio	Total Turnover to GDP Ratio	
			Cash Segment (all-India)	Equity Derivatives Segment (BSE+NSE)
1	*2*	*3*	*4*	*5*
2015-16	69.3	68.0	36.4	506.5
2016-17	80.0	78.9	39.9	621.6

Note: Provisional estimates of GDP at current prices has been considered.
Source: Various stock exchanges and CSO.

The value of shares with respect to a company's earnings is gauged from the price-earnings ratio (P/E). As on March 31, 2017 S&P Sensex and NIFTY 50's P/E ratios were 22.6 and 23.3 respectively as compared to 19.3 and 20.9 respectively on March 31, 2016 (Table 2.14). Month-wise data indicates that the highest NIFTY P/E ratio was observed in August 2016 when it reached a level of 24.09, while for the Sensex the highest P/E ratio was observed in March 2017 (at 22.63). On the other hand, monthly Sensex and NIFTY's P/E ratios were at their respective lows in April 2016.

Table 2.14: Price to earnings ratio

Year	S&P BSE Sensex	S&P BSE 100	S&P BSE Teck	S&P BSE Bankex	NIFTY 50	NIFTY Next 50	NIFTY IT	NIFTY Bank
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
2015-16	19.3	20.7	21.0	15.0	20.9	22.0	19.7	17.9
2016-17	22.6	24.7	19.9	25.8	23.3	27.2	16.9	29.3

Note: P/E ratio is as at the end of the respective year.
Source: BSE and NSE

The price to book (P/B) ratio is an important indicator which shows the value of stocks with respect to a company's book value. In 2016-17, both Sensex and NIFTY 50 recorded an uptrend in the P/B ratio. At the end of 2016-17, the P/B ratio for the S&P BSE Sensex was 3.0 as compared to 2.8 at the end of 2015-16, whereas for NIFTY 50 the ratio was 3.5 as compared to 2.8 at end of 2015-16. (Table 2.15).

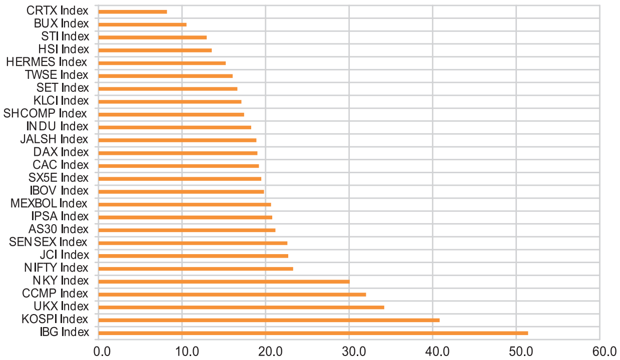
Table 2.15: Price to book value ratio

Year	S&P BSE Sensex	S&P BSE 100	S& P BSE Teck	S&P BSE Bankex	NIFTY 50	NIFTY Next 50	NIFTY IT	NIFTY Bank
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
2015-16	2.8	2.5	4.6	1.9	3.1	2.7	6.0	2.3
2016-17	3.0	2.8	3.5	2.2	3.5	3.5	4.7	2.8

Source: BSE and NSE

An international comparison of P/E ratios indicates that the Indian markets were comparatively priced higher among peer emerging markets and developed markets. The average P/E ratio of all advanced and emerging markets stood at 21.6 as compared to 23.0 of the Indian stock markets (BSE & NSE). Among the developed markets, UK's FTSE 100 Index recorded a P/E ratio of 34.2, followed by the USA's NASDAQ Composite Index (32.0) and Japan's Nikkei Index (30.1). Among emerging markets, Argentina's IBG Index had a P/E ratio at 51.4 at the end of 2016-17, followed by South Korea's KOSPI Index (40.8) and India's NIFTY Index (23.3) (Figure 2.12).

Figure 2.12: P/E ratios of international stock market indices



VI. Volatility in Stock Markets

During 2016-17, the Indian equity markets were less volatile as compared to its peers in global financial markets. India's volatility index, India VIX, indicates investors' perceptions of the market's volatility in the next 30 calendar days. At the end of 2016-17, India VIX closed at 12.4 as compared to 16.6 at the end of 2015-16. During 2016-17, annualized volatility of the Sensex, decreased to 12.1 per cent from 17.0 per cent recorded in 2015-16. A similar trend was observed for NIFTY which moved down from 17.1 per cent to 12.3 per cent in 2016-17 (Table 2.16). During 2016-17, the S&P BSE Small cap recorded a volatility of 20.7 per cent, followed by S&P BSE 100 (17.3 per cent).

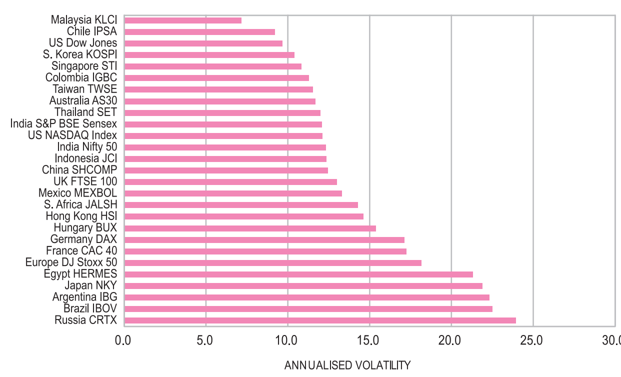
Table 2.16: Annualized volatility of benchmark indices ***(per cent)***

Annualised Volatility	S&P BSE Sensex	NIFTY 50	S&P BSE 100	S&P BSE Small Cap	NIFTY 500	NIFTY Next 50
1	*2*	*3*	*4*	*5*	*6*	*7*
2015-16	17.0	17.1	17.2	20.3	17.3	19.6
2016-17	12.1	12.3	17.3	20.7	12.7	15.3

Note: Annualized volatility is computed as the standard deviation of the logarithmic returns of the closing levels of the indices multiplied with the square root of the number of trading days during the period.

A comparison of stock market volatility across developed and emerging markets is shown in Figure 2.13. Among the emerging markets, Russia's CRTX Index recorded a volatility of 23.9 per cent in 2016-17, followed by Brazil's IBOV Index (22.5 per cent), Argentina's IBG Index (22.3 per cent) and Egypt's HERMES Index (21.3 per cent). In 2016-17, volatility in Indian benchmark indices NIFTY 50 and S&P BSE Sensex was 12.3 and 12.1 per cent respectively, which was substantially lower as compared to other emerging market economies. Among the developed markets, annualized volatility was the highest for Japan's Nikkei Index (21.9 per cent), followed by Europe's DJ Stoxx 50 (18.2 per cent) and France's CAC 40 (17.2 per cent).

Figure 2.13: Annualized volatility of international stock market indices ***(per cent)***



Note: Annualized volatility is computed as the standard deviation of the logarithmic returns of the closing levels of the indices multiplied with the square root of the number of trading days during the period.

Source: Bloomberg Services.

VII. Trading Frequency

Trading frequency of stocks listed at NSE and BSE indicates the liquidity prevalent in the stock markets. In 2016-17, trading frequency improved at both NSE and BSE as compared to 2015-16. During 2016-17, the number of stocks traded on BSE was 5,087 as compared to 5,035 in 2015-16 (Table 2.17). Similarly, the number of stocks traded on NSE stood at 1,796 in 2016-17 as compared to 1,703 in 2015-16. The percentage share of stocks traded on BSE for more than 100 days decreased marginally from 62.3 per cent in 2015-16 to 62.1 per cent in 2016-17. Following a similar trend, the percentage share of stocks traded on NSE for more than 100 days declined from 91.1 per cent in 2015-16 to 90.9 per cent in 2016-17. The percentage share of stocks traded for 10 days or less in 2016-17 was 14.0 per cent at BSE and 3.5 per cent at NSE. At the end of March 2017, there were 5,834 and 1,817 companies listed at BSE and NSE respectively.

Table 2.17: Trading frequency of listed stocks

Trading Frequency (Range of Days)	2015-16				2016-17			
	BSE		NSE		BSE		NSE	
	No. of Shares Traded	Percentage of Total	No. of Shares Traded	Percentage of Total	No. of Shares Traded	Percentage of Total	No. of Shares Traded	Percentage of Total
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
Above 100	3,137	62.3	1,551	91.1	3,161	62.1	1,633	90.9
91-100	90	1.8	10	0.6	85	1.7	9	0.5
81-90	82	1.6	12	0.7	93	1.8	9	0.5
71-80	114	2.3	15	0.9	102	2.0	11	0.6
61-70	112	2.2	7	0.4	103	2.0	14	0.8
51-60	125	2.5	6	0.4	121	2.4	7	0.4
41-50	141	2.8	9	0.5	135	2.7	14	0.8
31-40	135	2.7	10	0.6	151	3.0	11	0.6
21-30	176	3.5	8	0.5	178	3.5	11	0.6
10-20	210	4.2	14	0.8	244	4.8	14	0.8
0-10	713	14.2	61	3.6	714	14.0	63	3.5
Total	**5,035**	**100**	**1,703**	**100**	**5,087**	**100**	**1,796**	**100**

Note: MSEI data is not significant and is not included.
Source: BSE and NSE.

The share of the top 100 brokers in the annual equity cash market turnover in 2016-17 at NSE and BSE was 81.7 and 83.8 per cent respectively (Table 2.18). While, the share of the top-100 securities in the annual cash market's turnover in 2016-17 at NSE and BSE was 67.2 per cent and 62.3 per cent respectively. At NSE, the share of participants in the annual cash market turnover in 2016-17 shows that proprietary trades, FPIs and mutual funds contributed 16.9, 20.3 and 6.2 per cent respectively, whereas domestic institutions (excluding MFs) contributed 0.1 per cent. Similarly, at BSE, proprietary trades, domestic institutions (excluding mutual funds), FPIs and mutual funds contributed 13.5, 1.4, 12.9 and 4.6 per cent, respectively to the annual equity cash market turnover in 2016-17 (Table 2.19).

Table 2.18: Share of top-100 brokers/securities in annual cash market turnover

S. No.	Particulars	Percentage Share		
		BSE	NSE	MSEI
1	Share of top-100 brokers in annual cash market turnover	83.8	81.7	100.0
2	Share of top-100 scrips/securities in annual cash market turnover	62.3	67.2	100.0

Note: Shares of only 19 companies were traded on MSEI during the year.
Source: BSE, NSE and MSEI

Table 2.19: Share of participants in annual cash market turnover

S. No.	Particulars	Percentage Share		
		BSE	NSE	MSEI
1	*2*	*3*	*4*	*5*
1	Proprietary trades	13.5	16.9	0.05
2	Domestic institutions (excluding MFs)	1.4	0.1	0.0
3	FPIs	12.9	20.3	0.0
4	MFs	4.6	6.2	0.0
5	Others	67.6	56.5	99.95
Total		**100.0**	**100.0**	**100.0**

Notes: 1. Domestic institutions (excluding mutual funds) include banks, DFIs, insurance companies and the New Pension Scheme.
2. Others include retail, partnership firms, trusts, HUFs, NRIs and QFIs.
Source: BSE, NSE and MSEI.

VIII. Activities of Stock Exchanges

During 2016-17, the all-India turnover at the stock exchanges in terms of number of shares traded increased by 12.4 per cent (Table 2.20). In terms of the total quantity of shares traded, NSE had a share of 78.7 per cent in 2016-17, followed by BSE (21.2 per cent) and MSEI (0.01 per cent). NSE's share in the quantity of shares delivered was 70.4 per cent in 2016-17, followed by BSE (29.5 per cent). During 2016-17, the total value of shares delivered increased by 29.5 per cent to ₹ 19,41,465 crore from ₹ 14,98,712 crore in 2015-16.

Table 2.20: Trading statistics of stock exchanges

Stock Exchange	Shares				Value of Shares Delivered (₹ crore)	
	Traded (lakh)		Delivered (lakh)			
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
1	*2*	*3*	*4*	*5*	*6*	*7*
Recognized Stock Exchanges						
BSE	7,62,549	7,07,223	3,57,015	3,03,782	2,46,883	4,64,996
	(25.7)	(21.2)	(36.6)	(29.5)	(16.4)	(23.9)
MSEI	241	145	70	141	97	237
	(0.0)	(0.01)	(0.0)	(0.01)	(0.0)	(0.01)
NSE	22,01,771	26,24,534	6,18,225	7,24,495	12,51,732	14,76,232
	(74.2)	(78.7)	(63.3)	(70.4)	(83.5)	(76.0)
Total	**29,64,561**	**33,31,901**	**9,75,311**	**10,28,417**	**14,98,712**	**19,41,465**

Note: Figures in parenthesis indicate percentage share to total.
Source: Various stock exchanges.

SEBI notified the exit policy for de-recognized/ non-operational stock exchanges in 2012. As on March 31, 2017, 18 regional stock exchanges had been granted exit by SEBI. Three stock exchanges – the Magadh Stock Exchange Ltd., the Ahmedabad Stock Exchange Ltd. and the Calcutta Stock Exchange Ltd. are under the exit process.

Activities of dormant RSEs are mainly routed through subsidiaries which have taken up trading membership of BSE and NSE. With respect to the exiting exchanges, the turnover in subsidiaries is considered up to the date of the exit order. During 2016-17, the turnover of ASE Capital Markets Limited increased by 0.8 per cent to ₹ 54,295 crore from ₹ 53,870 crore in 2015-16.

IX. Dematerialization

Dematerialization has progressed at a fast pace in India and has gained acceptance amongst the market participants since the introduction of the depository system. All actively traded scrips are held, traded and settled in demat form. The two depositories in India -- National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) -- provide depository services to investors through depository participants (DPs). The depositories do not charge the investors directly, but charge their DPs who in turn charge the clients. However, as per SEBI directive, DPs cannot charge investors towards opening of a beneficiary owner (BO) account (except statutory charges), credit of securities into a BO account and custody charges. With time, depositories have been reducing their charges along with the growth in volumes.

At the end of March 2017, there were 155.81 lakh demat accounts at NSDL and 122.7 lakh demat accounts at CDSL; 17,835 companies had signed up for dematerialization at NSDL and 9,887 at CDSL as on March 31, 2017 (Table 2.21). The quantity of dematerialized securities at NSDL increased by 19.8 per cent to 1,31,76,251 lakh in 2016-17 from 1,10,02,089 lakh in 2015-16. At CDSL, the quantity of dematerialized securities increased by 12.1 per cent from 22,75,489 lakh in 2015-16 to 25,51,508 lakh in 2016-17. The number of shares settled in demat form and their value increased at both NSDL and CDSL. Similarly the number of securities settled in demat form and their value observed an increase at both NSDL and CDSL in 2016-17. At NSDL, the total value of demat settled shares increased by 31.1 per cent from ₹ 20,09,725 crore in 2015-16 to ₹ 26,34,095 crore in 2016-17. At CDSL, too, the value of shares settled in demat form increased by 33.1 per cent from ₹ 4,82,355 crore in 2015-16 to ₹ 6,41,849 crore in 2016-17. The ratio of dematerialized equity shares to total outstanding shares of listed companies was 85.5 per cent at NSDL and 13.5 per cent at CDSL at the end of 2016-17.

Table 2.21: Depository statistics

Particulars	NSDL		CDSL	
	2015-16	2016-17	2015-16	2016-17
No. of investor accounts (lakh)	145.7	155.81	107.9	122.7
No. of companies signed up and available for demat (listed and unlisted)	15,638	17,835	10,021	9,887
Quantity of securities in demat form (lakh) (at the end of the period)	1,10,02,089	1,31,76,251	22,75,489	25,51,508
Value of securities in demat form (₹ crore) (at the end of the period)	1,17,15,667	1,46,48,687	13,26,797	17,70,245
No. of shares settled in demat (lakh) (during the year)	9,04,610	10,80,712	6,22,416	704,738
Value of shares settled in demat (₹ crore) (during the year)	20,09,725	26,34,095	4,82,355	6,41,849
Market capitalization of companies in demat (₹ crore)	96,04,113	1,22,86,381	95,55,796	1,25,31,284
Ratio of dematerialized equity shares to total outstanding shares listed (per cent)	85.4	85.5	12.8	13.5

Note: Securities includes common equity shares, preferential shares, mutual fund units, debentures and commercial papers.
Source: NSDL and CDSL.

Besides equity shares, the dematerialization facility has also been extended to instruments like commercial papers and bonds. The total dematerialized value of commercial papers increased at both NSDL and CDSL (Table 2.22). At NSDL, it increased from ₹ 2,58,812 crore in 2015-16 to ₹ 4,14,634 crore in 2016-17. The dematerialized value of commercial papers at CDSL increased from ₹849 crore in 2015-16 to ₹ 4,850 crore in 2016-17. During 2016-17, the number of active instruments and the dematerialized value of debentures/bonds increased at NSDL. On the other hand, a marginal decline in the number of active instruments of debentures/bonds was observed at CDSL, while the demat value increased during 2016-17 over 2015-16.

Table 2.22: Depository statistics: Debentures/bonds and commercial papers

Particulars	Debentures / Bonds				Commercial Papers			
	2015-16		2016-17		2015-16		2016-17	
	NSDL	CDSL	NSDL	CDSL	NSDL	CDSL	NSDL	CDSL
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
No. of Issuers	1,356	678	1,698	783	264	17	375	24
No. of Active Instruments	13,140	9,777	15,044	8,792	1,563	133	2,270	156
Demat Value (₹ crore)	20,04,612	65,756	24,21,017	74,504	2,58,812	849	4,14,634	4,850

Source: NSDL and CDSL.

The geographical coverage of CDSL and NSDL's depository participants (DPs) declined in 2016-17; this is in contrast to the increase recorded in the previous year. DP locations for NSDL were available in 1,937 cities at the end of 2016-17 as compared to 1,942 cities at the end of 2015-16 (Table 2.23). For CDSL, the number of DP locations declined to 3,656 cities at the end of 2016-17, as compared to 4,628 cities at the end of 2015-16.

Table 2.23: Cities according to the number of DP locations: Geographical spread

No. of DP Locations	NSDL		CDSL	
	2015-16	2016-17	2015-16	2016-17
0 > 10	1,526	1,511	4,448	3,466
10-20	184	188	83	81
21-50	139	139	59	61
51-100	57	62	20	26
> 100	36	37	18	22
Total	**1,942**	**1,937**	**4,628**	**3,656**

Note: The number of DP locations for CDSL includes locations that have back office connected DP centres.
Source: NSDL and CDSL.

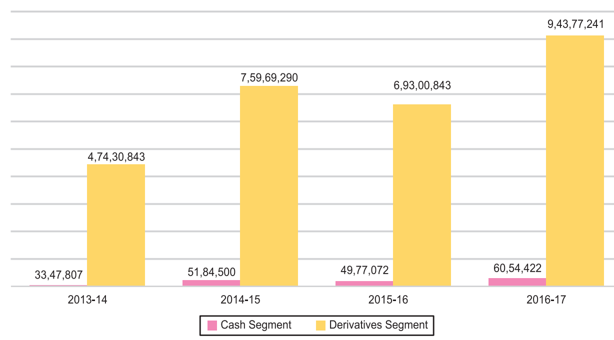
X. The Derivatives Segment

A. The Equity Derivatives Segment

In comparison to the underlying cash market, India has a better position in being internationally competitive in equity derivatives and is placed among the best in the world, with state-of-the-art technology, institutional mechanisms, products and market size. Though derivatives being leveraged structures have the potential to amplify losses or gains in an asset and can contribute to market volatility, in India they are increasingly being used by hedgers, speculators and arbitrageurs. This is evident from the fact that the equity derivatives market contributes approximately 80.5 per cent of the total traded value in the secondary market. The volumes in the Indian derivative segment witnessed spectacular growth post its introduction in 2000. Not only growth, there has also been a product shift in favour of more complex products like options since 2009.

Among the three exchanges in the derivative market ecosystem viz, NSE, BSE and MSEI, NSE is the dominant market leader in equity derivatives products. As per the annual data for 2016 published by World Federation of Stock Exchanges (WFE), NSE is placed at first position in the world in index options and is placed at second position in stock futures, when ranked in terms of the number of contracts traded and/or cleared. In index options, three exchanges accounted for 67 per cent of the total volume traded in the world, with NSE and Korea Exchange from the Asia-Pacific region making up 50 per cent of the total volume traded. NIFTY was the top index option contract traded in the world in 2016. NSE's equity derivatives turnover to GDP ratio for 2016-17 stood at 621.5 and this is testimony of the volume and liquidity of the segment. The aggregate all-India turnover in 2016-17 in the derivatives segment was approximately 15.6 times the turnover in the cash market, and was 36.2 per cent higher than the total futures and options' (F&O) turnover recorded in 2015-16 (Figure 2.14). NSE had a majority share in trading volumes at 99.9 per cent in 2016-17, while BSE contributed only 0.1 per cent. BSE's share has waned gradually over the years from 26.8 per cent in 2014-15 to 6.5 per cent in 2015-16 and further to 0.1 per cent in 2016-17.

Figure 2.14: Derivatives' turnover vis-à-vis cash market turnover



While the number of contracts traded on NSE in equity derivatives decreased by 33.3 per cent, the value of the contracts traded increased by 45.6 per cent. The contracts traded in NSE's equity derivatives segment declined to 139.97 crore in 2016-17 from 209.8 crore in 2015-16 whereas the turnover increased from ₹ 6,48,25,834 crore in 2015-16 to ₹ 9,43,70,301 crore in 2016-17. On the other hand, BSE recorded dwindling volumes in its equity derivatives segment. While, the number of contracts declined to a mere 1,23,538 in 2016-17 from 10.6 crore traded in 2015-16, the turnover declined steeply by 99.8 per cent to ₹ 6,939 crore in 2016-17 from ₹ 44,75,008 crore in 2015-16. As in 2015-16, MSEI recorded nil trading in its equity derivatives segment in 2016-17.

Open interest in NSE's derivatives segment increased by 13.9 per cent from ₹ 1,54,411 crore at the end of 2015-16 to ₹ 2,49,497 crore at the end of 2016-17 whereas at BSE, the open interest was ₹ 8 crore at the end of 2016-17 as against ₹ 3 crore in 2015-16 (Table 2.24).

Table 2.24: Trends in turnovers and open interest in the equity derivatives segment

Year	No. of Contracts		Turnover (₹ crore)		Open interest at the end of the year			
					No. of Contracts		Value (₹ crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
2015-16	209,86,10,395	10,62,09,394	6,48,25,834	44,75,008	29,08,184	68	1,54,411	3
2016-17	139,97,46,129	1,23,538	9,43,70,302	6,939	35,42,404	107	2,49,497	8

Source: BSE and NSE

In 2016-17, monthly trends in turnover indicate a steady increase at NSE. The highest turnover was recorded in March 2017 (₹ 99,71,152 crore), followed by February 2017 (₹ 93,48,339 crore) and November 2016 (₹ 92,64,480 crore). The number of contracts traded was the highest in November 2016 (13.56 crore) followed by March 2016 (13.03 crore) and February (12.65 crore). Trading in BSE's derivatives segment fluctuated throughout the year with the highest turnover in April 2016 (₹ 4,460 crore) followed by that in August 2016 (₹ 1,224 crore) and in September 2016 (₹ 473 crore). The average daily turnover at NSE in 2016-17 increased by 44.9 per cent to ₹ 3,80,525 crore from ₹ 2,62,453 crore in 2015-16, while at BSE it declined by 99.8 per cent to ₹ 27.9 crore from ₹ 18,117 crore.

Across the world in calendar year 2016, options accounted for 38 per cent of the total volumes traded while futures had a 62 per cent share. This shows a significant change from 2015, when options accounted for 42 per cent of the global volumes traded. Overall, options volumes fell by 8 per cent, while the number of futures contracts traded increased by 10 per cent in 2016 as compared to 2015. Over the years, index options have emerged as the most traded instrument in the Indian derivatives market. In 2016-17, index options accounted for a major share at NSE and BSE (77.1 and 64.4 per cent respectively) (Table 2.25). However, at BSE, 99 per cent of the index options' turnover was registered in April 2016, after which it petered out. At NSE, single stock futures held an 11.8 per cent share in turnover followed by stock options (6.5 per cent) and index futures (4.6 per cent). Compared to this, in 2015-16, index futures had a larger share of 7.0 per cent and stock options accounted for 5.4 per cent. In brief, option products' share in the turnover at NSE vis-a-vis futures increased in 2016-17.

Table 2.25: Product-wise derivatives turnover at NSE and BSE *(per cent)*

Year	Index Futures	Index Options	Single Stock Options	Single Stock Futures
BSE				
2015-16	0.3	98.0	1.7	0.0
2016-17	32.7	64.4	0.0	2.9
NSE				
2015-16	7.0	75.5	5.4	12.1
2016-17	4.6	77.1	6.5	11.8

Source: BSE and NSE.

NSE had 193 stocks and BSE had 189 stocks in which derivatives were permitted in 2016-17. While futures were permitted in 11 indices and options in nine indices at NSE, in 2016-17 the respective numbers for BSE were 10 and six.

At NSE, derivatives are offered on the following domestic indices in the index derivatives segment: NIFTY, NIFTY Midcap 50, NIFTY Bank, NIFTY Infra, NIFTY IT, NIFTY PSE, NIFTY CPSE and VIX. Index derivatives are also allowed on three foreign indices: the Dow Jones Index, S&P 500 and the UK FTSE 100 Index. However, the turnover in futures and options on the foreign indices decreased by 8.5 per cent to ₹ 1,37,434 crore in 2016-17 from ₹ 1,87,124 crore in 2015-16. The turnover decreased in futures of DJIA, FTSE 100 and options of S&P 500 while it increased slightly for futures of S&P 500 from ₹ 4,367 crore in 2015-16 to ₹ 4,397 crore in 2016-17 (Tables 2.26).

Table 2.26: Trends in turnover of derivatives on foreign indices at NSE

Instrument Type	Name of the Underlying Global Index	No. of Contracts Traded	Traded Value (₹ crore)	No. of Contracts Traded	Traded Value (₹ crore)
		2015-16		2016-17	
1	2	3	4	5	6
FUTIDX	DJIA	1,00,282	4,646	56,174	3,172
FUTIDX	FTSE 100	201	7	35	2
FUTIDX	S&P 500	86,633	4,367	81,225	4,397
OPTIDX	FTSE 100	0	0	0	0
OPTIDX	S&P 500	8	0.4	0	0
Total		**1,83,123**	**1,87,124**	**9,021**	**1,37,434**

Source: NSE

In BSE's index derivatives segment, derivatives are offered on the following indices: S&P BSE Sensex, S&P BSE Bankex, S&P BSE Oil & Gas Index, S&P BSE Teck Index, S&P BSE100 and S&P BSE Sensex Next 50. At BSE, futures on foreign indices are available for the HSI Index, MICEX Index, FTSE/JSE top 40 and the Bovespa Index. However, no trading has been executed in the derivatives contracts of these foreign indices at BSE since 2013-14.

During 2016-17, NIFTY futures and options accounted for 54.7 per cent of the total equity derivatives turnover at NSE as against an 85.4 per cent share in 2015-16. In contrast, Bank NIFTY's share improved significantly to 45.5 per cent in 2016-17 as compared to 14.7 per cent in 2015-16. At BSE, as on March 31, 2017 the Sensex contributed 100 per cent of the turnover when classified instrument-wise, though during the year BSE 100 showed almost negligible turnover in two months. Tables 2.27 to 2.30 show product-wise trends in the derivatives market in India during 2015-16 and 2016-17.

Table 2.27: Trends in index futures at NSE and BSE

Year	No. of Contracts		Notional Turnover (₹ crore)		Open interest at the end of the Year			
					No. of Contracts		Value (₹ crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
1	2	3	4	5	6	7	8	9
2015-16	14,05,38,768	3,06,712	45,57,124	13,097	3,34,124	45	18,806	2.3
2016-17	6,65,35,071	32,288	43,35,941	2,267	4,22,593	102	30,190	7.3

Note: MSEI recorded nil trading.
Source: BSE and NSE

Table 2.28: Trends in stock futures at NSE and BSE

Year	No. of Stocks		No. of Contracts		Notional Turnover (₹ crore)		Open interest at the end of the Year			
							No. of Contracts		Value (₹ crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
1	2	3	4	5	6	7	8	9	10	11
2015-16	173	173	23,42,43,967	51,815	78,28,606	1,350	10,85,544	13	50,986	0.7
2016-17	189	189	17,38,60,130	2,901	1,11,29,587	203	13,62,099	5	94,331	0.5

Note: MSEI recorded nil trading.
Source: BSE and NSE

Table 2.29: Trends in index options at NSE and BSE

Year	No. of Contracts		Notional Turnover (₹ crore)		Open interest at the end of the Year			
					No. of Contracts		Value (₹ crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
1	2	3	4	5	6	7	8	9
2015-16	1,62,35,28,486	10,34,27,976	4,89,51,931	43,86,249	13,93,706	10	80,161	0.5
2016-17	1,06,72,44,916	88,349	7,27,97,288	4,469	15,58,951	0	1,10,812	0

Note: MSEI recorded nil trading.
Source: BSE and NSE

Table 2.30: Trends in Stock Options at NSE and BSE

Year	No. of Stocks		No. of Contracts		Notional Turnover (₹ crore)		Open interest at the end of the Year			
							No. of Contracts		Value (₹ crore)	
	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE	NSE	BSE
1	2	3	4	5	6	7	8	9	10	11
2015-16	173	173	10,02,99,174	24,22,891	34,88,174	74,313	94,810	0	4,459	0
2016-17	189	189	9,21,06,012	0	61,07,486	0	1,98,761	0	14,164	0

Note: MSEI recorded nil trading.
Source: BSE and NSE.

Among the various classes of derivative members, transactions undertaken by trading-cum-clearing members were 43.6 per cent of the total turnover, which is higher than their 38.2 per cent share in 2015-16. The percentage share of trading members in traded value declined from 29.1 per cent in 2015-16 to 20.9 per cent in 2016-17 and that of trading-cum-self clearing members increased from 32.7 per cent to 35.5 per cent (Table 2.31).

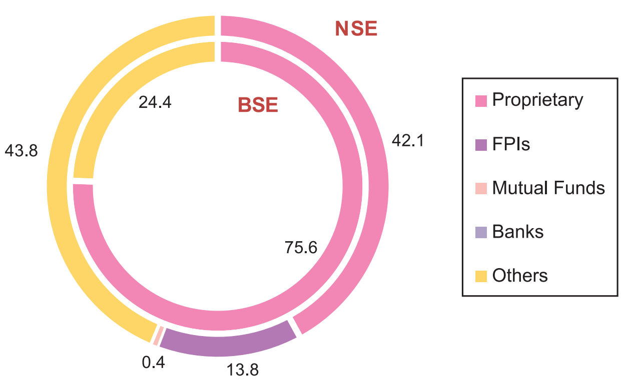
Table 2.31: Shares of various classes of members in equity derivative turnover at NSE and BSE

Year	Turnover (₹ crore)				*Percentage Share*		
	Trading Members	Trading cum Clearing Members	Trading cum Self Clearing Members	Total	*Trading Members*	*Trading cum Clearing Members*	*Trading cum Self Clearing Members*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
2015-16	4,03,52,957	5,29,12,407	4,53,36,320	13,86,01,685	29.1	38.2	32.7
2016-17	3,94,30,938	8,22,50,321	6,70,73,223	18,87,54,482	20.9	43.6	35.5

Source: BSE and NSE

Participant-wise share in NSE F&O's turnover for 2016-17 shows that proprietary trades accounted for a 42.1 per cent share in the annual turnover (Figure 2.15). While FPIs had a share of 13.8 per cent in the total turnover, the 'others' category (comprising retail, HNIs and private and public companies) had an average share of 43.8 per cent in the total turnover; mutual funds constituted a miniscule share of 0.4 per cent. In BSE F&O's turnover, proprietary trades had a share of 72.5 per cent and the 'others' category had a share of 27.5 per cent.

Figure 2.15: Participant-wise average share in futures and options turnovers



B. Trends in the Currency Derivatives Market

Currency derivatives are important for firms and other participants to hedge their exposures to exchange rate volatility, which may increase temporarily as monetary policy focuses on stabilizing prices. Manufacturers in traded goods industries, in particular, need to be able to hedge against fluctuations in exchange rates in order to maintain their competitiveness and margins. With the objective of providing such an instrument, trading in exchange traded currency derivatives was launched in India in August, 2008. Presently in Indian markets, currency derivatives are traded on BSE, NSE, and MSEI.

In 2016-17 the aggregate turnover in the currency derivatives segment at the exchanges increased by 4.3 per cent to ₹ 69,62,833 crore from ₹ 66,76,821 crore in 2015-16. During 2016-17, the total turnover was the highest at NSE (₹ 48,57,076 crore), followed by BSE (₹ 18,07,829 crore) and MSEI (₹ 2,97,928 crore). NSE accounted for 69.8 per cent of the total turnover in the currency segment followed by BSE (26.0 per cent) and MSEI (4.3 per cent) (Table 2.32). Globally, currency derivatives' volumes have increased significantly since 2005, with a 10.4 per cent increase in volumes traded in 2016 over the previous calendar year. The volumes were up for both options and futures with an increase of 39.3 and 4.0 per cent respectively in 2016. As per the WFE's 2016 report, NSE was the second exchange in the world in currency derivatives in terms of the number of contracts traded in both futures and options segments. Moreover, as per the report, the increase in volume traded in Asia-Pacific region in 2016 was mainly driven by increase in volumes at BSE (23 per cent) and NSE (22 per cent).

Table 2.32: Trends in the currency derivatives segment

Year	MSEI			NSE			BSE		
	No. of Contracts Traded	Turnover (₹ crore)	Open interest at the end of year (₹ crore)	No. of Contracts Traded	Turnover (₹ crore)	Open interest at the end of year (₹ crore)	No. of Contracts Traded	Turnover (₹ crore)	Open interest at the end of year (₹ crore)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
2015-16	4,88,58,281	3,24,576	2,162	67,35,83,164	45,01,886	19,523	28,06,35,711	18,50,359	5,983
2016-17	4,40,56,412	2,97,928	1,518	71,24,51,439	48,57,076	15,222	26,83,39,687	18,07,829	6,944

Source: MSEI, NSE, and BSE.

Product-wise shares in the currency derivatives volume show that the USD-INR options emerged as a dominant product with 48.7 per cent share in turnover at NSE. On the other hand, at BSE and MSEI, USD-INR futures had major shares of 56.3 and 93.0 per cent respectively (Table 2.33).

Table 2.33: Product-wise market share in currency derivatives volume (per cent)

Year	USD-INR Futures	EURO-INR Futures	GBP-INR Futures	JPY-INR Futures	USD-INR Options
1	*2*	*3*	*4*	*5*	*6*
			NSE		
2015-16	54.5	3.0	2.9	0.7	38.9
2016-17	44.1	2.0	3.8	1.4	48.7
			BSE		
2015-16	66.5	0.3	0.1	0.0	33.1
2016-17	56.3	0.3	0.3	0.1	43.0
			MSEI		
2015-16	84.9	4.1	3.9	0.6	6.5
2016-17	93.0	0.7	1.5	0.6	4.2

Source: MSEI, NSE and BSE.

C. Trends in Interest Rates Derivatives

In an economy like India with an expanding financial sector, interest rate is a key variable that affects firms and individuals across the board. In India, these products were first introduced in 2003 which were cash settled and based on the zero coupon yield curve. However, after some initial interest, market liquidity waned. In 2008, physically settled futures contracts were introduced on 10-year government bonds. As these also did not pick up as expected, cash settled single bond futures contracts were introduced in January 2014 and they have been trading since then with reasonable liquidity. The trends observed in turnover and open interest in the interest rate derivatives at NSE, BSE and MSEI are given in Table 2.34.

During 2016-17, the aggregate turnover in the interest rate derivatives segment across all exchanges registered a decrease of nearly 33.9 per cent. Though NSE contributed a major share to the turnover (70.2 per cent) vis-a-vis BSE (29.2 per cent) and MSEI (0.6 per cent), the turnovers at NSE and MSEI witnessed heavy slides compared to the previous year. At NSE, the turnover declined by 41.5 per cent to ₹ 3,07,809 crore in 2016-17 as compared to ₹ 5,26,425 crore in 2015-16. A substantial decline of 88.8 per cent was recorded in the turnover at MSEI from ₹ 22,814 crore in 2015-16 to ₹ 2,552 crore in 2016-17. However, at BSE the turnover increased by 12.1 per cent from ₹ 1,14,121 crore in 2015-16 to ₹ 1,27,980 crore in 2016-17.

Table 2.34: Trends in interest rate derivatives at NSE, BSE and MSEI

Year	Total						Open interest at the end of the year					
	No. of contracts			Turnover (₹ crore)			No. of Contracts			Value (₹ crore)		
	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI	NSE	BSE	MSEI
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*
2015-16	2,60,56,481	56,87,653	11,23,413	5,26,425	1,14,121	22,814	1,54,627	5,566	25,291	3,105	112	507
2016-17	1,48,07,039	61,85,341	1,25,175	3,07,809	1,27,980	2,552	1,20,422	18,044	0	2,482	378	0

Source: NSE, BSE and MSEI.

D. Trends in the VIX Futures Segment

NSE launched trading in futures contracts on India VIX in the futures and options segment w.e.f. February 26, 2014. India VIX is a volatility index based on NIFTY's index option prices. India VIX is computed using the best bid and ask quotes of the out-of-the-money near and mid-month NIFTY options contracts which are traded on the F&O segment at NSE. India VIX indicates investors' perceptions of the market's volatility in the near term. However, the turnover in India VIX gradually waned to ₹ 0.09 crore in 2016-17 from ₹ 10 crore in 2015-16 and ₹ 2,256 crore in 2014-15 (Table 2.35).

Table 2.35: Trends in the VIX futures segment at NSE

Year	Volume (No. of Contracts traded	Traded Value (₹ crore)	Open Interest (quantity)
2015-16	94	10.25	0
2016-17	1	0.09	0

Source: NSE.

3. THE COMMODITY DERIVATIVES MARKET

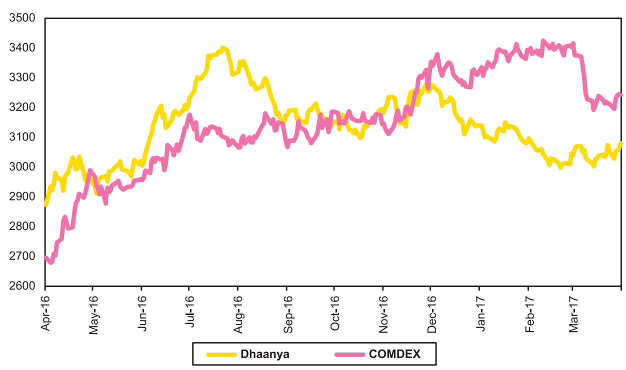
I. An Overview of Indian Commodity Derivatives Market

In the backdrop of a turnaround in global commodity markets, robust domestic macroeconomic indicators, price stability and unprecedented demonetization, the Indian commodity derivatives segment witnessed mixed trends during 2016-17. While the metal segment exhibited gains in terms of volumes and value traded, that of energy, bullion and the agricultural commodity derivatives segment declined during the year. The suspension of liquid contracts of chana's futures and castor seed's futures at NCDEX impacted the aggregate volumes traded in the agricultural (agri) segment.

The underlying markets in the agricultural futures segment witnessed intermittent price fluctuations triggered by demand-supply mismatches during 2016-17. According to CSO, the growth in agriculture and allied sectors is estimated at 4.4 per cent in 2016-17 as against 0.8 per cent in 2015-16. The first advance estimates for the production of Kharif crops released in September 2016, showed an increase in food grains, pulses, oilseeds and cotton in 2016-17. It reported a decline in sugarcane production over the previous year. As per the second advance production estimates for 2016-17 released by the Ministry of Agriculture, food grain production is expected to increase by 8.1 per cent during 2016-17 as compared to 2015-16, pulse production is estimated to increase by 35.4 per cent, followed by oilseeds (33.0 per cent). On the other hand, sugarcane production is estimated to decline by 11.0 per cent. Rabi crop sowing in 2016-17 was also higher than in previous years.

The broad price trend in the Indian commodities derivatives market can be discerned from the movement of the benchmark indices MCX COMDEX and NCDEX Dhaanya. While MCX COMDEX is a composite index of three sub-indices -- MCX Metal, MCX Energy and MCX Agriculture -- NCDEX Dhaanya is represented by 10 agri commodities. During 2016-17, MCX COMDEX increased by 18.7 per cent and NCDEX Dhaanya gained 7.8 per cent over March 31, 2016 (Figure 2.16). The MCX COMDEX closed at 3,243 on March 31, 2017 registering a gain of 512 points over 2,731 as on March 31, 2016. NCDEX Dhaanya increased by 224 points and closed at 3,081 on March 31, 2017 over 2,857 as on March 31, 2016.

Figure 2.16: Movement of benchmark commodity indices



MCX COMDEX recorded the highest close value of 3,425 on February 10, 2017, while In FY 2016-17 NCDEX Dhaanya reached the highest close value of 3,401 on July 22, 2016. MCX COMDEX recorded the lowest close value of 2,679 on April 04, 2016 and NCDEX Dhaanya recorded a low of 2,873 on April 01, 2016. The highest daily return during 2016-17 was 2.3 per cent for MCX COMDEX recorded on November 21, 2016 and 2.2 per cent for NCDEX Dhaanya on April 04, 2016. The highest fall of 2.0 per cent in MCX COMDEX was observed on May 09, 2016 while NCDEX Dhaanya registered the highest fall of 1.8 per cent on April 25, 2016. Volatility, in annualized terms, decreased for both the indices during 2016-17. The annualized volatility was 10.6 per cent for NCDEX Dhaanya and 11.7 per cent for MCX COMDEX in 2016-17 as compared to 12.7 and 15.3 per cent respectively in 2015-16.

Table 2.36 provides a snapshot of the key indicators of the domestic commodity futures segment for year 2015-16 and 2016-17.

