Chapter 2

New Issues Market in India – An Overview
CHAPTER 2
NEW ISSUES MARKET IN INDIA- AN OVERVIEW

2.1 INTRODUCTION
An attempt has been made in this chapter to present an overview of the new issues market in India, which inter alia includes evolution of regulatory framework governing the IPOs market, review of trends in resource mobilization in the primary market with focus on IPOs market and major policy initiatives taken by the Government of India for development of IPO segment of the Indian capital market.

The history of evolution of Indian capital market dates back to nineteenth century when the stock exchange as an institution started evolving in India. At the time of independence (1947) India had 7 stock exchanges and 1,119 listed companies (Misra, 1997). Based on the equity market capitalization as on December, 2011 Bombay Stock Exchange is the 6th largest stock exchange in Asia and 14th in the World. As on the same date and with same criteria National Stock Exchange, the other major stock exchange in India is the ranked 16th largest stock exchange in the World. The fact that the number of listed companies on Bombay Stock Exchange has gone up from 1,119 at the time of Independence to 5133 in December, 2011 with the number of stock exchange also going up from 6 to 19 during the corresponding period shows that Indian securities market has covered a long journey since independence. Presence of SEBI registered market intermediaries like 8922 brokers (cash-segment), 823 depositories participants, 199 merchant bankers, 74 Registrars to an Issue and Share Transfer Agents, 51 Mutual Funds and 1767 Foreign Institutional Investors (FII), etc. during the period between April, 2011 to December, 2011 further shows the level of depth achieved by the Indian securities market over time.
To start with, the Capital Issues (Control) Act came into existence in 1947 with a view to effectively control the activities in the primary market and to safeguard the interest of investors. It was supposed to scrutinize the strategic plans, growth potential, capital structure of the new company and set the issue size, and the offer price for the company’s script. In the CCI regime the new companies were allowed to issue shares at the par values. Already existing companies with substantial reserves were only allowed to issue shares with premium, which was decided on the estimated fair value. However, the stock market played a limited role in mobilizing resources till the early 1970s because of the low and administered cost of bank credit.

Starting since early 1980s, Indian capital market suffered from relative inefficiency in the trading mechanisms and regulatory gaps manifested in terms of excessing Government control inefficient trading mechanisms through open out-cry, settlement of transactions by physical movement of papers, instances of manipulation on the secondary market price of the shares of the target company and non-existence of derivative market for hedging and speculation. By early 1990s, it was increasingly realized that an efficient and well developed securities market is essential for sustaining the growth momentum in an emerging market economy like India. The securities market fosters economic growth by promoting channelisation of real savings for capital formation and raising productivity of investment by improving allocation of investable funds. However, it is quality of the security market which determines effectiveness of this mechanism for capital flow. Accordingly, with the view to improve the quality of securities market in terms of market efficiency, transparency, price discovery process, preventive unfair trade practices etc. and brining the Indian capital market up to international standards, a package of reforms comprising of measures to liberalise, regulate and developed the Indian securities market are being implemented since early 1990s. Starting since 1992s, some of the major milestone in the history of capital markets reforms in India is provided in Table 2.1 of this chapter.
2.2 POLICY EVOLUTION FOR NEW ISSUES MARKET IN POST 1992 ERA

With the start of the liberalization process, one could observe a perceptible shift in the financial pattern for Indian companies. The reforms process marked its beginning in the IPO segment of the primary market with the repeal of Capital Issues (Control) Act and establishment of securities markets regulator i.e. Securities and Exchange Board of India (SEBI) in 1992. The SEBI Act, 1992 provided for the establishment of SEBI with the mandate to protect the interests of investors in securities and to promote and regulate the development of securities market in India. The Capital Issues (Control) Act, 1947 had the provisions for the Central Government to exercise firm control over IPOs and other capital issues in the post independent era. The abolition of this act facilitated free access to market and market based pricing of IPOs & other capital issues with SEBI being made the nodal agency to regulate such issues in terms of its extant guidelines. The market regulator initiated this process by issuing guidelines known as Disclosure and Investor Protection (DIP) Guidelines for all public issues by listed and unlisted companies, all offers for sale and rights issues by listed companies.

