1 BASICS OF CAPITAL MARKET

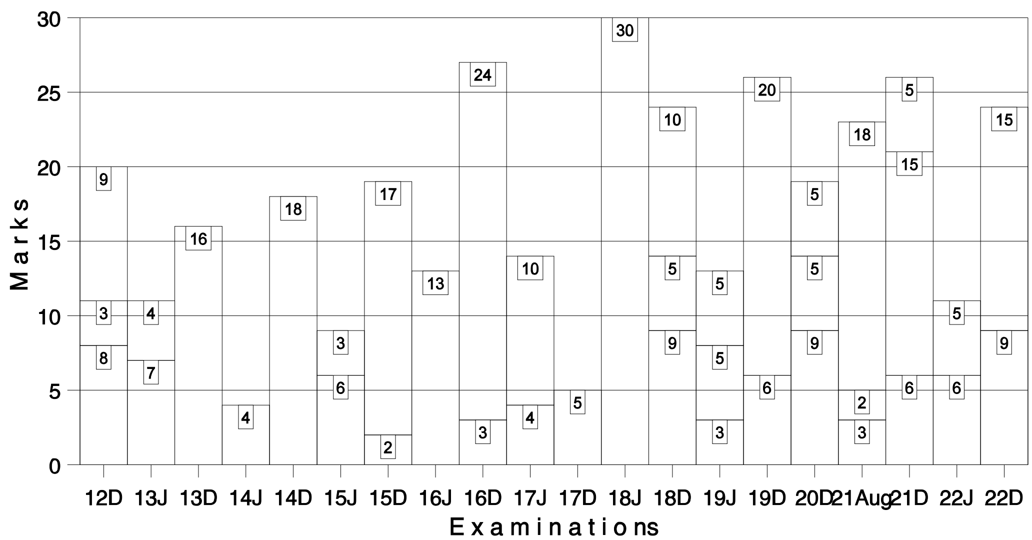
THIS CHAPTER INCLUDES

- Financial System in India
- Financial Markets of India
- Regulatory Framework for Securities Markets in India
- Need for regulators in Capital Market
- Participants of Capital Markets
- Capital Market Instruments

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective Short Notes Distinguish Descriptive Practical



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CHAPTER AT A GLANCE

1.	**Meaning of Financial System**
•	A financial system is a set of institutional arrangements through which financial surpluses are mobilised from the units generating surplus income and transferring them to the others in need of them.
•	The activities include production, distribution, exchange and holding of financial assets/instruments of different kinds by financial institutions, banks and other intermediaries of the market.
2.	**Constituents of Financial System**
	Three Constituents of Financial System: (i) Financial Market i.e. a facility or channel for movement of funds. (ii) Financial products i.e. shares, (iii) Market participants.
3.	**Securities Market**
	The Securities Market refers to the markets for those financial instruments/claims/obligations that are commonly and readily transferable by sale.
4.	**Two types of Securities Market**
	The Securities Market has two inter-dependent and inseparable segments, the new issues (primary) market and the stock (secondary) market.
5.	**Meaning of Primary Market**
	The primary market provides the channel for sale of new securities. Simply, in primary market, the securities are sold for the first time. It is also called as New Issue Market (NIM). The issue of securities may be inform of (a) Initial Public Offer (I.P.O.) (b) Further issue of capital (c) Right issue (d) Firm allotment (e) Offer to public (f) Bonus issue.

6. Meaning of Secondary Market

A market, where previously issued securities are dealt with, so it is called as second hand market.

- It brings liquidity or free marketability and real price discovery of securities.
- Secondary market may be further divided into two parts i.e.
  (a) **Spot Market:** Here Securities are traded for immediate delivery and payment.
  (b) **Future Market:** Here Securities are traded for future delivery & payment.

7. Legislation governing Securities Market

The four main legislations governing the securities market are:

- the SEBI Act, 1992;
- the Companies Act, 2013;
- the Securities Contracts (Regulation) Act, 1956 and
- the Depositories Act, 1996.

8. Agencies involved in Securities Market

- Ministry of Finance (Finance Ministry)
- Ministry of Corporate Affairs (MCA)
- Department of Economic Affairs (DEA)
- SEBI
- Stock-Exchange
- RBI

9. Global Depository Receipts

GDR is a form of depository receipt or certificate created by the Overseas Depository Bank outside India denominated in dollar and issued to non-resident investors against the issue of ordinary shares or foreign currency convertible bonds of issuing company.

10. Private Equity Fund (PE Fund)

Private equity fund is an unregistered investment vehicle in which investors pool money to invest.

11. Qualified Institutional Buyer [Regulation 2(1)(ss) of SEBI (ICDR) Regulations, 2018]

Qualified Institutional Investors comprises of :

(i) a mutual fund, venture capital fund, Alternative Investment Fund and foreign venture capital investor registered with SEBI;

(ii) a foreign portfolio investor other than individuals corporate bodies and family offices;

(iii) a public financial institution as defined in Section 2(72) of the Companies Act, 2013;

(iv) a scheduled commercial bank;

(v) a multilateral and bilateral development financial institution;

(vi) a state industrial development corporation;

(vii) an insurance company registered with the Insurance Regulatory and Development Authority;

(viii) a provident fund with minimum corpus of ₹ 25 Crores;

(ix) a pension fund with minimum corpus of ₹ 25 Crores;

(x) National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India;

(xi) insurance funds set up and managed by army, navy or air force of the Union of India;

(xii) insurance funds set up and managed by the Department of Posts, India;

(xiii) systemically important non-banking financial companies.

12. Foreign Portfolio Investor (FPI)

- Foreign Portfolio Investor (FPI) means a person who satisfies the eligibility criteria prescribed under SEBI (Foreign Portfolio Investors) Regulations, 2019 and has been registered under Chapter II of these regulations, which shall be deemed to be an intermediary in terms of the provisions of the SEBI Act, 1992.
- All existing Foreign Institutional Investors (FIIs) and QFIs are to be merged into one category called FPI.

13. Categories of FPIs

Category I FPIs include:
Government and Government related investors such as central banks, Governmental agencies, sovereign wealth funds and international or multilateral organisations or agencies including entities controlled or at least 75% directly or indirectly owned by such Govt. or Govt. related investor (s).

- Pension Funds and University Funds.
- Insurance or re-insurance entities, banks asset management companies, investment managers, investment advisors etc.

Category II FPIs include: All the investor not eligible under category I FPIs such as

(i) Appropriately regulated funds not eligible as category-I, foreign portfolio investor;
(ii) Endowments and foundations;
(iii) Charitable organisations;
(iv) Corporate bodies;
(v) Family offices;
(vi) Individuals;
(vii) Appropriately regulated entities on behalf of their client, as per conditions specified by the Board from time to time;
(viii) Unregulated funds in the form of limited partnership and trusts.

14. Types of Private Equity

Private equity investments can be divided into the following categories:

- **Leveraged Buyout (LBO):** This refers to a strategy of making equity investments as part of a transaction in which a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage. The companies involved in these type of transactions that are typically more mature and generate operating cash flows.

- **Venture Capital:** It is a broad sub-category of private equity that refers to equity investments made, typically in less mature companies, for the launch, early development, or expansion of a business.
- **Growth Capital:** This refers to equity investments, mostly minority investments, in the companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business.

15. Angel Fund

- An angel investor or angel (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.
- Angel investments are typically the earliest equity investments made in start-up companies.
- They commonly band together in investor networks.
- Often these networks are based on regional, industry in investor or academic affiliation.
- Angel Investors are often former entrepreneurs themselves, and typically enjoy working with companies at the earliest stages of business formation.

16. HNIs or high net worth individuals

- It means a class of individuals who are distinguished from other retail segment based on their net wealth, assets and investible surplus. While there is no standard put forth for the classification, the definition of HNIs varies with the geographical area as well as financial markets and institutions.
- Though there is no specific definition, generally in the Indian context, individuals with over ₹ 2 crore investible surplus may be considered to be HNIs while those with investible wealth in the range of ₹ 25 lac - ₹ 2 crore may be deemed as Emerging HNIs.

