

## SECURITY LAWS AND COMPLIANCES

### Ans. 1 (a)

- (i) **False.** The Security market provides a market place for purchase and sale of securities and thereby ensures transferability of securities and is under defined regulatory framework.
- (ii) **True.** Venture capital pools are similar to hedge funds for private equity. They attract the same class of investors. However, Venture Capital funds invest in the start up or early stages of a company.
- (iii) **True.** The process of demutualization is to convert the traditional “not for profit” stock exchange into a “for profit” company and this process is to transform the legal structure from a mutual form a business corporation form.
- (iv) **True.** An investor or any other interested person uses the credit rating to assess the risk-level and compares the offered rate of return with his expected rate of return.
- (v) **True.** A director nominated by an institution as its representative on the Board of Directors of the company is eligible to participate in the ESOS of the company subject to certain prescribed by SEBI.

### Answer1(b)

- (i) The market wherein companies mobilize resources through issue of securities is called **Primary Market.**
- (ii) Commercial bills are **Negotiable Instrument** accepted by buyers for goods or services obtained by them on credit.
- (iii) A listed company is required to appoint a **Compliance Officer** to liaise with SEBI and Stock Exchange.
- (iv) In order to strengthen Know Your Client (KYC) norms in the cash market and to generate a reliable audit trails. **PAN** was made mandatory for all transaction in cash market.
- (v) Revised carry forward system is introduced in place of **Badla.**

### Ans. 2 (a) (i)

#### Spot Delivery Contract

Spot delivery contract mean a contract which provides for –

- (a) Actual delivery of securities and the payment of a price therefore either on the same day as the date of the contract or on the next day, the actual period taken for the dispatch of the securities or the remittance of money therefore through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality.
- (b) Transfer of the securities by the depository form the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository.

### Ans. 2(a)(ii)

#### ‘Futures’ and ‘Options’

*Futures:* A contract obligating one signatory to buy and another to sell a standard quality of a financial instrument on a pre-determined price. Futures may be commodity futures or security futures.

*Options:* A contract which gives the holder the right to purchase (call) or sell (put) the underlying futures contract or security at a specified price within a specified period of time. Options may be Put or Call options.

### **Ans. 2(a) (iii)**

#### **Depository Particulars**

SEBI regulations provide various categories of market participants who are eligible to become depository participants. Depository Participant act as an agent of the depository and its role and functions includes opening and maintaining of demat account of the investor; processing Dematerialization and Rematerialization of securities; to make debit/credit in the demat accounts of the investors/his clients as per instructions given by the account holder; providing statements of accounts to the investors; and facilitating pledge or hypothecation of securities held in demat account.

### **Answer 2(b)**

- |       |      |   |   |
|-------|------|---|---|
| (i)   | STP  | - | Straight Through Processing             |
| (ii)  | QIBs | - | Qualified Institutional Buyers          |
| (iii) | UIN  | - | Unique Identification Number            |
| (iv)  | IPA  | - | Issuing and Paying Agent                |
| (v)   | TFTS | - | Trade For Trade Settlement              |
| (vi)  | NSDL | - | National Securities Depository Limited. |

### **Answer 2(c)(i)**

#### **Commercial Paper**

Commercial Paper (CP) is an unsecured money market instrument issued in the form a promissory note. CP is a private placed instrument. It enables highly rated corporate borrowers to diversify their sources of short –term borrowings and provides an additional instrument to investors.

### **Answer 2(c) (ii)**

#### **Secured Premium Notes**

Secured Premium Note (SPN) is an instrument, which is secured by a mortgage of immovable property of the company and which is issued at its face value and does not carry any interest and is redeemed at premium in one or more tranches. There can be attached various right and entitlements with a SPN such as detachable warrant, conversion option, buy back put and call option etc.

### **Ans. 2(c)(iii)**

#### **Naked Debentures**

Naked Debentures do not carry any charge on assets of the company. The holders of such debentures do not therefore have the right to attach particular property by way of security as to repayment of principal or interest.

### **Answer 2(c)(iv)**

A dual convertible bond is convertible into either equity shares or fixed interest rate debentures/preference shares at the option of the lender. Depending on the prospects of the project during the conversion period, the lender may exercise either of the options.

### **Answer 3(a)**

Transfer of shares do attract stamp duty vide schedule 1, entry 62 o Indian Stamp act 1899. In case of duty back, shares have to be extinguished within 7 days from the last date of completion of buy back. Hence, no registration of such shares takes place in the name of the company. The

names of members/ holders will be struck-off. Therefore, buy back can not be construed as transfer and stamp duty would not be payable neither in physical form nor in electronic form.