During the era of Control of Capital Issues (CCI), IPOs were priced through ‘CCI formula’ which required the companies to take approval from the Office of CCI under the Ministry of Finance and CCI used to fix the size and price of the IPO. The Central Government permission was required with regard to timing of the issue, size of the issue and price at which the securities were to be issued. Thereafter, based on the recommendations of the Narshimham Committee on capital market reforms most of the controls and restrictions were removed from the market in 1991. This period also saw introduction of an element of transparency with disclosure based norms within a well-defined regulatory framework for public offer issues by Indian companies. All kinds of control over pricing, timings and designing of capital issues under the provisions CCI Act, 1947 were abolished and the concept of free pricing of public issues was introduced in which issuer companies was free to determine the issue price of their securities.
The Indian companies were given freedom in terms of setting the price of securities, and deciding the timing and size issues with the market regulator not prescribing any price formula nor playing any role in the price fixation. SEBI (DIP), Guidelines, 2000 as amended from time to time provides for the pricing of the public issues.

There are two methods which have been followed by the issuer companies for determining the issue price of the public issue of equity share in India. The two methods are as under:

**Fixed Price Method:** Under the fixed price method, the issue price of the share is pre-determined by the issuer company in consultation with the Lead Merchant Bankers. Issue price is determined subject to compliance with the eligibility and disclosure norms prescribed by SEBI and the relevant provisions of the Companies Act, 1956. The price at which the securities are offered to public is known in advance to investors. The Company also knows in advance about the total funds which can be raised from the market and the price at which the securities are to be offered to the public. Response of the public to the issue is known by the company after the issue is closed. Under the fixed method while an issuer is free to determine the offer price, market forces for demand and supply do not have to role to play and hence it becomes difficult to justify the pricing after the listing the issue on stock exchanges. As a result while the number of IPO issues went up from 158 issues during 1991-92 to 1357 issues in 1995-96 with the corresponding jump in the IPO proceeds from ₹ 724 crore to ₹ 10924 crore, this situation did not last long because of unsustainable pricing of IPOs resulting into vanishing acts of companies, one of the important reasons which robbed the market of its buoyancy in mid 1990s. As a result there was a felt need for an alternative method for pricing of Indian IPOs leading to the introduction of book building method in 1995.

**Book-building Method:** Book building is a process of price discovery in which the issuer discloses a price band or floor price before opening of the
issue of the securities offered. On the basis of the demands received at various price levels within the price band specified by the issuer, Book Running Lead Manager (BRLM) in close consultation with the issuer arrives at a price at which the security offered by the issuer, can be issued. The price band is a band of price within which investors can bid. The spread between the floor and the cap of the price band shall not be more than 20%. The price band can be revised, and if so, the bidding period shall be extended for a further period of three days, subject to the total bidding period not exceeding thirteen days. Under Book building process, a floor price or price band within which the bids can move is disclosed at least two working days before opening of the IPO issue in case of an IPO. The applicants place orders for the shares quoting the price and the quantity that they would like to bid. After the bidding process is complete, the ‘cut-off’ price is arrived at based on the demand for securities in the market. The basis of allotment is then finalised and allotment/refund is undertaken. The final prospectus with all the details including the final issue price and the issue size is filed with ROCs, thus completing the issue process. Only the retail investors have the option of bidding at ‘cut-off’. “Cut-off” option is available for only retail individual investors i.e. investors who are applying for securities worth up to ₹ 1,00,000/- only which has subsequently been revised to ₹ 2,00,000. Such investors are required to tick the cut-off option which indicates their willingness to subscribe to shares at any price discovered within the price band. Unlike price bids (where a specific price is indicated) which can be invalid, if price indicated by applicant is lower than the price discovered, the cut-off bids always remain valid for the purpose of allotment.