17. Venture Capital
• Venture Capital is one of the innovative financing resource for a company in which the promoter has to give up some level of ownership and control of business in exchange for capital for a limited period, say, 3-5 years. • Venture Capital is generally equity investments made by Venture Capital funds, at an early stage in privately held companies, having potential to provide a high rate of return on their investments.
18. Pension Fund
• Pension Fund means a fund established by an employer to facilitate and organize the investment of employees' retirement funds which is contributed by the employer and employees. • The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement. • Pension funds are commonly run by some sort of financial intermediary for the company and its employees like N.P.S. scheme is managed by UTIAMC (Retirement Solutions), although some larger corporations operate their pension funds in-house.
19. Equity Shares
• Equity shares, commonly referred to as ordinary share also represents the form of fractional ownership in which a shareholder, as a fractional owner, undertakes the maximum entrepreneurial risk associated with a business venture. • The holder of such shares is the member of the company and has voting rights.
20. Rights of Equity Shareholder
Equity shareholders enjoy different rights as members under the Companies Act, 2013 such as: (a) The right to vote on every resolution placed before the company

(Section 47).
(b) The rights to subscribe to shares at the time of further issue of capital by the company (Pre-emptive Right) (Section 62).
(c) Right to appoint proxy to attend and vote at the meeting on his behalf (Section 105).
(d) Right to receive copy of annual accounts of the company (Section 136).
(e) Right to receive notice of the meeting of members(Section 101).
(f) Right to inspection of various statutory registers maintained by the company (Section 94) .
(g) Right to requisition extraordinary general meeting of the company (Section 100).

21. Preference share capital'' [Explanation (ii) to Section 43 of Companies Act, 2013]

''Preference share capital'', with reference to any company limited by shares, means that part of the issued share capital of the company which carries or would carry a preferential right with respect to –
(a) payment of dividend, either as a fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income-tax; and
(b) repayment, in the case of a winding up or repayment of capital, of the amount of the share capital paid- up or deemed to have been paid-up, whether or not, there is a preferential right to the payment of any fixed premium or premium on any fixed scale, specified in the memorandum or articles of the company.

22. Debenture [Sec.2(30)]

(I) Definition: "Debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

(II) Features: The important features of a debenture are:
1. It is issued by a company as a certificate of indebtedness.
2. It usually indicates the date of redemption and also provides for

the repayment of principal and payment of interest at specified date or dates.

3. It usually creates a charge on the undertaking or the assets of the company.
4. Debentures holders do not have any voting rights.
5. Compulsory payment of interest. The interest on debenture is payable irrespective of whether there are profits made or not.
6. While issuance of debentures, the company shall ensure that the parameters for designation of deposits under Companies (Acceptance of Deposits) Rules, 2014 are not triggered.

23. Bonds & Types

About Bonds:

- Bonds are the debt security where an issuer is bound to pay a specific rate of interest agreed as per the terms of payment and repay principal amount at a later time.
- The bond holders are generally like a creditor where a company is obliged to pay the amount. The amount is paid on the maturity of the bond period. Generally these bonds duration would be for 5 to 10 years.

▸ **Types of Bonds**

- Government Bonds
- Corporate Bonds
- Banks and other financial institutions bonds
- Tax saving bonds.

24. Foreign Currency Convertible Bonds:

- These are unsecured instruments which carry a fixed rate of interest and an option for conversion into a fixed number of equity shares of the issuer company.
- Interest and redemption price (if conversion option is not exercised) is payable in dollars.
- FCCBs shall be denominated in any freely convertible Foreign Currency. However, it must be kept in mind that FCCB, issue proceeds need to conform to ECB end use requirements.

25. Foreign Currency Exchangeable Bond (FCEB)

FCEB means –

(i) A bond expressed in foreign currency.

(ii) The principal and the interest in respect of which is payable in foreign currency.

(iii) Issued by an issuing company, being an Indian company.

(iv) Subscribed by a person resident outside India.

(v) Exchangeable into equity shares of another company, being offered company which is an Indian company.

(vi) Either wholly or partly or on the basis of any equity related warrants attached to debt instruments.

26. Indian Depository Receipt [IDR] and Regulatory Framework

Def. of IDR [Sec.]	"Indian Depository Receipt" means any instrument in the form of a depository receipt created by a domestic depository in India and authorised by a company incorporated outside India making an issue of such depository receipts
Regulatory Framework	1. Section 390 of the Companies Act, 2013; 2. Rule 13 of Companies (Registration of Foreign Companies) Rules, 2014 lays down the procedure for issue of Indian Depository Receipts. 3. Chapter VII and VIII of SEBI (ICDR) Regulations, 2018.

27. About Derivative

- A derivative is a financial instrument that derives its value from an underlying asset. This underlying asset can be stocks, bonds, currency, commodities, metals and even intangible, assets like stock indices.
- Derivatives can be of different types like futures, options, swaps, caps, floor, collars etc.
- The most popular derivative instruments are futures and options.

28. Future	
Meaning of Future Contract	Future refers to a future contract which means an exchange traded forward contract to buy or sell a predetermined quantity of an asset on a predetermined future date at a predetermined price. These contracts are standardized and there's centralized trading ensuring liquidity.
Types of Future Contract	• Long Position: This is when a futures contact is purchased and the buyer agrees to receive delivery of the underlying asset. (Stock/Indices/Commodities). • Short Position: This is when a futures contract is sold and the seller agrees to make delivery of the underlying asset. (stock / Indices/Commodities)

29. Option

- Options Contract give its holder the right, but not the obligation, take or make delivery on or before a specified date at a stated price.
- But this option is given to only one party in the transaction while the other party has an obligation to take or make delivery.
- Since the other party has an obligation and a risk associated with making the good the obligation, he receives a payment for that.

30. Warrant

- Warrant means an option issued by a company whereby the buyer is granted the right to purchase a number of shares (usually one) of its equity share capital at a given exercise price during a given period.
- The holder of a warrant has the right but not the obligation to convert them into equity shares.
- Thus in the true sense, a warrant signifies optional conversion.
- In case the investor benefits by conversion of warrant, then he will convert the warrants, else he may simply let the warrant lapse.

<table>
<tr><td colspan="2">• The companies listed on the Exchange can issue warrants in accordance with SEBI (ICDR) Regulation, 2018 on rights issue, preferential issue, Qualified Institutional placement, etc.</td></tr>
<tr><td colspan="2">31. Book Building</td></tr>
<tr><td colspan="2">• Book building means a process undertaken to elicit demand and to assess the price for determination of the quantum or value of specified securities or Indian Depository Receipts, as the case may be, in accordance with SEBI (ICDR) Regulation, 2018.</td></tr>
<tr><td colspan="2">Anchor Investor and Provisions about Anchor Investors</td></tr>
<tr><td>Def. of Anchor Investors [Reg. 2(1) (c) of SEBI (ICDR) Reg. 2018]</td><td>“Anchor Investor" means a qualified institutional buyer who
• makes an application for a value of at least ₹10 crores in a public issue on the main board made through the book building process in accordance with these regulations
OR
• makes an application for a value of at least ₹ 2 crores for an issue made in accordance with Chapter IX [i.e. IPO by SME] of these regulations.</td></tr>
<tr><td>Provisions relating to allocation to the Anchor Investors</td><td>Allocation to the anchor investors shall be on a discretionary basis, subject to the following:
Case-I: Public issue on the main board, through the book building process:
(i) maximum of 2 such investors shall be permitted for allocation up to ₹ 10 crores;
(ii) minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹ 10 crores and up to ₹ 250 crores, subject to minimum allotment of ₹ 5 crores per such investor;
(iii) in case of allocation above ₹ 250 crores; a minimum of 5 such investors and a maximum of 15 such investors for allocation up to ₹ 250 crores</td></tr>
</table>