### **Answer 3(b)**

A well functioning Securities Market is conducive to sustained economic growth. The securities market fosters economic growth to the extent that it (a) augments the qualities of real savings and capital formation form nay given level of national income, (b) increase net capital inflow aboard, (c) raised the productivity of investment by improving allocation of investible funds , and (d) reduces the cost of capital.

The Securities Market provides a bridge between ultimate savers and ultimate investors and creates the opportunity to put the savings at the disposal of enterprising, thus promising to raise the total level of investment and growth.

### **Answer 3(c) (i)**

#### **Incubators**

An incubator is a hardcore technocrat who works with an entrepreneur to develop a business idea, and prepares a company for subsequent rounds of growth & funding. E- Ventures, Infinity are examples of incubators in India.

### **Ans. 3(c) (ii)**

#### **Private Equity Players**

They are established investment bankers. They typically invest into proven/established businesses. They have “Fanatical Partners” approach.

### **Answer(3)(c) (iii)**

#### **Trade to Trade**

In Trade to trade settlement, selling / buying of shares in that scrip result into giving/ taking delivery of shares at the gross level and no intra day settlement/netting off/ square off facility is permitted. The scrips which form part of ‘Z group’ are compulsorily settled on a trade to trade settlement basis. In addition to that surveillance department of Stock Exchange(s) transfer various scrips from time to time on a trade to trade basis to contain the excessive volatility and/or abnormal volumes in the scrip.

### **Answer 3(c)(iv)**

#### **Dematerilization**

Demateriazation is the process by which shares are issued to public in electronic form or the physical/paper form are cancelled and credit in the form of electronic balances are maintained at the depository.

### **Answer 4(a)**

Every Merchant banker is required to abide by code of conduct as per SEBI (Merchant Bankers) Regulations, 1992.

Accordingly they should observe high standards of integrity and fairness in all its dealings with its clients; fulfill its obligations in a prompt ethical & professional manner; exercise due diligence, ensure proper care and exercise independent professional judgment; avoid any conflict of interest and make adequate disclosures; not indulge in unfair competition nor they wean away client of any other Merchant Baker on assurance of higher premium; not make any exaggerated statement, whether oral or written, to the client which would misrepresent the services that the

merchant banker is capable of performing for any client or has rendered to any client; endeavour to ensure that all professional dealings are effected in a prompt and efficient manner; not divulge to other clients, press or any other party any confidential information about its client, which has come to its knowledge, without taking prior permission of its client; not make untrue statement or suppress any material fact in any document, reports or information furnished for (a) to certain of false market (b) price rigging or manipulation or (c) passing of price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person or intermediary in the securities market.

#### **Answer 4(b)**

Government Securities and Treasury- Bills are securities issued by Reserve Bank of India on behalf of the Government of India to meet the latter's borrowing for government, the central bank also regulates the money market and issues guidelines to govern the money market operations. The money market is the major mechanism through which the Reserve Bank Influences liquidity and the general level of interest rates. The Bank's interventions to influence liquidity serve as a signaling- device for other segments of the financial system.

#### **Answer 4(c)**

The AMC shall follow the accounting policies and standards as specified in Mutual Fund Regulations to provide appropriate details of the scheme-wise disposition of the assets of the fund at the relevant accounting date and the performance during that period together with information regarding distribution or accumulation of income accruing to the unit holder in a fair and true manner. The relevant standards are Accounting Standards (AS) 10 regarding Accounting for Fixed Assets; AS 29 on Provisions, Contingent Liabilities and Contingent Assets; AS 19 Lease; AS, 9 on Revenue Recognition.

#### **Answer 5(a)(i)**

##### **'Capital market' and 'Money Market'**

*Capital Market:* The Capital Market is a market for financial investment that are direct or indirect claims to capital. It is wider than the Securities Market and embraces all form of lending and borrowing. The Capital Market comprises the complex of institutions and mechanisms through, which intermediate term funds and long-term funds are pooled and made available to business, government and individuals. The Capital Market also encompasses the process by which securities already outstanding are transferred.

*Money Market:* The money market refers to the market where borrowers and lenders exchange short-term fund to solve their liquidity needs. Money market instruments are generally financial claims that have low default risk, maturities under one year and high marketability.

#### **Answer 5(a)(ii)**

##### **'Pass Through Certificates' and 'Participation Certificates'.**

*Pass through Certificates:* When mortgage are pooled together and undivided interest in the pool are sold, pass-through securities are created. The pass-through securities promise that the cash flow from the underlying mortgage would be passed through to the holders of the securities in the form of monthly payments of interest and principal.

*Participation Certificates:* These are strictly inter-bank instruments confined to the Scheduled Commercial Banks. This instrument is a money market instrument with a tenure not exceeding 90 days. The interests on such participation certificate are determined by the two contracting banks.