Book building method is a flexible method for the issuing company as well as the bidders. The issuing company has the option to withdraw the offer from the market if the demand for the securities does not exist. The bidders can revise their bids before the closing of bidding process and offer different quantities at different prices. In Indian primary capital market, book building process was introduced in 1995 on the recommendation of an expert
committee appointed by SEBI under the Chairmanship of Y.H. Malegam to review the existing disclosure requirements in offer documents and the basis pricing the issue.

Initially, book building process was permitted for placement portion of the issue and for the issues exceeding ₹ 100 crore. But no issuer company used this process for pricing their issues till the end of 1998 due to stringent entry norms of SEBI and the bearish conditions in the Indian capital market. In 1998-99, SEBI reduced the issue size limit of ₹ 100 crore to 25 crore in order to encourage the use of this method. On the suggestions of market intermediaries, SEBI issued modified guidelines during the year 1999-2000, whereby the issuer company was given the option to book build either 90% of the net public offer or 75% of the net public offer. The balance of the issue was allowed to be offered to the public at fixed price, determined through book building process. With a view to make the book building facility more broad-based, the minimum issue size limit of ₹ 25 crore was removed by SEBI in 2001.

Three types of options have been provided by SEBI to the issuer under the book building process as follows:

- **75% Book Building and 25% Fixed Price Offer:** In this category of offer 75% of the issue amount is offered to Institutional investors who participated in book building process and balance 25% is offered to the public through prospectus and shall be reserved for allocation to individual investors who did not participate in the bidding process. The price for 25% offer is the price determined through book building process in respect of 75% of the issue. The book building process remains open for 3 to 7 days and upon discovery of issue price after book building process, the fixed price portion opens for subscription.

- **90% Book Building and 10% Fixed Price Offer:** This option was available to the issuers during 1999-2000 and 2000-01 and thereafter discontinued by the SEBI.
100% Book Building Offer: In this type of offer, the whole issue is offered through book building route. Issue opens and closes on the same dates for all categories of investors. It takes minimum number of days for the completion of the process of issue and allotment of shares. Generally the issue is listed on a recognized Stock Exchange after three weeks from the closer of the issue.

In case of 100% book building offer, the allocation to retail individual investors, (RIIs), Non-institutional Investors (NIIs) and Qualified Institutional Buyers (QIBs) are met in the ratio of 35:15:50 respectively. RIIs means those individuals who applies or bids for securities up to the value of ₹ 2 lakh. QIBs, inter-alia, includes public financial institutions as defined under Section 4A of the Company's Act, 1956, a scheduled commercial bank, mutual fund / a FI and sub-account registered with SEBI, a multilateral and bilateral financial institutions, a venture capital fund /a foreign venture capital investors registered with SEBI, State Industrial Development Corporation (SIDC), Insurance companies registered with Insurance Regulatory and Development Authority (IRDA), Provident Fund/Pension Fund with minimum corpus of ₹ 25 crore, National Investment Fund set up by the Govt. of India. Investors who do not fall within the definition of the above two categories are characterised as NIIs.