Table 2.36: Major indicators of the commodity derivatives market

Items	2015-16	2016-17	*Percentage variation over the previous year*
A. Indices			
DHAANYA			
Year-end	2,857	3,081	*7.8*
Average	2,787	3,134	*12.5*
MCX COMDEX			
Year-end	2,731	3,243	*18.7*
Average	2,819	3,154	*11.9*
B. Annualized volatility (per cent)			
Dhaanya	12.7	10.5	*-17.3*
COMDEX	15.2	11.7	*-23.0*
C. Total Turnover (₹ crore)			
All-India	66,96,381	64,99,637	*-2.9*
NCDEX	10,19,588	5,96,852	*-41.5*
MCX	56,34,194	58,65,661	*4.1*
NMCE	29,368	28,442	*-3.2*
Rajkot Commodity Exchange Ltd	1,976	759	*-61.6*
Chamber of Commerce, Hapur	11,192	7,923	*-29.2*
IPSTA	63	0	*Na*
D. Average Daily Open Interest Value (₹ crore)			
NCDEX	6,894	4,641	*-32.7*
MCX	9,479	10,692	*12.8*
NMCE	36	52	*42.8*
Rajkot Commodity Exchange Ltd	Na	Na	*Na*
Chamber of Commerce, Hapur	46	35	*-23.9*
E. No. of Permitted Commodities			
NCDEX	25	25	*Na*
MCX	16	16	*Na*
NMCE	13	13	*Na*
Rajkot Commodity Exchange Ltd	1	1	*Na*
Chamber of Commerce, Hapur	1	1	*Na*

Note: Annualized volatility is calculated as standard deviation of natural log of daily returns in the index for the respective period multiplied with the square root of the number of trading days in a year.

Source: MCX, NCDEX, NMCE, the Rajkot Commodity Exchange Ltd, Chamber of Commerce, Hapur and IPSTA

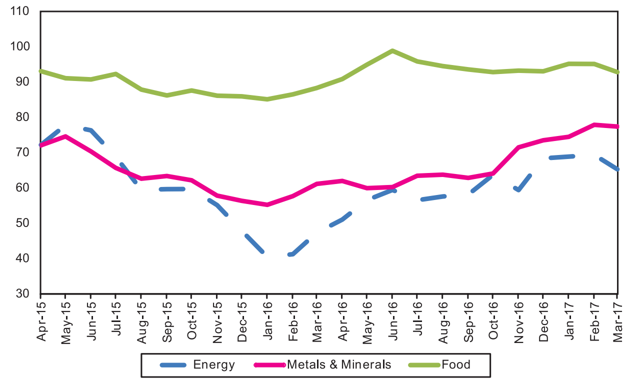
II. International Developments in Commodity Derivatives Market

In 2016-17, global commodity prices recovered from the sharp declining trend witnessed in the last two years. As per the commodity price data released by the World Bank, the Index for Energy Prices (based on nominal US dollars) increased by 38.0 per cent in 2016-17, whereas the Metal & Minerals Index recorded a growth of 26.5 per cent. Global food prices increased by 5.0 per cent during 2016-17 and coal prices too increased during the year on strong demand and supply tightness in China resulting from the government's efforts to reduce coal capacity. The oil market continued to slowly re-balance amid a steady and broad-based growth in demand. As per the World Bank's assessment, the influence of lower oil prices has diminished, particularly in advanced countries and global demand is now trending at close to its long-term average. The World Bank projects the Energy Price Index to increase by 25.7 per cent in 2017 and 8.2 per cent in 2018.

Greater than expected government related supply restraints in Asia and reluctance by producers to activate idle capacity added to upside risks for metal prices. After declining 5.9 per cent in 2016, metal & minerals' prices are projected to grow by 10.8 per cent in 2017, while food prices are forecast to increase by 1.6 per cent in 2017.

The monthly movement of the World Bank commodity indices for a period of two years is given in Figure 2.17. Indices for energy, metal & minerals and food have recorded an uptrend since February 2016.

Figure 2.17: Movement of the World Bank commodity indices



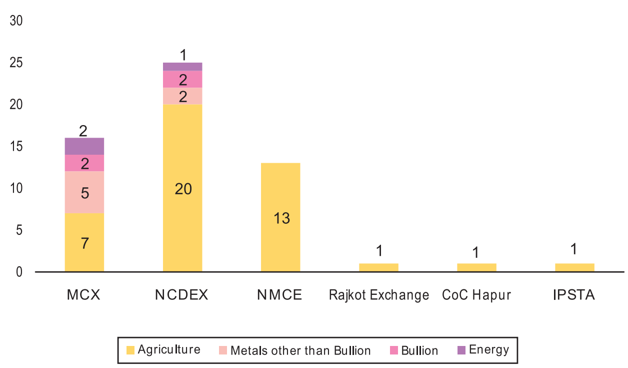
Note: The World Bank Commodity Price Index for Energy is composed of coal (4.7 per cent), crude oil (84.6 per cent) and natural gas (10.8 per cent). The Index for Food forms a sub-group of the Index for Non-Energy and is composed of cereals (28.2 per cent), vegetable oils and meals (40.8 per cent) and other food (31 per cent). The Index for Metals is also a sub-group of the Non-Energy Index and is composed of metals excluding precious metals.

Source: The World Bank Pink Sheet.

III. Permitted Commodities

During 2016-17, the total number of permitted commodities remained unchanged at all the commodity exchanges. As on March 31, 2017, NCDEX had the highest number of permitted commodities at 25, followed by MCX (16) and NMCE (13) (Figure 2.18). While trading at NCDEX is predominantly concentrated on agri commodities, NMCE and regional exchanges trade only agri commodities.

Figure 2.18: Number of permitted commodities at commodity exchanges



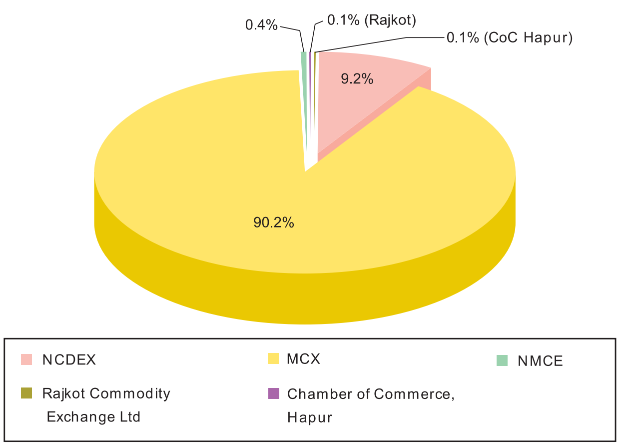
Note: All variants are considered as one commodity

Source: MCX, NCDEX, NMCE, Rajkot Commodity Exchange Ltd., Chamber of Commerce, Hapur and IPSTA

IV. Turnover/Volume Traded/Open Interest

The aggregate turnover at all the exchanges in the domestic commodity derivatives segment decreased by 2.9 per cent to ₹64,99,637 crore in 2016-17 from ₹66,96,381 crore in 2015-16. The lion's share in the all-India turnover of approximately 90.2 per cent was recorded at MCX, followed by 9.2 per cent at NCDEX and 0.4 per cent at NMCE (Figure 2.19). In terms of the total volume traded in commodity futures, MCX held the dominant position with an 85.2 per cent share followed by NCDEX (14.0 per cent) and NMCE (0.6 per cent).

Figure 2.19: Exchange-wise share in commodity futures segment's turnover



In 2016-17, the total turnover at MCX increased by 4.1 per cent to ₹ 58,65,661 crore compared to ₹ 56,34,194 crore in 2015-16. Bullion witnessed a decline of 1.4 per cent in 2016-17 over 2015-16. Turnover in energy derivatives decreased by 0.3 per cent in 2016-17 over the previous year. On the other hand, metals' derivatives recorded 16.5 per cent increase in turnover in 2016-17, while the agri segment witnessed a 14.5 per cent increase in turnover during the year. Open interest at MCX increased by 1.6 per cent to ₹ 9,230 crore at the end of 2016-17 from ₹ 9,080 crore at the end of 2015-16 (Table 2.37).

At NCDEX, the total turnover in 2016-17 was ₹ 5,96,852 crore, representing a decline of 41.5 per cent from ₹ 10,19,588 crore in 2015-16. Turnover in the agri derivatives segment witnessed a decline of 40.3 per cent in 2016-17, while that in bullion reduced by 98.4 per cent in 2016-17 over the previous year. Open interest at the exchange increased from ₹ 4,703 crore at the end of 2015-16 to ₹ 4,878 crore at the end of 2016-17.

At NMCE, total turnover in 2016-17, was ₹ 28,442 crore, a decrease of 3.2 per cent from ₹ 29,368 crore in 2015-16. Open interest at the exchange, declined from ₹ 61 crore at the end of 2015-16 to ₹ 51 crore at the end of 2016-17.

Table 2.37: Trends in commodity futures at national commodity exchanges

Year	No. of Trading days	Agriculture		Metals		Bullion		Energy		Total		Open interest at the end of the period	
		Volume ('000 tonnes)	Turnover (₹ crore)	Volume ('000 tonnes)	Turnover (₹ crore)	Volume ('000 tonnes)	Turnover (₹ crore)	Volume ('000 tonnes)	Turnover (₹ crore)	Volume ('000 tonnes)	Turnover (₹ crore)	Open Interest ('000 tonnes)	Value (₹ crore)
MCX													
2015-16	257	13,961	1,21,699	89,331	15,05,004	234	20,70,147	8,07,702	19,37,345	9,11,229	56,34,194	605	9,080
2016-17	260	15,947	1,39,312	93,078	17,53,887	207	20,40,270	6,74,225	19,32,191	7,83,457	58,65,661	540	9,230
NCDEX													
2015-16	257	2,17,736	9,98,811	0	0	1	20,778	0	0	2,17,737	10,19,588	1,022	4,703
2016-17	260	1,28,790	5,96,530	0	0	0	322	0	0	1,28,790	5,96,852	1,065	4,878
NMCE													
2015-16	244	6,028	29,368	0	0	0	0	0	0	6,028	29,368	6	61
2016-17	247	5,564	28,442	0	0	0	0	0	0	5,564	28,442	5	51

Source: MCX, NCDEX and NMCE

At CoC, Hapur, the commodity specific exchange for rape/mustard seeds, in 2016-17 the total turnover was ₹ 7,923 crore which was a fall of 29.2 per cent from ₹ 11,192 crore in 2015-16. Open interest at the exchange decreased from ₹ 23 crore at the end of 2015-16 to ₹ 4 crore at the end of 2016-17 (Table 2.38).

At the Rajkot Commodity Exchange, the commodity specific exchange for Castor seed, the total turnover in 2016-17 was ₹759 crore, a fall of 61.6 per cent from ₹ 1,976 crore in 2015-16. IPSTA, the commodity specific exchange for black pepper, recorded nil turnover in 2016-17 as compared to ₹ 63.1 crore in 2015-16.

Table 2.38: Trends in commodity futures at regional commodity exchanges

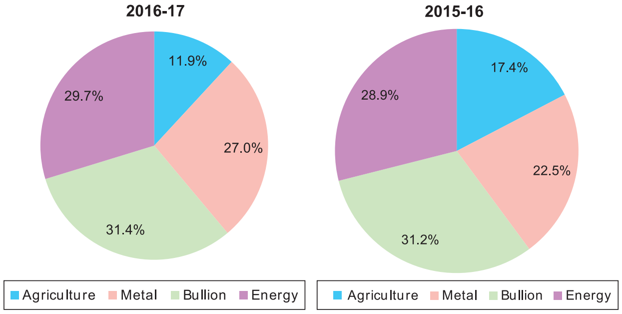
Year	No. of Trading days	Agriculture	
		Volume ('000 tonnes)	Turnover (₹ crore)
CoC, Hapur			
2015-16	245	2,474	11,192
2016-17	227	1,702	7,923
Rajkot Commodity Exchange			
2015-16	247	545	1,976
2016-17	164	208	759

Source: CoC Hapur and the Rajkot Commodity Exchange

V. Product Segment-wise Turnover/Volume Traded

Of the aggregate all-India turnover in 2016-17, 88.1 per cent was contributed by non-agri commodities and the remaining 11.9 per cent by agri commodities. As compared to the previous year, the share of agri commodities declined from 17.4 per cent to 11.9 per cent in 2016-17. In 2016-17, bullion accounted for 31.4 per cent of the total turnover, followed by energy (29.7 per cent) and metals (27.0 per cent) (Figure 2.20).

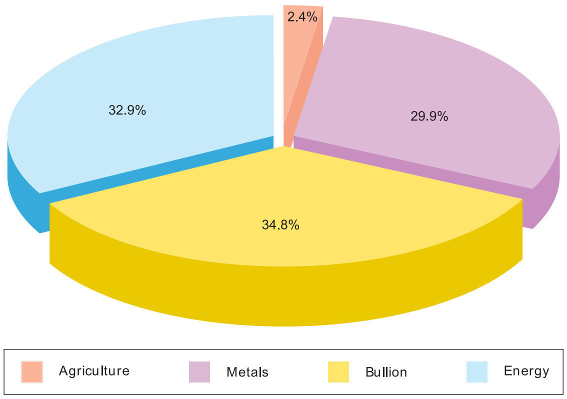
Figure 2.20: Product segment-wise share in all-India commodity futures' turnover



At MCX the share of bullion, the dominant product segment, declined to 34.8 per cent in 2016-17 from 36.7 per cent in 2015-16. Energy had a 32.9 per cent share in the turnover followed by metals at 29.9 per cent and agriculture at 2.4 per cent (Figure 2.21). At NCDEX, agriculture had the highest share in the turnover at 99.9 per cent followed by bullion at 0.1 per cent. At NMCE, the entire turnover was contributed by the agriculture segment.

In terms of the volume traded on MCX, in 2016-17 energy contributed the highest share at 86.1 per cent followed by metals at 11.9 per cent. Agri derivatives had a share of 2.0 per cent while bullion contributed 0.03 per cent.

Figure 2.21: Product segment-wise share in turnover at MCX



A. Agri Commodities

At MCX, the share of agricultural (agri) commodities in the total turnover was 2.4 per cent in 2016-17. Crude palm oil (CPO) was the most traded agri commodity with a percentage share of 1.0 per cent in the total turnover at the exchange. Apart from CPO, cotton, mentha oil, cardamom, castor seeds and kapas were the top agri commodities traded on MCX in terms of traded value during 2016-17.

The top-10 agriculture commodities contributed 93.2 per cent to NCDEX's turnover in 2016-17. Refined soy oil was the most traded agri commodity with a percentage share of 21.5 per cent in the total turnover at the exchange. Guar seeds with a share of 15.3 per cent and rape/mustard seeds with a share of 14.2 per cent were the other most traded commodities at NCDEX during the year.

At NMCE, rape/mustard seeds were the most traded agri commodity with a percentage share of 24.0 per cent in the consolidated turnover of the exchange, followed by isabgul seeds at 22.3 per cent and raw jute (19.1 per cent).

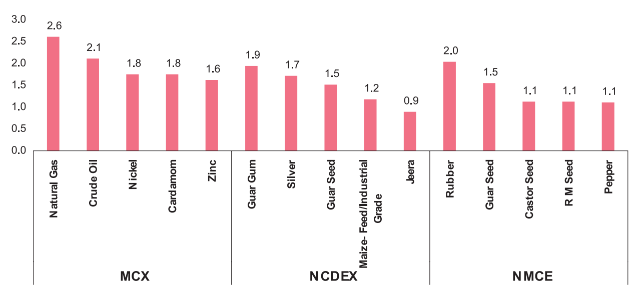
B. Non-Agri Commodities

At MCX, the share of non-agricultural commodities in the total turnover was 97.6 per cent in 2016-17. Crude oil was the most traded non-agri commodity with a percentage share of 26.7 per cent in the total turnover at the exchange. Gold was the second most traded commodity with a 19.9 per cent share in the turnover, followed by silver at 14.8 per cent. At NCDEX, the share of non-agri commodities in the total turnover for 2016-17 was 0.05 per cent.

VI. Volatility in the Commodity Derivatives Market

At MCX, natural gas was the most volatile commodity during 2016-17 with a 2.6 per cent daily volatility in futures prices, followed by crude oil with a volatility of 2.1 per cent and nickel with a volatility of 1.8 per cent. While spot price daily volatility for natural gas was 3.1 per cent during the year, it was 2.3 per cent for crude oil and 1.7 per cent for nickel (Figure 2.22).

Figure 2.22: Top 5 volatile commodities at the national commodity exchanges



Notes: 1. Volatility is calculated as standard deviation of natural log of daily return in the near month expiry contract prices for the respective period.
2. The figures are in percentages.
Source: MCX, NCDEX and NMCE.

In 2016-17, guargum was the most volatile commodity traded on NCDEX with a daily volatility in futures prices at 1.9 per cent, followed by silver at 1.7 per cent and guar seeds at 1.5 per cent. While the spot price daily volatility for guargum was 2.0 per cent during the year, it was 1.6 per cent for silver and 1.7 per cent for guar seeds.

At NMCE, rubber was the most volatile commodity in 2016-17, with a daily volatility of 2.0 per cent in futures prices, followed by guar seeds with futures price volatility of 1.5 per cent and castor seeds at 1.1 per cent.

VII. Exchange-wise and Segment-wise Participation of Market Participants

A. Agri commodities

In the agri segment at MCX, 64.7 per cent of the turnover was contributed by client trades while proprietary trades contributed 35.3 per cent in 2016-17. In terms of open interest at the end of 2016-17, clients held 89.3 per cent of the position while proprietary trades' share was 10.7 per cent. At NCDEX, 58.4 per cent of the turnover was from client trades while 41.6 per cent was from proprietary trades. In open interest terms, at the end of 2016-17, 79.3 per cent of the positions were contributed by client trades and 20.7 per cent by proprietary trades. At NMCE, 95.2 per cent of the turnover was from client trades and the rest came from the proprietary trades. In open interest terms, at the end of 2016-17, 99 per cent of the open interest positions were held by client trades and the remaining one per cent was held by proprietary trades (Table 2.39).

Table 2.39: Participant-wise percentage shares in turnover and open interest at MCX, NCDEX and NMCE

Year	Turnover				Open interest at the end of the period			
	Agri Commodities		Non-Agri Commodities		Agri Commodities		Non-Agri Commodities	
	Proprietary	Client	Proprietary	Client	Proprietary	Client	Proprietary	Client
MCX								
2015-16	44.9	55.1	23.4	76.6	13.2	86.8	27.9	72.1
2016-17	35.3	64.7	19.6	80.4	10.7	89.3	18.2	81.8
NCDEX								
2015-16	49.2	50.8	79.3	20.7	25.5	74.5	56.3	43.7
2016-17	41.6	58.4	73.6	26.4	20.7	79.3	Na	Na
NMCE								
2015-16	3.9	96.1	Na	Na	1.4	98.6	Na	Na
2016-17	4.8	95.2	Na	Na	1.0	99.0	Na	Na

Source: MCX, NCDEX and NMCE.

B. Non Agri commodities

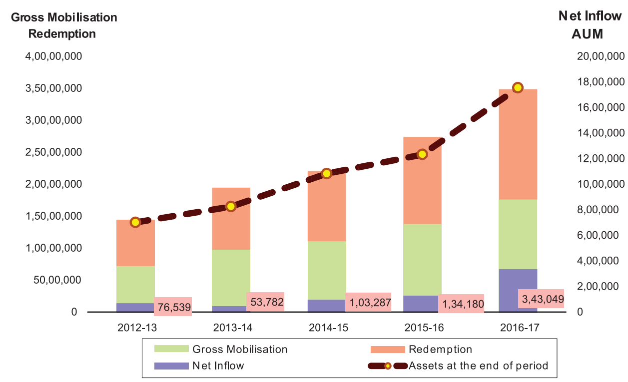
In 2016-17, 80.4 per cent of the turnover at MCX was contributed by client trades while 19.6 per cent was contributed by proprietary trades in the non-agri segment. In terms of open interest, client trades accounted for 81.8 per cent while proprietary trades accounted for 18.2 per cent at the end of 2016-17. At NCDEX, proprietary trades' share in turnover was 73.6 per cent while client trades' share in the turnover was 26.4 per cent.

4. MUTUAL FUNDS

In the financial market ecosystem, asset management companies facilitate financial intermediation and portfolio diversification. Besides providing financial stability, they help investors diversify their assets more easily and can provide financing to the real economy. The Indian mutual fund industry is one of the fastest growing and most competitive segments of the financial sector. In the last two decades the mutual fund industry has shown impressive growth not just in the scale of assets under management (AUM) but also in terms of schemes and products. Buoyed by robust capital inflows and strong participation of retail investors, the asset base of the mutual fund industry again produced record breaking numbers in 2016-17. As of March 31, 2017, the total AUM of the sector stood at ₹ 17,54,619 crore. The AUM of the industry saw a lucrative year-on-year growth of 42.3 per cent in the year ending March 2017. However, AUM to GDP (₹ 151.83 lakh crore at current prices) ratio of 11.6 per cent indicates a large untapped market potential and very low penetration vis-a-vis global and peer benchmarks. There is immense scope for unprecedented growth of the industry with support from innovative technological initiatives and broadened investor participation over time.

Mutual funds witnessed impressive growth in terms of net resource mobilization and assets at the end of the financial year 2016-17. The gross resources mobilized by all the fund houses stood at ₹ 1,76,15,549 crore in 2016-17 as compared to ₹ 1,37,65,555 crore in the previous year, showing a tremendous increase of 28.0 per cent (Figure 2.23). Correspondingly, redemption increased by 26.7 per cent to ₹ 1,72,72,500 crore in 2016-17. The mutual fund industry saw net inflows to the tune of ₹ 3,43,049 crore in 2016-17, demonstrating an increase of almost 3 times from 2015-16. The net annual inflows in income oriented funds in the year ending March 31, 2017 stood at ₹ 2,13,154 crore, which is 6.5 times more than the annual inflows in the year ending March 31, 2016.

Figure 2.23: Mobilization of resources by mutual funds (₹ *crore)*



The cumulative net assets of all mutual funds as on March 31, 2017 was ₹ 17,54,619 crore as against ₹ 12,32,824 crore on March 31, 2016, representing an increase of 42.3 per cent. The income/debt oriented schemes accounted for a share of 61.2 per cent of the assets under management, followed by growth/ equity oriented schemes with a share of 31.0 per cent. The average assets of the mutual fund industry at the end of 2016-17 were ₹ 18,57,806 crore.

Sector-wise Resource Mobilization

Private sector mutual funds continued to retain their dominance in the mutual fund industry in 2016-17 as well, with a share of 80.8 per cent in gross resource mobilisation and 81.4 per cent in net resource mobilisation. The corresponding share of public sector funds including UTI was 19.1 per cent and 18.5 per cent respectively. In absolute terms, gross resource mobilisation by the private sector mutual funds rose by 28.1 per cent to ₹ 1,42,47,937 crore in 2016-17 (Table 2.40). While, the net resource mobilisation increased alarmingly by more than 200 per cent for private sector mutual funds to stood at ₹ 2,79,388 crore in 2016-17 compared to ₹ 91,394 crore in 2015-16.

The share of public sector mutual funds in net resource mobilisation is witnessing an increasing trend especially from the year 2014-15, when they contributed just 0.8 per cent. In 2016-17, public sector mutual funds contributed 18.6 per cent to the net resource mobilization, including UTI mutual funds' share of 5.9 per cent. Similar to the trends observed in the past, in 2016-17 as well, close-ended and interval schemes of private sector mutual funds recorded net outflows, while open-ended schemes witnessed net inflows.

Table 2.40: Sector-wise resource mobilization by mutual funds (₹ crore)

Year	Private Sector MFs				Public Sector MFs				Grand Total
	Open-ended	Close-ended	Interval	Total	Open-ended	Close-ended	Interval	Total	
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Mobilisation of Funds									
2015-16	1,10,92,349	33,134	793	1,11,26,277	26,29,048	9,998	232	26,39,279	1,37,65,555
2016-17	1,42,27,271	20,507	159	1,42,47,937	33,59,950	7,522	140	33,67,612	1,76,15,549
Repurchases / Redemption									
2015-16	1,09,95,460	37,390	2,033	1,10,34,883	25,91,330	5,066	96	25,96,491	1,36,31,375
2016-17	1,39,30,844	34,170	3,536	1,39,68,549	32,98,572	4,910	469	33,03,951	1,72,72,500
Net Inflow / Outflow of Funds									
2015-16	96,889	4,256	1,240	91,394	37,718	4,933	136	42,787	1,34,181
2016-17	2,96,427	13,663	3,377	2,79,388	61,378	2,612	329	63,661	3,43,049

Note: UTI figures are reported with public sector mutual funds.

A scheme-wise pattern reveals that net inflows were positive for all the scheme categories except the fund of funds investing overseas schemes. In contrast to the trends observed in the past, during 2016-17, income/debt oriented schemes registered the highest net inflows of ₹ 2,13,154 crore, followed by growth/equity oriented schemes with a net inflow of ₹ 70,367 crore. Debt schemes under income/debt oriented schemes registered inflows of ₹ 1,20,633 crore, followed by liquid/money market schemes at ₹ 95,826 crore and non-ELSS schemes under growth/equity oriented schemes at ₹ 60,270 crore (Table 2.41). Only gilt, gold ETF and fund of funds schemes investing overseas recorded net outflows of ₹ 3,305 crore, ₹ 775 crore and ₹ 360 crore, respectively.

Table 2.41: Scheme-wise resource mobilisation by mutual funds and AUM

Schemes	No. of Schemes	Gross Funds Mobilized (₹ crore)	Repurchase/ Redemption (₹ crore)	Net Inflow/ Outflow of Funds (₹ crore)	AUM as on March 31, 2017 (₹ crore)	Percentage Variation in AUM over March 31, 2016
1	2	3	4	5	6	7
A. Income/ Debt Oriented Schemes						
i) Liquid/Money Market	52	1,64,23,253	1,63,27,427	95,826	3,14,086	57.5
ii) Gilt	41	12,007	15,313	-3,305	14,875	-8.8
iii) Debt (other than assured returns)	1,575	8,68,350	7,47,717	1,20,633	7,43,783	31.5
iv) Infrastructure development	7	0	0	0	1,908	10.3
Subtotal (i-iv)	**1,675**	**1,73,03,610**	**1,70,90,456**	**2,13,154**	**10,74,652**	**37.3**
B. Growth/ Equity Oriented Schemes						
i) ELSS	64	14,624	4,527	10,097	61,403	47.3
ii) Others	420	2,04,926	1,44,656	60,270	4,82,138	39.9
Subtotal (i+ii)	**484**	**2,19,550**	**1,49,183**	**70,367**	**5,43,541**	**40.7**
C. Balanced Schemes						
Balanced schemes	30	50,621	14,011	36,609	84,763	116.5
D. Exchange Traded Fund						
i) Gold ETF	12	86	862	-775	5,480	-13.6
ii) Other ETFs	51	41,335	17,282	24,054	44,436	176.6
Subtotal (i+ii)	**63**	**41,421**	**18,143**	**23,278**	**49,915**	**122.8**
E. Fund of Funds Investing Overseas						
Fund of Funds investing overseas	29	347	707	-360	1,747	-11.2
TOTAL (A+B+C+D+E)	**2,281**	**1,76,15,549**	**1,72,72,500**	**3,43,049**	**17,54,619**	**42.3**

In terms of AUM, the income/debt oriented schemes had the largest share of 61.2 per cent, followed by growth/equity oriented schemes with a share of 31.0 per cent. When compared to the last year, the AUM of income/debt oriented schemes showed a growth of 37.3 per cent while it increased by 40.7 per cent for growth/equity oriented schemes. The AUM of exchange traded funds (ETFs) in 2016-17 increased remarkably by 122.8 per cent, followed by an increase of 116.5 per cent in balanced schemes and a 57.5 per cent increase in liquid/money market schemes of income/debt oriented schemes. When compared to 2015-16, except the fund of funds investing overseas schemes, gilt funds and gold ETFs all other schemes registered an increase in AUM in 2016-17. The highest decline in AUM was registered by gold ETF schemes at 13.6 per cent.

As on March 31, 2017, there were 2,281 mutual fund schemes of which 1,675 were income/ debt oriented schemes, 484 were growth/equity oriented schemes, and 30 were balanced schemes. In addition, there were 63 ETFs, of which 12 were gold ETFs and 51 were non-gold ETFs. There were also 29 schemes operating as fund of funds which invested in overseas securities. In terms of the investment objectives, as on March 31, 2017, there were 829 open-ended schemes, 1,388 close-ended schemes and 64 interval schemes.

Table 2.42: Trends in mutual fund transactions on stock exchanges (₹ crore)

Year	Equity			Debt			Total		
	Gross Purchase	Gross Sales	Net Purchase/ Sales	Gross Purchase	Gross Sales	Net Purchase/ Sales	Gross Purchase	Gross Sales	Net Purchase/ Sales
1	2	3	4	5	6	7	8	9	10
2015-16	2,81,334	2,15,191	66,144	14,97,676	11,21,386	3,76,292	17,20,969	13,36,577	4,42,436
2016-17	3,76,874	3,20,316	56,559	16,05,937	12,86,084	3,19,853	19,82,812	16,06,399	3,76,412

Like in the past years, in 2016-17 too mutual fund investments in debt prevailed over those in equity with net investments in debt being 84.9 per cent of the total mutual fund investments on stock exchanges. During 2016-17, combined net investments by mutual funds were ₹ 3,76,412 crore as compared to ₹ 4,42,436 crore in 2015-16, a fall of 14.9 per cent (Table 2.42). Net investments by mutual funds in the equity segment were ₹ 56,559 crore, whereas their net investments in the debt segment were ₹ 3,19,853 crore during the same period. In equity, net investments were the highest in November 2016 (₹ 13,775 crore) followed by October 2016 (₹ 9,129 crore). Net investments of mutual funds in the debt segment were positive for all the months except in May 2016. The total net investments were highest in the month of September 2016 (₹ 57,188 crore)

Unit Holding Patterns

As on March 31, 2017, 96.9 per cent of the total folios were subscribed by the individuals' category and their share in the total net assets was 44.0 per cent. On the other hand, corporate/ institutions had a miniscule share of 1.4 per cent in the number of folios and a significant share of 52.2 per cent in total net assets. As compared to 2015-16, the share of corporates in total folios as well as total net assets improved in 2016-17. NRIs/ overseas corporate bodies (OCBs) with a 1.7 per cent share in folios had a 3.3 per cent share in total net assets (Figure 2.24).

Figure 2.24: Unit holding patterns of all mutual funds *(percentage to total AUM and folios)*

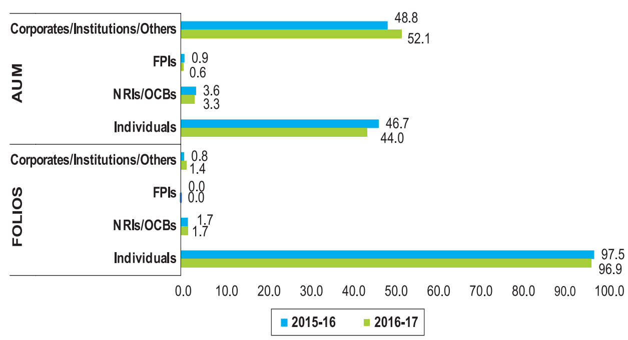


Table 2.43 provides data on private and public sector sponsored mutual funds wherein it is evident that the private sector mutual funds dominated with a higher number of folios and greater net assets. While private sector mutual funds had a 68.1 per cent share in total folios of around 5.4 crore, the corresponding share of public sector mutual funds (including the UTI mutual fund) was 31.9 per cent as at the end of March 2017. In total net assets worth ₹ 17.5 lakh crore as on March 31, 2017, the share of private sector mutual funds stood at 82.7 per cent as compared to 17.3 per cent for public sector mutual funds, including the UTI mutual fund.

Table 2.43: Unit holding pattern of private and public sector mutual fund

Category	No. of Folios	Percentage to Total Folios under the Private Sector	AUM (₹ crore)	Percentage to Total Net Assets under the Private Sector	No. of Folios	Percentage to Total Folios under the Public Sector	AUM (₹ crore)	Percentage to Total Net Assets under the Public Sector
	Private Sector Sponsored Mutual Funds				Public Sector Sponsored Mutual Funds			
	2016-17							
Individuals	3,62,63,778	96.2	6,39,119	44.1	1,73,98,623	98.4	1,32,644	43.6
NRIs/OCBs	7,93,011	2.1	51,128	3.5	1,76,226	1.0	7,046	2.3
Corporates/ Institutions/Others	6,58,422	1.7	7,50,550	51.8	1,09,414	0.6	1,64,514	54.1
FPIs	149	0.0	9,526	0.7	8	0.0	93	0.0
Total	**3,77,15,360**	**100.0**	**14,50,323**	**100.0**	**1,76,84,271**	**100.0**	**3,04,297**	**100.0**
	2015-16							
Individual	3,04,49,453	96.8	4,80,474	47.0	1,60,18,428	98.7	94,743	44.9
NRIs/OCBs	6,58,173	2.1	39,512	3.9	1,43,668	0.9	4,583	2.2
Corporates/ Institutions/Others	3,33,585	1.1	4,90,641	48.0	59,479	0.4	1,11,314	52.8
FPIs	219	0.0	11,407	1.1	19	0.0	150	0.1
Total	**3,14,41,430**	**100.0**	**10,22,034**	**100.0**	**1,62,21,594**	**100.0**	**2,10,790**	**100.0**

5. INTERMEDIARIES ASSOCIATED WITH THE SECURITIES MARKET

I. Portfolio Managers

According to the Asia-Pacific Wealth Report 2016, the Asia-Pacific region is recognized as having the highest net worth individuals (HNIs) and as being the region with the highest HNI wealth. As per the report, India is home to the fourth largest population of HNIs in the Asia-Pacific region. This is evident in the expanding clientele base of the portfolio management industry. The total number of clients increased to 77,150 in 2016-17 from 52,288 in 2015-16. In 2016-17 while the number of clients taking discretionary and non-discretionary services increased, those opting for advisory services decreased. The dominant group in the client base is of those taking discretionary services; they constituted 92.0 per cent of the total number of clients.

Meanwhile, in 2016-17 the assets of the portfolio management industry increased by 17.7 per cent to ₹12,30,482 crore from ₹10,45,428 crore. The discretionary services offered to the Employees Provident Fund Organization (EPFO)/provident fund (PF) constituted 69.6 per cent of the total assets under the management of portfolio managers followed by advisory services which constituted 15.3 per cent. The AUM of discretionary portfolio managers, managing non-EPFO/PF funds observed an increase of 45.8 per cent in 2016-17 from ₹ 76,141 crore in the previous financial year (Table 2.44). Portfolio managers' AUM/GDP ratio was recorded at 8.1 per cent in 2016-17.

Table 2.44: Assets managed by portfolio managers

Year	No. of Clients				AUM (₹ crore)				
	Discretionary	Non-Discretionary	Advisory	Total	Discretionary (EPFO/PFs)	Discretionary (Non EPFO/PFs)	Non-Discretionary	Advisory	Total
1	2	3	4	5	6	7	8	9	10
2015-16	46,088	3,915	2,285	52,288	7,34,892	76,141	60,122	1,74,272	10,45,428
2016-17	70,994	4,674	1,482	77,150	8,55,978	1,11,057	75,061	1,88,385	12,30,482

Note: The data has been compiled on the basis of information submitted by portfolio managers to SEBI

II. Alternative Investment Funds

AIFs are defined in Regulation 2(1)(b) of the SEBI(Alternative Investment Funds) Regulations, 2012. They refer to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a limited liability partnership (LLP). In India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency. The various categories of funds in AIFs, provide stable and long-term capital with a wide range of investment objectives and investment strategies. This is not only a valuable service for both savers and portfolio companies, but also for the Indian economy as it creates jobs, improves governance and promotes innovation and economic growth. For AIFs to perform this invaluable role, the regulatory framework must be an enabler and foster ease of doing business. In view of this, SEBI has always ensured reforms in this private fund industry so as to pave the way for AIFs much greater contribution to India's development, economic growth and start-up policies.

In 2016-17, 302 AIFs were established under SEBI's AIF regulations, the largest of which are Category II AIFs. The cumulative amount mobilized by AIFs as on March 31, 2017 is given in Table 2.45.

The figures demonstrate that while Category I made investments of ₹ 5,845 crore, Category III made investments of ₹ 8,181 crore. Category II comprising of private equity funds and debt funds made the highest investments of ₹ 21,073 crore. The total investments made by AIFs in 2016-17 have witnessed a sharp increase of 92.5 per cent to stood at ₹ 35,099 crore as compared to ₹ 18,237 crore in the previous financial year.

Table 2.45: Cumulative amount mobilized by AIFs

Category	Commitments raised	Funds raised	Investments made
	(₹ crore)		
1	*2*	*3*	*4*
Category I			
Infrastructure Fund	6,829	4,151	3,462
Social Venture Fund	994	551	476
Venture Capital Fund	12,570	2,911	1,881
SME Fund	208	175	26
Category I Total	**20,601**	**7,787**	**5,845**
Category II	51,734	24,685	21,073
Category III	11,969	8,483	8,181
Grand Total	**84,304**	**40,956**	**35,099**

Note: The data has been compiled on the basis of information submitted by AIFs to SEBI

The cumulative net investment of VCFs decreased by 23.0 per cent to ₹ 28,813 crore at the end of March 2017 as compared to 2015-16. However, net investments by FVCIs registered an increase of 2.3 per cent to reach ₹ 46,031 crore at the end of March 2017 as compared to ₹ 44,984 crore at the end of March 2016 (Table 2.46).

Table 2.46: Cumulative net investments by VCFs and FVCIs (₹ crore)

Year	VCFs	FVCIs	Total (*)
1	*2*	*3*	*4*
2015-16	37,410	44,984	72,175
2016-17	28,813	46,031	64,670

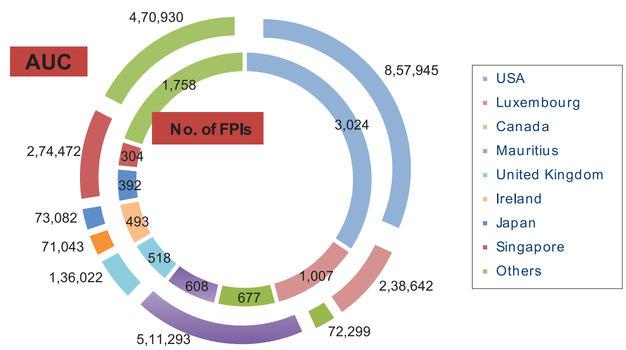
Notes: 1. * Excludes investments by FVCIs through VCFs.
2. The data has been compiled on the basis of information submitted by VCFs/FVCIs to SEBI

6. FOREIGN PORTFOLIO INVESTMENT

The net investments made by FPIs in the Indian securities market have been positive ever since they were allowed to participate in the Indian securities market, except for three years, 1998-99, 2008-09 and 2015-16. This reflects the strong economic fundamentals of the country as well as the confidence that foreign investors have in the growth potential and stability of the Indian market. As per UNCTAD's World Investment Report 2016, India continues to be among the top-10 countries in terms of FDI inflows globally and the fourth in developing Asia. India also jumped 16 notches to reach 39 among 144 countries in the World Economic Forum's Global Competitiveness Index 2016. This index ranks countries on the basis of parameters such as institutions, macroeconomic environment, education, market size and infrastructure. IMF in its April 2017 World Economic Outlook observed that the Indian economy has grown at a strong pace in recent years owing to the implementation of critical structural reforms, favourable terms of trade and lower external vulnerabilities. Nevertheless till January 2017, foreign portfolio investment flows into India were weighed heavily by global factors Brexit, the US presidential election, policy normalization by the US Federal Reserve, slowdown in the Chinese economy and weakness in global trade growth as well as by a few domestic factors like demonetization. However, this trend was reversed towards the end of the year with positive net investments despite an increase in the benchmark interest rate by the US Federal Reserve.

The diversity of FPIs has been increasing steadily with an increase in the number of FPIs registered FPIs in India. On the basis of their sources of incorporation, as on March 31, 2017, FPIs registered in India were from 57 different countries. There were 18 registered custodians of securities as well as 18 SEBI approved designated depository participants (DDPs) as on March 31, 2017. Based on the country of incorporation, the number of FPIs registered was the highest from USA (3,024), followed by Luxembourg (1,007), Canada (677) and Mauritius (608) (Figure 2.25). In terms of AUC as well, FPIs from the USA had the maximum AUC (₹ 8,57,945 crore), followed by Mauritius (₹ 5,11,293 crore), Singapore (₹ 2,74,472 crore) and Luxembourg (₹ 2,38,642 crore).

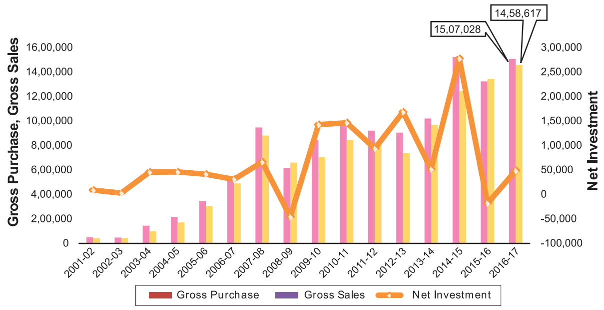
Figure 2.25: Country-wise AUC (₹ *crore)* and number of registered FPIs



FPI investments into India have grown remarkably in recent years. During 2016-17, net investments by FPIs stood at ₹ 48,411 crore as compared to negative net investments of ₹ 18,175 crore during 2015-16 (Figure 2.26). In USD terms, net investments during 2016-17 were USD 7,177 million compared to negative net investments of USD 2,523 million during the previous year. The gross purchases made by FPIs increased by 13.8 per cent to ₹ 15,07,028 crore in 2016-17 from ₹ 13,24,418 crore during the previous year. On the other hand, gross sales by FPIs increased by 8.6 per cent to ₹ 14,58,617 crore from ₹ 13,42,593 crore during the same period last year.