	and an additional 10 such investors for every additional ₹ 250 crores or part thereof, shall be permitted, subject to a minimum allotment of ₹ 5 crores per such investor. **Case-II: Public issue on the SME exchange, through the book building process:** (a) maximum of 2 such investors shall be permitted for allocation up to ₹ 2 crores (b) minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹ 2 crores and up to ₹ 25 crores, subject to minimum allotment of ₹ 1 crore per such investor; (c) in case of allocation above ₹ 25 crores; a minimum of 5 such investors and a maximum of 15 such investors for allocation up to ₹ 25 crores and an additional 10 such investors for every additional ₹ 25 crores or part thereof, shall be permitted, subject to a minimum allotment of ₹ 1 crore per such investor. (d) $1/3^{rd}$ of the anchor investor portion shall be reserved for domestic mutual funds. (e) The bidding for anchor investors shall open one day before the issue opening date. (f) The anchor investors shall pay on application the same margin which is payable by other categories of investors and the balance, if any, shall be paid within 2 days of the date of closure of the issue. (g) The allocation to anchor investors shall be completed on the day of the bidding by the anchor investors. (h) If the price fixed as a result of book building is higher than the price at which the allocation is made to the anchor investors, the anchor investors shall pay the additional amount. However, if the price fixed as a

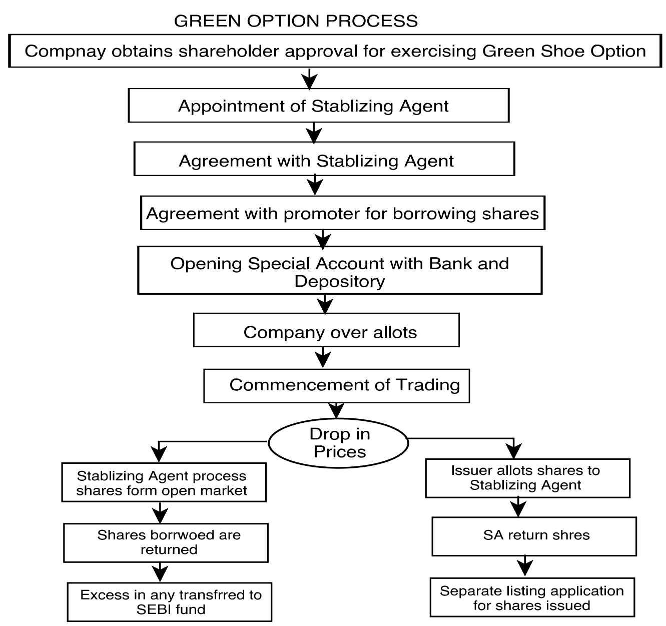
	result of book building is lower than the price at which the allocation is made to the anchor investors, the excess amount shall not be refunded to the anchor investors and the anchor investor shall be allotted the securities at the same price at which the allocation was made to it. (i) The number of shares allocated to the anchor investors and the price at which the allocation is made, shall be made available to the stock exchange(s) by the lead manager(s) for dissemination on the website of the stock exchange(s) before opening of the issue. (j) There shall be a lock-in of 30 days on the shares allotted to the anchor investors from the date of allotment. (k) Neither the (i) lead manager(s) or any associate of the lead managers (other than mutual funds sponsored by entities which are associate of the lead managers or insurance companies promoted by entities which are associate of the lead managers or Alternate Investment Funds (AIFs) sponsored by the entities which are associate of the lead manager or FPIs other than individuals, corporate bodies and family offices sponsored by the entities which are associate of the lead manager) nor (ii) any person related to the promoter/promoter group/ shall apply under the Anchor Investors category.
32. Self-Certified Syndicate Bank [SCSB]	

Definition of SCSB [Reg.2 (aaa) of SEBI (ICDR) Regulations, 2018.]	"Self-certified syndicate bank" means a banker to an issue registered with the Board, which offers the facility of ASBA
Identification of Designated Branches (DBs) and Controlling Branches [Cbs]	• A SCSB shall identify its Designated Branches (DBs) at which an ASBA investor shall submit ASBA and shall also identify the Controlling Branch (CB) which shall act as a coordinating branch for the Registrar of the issue Stock Exchanges and Merchant Bankers. • The SCSB, its DBs and CB shall continue to act as such, for all issues to which ASBA process is applicable. The SCSB may identify new DBs for the purpose of ASBA process and intimate details of the same to SEBI, after which SEBI will add the DB to the list of SCSBs maintained by it.
Communication by SCSB to	The SCSB shall communicate the following details to Stock Exchanges for making it available on their respective websites: (i) Name and address of all the SCSB. (ii) Addresses of DBs and CB and other details such as telephone number, fax number and email ids. (iii) Name and contacts details of a nodal officer at a senior level from the CB.
33. Green Shoe Option	
Green Shoe Option [Reg. 2(1)(s)]	It means an option of allotting equity shares in excess of the equity shares offered in the public issue as a post-listing price stabilizing mechanism.
Requirements	(a) the issuer has been **authorized, by a resolution**

for green shoe option [Reg. 57 of SEBI (ICDR) regulations, 2018]	passed in the general meeting of shareholders approving the public issue, to allot specified securities to the stabilising agent, if required, on the expiry of the stabilisation period. (b) the issuer has appointed a **lead manager** as a stabilising agent, who shall be responsible for the price stabilisation process. (c) prior to filing the draft offer document, the issuer and the **stabilising agent have entered into an agreement**, stating all the terms and conditions relating to the green shoe option including fees charged and expenses to be incurred by the stabilising agent for discharging its responsibilities. (d) prior to filing the offer document, the stabilising agent has entered into an agreement with the promoters or pre-issue shareholders or both for borrowing specified securities from them in accordance with clause (g) of this sub-regulation, specifying therein the maximum number of specified securities that may be borrowed for the purpose of allotment or allocation of specified securities in excess of the issue size (hereinafter referred to as the "over-allotment"), which shall not be in excess of fifteen per cent. of the issue size; (e) subject to clause (d), the lead manager, in consultation with the stabilising agent, shall determine the amount of specified securities to be over-allotted in the public issue; (f) the draft offer document and offer document shall contain all material disclosures about the green shoe option specified in this regard in Part A of Schedule VI. (g) in case of an initial public offer pre-issue shareholders and promoters and in case of a further

	public offer pre-issue shareholders holding more than five per cent. specified securities and promoters, may lend specified securities to the extent of the proposed over-allotment; (h) the specified securities borrowed shall be in dematerialised form and allocation of these securities shall be made pro-rata to all successful applicants.

Steps involved in Green Shoe Option



OBJECTIVE TYPE QUESTIONS FOR PRACTICE

1. The secondary market is a platform in which
   (a) Only earlier allotted securities are being traded among investors.
   (b) Investors trade in new securities

(c) Individually cannot participate
(d) None of these

2. Capital markets denote the places where funds are swapped between
(a) Suppliers of capital
(b) Borrower of capital
(c) Those who request capital investments.
(d) Both (a) & (c)

3. What are the best-known capital markets?
(a) The stock market
(b) The bond markets
(c) A depository account with any of the depositories in India
(d) Both (a) & (b)

4. The capital market is organized in India by?
(a) RBI
(b) NABARD
(c) SEBI
(d) IRDA

5. Which of the below-mentioned is not the objective of SEBI?
(a) To regulate the securities market
(b) To protect the interests of inventors
(c) To promote individual businesses
(d) To promote the development of the market

13. The marketplace in which instruments of securities are exchanged directly between the fundraiser and the purchaser is termed as?
(a) The primary market
(b) The tertiary market
(c) The secondary market
(d) The relative market

ANSWERS

1.	(a)	2.	(d)	3.	(d)	4.	(c)	5.	(c)
6.	(a)								

SHORT NOTES

2012 - Dec [8] Write notes on the following:

(iii) Listing of Indian depository receipts (IDRs)

(v) Qualified institutional buyers (QIBs) **(4 marks each)**

Answer:

(iii) Listing of Indian Depository Receipts (IDRs)

The IDRs issued should be listed on the recognized Stock Exchange(s) in India as specified and such IDRs may be purchased, possessed and freely transferred by a person resident in India.