When book building issue is made on 75% book building and 25% fixed price basis, the allotment is done on in the ratio of 25:25:50 respectively. In case the book building issue is made pursuant to the requirement mandatory allocation of 60% to QIBs in terms of Rule 19 (2) (b) of Securities Contract (Regulation) Rule i.e. issues where issue size exceeds 5 times pre-issue net worth of the issuer company, then allocation to RIIs, NIIs, QIBs is made in the ratio of 30:10:60 respectively. All applicants are allotted share on a proportionate within their respective investor category. Earlier, the applicants from QIBs category were allotted share on discretionary basis which was later on discontinue by SEBI in September 2005.
Eligibility Norms for Companies Issuing IPOs: SEBI has introduced entry norms for the IPO market. According to the Guidelines issued by SEBI, a company intending to make an IPO should satisfy some eligibility conditions. It has to file a draft prospectus which SEBI through an eligible merchant banker, at least 21 days prior to the filing of prospectus with the Registrar of the Companies (RoCs). A company cannot make a public issue unless it has made an application for listing of securities with stock exchanges. The company must also have entered into an agreement with the depository for dematerialisation of its securities. An unlisted company can make initial public issue, on fixed price basis or on book building basis, provided it has a pre-issue net worth of not less than ₹ 1 crore in 3 out of the 5 preceding years and has minimum net worth in immediately preceding two years. Also, the company should have net tangible assets of at least ₹ 3 crore in each of the preceding three years of which not more than 50% is held in monetary assets and in case the company has changed his name within last one year, at least 50% of the revenue for the preceding one year is earned by the company from the activity undertaken by the new company. The company should have a track record of distributable profit in terms of Section 205 of the Companies Act, 1956 for at least three years out of the preceding five years. Further, the issue size should not exceed five time of its pre-issue net worth. A company eligible to make a public issue on the fixed price or book building basis, if the issue size does not exceed five times its pre-issue net worth. If the company does not met the above criteria, i.e., not having the track record or it wishes to raise more than five times its pre-issue net worth than the issue will have to compulsorily met through book building route. In such a case, 60% of the issue size will have to be allotted to QIBs. If the company wishes to issue only 10% of post-issue capital to the public, it can be made only through book building with an allocation of 60% of the issue to QIBs. Also, one of the following two conditions must be satisfied i.e. the minimum post-issue face value capital of the company shall be ₹ 10 crore and there shall be compulsory market making for a minimum depth of 300 share along with the maximum bid-asked spread of 10%.
Promoters’ Contributions: In a public issue by an unlisted issuer, the promoters shall contribute not less than 20% of the post issue capital which should be locked in for a period of 3 years. The remaining pre-issue capital should also be locked in for a period of 1 year from the date of listing. This provision ensures that promoters of the company have some minimum stake in the company for a minimum period after the issue or after the project for which funds have been raised from the public is commenced.

IPO Grading: IPO grading is the grade assigned by a Credit Rating Agencies registered with SEBI, to the IPOs or equity shares or other convertible securities. The rating is prescribed to ensure a relative assessment of the fundamentals of the IPO in relation to the other listed equity securities. Disclosure of “IPO Grades”, so obtained is mandatory for companies coming out with IPO issues. For more details on IPO Grading please refer to the sub-section on “IPO Grading”.

Intermediaries involved in the Issue Process: Intermediaries which are registered with SEBI are Merchant Bankers to the issue [known as Book Running Lead Managers (BRLM)] in case of book built public issues), Registrars to the issue, Bankers to the issue & Underwriters to the issue who are associated with the issue for different activities. Their addresses, telephone/fax numbers, registration number, and contact person and email addresses are disclosed in the offer documents.

- **Merchant Banker**: Merchant banker does the due diligence to prepare the offer document which contains all the details about the company. They are also responsible for ensuring compliance with the legal formalities in the entire issue process and for marketing of the issue.

- **Registrars to the Issue**: They are involved in finalizing the basis of allotment in an issue and for sending refunds, allotment etc.

- **Bankers to the Issue**: The Bankers to the issue enable the movement of funds in the issue process and therefore enable the registrars to finalize the basis of allotment by making clear funds status available to the Registrars.
Underwriters: Underwriters are intermediaries who undertake to subscribe to the securities offered by the company in case these are not fully subscribed by the public, in case of an underwritten issue.

Green-shoe Option: Green Shoe Option is a price stabilizing mechanism in which shares are issued in excess of the issue size, by a maximum of 15%. From an investor’s perspective, an issue with green shoe option provides more probability of getting shares and also that post listing price may show relatively more stability as compared to market volatility.

2.3 EVOLUTION OF NEW ISSUES POLICY SINCE 2005 - 06

2005 - 06

Indian primary market which gathered momentum in 2004-05 strengthened further in 2005-06 with ongoing reform process improving confidence of investors as well as issuers in the market. Response of the various categories of investors to the public issues was highly encouraging. Notwithstanding increasing integration of the financial markets, both domestic and cross border, and growing sophistication of the Indian capital market, efforts were made to further strengthen the regulatory framework for the orderly growth of the market in general and ensuring transparency, efficiency, fairness, safety and integrity of the capital market in particular. The major policy initiatives taken during 2005-06 are as follows:

- **Specific Allocation for Mutual Funds:** Specific allocation of 5% within the QIBs category allowed with a view to increase retail participation through mutual funds routes. The mutual funds are also eligible for allotments from the balance allocation available under the QIB category.