Figure 2.26: Trends in investments by FPIs

(₹ crore)

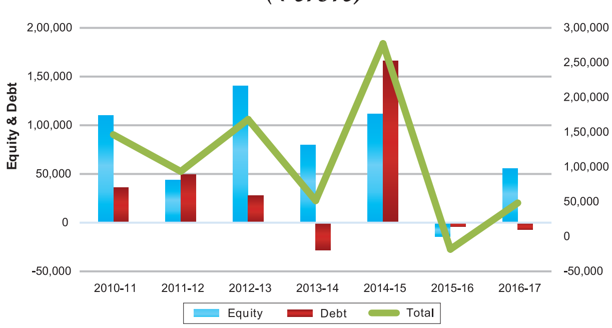


An analysis of FPI net investments reveals that a major part is invested in equity. This has been the trend over the years except in 2011-12. Further, From Figure 2.27, it can be seen that FPI net investments were positive in equity, however, the net investments in the debt segment were negative in 2016-17. Net investments in the equity segment increased to ₹ 55,703 crore as compared to an outflow of ₹ 14,172 crore during the previous year. On the other hand, for the second consecutive year, FPIs were net sellers in the debt segment to the tune ₹ 7,292 crore in 2016-17 as compared to ₹ 4,004 crore during the previous year.

During 2016-17, the combined net investments in the equity and debt segments were highest in March 2017 (₹ 56,261 crore), followed by September 2016 (₹ 20,233 crore) and July 2016 (₹ 19,457 crore). During March 2017, both the equity and debt segments recorded their highest investments of ₹ 30,906 crore and ₹ 25,355 crore respectively.

Figure 2.27: Trends in net investments by FPIs

(₹ crore)



During October 2016 to January 2017, FPI net investments in both the equity and debt segments were negative. Combined net sales in both the equity and debt segments were the highest in November 2016 (₹ 39,396 crore). Coincidentally, the demonetization of currency notes of ₹ 1,000 and ₹ 500 denomination was announced on November 08, 2016. This outflow trend, however, got reversed in a positive direction from February 2017.

Details regarding debt investment limits allocated to FPIs through the auction mechanism during 2016-17 are given in Table 2.47.

Table 2.47: Allocation of debt investment limits to FPIs

S. No.	Date of Auction	Debt Limits auctioned (₹ crore)	Debt Limits allocated (₹ crore)
1	April 04, 2016	6,096	6,096
2	April 25, 2016	4,818	4,818
3	May 16, 2016	3,340	2,957
4	June 06, 2016	4,046	4,011
5	June 27, 2016	6,949	6,949
6	July 05, 2016	8,114	8,114
7	July 25, 2016	7,264	7,227
8	August 16, 2016	9,358	9,358
9	September 06, 2016	7,046	7,046
10	September 26, 2016	4,615	4,615
11	October 17, 2016	9,333	9,333
12	November 07, 2016	12,715	10,439
13	November 28, 2016	22,171	12,287

Tables 2.48a-2.48c provide a glimpse of FPI investment limits in government securities and corporate bonds as well as the re-investment of coupons in government securities as on March 31, 2016.

Table 2.48a: FPI investment limits in government securities

S. No	Instrument Type	Eligible Categories of FPIs	Upper Limit (₹ crore) *(Refer to Note 1)* (A)	Investment (₹ crore) (B)	Unutilized Auctioned Limits available with FPIs (₹ crore) (C)	Total Investment including Unutilized Auctioned Limits (₹ crore) (D) = (B) + (C)	per cent of Limits Utilized (E) = (D)/(A)	Limit Available for Investment (₹ crore) (F) = (A)- (D)
1	Central Government Securities *(Refer to Note 2)*	All Categories	1,52,000	1,30,630	0	1,30,630	85.9	21,370
	Central Government Securities *(Refer to Notes 2, 3)*	Long Term FPIs	68,000	39,599	Na	39,599	58.2	28,401
2	State Development Loans	All Categories	21,000	1,560	Na	1,560	7.43	19,440
	Total Government Securities		**2,41,000**	**1,71,789**	**0**	**1,71,789**	**71.3**	**69,211**

Table 2.48b: Re-investment of coupons in government securities (Refer to Note 4)

S.No	Type of Instrument	Investment (₹ crore) (A)	Unutilized Limit available with FPIs as per re-investment eligibility *(Refer to Note 5)* (₹ crore) (B)	Total Investment including unutilized limits (₹ crore) (C) = (A) + (B)
1	Central Government Securities (Coupon Re-investment)	3,568	283	3,851
2	State Development Loans (Coupon Re-investment)	0	0	0
	Total	**3,568**	**283**	**3,851**

Notes: 1. **Upper Limits are as prescribed vide SEBI circular ref. no. IMD/FPIC/CIR/P/2016/107 dated October 03, 2016 and RBI circular no. RBI/2016-17/72 dated September 30, 2016.**

2. **Includes Gross Long Positions in Interest Rate Futures as per SEBI circular ref. no. CIR/MRD/DRMNP/2/2014 dated January 20, 2014.**
3. **Limit applicable to FPIs registered with SEBI under the categories of Sovereign Wealth Funds, Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks as per SEBI circular ref. no. CIR/IMD/FIIC/ 17/2014 dated July 23, 2014.**
4. **Re-investments of coupons in government securities as per SEBI circular ref. nos. CIR/IMD/FIIC/2/2015 dated February 05, 2015 CIR/IMD/FPIC/8/2015 dated October 06, 2015.**
5. **Unutilized limit available with the entity under re-investment eligibility as per SEBI circular ref. no. CIR/IMD/FIIC/2/2015 dated February 05, 2015 & CIR/IMD/FPIC/8/2015 dated October 06, 2015.**

Table 2.48c: FPI Investment limits in corporate bonds

S. No	Instrument Type	Eligible Categories of FPIs	Upper Cap (in USD Billion)	Upper Limit (₹ crore) *(Refer to Note 1)* (A)	Investment (₹ crore) (B)	Unutilized Auctioned Limits available with FPIs/ Undrawn amount under Rupee Denominated Bonds Overseas (₹ crore) (C)	Total Investment including Unutilized Auctioned Limits (₹ crore) (D) = (B) + (C)	per cent of Limits Utilized (E) = (D)/(A)	Limit Available for Investment (₹ crore) (F) = (A)- (D)
1	Corporate Bonds (Refer to Note 4)	All Categories	51	2,44,323	1,78,203	7,369	1,85,572	75.9	58,751
1(a)	Rupee Denominated Bonds Overseas (RDB) *(Refer to Note 2)*	Permitted Foreign Investors *(Refer to Note 4)*	0	0	15,206	7,369	22,575	0.0	0
1(b)	Credit Enhanced Bonds *(Refer to Note 3)*	All Categories	5	23,953	0	0	0	0.0	23,953
1(c)	Unlisted Corporate Debt and Securitised Debt Instruments *(Refer to Note 5)*		0	35,000	815	0	815	0.0	34,815
Grand Total				**4,85,323**	**3,49,992**	**7,369**	**3,57,361**	**73.6**	**1,27,962**

Notes:
1. **The limits of foreign investment in corporate bonds are converted into INR terms using the RBI reference rate as on the date of the announcements/effective dates. Increase/decrease in sub-limits are computed proportionately on the basis of debt limits as announced from time to time. The current overall limit comes to ₹ 2,44,323 crore.**
2. **Foreign investments in corporate bonds including RDB is within the overall limit of ₹ 2,44,323 crore for corporate debt as per RBI A.P. (DIR Series) circular No.60 dated April 13, 2016 & SEBI circular SEBI/HO/IMD/FPIC/CIR/P/2016/67 dated August 04, 2016. As per RBI A.P. (DIR Series) circular No.71 dated February 03, 2015 and SEBI circular CIR/IMD/FIIC/1/2015 dated February 03, 2015, all FPI investments within this overall limit are required to be made in corporate bonds with a minimum residual maturity of three years. The RDB should, however, have a minimum average maturity period of 3 years as per RBI A.P. (DIR Series) circular No.60 dated April 13, 2016.**
3. **Limit of US$ 5 billion within the overall limit of US$ 51 billion for corporate debt.**
4. **Guidelines related to RDB including eligibility of foreign investors permitted to invest in these bonds have been issued by RBI vide A.P. (DIR Series) circulars No. 17 and 60 dated September 29, 2015 and April 13, 2016 respectively.**
5. **Foreign investments in unlisted corporate debt and securitized debt instruments are within the overall limit of ₹ 2,44,323 crore for corporate debt as per SEBI circular SEBI/HO/IMD/FPIC/CIR/P/2017/16 dated February 28, 2017.**

FPIs have been permitted to trade in the derivatives market since February 2002. As on March 31, 2017, the notional value of open interest held by FPIs was ₹ 1,45,496 crore as compared ₹ 1,68,750 as on March 31, 2016. The open interest position of FPIs in stock futures was the highest at ₹ 77,907 crore followed by index options (₹ 44,645 crore), index futures (₹ 22,565 crore), stock options (₹ 150 crore) and interest rate futures (₹ 229 crore) (Table 2.49).

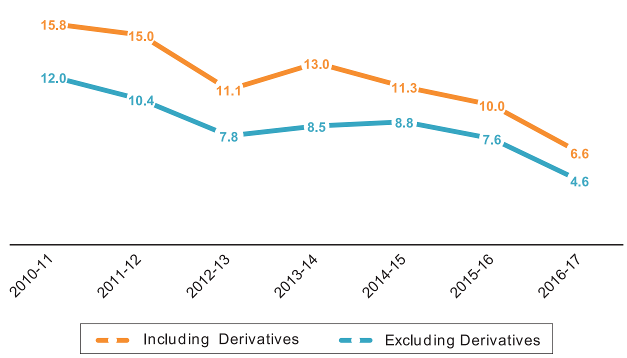
Table 2.49: Notional values of open interest of FPIs in derivatives

Items	Value (₹ crore)
Index Futures	22,565
Index Options	44,645
Stock Futures	77,907
Stock Options	150
Interest Rate Futures	229
Total	**1,45,496**
Change in open position over last year	23,254
percentage change	-13.8

Note: Open interest calculated taking both sides' open positions.

Offshore derivatives instruments (ODIs) are investment vehicles used by overseas investors for an exposure in Indian equities or equity derivatives. During 2016-17, SEBI reviewed the measures taken for tightening investment norms of ODI issuers. Additional measures were introduced for the purpose of enhancing transparency and control over the issuance of ODIs. The total value of investments in ODIs inclusive of equity, debt and derivatives as underlying stood at ₹ 1,78,437 crore as on March 31, 2017 as compared to ₹ 2,23,077 crore as on March 31, 2016. Excluding ODIs on derivatives, the total value of ODIs on equity and debt was ₹ 1,24,277 crore in the current year as compared to ₹ 1,69,470 crore in 2015-16. As on March 31, 2017, the value of ODIs with equity, debt and derivatives as underlying stood at 6.6 per cent of AUC of FPIs, while the total value of ODIs with equity and debt as underlying, as a proportion of FPIs' AUC stood at 4.6 per cent. (Figure 2.28).

Figure 2.28: ODIs as a percentage of FPIs AUC



7. OTHER ACTIVITIES HAVING A BEARING ON THE WORKING OF THE SECURITIES MARKET

I. The Corporate Bond Market

Deep and liquid markets for long-term debt securities can provide alternative financing options for growth, leading to greater diversification of the sources of funding beyond bank financing or equity offerings. Though India's corporate bond market has expanded rapidly in recent years, it remains as a limited source of funding, with firms relying predominantly on bank credit. There are various structural impediments in the corporate bond markets, including dominance of issuances by financial sector entities, prevalence of private placements, very limited market liquidity, and restrictions on institutional-investor allocations to non-investment-grade bonds. In view of its looming infrastructural finance requirements, a flourishing corporate bond market is necessary for India. So far, the corporate funding is largely met by bank credit, which might languish given the NPAs and asset quality problems in the banking sector and stringent capital requirements on the implementation of Basel III norms. In the recent years, significant policy attention has been directed towards reviving and nurturing the growth of the corporate bond markets in India. In order to support the corporate debt market, comprehensive reform measures were proposed by the Working Group on Development of the Corporate Bond Market in India in August 2016 and this is being discussed with RBI.

In continuation of the trend observed in the past, in 2016-17 also private placements of debt issues outscored that of public issues' private placements and it continued to be the preferred route among issuers for its obvious advantages like operational ease, minimal disclosures and lower costs. Reporting platforms for corporate bonds have been set up and are maintained by BSE, NSE and MSEI to capture information related to trading in corporate bonds. While the secondary market trading of corporate bonds issued under a public issue takes place on the exchanges along with equities, trading of privately placed corporate bonds in the secondary market happens in the over the counter (OTC) category.

Table 2.50: Secondary market: Corporate bond trades

Year	BSE		NSE		MSEI	
	No. of Trades	Amount (₹ crore)	No. of Trades	Amount (₹ crore)	No. of Trades	Amount (₹ crore)
1	2	3	4	5	6	7
2015-16	16,900	2,07,652	53,223	8,14,756	0	0
2016-17	24,372	2,92,154	64,123	11,78,509	0	0

Source: BSE, NSE and MSEI.

NSE is the largest reporting platform for OTC deals in the corporate bond market. NSE's share in total reporting increased from 79.7 per cent in 2015-16 to 80.1 per cent in 2016-17. The number of trades reported on NSE increased by 20.5 per cent to 64,123 in 2016-17 from 53,223 in 2015-16, whereas BSE recorded an increase of 44.2 per cent in the number of trades reported. During 2016-17, the total value of corporate bond trades reported at NSE increased by 44.6 per cent to ₹ 11,78,509 crore from ₹ 8,14,756 crore in 2015-16, while at BSE, it increased by 40.7 per cent to ₹ 2,92,154 crore from ₹ 2,07,652 crore in 2015-16 (Table 2.50). The value of corporate bond trades settled through clearing corporations increased by 52.0 per cent to ₹ 10,84,511 crore in 2016-17 from ₹ 7,13,581 crore in 2015-16 (Table 2.51).

Table 2.51: Settlement of corporate bonds

Year	NSCCL		ICCL		MSEI CCL	
	No. of Trades Settled	Settled Value (₹ crore)	No. of Trades Settled	Settled Value (₹ crore)	No. of Trades Settled	Settled Value (₹ crore)
1	2	3	4	5	6	7
2015-16	44,629	6,55,706	9,227	57,874	0	0
2016-17	54,814	9,68,481	16,630	1,16,030	0	0

Source: NSE, BSE and MSEI.

II. The Wholesale Debt Market

During 2016-17, the turnover in the wholesale debt market (WDM) segment at NSE increased by 19.8 per cent to ₹ 6,82,426 crore in 2016-17 from ₹ 5,69,495 crore in 2015-16. The average daily turnover grew by 22.8 per cent to ₹ 2,832 crore from ₹ 2,306 crore in 2015-16. In terms of the number of trades, NSE's WDM segment recorded an increase of 15.0 per cent during 2016-17.

At BSE, the turnover in the WDM segment increased marginally by 0.1 per cent to ₹ 4,84,607 crore from ₹ 4,83,887 crore in 2015-16. On the other hand, the average daily turnover declined by 0.3 per cent to ₹ 1,954 crore from ₹ 1,959 crore in 2015-16. In terms of number of trades, BSE's WDM segment recorded an increase of 12.6 per cent in 2016-17 (Table 2.52).

Table 2.52: Business growth in the WDM Segments at NSE and BSE

Year	No. of Trades	Net Traded Value (₹ crore)	Average Daily Traded Value (₹ crore)	No. of Trades	Net Traded Value (₹ crore)	Average Daily Traded Value (₹ crore)
	NSE			BSE		
1	2	3	4	5	6	7
2015-16	14,676	5,69,495	2,306	2,49,394	4,83,887	1,959
2016-17	16,875	6,82,426	2,832	2,80,715	4,84,607	1,954

Note: Average daily traded value is calculated as net traded value divided by the total number of trading days in the year. Source: NSE and BSE.

The trend in the instrument-wise share of securities traded in the WDM segment at NSE shows that during 2016-17, the share of G-Secs increased to 60.0 per cent from 56.2 per cent in 2015-16. On the other hand, the share of Treasury bills decreased from 17.9 per cent in 2015-16 to 10.0 per cent in 2016-17. The share of PSU/institutional bonds also declined marginally to 14.2 per cent in 2016-17 from 16.6 per cent in 2015-16 (Table 2.53).

At BSE, the instrument-wise share of securities traded in the WDM segment showed an increase in the share of G-Secs from 36.5 per cent in

2015-16 to 41.8 per cent in 2016-17. On the other hand, Treasury bills had a share of 4.6 per cent in 2016-17, down from 11.1 per cent in 2015-16. The share of PSU/institutional bonds also fell down to 34.5 per cent in 2016-17 from 52.4 per cent in 2015-16.

Table 2.53: Instrument-wise share of securities traded on the WDM segments at NSE and BSE *(per cent)*

Year	Govt. Dated Securities	Treasury Bills	PSU / Institutional Bonds	Others	Govt. Dated Securities	Treasury Bills	PSU / Institutional Bonds	Others
	NSE				BSE			
2015-16	56.2	17.9	16.6	9.4	36.5	11.1	52.4	0
2016-17	60.0	10.0	14.2	15.8	41.8	4.6	34.5	19.2

Source: NSE and BSE

At NSE, trading members captured the largest share in the WDM segment with a 30.6 per cent share in the total turnover in 2016-17. In 2015-16, the share of trading members was 41.1 per cent. While, the share of Indian banks increased to 29.9 per cent in 2016-17 from 23.3 per cent in 2015-16, the share of foreign banks declined to 16.4 per cent from 18.9 per cent in 2015-16. During 2016-17, the share of financial institutions/mutual funds/corporates and primary dealers increased to 19.2 per cent and 3.9 per cent, respectively (Table 2.54).

Table 2.54: Share of participants in turnover of NSE's WDM segment *(per cent)*

Year	Trading Members	FIs/MFs/ Corporates	Primary Dealers	Indian Banks	Foreign Banks
2015-16	41.1	13.4	3.3	23.3	18.9
2016-17	30.6	19.2	3.9	29.9	16.4

Note: Category-wise classification not available for BSE.
Source: NSE.

Part Three A:

Functions of the Securities and Exchange Board of India with respect to matters specified In Section 11 Of SEBI Act, 1992

1. REGULATION OF BUSINESS IN STOCK EXCHANGES AND CLEARING CORPORATIONS

A stock exchange is a platform for facilitating price discovery of various instruments available for trading. Stock exchanges play an important role in the efficient allocation of resources in any economy as the prices discovered provide a signal for efficient allocation of financial resources across corporations. Apart from providing platforms for trading, stock exchanges have also been entrusted with various regulatory responsibilities for ensuring market integrity and for protecting investor interests. The stock exchanges' regulatory functions include issuer regulations, member regulations, trading regulations, investor protection, maintaining investor protection funds (IPFs) and product design. They also undertake a wide array of support functions like training and education, information/data services and technology solutions.

I. RECOGNITION OF STOCK EXCHANGES

Stock exchanges are granted recognition for their operations in the securities market by SEBI under Section 4 of the Securities Contracts (Regulation) Act (SCRA), 1956. As on March 31, 2017 there were seven stock exchanges in India, of which four had permanent recognition, the Metropolitan Stock Exchange of India Ltd. was granted renewal of recognition while the Magadh Stock Exchange was de-recognized and is in the process of exit. During the year SEBI granted recognition to the India International Exchange (IFSC) Limited (India INX) for one year, commencing on the 29th day of December, 2016 and ending on the 28th day of December, 2017.

Out of the four permanent exchanges, the Ahmedabad Stock Exchange and the Calcutta Stock Exchange are in the process of exit. Pursuant to the exit policy for de-recognized/non-operational stock exchanges notified by SEBI in 2012, 18 stock exchanges have exited so far. Of these, 12 exited during 2012-13, 2013-14 and 2014-15, five more stock exchanges exited during 2015-16 and one stock exchange exited in 2016-17.

Among the seven stock exchanges, BSE Limited, the National Stock Exchange (NSE) and the Metropolitan Stock Exchange of India (MSEI) have been granted permission for carrying out trade in four segments – equity cash, equity derivatives, currency derivatives and the debt segment. (Table 3.1- 3.4)

Table 3.1: Stock exchanges in India

Year	Total number of Stock Exchanges at the beginning of the year	New Recognition granted during the year	Amalgamated during the year	Exited during the year	Renewal granted during the year	Total number of Stock Exchanges at the end of the year
1	*2*	*3*	*4*	*5*	*6*	*7*
2015-16	13	0	1	5	1	7
2016-17	7	1	0	1	1	7

Table 3.2: Stock exchanges with permanent recognition (as on March 31, 2017)

S.No.	Exchanges*	Recognition
1	*2*	*3*
1	Ahmedabad Stock Exchange	Permanent
2	Bombay Stock Exchange	Permanent
3	Calcutta Stock Exchange	Permanent
4	National Stock Exchange of India	Permanent

Note: Stock exchanges exclude commodity derivatives exchanges.

Table 3.3: Renewal of recognition granted to stock exchanges during 2016-17

S.No.	Exchanges	Date of Notification	Period
1.	The Metropolitan Stock Exchange of India Ltd.	September 16, 2016	September 16, 2016 – September 15, 2017
2.	India International Exchange (IFSC) Limited (India INX) for one year, commencing on the	December 29, 2016	December 29, 2016 - December 28, 2017

Table 3.4: Stock exchanges which have exited during 2016-17

S.No.	Name of Stock Exchange	Date of Exit Order
1	Delhi Stock Exchange Ltd. (DSE)	January 23, 2017

II. GRANT OF RECOGNITION AND RENEWAL TO CLEARING CORPORATIONS

By exercising the powers conferred by Section 4 read with sub-section (4) of Section 8A of the Securities Contracts (Regulation) Act, 1956, SEBI has granted renewal of recognition to the National Securities Clearing Corporation Ltd. (NSCCL), the Indian Clearing Corporation Ltd. (ICCL), the Metropolitan Clearing Corporation of India Ltd. (MCCIL) for one year commencing on the 3rd day of October, 2016 and ending on the 2nd day of October, 2017 subject to compliances with certain conditions and the India International Clearing Corporation (IFSC) Limited (India ICC) for one year, commencing on the 29th day of December, 2016 and ending on the 28th day of December, 2017.

III. EXIT OF STOCK EXCHANGES

SEBI formulated the exit policy for de-recognized/non-operational stock exchanges in 2012. Subsequent to this, SEBI received applications from de-recognized/non-operational stock exchanges seeking voluntary exit as stock exchanges. In order to facilitate the exit process for such exchanges, SEBI has been taking several policy initiatives. Pursuant to these measures, 18 de-recognized/non-operational stock exchanges had exited as on March 31, 2017.

Three exchanges have either applied for exit or have been identified for compulsory exit and their process of exit is underway (Table 3.5)

Table 3.5: Stock exchanges which are under the process of exit (as on March 31, 2017)

S. No.	Name of Stock Exchange	Status
1	Magadh Stock Exchange Ltd.	1. Magadh Stock Exchange Ltd. was de-recognized on September 3, 2007. 2. Magadh Stock Exchange Ltd. did not apply for voluntary exit. The compulsory exit process has been initiated against the stock exchange.
2	Ahmedabad Stock Exchange Ltd. (ASE)	1. ASE has permanent recognition. 2. It is under process of exit.
3	Calcutta Stock Exchange Ltd. (CSE)	The matter relating to CSE's exit is sub-judice in the Calcutta High Court. The compulsory exit process has been initiated against the stock exchange.

IV. NATION-WIDE AWARENESS CAMPAIGN FOR SMALL AND MEDIUM ENTERPRISES (SMEs)

SEBI initiated awareness programmes in coordination with stock exchanges to interact with SMEs from different clusters to familiarize them with the various products that are being offered by the stock exchanges for the benefits of SMEs. During financial year 2016-17 SME meets were held in Gurgaon, Bhopal, Nagpur and Shimla.

Technical sessions were held during these programmes in which stock exchanges interacted with SMEs in small groups, apprised them about the regulatory parameters for SMEs and addressed their queries and apprehensions. The technical sessions were followed by the main event wherein SEBI's senior management and the stock exchanges addressed SME representatives.

V. MEASURES ADOPTED FOR REGULATION OF STOCK EXCHANGES

A. EXCLUSIVELY LISTED COMPANIES OF DE-RECOGNIZED / NON-OPERATIONAL / EXITED STOCK EXCHANGES PLACED ON THE DISSEMINATION BOARD

Considering the concerns expressed by exclusively listed companies (ELCs) and in the interest of the market, SEBI had earlier allowed a time line of 18 months within which such companies had to obtain listing upon compliance with the Listing Requirements of the nation-wide stock exchanges. Until such a listing, these companies had to continue to remain on the Dissemination Board (DB). Promoters and directors of such companies, who had failed to provide the trading platform or exit to its shareholders even after the extended time of 18 months had to undergo stricter scrutiny for their any future association with the securities market.

Further, to protect shareholder interests of ELCs, SEBI laid down the framework which provided options to raise capital for meeting the capital requirements for getting listed on the nation-wide exchanges. The exclusively listed companies which fail to list on the nation-wide stock exchanges will provide exit to its investors.

The policy also stipulates action against the promoters or directors whose companies remain on the DB and who have failed to demonstrate adequacy of efforts for providing exit to their shareholders in conformity with the exit mechanism as provided in this circular.

B. PROCEDURES FOR AN EXCHANGE LISTING CONTROL MECHANISM

Regulation 45 of the SECC Regulations provides for listing of stock exchanges on any recognized stock exchange, other than itself and its associated stock exchange.

In order to address any conflict arising out of provisions regarding listing of stock exchanges on any other recognized stock exchange, other than itself and to ensure compliance with applicable laws, SEBI prescribed that:

a. The Listing Department of the listing stock exchange (that is, a stock exchange on which the listing is done) will be responsible for monitoring the compliance of the listed stock exchange (that is, a stock exchange which is getting listed) as in the case of listed companies.

b. The Independent Oversight Committee of the listing stock exchange will exercise oversight at the second level to deal with conflicts, if any. The listed stock exchange may appeal to the Independent Oversight Committee of the listing stock exchange, if aggrieved, with the decision on disclosure of the listing stock exchange as referred under para (a) above.

c. An independent Conflict Resolution Committee (CRC) constituted by SEBI, with the objective of independent oversight and review will monitor potential conflicts between listed and listing stock exchanges on a regular basis. The listed stock exchanges aggrieved by the decision of the Independent Oversight Committee of the listing exchange may appeal to CRC.

VI. RECOGNITION OF COMMODITY DERIVATIVES EXCHANGES

Pursuant to the central government's notifications and under the powers conferred by the Finance Act, 2015, the Securities Contracts (Regulation) Act, 1956 (SCRA) was amended to include commodity derivatives within the definition of securities. Accordingly, the recognized associations mentioned in Tables 3.6 and 3.7 are deemed to be recognized stock exchanges under SCRA w.e.f. September 28, 2015.

Table 3.6: National commodity derivatives exchanges

S. No.	Commodity Derivatives Exchanges	Recognition Status
1	Multi Commodity Exchange of India Ltd.	Permanent
2	National Commodity & Derivatives Exchange Ltd.	Permanent
3	National Multi Commodity Exchange of India Ltd.	Permanent
4	Indian Commodity Exchange Ltd.	Permanent
5	Ace Derivatives and Commodity Exchange Ltd.	Permanent
6	Universal Commodity Exchange Ltd.	Permanent

Table 3.7: Regional commodity derivatives exchanges

S.No.	Regional Commodity Derivatives Exchanges	Recognition
1	India Pepper & Spice Trade Association, Kochi	Permanent
2	Spices and Oilseeds Exchange Ltd., Sangli	Permanent
3	Hapur Commodity Exchange Ltd.	Up to Feb 28, 2018
4	Rajkot Commodity Exchange Ltd., Rajkot	Up to Mar 31, 2018

VII. MEASURES ADOPTED FOR REGULATION OF COMMODITY DERIVATIVES EXCHANGES

A. EXIT OF NON-FUNCTIONAL COMMODITY DERIVATIVES EXCHANGES

SEBI vide circular dated January 11, 2016, prescribed the minimum criteria (for example, for national level exchanges minimum turnover of ₹ 1,000 crore per annum and for regional exchanges minimum 5 per cent of nation-wide turnover of the commodity, principally traded at the regional exchange) and also specified various terms and conditions that exchanges have to comply with failing which they need to surrender their recognition either voluntarily or due to the withdrawal of recognition proposed by SEBI.

As there had been no trading on the platform of the Bombay Commodity Exchange Limited (BCEL) since December 13, 2013, the exchange conveyed its decision to voluntarily surrender its recognition as a deemed recognized stock exchange. In terms of the provisions of the aforesaid circular, SEBI, vide order dated October 28, 2016, allowed the exit of the BCEL as a recognized stock exchange.

As there was no trading from 2006-07, the Cotton Association of India (CAI) conveyed its decision to formally exit as a deemed recognized stock exchange. SEBI, vide order dated December 29, 2016, allowed CAI's exit as a recognized stock exchange.

2. REGISTRATION AND REGULATION OF WORKING OF INTERMEDIARIES ASSOCIATED WITH THE SECURITIES MARKET

Regulation of market intermediaries has three objectives:

(i) To protect client assets from insolvency of the intermediaries and guarding against defaults as well as sudden disruption in the market;

(ii) To ensure that the intermediaries are fair and diligent in dealing with their clients; and

(iii) To reduce conflict of interest.

The regulation sets qualifying standards, prudential standards, internal controls and risk management standards and enforces a code of conduct. In order to enhance investor confidence, it is necessary that all the intermediaries maintain high standards of integrity and fairness and also act with due skill, care and diligence in conducting their business with high levels of compliance. The various intermediaries' regulations have been framed under the SEBI Act, 1992 and the Depositories Act, 1996 for registration and regulation of all market intermediaries. Under these acts, the government and SEBI issue notifications, guidelines and circulars that market intermediaries need to comply with. SEBI ensures standard and quality of services to clients and investors, fair and sound conduct and compliance practices.

I. REGISTRATION OF STOCK BROKERS

A. CASH SEGMENT

During 2016-17, 60 stock brokers and 60 clearing members were registered with SEBI. Further, 128 stock brokers and 128 clearing members surrendered their certificate of registration during 2016-17. Details of registered stock brokers and clearing members as on March 31, 2017 (segment-wise) and stock exchange/ clearing corporation-wise are given in Tables 3.8 and 3.9. The data given in these tables pertains only to those exchanges which are active.

Table 3.8: Registered stock brokers

Details	BSE	NSE	MSEI
Registered Stock Brokers at the beginning of the year (as on April 01, 2016)	1361	1327	531
Additions during 2016-17	34	25	1
Cancellation/surrender of membership	31	24	73
Registered stock brokers as on March 31, 2017	1364	1328	459

Source: Stock exchanges.

Table 3.9: Registered clearing members

Details	ICCL	NSCCL	MSEI CCL
Registered clearing members at the beginning of the year (as on April 01, 2016)	1361	1327	531
Addition during 2016-17	34	25	1
Cancellation /surrender of membership	31	24	73
Registered clearing members as on March 31, 2017	1364	1328	459

Source: Clearing corporations.

As on March 31, 2017, seven applications for brokers' registration and 18 applications for sub-brokers' registration were pending at different stages (Table 3.10). Pursuant to the amendments to the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 segment-wise and category-wise registration for stock brokers has been done away with. Instead, a single registration is granted to stock brokers/clearing members across all stock exchanges irrespective of any particular segment.

Table 3.10: Applications under process for registration

Category of Application	Number of Applications on (March 31, 2016)	Number of Applications under Process (as on March 31, 2017)
Brokers	7	7
Sub-brokers	32	18
Total	**39**	**25**

Note: These applications are pending at different stages -- stock exchanges/stock brokers for want of documents/clarifications or under process in SEBI.

The number of corporate brokers was the highest at NSE (1,171) followed by BSE (1,164) and MSEI (427). Corporate brokers constituted 93.03 per cent of the total stock brokers at MSEI whereas at NSE and BSE, their share was 88.18 and 85.34 per cent respectively. The number of stock brokers in the 'proprietorship' category was the highest at BSE (164), followed by NSE (73) and MSEI (21). The number of stock brokers in the 'partnership' category was highest in NSE (80) followed by BSE (29) and MSEI (11) (Table 3.11).

Table 3.11: Classification of stock brokers

Year	Stock Exchange	Proprietorship		Partnership		Corporate		Others (include LLPs)		Total
		No.	Per cent	No.	Per cent	No.	Per cent	No.	Per cent	No.
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*
2015-16	BSE	172	12.6	26	1.9	1,162	85.4	1	0.1	1,361
	NSE	73	5.5	82	6.2	1,169	88.1	3	0.2	1,327
	MSEI	23	4.3	14	2.6	489	92.1	5	0.9	531
2016-17	BSE	164	12.0	29	2.1	1,164	85.3	7	0.5	1,364
	NSE	73	5.5	80	6.0	1,171	88.2	4	0.3	1,328
	MSEI	21	4.6	11	2.4	427	93.0	0	0.0	459

Source: Stock exchanges.

Table 3.12: Classification of clearing members

Clearing Corporation	Total No. of clearing members	Proprietorship		Partnership		Corporate		LLP		Others (if any)	
		No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
ICCL	1,366	164	12.02	29	2.13	1,164	85.34	7	0.51	0	0
NSCCL	1,328	73	5.50	80	6.02	1,171	88.18	4	0.30	0	0
MSEI CCL	459	21	4.57	11	2.40	427	93.03	0	0	0	0

Source: Clearing corporations.

B. EQUITY AND CURRENCY DERIVATIVES SEGMENTS

During 2016-17, 34 members were granted registration in the cash segment at BSE and 25 at NSE. In equity derivatives segment, 30 members were granted registration at BSE and 21 at NSE. In the currency derivatives segment, 49 members were granted registration at BSE followed by 21 members at NSE and three members at MSEI. In the debt segment, four trading members were granted registration at BSE and six at NSE (Table 3.13).

Table 3.13: Number of registered stock brokers (segment and stock exchange-wise)

Name of Segment	Registrations granted during 2016-17			Registered members as on March 31, 2017		
	BSE	NSE	MSEI	BSE	NSE	MSEI
Cash	34	25	1	1,364	1,328	459
Equity Derivatives	30	21	0	992	1,249	455
Currency Derivatives	49	21	3	516	960	701
Debt	4	6	0	143	259	16

Source: Stock exchanges.

C. THE COMMODITY DERIVATIVES SEGMENT

Pursuant to the merger of the erstwhile FMC with SEBI, 1,162 CD brokers were registered with SEBI as on March 31, 2017. Out of these registered CD brokers 867 registrations were granted during 2016-17.

D. CLEARING MEMBERS/SELF-CLEARING MEMBERS IN EQUITY DERIVATIVES, CURRENCY DERIVATIVES AND DEBT SEGMENTS

During 2016-17, two clearings member and one self-clearing member were granted registration in equity derivative segment at ICCL and two clearing members and nine self-clearing members at NSCCL. In the currency derivatives segment, nine clearing members and five self-clearing members were granted registration at ICCL, four clearing members and five self-clearing members at NSCCL and one and four self-clearing members in the debt segment at ICCL and NSCCL respectively (Table 3.14).

Table 3.14: Number of clearing members/ self-clearing members in the equity derivatives, currency derivatives and debt segments

Segment	Registrations granted during 2016-17						Registered clearing members as on March 31, 2017					
	ICCL		NSCCL		MSEI CCL		ICCL		NSCCL		MSEI CCL	
	CM	SCM	CM	SCM	CM	SCM	CM	SCM	CM	SCM	CM	SCM
Equity Derivatives	2	1	2	9	0	0	87	29	187	312	51	46
Currency Derivatives	9	5	4	5	0	0	52	32	160	32	82	13
Debt	0	1	0	4	0	0	19	14	49	51	6	0

Source: Clearing corporations.

II. REGISTRATION OF SUB-BROKERS

During the year 74 sub-brokers were granted registration. As compared to last year the number of registered sub-brokers declined from 35,246 as on March 31, 2016 to 30,909 as on March 31, 2017 (Table 3.15).

Table 3.15: Registered sub-brokers

S. No.	Exchange	No. of Registered Sub-brokers as on March 31, 2016		No. of Registered Sub-brokers as on March 31, 2017	
		Number of sub-brokers registered	Percentage to Total no. of Sub-brokers	Number of sub-brokers registered	Percentage to Total no. of Sub-brokers
1.	Ahmedabad	71	0.20	71	0.23
2.	BSE	15,773	44.75	13,788	44.61
3.	Calcutta	43	0.12	43	0.14
4.	Delhi	185	0.53	185	0.60
5.	NSE	19,174	54.40	16,822	54.42
	Total	**35,246**	**100**	**30,909**	**100**

III. REGISTRATION OF OTHER INTERMEDIARIES

The number of registered intermediaries other than stock brokers and sub-brokers as on March 31, 2017 are given in Table 3.16.

Table 3.16: Registered intermediaries other than stock brokers and sub-brokers

Type of intermediary	2015-16	2016-17
1	*2*	*3*
Registrar to Issue and Share Transfer Agents	71	73
Merchant Bankers	189	189
Underwriters	2	2
DPs - NSDL	273	276
DPs - CDSL	585	588
Credit Rating Agencies	7	7
Bankers to an Issue	62	64
Debenture Trustees	31	32
KYC (Know Your Client) Registration Agencies (KRAs)	5	5

During 2016-17, 18 merchant bankers, two registrar to issue and share transfer agents, 62 depository participants, 11 bankers to an issue and three debenture trustees were granted registration (Table 3.17).

Table 3.17: Process of registration of other intermediaries

Type of Intermediary	Application received during 2016-17	Registration Granted during 2016-17*	Pending as on March 31, 2017
Registrar to Issue and Share Transfer Agents	2	2	1
Merchant Bankers	22	18	6
Underwriters	0	0	0
Depository Participants	45	62	9
Credit Rating Agencies	2	0	1
Bankers to an Issue	10	11	2
Debenture Trustees	2	3	0
Total	**83**	**96**	**19**

Note: * Includes those applications received in the previous year.

IV. REGISTRATION OF FOREIGN PORTFOLIO INVESTORS AND CUSTODIANS

As on March 31, 2017 there were 8,781 foreign portfolio investors (FPIs) registered with SEBI (Table 3.18). These included 974 deemed FPIs (236 erstwhile FIIs and 738 erstwhile sub-accounts), whose registration validity periods had not expired and who were yet to seek conversion to FPIs in terms of SEBI (Foreign Portfolio Investors) Regulations, 2014.

Table 3.18: Number of FPIs, custodians and DDPs

Particulars	2015-16	2016-17
1	*2*	*3*
Number of FPIs (including deemed FPIs)	8,717	8,781
a) No. of registered FPIs	4,311	7,807
b) No. of FIIs (deemed FPIs)	952	236
c) No. of SAs (deemed FPIs)	3,454	738
No. of Custodians	19	18
No. of Designated Depository Participants	18	18

Source: NSDL and CDSL.

V. REGISTRATION OF VENTURE CAPITAL FUNDS AND ALTERNATIVE INVESTMENT FUNDS (AIFs)

Alternative investment funds (AIFs) are funds established or incorporated in India for the purpose of pooling in capital from Indian and foreign investors for investing. As on March 31, 2017, 302 AIFs had been registered with SEBI compared to the 209 registered AIFs as on March 31, 2016.

There were 198 venture capital funds and 218 foreign venture capital investors registered with SEBI as on March 31, 2017 (Table 3.19).

Table 3.19: Registered venture capital funds and alternative investment funds

Particular	2015-16	2016-17
1	*2*	*3*
Venture Capital Funds	200	198
Foreign Venture Capital Investors	215	218
Alternative Investments Funds	209	302

VI. REGISTRATION OF PORTFOLIO MANAGERS, INVESTMENT ADVISERS AND RESEARCH ANALYSTS

A portfolio manager is any person who pursuant to a contract or arrangement with a client, advises, directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the client's funds as the case may be. As on March 31, 2017, there were 218 portfolio managers registered with SEBI as compared to 202 as on March 31, 2016.

An 'investment advisor' refers to any person, who for consideration is engaged in the business of providing investment advice to clients or other persons or a group of persons and includes any person who holds out oneself as an investment advisor. As on March 31, 2017, there were 617 investment advisers registered with SEBI as compared to 418 as on March 31, 2016 (Table 3.20).

Table 3.20: Registered portfolio managers and investment advisers

Particulars	2015-16	2016-17
1	2	3
Portfolio Managers	202	218
Investment Advisers	418	617
Research Analysts	261	372

Further, in a move to safeguard Indian markets from any manipulative research reports or misleading advice coming from any unregulated entity, SEBI notified norms for 'research analysts' to ward off any conflict of interest in their activities. As on March 31, 2017, there were 372 research analysts registered with SEBI as compared to 261 in the previous year.

Box: 3.1 Framework for Registration of Fund Managers for Overseas funds under SEBI (Portfolio Managers) Regulations, 1993

In the Union Budget 2015-16, the Finance Minister announced amendments to the Income Tax Act, 1961. Section 9A was inserted to the Act to provide a 'safe harbour' to overseas funds availing fund management services from India-based managers, provided the fund and the manager complied with the requirements specified in the section. Such overseas funds and fund managers were designated as 'Eligible Investment Funds' and 'Eligible Fund Managers' respectively. These changes are aimed at developing and promoting the fund management industry in India.

One of the requirements for a fund manager to become an 'Eligible Fund Manager' is to be registered with SEBI under specified regulations. In pursuance of this, SEBI, vide notification dated January 02, 2017, notified amendments to the SEBI (Portfolio Managers) Regulations, 1993 (PMS Regulations). These amendments provide a separate Chapter II-A for 'Eligible Fund Managers' and permit existing portfolio managers as well as new applicants, compliant with requirements specified under Section 9A of the Income Tax Act, 1961, to act as 'Eligible Fund Managers.'

A new applicant desirous of providing fund management services to overseas funds and compliant with the requirements specified in Section 9A of the Income Tax Act, 1961, may seek registration with SEBI, as laid out in Chapter II-A. Existing portfolio managers desirous of providing fund management services to overseas funds, if compliant with the requirements specified in Section 9A of the Income Tax Act, 1961, may pursue this activity on intimation and submission of declarations to SEBI.