However, the IDRs issued by an issuing company may be purchased, possessed and transferred by a person other than a person resident in India if such Issuing Company obtains specific approval from Reserve Bank of India in this regard or complies with any policy or guidelines that may be issued by RBI on the subject matter.

(v) Qualified Institutional Buyers(QIBs)

Regulation 2(1)(ss) of SEBI (ICDR) Regulations, 2018 defines "qualified institutional buyer" means:

(i) a mutual fund, venture capital fund, alternative investment fund and foreign venture capital investor registered with the Board;

(ii) a foreign portfolio investor other than individuals, corporate bodies and family offices;

(iii) a public financial institution;

(iv) a scheduled commercial bank;

(v) a multilateral and bilateral development financial institution;

(vi) a state industrial development corporation;

(vii) an insurance company registered with the Insurance Regulatory and Development Authority of India;

(viii) a provident fund with minimum corpus of ₹ 25 crores;

(ix) a pension fund with minimum corpus of ₹ 25 crores;

(x) National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India;

(xi) insurance funds set up and managed by army, navy or air force of the Union of India; and

(xii) insurance funds set up and managed by the Department of Posts, India; and

(xiii) systemically important non-banking financial companies.

2013 - June [6] Write notes on the following.

(i) Green shoe option **(3 marks)**

(v) Alternative investment fund **(4 marks)**

Answer:

(i) Green Shoe Option:

(I) Definition of Green Shoe Option [Reg.2(1)(s)]: It means an option of allotting equity shares in excess of the equity shares offered in the public issue as a post-listing price stabilizing mechanism.

(II) Requirements for green shoe option [Reg. 57 of SEBI (ICDR) Regulations, 2018]:

(a) the issuer has been authorized, by a resolution passed in the general meeting of shareholders approving the public issue, to allot specified securities to the stabilising agent, if required, on the expiry of the stabilisation period.

(b) the issuer has appointed a lead manager as a stabilising agent, who shall be responsible for the price stabilisation process.

(c) prior to filing the draft offer document, the issuer and the **stabilising agent have entered into an agreement**, stating all the terms and conditions relating to the green shoe option including fees charged and expenses to be incurred by the stabilising agent for discharging its responsibilities.

(d) prior to filing the offer document, the stabilising agent has entered into an agreement with the promoters or pre-issue shareholders or both for borrowing specified securities from them in accordance with clause (g) of this sub-regulation, specifying therein the maximum number of specified securities that may be borrowed for the purpose of allotment or allocation of specified securities in excess of the issue size (hereinafter referred to as the "over- allotment"), which shall not be in excess of fifteen per cent. of the issue size;

(e) subject to clause (d), the lead manager, in consultation with the stabilising agent, shall determine the amount of specified securities to be over-allotted in the public issue;

(f) the draft offer document and offer document shall contain all material disclosures about the green shoe option specified in this regard in Part A of **Schedule VI**.

(g) in case of an initial public offer pre-issue shareholders and promoters and in case of a further public offer pre-issue shareholders holding more than 5% specified securities and promoters, may lend specified securities to the extent of the proposed over-allotment;

(h) the specified securities borrowed shall be in dematerialised form and allocation of these securities shall be made pro-rata to all successful applicants.

(v) SEBI (Alternative Investment Funds) Regulations, 2012 provides that an Alternative investment fund (AIF) means any fund established in India in the form of a trust, company, limited liability partnership or a body corporate which:-

(i) is a privately pooled investment vehicle that collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors: and

(ii) is not covered under the **SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999** or any other regulations of SEBI, which aims to regulate fund management activities.

However, **SEBI (Alternative Investment Funds) Regulations, 2012** provides the list of funds which are excluded from the definition subject to certain conditions.

2014 - June [6A] (Or) (ii) Write note on the following:

(a) Anchor investor **(4 marks)**

Answer:

(I) Definition of Anchor Investor **[Reg.2(1)(c) of SEBI (ICDR) Regulation 2018]** "Anchor Investor" means **a qualified institutional buyer** who

- makes an application for a value of at least ₹ **10 crores** in a public issue on the main board made through the book building process in accordance with these regulations

OR

- makes an application for a value of at least ₹ 2 crores for an issue made in accordance with Chapter IX [i.e. **IPO by SME**] of these regulations.

(II) Allocation to anchor investors:

Allocation to the anchor investors shall be on a discretionary basis, subject to the following:

Case-I: Public issue on the main board, through the book building process:

(i) maximum of 2 such investors shall be permitted for allocation up to ₹ 10 crores;

(ii) minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹ 10 crores and up to ₹ 250 crores, subject to minimum allotment of ₹ 5 crores per such investor;

(iii) in case of allocation above ₹ 250 crores; a minimum of 5 such investors and a maximum of 15 such investors for allocation up to ₹ 250 crores and an additional 10 such investors for every additional ₹ 250 crores or part thereof, shall be permitted, subject to a minimum allotment of ₹ 5 crores per such investor.

Case-II: Public issue on the SME exchange, through the book building process:

(i) maximum of 2 such investors shall be permitted for allocation up to ₹ 2 crores

(ii) minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹ 2 crores and up to ₹ 25 crores , subject to minimum allotment of ₹ 1 crore per such investor;

(iii) in case of allocation above ₹ 25 crores ; a minimum of 5 such investors and a maximum of 15 such investors for allocation up to ₹ 25 crores and an additional 10 such investors for every additional ₹ 25 crores or part thereof, shall be permitted, subject to a minimum allotment of ₹ 1 crore per such investor.

(iv) 1/3rd of the anchor investor portion shall be reserved for domestic mutual funds.

(v) The bidding for anchor investors shall open one day before the issue opening date.

(vi) The anchor investors shall pay on application the same margin which is payable by other categories of investors and the balance, if any, shall be paid within 2 days of the date of closure of the issue.

(vii) The allocation to anchor investors shall be completed on the day of the bidding by the anchor investors.

(viii) If the price fixed as a result of book building is higher than the price at which the allocation is made to the anchor investors, the anchor investors shall pay the additional amount. However, if the price fixed as a result of book building is lower than the price at which the allocation is made to the anchor investors, the excess amount shall not be refunded to the anchor investors and the anchor investor shall be allotted the securities at the same price at which the allocation was made to it.

(ix) The number of shares allocated to the anchor investors and the price at which the allocation is made, shall be made available to the stock exchange(s) by the lead manager(s) for dissemination on the website of the stock exchange(s) before opening of the issue.

(x) There shall be a lock-in of 30 days on the shares allotted to the anchor investors from the date of allotment.

(xi) Neither the (i) lead manager(s) or any associate of the lead managers (other than mutual funds sponsored by entities which are associate of the lead managers or insurance companies promoted by entities which are associate of the lead managers or Alternate Investment Funds (AIFs) sponsored by the entities which are associate of the lead manager or FPIs other than individuals, corporate bodies and family offices sponsored by the entities which are associate of the lead manager) nor (ii) any person related to the promoter/promoter group/ shall apply under the Anchor Investors category.

2017 - June [6A] (Or) Write notes on the following:

(ii) Green Shoe Option **(4 marks)**

Answer:

Please refer 2013 - June [6] (i) on page no. 34

2018 - Dec [6] Write short notes on the following:

(a) Private Equity

(d) Venture capital

(e) Pension Fund. **(3 marks each)**

Answer:

(a) Private equity is a type of equity (finance) and one of the asset classes who takes securities and debt in operating companies that are not publicly traded on stock exchange.