- **Proportionate Allotment to QIBs:** In an effort to provide level playing field and also to prevent misuse of discretion exercised by the merchant banks in the process of allocation of shares, it was decided that the allotment to QIBs shall also be made on a proportionate basis.
Margin Requirements for QIBs: Although there was no regulatory stipulation as regards the proportion of margin to be collected from the subscriber to the public issue, in practice, 100% margin was collected from the non-institutional investors while the institutional investors did not provide any margin. As a move towards level playing field, a 10% margin on QIB bids was introduced.

Introduction of Optional Grading of IPOs: With a view to assisting the investors particularly, the retail investor an in-principle approval was accorded for grading of IPOs by the rating agencies at the option of the issuer. However, the market regulator will not certify the assessment made by the rating agency.

2006 - 07
On the backdrop of an increasing integration of the global financial market SEBI continued its efforts to come out with regulations to meet the challenges posed by domestic and global developments. With a view to achieve this objective, the following major initiatives were taken during 2006-07 to further strengthen the IPO regulations.

Continuous Listing Requirement: To enable a minimum level of public shareholding, listed companies were required to maintain minimum level of public shareholding at 25% of the total shares issued for continued listing on stock exchanges with exemption provided to companies in accordance with the Rule 19 (2) (b) of the Securities Contract (Regulation Rules), 1957.

Optional IPO Grading: Guidelines relating to disclosure of grading of an IPO by the issuer companies finalised with the provisions that if they opt for grading of their IPOs the grades have to be disclosed, including the unaccepted ones in the prospectus.

2007- 08
Major policy Initiatives taken for the IPOs segment of the primary market during 2007- 08 are as follows:
Grading of IPOs: The grading of all IPOs was made mandatory. The grading is to be done by credit rating agencies registered with SEBI. It was made mandatory to obtain grading from at least one credit rating agency which is to be disclosed in the prospectus, abridged prospectus and every advertisement for IPOs.

2008-09
Indian primary market witnessed high activities in terms of resource mobilization and number of issues during 2007-08 but the same pace could not be maintained during 2008-09. In view of the meltdown in equity markets, fewer companies entered the primary market during 2008-09 and investors also gave lukewarm response to public issues as compared to 2007-08. However, the following initiatives taken during 2008-09 to further supplement the capital market initiatives.

Application Supported by Blocked Amount (ASBA): A new mode of payment in public issues through book building in which the application money remains blocked in the bank account of the applicant till allotment is finalized. The said process, named ASBA, is supplementary to the existing process of applying in public issues through cheque/draft.

Announcement of Price Band before Initial Public Offer Opens: The SEBI (DIP) guidelines mandated disclosure of the floor price or price band for the IPOs offered through the book building process in the Red Herring Prospectus (RHP) filed with the Registrars of Companies (RoCs) for all book-built issues. Even though there is a time lag of about two weeks between the filing of RHP with the RoCs and the issue opening date, this exposed the price band disclosed in the RHP to market conditions. In order to mitigate this problem, issuers making IPOs were permitted to announce the floor price or the price band at least two working days before the issue opening date subject to fulfillment of certain disclosure requirements.
In order to further boost the renewed activities in the IPO market during 2009-10 and building it further from the relatively subdued pace in 2008 -09, the following capital market initiatives were taken in 2009-10.

- **Introduction of Concept of Anchor Investors in Public Offerings:** In order to ensure certain minimum level of subscription from QIBs even in a bearish market, SEBI introduced the concept of ‘Anchor Investors’ in public offerings. Such investors are expected to offer stability to the issue by subscribing before the bid is open to the other category of the investors.

- **Listing of securities issued through IPOs on at least one Stock Exchange with nationwide Trading terminals:** In order to provide greater liquidities in securities of companies, it was mandated that unlisted companies shall list the securities being issued through IPOs on at least one Stock Exchange having nationwide trading terminal.