Further, Chapter II-A also defines the obligations and responsibilities of such fund managers. Recognizing the different business requirements of such fund managers, as compared to the existing portfolio managers, SEBI has also identified certain provisions in the PMS Regulations which will not be applicable to 'Eligible Fund Managers.' These pertain to their activities as fund manager to eligible investment funds. Some of the provisions are:

a. The High Water Mark principle regarding calculating fees and disclosure of fees;
b. Obligation to act in a fiduciary capacity;
c. Audit of overseas funds;
d. Entering into agreements between the portfolio manager and the overseas fund;
e. Reporting requirements with respect to overseas funds;
f. Minimum investment requirements (₹25 lakh), etc.

3. REGISTRATION AND REGULATION OF THE WORKING OF COLLECTIVE INVESTMENT SCHEMES INCLUDING MUTUAL FUNDS

I. REGISTRATION OF COLLECTIVE INVESTMENT SCHEMES

As on March 31, 2017 there was only one registered collective investment management company (CIMC), M/s GIFT Collective Investment Management Company Ltd., which was registered during 2008-09. However, no collective investment scheme has been launched by this CIMC till now.

II. REGULATORY ACTIONS AGAINST UNAUTHORIZED COLLECTIVE INVESTMENT SCHEMES

During 2016-17, SEBI issued show cause notices/ interim orders and passed final orders against entities found to be carrying out unauthorized collective investment schemes (Table 3.21). The interim directions, *inter-alia*, restrain the company (and its directors) from collecting any fresh monies under its existing schemes and from launching any new schemes/ plans etc. The final orders, *inter-alia*, direct the company (and its directors) to wind up its existing collective investment schemes (CIS) and make repayments to investors within a specified time period.

Table 3.21: Regulatory action against unauthorized CIS

Year	No. of Interim Orders	No. of Final Orders
2015-16	12	34*
2016-17	0	11

Note: * final order was omitted inadvertently in Annual Report 2015-16 and has been included accordingly.

Additionally, during 2016-17 SEBI referred 196 complaints/references of unauthorized money mobilizations after examination to the jurisdictional agency/regulator concerned -- state governments, the Reserve Bank of India, the Ministry of Corporate Affairs, and the Ministry of Agriculture etc. -- as these cases do not fall under SEBI's purview.

III. REGISTRATION AND REGULATION OF MUTUAL FUNDS

As on March 31, 2017, there were 45 mutual funds registered with SEBI, of which 38 were in the private sector and seven (including UTI) were in the public sector. Three mutual funds, Goldman Sachs, Deutsche and Alliance Capital MF, have been de-registered (Table 3.22).

Table 3.22: Mutual funds registered with SEBI

Sector	2015-16	2016-17
1	*2*	*3*
Public Sector (including UTI)	7	7
Private Sector	41	38*
Total	48	45

Note: *Out of 38 mutual funds, 4 are inactive.

IV. REGULATORY ACTION AGAINST MUTUAL FUNDS

During 2016-17, 37 warning letters and 35 deficiency letters were issued to mutual funds on account of non-compliance with SEBI Regulations / guidelines observed in compliance test reports, inspection reports, etc. Adjudication proceedings were initiated against three mutual funds during the year.

V. DEEMED PUBLIC ISSUES

In the last few years, there has been illegal mobilization of funds by companies through issue of securities including non-convertible debentures/ non-convertible preference shares in the garb of private placements without complying with the provisions of the Companies Act and various SEBI Regulations.

In order to curb the menace of illegal collection of money through these means, SEBI passed an order against the entities for issuance of non-convertible debentures / non-convertible preference shares to more than 49 persons for non-compliance of various provisions of the Companies Act, 1956 read with the Companies Act, 2013 and SEBI (Issue and Listing of Debt Securities), Regulations, 2008, SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares), Regulations, 2013.

In interim directions, SEBI directed the entities and their directors to stop mobilizing funds from the public in contravention of various laws and also directed them not to divert or dispose of any asset or money collected etc. Further, in its final orders SEBI directed the entities to refund the money collected from the public and also prohibited the companies and their directors from accessing the capital market for a specified period of time.

In financial year 2016-17, SEBI passed orders against 57 such companies. Out of which interim orders were passed against 11 companies which mobilized ₹ 8.39 crore (the summary of the orders passed in the last four years is given in Table 3.23)

Table 3.23: Companies against whom SEBI passed orders

Year	No. of Interim Orders	No. of Final Orders
2013-2014	5	0
2014-2015	103	9
2015-2016	90	80
2016-2017	11	46

SEBI also issued a caution note to investors informing them not to subscribe to issues floated by such companies against whom SEBI has taken action. Companies are also cautioned not to issue securities to the public without complying with the provisions of law, failing which SEBI will be constrained to take stringent action against such companies.

4. FRAUDULENT AND UNFAIR TRADE PRACTICES

To protect investor interests and to promote a fair and orderly securities market, SEBI ensures the integrity of the markets by detecting market frauds on a proactive basis, investigating abusive, manipulative or illegal trading practices in the securities market and taking punitive steps to punish the manipulators.

I. TYPES OF FRAUDULENT AND UNFAIR TRADE PRACTICES

a. With relation to an IPO, an issuer company in collusion with a merchant banker siphoned off IPO proceeds. Further, the issuer, contradicting its statements/ disclosures in the prospectus, used IPO proceeds to fund net buyers who supported the demand (buy). The issuer also made mis-statements and non-disclosures in its prospectus. IPO proceeds was not utilized as per the issue objects disclosed in the prospectus. In addition, the merchant banker provided a wrong due-diligence certificate to SEBI.

b. An issuer company did not utilize a major part of the IPO proceeds for the purpose of the objects stated in the prospectus and diverted the IPO proceeds to various entities through group companies and other entities. The statutory auditor of the company issued a utilization certificate which was also included in its annual report. It was observed that the statutory auditor had falsely certified that the issuer had utilized the entire proceeds of the issue towards the objects of the issue stated in the prospectus. This was misleading and contained information in a distorted manner.

c. A group of connected entities bought a majority of the shares at a price higher than the last traded price of the scrip. The buy orders placed by these entities, although placed after the sell orders, were repeatedly at a price higher than the available sell order price and for quantity lower than the available sell order quantity. Thus, the orders placed by the group of connected entities exhibited a manipulative intent, many of which also resulted in an increase in the scrip price.

d. A telemarketer circulated bulk SMSes containing false news pertaining to a listed company on behalf of its alleged client. The telemarketer did not do due diligence in KYC verification of its alleged client while admitting the request and accepted cash for rendering services. Hence, the telemarketer facilitated circulation of false news, thereby engaging in deceitful activity.

e. Several Indian companies that claimed to have successfully issued global depository receipts (GDRs) had issued them in a fraudulent manner. Investors who subscribed to the GDRs did so by availing loans from foreign banks and these loans were secured against GDR proceeds to be received by issuer companies. Thereafter, only post repayment loans were taken by the GDR subscribers and the issuer companies were able to utilize the GDR proceeds to the extent of loan repayment. Thereby, the issuer companies did not have the GDR proceeds available unless the loans were repaid by subscribers.

Thereafter, the issuer companies were broadly observed to have done the following:

- Transferred funds to India in part or in full; and/ or

- The GDR proceeds in part or in full were transferred to their foreign subsidiary purportedly engaged in the business of general trading. In a majority of the cases, no real inflow of funds to the company was observed as the money was never brought back to India and was purportedly utilized for the purpose of general trading; and/ or
- In cases where the subscriber(s) defaulted on the loan/ refused to repay the loan, the issuer companies applied the encumbered bank balance to clear the loan amount of the subscriber to the GDRs. Therefore, GDR proceeds to such an extent were not realized by the issuer companies.

f. Investigations revealed that a certain set of entities took over a listed company and manipulated the price of the scrip by controlling the supply of shares, that is, entire free float shares in the market. Thereafter, these entities kept selling shares in minimum lots and increased the price of the scrip. These entities also defaulted on the delivery of the shares required consequent to the sale transactions that they had entered into. Therefore, these entities effectively increased the price of the scrip without increasing the free float in the market. Thereby, these entities continued to exercise control over the free float in the market and manipulate the price of the scrip

II. FRAUDULENT AND UNFAIR TRADE PRACTICES CASES DURING 2016-17

a) Interim Order in the matter of Ruchi Soya Industries Limited.

b) Interim Order in the matter of unregistered investment advisory activities, in repect of Mansoor Rafiq Khanda, Firoz Rafiq Khanda and their proprietary concerns.

c) Interim order in the matter of trading by certain entities in the scrip of Exelon Infrastructure Limited.

d) Interim order in the matter of Beejay Investment & Financial Consultants Private Limited and Others.

e) Interim Order/Confirmatory order in the matter of Castor Seed Contracts.

f) Interim Order in the Matter of Dhyana Finstock Ltd.

g) Ad-Interim Ex-parte Order in the Matter of Supreme Tex Mart Ltd. (STML).

Note: For detailed orders refer to part III B

III. STEPS TAKEN TO PREVENT OCCURRENCE OF FRAUDULENT AND UNFAIR TRADE PRACTICES

I. SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 are in place.

II. Actions have been initiated in terms of provisions of SEBI Act, 1992 which also include adjudication proceedings for levy of monetary penalty. This also acts as a deterrent.

During 2016-17, four interim orders for impounding ₹ 53.32 crore were passed, as against, 12 interim orders impounding ₹ 43.29 crore in 2015-16.

5. INVESTOR EDUCATION AND TRAINING OF INTERMEDIARIES

Section 11(2) (f) of the SEBI Act empowers it to promote investor education and foster training for intermediaries in the securities market. Along with investor education and training, SEBI has also actively pursued investor grievance redressal with a view to protecting investor interests and enhancing the confidence of and increasing the participation of investors.

I. INVESTOR EDUCATION AND AWARENESS

For its mandate of investor protection, during 2016-17 SEBI's major thrust was on undertaking more investor education and awareness programmes and reaching more investors / potential investors for this purpose. Education and awareness along with grievance redressal were also the thrust areas for capacity building and for making investors confident and aware while investing in the securities market.

A. INVESTOR AWARENESS PROGRAMMES/ WORKSHOPS

SEBI continues its association with investors' associations (IAs) for conducting programmes to synergize and ensure that more areas particularly tier II and tier III cities/towns are covered. SEBI also conducts independent awareness programmes and joint programmes in association with other entities. So far, over 1,829 awareness programmes have been conducted in association with IAs and other entities, of which 474 programmes were conducted during financial year 2016-17 (Table 3.24).

Table 3.24: Investor awareness programmes

Region	2015-16	2016-17	Cumulative total since launch of initiative
HO	55	88	**241**
ERO	69	129	**417**
NRO	78	162	**613**
WRO	36	61	**216**
SRO	54	34	**342**
Total	**292**	**474**	**1,829**

B. MASS MEDIA CAMPAIGN

SEBI embarked on a mass media campaign in order to reach out to people by giving relevant messages to investors through the popular media. Campaigns have been carried in mass media (TV/ radio/print/bulk SMSes) for spreading awareness about SEBI's grievance redressal mechanism (highlighting SCORES and the toll free helpline), cautioning investors against unregistered CIS/ponzi schemes by spreading key messages like: *'not to rely on schemes offering unrealistic returns'* and *'not to go by hearsay while investing and doing proper due diligence,'* and cautioning against indulging in Dabba trading activities. The campaigns were carried out in Hindi, English and 11 major regional languages. These messages were shown in financial education and investor awareness programmes conducted by SEBI and were also sent to the Association of Mutual Funds in India (AMFI), investors' associations, ICAI, ICSI, ICAI (cost accountants), etc. to be shown in their programmes. So far more than 60,000 TVCs, 2,05,000 radio spots and over 3,100 insertions in various print editions have been done under the campaign. Further, around 53 crore bulk SMSes in various languages were sent cautioning investors against ponzi schemes/unregistered CIS. In 2016-17, SEBI carried out a media campaign cautioning against indulging in Dabba trading activity through TV and radio and cautioning against unregistered CIS / ponzi schemes through radio and bulk SMSes.

C. REGIONAL SEMINARS

In association with various exchanges, depositories and trade bodies such as AMFI, SEBI conducts regional seminars across the country mainly focusing on tier II and tier III cities. Sessions are taken by SEBI officials and officials from trade bodies at various levels. The seminars provide investors useful information related to the securities market. More than 350 seminars have been conducted since the beginning of this initiative. During 2016-17, 90 seminars were conducted (Table 3.25).

Table 3.25: Regional seminars

Region	2015-16	2016-17	Cumulative total since launch of initiative
HO	9	14	**56**
ERO	17	26	**68**
NRO	4	12	**42**
WRO	2	9	**92**
SRO	16	29	**99**
Total	**48**	**90**	**357**

D. AWARENESS ABOUT COMMODITY DERIVATIVES

SEBI intends to increase awareness about the newly inducted commodity derivatives segment, specifically among farmers so as to increase their participation in this market segment. Hence, three awareness programmes were conducted in March 2017 in Bhopal, Madhya Pradesh and Kotputli and Alwar in Rajasthan.

Awareness programme about commodity derivatives in Kotputli, Rajasthan

E. A DEDICATED INVESTOR WEBSITE

A dedicated website *http://investor.sebi.gov.in* is maintained for the benefit of investors. The website provides relevant education/awareness material and other useful information. Further, schedules of various investor education programmes are also displayed on the website for the information of investors.

F. INVESTOR ASSISTANCE

SEBI provides assistance/guidance to investors by replying to their queries received through e-mail, letters and during visits to SEBI offices. In 2016-17, more than 8,800 e-mail and letters were replied to and more than 7,900 investors were assisted on their visit to the SEBI offices.

G. OTHER INITIATIVES

a. **SEBI Stalls at Various Fairs and Exhibitions:** SEBI participated in various fairs/ exhibitions to promote investor education and awareness -- the 36th India International Trade Fair in NCR, Lucknow Mahotsav, Kreta Suraksha Mahotsav in Kolkata, the Sonpur Mela in Bihar, Onam fair and Christmas fair held in Kerala and the Vibrant Gujarat Global Summit in Gujarat.

b. **Dedicated Campaign for Display of Posters Cautioning Against Unregistered CIS / Ponzi Schemes:** To extend its awareness activities cautioning investors / public against unregistered CIS / ponzi schemes across the country, SEBI printed 8 lakh posters in English, Hindi and regional languages and distributed them for dissemination at the district collectorates, district rural development agencies, block development offices, etc. in different states / UTs across the country for the information of the general public visiting these offices.

c. **Education and Training being Imparted to Various Government Departments:** SEBI conducted and participated in the following training / awareness programmes aimed at various government bodies:

- UGC national seminar on the 'Changing Landscape of the Regulatory Environment.'
- Conducted training programmes for police and CID officials from Assam, Jharkhand, Kerala, Manipur and Meghalaya.
- Various sessions for defence officials from India and abroad.
- A full day faculty development programme for faculties from various MBA colleges in Kerala.
- Training programme for administrative staff members from the Manipur state government.

d. **Other Activities**:

- The Women Empowerment Week was celebrated by the Ranchi Local Office on March 06-10, 2017 on the theme 'Women's Empowerment through Financial Education.'

Workshop for students as part of the Women's Empowerment Week

II. TRAINING OF INTERMEDIARIES

A. NATIONAL INSTITUTE OF SECURITIES MARKETS

The National Institute of Securities Markets (NISM) is dedicated towards enhancing the quality of participation in securities market capacity building activities within the broad framework of its vision, mission and philosophy. This involves developing the knowledge and skill base of all stakeholders, which embodies its spirit of commitment to achieve these objectives. NISM has strong linkages with industry and the environment at NISM is conducive for designing and delivering high-quality programmes in the domain of securities markets. NISM's activities are carried out through its six schools: School for Securities Education (SSE), School for Securities Information and Research (SSIR), School for Regulatory Studies and Supervision (SRSS), School for Investor Education and Financial Literacy (SIEFL), School for Certification of Intermediaries (SCI), School for Corporate Governance (SCG) and the National Centre for Finance Education (NCFE).

a) Academic and International Programmes

Eight academic programmes were conducted in 2016-17, benefitting several students.

b) Training Programmes

NISM provides training to financial market professionals. The training covers various subjects such as Equities, Derivatives, Securities Operations, Compliance, Mutual Funds, Wealth Management, Research and Analysis. During 2016-17, NISM organized 36 programmes for SEBI and other market participants.

c) Research and Publications

During the year NISM conducted conferences and seminars on contemporary areas such as Financial Literacy, Insolvency and Bankruptcy Laws, and the Volatility arising from Global Financial Market Movements; Global Investment Performance

Standards (GIPS); AMC Code; Municipal Bonds; Certification and Capacity Building in Financial Markets; Wealth Management and various others. Six research papers were published on various topics such as Interest Rate Futures, Opportunistic Earnings Management, Agricultural Commodities, Impact of Market Wide Circuit Breaker on Trading Activity and more in various journals such as the *ICAI Bulletin*, *Review of Accounting & Finance (Emerald Publication)*, *CPAI*.

d) Investor Education and Financial Literacy

During 2016-17, NISM organized five empanelment and training sessions for the SEBI Financial Education Resource Persons programme in which 213 new resource persons were empaneled on an all-India basis. One refresher workshop was organized in Bhubaneswar where 36 existing SEBI financial education resource persons were re-trained in Personal Finance Management.

During the year 2016-17, investor education programs were conducted in 64 colleges in India where stock market literacy was spread among the new generation. NISM has also extended its financial literacy programmes to schools. A programme titled POCKET MONEY was conducted for school students in which knowledge about financial literacy concepts and standard practices was disseminated to students in schools; 755 students were issued proficiency certificates for financial literacy.

NISM also collaborated with the Kotak Mutual Fund to jointly implement the financial literacy certificate programme in select schools in Sholapur district in Maharashtra. Eleven schools were covered benefitting 613 students.

e) Certification of Associated Persons in the Securities Market

During the year, 1,56,836 candidates were enrolled for the NISM Certification examinations at 214 test centres located in 162 cities across India and UAE.

f) Development and Administration of the Continuing Professional Education (CPE) Programme

During 2016-17, NISM along with its CPE providers conducted 1,471 CPE programmes at 117 locations covering 49,354 candidates across various certification modules. In the previous year, NISM had introduced Category II CPE providers to increase the reach of the CPE programmes. NISM's accredited one organization as a Category II CPE provider during 2016-17. For adequacy of CPE trainers across all modules (including the newly launched CPE modules) and across the country, NISM undertook an exercise to approve and empanel CPE trainers. Accordingly, 45 individuals were approved/empanelled as CPE trainers during 2016-17. NISM has been connecting with its approved / empanelled CPE Trainers and other trainers in the industry through its 'Contact Programmes for Trainers in Securities Markets'. NISM organized five programmes (four for trainers in Mutual Funds and one for trainers in Derivatives) at Mumbai, Delhi, Chennai and Kolkata during 2016-17. A total of 64 trainers had attended the Contact Programmes.

B. OTHER INITIATIVES

a) Accreditation of Certification Exams

Under Regulation 7(2) of the SEBI (Investment Advisers) Regulations, 2013 NISM granted accreditation to the following certifications: a) the Chartered Wealth Manager (CWM) Certification of the American Academy of Financial Management India Pvt. Ltd. (AAFM India), b)Certified Financial Planner (CFP) Certification of the Financial Planning Standards Board (FPSB) India, c) International Certificate in Wealth & Investment Management (India) (ICWIM India) Certification of Chartered

Institute for Securities & Investment (CISI), and d) Wealth Management Certification (Advance Level) of the Centre for Investment Education & Learning Pvt. Ltd. (CIEL).

b) Joint Certifications

During 2016-17, NISM offered the Certified Credit Research Analyst (CCRA) Certification and Certified Alternative Investment Manager (CAIM) in association with the Association of International Wealth Management of India (AIWMI). NISM collaborated with the ICICI Direct Centre for Financial Learning (ICFL) to carry out 'Certification in Equity Trading & Investment' (CETI), wherein 174 candidates were certified, and the 'Foundation of Equity Trading and Investments' (FETI), wherein 68 candidates were certified. NISM continued its association with ICFL as a certification partner for StockMIND Season 4, a unique competition designed for college students to teach them the nuances of investing in the stock market by using virtual money and near live market feeds. With Moody's Analytics NISM jointly launched NISM-Moody's Certificate in Derivatives Market Strategies (CDMS).

c) Corporate Governance

NISM conducts workshops and round table conferences on matters pertaining to corporate governance. In 2016-17, NISM, in association with the National Foundation for Corporate Governance (NFCG) and the Institute of Company Secretaries of India (ICSI) organized three workshops on the 'Role of Compliance Officers of Listed Companies' for the benefit of concerned stakeholders.

d) Inauguration of the NISM Campus at Patalganga

The NISM campus at Patalganga was inaugurated by Prime Minister Narendra Modi on December 24, 2016. The occasion was also graced by many dignitaries, including the Governor of Maharashtra, Union Finance Minister, Chief Minister of Maharashtra, Minister of State for Finance and regulators from Malaysia, Bangladesh, Japan, Iran and Sri Lanka and former chairmen of SEBI.

Having the potential to accommodate 5,000 students, the new 70 acre state-of-the-art campus is green, energy efficient and environment friendly. Among the main features of the campus are modern classrooms equipped with the latest technology, a 400 seater auditorium, a library, an amphi-theatre and a recreational block.

Honourable Prime Minister, Shri Narendra Modi inaugurating the new NISM campus at Patalganga, near Mumbai

III. FINANCIAL EDUCATION

With a developing financial market in India there is an increased need for financial education among people who are not necessarily investors in the securities market. Hence, it is important to enable them, depending on their needs, to understand the role of money, the need and use of savings, the advantages of using the formal financial sector and various options of converting their savings into investments, the protection available to them and a realistic recognition of the attributes of these options.

A. ACTIVITIES OF SEBI TRAINED RESOURCE PERSONS

SEBI has been reaching the masses through an innovative training of trainers model of resource persons (RPs) to spread financial education across the country by targeting various groups such as school children, college students, middle income groups, executives, homemakers, retired people and self-help group(s).

SEBI empanelled resource persons organize workshops for these target segments on various aspects such as savings, investments, financial planning, banking, insurance and retirement planning. These resource persons conduct programmes in the local language in a particular area. Financial education booklets are also distributed to participants attending the programmes. These programmes are conducted free of cost.

During 2016-17, 348 new resource persons were empanelled. At the end of March 2017, 1,400 resource persons had been empanelled. Since the beginning of this initiative, SEBI empanelled resource persons have conducted more than 50,000 programmes in more than 540 districts in 29 states and six union territories. During 2016-17, 15,699 programmes were conducted (Table 3.26).

Table 3.26: Financial education workshops conducted by resource persons

Region	2015-16	2016-17	Cumulative total since launch of initiative
HO	818	1,412	4,584
ERO	1,639	2,183	8,737
NRO	2,311	7,275	16,042
WRO	1,669	2,329	10,577
SRO	2,360	2,500	10,950
Total	**8,797**	**15,699**	**50,890**

Financial education workshop for homemakers in Aurangabad, Maharashtra

B. VISITS TO SEBI

SEBI started the initiative 'Visit to SEBI' where groups of students from schools, colleges and professional institutes who are interested in learning about basic financial education, SEBI and its role as a regulator of the securities market visit its head office, regional offices and local offices. Since the beginning of this initiative, 1,174 such programmes have been conducted. During 2016-17, 567 programmes were conducted (Table 3.27).

Table 3.27: Visits to SEBI

Year	No. of Visits by College / Institutions	No. of students
2015-16	273	11,013
2016-17	567	21,808
Total (Cumulative since launch of initiative)	**1,174**	**46,640**

C. NATIONAL STRATEGY FOR FINANCIAL EDUCATION

A proposal for drafting a National Strategy for Financial Education along with the initial document was presented by SEBI at the first meeting of the Technical Group of the Sub-Committee of the Financial Stability and Development Council (FSDC) on Financial Inclusion and Literacy on November 11, 2011. The document received wide appreciation from all regulators who were part of the Technical Committee and was approved by the FSDC. The vision of the strategy is – A financially aware and empowered India.

As envisaged in the National Strategy for Financial Education, the National Centre for Financial Education (NCFE) is incubated in the National Institute of Securities Markets (NISM). NCFE's activities are monitored by a technical group for financial inclusion and literacy under the Financial Stability and Development Council. NCFE undertakes various activities for financial education, including:

- **National Financial Literacy Assessment Test (NFLAT):** The National Financial Literacy Assessment Test was conducted during 2016-17 in both online and offline mode. A total of 2,40,000 students registered, out of which approximately 1,81,000 students have appeared in the exam. The online test was conducted using NFLAT software procured and hosted on in-house servers.
- **National Portal:** NCFE's website **ncfeindia.org** is available in 8 vernacular languages to reach a larger number of audience. The website comprehensively covers all aspects of financial education, programs undertaken and proposed and acts like repository of financial education in the country.
- **Training of teachers (money smart teachers):** It is an initiative of the NCFE to provide unbiased financial education in schools for improving financial literacy, an important life-skill for holistic development of each student. Upon successful implementation, the schools are certified as a "Monet Smart School" and the students who participated are given merit and participation certificates. So far around 300 schools have registered for this program and have started implementing financial education in their school on voluntarily basis, Out of which 15 schools have already completed the curriculum. Under this initiative, more than 5000 students have been evaluated.
- **Technology led Financial Literacy Campaign (Kiosks):** NCFE is installing Kiosks on pilot basis at 100 locations in the country. Out of which, 30 will be Interactive Kiosks while 70 would be Large Format Commercial Display. The Kiosks and displays will be managed centrally. RBI has already shared the site details of 100 locations in 5 states i.e. Maharashtra, Karnataka, Chhattisgarh, Odisha and Himachal Pradesh (20 locations per state).

IV. INVESTOR GRIEVANCE REDRESSAL

SEBI has been taking various measures to expedite the redressal of investor grievances. The grievances lodged by investors are taken up with the respective listed company or intermediary and monitored on a regular basis. Grievances pertaining to stock brokers and depository participants are taken up with concerned stock exchanges and depositories for redressal and monitored by the concerned department through periodic reports obtained from them. Grievances pertaining to other intermediaries are taken up with them directly for redressal and monitored regularly by SEBI's concerned department.

The company/intermediary is required to respond in a prescribed format in the form of an action taken report (ATR). Upon the receipt of an ATR, the status of grievances is updated. If the response of the company/intermediary is insufficient / inadequate, follow-up action is initiated. SEBI takes appropriate enforcement actions (adjudication, 11B directions, prosecution, etc.) as provided under the law where progress in redressal of investor grievances is not satisfactory.

The SEBI Complaints Redressal System (SCORES) has helped investors in obtaining real time information on the status of their grievances. Investors can log on to SCORES at any time and from anywhere and check the status of the grievance with the help of a user-name and password provided at the time of lodging a grievance. Alternatively, investors can also call the SEBI toll free helpline to check the status of their grievances.

Since SCORES has made it possible to receive grievances online this helps SEBI take up issues very fast, including those that may require a policy change. Further, since companies are required to file an ATR within 30 days of receipt of a complaint, in case of any failure SEBI can initiate action against the company depending on the merit of the case.

A. SEBI's COMPLAINTS REDRESS SYSTEM

The number of investor complaints received by SEBI on a cumulative basis increased from 29,63,454 as on March 31, 2016 to 30,03,454 as on March 31, 2017. But, during the same period the number of pending actionable complaints reduced from 5,452 to 4,476 (Table 3.28).

Table 3.28: Status of investor grievances received and redressed

Financial Year	Grievances Received		Grievances Redressed		Pending Actionable Grievances*
	Year-wise	Cumulative	Year-wise	Cumulative	
1	*2*	*3*	*4*	*5*	*6*
2008-09	57,580	26,74,560	75,989	25,03,560	49,113
2009-10	32,335	27,06,895	42,742	25,46,302	37,880
2010-11	56,670	27,63,565	66,552	26,12,854	28,653
2011-12	46,548	28,10,113	53,841	26,66,695	23,725
2012-13	42,411	28,52,524	54,852	27,21,547	11,410
2013-14	33,550	28,86,074	35,299	27,56,846	9,147
2014-15	38,442	29,24,516	35,090	27,91,936	5,736
2015-16	38,938	29,63,454	35,145	28,27,081	5,452
2016-17	40,000	30,03,454	49,301	28,76,382	4,476

Note: * excludes complaints against which regulatory action has been initiated.

SCORES was launched in June 2011. Details of complaints in the table from 2011-2012 onwards are as per SCORES.

Figure 3.1: Cumulative pending grievances on SCORES

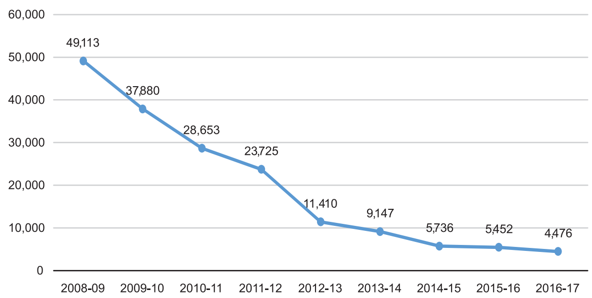


Figure 3.1 indicates that the number of pending grievances has been steadily declining over the years due to expeditious disposal by SEBI. Moreover, out of the 4,476 pending grievances as on March 31, 2017, 3,492 grievances have been pending for less than six months. Further, only 984 grievances were pending for more than six months as on March 31, 2017 as compared to 1,973 grievances pending for more than six months as on March 31, 2016.

SCORES enables investors to lodge complaints directly online and such complaints are considered 'e-complaints.' During the year, 22,304 e-complaints were received compared to 22,969 received during the previous financial year. While investors can lodge e-complaints on SCORES, any physical complaint received against any of the entities in the SCORES database is also uploaded on SCORES and thereby converted into an e-complaint and action similar to that with regard to an e-complaint is taken.

The SCORES system has been working satisfactorily and has helped in making the complaint handling and redress mechanism more efficient.

A review module was implemented in SCORES in July 2016 wherein an investor can make a one-time request for review of a complaint closed by a SEBI dealing officer within 15 days of the closure of a complaint. As on March 31, 2017, SEBI had received 2,347 complaints for review out of which 695 have since been closed.

B. SCORES SURVEY

During 2016-17, SEBI conducted a survey on SCORES through an independent agency to gauge investor satisfaction with the system. The survey was conducted with 10,000 investors who were selected randomly across the four cities of Mumbai, New Delhi, Ahmedabad and Kolkata. These cities were chosen based on the maximum number of complaints received**.** The survey broadly indicated that more than 75 per cent of the respondents who had filed complaints with SEBI expressed satisfaction with the grievance redressal mechanism.

C. ISSUANCE OF NO OBJECTION CERTIFICATES

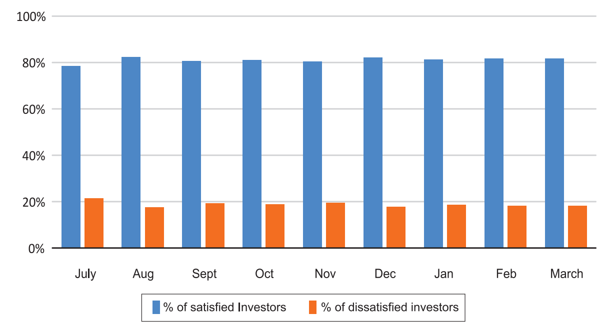
Companies raising capital through public issues of securities are required to deposit 1 per cent of the issue amount with the designated stock exchange. This deposit is released by the stock exchange only.

SEBI issues NOCs to companies after satisfactory redressal of complaints against them as received by SEBI. During 2016-17, NOCs were issued to 80 applicant companies. NOCs to 43 companies were not issued as the applications were incomplete or due to unsatisfactory redressal of investor grievances.

D. SEBI TOLL FREE HELPLINE

SEBI launched toll free helpline service numbers **1800 22 7575/ 1800 266 7575** on December 30, 2011. The helpline service is available every day from 9:00 am to 6:00 pm (except on declared public holidays in Maharashtra) to investors from all over India. The help line service is available in English, Hindi and various regional languages. During 2016-17, SEBI attended to 5,80,747 calls on the helpline. The feedback given to these calls is given in Figure 3.2.

Figure 3.2: Investor feedback for calls answered



Note: Data for April to June 2016 is not available due to transition from an old vendor to a new vendor during that period.

6. PROHIBITION OF INSIDER TRADING

I. TYPE OF INSIDER TRADING PRACTICES

An insider, being an employee of the manager of the offer, traded in the scrip relating to the open offer through his mother-in-law's account when in possession of unpublished price sensitive information (UPSI) and made ill-gotten gains.

II. STEPS INITIATED TO CURB INSIDER TRADING PRACTICES

A. SEBI (Prohibition of Insider Trading) Regulations, 1992 and SEBI (Prohibition of Insider Trading) Regulations, 2015 are in place.

B. Actions are initiated in terms of provisions of SEBI Act, 1992 which also includes adjudication proceedings for levy of monetary penalties. This also acts as a deterrent.

7. SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS

I. OPEN OFFER

During 2016-17, 76 draft letters of open offers were processed by SEBI, of which 64 draft letters were filed during 2016-17 (two under old takeover regulations). Out of the 76 draft letters of offers, observations were issued with respect to 56 letters of offers during 2016-17 and 20 draft letters were pending with SEBI for issuing observations as on March 31, 2017 (Table 3.29).

Table 3.29: Status of draft letters of offers for open offers

Status	2015-16	2016-17
Pending draft letters of offers at the beginning of the year	19	12
Draft letters of offers received during the year (under the old Takeover Regulations)	4	2
Draft letters of offers received during the year (under the new Takeover Regulations)	68	62
Total	**91**	**76**
Observations issued by SEBI	79	56
Draft letters of offers in process at the end of the year	12	20

Table 3.30: Takeover panel applications

Status	2015-16	2016-17
Applications pending at the beginning of the year	15	8
Applications received during the year	10	48
Total applications	**25**	**56**
Applications disposed of during the year	17	33
of which		
Exemptions granted	11	20
Exemptions not granted	1	1
Returned/withdrawn (without passing orders)	5	12
Applications in process at the end of the year	8	23

Regulation 11 of the Takeover Regulations deals with applications for seeking exemption from open offer obligations (referred to as Takeover Panel Applications). As on March 31, 2016, eight applications were pending with SEBI. During 2016-17, an additional 48 applications were filed with SEBI seeking exemption as compared to 10 applications filed during 2015-16. Among the 56 applications filed with SEBI, 20 applications were granted exemption from open offer vis-à-vis 11 applications which were granted exemption during 2015-16, 12 applications were returned/withdrawn without passing an order and 23 applications were pending with SEBI as on March 31, 2017 (Table 3.30).

Table 3.31: Trends in open offers

Year/Month	Open Offers							
	Objectives						Total	
	Change in Control of Management		Consolidation of Holdings		Substantial Acquisition		No.	Amount (in ₹ crore)
	No.	Amount (in ₹ crore)	No.	Amount (in ₹ crore)	No.	Amount (in ₹ crore)		
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
2015-16	61	6,868	6	2,847	6	2,050	73	11,766
2016-17	43	5,340	6	219	3	366	52	5,925

Note: Figures are for open offers opened during the year.

During 2016-17, 52 open offers with offer size of ₹ 5,925 crore were opened compared to 73 open offers with offer size of ₹ 11,766 crore during 2015-16. Out of the 52 open offers, 43 with offer size of ₹ 5,340 crore were made with the objective of change in management control, six open offers of size ₹ 219 crore were made with the objective of consolidating holdings and three open offers with offer size of ₹ 366crore were made with the objective of substantial acquisitions of shares (Table 3.31).

II. BUY-BACK

Buy-back is one of the ways in which a company can return money to its shareholders. SEBI started regulating this activity with respect to listed entities from 1998 and accordingly framed the SEBI (Buy-back of Securities) Regulations, 1998.

In 2016-17, 51 buy-back offers were received, of which 10 were through the open market purchase method and 41 were through the tender offer compared to 16 buy-back applications in 2015-16 (five through the open market purchase method and 11 through tender offers). Out of the 10 offers for buy-back through the open market purchase method, seven offers were closed and three offers are yet to close. Further, out of the 41 offers for buy-back through tender offers, 36 offers were closed and five offers were not closed during 2016-17. The total buy-back offer size during 2016-17 was ₹ 37,460 crore compared to ₹ 1,834 crore during 2015-16 representing an increase of 1,942.5 per cent. It is also observed from the buy-back offers which were opened and closed during 2016-17 that the average utilization was 98 per cent of the total offer size compared to 97 per cent in 2015-16 (Table 3.32).

Table 3.32: Buy-back cases

Particular	2015-16			2016-17		
	No. of cases	Buy-back size (₹ crore)	Actual amount utilized for buy-back of securities (₹ crore)	No. of Cases	Buy-back size (₹ crore)	Actual amount utilized for buy-back of securities (₹ crore)
1	*2*	*3*	*4*	*5*	*6*	*7*
Buy-back through the Open Market						
Cases received and closed	3	155.5	151.58	7	1,651	1,628
Cases received but not closed	2	76.8	70.4	3	760	NA
Buy-back through Tender Offers						
Cases received and closed	11	1,601.5	1,556.12	36	31,977	31,382
Cases received but not closed	0	0	0	5	3,072	NA

Note: As on March 31, 2016, there were 2 buy-back cases through the open market which were received but not closed. These buy-back cases closed during 2016-17.

III. STREAMLINING THE PROCESS OF ISSUANCE OF OBSERVATIONS AND EXPEDITIOUS CLEARANCE OF OFFER DOCUMENTS

As was the case in 2015-16, where the process of issuance of observations on draft offer documents filed by merchant bankers for raising funds by the companies or for takeover of other companies was streamlined, a similar process was followed this year also resulting in a further reduction of time in the process of clearing offer documents. Media reports highlighted the expeditious clearance of offer documents by SEBI.

SEBI has been displaying the status of processing each offer document on its website which is updated on a weekly basis, including the reasons for pendency and whether the pendency was at SEBI's end or at the merchant banker or other regulatory agency's end. The initial observations seeking clarifications were sent to merchant bankers within 30 days. Even stricter timelines are followed for final observations. With a view to ensuring a higher level of transparency and accountability within SEBI, the SEBI website also states that in case any application has remained unattended, the applicant should not hesitate to approach senior officials - Chief General Manager or the Executive Director of the Corporation Finance Department -- whose e-mail IDs are also provided on the website.

The move to advise merchant bankers to make additional disclosures on risks associated with a specific pricing of the issue in pre-issue advertisements on price bands and their track record has received positive feedback from investors. These disclosures are required to be made prominently in the same font size as the price band in the advertisements and also on the websites of the companies as well as the stock exchanges. SEBI's endeavour to ensure quicker disposal of offer documents and enhanced disclosures to investors continued this year as well.

8. INFORMATION CALLED FROM, INSPECTIONS UNDERTAKEN, INQUIRIES AND AUDITS OF STOCK EXCHANGES AND INTERMEDIARIES AND SELF-REGULATING ORGANIZATIONS CONDUCTED BY SEBI

Supervision of intermediaries through on-site and off-site inspections, inquiries and adjudications in case of violation of rules and regulations and administrative and statutory actions are essential features of effective enforcement by SEBI. The basic objective of prudential supervision of market intermediaries is to safeguard the stability of the financial system; protecting client interests from undue risks of losses that may arise from failure, fraud or any opportunist behaviour on the part of the intermediaries; promoting the efficient performance of intermediaries and markets; and ensuring compliance by market intermediaries. SEBI conducts inspections directly as well as through organizations like stock exchanges and depositories. Inspections were also conducted during the year to verify intermediaries' compliance levels.

I. COMPREHENSIVE OVERSIGHT OF MARKET INFRASTRUCTURE INSTITUTIONS

With the objective of having oversight over the activities carried out by market infrastructure institutions (MIIs) such as stock exchanges, clearing corporations and depositories, SEBI conducts inspections, periodic compliance analyses and annual system audits of various MIIs.

A. OVERSIGHT OF STOCK EXCHANGES AND COMMODITY DERIVATIVES EXCHANGES

During 2016-17, comprehensive inspections were carried out at BSE, NSE and MSEI. Further, inspections of the following commodity derivatives exchanges were completed: MCX, NCDEX, NMCE, HCX, IPSTA and RCX. In addition, visits to various warehouses and warehouse service providers (WSPs) were also undertaken to study the systems, processes and procedures related to delivery mechanisms. The oversight of an exchange conducted through inspections is undertaken to assess market operations, the organizational structure and administrative control of that exchange. Further, it helps SEBI to ascertain as to whether:

a. It provides a fair, equitable , transparent and growing market to investors,

b. Its organization system and practices are in accordance with the SC(R) Act , 1956 and the rules framed thereunder,

c. It has implemented the directions, guidelines and instructions issued by SEBI/the Government of India (GoI) from time to time, and

d. It has complied with the conditions, if any, imposed on it at the time of renewal/ grant of its recognition under Section 4 of the SC(R) Act, 1956/grant of its recognition under Section 4 of the SC(R) Act, 1956.

B. OVERSIGHT OF CLEARING CORPORATIONS (CCS)

During 2016-17, comprehensive inspections of the National Securities Clearing Corporation Ltd. (NSCCL), the Indian Clearing Corporation Limited (ICCL) and the Metropolitan Clearing Corporation of India Ltd. (MCCIL) were undertaken for oversight and grant of recognition.

C. OVERSIGHT OF DEPOSITORIES

During 2016-17, the compliance status of two depositories, NSDL and CDSL, was monitored through a comprehensive inspection undertaken by SEBI.

D. SYSTEM AUDIT OF MIIs

An annual system audit of MIIs such as stock exchanges, CCs and depositories was conducted during the year through external system auditors. The terms of reference currently include BCP/ DR norms formulated post consultations with the SEBI Technical Advisory Committee.

II. INSPECTION OF MARKET INTERMEDIARIES

The number of inspections conducted during 2016-17 stood at 333 as compared to 310 in 2015-16. Selection of intermediaries for carrying out inspections is based on a risk assessment of each intermediary.

Based on the findings of the inspections after considering the comments of intermediaries, intermediaries were specifically advised about the areas where improvements were required. Intermediaries were also required to report to SEBI the corrective steps taken by them and also place them before their boards/partners/proprietors, as the case may be. These steps taken by SEBI have improved the level of compliance among the intermediaries. Administrative and quasi-judicial actions were initiated based on the deficiencies and seriousness of the violations committed by the intermediaries.