Private equity is essentially a way to invest in some assets that aren't publicly traded, or to invest in a publicly traded asset with the intention of taking it private. Unlike stocks, mutual funds and bonds, private equity funds usually invest in more illiquid assets, i.e. companies. By purchasing companies, the firms gain access to those assets and revenue sources of the company, which can lead to a very high return on investments. Another feature of private equity transactions is their extensive use of debt in the form of high-yield bonds.

By using debt to finance acquisitions, private equity firms can substantially increase their financial returns.

(d) Venture Capital is one of the innovative financing resource for a company in which the promoter has to give up some level of ownership and control of business in exchange for capital for a limited period, say, 3-5 years. Venture Capital is generally equity investments made by Venture Capital funds at an early stage in privately held companies, having potential to provide a high rate of return on their investments. It is a resource for supporting innovation, knowledge based ideas and technology and human capital-intensive enterprises.

Different Venture groups prefer different types of investments. Some specialize in seed capital and early expansion while other focus on exit financing. Biotechnology, medical services, communications, electronic components and software companies seem to be the most likely attraction of venture firms and receiving the most financing. Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability.

(e) Pension fund means a fund established by an employer to facilitate and organise the investment of employees' retirement funds which is contributed by the employer and employee. The Pension Fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working here and commence retirement. Pension funds are commonly run by some sort of financial intermediaries for the company and its employees like NPS scheme is managed by UTIAMC (Retirement Solutions), although some larger corporations operate their pension funds in-house. Pensions are broadly divided into two sectors.

(i) Formal sector pensions
(ii) Informal sector pensions

2019 - June [6] Write short note on the following :

(d) High Net Worth Individuals **(3 marks)**

Answer:

HNIs or High Net worth Individuals is a class of individuals who are distinguished from other retail segment based on their net wealth, assets and investible surplus. While there is no standard put forth for the classification, the definition of HNIs varies with the geographical area as well as financial markets and institutions.

Though there is no specific definition, generally in the Indian context, individuals with over ₹ 2 crore investible surplus may be considered to be HNIs while those with investible wealth in the range of ₹ 25 lakhs to ₹ 2 crore may be deemed as Emerging HNIs.

If one is applying for an IPO of the equity shares in an Indian Company, generally, if one apply for amounts in excess of ₹ 2 lakhs, one falls under the HNI category. On the other hand, if one apply for amount under ₹ 2 lakhs one is considered as a retail investor.

2019 - Dec [6] Write short notes on the following:
(a) Optionally Fully Convertible Debenture
(d) Angel Fund **(3 marks each)**

Answer:

(a) Optionally Fully Convertible Debenture (OFCD)

As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the "convertible security" means a security which is convertible into or exchangeable with equity shares of the issuer at a later date, with or without the option of the holder of such security and includes convertible debt instrument and convertible preference shares.

The Optionally Fully Convertible Debenture is a kind of debenture which can be converted into shares at the expiry of a certain period at a predetermined price, if the debt holder (investor) wishes to do so. The "securities" as defined u/s 2(81) of Companies Act, 2013 means securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956, and includes hybrids. Hence after analysing the above definitions of "OFCD", "hybrid" and "securities" it could be rightly concluded that an OFCD being a hybrid security falls under the definition of "securities" as defined u/s 2 (h) of Securities Contract (Regulation) Act, 1956 and u/s 2(81) of Companies Act, 2013 as it inherits the characteristics of debentures initially and also that of the shares at a later stage if the option to convert the securities into shares being exercised by the security holder.

(d)
- An angel investor or angel (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual who provides capital for a start-up business, usually in exchange for convertible debt or equity ownership. A small but increasing number of angel investors invest online through equity crowd funding or organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies.
- Angel investments are typically the earliest equity investments made in start-up companies. They commonly band together in investor networks. Often these networks are based on regional, industry in investor or academic affiliation. Angel Investors are often former entrepreneurs themselves, and typically enjoy working with companies at the earliest stages of business formation. As per the SEBI (Alternative Investment Fund) Regulations, 2012, angel fund is a sub-category of venture capital. Procurement of funds from angel investors of their further investment has to be conducted as per these regulations.
- The effective Angels help entrepreneurs to shape, business models, create business plans and assist in arranging resources - but without stepping into a controlling or operating role. Often Angels are entrepreneurs who have successfully built companies, or have spent a part of their career in coaching young companies.

2020 - Dec [6] Write short notes on the following :

(c) Foreign Currency Convertible Bonds

(d) Indian Depository Receipts

(e) Self-Certified Syndicate Bank. **(3 marks each)**

Answer:

(c) 'Foreign Currency Convertible Bond' (FCCB) means a bond issued by an Indian company expressed in foreign currency, and the principal and interest in respect of which is payable in foreign currency.

The FCCBs are unsecured instruments which carry a fixed rate of interest and an option for conversion into a fixed number of equity shares of the issuer company. Interest and redemption price (if conversion option is not exercised) is payable in dollars. FCCBs shall be denominated in any freely convertible Foreign Currency.

However, it must be kept in mind that FCCB, issue proceeds need to conform to ECB end use requirements.

Foreign investors also prefer FCCBs because of the Dollar denominated servicing, the conversion option and, the arbitrage opportunities presented by conversion of the FCCBs into equity shares at a discount on prevailing Indian market price. In addition, 25% of the FCCB proceeds can be used for general corporate restructuring.

(d) According to **Section 2(48) of the Companies Act, 2013 "Indian Depository Receipt"** means any instrument in the form of a depository receipt created by a domestic depository in India and authorised by a company incorporated outside India making an issue of such depository receipts.

Section 390 of the Companies Act, 2013 and rule 13 of Companies (Registration of Foreign Companies) Rules, 2014 lays down the procedure for issue of Indian Depository Receipts.

Apart from this a company has to comply with Chapter VII and VIII of SEBI (ICDR) Regulations, 2018 to issue IDRs or a rights issue of IDRs.

An IDR is an instrument denominated in Indian Rupee in the form of a depository receipt created by a domestic depository (Custodian of securities registered with SEBI) against the underlying equity of issuing company to enable foreign companies to raise funds from Indian Securities Markets. In an IDR, foreign companies would issue shares, to a domestic (Indian) depository, which would in turn Issue depository receipts to investors in India. The actual shares underlying the IDRs would be held by an Overseas Custodian, which shall authorize the Indian depository to issue the IDRs. To that extent, IDRs are derivative instruments because they derive their value from the underlying shares. Standard Chartered PLC is only company to offer IDR in the Indian market. The foreign company issuing IDRs need to comply with the requirements of rules prescribed under Companies Act, SEBI Regulations and RBI notifications/circulars.

(e) Self-Certified Syndicate Bank (SCSB) is a bank which offers the facility of applying through the ASBA process. A bank desirous of offering ASBA facility shall submit a certificate to SEBI as per the prescribed format for inclusion of its name in SEBI's list of SCSBs. A SCSB shall identify its Designated Branches (DBs) at which an ASBA investor shall submit ASBA and shall also identify the Controlling Branch (CB) which shall act as a coordinating branch for the Registrar of the issue, Stock Exchanges and Merchant Bankers. The SCSB, its DBs and CB shall continue to act as such, for all issues to which ASBA process is applicable. The SCSB may identify new DBs for the purpose of ASBA process and intimate details of the same to SEBI, after which SEBI will add the DB to the list of SCSBs maintained by it. The SCSB shall communicate the following details to Stock Exchanges for making it available on their respective websites; these details shall also be made available by the SCSB on its website:

(i) Name and address of all the SCSB.

(ii) Addresses of DBs and CB and other details such as telephone number, fax number and email ids.

(iii) Name and contacts details of a nodal officer at a senior level from the CB.

2021 - Aug [6] Write short note on the following:

(e) Foreign Portfolio Investor. **(3 marks)**

Answer:

(i) **Definition:** "Foreign Portfolio Investor" means a person who has been registered under Chapter II of Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 and shall be deemed to be an intermediary in terms of the provisions of the SEBI Act, 1992.