**Ans.5(a)(iii)****‘Fixed Coupon Rate’ and ‘Floating Coupon Rate’**

*Fixed Coupon Rate:* Government Securities may be issued for a notified amount at a fixed coupon. Most State Development Loans or State Government Securities are issued on this basis.

*Floating Coupons Rate:* Floating coupon rate simply means that the rate of interest is variable. The interest rate payable for the next period is set with reference to a benchmark market rate agreed upon by both the lender and borrower.

**Answer5(a)(iv)****‘Open Ended Schemes’ and ‘Close Ended Scheme’**

<b>Open Ended Scheme</b>	<b>Close Ended Schemes</b>
1. Fixed Corpus: Variable corpus due to on going purchase and redemption.	No new units can be offered beyond the limit.
2. No listing on exchange transactions done directly with the fund.	Listed on stock exchange for buying and selling or dealings.
3. Only NAV is available as one price.	To values are available viz. NAV and the market trading price.
4. Highly Liquid.	Mostly liquid.

**Answer. 5(b)****Clauses of Listing Agreement**

- (i) Clause- 13. Notification of any attachment or prohibiting order against transfer of securities.
- (ii) Clause- 16. At least once in a year the books should be closed. Gap between two book closures and/ or record dates would be at least 30 days.
- (iii) Clause- 19. Convening of Bard Meeting for decision on Dividend. Bonus, Rights, convertible debentures, buy-back of securities.
- (iv) Clause- 31. To forward the stock Exchange 6 copies of Annual Reports, notices resolution and circulars relating to new issue of capital, including notices under sections 391 or 394 read with section 391 of the Companies Act, 1956. Copies of all proceedings of EDMs/AGMs along with notices and explanatory statements etc.
- (v) Clause-32. Preparation of cash flow statement in accordance with AS-3 of ICAI & related party transactions.
- (vi) Clause – 35. Shareholding pattern containing details of promoters’ holdings and non-promoter holdings.
- (vii) Clause- 41. Preparation and submission of quarterly financial statements.
- (viii) Clauses- 47. Appointment of Company Secretary as compliance Officer and Certification regarding Securities Transfer.
- (ix) Clause- 49. Compliance with the Corporate Governance norms regarding Composition of Board of Directors and Audit Committee, Disclosures CEO/CFO Certificates, Compliance from Practicing Company Secretary or company’s auditor and Report on Corporate Governance etc.
- (x) Clause- 50 Adoption of Accounting Standards as per norms stipulated by ICAI.

## PART B

### Answer 6(a) (i)

#### Public Issue

When an issue/offer of securities is made to new investors for becoming part of shareholders' family of the issuer it is called a public issue. Public issue can be further classified into Initial public offer (IPO) and Further public offer (FBO).

### Answer 6(a)(ii)

#### Rights issue

When an issue of securities is made by an issuer to its shareholders existing as on a particular date fixed by the issuer (i.e. record date), it is called a rights issue. The right are offered in a particular ratio to the number of securities held as on the record date.

### Answer 6(a)(iii)

#### Preferential issue

Preferential issue means issuance of equity shares to promoter group or selected investors. It covers allotment of fully convertible debentures, partly convertible debentures or any other financial instruments that could be converted into equity shares at a later date. The investors could be institutional investors, private equity investors, high net-worth individuals, or companies.

### Answer 6(a)(iv)

#### Private placement

When an issuer makes an issue of securities to a select group of persons not exceeding 49, and which is neither a rights issue nor a public issue, it is called a private placement. Private placement of shares or convertible securities by listed issuer can be either preferential allotment or qualified Institutional Placement (QIP).

### Answer 6(a)(v)

#### Qualified Institutional Placement (QIP)

“Qualified institutional Placement” means allotment of eligible securities by a listed issuer to qualified institutional buyers on private placement basis in terms of ICDR Regulation QIP is different from offer of securities to Qualified institutional Buyers in an IPO. QIP is required to be made on the basis of a placement document which contains all material information including those specified in ICDR Regulations.

### Answer 6(b)

The debt market in India comprises mainly of two segments viz., the Government Securities Market consisting of instruments like Central And State Governments securities Zero Coupon Bonds (ZCBs), Floating Rate Bonds (FRBs). Floating Rate Bonds (FRBs), T-Bills and the corporate Securities Market consisting of FI bonds, PSU Bonds and Debentures/ Corporate bonds. Investors in debt market are the entitled who invest in such fixed income instruments. The investors in such instruments are generally Banks, Financial Institutions, Mutual Funds, Insurance Companies, Provident Funds etc. Debt markets are markets for the insurance, trading and settlement, in fixed income securities of various types and features. Fixed income Securities can be issued by almost any legal entity like central and state governments, public bodies, statutory corporations, banks and institutions and corporate bodies. Thus this helps the

companies to raise funds like Corporate Debentures, Fixed income Products and Interest Rate bonds etc.