A. INSPECTION OF STOCK BROKERS AND SUB-BROKERS

During 2016-17, 190 stock brokers and sub-brokers were inspected as against 176 in 2015-16. The focus of the inspections included themes such as compliance of norms regarding anti-money laundering, investor redressal mechanisms, handling clients' funds and securities, settlement of accounts of clients on a timely basis, segregation of clients and proprietary funds/securities, KYC norms and clearing operations.

During this financial year, apart from specific purpose inspections and single-theme inspections, eight comprehensive inspections of stock brokers were conducted. During inspections, the compliance of specific provisions of SEBI's regulations/circulars was verified. The details of inspections of stock brokers and sub-brokers carried are given in Table 3.33.

Table 3.33: Inspection of stock brokers/sub-brokers

Particulars	2015-16	2016-17
Inspections Completed – Stock brokers	115	164*
Inspections Completed – Sub-brokers	61	26
Total	**176**	**190**

Note: *Includes 60 commodity derivative brokers.

Moreover, the stock exchanges carried out inspections as per the policy adopted by them in consultation with SEBI. Additionally, stock brokers/ clearing members are also required to carry out complete internal audits on a half-yearly basis by independent auditors. Stock exchanges are levying penalties for delays in filing the internal audit reports by stock brokers. The system of internal audits of stock brokers by outside professionals and inspections by stock exchanges and by SEBI has improved stock brokers' compliance levels. The number of entities inspected by the stock exchanges in 2016-17 is given in Table 3.34.

Table 3.34: Inspection of stock brokers by stock exchanges

Year	NSE	BSE	MSEI	MCX	NCDEX
2015-16	615	607	293	601	204
2016-17	625	687	132	550	200

B. INSPECTION OF VCFs / FVCIs / AIFs / PORTFOLIO MANAGERS

Inspections of books of account, records and other documents pertaining to market intermediaries venture capital funds (VCFs)/FVCIs/AIFs/portfolio managers were carried out to verify whether the books of account, records and other documents were being maintained in the specified manner including compliance with respect to anti-money laundering (AML)/combating of financing terrorism (CFT) and KYC norms**.** A pre-registration/renewal visit is conducted before granting registration/renewal of registration to portfolio managers. During the visit, compliance with respect to KYC norms is verified. During 2016-17, inspections of eight AIFs, two VCFs and 10 portfolio managers were carried out.

C. INSPECTION OF INVESTMENT ADVISERS

Inspection of 20 investment advisers was done during 2016-17.

D. INSPECTION OF MUTUAL FUNDS

SEBI has adopted a risk based inspection policy for the inspection of mutual funds. The inspections are undertaken on the basis of various factors such as assets under management (AUM) and the number of complaints received against a mutual fund. During 2016-17, 23 mutual funds were inspected and inspections of two registrars (executing mutual fund transactions) were initiated.

E. INSPECTION OF OTHER INTERMEDIARIES

SEBI undertakes risk based and special focus inspections of intermediaries to ascertain the extent of compliance on specific issues. SEBI has been carrying out comprehensive/thematic inspections of the merchant bankers as well as that of the registrars to an issue and share transfer agents (RTIs and STAs) to check the due diligence exercised by them.

SEBI conducted inspections of debenture trustees based on the number of public issues handled by them to confirm compliance with applicable regulatory and statutory requirements with focus on their systems and controls with respect to monitoring of payment of interest/redemption amounts, processing of investor grievances and action taken in case of default by issuer companies.

During 2016-17, inspections were completed for 59 depository participants, 12 merchant bankers, two debenture trustees, one CRA and 69 RTIs and STAs. In all SEBI conducted 143 inspections of these intermediaries as compared to 134 inspections in 2015-. There was special focus on follow-up action after the inspections so that corrective steps are taken by the intermediaries (Table 3.35).

Table 3.35: Inspection of other market intermediaries

Particulars	2015-16	2016-17
Credit Rating Agencies	3	1
Debenture Trustees	7	2
Depository Participants	72	59
Merchant Bankers	27	12
Registrars to Issue and Share Transfer Agents	25	69
KRA	0	0
Total	**134**	**143**

III. PREVENTION OF MONEY LAUNDERING

Money laundering is globally recognized as one of the largest threats posed to the financial system of a country. The fight against terrorist financing is another such emerging threat with grave consequences for both the political and economic standing of a jurisdiction. Rapid developments and greater integration of financial markets together with improvements in technology and communication channels continue to pose serious challenges to the authorities and institutions dealing with AML/CFT.

The Prevention of Money Laundering Act, 2002 (PMLA) and the rules framed thereunder, which have been brought into force with effect from July 01, 2005, have been a significant step taken by India towards joining the global war against money laundering and financing of terrorism. PMLA was amended in December 2012 so that the legislative and administrative framework of the country became more effective and capable of handling new evolving threats in the areas of money laundering and financing of terrorism. Further, the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 were also amended to reflect these new changes. SEBI has already incorporated the amendments in its AML/CFT framework.

As in the past, during 2016-17 too SEBI continued focused efforts on strengthening the regulatory framework and minimizing the risks emanating from money laundering and terrorist financing in the securities market. The following steps were taken in this regard:

A. INSPECTIONS OF AML/CFT RELATED ISSUES

SEBI has appropriately included AML/CFT risks as a part of its inspection of intermediaries such as stock brokers, depository participants and mutual funds. SEBI also carried out specific theme based inspections of intermediaries focusing on compliance with KYC norms (including client due diligence) and AML/CFT guidelines. During 2016-17, with respect to stock brokers, SEBI has carried out 105 special purpose inspections to check their compliance with the AML/CFT and KYC norms respectively; , and with respect to depository participants, 36 inspections were carried out to verify compliance with AML/CFT and KYC norms respectively. With respect to mutual funds and PMS, 23 and 10 inspections were carried out respectively wherein compliance with AML/CFT and KYC related norms was reviewed.

In addition to SEBI's special purpose inspections, compliance with AML/ CFT norms is also verified by stock exchanges and depositories during their inspections of stock brokers and depository participants and also at the time of half yearly internal audits by independent professionals. Depository participants are also required to undergo concurrent audits with respect to their operations including KYC/AML norms. Appropriate sanctions are applied where AML/CFT violations/ discrepancies are observed.

Table 3.36 provides data on the number of members/participants against whom action for AML/CFT violations/discrepancies was taken by exchanges and depositories during 2016-17.

Table 3.36: Action taken by stock exchanges and depositories for AML/CFT related discrepancies

Particulars	NSE	BSE	MSEI	CDSL	NSDL	MCX	NCDEX
No. of members/participants against whom AML/CFT related discrepancies were observed during inspections	27	195	0	236	12	59	9
Action taken by Exchange/Depository							
Warnings/advisory letters issued	24	152	0	236	12	59	2
Monetary penalty imposed	9	43	0	12	2	0	0
Value of fines imposed	**₹ 4,75, 000**	**₹ 18,63,623**	**0**	**₹ 42,500**	**₹ 5,550**	**0**	**0**

Stock exchanges and depositories also conducted training/ seminars for their members to sensitize them about the significance of the AML/ CFT framework and the need to ensure continuous compliance with it.

B. INTERNATIONAL COOPERATION ON AML/CFT RELATED ISSUES

SEBI has consistently been in touch with global bodies and other Indian regulators to keep the regulatory framework for AML robust in the Indian securities market. As part of Indian government delegations SEBI officials participate in the plenary and working group meetings of the Financial Action Task Force (FATF) and the Eurasian Group on Combating Money Laundering and Terrorist Financing (ML/TF), which is a FATF-style regional body (FSRB) for setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

In order to protect the international financial system from ML/FT risks and to encourage greater compliance with AML/CFT standards, the Financial Action Task Force (FATF) identifies jurisdictions that have strategic deficiencies and works with them to address the deficiencies which pose a risk to the international financial system. The names of these jurisdictions are made public as part of the FATF public statements. As required by FATF Recommendations, the Ministry of Finance, Government of India circulates FATF public statements to all regulators with advice to disseminate these to all financial institutions under their supervision for applying enhanced due diligence measures when dealing with clients from these high-risk jurisdictions. In 2016-17, SEBI circulated three such FATF public statements dated June 24, 2016, October 21, 2016 and February 24, 2017 to registered intermediaries for their compliance.

9. FEES AND OTHER CHARGES

Details of the amount of fees and other charges (audited by Internal auditors) collected by SEBI from market intermediaries on both recurring and non-recurring basis is provided in Table 3.37. During 2016-17, the total amount of fees and other charges received was ₹ 518.73 crore (audited) as against ₹ 391.15 crore in 2015-16 (audited). The recurring fee was 60.70 percent in 2016-17 as compared to 61.42 percent in 2015-16 of the total fee collected. During 2016-17, the largest recurring fee of ₹ 89.39 crore was collected from Derivatives Members registration followed by ₹ 43.90 crore collected from Foreign Portfolio Investors. In non-recurring fee category, the highest fee was collected from Offer Documents and prospectuses filed (₹ 47.89 crore) followed by Buy Back of Share (₹ 36.39 crore) and Takeover Fees (₹ 33.55 crore).

Table 3.37: Fees and other charges (₹ crore)

Particulars	2015-16 (Audited)			2016-17 (Audited)		
	Recurring fees #	Non-Recurring fees ##	Total Fees Received	Recurring fees #	Non-recurring fees ##	Total Fees Received
	1	*2*	*(1+2)*	*1*	*2*	*(1+2)*
Offer Documents and prospectuses filed	-	29.35	29.35	-	47.89	47.89
Merchant Bankers	3.42	2.39	5.81	4.23	1.81	6.04
Underwriters	-	0.05	0.05	-	0.05	0.05
Portfolio Managers	2.25	4.92	7.17	2.81	3.71	6.52
Registrars to an Issue and Share Transfer Agents	0.72	0.22	0.94	0.37	0.08	0.45
Bankers to an Issue	3.49	0.44	3.93	0.99	0.83	1.82
Debenture Trustees	0.99	0.01	1.00	0.45	0.41	0.86
Takeover fees	-	33.87	33.87	-	33.55	33.55
Buy Back of Shares	-	2.16	2.16	-	36.39	36.39
Mutual Funds	11.12	12.91	24.03	11.91	9.75	21.66
Stock Brokers and Sub-Brokers	34.15	-	34.15	38.86	-	38.86
Sub Account - Foreign Institutional Investors	-	0.01	0.01	-	-	-
Foreign Portfolio Investors	24.60	24.84	49.44	43.90	25.87	69.77
Conversion Fee - Foreign Portfolio Investors	-	11.02	11.02	-	15.78	15.78
Depositories	1.63	-	1.63	3.59	-	3.59
Depository Participants	0.07	4.71	4.78	0.11	3.87	3.98
Designated Depository Participant	-	-	-	-	-	-

Particulars	2015-16 (Audited)			2016-17 (Audited)		
	Recurring fees #	Non-Recurring fees ##	Total Fees Received	Recurring fees #	Non-recurring fees ##	Total Fees Received
	1	*2*	*(1+2)*	*1*	*2*	*(1+2)*
Custodian of Securities	31.71	0.90	32.61	35.81	0.10	35.91
Approved Intermediaries under Securities Lending Scheme	0.04	0.04	0.08	0.10	0.02	0.12
Credit Rating Agencies	0.15	0.34	0.49	0.15	0.01	0.16
Listing Fees Contribution from Stock Exchanges	15.31	-	15.31	17.00	-	17.00
Alternative Investment Scheme	-	7.37	7.37	-	10.01	10.01
KYC Registration Fees	-	0.05	0.05	0.02	0.05	0.07
Foreign Venture Capital	-	0.99	0.99	-	0.22	0.22
Derivatives Members registration	78.68	-	78.68	89.39	-	89.39
Derivatives-Commodity	8.34	3.25	11.59	35.71	0.18	35.89
Investment Advisor	-	2.70	2.70	-	3.63	3.63
Infrastructure Investment Trust	-	0.21	0.21	-	7.49	7.49
Informal Guidance Scheme	-	0.06	0.06	-	0.08	0.08
Regulatory Fees-Stock Exchanges	23.03	-	23.03	23.70	-	23.70
Regulatory Fees-Stock Exchanges	-	-	-	5.08	-	5.08
Public Issue of Debt	-	0.08	0.08	-	0.03	0.03
Private Issue of Debt	0.54	-	0.54	0.53	-	0.53
Delisting of Shares	-	0.02	0.02	-	0.01	0.01
Research Analyst	-	8.01	8.01	-	1.96	1.96
ICDR Exemption Fees				-	0.06	0.06
Gift City IFSC				0.14	0.03	0.17
Real Estate Investment Trust	-	-	0.00	-	0.01	0.01
Total	**240.24**	**150.91**	**391.15**	**314.85**	**203.88**	**518.73**

Notes:

1. **# Recurring fees: Fees which is received on annual/3-yearly/5-yearly basis (includes Fee/ Service Fee/ annual fee/ Listing Fees from exchanges/ Regulatory Fees from stock exchanges).**
2. **## Non-recurring fees: Fees which is received on one time basis. Includes fee for Offer Documents Filed/ Registration Fee/ Application Fee/ Takeover Fees/ Informal Guidance Scheme/ FII Registration and FII Sub –Accounts Registration.**
3. **Since the amount realised by way of penalties on or after October 29, 2002 has been credited to the Consolidated Fund of India, therefore, the same has not been included in the fees income of SEBI since 2003-04.**
4. **Stock brokers and sub-brokers fee includes annual fees and turnover fees.**
5. **Stock brokers and derivatives fees are of recurring nature and depend on the trading turnover of the stock brokers and members of derivatives segment.**

10. RESEARCH AND STUDIES

Section 11(2) (l) of the SEBI Act, 1992 gives SEBI the powers to undertake research activities for effectively fulfilling its functions. The major research activities undertaken by SEBI during 2016-17 encompassed the following:

I. THE REPORTING MANDATE AND MAINTENANCE OF REPOSITORY OF INFORMATION/STATISTICS

A. REGULATORY REPORTING: THE SEBI ANNUAL REPORT

In accordance with Section 18(2) of the SEBI Act, SEBI is mandated to submit to the government a report providing a full and true account of its activities undertaken during a particular financial year within 90 days of the completion of the financial year. Accordingly, the Annual Report for 2015-16 was prepared and submitted to the Ministry of Finance within the specified timelines.

Besides the annual report, three quarterly reports detailing all policy developments and information for the Indian securities market for each quarter were submitted to the SEBI Board meeting.

B. HANDBOOK OF STATISTICS ON THE INDIAN SECURITIES MARKET: REPOSITORY OF DATA

As a regulator, SEBI has the onus and obligation to maintain a repository of data for the entire securities market and the commodity derivatives market by collecting data from various sources, verifying their accuracy and maintaining/updating the data on a regular basis. In keeping up with its responsibility of disseminating data and ensuring transparency within its regulatory purview, SEBI has compiled the *Handbook of Statistics 2016*. The handbook serves as a central repository of data on the securities market providing historical data on multiple parameters.

C. SEBI MONTHLY BULLETINS

Monthly bulletins encapsulating all the regulatory developments for the month and aggregating the data/information for the securities and commodities markets are published regularly by SEBI. Apart from a review of the Indian securities market, the bulletin also provides monthly reviews of global financial markets.

In addition to this, highlights of developments in the international securities market, data on macroeconomic indicators in India and data/ information related to various related segments of the securities market is disseminated in the SEBI Bulletin on a monthly basis.

All these publications are available under the publication section on SEBI's website (www.sebi.gov.in) in user friendly versions. Over the years, the coverage of information and data in these publications has expanded significantly with an evolving market micro-structure. The publications serve an important purpose of genuine empowerment of stakeholders, researchers, investors and policymakers through equal access to data and information related to the securities market. SEBI has been distributing these publications to various stakeholders like research institutions, investor associations, mutual funds and banks without any charge.

II. INFORMATION SUPPORT TO VARIOUS REGULATORS/GOVERNMENT AGENCIES

Apart from its publications, SEBI is also responsible for providing regular information to the Ministry of Finance (MoF), the Reserve Bank of India (RBI), the Ministry of Corporate Affairs and the Government of Maharashtra for their frequent updation and for supporting informed policy decisions. This information support includes contributions to the GoI's Economic Survey, MoF's annual report, the *Government of Maharashtra Economic Survey*, the IMF Redbook, Statistical Commission and the Mid-year Economic Analysis. Inputs and suggestions are also provided to the Standing Committee on Finance, Central Statistics Office, as and when requested.

III. SEBI INVESTOR SURVEY

In its short journey of 25 years SEBI has made an impression on investors and the securities market. The Indian securities market has evolved manifold in terms of size, reach, diversity of investors and product complexity. SEBI has conducted three investor surveys till now in 1998-99, 2001-02 (quick survey) and 2008-09. During 2016-17, SEBI published a comprehensive investor survey and a survey of market participants for the base year 2015. The survey was carried out in all 29 states and seven union territories through a comprehensive questionnaire. The sample size was approximately 50,000 investors and 1,000 market participants.

IV. SYSTEMIC STABILITY UNIT

SEBI's Systemic Stability Unit (SSU) acts as an interface with the Financial Stability and Development Council (FSDC) and monitors systemic risks, if any, emanating from the securities market.

Through coordination of SSU, SEBI provided inputs to the meetings of FSDC, the FSDC sub-committee and other committees/ task forces/ workings groups including the Early Warning Group, Macro Financial Monitoring Group, Inter-Regulatory Technical Group and the Committee on Household Finance set up under the FSDC umbrella. SSU also provided inputs for a peer review of the Indian financial market done by the Financial Stability Board (FSB) and the Financial Sector Assessment Programme (FSAP). SSU also provided inputs on economic and systemic risk-related issues discussed in various international forums like IOSCO meetings and FSB meetings and as sought by the Office of International Affairs from time to time.

SEBI contributed inputs on potential systemic risk issues as well as important measures taken to further strengthen systemic stability and the development of the securities markets in India. SEBI provided inputs for RBI's Network Analysis on a periodic basis. It also provided inputs to the IMF Data Gap Analysis being undertaken by RBI.

An in-house template, the Systemic Risk Monitoring Template (SRMT) developed by SEBI monitors some of the securities market's indicators as to assess signs of systemic vulnerabilities in the Indian securities market on a monthly basis. The template was revisited and reviewed during 2016-17 wherein the number of indicators captured by the template was increased for monitoring on a monthly basis.

Apart from SRMT, SEBI also examined and analysed potential risks, if any, emanating from emerging developments and events on a case to case basis. As such, the likely impact of major events like the Fed Rate hike, Brexit and the US election's results were also examined.

V. RESEARCH PAPERS/NOTES

During 2016-17, research papers/notes were prepared and presented on a wide array of topics including: a) Impact of Demonetization, b) Trends and Progress of Banking in India , c) Stress in the Banking Sector – Recent Measures Taken by Government, d) Indian Economy and Investment Flows , e) Non-Performing Assets and Asset Quality Review, and f) A research paper on Financial Statistics: Relevance and Uses was presented by Research Department at the 19th annual national conference at Sher-e-Kashmir, University of Agricultural Sciences and Technology, Jammu.

VI. INTERNAL KNOWLEDGE SUPPORT

A. **ACADEMIC INTERACTIONS:** Under its Discussion Forum (SDF), SEBI invites renowned scholars and financial market practitioners to deliver lectures/talks on topics related to the securities market, economics and finance. Discussions between the speaker and SEBI staff members help SEBI officials to gain insights and enhance their knowledge about the latest developments in the marketplace, including market movements, policy requirements and regulations. In 2016-17, SEBI invited experts to speak on topics such as 'Issues relating to the Indian Economy,' 'Financial Inclusion in the Indian Securities Market,' 'GST Implementation- Its Impact and Analysis' and the 'Insolvency and Bankruptcy Code 2016.'

B. **MONTHLY REVIEW OF THE GLOBAL SECURITIES MARKET'S REGULATORY DEVELOPMENTS:** A monthly review of the global securities market's regulatory developments covering regulatory issues and developments in the global securities markets is prepared and disseminated internally. This endeavour is aimed at keeping SEBI staff members informed about the latest regulatory changes and market developments at the international level.

VII. COMMITTEE REPRESENTATION

SEBI was represented in the Committee of Financial Statistics set up by the National Statistical Commission under the Ministry of Statistics and Programme Implementation (MOSPI), GoI to strengthen the collection, compilation and dissemination of financial sector statistics.

SEBI also represented at inter-regulatory working group on 'Fintech and Digital Banking' as per the FSDC mandate.

VIII. COMMODITY DERIVATIVES MARKET RESEARCH

A. **RESEARCH SUPPORT TO OPERATIONAL DEPARTMENTS:** To strengthen and support policymaking, the Commodity Research Division under the Department of Economic and Policy Analysis (DEPA) provides active research support and works in coordination with SEBI's Commodity Derivatives Market Regulation Department (CDMRD) and the Integrated Surveillance Department (ISD). Inputs are regularly provided to operational departments on various issues like launch of new contracts, changes in existing contracts and on issues of current importance as sought by the operational departments.

B. **INFORMATION SUPPORT:** Daily, weekly, monthly, quarterly and annual trends as well as developments in commodity exchanges and markets are collated on a regular basis. These are then channelled to various users and publications as information support. As a part of commodity research, inputs were prepared on key issues such as impact of demonetization on the commodity futures market, spot markets in India, rising wheat prices in India and a snapshot of agricultural commodities traded on the commodity derivatives exchanges.

C. **SEBI INTERNATIONAL COMMODITY DERIVATIVE CONFERENCE**: SEBI organized the first International Commodity Derivatives Conference (ICDC 2017) on February 17, 2017 in Mumbai. The conference discussed a set of challenges faced by commodity markets in India and in the world. The conference also focussed on exploring the issues that drive the spot and futures markets and ways of strengthening integration between commodity derivatives and the underlying markets.

Session-wise themes of the conference included

a. Commodity derivatives' markets: How to deepen and improve liquidity

b. Financialization of commodity derivatives

c. Evolving a robust regulatory framework – Interconnectedness with underlying markets

d. Convergence of spot prices and futures prices in commodity markets

Eminent international speakers at the conference included officials from the Commodity Futures Trading Commission (CFTC), USA, the Abu Dhabi Investment Authority (ADIA), the European Commission and USDA. Indian speakers included academicians, practitioners and officials from the government. The participants were a diverse mix from the regulator, exchanges, brokers, hedgers/ processors, commodity associations and academia.

11. SURVEILLANCE

Effective surveillance of the securities market is a pre-requisite for maintaining market integrity to enhance investor confidence. The stock exchanges are on the frontline as far as real time surveillance of the market segments that they operate in are concerned. At SEBI, ISD is responsible for the surveillance of all the segments of the Indian securities market. Over the years, various amendments to the SEBI Act, 1992 have empowered SEBI to undertake credible surveillance action.

Complementing the surveillance infrastructure of the stock exchanges, SEBI has robust in-house systems in place to monitor activities across all market segments and platforms and to check unfair trade practices like market manipulation and insider trading. The Joint Fund-Bank Financial Sector Assessment Programme of India noted that building a robust market surveillance system, among others, allowed SEBI to build a reputation of being a credible enforcement agency.

A. SURVEILLANCE MEASURES

As an on-going mechanism, SEBI conducts meetings at regular intervals with stock exchanges/ depositories to keep track of market movements and surveillance activities. During 2016-17, in consultation with stock exchanges and depositories, the following surveillance measures were taken:

a. Action taken in the matter of dealing in shares of companies with poor fundamentals.

b. In cases of misuse of the stock exchange trading platform for tax evasion purposes, focused inspection of suspicious brokers and depository participants undertaken.

c. To deal with increasing instances of bulk fraudulent SMSes to investors at large, action taken in a few cases to send a message to the market.

d. Strengthened the depository alert system.

B. SURVEILLANCE ACTION

SEBI and the stock exchanges have robust surveillance mechanisms in place to track activities on the stock exchange platform and to generate alerts based on dynamic, system-based parameters. The stock exchanges apprise SEBI of surveillance concerns and actions at regular surveillance meetings. Stock exchanges initiate surveillance measures like introducing periodic price bands, shifting to trade for trade (TfT) and tightening price bands on the basis of the alerts and the analysis of trading in scrips. Stock exchanges also take punitive action (suspension of trading in the scrips, debarment of the suspected entities, etc.).

In 2016-17, NSE, BSE and MSEI shifted 174, 666 and 88 scrips respectively to the TfT segment (versus 132, 642 and 49 respectively during 2015-16). During the year, NSE, BSE and MSEI imposed price bands of 2, 5 and 10 per cent on 959, 1,831, and 638 scrips respectively versus 1,292, 3,000 and 670 respectively in the previous year.

In 2016-17, NSE, BSE and MSEI conducted preliminary investigations in 36, 1,535 and 7 cases, respectively (versus 31, 1,009 and 1 cases respectively during 2015-16). Also, during the year, NSE, BSE and MSEI verified 294, 301 and one rumours (versus 239, 253 and one rumours verified during the previous year) (Table 3.38).

Table 3.38: Surveillance action during 2016-17

Nature of Action	2015-16			2016-17		
	NSE	BSE	MSEI	NSE	BSE	MSEI
1	*2*	*3*	*4*	*5*	*6*	*7*
Scrips shifted to the trade-to-trade segment	132	642	49	174	666	88
No. of instances in which price band was reduced (2, 5 and 10 per cent)	1,292	3,000	670	959	1,831	638
Preliminary investigations taken up (Snap)	31	1,009	1	36	1,535	7
Rumours verified	239	253	1	284	301	1

Notes:

1. **Number of observation letters issued to entities during 2016-17: 505**
2. **Number of caution letters issued to entities during 2016-17: 2**
3. **Number of scrips suspended in 2016-17: 4**

Source: NSE, BSE and MSEI.

C. SURVEILLANCE MEASURES – COMMODITIES

During 2016-17, the prices of sugar, chana, cotton seed oil cakes, rapeseed/ mustard seeds, maize (Rabi), guar seeds, guar gum, wheat, soyabean, castor seeds, jeera, cardamom, mentha oil and cotton derivative contracts were found to be volatile in line with spot prices of the respective commodity. With an objective of tempering the possible exuberance in their futures markets the Commodity Surveillance Department took up regulatory measures such as imposition of additional margins and special margins on these commodity futures contracts. The margins so imposed on certain commodity derivative contracts were also revised/withdrawn as and when required.

In addition to the imposition of additional/ special margins in chana contracts, directions were issued to exchanges on June 16, 2016 that no fresh chana contracts will be launched and only squaring-off positions will be allowed in running contracts. Further, as a measure of abundant caution, directions were issued to exchanges on July 27, 2016 to close out all open positions at the end of the day, that is, July 27, 2016.

Following surveillance measures/actions have been taken during 2016-17:

a. **Commodity Watch System**: A commodity watch system has been designed in line with the equity surveillance system. Exchanges have successfully implemented this w.e.f. July 01, 2016.

b. **Spread Positions:** The national exchanges were directed on September 27, 2016 that in case of spread trades, special margin shall not be applicable.

c. **Wash Trades/Self-trades' Restrictions:** The issue of wash trades in commodity derivatives was discussed in detail with exchanges during surveillance meetings. The exchanges have augmented their capabilities whereby wash trades / self-trades are restricted before execution.

d. **Surveillance Obligations for Trading Members**: As advised, all national commodity exchanges have implemented effective surveillance at the member level. As per the directives, members are responsible for carrying out due diligence of their clients;

they are also directed to frame a surveillance policy for monitoring and reporting on various factors. This system is effective from January 01, 2017.

e. **Mark to Market (MTM) Margin Shortages**: Exchanges issued a circular that in case of members delaying the MTM margin, an amount equivalent to the last 30 days' MTM shortages are blocked for a period of 10 days without providing any margin benefit.

1. **Warehouse Inspections:** On the basis of complaints in contracts of coriander and cotton seed oil cakes, warehouse inspections were conducted in Rajasthan and Gujarat in August 2016 by a team of officers from the Surveillance Department and samples collected. The samples were sent to the laboratory of the Spice Board of India (for coriander) and the Central Institute for Research on Cotton Technology (CIRCOT) (for cotton seed oil cakes) for assaying purposes.

2. **Surveillance Inputs from Regional/ Local Offices:** SEBI's regional and local offices have been asked to monitor vernacular language newspapers and complaints and provide surveillance inputs. Regional/local offices are also requested to provide surveillance inputs gathered from local mandis and keep a close watch on spot prices prevailing in the local mandis.

A summary of surveillance actions in commodities taken in 2016-17 is given in Table 3.39.

Table 3.39: Summary of surveillance Action - Commodities

Nature of Action	MCX		NCDEX	NMCE
	Agri Commodities	Non-Agri Commodities	Agri Commodities	Agri Commodities
No. of commodities where further margins were imposed	4	12	11	6
	(3)	0	(9)	(5)
No. of cases taken up for detailed investigations	19	34	43	0
	(10)	(17)	(34)	0
No. of observations/caution letters issued	52	173	385	22
	(4)	0	(55)	(2)
No. of commodities suspended from trading	0	0	1	1
	0	0	(1)	0

Note: Figures in parenthesis are for 2015-16.

D. Information Called From, Inspections Undertaken, Enquires and Audits of Stock Exchanges, Intermediaries and SROs in the Securities Market Conducted by SEBI

As a part of a comprehensive inspection of stock exchanges and commodity exchanges, officers from the Surveillance Department visited various stock exchanges and commodity exchanges for surveillance inspections during 2016-17.

12. INVESTIGATION

Timely completion of investigations and effective, proportionate and dissuasive action in case of violations of securities' laws are important for protecting investor interests and ensuring a fair, transparent and orderly functioning of the market. These are also vital for improving confidence in the integrity of the securities market. Another important benefit resulting from investigations is contribution to policy changes with a view to further strengthening the regulatory and enforcement environment. Therefore, SEBI is constantly striving to upgrade its investigative skills by making use of IT and other latest investigative tools.

Keeping these objectives and principles of securities' regulations in view, SEBI initiates investigations to examine alleged or suspected violations of laws and regulations relating to the securities market. Possible violations may include price manipulation, creating an artificial market, insider trading, capital issue related irregularities, takeover related violations, non-compliance of disclosure requirements and any other misconduct in the securities market.

A. INITIATION OF INVESTIGATIONS:

SEBI initiates investigations based on references received from sources such as SEBI's Integrated Surveillance Department, other operational departments within SEBI and external government agencies.

B. PROCESS OF INVESTIGATION:

The steps involved in an investigation include an analysis of market data (order and trade log, transaction statements, etc.) and static data (KYC documents obtained from brokers, depository participants, etc., bank records, financial results, events around major corporate developments, call data records etc.). The purpose of such an investigation is to gather evidence and to identify persons/ entities behind irregularities and violations so that appropriate and suitable regulatory action can be taken wherever required.

C. TRENDS IN INVESTIGATION CASES:

During 2016-17, 245 new cases were taken up for investigation and 155 cases were completed compared to 133 new cases taken up and 123 cases completed in 2015-16 (Table 3.40). There was a comparative increase in the number of cases taken up during 2016-17 mainly due to the references received from the Department of Income Tax in the matter of long term capital gain/short term capital loss in various scrips.

Table 3.40: Trends in investigations

Period	Cases taken up for Investigation	Cases Completed
1	2	3
2015-16	133	123
2016-17	245	155
Total	2,328	2,059

D. NATURE OF INVESTIGATIONS IN THE CASES TAKEN UP:

During 2016-17, 76 per cent (185 out of 245) of the cases taken up for investigation pertained to market manipulation and price rigging compared to 63 per cent (84 out of 133) cases in 2015-16. While insider trading and takeover violation cases accounted for 14 per cent (34 cases) and 1 per cent (3 cases) respectively, 'Issue' related manipulation and other violations of securities laws accounted for 3 per cent (8 cases) and 6 per cent (15 cases) respectively (Table 3.41).

Table 3.41: Category-wise nature of investigations

Particulars	Investigations taken up		Investigations completed	
	2015-16	2016-17	2015-16	2016-17
Market manipulation and price rigging	84	185	60	118
'Issue' related manipulations	9	8	20	5
Insider trading	12	34	20	15
Takeovers	2	3	2	4
Miscellaneous	26	15	21	13
Total	**133**	**245**	**123**	**155**

Since several investigation cases involve multiple allegations of violations, their water-tight classification under a specific category becomes difficult. Therefore, cases were classified on the basis of main charge / violation.

E. NATURE OF INVESTIGATION CASES COMPLETED:

During 2016-17, 76 per cent (118 out of 155)cases that were completed pertain to market manipulation and price rigging compared to 49 per cent (60 out of 123) cases in 2015-16. In addition, the other category of cases completed pertained to insider trading, takeover violations, 'Issue' related manipulation and other violations of securities laws; these accounted for 10 per cent (15 cases), 3 per cent (4 cases), 3 per cent (5 cases) and 8 per cent (13 cases) respectively (Table 3.41).

F. REGULATORY ACTION TAKEN:

After an investigation is completed, penal action is initiated as approved by the competent authority wherever violations of laws and obligations relating to the securities market are observed. Action is decided based on the principles of objectivity, consistency, materiality and quality of evidence available after a thorough analysis and appreciation of facts. The action taken includes issuing warning letters, initiating enquiry proceedings for registered intermediaries, initiating adjudication proceedings for levy of monetary penalties, passing directions under Section 11 of the SEBI Act, 1992 and initiating prosecution and referring the matter to other regulatory agencies (Table 3.42).

Table 3.42: Type of regulatory action taken

Type of regulatory action taken	number of entities during 2016-17 against whom regulatory action was taken
Suspension	7
Warnings issued	103
Prohibitive directions issued under Section 11of the SEBI Act, 1992	563
Cancellations	0
Administrative warnings/ warning letters issued	239
Deficiency observations issued	24
Advice letters issued	17
TOTAL	**953**

G. REGULATORY ACTION INITIATED:

After an investigation is completed, penal action is initiated as approved by the competent authority wherever violations of laws and obligations relating to the securities market is observed. Action is decided based on the principles of objectivity, consistency, materiality and quality of evidence available after a thorough analysis and appreciation of facts. The action includes issuing warning letters, initiating enquiry proceedings for registered intermediaries, initiating adjudication proceedings for levy of monetary penalties, passing directions under Section 11B of the SEBI Act, 1992 and initiating prosecution as given in Table 3.43.

Table 3.43: Type of regulatory action initiated

Type	No. of entities
Administrative warnings issued	206
Proceedings under Section 11B of the SEBI Act, 1992	604
Proceedings under intermediaries' regulations	2
Adjudication proceedings	897
Prosecution proceedings	91

13. OTHER FUNCTIONS

I. ENFORCEMENT OF REGULATIONS

Effective enforcement lies at the heart of ensuring integrity, transparency and fairness in the market. It not only leads to a better compliance culture but also underscores the point that market misconduct and abuse will not go unpunished. A credible enforcement strategy underpins the importance of consistent, timely and transparent regulatory outcomes which are proportionate, dissuasive and effective. Under the SEBI Act, 1992; SCRA, 1956; and the Depositories Act, 1996 SEBI broadly pursues two streams of enforcement action, that is, administrative/civil or criminal. Administrative/civil action includes issuing directions such as remedial orders, cease and desist orders, suspension or cancellation of certificates of registration and imposition of monetary penalties under respective statutes. Proceedings of a criminal nature involve initiating prosecution proceedings against violators by filing criminal complaints before a competent court.

A. ENFORCEMENT MECHANISMS: SEBI uses five enforcement mechanisms in case of any violation(s) pertaining to laws regulating the securities market.

Section 11/11B Proceedings: Under these proceedings, SEBI may issue directions or prohibitive orders in the interest of investors or the securities market, either pending investigation/ inquiry or on completion of such investigation/ inquiry. Under Section 11B of the SEBI Act, 1992, SEBI may suspend trading of any security in a recognized stock exchange; restrain persons from accessing the securities market; prohibit any person associated with the securities market to buy, sell or deal in securities; and direct any intermediary or any person associated with the securities market not to dispose of or alienate an asset forming part of any transaction which is under investigation.

Enquiry Proceedings: SEBI may suspend or cancel the certificate of registration of an intermediary through the enquiry regulations on the recommendation of the enquiry officer/designated authority appointed for that purpose.

Adjudication Proceedings: Under chapter VI A of the SEBI Act, 1992, SEBI may appoint an adjudicating officer for conducting an enquiry and imposing monetary penalties after completing the investigation/inquiry for contravention of any provision of the SEBI Act, 1992 or any rules or regulations made thereunder.

Prosecution Proceedings: SEBI may initiate proceedings by filing a criminal complaint against any person, for contravention of any provision of the SEBI Act, 1992 or any rules or regulations made thereunder, before a special court.

Summary Proceedings: SEBI may initiate a summary enquiry against SEBI registered intermediaries or may issue a warning and deficiency letter for violation of rules and regulations for intermediaries. Chapter VA of the SEBI (Intermediaries) Regulations, 2008 provides SEBI the power to conduct summary proceedings in certain cases.

a. Section 11/11B Proceedings

During 2016-17, SEBI initiated enforcement action in 82 cases under Section 11/11B, while it disposed of 140 cases under Section 11,11B and 11D. At the end of March, 2017, 364 cases were pending for action (Table 3.44).

Table 3.44: An age-wise analysis of enforcement Actions- u/s 11, 11B and 11D of the SEBI Act, 1992

Particulars	Number of Cases
Cases pending at the beginning of the period as reported in the annual report 2015-16.	422
Cases added during the period 2016-17	82
Cases disposed of during the year	140
Cases pending at the end of the period	364
Break–up of pending cases at the end of the period	
Cases older than 2 years	125
Cases older than 1 but less than 2 years	169
Cases less than 1 year	70
TOTAL	364

b. Enquiry Proceedings

During 2016-17, SEBI initiated 19 enquiry proceedings and disposed of 7 cases after due completion of enquiry proceedings. As on March 31, 2017, 71 cases pertaining to enquiry proceedings were pending. (Table 3.45).

Table 3.45: An age-wise analysis of enforcement action - Enquiry proceedings

Particulars	No. of cases
Cases pending at the beginning of the period	59
Cases added during the period	19
Cases disposed of during the year	7
Cases pending at the end of the period	**71**
Break-up of pending cases at the end of the period	
Cases older than 2 years	32
Cases older than 1 but less than 2 years	23
Cases less than 1 year	16
TOTAL	**71**

c. Adjudication Proceedings

During 2016-17, 83 adjudication proceedings were disposed of by SEBI and 278 fresh cases were initiated. As on March 31, 2017 adjudication proceedings were pending in 1,400 cases (Table 3.46).

Table 3.46: An age-wise analysis of enforcement action - Adjudication proceedings

Particulars	No. of cases
Cases pending at the beginning of the period	1,205
Cases added during the period	278
Cases disposed of during the year	83*
Cases pending at the end of the period	**1,400**
Break-up of pending cases at the end of the period	
Cases older than 2 years	753
Cases older than 1 but less than 2 years	387
Cases less than 1 year	260
TOTAL	**1,400**

*** The disposal of Adjudication Proceedings in 2016-17 declined substantially pursuant to the judgement of the Hon'ble Supreme Court in the matter of Roofit Industries (Civil Appeal 1364-1365 0f 2005) where it was held that the Adjudicating Officer has no discretion to decide the quantum of monetary penalty. This was differed by another bench in the matter of Siddharth Chaturvedi (Civil Appeal 14730 of 2015) and referred for a larger bench. The issue was ultimately resolved by the Finance Act, 2017, by amending the securities laws, which came into effect from 26th April, 2017.**

d. Prosecution Proceedings

During 2016-17, 33 prosecution cases were launched against 237 persons/ entities as compared to 46 prosecutions launched against 268 persons/ entities in 2015-16. During 2016-17, 87 cases were disposed of as against 30 cases disposed of during 2015-16.

e. Summary Proceedings

During 2016-17, no case for summary proceedings was disposed or initiated by SEBI. The cumulative pending cases as on March 31, 2017 stood at 56 (Table 3.47).

Table 3.47: An age-wise analysis of enforcement action – Summary proceedings

Particulars	No. of cases
Cases pending at the beginning of the period	59*
Cases added during the period	0
Cases disposed of during the year	3
Cases pending at the end of the period	**56***
Break-up of pending cases at the end of the period	
Cases older than 2 years	56*
Cases older than 1 but less than 2 years	0
Cases less than 1 year	0
TOTAL	**56***

Note: *Upon reconciliation of records as on date, out of the 2,344 cases of summary proceedings initiated, 56 cases are remaining of which 49 cases (56-7)pertain to 9 regional stock exchanges which have exited or are under the process of exiting. As per the exit order dated May 30, 2017, 3 brokers of the exiting CSE and ASE are deemed to be no more brokers.

During 2016-17, SEBI issued 1,182 show cause notices and conducted 615 hearings in Enquiry and Adjudication proceedings. (Table 3.48).

Table 3.48: Enquiries and adjudications completed during 2016-17

Particulars	Enquiry		Adjudication		Total	
1	2		*3*		*4*	
	No. of entities	No. of matters	No. of entities	No. of matters	No. of entities	No. of matters
Orders passed/reports submitted	14	7	296*	83*	310	90
Hearings conducted	0	0	615	166	615	166
Show cause notices issued	23	11	1159	224	1182	235

Note: *Includes 120 consent orders in 7 matters.

During 2016-17, SEBI initiated adjudication proceedings against one registrar to issue and share transfer agent (Table 3.49).

Table 3.49: Enquiry and adjudication proceedings against other intermediaries

Intermediaries	Adjudication		Enquiry reports		Warning/deficiency/ advice	
1	2		3		*4*	
	No. of entities	No. of matters	No. of entities	No. of matters	No. of entities	No. of matters
Registrars to Issue and Share Transfer Agents	1	1	0	0	12	12
Merchant Bankers	0	0	0	0	6	6
Depository Participants	0	0	0	0	28	28
Credit Rating Agencies	0	0	0	0	1	1
Debenture Trustees	0	0	0	0	2	2
Total	**1**	**1**	**0**	**0**	**49**	**49**

II. PROSECUTIONS

A. TRENDS IN PROSECUTION

a. NUMBER OF PROSECUTIONS LAUNCHED

During 2016-17, 33 prosecution cases were launched against 237 persons/entities as compared to 46 prosecutions launched against 268 persons/ entities in 2015-16 (Table 3.50).