(ii) **Regulated By:** SEBI (Foreign Portfolio Investors) Regulation, 2019.

(iii) **General Obligations and Responsibilities:** The foreign portfolio investor shall –

(a) comply with the provisions of these regulations, as far as they may apply, circulars issued thereunder and any other terms and conditions specified by the SEBI from time to time

(b) forthwith inform the Board and designated depository participant in writing, if any information or particulars previously submitted to the SEBI or designated depository participant are found to be false or misleading, in any material respect

(c) forthwith inform the SEBI and designated depository participant in writing, if there is any material change in the information including any direct or indirect change in its structure or ownership or control, previously furnished by him to the SEBI or designated depository participant

(d) as and when required by the SEBI or any other Government agency in India, submit any information, record or documents in relation to its activities as a foreign portfolio investor

(e) forthwith inform the SEBI and the designated depository participant, in case of any penalty, pending litigation or proceedings, findings of inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator against it.

(f) obtain a Permanent Account Number from the Income Tax Department.

2021 - Dec [6] Write short notes on the following :

(a) Leveraged Buyout (LBO)

(c) Characteristics of Bond **(3 marks each)**

Answer:

(a) Leveraged Buyout (LBO): This refers to a strategy of making equity investments as part of a transaction in which a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage. The companies involved in these type of transactions that are typically more mature and generate operating cash flows.

(c) Characteristics of a Bond

1. Bond has a fixed face value, which is the amount to be returned to the investor upon maturity.
2. Fixed maturity date, which can range from a few days to 20-30 years or even more.
3. All bonds repay the principal amount after the maturity date.
4. Provides regular payment of interest, semi-annually or annually.
5. Interest is calculated as a certain percentage of the face value known as a 'coupon payment'.
6. Generally considered as less risky investment as compared to equity.
7. It helps to diversify and grow investor's money.

2022 - June [6] Write short notes on the following :

(c) Vigil Mechanism

(e) Alternative Investment Fund. **(3 marks each)**

Answer:

(c) Vigil Mechanism [Regulation 22]

1. The listed entity shall formulate a vigil mechanism for directors and employees to report genuine concerns.
2. The vigil mechanism shall provide for adequate safeguards against victimization of director(s) or employee(s) or any other person who avail the mechanism.
3. The vigil mechanism shall also provide for direct access to the chairperson of the audit committee in appropriate or exceptional cases.

(e) Alternative Investment Funds

Alternative investment funds (AIFs) are defined in Regulation 2(1)(b) of the SEBI (Alternative Investment Funds) Regulations, 2012. It refers 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) which are not presently covered by any Regulation of SEBI governing fund management (like, Regulations governing Mutual Fund or Collective Investment Scheme) nor coming under the direct regulation of any other sectoral regulators in India-IRDA, PFRDA, RBI. Hence, in India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India.

According to SEBI (AIF) Regulations, 2012, "Alternative Investment Fund" means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which,-

(i) is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and

(ii) is not covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of SEBI to regulate fund management activities.

However, the following shall not be considered as Alternative Investment Fund for the purpose of these regulations, –

(i) Family trusts set up for the benefit of 'relatives' as defined under Companies Act, 2013.

(ii) ESOP Trusts set up under the SEBI (Shares Based Employee Benefits) Regulations, 2014 or as permitted under Companies Act, 2013.

(iii) Employee welfare trusts or gratuity trusts set up for the benefit of employees.

(iv) Holding companies within the meaning of **Section 2(46)** of the Companies Act, 2013.

(v) Other special purpose vehicles not established by fund managers, including securitization trusts, regulated under a specific regulatory framework.

(vi) Funds managed by securitisation company or reconstruction company which is registered with the Reserve Bank of India under **Section 3** of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

(vii) Any such pool of funds which is directly regulated by any other regulator in India.

2022 - Dec [6] Write short notes on the following:

(a) Benefits of REITs

(c) Types of Private Equity

(e) Accredited Investor and Large Value Accredited Investor.

(3 marks each)

Answer:

(a) Benefits of REITs include:

(i) **Less Capital Intensive:** Direct investment in real estate property is very capital intensive. But each shares of REITs will be comparatively more affordable (it will not require large capital outflows.

(ii) **Suitable for small Investors:** Investing through REITs will eliminate dealing with builders, thereby avoiding potential exposure to big builders.

(iii) **Transparency:** REITs stocks are listed in stock market, hence details will be available on public domain.

(iv) **Assured Dividends:** REITs generates income in form of dividend. REITs dividend payment is relatively assured as most of their income is in the form of rental (lease) income.

(v) **Tax Free:** Dividend earned by the investors of REIT will be tax free.

(vi) **Fast Capital Appreciation:** capital appreciation can be phenomenal.

(vii) **Easy to buy:** Investment in REITS easier than investment in Real Estate properties.

(c) Types of Private Equity :

Private equity investments can be divided into the following categories:

Leveraged Buyout (LBO): This refers to a strategy of making equity investments as part of a transaction in which a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage. The companies involved in these type of transactions that are typically more mature and generate operating cash flows.

Venture Capital: It is a broad sub-category of private equity that refers to equity investments made, typically in less mature companies, for the launch, early development, or expansion of a business.

Growth Capital: This refers to equity investments, mostly minority investments, in the companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business.

(e) Accredited Investor & Large Value Accredited Investor:

As per SEBI (Alternative Investment Funds) Regulations, 2012, "Accredited investor" means any person who is granted a certificate of accreditation by an accreditation agency and who –

(i) in case of an individual, Hindu Undivided Family, family trust or sole proprietorship has:
  (A) annual income of at least two crore rupees; or
  (B) net worth of at least seven crore fifty lakh rupees, out of which not less than three crores seventy-five lakh rupees is in the form of financial assets; or
  (C) annual income of at least one crore rupees and minimum net worth of five crore rupees, out of which not less than two crore fifty lakh rupeesis in the form of financial assets.

(ii) in case of a body corporate, has net worth of at least fifty crore rupees;

(iii) in case of a trust other than family trust, has net worth of at least fifty crore rupees;

(iv) in case of a partnership firm set up under the Indian Partnership Act, 1932, each partner independently meets the eligibility criteria for accreditation.

"Large value fund for accredited investors" means an Alternative Investment Fund or scheme of an Alternative Investment Fund in which each investor (other than the Manager, Sponsor, employees or directors of the Alternative Investment Fund or employees or directors of the Manager) is an accredited investor and invests not less than seventy crore rupees.

DISTINGUISH BETWEEN

2012 - Dec [4] (a) Distinguish between the following:

(ii) 'Call option' and 'put option'. **(3 marks)**

Answer

There are two types of option i.e:

(a) Call Option:

It means a right to buy any underlying security, but it is not an obligation. So call option gives the buyer the right to buy or not buy specified quantity of the underlying assets at the strike price on or before expiration date. In the call option, seller has the obligation to sell the underlying assets, if the buyer of the call option decides to exercise his option to buy.

(b) **Put Option:**

A put option gives the holder the right, to sell specified quantity of the underlying assets at a strike price on or before expiry date. Here, the buyer however has the obligation to buy the shares, if the seller exercises his option to sell the shares.

(c) **Difference between call – option & put option:**

Basis of difference	Call option	Put option
(i) Meaning	It means an option/ right to buy.	It means a right to sell.
(ii) When to use	If the investor anticipates that market price of Securities will go up in future, he opts for buying call option.	If the investor anticipates that market price of securities will go down in future, he opts for buying put option.

2013 - June [2] (a) Distinguish between the following.

(iii) 'Call option' and 'put option'. **(4 marks)**

Answer:

Please refer 2012 - Dec [4] (a) (ii) on page no. 49

2015 - June [4] (a) Distinguish between the following:

(i) 'Debt market' and 'equity market'.