#### **Answer 7(a)**

ASBA is an application for subscribing to an issue, containing an authorization to block the application money in a bank account. In all public issues and rights issues, where not more than one payment option is given, the issuer shall provided the facility of ASBA in accordance with the procedure and edibility criteria specified by SEBI. However in case of qualified institutional buyers and non-institutional investors the issuer shall accept bids using ASBA facility only. ASBA process is applicable to all book-built public issues which provide for not more than one payment option.

#### **Answer 7(b)**

External Commercial borrowings (ECB) refer to commercial loans in the form of bank loans, buyers' credit, suppliers; credit, securitized instruments (e.g. floating rate notes and fixed rate bonds, non-convertible, optionally convertible or partially convertible preference shares) availed of from non-resident lenders with a minimum average maturity of 3 years. ECB for investment in real sector-industrial sector, infrastructure sector-in-India, and specified service sectors are under Automatic Route, i.e, do not require Reserve Bank/ Government of India approval.

#### **Answer 7(c)**

**Various common grievances of investors in India are as follows:**

1. In case of any Public Issue, interest on delayed refund, allotment advice, share certificates and revalidations in case shares are held in physical mode.
2. Grievance relating to share or debentures in unlisted companies.
3. Grievance relating to Deposits in collective investment schemes like planations etc. and units of Mutual Funds; Fixed Deposits in Banks And Finance Companies and manufacturing companies.

#### **Answer 7(d)**

##### **Criteria for Compulsory Delisting**

A recognized stock exchange may, by order, delist equity shares of a company on any grounds prescribed in the rules made under Section 21A of the Securities Contracts (Regulation) Act, 1956 (42 of 1956). However, no order shall be made under this sub-regulation unless the company concerned has been given a reasonable opportunity of being heard.

#### **Answer 8(i)**

##### **Promoter's Contribution**

The promoters of the issuer should contribute in the public issue as follows:

- (i) in case of an initial public offer, not less than twenty percent of the post issue capital;
- (ii) in case of a further public offer, either to the extent of twenty percent of the proposed issue size or to the extent of twenty per cent. of the post-issue capital;
- (iii) in case of a composite issue, either to the extent of twenty percent of the proposed issue size or to the extent of twenty percent of the post issue capital excluding the right issue component.

#### **Answer 8(ii)**

“Ombudsman” means any person appointed under regulation 3 of SEBI (Ombudsman) regulations, 2003 and unless the context otherwise requires, includes stipendiary Ombudsman Regulation 2(n) of the Regulation defines stipendiary Ombudsman.

An Ombudsman has crucial role to play in redressal of investors' grievances. Any person who has a grievance against a listed or an intermediary relating to any of the matters specified in SEBI (Ombudsman) Regulations may himself or through his authorized representative or any investors association recognized by SEBI, make a complaint to the Ombudsman within whose jurisdiction the registered or corporate office of such listed company or intermediary is located.

#### **Answer 8(iii)**

#### **Investors Education and protection Fund (IEPF)**

Investor Education and Protection Fund (IEPF) has been established under Section 205C of The Companies Act, 1956. The IEPF stipulate the activities related investor education awareness and protection for which the financial sanction can be provided under IEPF.

#### **Activities stipulated under IEPF Rules:**

- Education Programme through media;
- Organizing seminars and symposia;
- Proposals for registration of Voluntary Associations or Institution or other organizations engaged in Investor Education and Protection activities;
- Proposals for projects for Investors; Education and Protection including research activities and proposals for financing such projects;
- Coordinating with institutions engaged in Investor Education awareness and protection activities.

#### **Answer 8(iv)**

#### **Basis of Allotment**

In a public issue of securities, the Executive Director/ Managing Director of the Designated stock Exchange along with the post issue Lead Merchant Banker and the Registrars to the issue shall be responsible to ensure that the basis of allotment is finalized in a fair and proper manner in accordance with the Regulations. However in case of book building portion of a book built public issue, SEBI(ICDR) Regulations, shall be applicable.

#### **Answer 8(v)**

#### **Overseas Custodian Bank**

Overseas Custodian Bank means a banking company, which is established in a country outside India and has a place of business in India and acts as custodian for the equity shares of issuing company against which IDRs are proposed to be issued by having a custodian arrangement or agreement with the Domestic Depository or by establishing a place of business in India.

#### **Answer 8(vi)**

#### **Indian Depository Receipts (IDRs)**

An IDR is an instrument-

- Denominated in Indian Rupees
- In the form of a depository receipts
- Created by a Domestic Depository (custodian of securities registered with the Securities and Exchange Board of India)
- Against the underlying equity of issuing foreign company.
- IDRs are issued by 'Issuing Company' which means a company incorporated outside India, making an issue of IDRs through a domestic depository.