- **Introduction of Uniform Margin Payments for all Categories of Investors in Public Issues:** Retail individual investors and non-institutional investors were required to pay the entire application money upfront while applying for public issues while QIBs could apply by paying only 10% of the application money as margin on their application. This resulted in a non-level playing field for retail individual investors and non-institutional investors’ vis-à-vis the QIBs. It also resulted in an inflated demand in public issues since the lower margin enjoyed by the QIBs led them to put in larger bids than they intended to acquire. In order to address these concerns, it was decided that the margin collected shall be uniform across all categories of investors.

Continuing its momentum from 2009-10, the IPO market witnessed a higher level of activities in terms of resource mobilisation during 2010-11. The reasons for a higher level of activities, inter alia, included recovery witnessed in the equity market segment post global financial crisis, large public sector companies entering the IPO market with divestment mandate and continued
reforms further strengthening investors’ confidence. In order to further cash on the benefits of these reforms, the following initiatives were taken during 2010-11.

- **Encouragement of Retail Investors Participation:** In order to increase retail investors’ participation and to keep pace with inflation, monetary limit on their bid amount was increased from ₹ 1 lakh to ₹ 2 lakh. The limit was enhanced with the objective that retail individual investors who have the capacity and appetite to apply for securities worth above ₹ 1 lakh should not be constrained.

- **Reduction in Process Timelines:** In order to lessen the market risk, infrastructural stress and costs, time between issue closure of issue and listing was reduced from 22 days to 12 working days. Reduction in process timelines helps in reducing exposure of issuers/ investors to volatility in market conditions, enable quicker turnaround of money invested and help issuers to raise money quicker.

### 2.4 SUMMARY AND CONCLUSION

During the last decade, the IPO segment of the primary market has emerged as an important source of funds for the Indian companies and also an avenue for the small and retail investors to productively channelize their savings. Strong macroeconomic fundamentals, sustained growth, active institutional support, sound business outlook has further provided boost to this segment of market. Although, there are fluctuating trends in the IPO market, both in terms of issues and amount raised, keeping in view the requirements of Indian corporates and the available sources of funding, the IPOs market will continue to remain an important source of funds for Indian companies except for the temporary phases of cyclical downturn due to domestic and international factors.

Keeping this in view and notwithstanding increasing integration of the global financial markets, the market regulator in India is making continuous efforts for an orderly development and regulated market for Indian IPOs. As a part of
this process, the market regulator has ensured strengthening of regulatory framework and streamlining of guidelines with special focus on retail investors to enable them to make informed decisions vis-à-vis the opportunities available in the IPO market. At the same time they have tried to ensure that the capital market access should be easy, cost-effective and time efficient. This is all the more necessary when the issuers are competing in the market across the Globe. While doing so, the market regulator is also making efforts to strike a balance between the competing objectives and to provide a level playing field for different class of investors in the IPO market.
Table 2.1: Some of the milestones in the history of capital market reforms in India since 1992