(iii) 'Partly convertible debentures' and 'non-convertible debentures'.

(3 marks each)

Answer:

(i)

Basis of Differences	Debt Market	Equity Market
Meaning	Debt markets are markets for the issuance, trading and settlement of various types and features of fixed income securities.	Equity markets are markets for the issuance, trading and settlement of various types of shares.
Issued by	Fixed income securities can be issued by any legal entity like central and state governments, public bodies, statutory corpo-	Shares can be issued by any company including Government company.

	rations, banks and institutions and corporate bodies.	
Risk	Debt market instruments are less risky in comparison to equity market instruments.	Equity market instruments are more risky in comparison to debt market instruments.
Regulated by	RBI	SEBI

(iii) **(1)** **Partly Convertible Debentures:** These may consist of two kinds namely- convertible and non - convertible. The convertible portion is to be converted into equity shares at the expiry of specified period. However, the non convertible portion is redeemed at the expiry of the stipulated period. If the conversion takes place at or after 18 months, the conversion is optional at the discretion of the debenture holder.

(2) **Non - Convertible Debentures:** These debentures do not carry the option of conversion into equity shares and are therefore redeemed on the expiry of the specified period or periods.

2015 - Dec [4] (a) Distinguish between the following:

(ii) 'FCCB and 'FCEB'. **(2 marks)**

Answer:

There is a fundamental difference between an FCCB and an FCEB whereby in the case of an FCCB offering, the bonds convert into shares of the company that issued the bonds, while in the case of an FCEB offering, the bonds are convertible into shares not of the issuer company, but that of another company forming part of its group.

2016 - Dec [4] (a) Distinguish between the following:

(iii) 'Venture capital fund' and 'social venture fund'. **(3 marks)**

Answer:

Difference between Venture Capital Fund and Social Venture Fund:

BOD	Venture Capital Fund	Social Venture Fund
Meaning	Venture Capital Funds mean those funds which primarily invest in unlisted securities of start ups, emerging or early stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property rights based activities or a new business model and shall include an angel fund.	Social Venture Funds mean those funds which will invest primarily in securities or units of social ventures and which satisfy social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns.
Scope	The concept of VCFs is wider in comparison to Social Venture Fund.	Comparatively narrow concept, because "Social Venture Fund" is a narrow concept in comparison to VCFs.

DESCRIPTIVE QUESTIONS

2012 - Dec [5] (a) What is meant by differential voting rights (DVR)? Discuss the conditions subject to which a company may issue shares with DVR.

(4 marks)

Answer:

(i) Meaning of "Differential Voting Rights" (DVR) [Sec. 43 (a) (ii) of Companies Act, 2013]: A DVR share is like an ordinary equity share, but it provides fewer voting rights to the shareholder. The difference in voting rights can be achieved by reducing the degree of voting power. It is ideal for long term investors, typically small investors who seek higher dividend and are not necessarily interested in taking a voting position.

(ii) Conditions for Issue of DVR:

As per **Rule 4 of the Companies (Share Capital and Debentures) Rules, 2014**, a company limited by shares can issue equity shares with differential rights as to dividend, voting or otherwise, by complying these following conditions:

(a) **Authority in AOA:** The articles of association of the company authorizes the issue of shares with differential rights.

(b) **Ordinary Resolution:** The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders. However, incase of listed company, the issue of such shares shall be approved by the shareholders through postal ballot.

(c) **Maximum Voting Power:** The voting power in respect of shares with differential rights of the company shall not exceed 74% of total voting power including voting power in respect of equity shares with differential rights issued at any point of time.

(d) **No Default:** The company has not defaulted in filing financial statements and annual returns for 3 financial years immediately preceding the financial year in which it is decided to issue such shares;

(e) **No Default in Payment of Dividend etc :** The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend.

However, a company may issue equity shares with differential rights upon expiry of 5 years from the end of the financial year in which such default was made good.

(f) **No Conviction:** The company has not been penalized by Court or Tribunal during the last 3 years of any offence under the

- Reserve Bank of Indian Act, 1934

- The Securities and Exchange Board of India Act, 1992
- The Securities Contracts Regulation Act, 1956
- The Foreign Exchange Management Act, 1999 or
- Any other special Act, under which such companies being regulated by sectoral regulators.

2012 - Dec [6] Explain the following statement:

(i) "Depository receipt is a negotiable instrument." **(4 marks)**

Answer:

Depository Receipts (DR) is a negotiable instrument evidencing a fixed number of equity shares of the issuing company generally denominated in US dollars. Depository Receipts are commonly used by those companies which sell their securities in international market and expand their shareholding absorb. These securities are listed and traded at International Stock Exchanges. These can be either American Depository Receipts (ADR) or Global depository Receipts (GDR). While DRs denominated Receipts (ADR) or Global Currency, generally in US dollar, are issued by the depository in the international market, the underlying shares denominated in Indian Rupees are issued in the domestic market by the issuing company.

2013 - Dec [2A] (Or) (ii) Explain briefly the following:

(b) Social venture funds. **(3 marks)**

Answer:

(i) **Meaning:** Social Venture Funds means those funds which will invest primarily in securities or units of social ventures and which satisfy social performance norms laid by the fund and whose investors may agree to receive restricted or muted returns.

(ii) **Features:**

(a) Primary investment of corpus in the securities or units of social ventures.

(b) The investors who give money to 'Social Venture Funds' are not much interested in return or they are happy with limited return.

2013 - Dec [4] (b) Discuss briefly the various categories of alternative investment fund (AIF). **(5 marks)**

Answer:

SEBI has classified Alternative Investment Fund (AIF) into 3 broad categories, as follows:

Category	Details
Category I	Funds that invest in start-up or early stage ventures or social ventures or Small Medium Enterprises (SMEs) or infrastructure or other sectors which the government or regulators consider as socially or economically desirable which include VCF, SME Funds, Social Venture Funds (SVFs), Infra Funds as such other AIFs as may be specified in the AIF Regulations.
Category II	Funds that do not fall in Category I and III AIF and those do not undertake leverage or borrowing other than to meet the permitted day to day operational requirement including Private Equity Funds or Debt Funds.
Category III	Funds that may employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives, for e.g. Hedge Funds.

2013 - Dec [5] Comment on the following statements:

(a) Book-building process of determining price of a public issue is preferred in case of initial public offer (IPO) while fixed price process is used for further public offer (FPO).

(e) Every institutional buyer is a qualified institutional buyer (QIB).

(4 marks each)

Answer:

(a) False:

'Fixed price process' and 'Book Building process' are pricing mechanisms in the issue of shares through public offer. When an issuer at the outset decides the issue price and mentions in the offer document it is commonly known as "Fixed price issue". On the other hand, when the price of an issue is discovered on the basis of demand received from the prospective investors at various price levels, it is called as “Book Built Issue”.

A company, whether issues shares through Initial Public Offer (IPO) or Further Public Offer (FPO) has the option to choose the pricing mechanism, under ‘Fixed Price Issue’ or ‘Book Built Issue’, subject to conditions specified under **SEBI (ICDR) Regulations, 2018.**

(e) False:

Every ‘Institutional Buyer’ is not a ‘Qualified Institutional Buyer (QIB)’. **SEBI (ICDR) Regulations, 2018** defines “Qualified Institutional Buyers”. Accordingly, “Qualified Institutional Buyers” shall mean the following:

(i) A mutual fund, venture capital fund, alternative investment fund and foreign venture capital investor registered with SEBI;
(ii) A foreign portfolio investor other than individuals, corporate bodies and family offices;
(iii) Public Financial Institutions within the meaning of **Section 2(72) of Companies Act, 2013**;
(iv) Scheduled Commercial Banks;
(v) Multilateral and Bilateral Development Financial Institutions;
(vi) State Industrial Development Financial Corporations;
(vii) Insurance Companies;
(viii) Provident Funds with minimum corpus of ₹ 25 Crores;
(ix) Pension Funds with minimum corpus of ₹ 25 Crores; and
(x) National Investment Fund;
(xi) Insurance Funds set up and managed by Army, Navy or Air Force; and
(xii) Insurance Funds set up and managed by the Department of Posts.