Table 3.50: Prosecutions launched

Year	No. of cases in which prosecution has been launched	No. of persons/ entities against whom prosecution has been launched
1	*2*	*3*
Up to 2003-04	891	4,332
2004-05	86	432
2005-06	30	101
2006-07	23	152
2007-08	40	185
2008-09	29	114
2009-10	30	109
2010-11	17	67
2011-12	29	60
2012-13	75	150
2013-14	269	652
2014-15	67	157
2015-16	46	268
2016-17	33	237
Total	**1,665**	**7,016**

Up to March 31, 2017, region-wise the highest number of prosecutions were launched in the head office/ western region (1,004) followed by the northern region (358), eastern region (194) and southern region (109) (Table 3.51).

Table 3.51: Region-wise data on prosecution cases

Region	Number of Cases	Percentage to Total	Number of Cases	Percentage to Total
	As on March 31, 2016		As on March 31, 2017	
1	*2*	*3*	*4*	*5*
Head Office/ Western Region	1,002	61	1,004	60
Northern Region	351	22	358	22
Southern Region	102	6	109	7
Eastern Region	177	11	194	12
Total	**1,632**	**100**	**1,665**	**100**

b. NATURE OF PROSECUTIONS

SEBI launches prosecutions for violation of provisions of the SEBI Act, 1992; Companies Act, 1956; Depositories Act, 1996; SC (R) Act, 1956; and the Indian Penal Code. Up to March 31, 2017, 1,645 prosecution cases had been launched (Table 3.52).

Table 3.52: Nature of prosecutions launched

Nature of Prosecution Launched	Number of cases as on March 31, 2016	Number of cases as on March 31, 2017
1	*2*	*3*
SEBI Act, 1992 (SEBI Act)	1,405	1,415
SEBI Act & SCRA, 1956	97	97
SEBI Act, SCRA, 1956& Companies Act	2	2
SEBI Act & Companies Act	4	25
SEBI Act & Indian Penal Code	5	5
Companies Act, 1956	75	77
SCRA, 1956	7	7
Depositories Act, 1996	29	29
Indian Penal Code	8	8
Total	**1,632**	**1,665**

c. DISPOSAL OF PROSECUTION CASES

As on March 31, 2017, the courts had disposed of 400 prosecution cases filed by SEBI, out of which 196 cases pertained to CIS entities and 204 pertained to non-CIS entities. Further, out of 400 prosecution cases decided by the courts, 170 cases resulted in convictions and 154 cases were fully compounded (Table 3.53). Thus, 1,265 prosecution cases were carried forward to 2017-18.

Table 3.53: Number of prosecution cases decided by the courts

Type of Decision by the Courts	Up to 2015-16			Up to 2016-17		
	CIS	Non-CIS	Total	CIS	Non-CIS	Total
1	*2*	*3*	*4*	*5*	*6*	*7*
Convictions	154	10	164	154	16	170
Compounded (fully)	8	76	84	8	146	154
Abated	6	4	10	6	6	12
Dismissed/ Discharged	26	24	50	26	33	59
Withdrawn	2	3	5	2	3	5
Total	**196**	**117**	**313**	**196**	**204**	**400**

III. LITIGATIONS, APPEALS AND COURT PRONOUNCEMENTS

During 2016-17, 376 fresh court cases where SEBI was a party were filed in different courts while 206 cases were disposed of. Of the 206 cases disposed of, 79 pertained to collective investment schemes, 25 pertained to issues and listings and 13 related to investor complaints. As on March 31, 2017 the highest number of cases were pending in the miscellaneous category (404 cases) followed by collective investment schemes' cases (260 cases), cases related to issues and listings (226 cases) and investor complaint cases (207 cases) (Table 3.54).

Table 3.54: Status of court cases where SEBI was a party (subject matter)

Subject	Filed during 2016-17	Disposed during 2016-17	Pending as on March 31, 2017
1	*2*	*3*	*4*
Issue and Listing	57	25	226
Takeovers	16	4	22
Stock Exchanges/ Clearing Corporations/ Depositories	4	4	29
Mutual Funds	1	1	4
Collective Investment Schemes	92	79	260
Surveillance & Investigations	13	2	43
Intermediaries/Broker Fees' Matters	12	13	72
Cases Relating to Investor Complaints	15	13	207
Right to Information	1	1	15
The General Services Department	2	1	15
Human Resources	1	2	8
Commodities	2	4	6
Miscellaneous	160	57	404
Total	**376**	**206**	**1,311**

Note: Data does not include statutory appeals filed before SAT and the Supreme Court.

During 2016-17, of the 376 cases filed across various judicial forums, 76 cases were filed in the Supreme Court, 183 cases were filed in High Courts, followed by 55 cases in mediation and conciliation centres and 23 cases in NCLT and NCLAT. The cases disposed of by the various High Courts were the highest at 97 and 41 cases were disposed of in the mediation and conciliation centres whereas cases disposed by the Supreme Court and civil courts were 20 and 10 respectively. As on March 31, 2017, 1,311 cases were pending at different stages before various judicial forums (Table 3.55).

Table 3.55: Status of court cases where SEBI was a party (judicial forum)

Subject	Filed during 2016-17	Disposed during 2016-17	Pending as on March 31, 2017
1	*2*	*3*	*4*
Supreme Court	76	20	103
High Courts	183	97	710
Civil Courts	13	10	101
Criminal Courts	5	4	103
Consumer Forums	13	21	155
NCLT/NCLAT	23	7	28
The Central Information Commission	1	1	0
BIFR/AAIFR*	4	5	86
Labour Commissioner/ Labour Court	2	0	7
Commissioner of Income Tax	0	0	0
Municipal/Local Bodies	0	0	0
Green Tribunal	0	0	0
Registrar of Companies	0	0	0
Mediation & Conciliation Centres	55	41	15
The Debt Recovery Tribunal	1	0	1
Central Administrative Tribunal	0	0	2
Total	**376**	**206**	**1,311**

Notes:

1. **Data does not include statutory appeals filed before SAT and the Supreme Court.**
2. ***BIFR/AAIFR matters stand abated as the Sick Industrial Companies (Special Provisions) Act, 1985 is repealed w.e.f December 01, 2016.**

During 2016-17, 470 appeals were filed before the Securities Appellate Tribunal (SAT). Further, 185 appeals were dismissed (ruled in favour of SEBI) while seven were allowed (ruled against SEBI). At the end of March 31, 2017, 411 appeals were pending with SAT (Table 3.56).

Table 3.56: Status of appeals before SAT

Status of Appeal	2016-17
1	*2*
Appeals pending at the beginning of the year	400*
Appeals filed during the year	470
Appeals dismissed	185
Appeals remanded	125
Appeals allowed	7
SEBI orders upheld with modifications	50
Appeals withdrawn	92
Appeals pending at the end of the year	411

Note: * Number of cases carried forward from the previous year has been reconciled.

Against SAT's orders, 37 appeals were filed by SEBI, whereas 25 appeals were filed by parties before the Supreme Court during 2016-17 under Section 15Z of the SEBI Act. Further, 35 appeals which had been filed by SEBI were disposed of and 31 appeals filed by the parties were disposed of. As on March 31, 2017, there were 146 appeals pending before the Supreme Court, out of which 75 appeals were filed by SEBI and 71 appeals were filed by the parties (Table 3.57).

Table 3.57: Status of appeals before the Supreme Court

Subject Matter	2015-16			2016-17		
	Appeals filed during	Appeals disposed of during	Appeals pending at the end of	Appeals filed during	Appeals disposed of during	Appeals pending at the end of
1	*2*	*3*	*4*	*5*	*6*	*7*
Appeals filed by SEBI	11	20	73	37	35	75
Appeals filed by parties	19	32	77	25	31	71
Total	**30**	**52**	**150**	**62**	**66**	**146**

Note: * Data includes statutory appeals filed before the Supreme Court.

As on March 31, 2017, there were 18 statutory appeals pending in the High Courts out of which five appeals were filed by SEBI and 13 were filed by parties. During 2016-17, two appeals filed by parties were disposed by High Courts (Table 3.58).

Table 3.58: Status of appeals before High Courts

Subject Matter	2015-16			2016-17		
	Appeals filed	Appeals Disposed	Appeals pending	Appeals filed	Appeals disposed	Appeals pending
1	*2*	*3*	*4*	*5*	*6*	*7*
Appeals filed by SEBI	0	0	5	0	0	5
Appeals filed by parties	8	1	15	0	2	13
Total	**8**	**1**	**20**	**0**	**2**	**18**

IV. CONSENT AND COMPOUNDING

During 2016-17, SEBI received 171 applications for consent as compared to 177 applications received in the previous year. There were 117 compounding applications filed by the accused in criminal courts during 2016-17 as compared to 74 in the previous year. Out of 171 applications for consent during the year, 23 were rejected. The number of applications in rejection and withdrawal categories may include applications filed during previous financial years.

During 2016-17, SEBI settled 103 applications by passing orders under the consent and compounding category and it collected ₹ 13.51 crore towards settlement / legal / administrative / disgorgement charges compared to ₹ 4.42 crore in 2015-16 (Table 3.59).

Table 3.59: Consent applications filed with SEBI

Year	Pending at the beginning of the period	No. of consent applications received	No. of applications disposed of by passing order^	Consent charges (₹)*	No. of applications rejected	Pending at the end of the period
1	*2*	*3*	*4*	*5*	*6*	*7*
2015-16	120	177	34	4,42,26,748	82	181
2016-17	187#	171	103	13,50,83,822	23	232

Notes:

1. **^The number of applications may include disposal of applications filed during previous financial years.**
2. ***Amount received towards disgorgement, settlement and legal expenses.**
3. **# As per *Annual Report 2015-16*: Closing balance 181, post reconciliation as on March 31, 2016 - 187.**

Further, out of the 117 applications received for compounding during 2016-17, 72 applications were fully compounded, while 48 were rejected (Table 3.60).

Table 3.60: Compounding applications filed by the accused in criminal courts

Year	Opening balance	No. of compounding applications filed	Application Disposed		Compounding charges received by SEBI (₹)*	Closing Balance
			Compounded	Rejected		
1	*2*	*3*	*4*	*5*	*6*	*7*
2015-16	34	74	18	4	14,43,737	86#
2016-17	86	117	72	48	7,82,73,329	83

Notes:

1. ***Amount received towards disgorgement, settlement and legal expenses.**
2. **# The closing balance for March 31, 2016 and other figures for 2015-16 have been reconciled. The format has been revised to include opening and closing balances.**

V. RECOVERY PROCEEDINGS

The Securities Laws (Amendment) Act, 2014 was notified in August 2014 amending the SEBI Act, 1992, SCRA, 1956 and the Depositories Act, 1996 w.e.f. July 18, 2013. As per Section 28A of the SEBI Act and the corresponding provisions of SCRA and the Depositories Act, SEBI is empowered to recover money from persons who fail to pay the penalty imposed by an adjudicating officer or fail to comply with any directions of the Board for refund of money or fail to comply with the direction of disgorgement order or fail to pay any fees due to the Board. Table 3.61 presents the details of recovery proceedings by SEBI.

Table 3.61: Recovery proceedings by SEBI

S. No	Description	CIS & DPI				Other than CIS & DPI				Total
		2013-14	2014-15	2015-16	2016-17	2013-14	2014-15	2015-16	2016-17	
1	Recovery Certificates/ notice of demand drawn by SEBI	1	14	47	34	63	526	244	241	**1,170**
2	Amount covered under certificates (₹ crore)*	1,520	370	52,912	15,154	75	91	47	182	**70,351**
3	No. of certificates cancelled	0	1	1	0	0	10	26	11	**49**
4	Amount covered under cancelled certificates (₹ crore)	0	0	0	0	0	6	19	49	**73**
5	No. of attachment notices / orders issued	54	45	100	229	271	1,574	514	478	**3,265**
6	Amount recovered (₹ crore)	0	2	213	81	8	17	11	8	**341**
7	Arrest and detention of defaulters	0	0	0	0	0	3	0	0	**3**
8	Cases where recovery is fully completed	0	0	0	0	6	121	80	121	**328**
9	No. of certificates pending at the year end	**1**	**14**	**60**	**94**	**57**	**452**	**590**	**699**	**793**

Notes:

1. **Amounts in other than CIS & DPI cases include interest and costs till the date of issuance of the recovery certificate.**
2. **Amount involved in litigation and multiple agency attachments was ₹ 59,396 crore in 108 cases as on March 31, 2017.**
3. **Previous year's balance is carried forward as pending at the end of each successive year.**

Box 3.2: Recovery Actions

Action taken in the PACL case

After initiation of recovery proceedings against PACL Ltd. in December 2015 for recovery of ₹ 49,100 crore along with returns/ interest due to more than 5.5 crore investors, SEBI secured about ₹ 200 crore lying in various banks. As there were multiple proceedings before the Delhi High Court regarding the attachment of bank accounts by other agencies, SEBI filed transfer applications before the Supreme Court of India.

The Supreme Court vide order dated February 02, 2016 directed: (i) SEBI to constitute a committee under the Chairmanship of former Chief Justice of India Shri R.M. Lodha to sell PACL Ltd.'s assets and distribute money to the investors, (ii) money lying in all the bank accounts to be released to SEBI and SEBI will keep this in separate bank accounts, (iii) the Central Bureau of Investigation to hand over original documents relating to properties of PACL Ltd. to the committee. As per the order, SEBI constituted the committee on February 17, 2016 and provided office space and manpower to it at Hotel Ashoka, New Delhi. SEBI has so far recovered ₹ 210 crore from all the bank accounts and transferred it to a separate bank account opened by the committee. The committee has called for Expression of Interest from the general public for sale of the properties. Based on the responses received, the committee is taking steps to assess the value of the properties and auction them. The committee has been receiving a number of cross-claims with respect to various PACL Ltd.'s properties The committee has disposed 47 vehicles and realized ₹ 15.22 crore.

On receipt of information that a contract for sale of Hotel Sheraton Mirage in Gold Coast, Australia which was purchased out of the funds mobilized by PACL and diverted to Australia, SEBI has filed an application before the Federal Court of Australia for securing the proceeds of sale and two other properties acquired by PACL Ltd.'s associates in Australia. The Federal Court has directed that the sale proceeds be deposited in an interest bearing deposit account in Australia. SEBI has also filed an application claiming the sale proceeds of AUD 87.37 million (₹ 437 crore approximately). As some of the Indian investor groups have claimed the said proceeds and the other properties, these are yet to be released in favour of SEBI due to the objections raised by the said group and the matter is pending before the court, which SEBI is pursuing legally.

Actions taken in other recovery cases:

Exercise its recovery powers during 2016-17 with the limited available manpower dealing with recovery matters, 275 fresh recovery proceedings for recovery of ₹ 15,336 crore were initiated and 707 attachment notices were issued against bank accounts/lockers, demat accounts and others. The recovery proceedings were completed in 121 cases, all of which were non-CIS / DPI cases and ₹ 88 crore was recovered during 2016-17.

Attachment of assets by multiple agencies:

In many of the cases where SEBI has initiated recovery proceedings, there are litigations making any sale difficult. Further, many assets have multiple attachments by various agencies leading to disputes relating to claims and counter-claims of the assets as the law is not yet settled -- 108 cases involving ₹ 59,396 crore are affected either due to litigations or multiple agency attachments. Therefore, SEBI is required to defend the cases and/or to coordinate with other agencies for disposal of the assets of the defaulters. A Special Court set up under the Maharashtra Protection of Interests of Depositors (MPID) Act permits SEBI to undertake valuation and auction of assets in coordination with the competent authority under the MPID Act in a couple of cases and the court has appreciated its efforts so far.

VI. SPECIAL ENFORCEMENT CELL

SEBI constituted the Special Enforcement Cell to specifically handle work relating to the verification process of documents submitted in terms of the directions of the Hon'ble Supreme Court and matters connected therewith. Developments in the matter of M/s. Sahara India Real Estate Corporation Ltd., (SIRECL) and M/s. Sahara India Housing Corporation Ltd. (SHICL) are given below.

A. BACKGROUND:

SEBI is implementing the Hon'ble Supreme Court's judgment dated 31.08.2012 which inter alia upheld SEBI directions to SIRECL and SHICL (collectively referred to hereinafter as the "Saharas") to forthwith refund the money collected by them through RHPs with 15 per cent interest from the date of receipt of money till the date of payment.

SEBI has been acting in accordance with the directions contained in the said judgment of the Hon'ble Supreme Court and its actions are overseen by Hon'ble Justice (retd.) B. N. Agrawal. SEBI has filed 15 status reports before the Hon'ble Supreme Court in this respect which have also been furnished to Saharas.

B. DEVELOPMENTS IN THE MATTER DURING 2016 - 17:

Hon'ble Supreme Court vide Order dated March 29, 2016, directed SEBI to devise a suitable mechanism for sale of properties, the title deeds whereof have already been deposited with it by Saharas, in consultation and under the supervision of Justice (retd.) B.N. Agrawal, with or without the assistance of an expert agency and to keep Saharas duly informed about the steps taken by it in which event Saharas shall be free to provide such inputs as may be considered necessary so that the properties fetch a fair price towards sale consideration. It has also been directed that SEBI shall not sell any property owned by Saharas for a price less than 90 per cent of the circle rates for the area in question without the permission of the Hon'ble Court.

SEBI engaged the services of SBI Capital Markets Ltd. and HDFC Realty Ltd., (collectively referred to hereinafter as "Agencies") in the process of sale of the properties of the Saharas. These agencies were assigned with the sale process of 30 properties each (out of 67 properties for which title deeds were submitted to SEBI by Saharas).

The auctions resulted in sale of only five properties for a total value of ₹127.68 crore. Out of the said total sale value, consideration in respect of sale of four properties have been received in full and Certificates of Sale have been issued. As regards the remaining property, the due date for remittance of the final instalment of the sale consideration is due on April 25, 2017.

C. AMOUNT RECEIVED FROM THE SAHARAS

Pursuant to various Orders passed by the Hon'ble Supreme Court and the attachment Orders dated February 13, 2014 passed by SEBI, as on March 31, 2017, an aggregate amount of about ₹11,800 crore has been recovered by SEBI. As on March 31, 2017, these amounts along with interest earned on them after providing for making refunds to the investors, have been deposited in 'nationalized banks' for an aggregate amount of ₹.14,487 crore, in terms of the judgment dated August 31, 2012 of the Hon'ble Supreme Court.

D. STATUS OF REFUNDS MADE BY SEBI

Pursuant to the order of the Hon'ble Supreme Court dated May 08, 2013 permitting SEBI to make refunds to those genuine investors who lodged their claim with SEBI, a press release was issued on May 28, 2012 followed by two series of advertisements released in August 2014 and December 2014 and the format of the "Application for refund" was put on SEBI's website.

As on March 31, 2017, SEBI has received 14,295 applications involving 41,161 accounts, and made refunds with respect to 11,283 applications involving 30,398 accounts for an aggregate amount of ₹ 85.02 crore including interest of ₹ 38.05 crore. About 596 applications involving 2,201 accounts are referred back to applicants for removal of discrepancies and out of the remaining, 172 applications involving 2,419 accounts fall in the disputed category.

Table 3.62: Status of Refunds Made By SEBI

S.No.	Particulars	No of Cases (Not to be summed*)	Account / Control Nos.	Amount Claimed by Bondholder (₹)
1.	Application received with Original Bond Certificates / Passbooks	**14,295**	**41,161**	**65,81,89,392**
2.	Disputed Cases	**172**	**2,419**	**54,01,100**
3.	Pending at Investors	**596**	**2,201**	**3,06,83,200**
4.	Pending at Sahara	**8**	**8**	**1,29,500**
5.	Pending at SEBI	**1,262**	**4,997**	**10,88,92,105**
6.	Closed cases (Investor not responded)	**581**	**1,138**	**1,86,33,687**
7.	Cases already refunded	**11,283**	**30,398**	**(Principal) 46,96,78,400** **(Interest) 38,05,68,829**

(*As several applications fall in more than one category, the numbers would not add arithmetically.)

VII. REGULATORY CHANGES

Section 30 of the SEBI Act, 1992 empowers SEBI to make regulations consistent with the Act by issuing notifications. Every rule and every regulation made under this Act is to be laid before both Houses of Parliament. During 2016-17, SEBI took various regulatory measures to protect the interests of investors in the securities market, for developing the securities market and for regulating the securities market. It notified various new regulations and various amendments to existing regulations.

A. AMENDMENTS TO EXISTING REGULATIONS

a. SEBI (Depositories and Participants) (Third Amendment) Regulations, 2016, w.e.f. May 27, 2016

Details: The amendment mandates every depository to devise and maintain a 'Wind-Down Plan' for transfer to beneficial owner accounts and other operational powers of the depository to an alternative institution that will take over the operations of the depository.

Rationale: To provide for an action plan for transfer of demat accounts to another institution in the event of erosion of net worth of the depository or its insolvency or its inability to provide critical depository operations or services.

b. SEBI (Depositories and Participants) (Amendment) Regulations, 2017 w.e.f February 15, 2017

Details: The amendment was made to align the regulations with the SEBI (Foreign Portfolio Investors) Regulations, 2014 and the FDI policy.

Rationale: FPI investments in market infrastructure entities (stock exchanges including commodity derivative exchanges, clearing corporations and depositories) will be made as per the SEBI (Foreign Portfolio Investors) Regulations, 2014.

c. **SEBI (Mutual Funds) (Amendment) Regulations, 2017 w.e.f. February 15, 2017**

Details: The amendment allows mutual funds to invest in units issued by REITs and InvITs subject to the limits prescribed in the newly inserted Clause 13 in Seventh Schedule of the Mutual Funds Regulations.

Rationale: Considering that the units issued by REITs and InvITs are more like equity securities, mutual funds were allowed to invest in such instruments subject to conditions.

d. **SEBI (Employees' Service) (Amendment) Regulations, 2016 w.e.f. November 30, 2016**

Details: The amendment provides that every whole time employee who joins SEBI after a specified date shall only become a member of the SEBI New Pension Scheme and will be bound by the rules of the scheme. The regulations also provides that existing SEBI employees will be given a one-time option to remain with the SEBI Employee's Provident Fund or to become a member of the SEBI New Pension Scheme.

Rationale: To introduce a new pension scheme for SEBI employees as per the government's policy.

e. **SEBI (Employees' Service) (Second Amendment) Regulations, 2016 w.e.f. December 15, 2016**

Details: The amendment discontinues the practice of interview and/or group discussion during recruitment of whole time employees of SEBI other than officers.

Rationale: To align SEBI employees' regulations with the recruitment policy for junior level posts as stipulated by the Department of Personnel and Training, Government of India.

f. **SEBI (Intermediaries) (Amendment) Regulations, 2016 w.e.f. May 25, 2016**

Details: The amendment defines wilful defaulters and provides that such defaulters will not be 'fit and proper' to be registered as intermediaries in the securities market.

Rationale: Tightening the regulatory framework so as to ensure discipline among market intermediaries.

g. **SEBI (Issue and Listing of Debt Securities) (Amendment) Regulations, 2016 w.e.f. May 25, 2016**

Details: The amendment defines wilful defaulters and provides that such defaulters are barred from raising money from the public by way of issuing convertible debt instruments. In case of private placements of such securities, adequate disclosures are to be made by the wilful defaulter at the time of issue.

Rationale: Tightening the regulatory framework so as to restrict a company from raising money by issuing convertible debt instruments if it or any of its promoters or directors is a wilful defaulter.

h. **SEBI (Issue of Capital and Disclosure Requirement) (Third Amendment) Regulations, 2016 w.e.f. May 25, 2016**

Details: The amendment defines wilful defaulters and provides that such defaulters should be barred from raising money from the public by way of public issue of equity securities. In case of a rights issue by such defaulters, adequate disclosures to be made at the time of issue have also been specified.

Rationale: Tightening the regulatory framework so as to restrict a company from issuing equity shares to the public if it or any of its promoters or directors is a wilful defaulter.

i. **SEBI (Issue of Capital and Disclosure Requirement) (Fourth Amendment) Regulations, 2016 w.e.f. November 30, 2016**

Details: The amendment enables employees of an issuer company to apply for shares beyond the limit of ₹ 2 lakh per employee under the employee reservation portion. Only in case of under-subscription in the employee reservation portion, can the shares be allotted to employees over and above the extant limit of ₹ 2 lakh on a proportionate basis, but not exceeding ₹ 5 lakh per employee.

Rationale: To enhance the limit of employee reservations in listed companies.

j. **SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2017 w.e.f February 15, 2017**

Details: The amendment provides that pursuant to a scheme of merger/ amalgamation, if allotment of shares is done on a preferential basis to a select group of shareholders of unlisted companies, then the pricing norms under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR) will apply. Further, the amendment also empowers stock exchanges to impose fines/take action against a listed entity/any person, for contravention of the Regulations by way of inserting Regulations 111A and 111B.

Rationale: To tighten the regulatory framework governing schemes of arrangements -- mergers and demergers of companies. To prevent the misuse of schemes where the exemption from the pricing formula under ICDR has been used to allot shares to a select group of persons or promoters at a discounted price which is not the intention of the regulations and also to empower stock exchanges to impose fines on listed entities for contravention of the Regulations.

k. **SEBI (Substantial Acquisition of Shares and Takeovers) (Second Amendment) Regulations, 2016 w.e.f. May 25, 2016**

Details: The amended regulations define wilful defaulters and provide that such defaulters will not be allowed to take control over other listed entities. However, if a listed company or its promoter or its director is categorized as a wilful defaulter, it may be allowed to make a competing offer for the said listed company in accordance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

Rationale: To tighten the regulatory framework so as to protect shareholders of listed companies.

l. **SEBI (Alternative Investment Funds) (Amendment) Regulations, 2016 w.e.f January 04, 2017**

Details: The amendment relaxes the norms with respect to minimum investment, lock-in period and number of investors in angel funds. It also allows angel funds to invest in securities of foreign companies subject to conditions that may be stipulated by RBI and SEBI. The definition of a 'start-up' has also been aligned to the definition prescribed by the Department of Industrial Policy and Promotion, Government of India.

Rationale: To further develop the alternative investment industry and the start-up ecosystem.

m. **Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Third Amendment) Regulations, 2016 w.e.f. August 29, 2016**

Details: The amendment provides that the Contribution to the Settlement Guarantee Fund (SGF) will be made by a recognized stock exchange, recognized clearing corporation and clearing members, in a manner as may be specified by the Board from time to time. Further, in case of any short fall in the contribution to SGF, the recognized clearing corporation and the recognized stock exchange will replenish the fund to the threshold level as may be specified by SEBI from time to time.

Rationale: To do away with the requirement of profit transfer of 25 per cent by stock exchanges to SGF since the available core SGF is sufficient to cover expected shortfalls. Also to mandate the responsibility of replenishing the SGF corpus in case of a shortfall with the clearing corporation and stock exchanges.

n. Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2017 w.e.f January 12, 2017

Details: The amendment allows foreign stock exchanges, depositories, banking companies, insurance companies and commodity derivatives exchanges to hold up to 15 per cent of paid-up equity share capital of a recognized stock exchange.

Rationale: To align SEBI Regulations with the changes brought in the foreign investment policy of the Government of India.

o. Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Second Amendment) Regulations, 2017 w.e.f February 15, 2017

Details: The amendment aligns them with the SEBI (Foreign Portfolio Investors) Regulations, 2014 and the FDI Policy.

Rationale: FPI investments in market infrastructure entities (stock exchanges including commodity derivative exchanges, clearing corporations and depositories) will be made as per the SEBI (Foreign Portfolio Investors) Regulations, 2014.

p. SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) (Amendment) Regulations, 2016 w.e.f. May 25, 2016

Details: The amendment defines wilful defaulters and provides that such defaulters are barred from raising money from the public by way of issue of non-convertible redeemable preference shares. In case of private placements of such securities, adequate disclosures are to be made by the wilful defaulter at the time of issue.

Rationale: Tightening the regulatory framework so as to restrict a company from raising money through the issue of non-convertible redeemable preference shares if it or any of its promoters or directors is a wilful defaulter.

q. SEBI (Foreign Portfolio Investors) (Amendment) Regulations, 2016 w.e.f. July 8, 2016

Details: The amendment provides that a foreign portfolio investor will ensure that any transfer of offshore derivative instruments issued by or on behalf of it, is made subject to the following conditions:

✓ Such offshore derivative instruments are transferred to persons subject to fulfilment of sub-regulation (1); and

✓ Prior consent of the foreign portfolio investor is obtained for such a transfer, except when the persons to whom the offshore derivative instruments are to be transferred are pre-approved by the foreign portfolio investor.

Rationale: To enhance transparency and control over the issuance of offshore derivative instruments.

r. SEBI (Foreign Portfolio Investors) (Amendment) Regulations, 2017 w.e.f January 12, 2017

Details: The amendment allows Category I and Category II foreign portfolio investors to deal directly without brokers in corporate bonds on over-the-counter as well as request for quote platforms of recognized stock exchanges. The amendment also allows FPIs to directly participate in privately placed debt securities issued through the electronic book-provider platform at stock exchanges.

Rationale: To further the development of the corporate bond market in India, foreign portfolio investors are permitted to trade in corporate bonds without a stock broker.

s. SEBI (Foreign Portfolio Investors) (Second Amendment) Regulations, 2017 w.e.f February 27, 2017

Details: The amendment enables foreign portfolio investors to invest in unlisted non-convertible debentures and securities' debt instruments.

Rationale: To expand investment avenues for foreign portfolio investors to include unlisted debt securities and securitized debt instruments.

t. SEBI (Settlement of Administrative and Civil Proceedings) (Amendment) Regulations, 2016, w.e.f. August 29, 2016

Details: The amendment *inter-alia* clarifies that Regulation 5(2)(b) of the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 is not to prohibit settlements with respect to all kinds of fraudulent and unfair trade practices and that Regulation 5(2)(c) disqualifies only defaults which are 'serious' and have a market-wide impact or cause substantial losses to investors or affect the rights of investors in securities, especially retail investors and small shareholders.

The Regulations were formulated primarily to settle minor and technical violations not having a wider impact on the market so that enforcement is concentrated on major and significant cases. However, the intention was not to reject settlements with respect to violations pertaining to fraud.

Rationale: In order to remove ambiguity, clarifications were issued vide the amendment.

u. SEBI (Settlement of Administrative and Civil Proceedings) (Amendment) Regulations, 2017 w.e.f February 27, 2017

Details: The amendment *inter-alia* provides for charging interest in case of excessive delays in filing applications or payments of settlement amounts; a settlement notice before issuance of a formal show cause notice, except for those which are excluded from settlement; and re-application of rejected or withdrawn applications in deserving cases, subject to payment of additional fees and interest.

Rationale: These amendments are made on the basis of the experience gained and with the purpose of streamlining and strengthening the settlement process.

v. SEBI (Infrastructure Investment Trusts) (Amendment) Regulations, 2016 w.e.f. November 30, 2016

Details: The amendment eases the structuring and offering requirements for InvIT by allowing it to invest through a two-level SPV structure, reducing the quantum of mandatory sponsor holdings, removing the restriction on the number of sponsors and aligning the minimum public holding in line with Securities Contracts (Regulation) Rules, 1957 etc. The amendment also eases the process of registration of InvIT with SEBI by doing away with the requirement of filing the project implementation agreement at the time of making registration application. The amendment also rationalizes the requirements for private placement of InvIT and the requirements for unit holder approval for related party transactions and expands the definition of 'valuer' under the Regulations.

Rationale: To facilitate InvITs' growth by easing the regulatory framework.

w. **SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2016 w.e.f. May 25, 2016**

Details: The amendment modifies the current mechanism of dealing with financial statements and audit qualifications contained in the audit reports of listed companies. The new mechanism *inter-alia* specifies that listed entities are required to disclose the cumulative impact of all the audit qualifications in a separate form called 'Statement of Audit Qualifications' and that the management may be given opportunity to explain its point of view on the audit qualifications.

Rationale: To prescribe a new mechanism of dealing with financial statements of listed companies which have been qualified by auditors. The new system which has been made applicable from March 31, 2017 is simplified and will also lower the cost of compliance by listed companies.

x. **SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2016, w.e.f. July 8, 2016**

Details: The amendment mandates the top-500 listed entities based on market capitalization to formulate a dividend distribution policy as per suggested parameters which will be disclosed in their annual reports and on their websites. In case of deviation from the suggested parameters, this has to be disclosed along with the rationale. The amendment further allows listed entities (other than the top-500 listed entities) to voluntarily disclose their dividend distribution policies.

Rationale: To enable investors to take informed decision with respect to expected returns on their investments.

y. **SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2016 w.e.f. January 04, 2017**

Details: This amendment mandates that –

- ✓ Profit sharing agreements entered into by any employee including promoters or key managerial personnel or directors of a listed company will be executed only after prior approval from the board of directors as well as from public shareholders by ordinary resolution;
- ✓ All agreements, either subsisting or expired, entered into during the preceding three years will be disclosed to the stock exchanges for public dissemination;
- ✓ Subsisting agreements will be placed before the board of directors and pursuant to its approval be placed before the public shareholders for approval by ordinary resolution in the general meeting; and
- ✓ Interested persons are directed to abstain from voting in the general meeting.

Rationale: To overcome the concerns raised with respect to private equity funds entering into compensation agreements to incentivize promoters, directors and key managerial personnel of listed investee companies which could potentially lead to unfair practices.

z. **SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2017 w.e.f February 15, 2017**

Details: The amendment clarifies that under Regulation 31 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, a scheme of merger of a wholly owned subsidiary with the parent company need not be processed by SEBI.

Rationale: To provide clarity on the regulatory framework governing schemes of arrangements-mergers and demergers involving listed companies.

Section 233 of the Companies Act, 2013 *inter-alia* provides for a simpler route for the scheme of merger or amalgamation between a holding company and its wholly owned subsidiary company wherein the requirement for making an application to the tribunal/ courts has been dispensed with. Hence, no major regulatory concern arises in such cases to be processed by SEBI.

aa. SEBI (Issue and Listing of Debt Securities by Municipalities) (Amendment) Regulations, 2017w.e.f February 15, 2017

Details: The amendment provides that municipalities making public issues of debt securities will have surplus incomes as per their income and expenditure statements in any of the three immediately preceding financial years or any other financial criteria as specified by SEBI from time to time.

Rationale: The amendment provides better scope for raising funds by a municipality.

ab. SEBI (Change in Conditions of Registration of Certain Intermediaries) (Amendment) Regulations, 2016 w.e.f. December 08, 2016

Details: The amendment provides for granting permanent registration to the following intermediaries: merchant bankers, RTIs & STAs, banker to an issue, underwriters, CRAs, debenture trustee, depository participants, KRAs, portfolio managers, investment advisers and research analysts.

Rationale: The present regulatory framework provides for permanent registration only to stock brokers and sub-brokers. Based on the experience gained and to facilitate ease of doing business for market intermediaries, the Board decided to grant permanent registration to 11 intermediaries.

ac. Securities and Exchange Board of India (Payment of Fees and Mode of Payment) (Amendment) Regulations, 2017 w.e.f. March 06, 2017 (notified on March 29, 2017)

Details: The amendment made to various Regulations to enable market participants to make payments to SEBI through digital mode (such as NEFT/RTGS) as well and also provides for revision of fees/charges in various regulations covered therein. The amendment regulations, which were made effective from March 06, 2017, rescinded the earlier SEBI (Payment of Fees and Mode of Payment) (Amendment) Regulations, 2017 notified on March 06, 2017 and saved any action taken in pursuance of the said notification.

Rationale: Payment modes permitted by RBI through electronic medium have been allowed for market participants/others for making payments to SEBI. This mode is in addition to the existing mode of payment through demand draft.

VIII. RIGHT TO INFORMATION ACT, 2005

As a public authority in terms of Section 2 (h) of the Right to Information Act, 2005(RTI Act), SEBI has designated a central public information officer (CPIO) at its Head Office in Mumbai in terms of Section 5 (1) of the RTI Act. SEBI has also designated a first appellate authority (FAA) for appeals against the order of the CPIO in terms of Section (2)(c) of Right to Information Rules, 2012 (Rules).The heads of the regional offices and senior most officers at the local offices have been designated as central assistant public information officers (CAPIOs).

In terms of Section 4 of the RTI Act, SEBI has been making the stipulated disclosures. In addition to these disclosures, SEBI also discloses information with regard to enforcement proceedings, acts, rules, regulations, circulars, details of registered intermediaries, press releases, tender details, annual reports and other publications by SEBI on its website. The details of RTI applications and first appeals made to SEBI during 2014-15, 2015-16 and 2016-17 are given in Table 3.63.

Table 3.63: Trend in RTI applications and first appeals to the SEBI Appellate Authority

Particulars	2015-16	2016-17
No. of applications received (*including applications transferred from other public authorities*)	1,312	1,414*
Total no. of issues raised in applications	5,031	5,305
No. of appeals received by the Appellate Authority, SEBI	302	242
No. of orders passed by the Appellate Authority, SEBI	292	248
No. of appeals rejected / dismissed by the Appellate Authority, SEBI	229	231
No. of appeals partially allowed	63	17

Note: * Since August 2016, 322 applications have been addressed on the online web portal.

The details of appeals before Central Information Commission (CIC) during 2014-15, 2015-16 and 2016-17 are given in Table 3.64.

Table 3.64: Trends in appeals before CIC

Particulars	2015-16	2016-17
No. of appeals received by CIC	53	78
No. of appeals rejected / dismissed by CIC	21	64
No. of appeals with directions by CIC to furnish part of the information	20	25

During 2016-17, CPIO office conducted department focused workshops for SEBI officials of respective departments in the Head Office to enable them to become more appreciative of the provisions of the RTI Act and reiterated the duties, responsibilities and statutory obligations therein. Similar workshops were also conducted in the Northern Regional and Eastern Regional offices during the year.

A training module was designed in association with the National Institute of Securities Markets (NISM), especially focused on aspects of the RTI Act, 2005. This was the first in a series of three-day residential training programmes titled 'RTI Act and Transparency & Trust Building among SEBI Officers.'

The programme was conducted from March 23 to March 25, 2017 at NISM, Patalganga campus and was attended by 20 participants from various SEBI offices.

Since August 2016, SEBI has aligned with the RTI MIS Portal (web portal) launched by the Department of Personnel and Training, which facilitates online filing and disposal of RTI applications and first appeals and allows public authorities to dispose-off RTI applications and first appeals expeditiously through a paperless process and generate online returns / reports. The office of the CPIO encourages RTI applicants to use this paperless option.

IX. PARLIAMENT QUESTIONS

The Parliament Questions Cell interfaces with the various departments in the Government of India for addressing issues relating to Parliament questions, assurances thereof, visits of Parliamentary committees, references from Members of Parliament and other references received through various ministries of the Government of India.

A. PARLIAMENT QUESTIONS

During 2016-17, SEBI received a number of Parliament and state assembly questions, referred by the Government of India, mainly from the Ministry of Finance and the Ministry of Corporate Affairs and various departments of the state government. Of the 223 questions referred/ taken-up, 188 questions were admitted and SEBI furnished information as well as material for replies. The number of Parliamentary questions received session-wise and replied to by SEBI are given in Table 3.65.

Table 3.65: Parliament queries received and replied to by SEBI

Parliament Session	Period	No. of Questions Received/ Taken-Up		Admitted Questions	
		Starred	Unstarred	Starred	Unstarred
Budget Session 2016 - Part II	February 23, 2016 to May 08, 2016	3	42	1	34
Monsoon Session	July 18, 2016 to August 12, 2016	13	31	7	28
Winter Session	November 16, 2016 to December 16, 2016	4	55	2	52
Budget Session 2017	February 23, 2016 to March 16, 2016	15	56	8	52
Total		**35**	**184**	**18**	**166**

In addition, for two questions from the Chhattisgarh Legislative Assembly and one question each from the Odisha Legislative Assembly and the Assam Legislative Assembly material for answers by the ministers was also given.

B. RESPONSES/MATERIAL TO COMMITTEES

During 2016-17, SEBI interacted with and provided the required information and clarifications desired by Parliamentary committees in a time bound manner (Table 3.66).

Table 3.66: Parliamentary committees that raised queries

S. No.	Parliamentary Committee
1.	Standing Committee on Finance (Informal discussion on overall performance of SEBI) and provisions of Companies (Amendment) Bill, 2016 and issues related thereto (July, 2016)
2.	Standing Committee on Finance (Selection of topics for 2016-17 – Performance Review of SEBI) (October, 2016)
3.	Joint Committee on the Enforcement of Security Interest and Recovery of Debt Laws and Miscellaneous Provisions (Amendment) Bill, 2016 (July, 2016)
4.	Committee on Subordinate Legislation (SEBI (IPEF) Regulations, 2009) (June, 2016)
5.	Committee on Papers Laid on the Table of the Rajya Sabha (July, 2016)

SEBI provided its comments in a time bound manner on the 130th and 133rd reports of the Standing Committee on Commerce.

During the year, SEBI officers also participated in a training programme on 'Parliamentary Processes and Procedures' conducted by the Bureau of Parliamentary Studies and Training (BPST), Parliament House in New Delhi. The partnership with BPST will help hone the skill sets of SEBI officers and acquaint them with Parliamentary processes and procedures.

X. INTERNATIONAL COOPERATION

SEBI engages with a range of international organizations, foreign regulators and law enforcement agencies. Some such key engagements are:

1. **Engagement with FSB:** SEBI is one of the three members of FSB from India. SEBI participates in the FSB's plenary meetings and contributes in its various work streams through responses to surveys, questionnaires and reviews as carried out by FSB.

2. **Engagement with IOSCO:** SEBI is one of the members of the IOSCO Board. SEBI is also a member of its Asia-Pacific Regional Committee (APRC) and Growth and Emerging Markets Committee (GEM). IOSCO has eight policy committees which work in various areas related to the securities market. SEBI is a member of seven of these policy committees.

Information sharing and cooperation is enabled through IOSCO MMoU and bilateral MoUs: SEBI is one of the signatories to the IOSCO MMoU. It has signed bilateral MoUs with various securities regulators for enhancing cooperation and exchange of information for regulatory and enforcement purposes.