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<tr>
<th>S.No.</th>
<th>Subject</th>
<th>Milestone(s)</th>
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<td>1.</td>
<td>Control over Issue of Capital</td>
<td>A major initiative of liberalisation was the repeal of the Capital Issues (Control) Act, 1947 in May 1992. With this, Government’s control over issue of capital, pricing of the issues, fixing of premia and rates of interest on debentures etc. ceased and the market was allowed to allocate resources to competing uses.</td>
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<td>2.</td>
<td>Establishment of Regulator</td>
<td>A major initiative of regulation was establishment of a statutory autonomous agency, called SEBI, to provide reassurance that it is safe to undertake transactions in securities. It was empowered adequately and assigned the responsibility to (a) protect the interests of investors in securities, (b) promote the development of the securities market, and (c) regulate the securities market. Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market.</td>
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<td>3.</td>
<td>Disclosure and Investor Protection (DIP) Guidelines</td>
<td>In the interest of investors, SEBI issued Disclosure and Investor Protection (DIP) guidelines. The guidelines allow issuers, complying with the eligibility criteria, to issue securities the securities at market determined rates. The market moved from merit based to disclosure based regulation.</td>
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<td>4.</td>
<td>Screen Based Trading</td>
<td>A major developmental initiative was a nation-wide on-line fully-automated screen based trading system (SBTS) where a member can punch into the computer quantities of securities and the prices at which he likes to transact and the transaction is executed as soon as it finds a matching sale or buy order from a counter party. SBTS electronically matches orders on a strict price/time priority and hence cut down on time, cost and risk of error, as well as on fraud resulting in improved operational efficiency. It allowed faster incorporation of price sensitive information into prevailing prices, thus increasing the informational efficiency of markets. It enabled market participants to see the full market on real-time, making the market transparent. It allowed a large number of participants, irrespective of their geographical locations, to trade with one another simultaneously, improving the depth and liquidity of the market. A number of measures were taken to manage the risks in the market so that the participants are safe and market integrity is protected. These include: i. Trading Cycle: The trading cycle varied from 14 days for specified securities to 30 days for others and settlement took another fortnight. Often this cycle was not adhered to. This was euphemistically often described as T+ anything. Many things could happen between entering into a trade and its performance providing incentives for either of the parties to go back on its promise. This had on several occasions led to defaults and risks in settlement. In order to reduce large open positions, the trading cycle was reduced over a period of time to a week initially. Rolling settlement on T+5 basis was introduced in phases. All scrips moved to rolling settlement from December 2001. T+5 gave way to T+3 from April 2002 and T+2 from April 2003.</td>
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<td>S.No.</td>
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<td>5.</td>
<td>Risk management</td>
<td>ii. Dematerialisation: The system of transfer of ownership of shared was grossly inefficient as every transfer involved physical movement of paper securities to the issuer for registration, with the change of ownership being evidenced by an endorsement on the security certificate. In many cases the process of transfer took much longer, and a significant proportion of transactions ended up as bad delivery due to faulty compliance of paper work. All this added to costs, and delays in settlement, restricted liquidity and made investor grievance redressal time consuming and at times intractable. To obviate these problems, the Depositories Act, 1996 was passed to provide for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exceptions; (b) dematerialising the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form. In order to streamline both the stages of settlement process, the Act envisages transfer of ownership of securities electronically by book entry without making the securities move from person to person. Currently 99% of market capitalization is dematerialized and 99.9% of trades are settled by delivery. iii. Derivatives: To assist market participants to manage risks better through hedging, speculation and arbitrage, SC(R) A was amended in 1995 to lift the ban on options in securities. The SC(R) A was amended further in December 1999 to expand the definition of “securities” to include derivatives, so that, the whole regulatory framework governing trading of securities could apply to trading of derivatives also. A three-decade old ban on forward trading, better known as BADLA, which had lost its relevance and was hindering introduction of derivatives trading, was withdrawn. Derivative trading took off in June 2000 on two exchanges. iv. Settlement Guarantee: A variety of measures were taken to address the risk in the market. Clearing corporations emerged to assume counter party risk. Trade and settlement guarantee funds were set up to guarantee settlement of trades irrespective of default by brokers. These funds provide full novation and work as central counter party. The Exchanges /clearing corporations monitor the positions of the brokers on real time basis. v. Demutualisation of stock exchanges: To improve the governance mechanism of stock exchanges by mandating corporatisation and demutualisation (C&amp;D) of stock exchanges and to protect the interest of investors in securities market the Securities Laws (Amendment) Ordinance was promulgated on 12th October 2004. The Ordinance has since been replaced by a Bill. SEBI approved and notified C and D schemes of 19 stock exchanges during 2005-06. The NSE and OTCEI were exempted from submitting C &amp; D schemes as they were already notified as corporatised and demutualised stock exchanges. Most of the exchanges have completed the process of C&amp;D. vi. Securities Contracts (Regulation) Amendment Act, 2007: The Securities Contracts (Regulation) Amendment Act, 2007 was enacted in May, 2007 which provides for a legal framework for trading of securitized debt.</td>
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