In addition to 'Engagement with International Forums' and 'Information sharing and cooperation,' SEBI provides assistance to other securities regulators by:

a. Acting as a central facilitation cell for regulatory issues and concerns and regulatory assistance.

b. Providing technical assistance in various aspects of the securities market's regulations.

c. Hosting a number of delegations to promote mutual cooperation and establishing inter-regulatory dialogues.

d. Nominating experts as panellists and speakers at international seminars and conferences.

I. FSB PEER REVIEW OF INDIA

The FSB peer review's focus is on the implementation of financial sector standards and policies agreed within FSB, as well as their effectiveness in achieving desired outcomes. As part of its commitment towards global financial stability, India underwent the FSB peer review in 2015. The peer review covered two topics: (1) The macro-prudential policy framework, and (2) regulation and supervision of non-banking finance companies (NBFCs) and housing finance companies (HFCs). With regard to the regulation and supervision of non-banking financial entities, the focus of the FSB analysis peer review was limited to NBFCs (regulated by RBI) and HFCs (regulated by the National Housing Board). The Final FSB Peer Review Report for India[1] was published in August 2016. The report acknowledges that progress has been made in developing the macro-prudential policy framework and in strengthening regulation and supervision of NBFCs and HFCs in recent years.

The FSB peer review assessed the activities carried out by SEBI in the context of the analytical framework and risk assessments under the macro-prudential policy framework. The report acknowledged a few of the good practices adopted by SEBI:

> *In October 2015, the Systemic Stability Unit of SEBI developed a Systemic Risk Monitoring Template to monitor on a monthly basis the emerging systemic risks in the Indian securities market, feeding some of this information into the EWG and the FSR. Enhanced monitoring takes place when there are signs of particularly high volatility in a market. Additionally, a RBI-SEBI standing committee was established in 2008 to examine the trading of currency and interest rate derivatives on exchanges and coordinate the regulatory roles of the two authorities. Finally, SEBI requires that all liquid fund and money market fund (MMF) schemes carry out stress tests at least on a monthly basis on their interest rate, credit, liquidity and redemption risks.*

1 *http://www.fsb.org/wp-content/uploads/India-peer-review-report.pdf.*

SEBI also has tools that can be used for macro-prudential purposes, including circuit breakers and variation margins that are introduced if there are large daily movements in market wide prices. At a firm level, SEBI also uses capital adequacy requirements for brokers, as well as restrictions on maturity, concentration, investments, leverage and derivatives for MMFs.

II. FINANCIAL SECTOR ASSESSMENT PROGRAMME

The Financial Sector Assessment Programme (FSAP) is an in-depth assessment of a country's financial sector. In developing and emerging market countries, FSAP assessments are conducted jointly by IMF and the World Bank and include two components : financial stability assessment (main responsibility of the IMF) and financial development assessment (main responsibility of the World Bank).

In the past, India has undergone FSAP pilot assessments in 2000 and the FSAP Update in 2011. The third FSAP of India, currently underway, was initiated by the formal visit of the scoping mission team in December 2016 to discuss and finalize the terms and areas of assessment. From the securities market's viewpoint, this FSAP includes assessment of IOSCO Principles and Objectives of Securities Regulation and CPSS-IOSCO Recommendations for Securities Settlement Systems and Central Counterparties.

The scoping mission's visit was followed by detailed questionnaires to the Indian authorities including SEBI. Subsequently, the first mission of the FSAP team was held during March 14-31, 2017. Approximately 20 meetings took place for six days between the review team and SEBI officials from various departments/divisions. SEBI provided information, supporting data/reports and comments to the FSAP team during and post the meetings.

Besides, on the request of the FSAP team, meetings were also scheduled with the stock exchanges, industry organizations, corporate equity/debt issuers, the Institute of Chartered Accountants of India, the Serious Fraud Investigation Office and select securities market's intermediaries. The work is currently under progress.

III. REGULATORY POLICY INITIATIVES PURSUANT TO GLOBAL DEVELOPMENTS

On numerous occasions, the vast and varying international experience gathered by SEBI through its international engagements with global bodies has been carefully applied in formulating its domestic policy. The deliberations and valuable knowledge sharing efforts at the international level translate into formulating and adopting global standards. Such standards are, time and again, adopted by SEBI in its domestic rule-making. This demonstrates SEBI's commitment towards the international community and gives the necessary breadth and depth to SEBI's own policy formation.

SEBI has been proactive in developing policies based on issues discussed at the global level. For example, international discussions and deliberations in key areas such as market conduct, corporate governance, cyber security, regulation of central counter parties (CCPs) and digitalization have provided very useful inputs and have been used by SEBI in its domestic regulations.

SEBI has representation in various policy committees and also participates in most of the reviews, which facilitates it in keeping a regular tab on the evolution of global benchmarks.

IV. BILATERAL ENGAGEMENTS

SEBI has signed bilateral MoUs with various securities regulators for enhancing cooperation and exchange of information for regulatory enforcement purposes and bilateral cooperation. The objective of such bilateral MoUs is strengthening cross-border cooperation in the area of securities regulations.

As of March 31, 2017, SEBI had signed 22 MoUs and a letter of intent for mutual assistance and cooperation. During 2016-17, SEBI entered into one MoU for bilateral cooperation:

1. MoU for Bilateral Cooperation and Technical Assistance with the Abu Dhabi Global Market Financial Services Regulatory Authority

SEBI and the Abu Dhabi Global Market Financial Services Regulatory authority signed a MoU on bilateral cooperation.

The MoU was signed in Abu Dhabi, UAE on August 24, 2016 by Shri S. Raman, Whole Time Member, SEBI and Mr Richard Teng, Chief Executive, Abu Dhabi Global Market Financial Services Regulatory Authority.

With the markets getting inter-connected and the financial entities operating globally, the MoU will be a valuable tool for cross-border cooperation. The MoU will also promote exchange of information for technical assistance and training needs, apart from facilitating cross-border investments between the jurisdictions.

Shri S. Raman, WTM, SEBI signing MoU with Mr. Richard Teng, Chief Executive, ADGM FSRA

V. ENGAGEMENT WITH OTHER INTERNATIONAL REGULATORS

1. Engagement with ESMA on EMIR

The European Parliament and the Council adopted the European Market Infrastructure Regulations (EMIR) effective from August 2012. As per Article 25(1) of the EMIR, 'A Central Counter Party (CCP) established in third country may provide services to clearing members or trading venues established in the Union only where the CCP is recognized by ESMA.' Therefore, the securities market CCPs established and operating in India have to seek recognition from ESMA for clearing trades of entities which originate in the European Union (EU). Before ESMA grants recognition EU has to adopt an 'implementing act' with regard to India.

During 2016, SEBI and RBI jointly engaged with European Commission (EC) to complete the provisions of EMIR in order to enable EC to adopt an 'implementing act' which in turn will aid in the recognition of Indian CCPs by ESMA. On December 15, 2016, EC adopted the implementing act wherein it stated that India satisfied all three conditions of recognition:

- ✓ CCPs authorized in India are subject to effective supervision and enforcement on an on-going basis.
- ✓ The legal and supervisory arrangements in India ensure that CCPs authorized in India comply with legally binding requirements which are equivalent to the requirements laid down in Title IV of EMIR.
- ✓ India has a specific regime for the recognition of CCPs authorized under the legal regime of a third country.

In 2014, SEBI had received a draft MoU from ESMA which is a pre-requisite for recognition under EMIR for all future supervisory activities. Both SEBI and ESMA, through subsequent alterations have revised the MoU and this was agreed upon in 2016-17. The draft MoU will be signed once SEBI receives approval from the Ministry of Finance.

2. Engagement with Autorité des marchés financiers (AMF), France (Securities Regulator of France)

On the side-lines of various international meetings, SEBI and AMF France had discussed the possibility of engaging with each other with a view to learning from each other and for identifying areas of collaboration.

After closer discussions, several topics including asset management, market surveillance, SME financing, private placements and crowd-funding were identified and it was agreed that these topics will be prioritized and interactions will initially be done through video-conference calls followed by expert visits.

Accordingly, four video calls took place between July 2015 and March 2016 between SEBI and AMF. Two topics, 'Asset Management Industry' and 'Market Surveillance' were deliberated on during the course of these calls.

In 2016-17, two conference calls were held with AMF on SMEs. The first one was held in October 2016 and the second one in January 2017. Officials on both the sides felt that the discussions were informative and provided an excellent overview of how the respective areas were regulated, governed and could be further developed.

3. Engagement between SEBI and US CFTC

During 2015-16, SEBI and the Commodity Futures Trading Commission (CFTC) engaged with each other in the wake of FMC's merger with SEBI. It was agreed that CFTC will provide technical assistance to SEBI officials in the area of regulation of commodity derivatives.

It was agreed that technology will be leveraged to impart the training. SEBI officials will be provided with a unique URL, which will provide time-limited access to lectures on the You Tube website. This will allow SEBI officials to view the lectures in their time zone and at their convenience.

Accordingly, CFTC circulated seven lectures during 2016-17. The topics of the lectures included contract design, surveillance of commodity derivatives markets, addressing disorderly markets, elements of a comprehensive enforcement programme, regulation and supervision of intermediaries, regulation and supervision of clearing houses, best practices and contemporary challenges. Each lecture was followed by a live tele-conference session to respond to SEBI officials' questions.

Additionally, a visit of around 10 officials to US CFTC was also arranged to have detailed in-person discussions on the regulatory structure of US markets. The officials also visited various US markets players, warehouses and stock exchanges to understand how the commodities market functions in the prevalent regulatory structure with a view to developing the Indian commodities market.

4. Engagement Between SEBI and US-SEC

With a view to understanding and imbibing the best practices of the US Securities and Exchange Commission (SEC) in examining mutual funds, a SEBI team comprising of three officials participated in an onsite examination of mutual funds /investment advisers jointly with the US-SEC.

A telephonic conference call was arranged between US-SEC and SEBI officials where the SEC officials provided valuable perspectives on algorithmic trading, co-location and high frequency trading to SEBI.

VI. MINISTRYREFERENCES-CONTRIBUTION TO VARIOUS INTERNATIONAL TREATIES AND DIALOGUES

SEBI provides inputs on various issues, agenda items and topics relating to the securities market for various international bilateral dialogues.

In 2016-17, SEBI contributed its inputs and participated in various bilateral dialogues, such as:

- The Indo-Swiss Financial Dialogue
- The Indo-Norway Bilateral Consultation
- The India-EU Macroeconomic and Financial Dialogue
- Inputs on Green Finance for the Prime Minister's visit to the G20 Summit 2016 in Hangzhou, China
- The Prime Minister's visit to Kenya, Tanzania, Mozambique and South Africa in July 2016
- The Indo-US Regulatory Dialogue in Washington

VII. ASSOCIATION WITH IOSCO

1. IOSCO Board

The IOSCO Board is its governing and standard-setting body and is comprised of 34 securities regulators. IOSCO has 125 ordinary members, 25 associate members and 65 affiliate members. The 41st annual conference of IOSCO took place from May 8-12, 2016 in Peru.

SEBI participates in IOSCO's various work streams and makes contributions to policy decisions on different issues pertaining to the securities market. SEBI has a representation in seven of the eight policy committees of IOSCO. In 2016-17, SEBI became a member of the IOSCO Policy Committee Seven that works in the area of commodity derivatives markets. The membership to Policy Committee Seven was obtained post FMC's merger with SEBI to strengthen the commodity derivatives market in India vis-à-vis global standards.

During 2016-17, SEBI also became the Chair of the IOSCO Policy Committee One on Issuer Accounting, Audit and Disclosure (Chaired by Shri P.K. Nagpal, Executive Director) and the IOSCO Assessment Committee (Chaired by Shri Amarjeet Singh, Chief General Manager). SEBI also became part of the CPMI/IOSCO Working Group on Cyber Resilience (represented by Shri Bithin Mahanta, Deputy General Manager). SEBI endeavours to contribute to IOSCO's work through policy committees and by implementing the recommendations made by IOSCO.

2. Assessment Committee

SEBI has been appointed as Chair of the IOSCO Assessment Committee (AC), with effect from November 2016. The AC was formed in February 2012 to drive IOSCO's key strategic goal of being the recognized standard setter for securities' regulations. The main objectives of AC are identifying and assessing the implementation of IOSCO Principles and Standards and promoting the full, effective and consistent implementation of IOSCO Principles and Standards across IOSCO membership.

In 2016-17, SEBI took on additional responsibilities and participated in AC's following work streams:

- ✓ Thematic Review of Client Assets Protection (IOSCO AC) represented by Shri A.S. Mithwani, General Manager, SEBI
- ✓ Country Review of Sri Lanka (IOSCO AC) represented by Smt Rinkal Sanghvi, Assistant General Manager, SEBI

3. Current Projects of the Assessment Committee

(i) Thematic Reviews

a. IOSCO Thematic Review on Client Asset Protection Principles

AC proposed to conduct a thematic review on implementation of IOSCO's 2014 Recommendations regarding the Protection of Client Assets. The Review is a 'Level 1' or 'Adoption Monitoring' review designed to assess the progress of jurisdictions in adopting legislations, regulations and policies in relation to the Principles; 38 IOSCO members from 36 jurisdictions including SEBI participated in the review. SEBI is also a member of the Review Team comprising regulators from six jurisdictions. The final report is to be published in Q2 of 2017.

(ii) Country Reviews

a. Sri Lanka

The primary objectives of the review were assisting the Sri Lanka SEC and the Sri Lankan authorities in developing a framework for securities regulation in Sri Lanka by:

- Assessing the implementation of IOSCO Principles in Sri Lanka; and
- Making recommendations about how and when significant and material gaps identified by the assessment should be addressed (Recommended Road Map).

The review assessed implementation of IOSCO Principles 1 to 37.

4. Updates to FSB

a. MMF and Securitization

The findings are included in FSB's annual report on *Implementation and Effects of the G20 Financial Regulatory Reforms.* This year the G20 summit is in July 2017 in Hamburg, Germany. Work will be coordinated by the Secretariat and AC Chair. India has been provided green rating (final adoption measures in force) with respect to both MMFs and securitization reforms.

5. Asia- Pacific Regional Committee (APRC)

APRC is one of the four regional committees constituted by IOSCO to focus on regional issues relating to securities' regulations. APRC comprises of 29 members representing securities regulators from Asia-Pacific jurisdictions.

APRC met two times during 2016-17. It met in Lima in May 2016 and discussed APRC's future plan and an enhanced multilateral memorandum of understanding. APRC met in Singapore in October 2016 and discussed issues of common interest such as the regulatory response to Fintech and crowd-funding. During this meeting, EU authorities had come to Singapore for a panel discussion on EMIR related issues. APRC members have developed a database on the regulatory framework for CIS' (mutual funds) regulations in various jurisdictions in the Asia-Pacific region.

It was agreed that conference calls will be made periodically to discuss and deliberate on key global developments. In this regard, a conference call was made on June 24, 2016 among APRC members to discuss the Brexit referendum and its impact in UK and other APRC market jurisdictions. Representatives from FCA and ESMA also joined the call along with APRC members from Japan, Hong Kong, Singapore, Australia, China, India, Malaysia, Thailand, Chinese Taipei and South Korea.

6. Growth and Emerging Markets Committee (GEM Committee)

The GEM Committee seeks to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programmes and technical assistance to members and facilitating the exchange of information and transfer of technology and expertise. SEBI is a member of the GEM Committee.

During 2016-17, the GEM Committee met only once. The meeting was held in Lima, Peru during the IOSCO Annual Conference on May 09, 2016. The members discussed several issues relevant for IOSCO emerging market members such as key emerging risks in global securities markets and integration of GEM's work with the IOSCO policy work.

During the year GEM circulated two surveys on the topics 'risks in emerging markets' and the 'GEM Fintech survey.' While the first survey was to gain an understanding of the emerging risks in developing markets, the second survey was to gauge developments in Fintech in various jurisdictions which will feed into a bigger IOSCO paper on Fintech.

SEBI actively participated in the meetings of the GEM Committee and contributed to the discussions held during the meetings. Shri Amarjeet Singh, Chief General Manager, SEBI presented the work of the Assessment Committee in the GEM Committee. Further, all surveys were duly completed and responses provided within the stipulated time.

VIII. ASSOCIATION WITH FSB

The FSB is an international body established to address financial system vulnerabilities and to drive the development and implementation of strong regulatory, supervisory and other policies in the interest of financial stability. One of FSB's main mandates is implementing the G20 policy announcements on financial regulation.

During 2016-17, the FSB Plenary met three times. FSB met in Chengdu, China on July 21, 2016; London, UK on November 17, 2016 and Cape Town, South Africa on February 27-28, 2017. At its meetings, FSB discussed vulnerabilities affecting the global financial system, implementation and effects of reforms and also discussed important issues such as (a) Financial system implications of technological innovations; (b) Climate related financial disclosures (c) Assets management and market liquidity (d) Shadow banking, (e) The macro-prudential policy framework and tools, and (f) Misconduct risk.

FSB adopts, *inter-alia,* survey /questionnaire methodologies in order to obtain inputs for recommending policies, ascertaining the feedback and status of the recommended policies.

SEBI contributes to FSB's work by way of attending its meetings and by providing responses to FSB surveys/questionnaires/reviews. SEBI also provides comments to the Ministry of Finance on various FSB issues/agenda topics, since MoF is also a member of the FSB Plenary from India, along with RBI and SEBI.

IX. PARTICIPATION IN OTHER INTERNATIONAL PROGRAMMES/ CONFERENCES / TECHNICAL ASSISTANCE/ STUDY TOURS

SEBI receives requests from its international counterparts and other trade/industry forums to nominate speakers for their conferences/ seminars/training programmes. This provides a great opportunity for SEBI officials to engage with international regulators and participants and contribute to the global regulatory agenda. During 2016-17, SEBI was represented in the following important seminars/conferences:

1. IOSCO/ PIFS-Harvard Law School Global Certificate Programme for Regulators of Securities Markets held at Madrid, Spain.
2. Regulatory panel discussion at the Asia Trader Forum – 2016 held on May 26, 2016 in Hong Kong.
3. Securities Board of Nepal (SEBON) – Training programme titled 'Capital Market Regulation: Structure, Mechanism and Practices.'
4. Training programme for the Capital Markets Authority, Kenya's officials on Risk Based Supervision in May 2016.
5. Central Bank of Ireland in Dublin and the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg to study the regulatory practices/framework for exchange traded funds (ETFs).
6. Study tours to the Monetary Authority of Singapore and the Securities and Commodities Authority, UAE to study the best practices in market structure and the risk management framework for functioning of international exchange / international financial service centres.

X. MMOU REQUESTS

The IOSCO MMoU has proven to be an effective tool in cross-border cooperation in combating financial fraud and misconduct. SEBI is committed towards the IOSCO MMoU concerning consultations and cooperation and the exchange of information to which SEBI has been a signatory since April 2003. SEBI thereby provides cooperation and facilitates exchange of information with its counterparts in other jurisdictions for the purposes of regulatory enforcement.

During 2016-17, SEBI received 61 requests for information from overseas regulators seeking SEBI's assistance. SEBI executed such requests subject to the provisions of the MMoU. Similarly, 13 such requests were made by SEBI to its regulatory counterparts in other jurisdictions.

In 2016-17, 2,619 regulatory assistance were made/received by all capital market regulators under the IOSCO MMoU.

XI. VISITS OF FOREIGN DELEGATIONS / DIGNITARIES TO SEBI

SEBI hosted a number of international organizations including regulatory bodies and business and ministerial delegations in 2016-17. These meetings foster deeper levels of cooperation, facilitate a better understanding of the Indian securities market and facilitate further collaboration with visiting institutions.

1. Securities Board of Nepal

A delegation of officials from the Securities Board of Nepal visited SEBI for a study tour on the regulatory framework for ASBA and the book building mechanism for primary issues on July 11-12, 2016.

2. Mr Alok Sharma, MP, Minister for Asia and the Pacific, Foreign and Commonwealth Affairs with his delegation

A delegation from UK led by Mr Alok Sharma, MP, Minister for Asia and the Pacific, Foreign and Commonwealth Affairs visited SEBI on July 27, 2016. The meeting dwelled on the impact of Brexit on India and the Central Registry of Securitization and the asset reconstruction and security interests of India (CERSAI).

3. International Capital Market Professionals

Two groups of capital market professionals from Bahrain, Ghana, Iran, Kenya, the Maldives and Sri Lanka undertook a study visit to SEBI. The first group visited on July 29, 2016 and the focus of the study visit was to get an overview of the 'Regulators Role in the Capital Markets in India, Listing procedures and the functioning of Depositories.' The second group visited on November 25, 2016 and the focus of this study visit was to get an overview of the 'Surveillance and Risk Management in Depositories & Dematerialization.'

4. Meeting with Mr S. Srinivasan, Chief Economist, CFTC

Mr S Srinivasan, Chief Economist, CFTC had a meeting with SEBI officials on August 16, 2016. The agenda of the meeting was addressing contemporary and future issues pertaining to the commodities market.

5. Delegation from the British High Commission

A delegation from the British High Commission visited SEBI on October 07, 2016. The meeting was headed by Mr Haden Spicer, First Secretary, International Trade. The discussion was on cyber security and Fintech.

6. US Treasury

A high level delegation from the US Department of the Treasury visited SEBI on October 18, 2016. The US treasury delegation was led by Ms Marisa Lago, Assistant Secretary for International Markets & Development, US Department of the Treasury. The discussion centred on corporate and municipal bond markets, major policy developments for foreign portfolio investors and custodians, mutual funds and investor education / awareness and grievance redressal.

7. Meeting with the Australian Delegation

A delegation from Australia visited SEBI on October 26, 2016. The delegation consisted of Mr Tony Huber, Consul General; Mr Timothy Hall, Vice Consul; and Ms Aditi Chaubal, Economic Research Officer from Australia. The areas of discussion were Australian investments, REITs and InvITs.

8. **Meeting with British Colombia Delegates**

On October 27, 2016, a meeting was held between SEBI officials and delegates from British Colombia. The delegation was headed by the Honourable Mike de Jong, cabinet Minister of Finance from British Colombia, Canada. The area of discussion was Masala bonds, REITs and InvITs.

9. Delegation from Kenya

A delegation from Kenya visited SEBI on January 19, 2017. The delegation consisted of Dr Chris Kiptoo, Ministry of Industry, Trade and Cooperatives; Mr Richard Lesiampi, Ministry of Agriculture , Livestock and Fisheries; and Dr Ibrahim Mohamed, Ministry of Mining amongst others. The key focus of the delegation was to meet relevant agencies in India to help them understand the nuances of the commodity exchange system in

India and how different agencies are working in this space.

XII. INTERNATIONAL EVENTS IN INDIA

SEBI co-hosted two notable events during the year:

1. BRICS Seminar Organized by MoF (GoI), RBI and SEBI

BRICS brings together five major emerging economies -- Brazil, Russia, India, China and South Africa. India assumed the chairmanship of BRICS in 2016, and hosted the 8th BRICS Summit. As a precursor to the main Summit, MoF, GoI in coordination with RBI and SEBI jointly organized a seminar on October 13, 2016 in Mumbai. The theme of the seminar was 'Investment Flows: Challenges, Opportunities and Road Ahead.' Shri Arun Jaitley, the Finance Minister of India spoke at the seminar.

SEBI Chairman Shri U. K. Sinha addressing the BRICS Seminar

2. NISM Inauguration

SEBI in association with NISM inaugurated the NISM Patalganga campus on December 24, 2016. The event was jointly managed by SEBI and NISM. Invitations for this occasion were sent to other international regulatory agencies. The delegates who were present for the inauguration were Mr Ranjit Ajit Singh, Chairman, SC Malaysia; Dr M. Khairul Hossain, BSEC Bangladesh; Takaaki Hattori, President of the Global Financial Partnership Centre and Vice Commissioner for International Affairs, JFSA Japan and Mr Vajira Wijegunawardane, Director General, SEC Sri Lanka.

Part Three B:
Regulatory Actions

1. SIGNIFICANT COURT PRONOUNCEMENTS

A. SUPREME COURT OF INDIA

a. SEBI versus Burren Energy Limited and Others

The issue of law before the Supreme Court involved ascertaining the starting point of the 'offer period' so as to impose a restriction on the acquirer to appoint directors on the board of the target company.

The acquirer contended that the appointment made by it was not hit by Regulation 22 (7) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (SAST Regulations 1997), as in his case there was no MoU and only a share purchase agreement (SPA) was executed. Therefore, in terms of Regulation 2(o) of SAST Regulations, 1997, in such a case, the 'offer period' will commence from the date of public announcement as there was no MoU. SEBI was of the view that in the absence of any MoU, the offer period will commence from the date of the SPA, as the SPA is a crystallized form of a MoU. The SAT allowed the appeal filed by the acquirers. SEBI challenged SAT's order before the Supreme Court which allowed the appeal while agreeing with SEBI's contention.

b. SEBI versus Opee Stock-Link Limited and Another

The cases involved SEBI's investigation in the manipulations committed in the IPOs of companies by using benami/fictitious accounts to corner the shares meant for retail investors by the financer. SEBI directed such entities to disgorge the amount of unlawful gain with interest and also debarred such entities from accessing the securities market. Penalties were also imposed on such entities. In appeal, SAT held that the alleged fictitious/benami accounts were genuine persons and hence the first link was broken. The appellants traded in shares in the secondary market and charges against such entities had not been established and thus allowed the appeal. In an appeal filed by SEBI, the Supreme Court appreciated the fact finding done by SEBI and held that the transactions under reference were a scam and the demat account holders were benami/fictitious and the shares were purchased on behalf of someone who had financed these demat account holders. The Supreme Court also observed that SAT had not concluded that SEBI's findings were incorrect and it was open to SAT to re-appreciate the evidence. The judgment, *inter-alia*, also held that the Securities

Contracts Regulation Act (SCRA) is a special law and thus it will prevail over Indian Contract Act, 1872 and the Sale of Goods Act, 1930, insofar as the matters which are specifically dealt with by SCRA.

c. **Pramod Jain versus SEBI**

The issues of law before the Supreme Court were:

- To what extent is the timeline laid down under the Takeover Regulations required to be adhered to and the effect of SEBI's delay in the present case?
- To what extent unilateral action of the target company in dealing with the property of the company after a hostile public offer is made furnish a cause of action for the acquirers to withdraw the public offer and whether in the present case a decision not permitting the withdrawal of public offer was justified?

With respect to the first question, after taking into consideration its earlier decision in Nirma Industries Limited versus SEBI case the Supreme Court held that though SEBI was not justified in causing delay in giving its comments on a public offer, this by itself was not enough to justify withdrawal from the public offer so long as the case did not fall under Regulation 27 of the Takeover Regulations, 1997. On the issue of unilateral actions of the target company dealing with its property, the Court observed that in terms of the scheme of the Takeover Regulations, 1997 there was no absolute bar for the target company to take a decision about its assets, subject to compliance with statutory procedures and subject to the decision being otherwise valid. There was no doubt that against any mala fide, illegal or unjustified decision of the target company, remedies at the appropriate fora were available to the aggrieved parties. Thus, there was no justification for automatic withdrawal from the public offer without clear prejudice to the acquirers to the extent of rendering the carrying out of the public offer impossible. In the facts of the present case, it did not find any ground to interfere with SEBI's concurrent finding and SAT's request for withdrawal from the public offer was not justified. Accordingly, the appeals filed by the acquirers for withdrawing the open offer were dismissed by the Court vide its order dated November 07, 2016.

d. **SEBI versus NSDL, NSDL versus SEBI**

The issue of law before the Supreme Court was whether a circular issued by SEBI could be challenged in an appeal before SAT under Section 15T of the SEBI Act. The Supreme Court held that Section 15T envisaged appeals only against quasi-judicial orders passed by SEBI. The Court, thereafter, examined the various provisions of the SEBI Act, 1992 to segregate SEBI's administrative, legislative and quasi-judicial functions under the Act. The Court held that the functions/powers under Sections 11(4), 11B, 11D, 12(3) and 15I are quasi-judicial, those under Section 11(1) are administrative and those under Section 30 are legislative. The Court held that its orders referable to Sections 11(4), 11B, 11D, 12(3) and 15-I of the Act, being quasi-judicial orders, and quasi-judicial orders made under the Rules and Regulations are the subject matter of appeal under Section 15T. Administrative orders such as circulars issued under Section 11(1) of the Act are outside the appellate jurisdiction of the Tribunal.

e. **Bonanza Biotech Limited versus SEBI; and Dhruma Vaghela and Others versus SEBI**

The said civil appeal was filed by the appellant Bonanza Biotech Limited impugning the order dated August 23, 2006 passed by SAT whereby SAT was pleased to uphold the penalty of ₹ 1 crore imposed by the Adjudicating Officer (AO) on the appellant vide its order dated January 30, 2006 for its failure to comply with summons issued under

Sections 11C(3) and 11C(5) of the SEBI Act, 1992 in the matter of Design Auto Systems Limited The Supreme Court in its order dated March 07, 2017 in Bonanza Biotech Limited versus SEBI proceeded to answer the question whether the AO under Section 15A of the SEBI Act, 1992 is authorized to impose penalty on the ground that the documents which had been asked and had been furnished were false or whether power of the AO to impose penalty was limited and could be exercised only in the event of failure to furnish documents. The Court quoted para 31 of the AO order dated January 20, 2006 which states that the appellants has already furnished the materials which are available on record. By referring to said para, the Court held that since the materials had already been furnished, in its opinion the said Section (15A) was not attracted on the given facts.

f. SEBI versus Opee Stock Link Limited and Others, Pravin Kumar Tayal and Others versus SEBI and Other Connected Matters

SEBI had conducted an investigation into the affairs of Bank of Rajasthan Limited (BoR). The investigation revealed that the promoters of BoR and certain companies connected to one of the promoters of BoR in their continuous disclosures had announced that their stake in BoR had reduced. However, the shareholdings of such promoters had actually increased with the active collusion of front entities who were alleged to be persons acting in concert (PACs).

Adjudication proceedings were initiated wherein the AO vide its order dated February 14, 2013 observed that the entities have violated the provisions of SEBI Act, 1992, SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003 and SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. Separate penalties totaling around ₹ 30 crore were imposed on 118 entities. On appeals being filed before the Securities Appellate Tribunal, vide common order dated February 11, 2014, SAT upheld penalties in most of the cases; in some cases the penalties were completely set aside; and in some cases, the penalties were modified as all the violations were not established.

The entities aggrieved by SAT's order, filed civil appeals before the Supreme Court of India. The Supreme Court vide its order dated October 26, 2016 dismissed the civil appeals and imposed costs of ₹ 5 lakh on each appellant.

g. SEBI versus Royal Twinkle Star Club Private Limited (RTSCL)

SAT vide order dated February 03, 2016 upheld SEBI's decision that the respondent RTSCL had floated and operated CIS schemes without seeking registration which was in violation of CIS Regulations and also stated that the schemes were closed and substantial amounts had been refunded to the investors and granted two years' time to pay the balance amount (approx. ₹ 786 crore) refundable to the investors.

The present appeal was filed by SEBI against the said SAT order on the ground that contrary to its own findings SAT had allowed RTSCL to continue receiving EMIs from the existing/willing members as per the existing contract for availing the facility of time sharing schemes in question during the period of 24 months from the impugned order. The Supreme Court dismissed the appeal. However, clarifying that the respondent will not collect any further amount from the investors until registered as a CIS and also give details to SEBI with regard to the amount disbursed by it, every quarter.

h. SEBI versus Citrus Check Inns Limited

On August 08, 2015, SEBI as per SAT's direction passed an order confirming the direction issued in SCN dated June 03, 2015 in the interest of investors and to ensure that the noticees do not continue with the money mobilization activities through its plans / schemes. SEBI was further directed to conduct an investigation into the operations of the Company, in order to form a final view as to whether the activity of the Company is in the nature of CIS as prima facie observed in the interim order.

Citrus challenged the SEBI order before SAT. SAT prima facie upheld SEBI's view that Citrus was running a CIS scheme. However, SAT set aside SEBI's direction and directed Citrus to make an application for registration with SEBI and directed SEBI to grant a provisional certificate of registration and eventually on receipt of the final investigation report, if found appropriate, to grant final registration so that the scheme being operated was henceforth regulated. SAT further allowed Citrus to continue to receive the subscription amount from the existing CIS till the date of grant of provisional registration. SEBI challenged SAT's order before the Supreme Court.

The Supreme Court accepted SEBI's submission that the on-going investigation will be completed within six month from the date of order deciding whether Citrus was running a CIS or not. The Court further directed that any alienation or encumbrance of assets by Citrus was to be done with SEBI's prior permission.

B. HIGH COURTS

a. SEBI versus Information Technologies (India) Limited (ITL) and Others

SEBI received a complaint from M/s Industrial Finance Corporation of India Limited (IFCI) that in spite of repeated requests Information Technologies (India) Limited (ITL) had not transferred the 2.27 million shares of face value of ₹ 5 each, in favour of IFCI. SEBI sought information from ITL, which failed to respond. Finally, SEBI asked IFCI for necessary information. IFCI provided the information on August 20, 2004.

Based on the information provided by IFCI, SEBI filed a complaint under Sections 113 and 621 of the Companies Act, 1956 against the respondent, ITL and its directors, along with an application under Section 473 of the Criminal Procedure Code (CrPC) seeking condonation for the delay, before the court of the Additional Metropolitan Magistrate (ACMM), Tis Hazari Court, New Delhi.

ACMM dismissed the condonation of delay application. Consequently, the SEBI's complaint also got dismissed being barred by limitation. SEBI preferred a revision being a criminal revision against the said ACMM order of June 04, 2008 before the Court of the Additional Session Judge (ASJ), Delhi. This was dismissed by ASJ vide order dated January 18, 2011. ASJ noted that criminal action could have been initiated even by IFCI as per the provisions of Section 621 of the Companies Act.

Subsequently, SEBI filed the present case assailing the ASJ order under Section 473 of CrPC before the Delhi High Court. SEBI mainly contended two points relying on various judgments in support; firstly that sufficient cause was shown in the application seeking condonation of delay and secondly that the offence being continuous in nature, there was no delay in filing the complaint and it ought to have been entertained on merit.

The Delhi High Court concluded that the date of knowledge of the offence to SEBI which fell in the category of a 'person aggrieved by the offence' could be attributed only to when the complete record were given by IFCI, that is, on August 25, 2004. The complaint was filed by SEBI on September 30, 2004. Thus there was no delay in filing the complaint. Accordingly, the impugned order was set aside and ACMM was directed to proceed with the complaint as per law.

C. THE SECURITIES APPELLATE TRIBUNAL (SAT)

a. J.C. Mansukhani versus SEBI, and Man Industries (India) Limited and Others versus SEBI

Appellants in these two appeals were aggrieved by a common order passed by the Adjudicating Officer (AO) dated March 28, 2014 imposing a penalty of ₹ 25 lakh jointly and severally on the appellants under Section 15-HB of the SEBI Act for violation of certain provisions of SEBI (Prohibition of Insider Trading) Regulations, 1992. The AO found that the company and its board of directors had delayed disseminating price sensitive information relating to bagging/obtaining two substantive orders received by the company from two Iranian companies.

SAT held that since the value of the two contracts in question constituted nearly 65 per cent of the total order book of the company during the year, it was abundantly clear that entering into such contracts constituted price sensitive information which ought to have been disclosed under Scheduled II of Regulation 12(1) of the PIT Regulations. Apart from this, in the past the company had conceded before SEBI that bagging orders worth about ₹ 1,200 crore in that year was price sensitive information. In the present case, the contracts bagged were to the tune of ₹ 1,340 crore. Therefore, in the present case, it was not open to the appellants to change their stand and argue to the contrary.

SAT further held that all the major contracts became binding and effective on the date of signing of the contract and had to be disclosed without any delay. As and when major changes to the contracts, if any, were effected, these also had to be disclosed.

b. MFL India Limited

The appellant was aggrieved by the order passed by the Adjudicating Officer (AO) on September 30, 2014. By the said order a penalty of ₹ 4 lakh was imposed on the appellant under Section 15C of the SEBI Act for its failure to obtain the SCORES authentication within the stipulated time in spite of the circular issued by SEBI on June 03, 2011, August 13, 2012 and April 17, 2013 and failure to respond to the complaints filed by the investors within reasonable time.

SAT held that in spite of the SEBI circular dated April 17, 2013, instead of obtaining SCORES authentication within 30 days, the appellant applied for SCORES authentication on the last day for obtaining the authentication set out in the circular dated April 17, 2013. In these circumstances, the AO's decision that the appellant failed to obtain SCORES authentication within the stipulated time could not be faulted with.

SAT held that Section 15C of the SEBI Act provides that if any listed company fails to comply with the directions issued by the Board within the stipulated time and fails to redress investor grievances within the time specified by the Board, then such a company is liable to a penalty which will not be less than ₹ 1 lakh but which may extend to ₹ 1 lakh for each day during which such failure continued subject to a maximum of ₹ 1 crore. In the present case, investor grievances mentioned in the show cause notice dated March 26, 2014 were redressed by the appellant belatedly on September 26, 2014. Similarly, six investor grievances noticed by the appellant on obtaining SCORES authentication on September 26/29, 2014 were redressed by the appellant belatedly on November 20, 2014. In these circumstances, no fault could be found with the quantum of penalty imposed against the appellant.

c. **Mrs Chandra Mukherji, Shelter Infra Projects Private Limited, Hasmukh Parekh and Others, Shanti Ranjan Paul and Mr Sisir Kumar Saha and Others**

These appeals raise the issue of trigger date of Unpublished Price Sensitive Information (UPSI) and whether the company failed to keep the trading window of its scrip closed during the period when UPSI was in force and whether this enabled some of the promoters/directors and some other entities to share the UPSI with other entities and/or trade in the shares of Shelter Infra Projects Limited (Shelter Infra) thereby violating relevant provisions of securities laws.

The Hon'ble SAT held that it was established beyond doubt that UPSI came into existence at least on June 19, 2009. All the directors and their relatives were covered under the definition of 'insider.' The Parekh group having business dealings and partners in business concerns with an insider were covered under the definition of 'connected persons.' Passing on the information needed to be judged in this context and in the instant context it was not disputed that the Parekh group started trading from June 22, 2009 after UPSI came into existence. Thus, the company, its directors and their relatives and connected entities were guilty of violating the provisions of securities laws and thus were liable for action under the SEBI Act and/or SCRA.

d. **Khandwala Securities Limited**

The appellant was aggrieved by SEBI's Whole Time Member's (WTM), order dated May 13, 2015. By the said order the certificate of registration of the appellant as a stock broker at NSE had been suspended for one month for violating certain provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (PFUTP Regulations 1995) read with SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (PFUTP Regulations 2003) and certain clauses relating to the Code of Conduct under SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (Stock Brokers Regulations).

SAT held that a large number of cross deals executed through the appellants by its clients could not be normal trades of buying and selling in the securities market as a broker, and the argument that the appellant only placed orders in the trading system and obtained the brokerage could not be accepted. Data given clearly indicated that orders were placed at prices far away from prevailing market prices and that too in many instances. While the order price may be within the circuit filter range, the intention behind placing such orders at far away prices was not normal. Similarly, it was an admitted fact that the appellant was aware of the impending UTI order as recorded by SEBI's investigating officer.

In the said circumstances, SAT held that even if some of the orders placed by the clients did not fructify because they were at far away prices, the very fact that the orders were placed at far away prices was sufficient to give a false picture to the investors in the scrip. Therefore, the argument of the appellant that non-fructified orders did not impact the market and as long as the orders were within the range of the circuit filters there was no abnormality in placing the orders could not be accepted. Where the orders were found to have been placed at far away prices to manipulate the market, then it would amount to violating PFUTP Regulations. In the instant case, the inference drawn by SEBI's WTM that placing high quantity orders repeatedly at prices far away from the market prices constituted violation of PFUTP Regulations could not be faulted. This inference was further fortified by the fact that there was synchronized trading of large quantities.

e. Tijaria Polypipes Limited and Others

Appellants were aggrieved by WTM's impugned order dated June 20, 2014 whereby they had been restrained from dealing in the securities market in any manner for a period of 7 years for various violations under the SEBI Act, PFUTP Regulations 2003 and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

SAT held that since IPO proceeds were used to refund inter-corporate deposits (ICDs), funds raised through ICDs were in the nature of bridge loans and hence as per ICDR provisions all bridge loans also must be disclosed. This fact should have been disclosed through the prospectus or immediately after the board meeting on September 10, 2011. The prima facie reading of the ICDR Regulations necessitates disclosures of funds raised prior to the board meeting for providing the full and balanced financial position of the company to enable investors to take informed decisions.

SAT further held that information relating to an amount to the tune of 25 per cent of the IPO proceeds was not just a material one it was substantively material for the market to correctly evaluate the advantages and risks of an IPO. Hence, the contention of the appellants that since money was used for normal business and the information did not pose any risk to the investors did not have any merit and was therefore rejected. Since the IPO proceeds were used to refund the ICDs, SEBI's argument that they were in the form of a bridge loan also could not be faulted. So was the requirement of disclosing information related to past ICDs which should all have been disclosed given the statutory requirements of a disclosure based regime in the securities market. As such all charges in the impugned order relating to information disclosure or limited disclosure were borne out of facts and could not be faulted.

f. Mr Sandeep Baid, Mr Sunder Lal Dugar, Mahendra Pratap Singh and Mr Sachin Shridhar

The appellants were aggrieved by the impugned order dated August 06, 2014 whereby the appellants were held liable to pay penalty jointly and severally under Sections 15HA and 15HB of the SEBI Act aggregating to three crore rupees for violating the provisions contained in the SEBI Act and the Regulations made thereunder. Additionally a penalty of five lakh rupees was imposed on Mr Sandeep Baid under Section 23H of SCRA for not complying with Clause 49 of the Listing Agreement read with Section 21 of SCRA.

SAT held that when the Listing Agreement specifically provides that the Chairman of the Audit Committee will be an Independent Director, the Whole Time Director could not have chaired the Audit Committee Meeting held on October 07, 2011 especially when an Independent Director was available on that day to chair the Audit Committee. There was no basis for the alleged bonafide belief entertained by the Whole Time Director and therefore chairing the Audit Committee by the Whole Time Director on October 07, 2011 was in violation of Clause 49 of the Listing Agreement. Although the penalty imposable for such a violation under Section 23H of the SCRA could extend up to ₹ 1 crore, the AO after considering all mitigating factors deemed it fit to impose a penalty of ₹ 5 lakh which cannot be said to be unreasonable or excessive.

SAT further held that utilizing the IPO proceeds for a purpose other than the purpose specified in the IPO being material information ought to have been disclosed as contemplated under the ICDR Regulations. Failure to do so, constituted violations of ICDR Regulations. It was also held that investing surplus funds in high quality liquid instruments could not be equated with giving a loan to a group company. In the present case, RDB had utilized the IPO proceeds to give a loan to RDB Realty and Infrastructure Limited (RDBRIL) instead of investing the IPO proceeds in high quality interest bearing liquid instruments by obtaining security of valuable assets and postdated cheques.

Thus, it was held that in the facts of the present case, the resolution passed on September 12, 2011 to give a loan up to ₹ 50 crore to RDBRIL being a resolution related to the utilization of IPO proceeds was material information which ought to have been disclosed. Apart from this, when the statement was made in the offer document that the IPO proceeds would be invested in high quality interest bearing liquid instruments, utilizing the IPO proceeds by giving a loan to RDBRIL amounted to mis-utilizing the IPO funds in violation of ICDR Regulations.

The fact that apart from IPO proceeds, RDB did not have any other surplus funds to give as a loan to RDBRIL and the fact that immediately on receiving IPO proceeds amounting to ₹ 34.25 crore, RDB transferred IPO proceeds to the extent of ₹ 31.60 crore to RDBRIL, even before the RDB board approved giving such a loan and even before the RDB board approved the draft loan agreement, left no manner of doubt that RDB and its directors had adopted manipulative and deceptive devices to suppress material facts from the investors which was a gross violation of Section 12A of the SEBI Act and Regulations 3 and 4 of PFUTP Regulations.

In these circumstances, the AO's decision that RDB's conduct and that of its directors (appellants) in suppressing material information from the investors by resorting to manipulative and deceitful devices was in violation of Regulations 3 and 4 of the PFUTP Regulations could not be faulted.

g. Dushyant N. Dalal and Others versus SEBI

The appellants challenged various orders of the SEBI Recovery Officer involving a common question of law before SAT. The common question of law raised in all these appeals was whether Section 28A inserted to the SEBI Act with effect from July 18, 2013 imposed interest liability on a person who failed to pay the amounts specified in Section 28A within the stipulated time and if so, whether Section 28A can be invoked for demanding interest on the amounts due to SEBI pursuant to the orders passed prior to July 18, 2013.

In this regard, SAT held:

- Object of inserting Section 28A to the SEBI Act, was to provide a mechanism for collection and recovery of the amounts due to SEBI. Instead of providing an independent mechanism, the legislature incorporated the provisions contained in the Income Tax Act relating to 'Collection and Recovery' in Section 28A.
- As a result of incorporating Section 220 of the Income Tax Act in Section 28A the obligation to pay interest for delayed payments of the amount due to SEBI became statutorily introduced from the date on which Section 28A came into force. Since the legislature had inserted Section 28A with effect from July 18, 2013, it was apparent that the interest liability under Section 28A would be operative from July 18, 2013.
- Any substantive provision inserted for the first time which imposes any burden or liability would be prospective in nature unless otherwise provided either expressly or by necessary implication. In the present case, the interest obligation under Section 28A would commence from July 18, 2013.
- The interest obligation contained in Section 28A read with Section 220 would come into operations from July 18, 2013.

- It was clear that the interest liability for recovery of the amounts specified in Section 28A would arise only if the amounts were not paid within 30 days from July 18, 2013 and not prior thereto.

In view of this, the RO order against the appellant was upheld and the remaining appeals were remanded to the RO for fresh computation of interest.

h. Sanjay Dalmia and Others versus SEBI, and Mrs Chanchal Kumar and Others

The appellants were aggrieved by the AO's order dated February 14, 2014 imposing a penalty of ₹ 1 crore under Section 15HB of the SEBI Act for violating Regulation 23(1) of the Takeover Regulations, 1997. On November 12, 2009, Mr Pramod Jain and two others made a public announcement under the Takeover Regulations, 1997 disclosing their intention to acquire 44,02,201 equity shares (25 per cent) of the company Golden Tobacco Limited (the company) at a price of ₹ 101 per share. While the open offer was still in operation, a MoU was entered into by the company with Sheth Developers and Suraksha Realty Limited for joint development of a property subject to the approval of the shareholders as contemplated under Regulation 23(1) of the Takeover Regulations, 1997.

SAT held that Regulation 23(1) of the Takeover Regulations, 1997 expressly provided that during the public offer period without obtaining prior approval of the general body of shareholders, the BoD of a company will neither sell, transfer, encumber or otherwise dispose of the assets of the company nor the BoD of the company will enter into any agreement for sale, transfer, encumbrance or disposal of the assets of the company.

It was further held that holding the expression 'agreement' used in Regulation 23 will not apply to an 'MoU' and will amount to defeating the object with which Regulation 23 had been framed. Therefore, in the facts of present case, entering into an MoU on December 26, 2009 for joint development of property subject to the approval of the shareholders was in gross violation of Regulation 23 of the Takeover Regulations, 1997. Accordingly, the AO's order was upheld.

i. Pan Asia Advisors Limited and Mr Arun Panchariya (AP) versus SEBI

The appellants challenged the WTM's order dated June 20, 2013 debarring the appellants from the securities market for a period of 10 years.

By a majority decision of SAT, the appeal was allowed holding that SEBI had no jurisdiction to initiate proceedings against the appellants in relation to the role played by them as lead managers to the global depository receipts (GDRs) issued by several Indian companies outside India.

On an appeal filed by SEBI, the Supreme Court vide order dated July 06, 2015 to set aside SAT's majority decision and held that SEBI had jurisdiction in such cases to pass a debarment order if the allegations levelled against the appellants fell within the scope of Section 12A(a), (b) and (c) of the SEBI Act and PFUTP Regulations, 2003 and to determine the aforesaid question the matter was remanded to SAT.

SAT vide order dated October 25, 2016, *inter-alia*, held that it was absolutely clear that if a person by his act either directly or indirectly caused the investors in the securities market in India to believe in something which was not true and thereby induced investors in India to deal in securities, then that person was said to have committed fraud on the investors in India. In such a case, action could be taken under the PFUTP Regulations against the person committing the fraud, irrespective of the fact that any investor had actually become a victim of such fraud or not. In other words, under the PFUTP Regulations, SEBI was empowered to take action against any person if his act constituted fraud on the securities market even though no investor had actually become a victim of such a fraud. In fact, the object of framing the PFUTP Regulations was to prevent fraud being committed on the investors dealing in the securities market and not to take action only after the investors had become victims of such a fraud. Therefore, in the facts of the present case, if fraud was committed by the appellants on the investors in India, then without making the investors a party to the proceedings, SEBI could take action against the appellants.

Similarly, if fraud was said to have been committed by AP on the investors in India by subscribing to GDRs outside India by entering into a loan agreement/pledge agreement outside India through the entities with which AP was connected, then, even if the GDRs were validly issued and even if the loan agreement/ pledge agreement were valid, proceedings could be initiated against AP for committing fraud on the investors in India without impleading the entities who had issued the GDRs and without impleading the entities who were parties to the loan agreement/pledge agreement. In other words, whether the Loan Agreement/ Pledge Agreement were validly entered into or not, proceedings could be initiated against AP if the very act of AP in subscribing to the GDRs through his connected entities constituted fraud on investors in India. In such a case, the entities which issued the GDRs -- Overseas Depository Banks or the entities who were parties to the loan agreement/pledge agreement were not required to be impleaded as parties to the proceedings initiated against AP for committing fraud on the investors in India. Therefore, the argument of the appellants that without impleading the Overseas Depository Banks/ parties to the loan agreement and pledge agreement as parties to the proceedings initiated against the appellants, it could not be accepted that no order could be passed against the appellants.

SAT further held that the appellants knew that if the investors in India came to know that the GDRs of the issuer companies have not been subscribed by foreign investors but by the entities controlled by the Managing Director (AP) of Pan Asia, then it would not generate an interest in the minds of the investors in India to subscribe to the shares of the issuer companies. Therefore, in order to create an artificial impression that global investors had shown keen interest in investing in the issuer companies by subscribing to the GDRs, appellants by a dubious method introduced fictitious and non-existent initial subscribers to the GDRs of the issuer companies so as to mislead the investors in India into believing that global investors had shown a keen interest in investing in the GDRs of issuer companies. In these circumstances, SEBI's order was upheld.

2. SEBI ORDERS

a. Interim Order in the Matter of Ruchi Soya Industries Limited

SEBI, vide an ad-interim ex-parte order dated February 15, 2013, restrained nine entities from accessing the securities market and further prohibited them from buying, selling or dealing in securities in any manner whatsoever till further directions. Thereafter, SEBI, vide order dated December 06, 2013 directed to carry out a detailed investigation and revoked the directions issued vide the aforesaid interim order.

The investigation observed that seven suspected entities, Navinya Multitrade Private Limited (Navinya), Shreyans Credit and Capital Private Limited (Shreyans), Aventis Biofeeds Private Limited (Aventis), Sunmate Trade Private Limited (Sunmate), Uni24 Technosolutions Private Limited (Uni24), Vision Millennium Exports Private Limited (Vision) and Moebius Credit and Capital Private Limited (Moebius) had traded in Ruchi Soya Industries Limited's shares on September 27, 2012 during 03:00 pm to 03:30 pm and influenced the settlement price of the Ruchi Soya futures expiring on September 27, 2012. It was also observed that on account of the manipulative trading activities, the suspected entities who were holding long positions in Ruchi Soya futures expiring on September 27, 2012 had reduced their square-off losses.

Accordingly, as an interim measure, an ad-interim ex-parte order under Sections 11(1), 11(4)(d) and 11B of SEBI Act, 1992 was passed on June 07, 2016 against the seven entities impounding unlawful gains of ₹ 8.30 crore (alleged gains along with interest).

b. Interim Order in the Matter of Unregistered Investment Advisory Activities, in Respect of Mansoor Rafiq Khanda, Firoz Rafiq Khanda and Their Proprietary Concerns

SEBI received numerous complaints against Mr Mansoor Rafiq Khanda and Mr Firoz Rafiq Khanda and their proprietorship concerns stating *inter-alia* that they were offering trading tips through 'WhatsApp' messages/SMSs sent from various mobile numbers and also on the website – www.fullonoption.com. On the basis of preliminary examination, SEBI prima facie observed that these entities had acted as unregistered investment advisors and passed an interim order on June 05, 2014 and issued certain directions which were subsequently confirmed vide order dated September 05, 2014.

SEBI conducted further investigations in the matter. The investigations revealed that the aforesaid entities were engaged in activities of giving trading tips, stock specific recommendations, etc. to investors on payment of fees without obtaining the certificate of registration from SEBI to act as investment advisors. Further, the entities had received payments to the tune of ₹ 3,83,80,477 from general investors in the bank accounts of the proprietorship concerns as subscription fee from investors for the services provided which was in the nature of ill-gotten gains.

Accordingly, as an interim measure, an ad-interim ex-parte order under Sections 11(1), 11(4)(d) and 11B of the SEBI Act, 1992 was passed on May 12, 2016 against the aforesaid two entities and their 12 proprietary concerns impounding unlawful gains of ₹ 5.04 crore (alleged gains along with interest).

c. **Interim Order in the Matter of Trading by Certain Entities in Exelon Infrastructure Limited's Scrip**

SEBI conducted an investigation into Exelon Infrastructure Limited's scrip (the company) for the period December 08, 2010 to January 20, 2012. During investigations, it was observed that the company, along with its promoter, directors and other connected entities, by acting together as a group had formulated a scheme to make illegal gains and defraud genuine investors, as explained:

a. The company submitted positive corporate announcements, including split of shares, to BSE during February 10, 2011 to March 07, 2011 as a result of which the price of the scrip increased by 85.28 per cent in 26 trading days during the period of announcement.

b. In the meanwhile, the promoter / director connected entities manipulated the price of the scrip by contributing substantially to the new high price (NHP) during pre-stock split period. Further, these entities also manipulated the price after the stock split.

c. During this period, when the company along with its directors and other connected entities were manipulating the price of the scrip upwards, the promoter of the company (Cementex India Private Limited), two entities (Srinivasa Rao Marupudi and Srinivas Yadav Sher) who were the directors of the company during the investigation period and 44 other promoter/director connected entities, took advantage of such manipulation of price of the scrip and made illegal profits of ₹ 7.86 crore by net selling at an increased price.

Accordingly, as an interim measure, an ad-interim ex-parte order under Sections 11(1), 11(4) (d) and 11B of the SEBI Act, 1992 was passed on June 07, 2016 against 52 entities impounding unlawful gains of ₹ 12.54 crore (alleged gains along with interest).

d. **Interim Order in the Matter of Beejay Investment & Financial Consultants Private Limited and Others**

SEBI received a Suspicious Transaction Report dated December 21, 2012 from the Financial Intelligence Unit generated by ICICI Bank with respect to Sudhir Jain (Sudhir), Beejay Investment & Financial Consultants Private Limited (Beejay) and Eversight Tradecomm Private Limited (Eversight) due to large value transactions in their accounts and also due to the fact that an interim order dated June 04, 2009 was passed against the group restraining it from accessing the market directly or indirectly. SEBI conducted an investigation into the matter of violation of SEBI directions by Sudhir, Beejay and Eversight to ascertain whether the entities violated SEBI's prohibitory orders by indirectly dealing in the securities market during September 01, 2011 to September 30, 2012 (investigation period).

The investigation alleged that the barred entities had traded indirectly in the securities market by transferring funds, directly/indirectly, to connected entities during the investigation period and made unlawful gains in the process.

Accordingly, as an interim measure, an ad-interim ex-parte order under Sections 11(1), 11(4) (d) & 11B of SEBI Act, 1992 was passed on June 16, 2016 against 18 entities for impounding unlawful gains of approximately ₹ 27.44 crore (alleged gains along with interest). The directions issued vide ad-interim ex-parte order dated June 16, 2016 were confirmed vide order dated March 27, 2017.

e. Interim Order/Confirmatory Order in the Matter of Castor Seed Contracts

After an examination SEBI passed an ex-parte ad-interim order restraining two entities in the matter of castor seed contracts on May 24, 2016 restraining them from buying, selling or dealing in the securities market, either directly or indirectly, in any manner whatsoever, till further directions.

It was found that the connected entities (connection based on fund transfers), acting in concert under a premeditated plan, acquired a dominant market share in Castor Seed Contracts traded at NCDEX. Further, it was also observed that on account of the clubbed position held by connected entities in Castor Seed Contracts across different expiries there were several instances of position limit violations.

Therefore, in order to protect the interests of the investors and the integrity of the securities market, SEBI passed an ad-interim ex-parte order on May 24, 2016 restraining two entities from buying, selling or dealing in the securities market, either directly or indirectly, in any manner whatsoever, till further directions. Further, with respect to interim orders dated March 02, 2016 and May 24, 2016 in the castor seed matter, directions were confirmed against 17 entities and directions were revoked against one entity vide order dated March 08, 2017.

f. Interim Order in the Matter of Dhyana Finstock Limited

SEBI passed an ad-interim ex-parte order on June 01, 2016 in the matter of Dhyana Finstock Limited against 76 entities prohibiting them from accessing the securities market and buying, selling or dealing in securities, either directly or indirectly, in any manner whatsoever till further directions. Further, BSE was also directed to withhold the pay-out of the funds for the trades executed on July 27, 2015 and to keep the same in an interest-bearing escrow account till further directions. A preliminary examination revealed the deployment of fraudulent bulk SMSes for manipulating and offloading the shares of Dhyana Finstock Limited by certain entities.

g. Ad-Interim Ex-parte Order in the Matter of Supreme Tex Mart Limited (STML)

A suspicious trading pattern was observed in the shares of Supreme Tex Mart Limited (STML) with linkages with bulk SMSes being sent to a large number of investors. The trade volumes of the STML scrip, on the days on which the bulk SMSes were sent, were significantly higher than its average daily trading volume during the pre-SMS period. Further, on an examination of the trades of identified entity, the bulk SMSes sender, vis-à-vis the recommendations by SMSes sent by him on STML, it was observed that entity traded contrary to the BUY recommendations sent by him through the bulk SMSes, thereby making profits on the shares bought at lower prices prior to sending the SMSes. Accordingly, based on the facts and the circumstances, SEBI passed an ad-interim ex-parte order on February 23, 2017, restraining the entity from buying, selling or dealing in securities, directly or indirectly, or in any manner whatsoever, till further notice.

Part Four:
Organizational Matters

1. ABOUT SEBI

I. SEBI'S ESTABLISHMENT

The Securities and Exchange Board of India (SEBI) was constituted on April 12, 1988 as an interim administrative body under the overall administrative control of the Ministry of Finance (MoF) by a notification published in the *Gazette of India: Extraordinary*. The objective of establishing SEBI was investor protection and promotion of the orderly and healthy growth of the securities market. SEBI was accorded statutory status on January 30, 1992 by an ordinance. It was formally established on April 12, 1992 in accordance with the provisions of the SEBI Act, 1992.

II. SEBI'S PREAMBLE

SEBI's preamble describes its core functions as: ***'...to protect the interests of investors in securities and to promote the development of, and to regulate securities markets and for matters connected therewith or incidental thereto.'***

III. SEBI'S BOARD

During 2016-17, the Government of India vide notification dated February 17, 2017 appointed Shri Ajay Tyagi to the post of Chairman, SEBI. Shri Ajay Tyagi assumed the office of SEBI's Chairman with effect from March 01, 2017. Shri U. K. Sinha relinquished the charge of the office of SEBI's Chairman on March 01, 2017. Shri Prashant Saran, Whole Time Member, relinquished the charge of office of Whole Time Member, SEBI on expiry of his term of appointment on June 23, 2016. Shri N. S. Vishwanathan, Deputy Governor, Reserve Bank of India was nominated as one of the members on SEBI's Board in terms of the Government of India's notification dated August 23, 2016 in place of Shri R. Gandhi. Shri Rajeev K. Agarwal, Whole Time Member, relinquished the charge of office of Whole Time Member, SEBI on expiry of his term of appointment on November 03, 2016.

Shri G. Mahalingam was appointed as a Whole Time Member, SEBI under clause (d) of sub-section (1) of Section 4 of the SEBI Act, 1992 by the Government of India vide notification dated October 07, 2016. Shri G. Mahalingam assumed charge as Whole Time Member with effect from November 09, 2016. Ms. Madhabi Puri Buch was appointed as Whole Time Member, SEBI under clause (d) of sub-section (1) of Section 4 of the SEBI Act, 1992 by the Government of India vide notification dated March 25, 2017. However, Ms. Madhabi Puri Buch did not assume charge as on March 31, 2017 (Table 4.1). During 2016-17, the SEBI Board met on six occasions.

Table 4.1: Members on the SEBI Board as on March 31, 2017

Member	Position
Shri Ajay Tyagi	Chairman
Shri S. Raman	Whole Time Member
Shri G. Mahalingam	Whole Time Member
Ms Madhabi Puri Buch*	Whole Time Member
Shri Arun P. Sathe	Member
Shri Shaktikanta Das	Member
Shri Tapan Ray	Member
Shri N. S. Vishwanathan	Member

Note: * Ms Madhabi Puri Buch was appointed as Whole Time Member by the Government of India vide notification dated March 25, 2017. She, however, assumed charge on April 05, 2017.

2. AUDIT COMMITTEE

In pursuit of high standards of governance and transparency, in its 127th meeting held on September 22, 2009 the SEBI Board constituted an Audit Committee to exercise oversight of SEBI's financial reporting process and disclosure of its financial information.

The committee comprises three members nominated by the Board. The tenure of the members of the committee is for two years. The committee is chaired by Shri Tapan Ray and has Shri S. Raman and Shri N.S. Vishwanathan as the other two members. During 2016-17, the committee held four meetings.

The committee has the mandate to review:

a. Financial statements with the management, internal auditors and/or the Comptroller and Auditor General (C&AG).

b. The adequacy of SEBI's internal control systems with the management, the internal auditors and/or C&AG.

c. Action taken by the management to rectify deficiencies or in implementing suggestions as pointed out by C&AG and internal auditors.

The committee recommended revisiting SEBI's investment policy and made suggestions on improving its internal control systems.

Further, the committee reviewed and discussed SEBI's annual statement of accounts for 2016-17 with the management and internal auditors. Based on this review and discussions, the Audit Committee believes that SEBI's annual statement of accounts is fairly presented in conformity with the Generally Accepted Accounting Principles (GAAPs) in all material aspects. The committee fulfilled its responsibilities in compliance with its charter.

3. HUMAN RESOURCES

SEBI's Human Resources Division continued to play an important role with a prime focus on implementing policies on the organization's structure, capacity building, training, promotions and job rotations. Measures such as strengthening manpower, enhancing capabilities of officers through various training programmes and through nominations to various conferences and seminars, promotions in various grades, revisions in entitlements of existing benefits, introduction of new benefits, job rotation and staff welfare measures were undertaken to keep up with professional requirements and for keeping employees motivated.

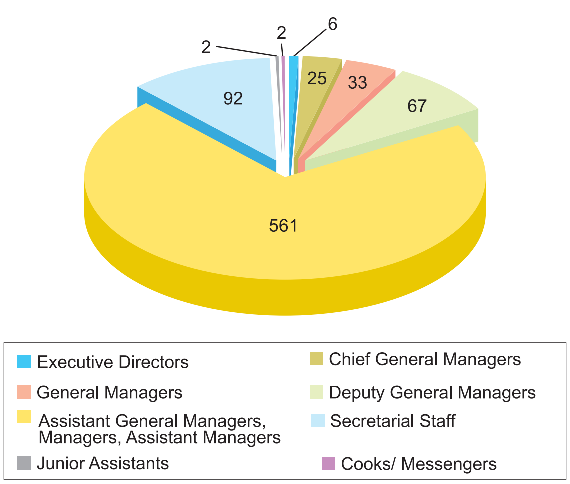
I. STAFF STRENGTH, RECRUITMENTS AND RESIGNATIONS

As on March 31, 2017, the total number of employees in various grades was 788 (including employees on deputation/contract), out of which 692 employees were officers and 96 employees comprised of secretaries and other staff members. The male and female composition was 526 and 262 respectively.

A. Grade-wise Distribution

Grade-wise distribution of staff members is given in Figure 4.1.

Figure 4.1: Grade-wise distribution of staff members



During 2016-17, 51 officers in Grade A (Assistant Managers) joined SEBI. Further, one officer each in Grade D and Grade E was appointed on a contract basis. During the year, 14 staff members across various grades resigned from SEBI and five staff members retired.

Keeping in view the directions issued by the Central Government for welfare of Scheduled Castes (SCs), Scheduled Tribes (STs), Other Backward Castes (OBCs) and Persons with Disabilities (PWDs), SEBI undertook special recruitment drives during 2015-16 and 2016-17. In the special recruitment drive for SC/ST/OBCs, 45 officers in Grade A (Assistant Managers) were selected who joined the Board in 2016-17. Out of these, 19 belong to the OBC, 11 to the SC and 15 to the ST categories.

Further, four officers in Grade A (Assistant Managers) were selected through a special recruitment drive for PWDs and they joined in 2016-17.

B. Age of Staff Members

With around 42 per cent of its staff members in the age bracket of 30-40 years, SEBI is a young organization. The average age of staff members is around 38 years. The distribution of staff members across different age brackets is given in Table 4.2.

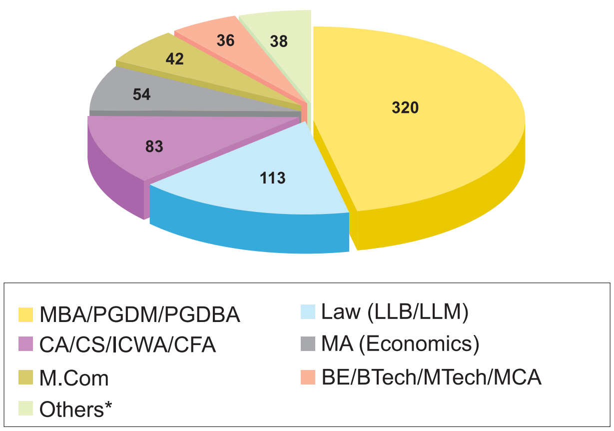
Table 4.2: Distribution of staff members (age brackets)

Age group	No. of staff members	*Percentage to total*
50 years - 60 years	64	*8.1*
40 years - 50 years	231	*29.3*
30 years - 40 years	328	*41.6*
20 years - 30 years	165	*20.9*

C. **Distribution of Officers by Qualification**

SEBI endeavours to have a balanced composition of generalists and specialists in relevant fields. The distribution (in numbers and percentages) of officers by qualification is given in Figure 4.2 (an officer may have more than one qualification).

Figure 4.2: Distribution of officers by qualification



Note: * includes MSc, BSc, B.Com, etc.

D. **Promotions**

To facilitate career progression, promotion exercises were undertaken in various grades during the year (Table 4.3).

Table 4.3: Promotions of staff members in various grades

Promoted from	Promoted to	No. of persons promoted
Assistant Manager	Manager	47
Secretaries/Accounts Assistant	Manager	6
Accounts Assistant Grade A	Accounts Assistant Grade B	01

E. **Job Rotation**

Officers in various grades were transferred as part of inter-departmental and inter-office job rotation measures; 130 officers were rotated among different departments/regional/local offices.

A reallocation of departments for Executive Directors was also undertaken.

F. **Region-wise Distribution of Staff Members**

Considering the increased role of regional/ local offices, staff strength at these offices was increased during the year. As on March 31, 2017, 155 staff members (around 19 per cent of SEBI's total employee strength) in various grades were posted in these offices.

Distribution of staff members in the head office and regional offices, including local offices under them, is given in Table 4.4.

Table 4.4: Staff deployment in various offices

Office	No. of employees	*Percentage to total*
Head Office	633	*80.3*
Northern Regional Office	61	*7.7*
Eastern Regional Office	33	*4.2*
Southern Regional Office	34	*4.3*
Western Regional Office	27	*3.4*

II. POLICY INITIATIVES

A. **Discontinuation of Requirement of Interview for Junior Level Posts in SEBI**

In order to improve objectivity and transparency and to ensure a level playing field for candidates from all sections of society, the

Government of India has decided to do away with the requirement of an interview as a part of the recruitment process for all posts in Groups C and D and for non-gazetted posts in Group B. Accordingly, SEBI amended the SEBI (Employees' Service) Regulations, 2001, to discontinue the requirement of holding an interview for recruitment in non-officer cadres.

B. SEBI's New Pension Scheme

During the year, SEBI introduced New Pension Scheme (NPS) for all eligible employees. Every full time employee appointed by SEBI on or after the date of issuance of this circular shall be bound to subscribe to NPS and shall be governed by the rules thereof.

C. SEBI (Payment of Gratuity to Employees) Scheme, 2003

SEBI (Payment of Gratuity to Employees) Rules, 2003 were amended enhancing the ceiling amount of gratuity admissible to an employee. It was also decided that henceforth the Rules be called the SEBI (Payment of Gratuity to Employees) Scheme, 2003.

D. Staff Benefits: Revision of Pay Scales, Allowances, Benefits and Reimbursements

With a view to retaining talent and making the remunerations offered by SEBI comparable with the industry, SEBI revised the pay scales, allowances, benefits and reimbursements for all staff members during the year.

III. TRAINING AND DEVELOPMENT

In order to enhance and widen the knowledge base, perspective and 'soft skills' (including motivation and communication skills), staff members across all grades were nominated for various domestic and foreign behavioural and functional training programmes. Several training initiatives were undertaken during 2016-17 to enhance the skills and efficiencies of staff members:

A. Domestic Training/Workshops

During 2016-17, 411 nominations were made for various domestic training programmes. Some workshops/training programmes that were arranged/conducted for staff members during the year are:

- Master Class on Behavioural Finance.
- Leadership training for division chiefs.
- Training on Bond mathematics/Commodity derivatives/Collective investment schemes/ Communication skills/Equity derivatives and Commodities/Macroeconomics/Mutual funds/ Fixed income products/Web accessibility/ Corporate finance/Board governance/Mergers and acquisitions.
- Outbound training programme on Motivation, Team Building and Leadership for officers.
- Web accessibility training for visually challenged employees.
- Course on economic offences.
- Disciplinary proceedings and pay fixation.
- Right to information.
- Prevention of sexual harassment at the workplace.

Shri Uday Kotak, Shri P.Jayendra Nayak, Shri Atul Khosla, Shri R.Gandhi and Shri T.V.Mohandas Pai (L to R)

B. Foreign Training / Seminars / Meetings/ Conferences

With a view to carrying out its core functions effectively and efficiently in a globalized market structure and for building adequate capacity, a proper understanding of international best practices on various aspects of securities markets is required. In this context, SEBI nominates staff members for various foreign study tours, seminars, conferences and training programmes organized by foreign regulatory / multilateral agencies / organizations. Moreover, SEBI is also an active member of IOSCO and is represented on many of its committees and sub-committees. During the year, 174 nominations were made for various international trainings/seminars/ meetings/conferences. SEBI officials were nominated to attend a two-phase programme jointly developed by IOSCO and the PIFS-Harvard Law School. The programme aimed at offering IOSCO members an executive education programme exclusively tailored for securities markets' regulators.

C. Induction of New Batch of Assistant Managers

The newly recruited batch of 45 Assistant Managers were provided a comprehensive induction programme. The programme introduced them to SEBI, its roles and functions, its various departments and technicalities of securities markets.

D. Fellowships/Scholarships/Collaborations

SEBI encourages its employees to pursue higher studies and upgrade their skills. Temasek Foundation Connects invited SEBI employees to participate in the Temasek Regional Regulators

Scholarship (TRRS) programme for academic year 2016-17. Based on GMAT scores and interviews, one SEBI employee was selected for a one-year Master of Science in Wealth Management programme. The Global Financial Partnership Centre (GLOPAC) established by FSA, Japan, offers a fellowship programme inviting financial regulators and supervisors around the world as 'visiting fellows.' In 2016-17 one SEBI employee was selected as a visiting fellow. SEBI also collaborated with CFA Institute, USA, whereby the CFA programme is offered at concessional rates to SEBI employees. Twenty enrolments were done for the CFA course during the year under the collaboration scheme.

E. Orientation Programmes for Outside Agencies

In 2016-17, SEBI organized orientation programmes/visits for participants from other government bodies/organizations/institutes:

a. Training programme for assistant directors and young professionals of Financial Markets Division, DEA, MoF.

b. Visit of participants from the National Institute of Financial Management.

c. Visit of officers from the National Defence College, Delhi.

d. Visit of 40 participants from various countries like Egypt, Cambodia, Armenia, Bhutan and Laos enrolled in the International Programme in Banking and Finance, NIBM Pune.

F. Internships

SEBI offers short-duration projects/internships to students of reputed management and law schools as an integral part of its policy. In 2016-17 it offered internships to 37 candidates/students.

G. Internal Complaints Committee

Following the terms of The Sexual Harassment of Women at the Workplace (Prevention, Prohibition and Redressal) Act, 2013, SEBI has constituted an Internal Complaints Committee (ICC) at its head office. The ICC was reconstituted upon completion of its three-year term.

A training programme on prevention of sexual harassment at the workplace was held for newly joined staff members.

H. Constitution Day

SEBI celebrated Constitution Day on November 26, 2016 at SEBI Bhawan, Mumbai. The programme was organized to promote constitutional values and to spread Dr B. R. Ambedkar's thoughts and ideas. Various senior officials along with other staff members and their families attended the programme. As part of the programme, the Preamble to the Indian Constitution was read out to SEBI employees and a talk on the Constitution of India was arranged. A quiz on the Indian Constitution was also organized to increase awareness about the Constitution; prizes were given to the winners of the quiz. As part of a series of events organized for Constitution Day, a talk on Constitutional Morality and Principles was also organized.

I. Recreational Activities For Staff Members

a. Sports Activities

The SEBI Sports Committee organized various sports activities for SEBI employees throughout the year. For the first time, sports activities like cycling, trekking, corporate cricket and football were organized for employees by the SEBI Sports Committee. Intra-SEBI sports tournaments, the SEBI Premier League (for cricket) and the SEBI Badminton League, saw tremendous enthusiasm and active participation from among staff members. Staff members also participated in the Mumbai marathon in the corporate team category.

The second edition of SEBI Masterminds, an internal quiz competition for staff members was held on June 18, 2016. It saw an overwhelming response from staff members as 54 teams (162 participants) participated in the event.

b. Yoga Day

International Yoga Day is celebrated annually on June 21. It was internationally recognized by the United Nations' General Assembly (UNGA) on December 11, 2014. To celebrate International Yoga Day in 2016-17, a yoga workshop was conducted at SEBI Bhawan, Mumbai. Teachers from the B. K. S. Iyengar Yoga Institute were invited to conduct the workshop in which various employees participated; they also benefitted from their participation.

c. Scheme for Recognizing and Rewarding Academic Excellence of Employees' Children

During 2016-17, 26 children of employees were rewarded for academic excellence in 10th/12th standards. The Chairman presented them certificates of recognition on Republic Day.

d. Disciplinary Matters

Disciplinary proceedings were completed in an enquiry initiated against one staff member. The Competent Authority awarded a major penalty under SEBI (Employees' Service) Regulations, 2001. In another case, a staff member was placed under suspension pending disciplinary proceedings.

4. PROMOTION OF OFFICIAL LANGUAGE

Various initiatives were taken to implement the use of official language Hindi in SEBI's offices during 2016-17. These were undertaken to ensure compliance with the official language policy of the Government of India:

I. BILINGUALIZATION

During 2016-17, all notifications, public notices and registration certificates granted to various market participants, intermediaries, etc. were issued in both Hindi and English. All the papers were submitted before various Parliamentary Committees in diglot form. Further, statutory reports such as the Annual Report and the Audit Report were also brought out in both Hindi and English.

II. HINDI WEBSITE

As a part of implementing the official language policy of the Government of India and with a view to making SEBI's Hindi website more informative for the public, various regulations, amendments and other notifications notified in the Official Gazette were made available on SEBI's Hindi website.

III. NEW SEBI 'SHARE PORTAL'

As a part of implementing the official language policy of the Government of India, efforts were made to complete the Bilingualization of the new SEBI SHARE Portal.

IV. PORTAL FOR INTERMEDIARIES

A portal for intermediaries was launched during 2016-17. As per various requirements of the official language policy of the Government of India, efforts are being made for complete Bilingualization of this portal.

V. RAJBHASHA PORTAL

Efforts are being made to provide a separate Rajbhasha portal on the newly launched SEBI portal (SHARE Portal) to encourage staff members to use the official language in their day-to-day official work.

VI. *Aaj ka shabd*, HINDI NOTINGS AND HINDI QUOTES

To make staff members conversant with Hindi, one new Hindi word was displayed daily through the existing SEBI portal during 2016-17. The practice of displaying one phrase, generally used in Hindi notings and one Hindi quote daily on the SEBI portal for staff members was also continued during 2016-17.

VII. HINDI NOTINGS

To encourage senior SEBI officials to use the official language while discharging their official duties, a list of Hindi notings (generally used in day-to-day official work) was circulated in a soft form.

VIII. STANDARD DOCUMENTS

Standard documents frequently used by staff members were made available in diglot form to promote Hindi and to improve the use of the official language in correspondence with public/market intermediaries. This is in compliance with the requirements of the official language policy of the Government of India.

IX. RAJBHASHA MAGAZINE

To publish contributions of the winners of competitions held in Hindi and to encourage staff members a special issue of SEBI's Hindi magazine *Viniyamika* was published during 2016-17.

X. LIBRARY

In order to comply with various requirements of the official language policy of the Government of India and to stimulate staff members' interest in the use of Hindi, a collection of quality Hindi books was added to the library to promote the use of the official language in day-to-day official work.

XI. TRAINING FOR NEWLY RECRUITED OFFICERS

As part of their induction programme, the newly recruited officers were made aware of the various requirements related to the official language policy of the Government of India in order to ensure their timely implementation.

XII. HINDI WORKSHOPS

During the year, a Hindi workshop for senior officers was organized to make them aware of the various requirements related to the official language policy of the Government of India. This will enable them to ensure timely implementation of various requirements of the official language policy of the Government of India in their day-to-day official work.

XIII. RAJBHASHA SAMAROH

During 2016-17, a Rajbhasha samaroh was organized to felicitate the winners and participants of various competitions in Hindi organized to encourage staff members to use Hindi in their day-to-day official work. During the Rajbhasha Samaroh, as a token of appreciation all the winners were awarded with silver coins, and Hindi Books & certificates were also given to all the winners and participants.

XIV. RAJBHASHA MEETINGS AND SEMINARS

Meetings of the Official Language Implementation Committee were conducted to ensure compliance with and implementation of the official language policy of the Government of India in SEBI's offices. During 2016-17, decisions were also taken with regard to the use of Hindi in the day-to-day official work.

SEBI's representatives took part in a meeting of the Hindi Salahkar Samiti constituted by the Department of Economic Affairs and the Department of Financial Services, Ministry of Finance to suggest various measures for smooth implementation of the official language policy of the Government of India. In addition, officials of the Board also took part in Rajbhasha seminars organized by other institutions.

XV. REGIONAL AND LOCAL OFFICES

Efforts were made in regional and local offices towards compliance with the official language policy of the Government of India including Bilingualization and correspondence in Hindi. During the year, besides compliance with the official language policy in all SEBI's offices, efforts continued for using Hindi in day-to-day official work.

5. SEBI OFFICES

The following initiatives were taken for expanding infrastructure and improving the management of facilities:

The premises acquired on the 4th and 5th floors of NCL Bandra premises in the Bandra-Kurla complex were furnished and made operational. The Enquiries and Adjudication Department (EAD) and the Investor Grievance Redressal Division (IGRD) in the Office of Investor Assistance and Education (OIAE) Department operating from SEBI Bhawan were shifted to the NCL Bandra premises.

6. VIGILANCE CELL

I. Vigilance Awareness Week was observed from October 31, 2016 to November 05, 2016. The theme of the week was 'Public participation in promoting integrity and eradicating corruption.' The week commenced with a pledge administered by the Chairman to Whole Time Members, Executive Directors and Division Chiefs, who in turn, administered the pledge to their staff members. Regional Directors in the four regional offices – the Northern Regional Office, Eastern Regional Office, Southern Regional Office and the Western Regional Office also administered the pledge to their staff members. The pledge was also administered to staff members posted in local offices by the officers-in-charge.

II. A banner on Vigilance Awareness Week was prominently displayed outside SEBI's office premises in Mumbai and in all regional and local offices.

III. As CVC has envisaged the concept of an 'Integrity Pledge' to enlist support and commitment of citizens and organizations, all SEBI's departments/ regional offices were requested to disseminate and publicize the concept of the integrity pledge. Further, a hyperlink to the CVC website (https://pledge.cvc.nic.in) was provided on SEBI's website to enable citizens and organizations to take the integrity pledge.

IV. A slogan writing competition was organized among SEBI employees; the winners of the competition were felicitated by the Chairman Shri U. K. Sinha. Some of the best slogans were displayed in SEBI's head, regional and local offices. A significant response from employees was received for the contest.

V. A message on the theme of the Vigilance Awareness Week was also sent by the CVO to all employees.

VI. With a view to bringing about transparency and accountability within SEBI, a guidance note was issued by the CVO to all the officials dealing with quasi-judicial matters and all Executive Directors on February 28, 2017 which *inter alia* contains the following:

a. There should be regular monitoring of the cases after the interim orders have been passed and delays should be avoided.

b. Quasi-judicial authorities should endeavour to pass confirmatory orders within a period of three months, if applicable, and final orders within one year of the passing of the interim orders.

c. As a principle, they may endeavour to complete older cases first. However, priority may be given to certain types of cases as indicated in the Guidance Note.

d. Pendency of more than one year may be reported to the Board along with chronology of events with reasons and justifications in each case.

7. INFORMATION TECHNOLOGY

The following major initiatives relating to technology were taken during 2016-17:

I. SEBI'S DIGITAL TRANSFORMATION

A new Enterprise SEBI Portal (SHARE) is being implemented in SEBI to digitally transform the organization.

The main components of the SHARE Portal that were implemented during the year are:

a. Electronic workflows pertaining to registration, litigation cases, employee reimbursements etc. and maintaining relevant audit trails.

b. Customization and integration of the Enterprise Resource Planning (ERP) suite including HRMS, finance, budget, reimbursements, procurements and employee self-service.

c. Collaboration tools like connections, open meetings and survey forms on the SHARE Portal to provide a platform for SEBI employees for collaboration and knowledge management.

II. EASE OF DOING BUSINESS AND DIGITAL INDIA INITIATIVES

a. E-registration of Merchant Bankers, Underwriters, Registrars and Share Transfer Agents, Debenture Trustees, Bankers to the issues, Investment Advisors and Research Analysts was initiated on SHARE Portal to accept applications for registration in electronic form and also to provide post registration activities digitally.

b. E-payment of fees from intermediaries to SEBI's account through NEFT and RTGS.

c. Submitting of periodic compliance reports electronically for the above mentioned intermediaries.

III. UPGRADATION OF THE SEBI NETWORK

To further improve connectivity with local offices, all local offices were connected with the SEBI network through MPLS links.

IV. WAY FORWARD

a. Implementing e-registration for all remaining intermediaries such as Broker, Sub-Broker, Credit Rating Agencies, Depositories, Depository Participants, Clearing Corporation, Stock Exchanges, Alternative Investment Funds, Venture Capital Funds, Foreign Venture Capital Funds, Mutual Funds, Foreign Portfolio Investors and Custodians of Securities etc.

b. Implementation of the Case Management System for end-to-end management and tracking of all cases in SEBI right from inception till the closure of a case.

c. Integration of SEBI's Complaint Redressal System (SCORES) along with its mobile app. with SEBI workflow for speedy resolution and tracking of investor complaints.

d. Implementation of the Security Operations Centre and the Network Operations Centre to safeguard SEBI's IT assets.