So it is obvious that only selected institutional buyers are covered here, so it will be wrong to say that “Every institutional buyer is a qualified institutional buyer”.

2014 - Dec [3] (a) "As India is a preferred investment destination among international investors, the Government of India has introduced Indian depository receipts (IDRs) to facilitate listing by foreign companies on Indian stock exchanges." Elaborate and discuss the process involved in issuing IDRs. **(6 marks)**

Answer:

The procedure for issue of IDRs is given in Rule 13 of the Companies (Registration of Foreign Companies) Rules, 2014,which are as:

(i) The issuing company shall, where required, obtain the necessary approvals or exemptions from the appropriate authorities from the country of its incorporation under the relevant laws relating to issue of capital and IDRs.

(ii) Issuing company shall obtain prior written approval from SEBI on an application made in this behalf for issue of IDRs along with the issue size.

(iii) An application under **clause (b)** shall be made to SEBI (along with draft prospectus) at least 90 days prior to the opening date of the IDRs issue, in such form, along with such fee and furnishing such information as may be specified by the Securities and Exchange Board of India from time to time. However, the issuing company shall also file with SEBI, through a Merchant Banker, a due diligence report along with the application under **clause (ii)** in the form specified by SEBI.

(iv) SEBI may, within a period of 30 days of receipt of an application under **clause (iii)**, call for such further information and explanations, as it may deem necessary, for disposal of such application and shall dispose the application within a period of 30 days of receipt of further information or explanation. However, if within a period of 60 days from the date of submission of application or draft prospectus, SEBI specifies any changes to be made in the draft prospectus, the prospectus shall not be filed with SEBI or Registrar of Companies unless such changes have been incorporated therein.

(v) The issuing company shall on approval being granted by the Securities and Exchange Board of India to an application under **clause (ii)**, pay to the SEBI an issue fee as may be prescribed from time to time by the Securities and Exchange Board of India.

(vi) The issuing company shall file a prospectus, certified by two authorized signatories of the issuing company, one of whom shall be a whole-time director and other the Chief Financial Officer, stating the particulars of the resolution of the Board by which it was approved with SEBI and Registrar of Companies, New Delhi before such issue.

However, at the time of filing of said prospectus with the Registrar of Companies, New Delhi, a copy of approval granted by SEBI and the statement of fees paid by the Issuing Company to SEBI shall also be attached.

(vii) The prospectus to be filed with SEBI and the Registrar of Companies, New Delhi shall contain the particulars as prescribed in **sub-rule (8)** and shall be signed by all the whole-time directors of the issuing company and the Chief Financial Officer.

(viii) The issuing company shall appoint an overseas custodian bank, a Domestic Depository and a Merchant Banker for the purpose of issue of IDRs.

(ix) The issuing company may appoint underwriters registered with SEBI to underwrite the issue of IDRs.

(x) The issuing company shall deliver the underlying equity shares or cause them to be delivered to an Overseas Custodian Bank and the said bank shall authorize the domestic depository to issue IDRs.

(xi) The issuing company shall obtain in-principle listing permission from one or more stock exchanges having nationwide trading terminals in India.

2014 - Dec [3] (b) “An individual cannot start a venture capital fund but a trust or a company can.” In the light of this statement, list down the eligibility criteria for getting registered with SEBI as venture capital fund.

(5 marks)

Answer :

SEBI (Alternative Investment Funds) Regulations, 2012, lays down the following eligibility criteria to be registered as Venture Capital Fund under Category I Alternative Investment Fund (AIF), namely-

(a) the memorandum of association in case of a company; or the Trust Deed in case of a Trust; or the Partnership deed in case of a limited liability partnership permits it to carry on the activity of an Alternative Investment Fund;

(b) the applicant is prohibited by its memorandum and articles of association or trust deed or partnership deed from making an invitation to the public to subscribe to its securities;

(c) in case the applicant is a Trust, the instrument of trust is in the form of a deed and has been duly registered under the provisions of the **Registration Act, 1908**;

(d) in case the applicant is a limited liability partnership, the partnership is duly incorporated and the partnership deed has been duly filed with the Registrar under the provisions of the **Limited Liability Partnership Act, 2008;**

(e) in case the applicant is a body corporate, it is set up or established under the laws of the Central or State Legislature and is permitted to carry on the activities of an Alternative Investment Fund;

(f) the applicant, Sponsor and Manager are fit and proper persons based on the criteria specified in Schedule II of the **Securities and Exchange Board of India (Intermediaries) Regulations, 2008**;

(g) the key investment team of the Manager of Alternative Investment Fund has adequate experience, with at least one key personnel having not less than five years experience in advising or managing pools of capital or in fund or asset or wealth or portfolio management or in the business of buying, selling and dealing of securities or other financial assets and has relevant professional qualification;

(h) the Manager or Sponsor has the necessary infrastructure and manpower to effectively discharge its activities;

(i) the applicant has clearly described at the time of registration the investment objective, the targeted investors, proposed corpus, investment style or strategy and proposed tenure of the fund or scheme;

(j) whether the applicant or any entity established by the Sponsor or Manager has earlier been refused registration by the Board.

From the above eligibility criteria mentioned in the **SEBI (Alternative Investment Funds) Regulations, 2012** it can be concluded that it is only a "Company, Trust or a Partnership Firm" which can be registered as a Venture Capital Fund and not an Individual.

2014 - Dec [3] (c) "Both foreign currency exchangeable bonds (FCEBs) and foreign currency convertible bonds (FCCBs) are convertible into equity shares." Since both are convertible into equity shares, you are required to highlight the advantages of FCEBs over FCCBs. **(4 marks)**

Answer :

The Foreign Currency Exchangeable Bonds (FCEBs) offers similar benefits of conversion as Foreign Currency Convertible Bond (FCCB). But it offers one unique advantage over and above FCCB which is that "FCEBs are convertible into shares of another company (offered company) that forms part of same promoter group as the issuer company. So it does not result in dilution of shareholding at the offered company level.

Simply, FCEB scheme affords a unique opportunity for Indian promoters to unlock value in group companies. They can raise money overseas to fund their new projects and acquisitions, both Indian and global, by leveraging a part of their shareholding in listed group entities.

2014 - Dec [4] (b) Explain briefly the following:

(ii) Investible fund. **(3 marks)**

Answer :

(1) Definition: As per **SEBI (Alternative Investment Funds) Regulations, 2012**, "Investible Fund" means "corpus of the Alternative Investment Fund net of estimated expenditure for administration and management of the fund".

(2) **General conditions and restrictions on investment of "Investible Funds":** An Alternative Investment Fund can invest its investible fund subject to following conditions:
   (a) It can invest in securities of companies incorporated outside India, subject to such conditions or guidelines specified by the RBI and SEBI from time to time.
   (b) Co-investment in an investee company by a manager or sponsor shall not be on terms more favorable than those offered to the AIF.
   (c) Category I and II AIF shall not invest more than 20% of the investible funds in one Investee Company.
   (d) Category III AIF shall not invest more than 10% of the investible funds in one Investee Company.
   (e) AIF shall not invest in associates except with the approval of 75% of investors by value of their investment in the AIF.

2015 - June [2] Explain the following:
(d) All securities in the same class are identical and interchangeable.
(3 marks)

Answer :
The statement that "All securities in the same class are identical and interchangeable" is concerned to one of the key features of the Depository System in India.
The securities held in dematerialized form do not bear any notable feature like distinctive number, folio number or certificate number. Once shares get dematerialized, they lose their identity in terms of share certificate, distinctive numbers and folio numbers. Thus, all securities in the same class are identical and interchangeable. For example, all equity shares in the class of fully paid up shares are interchangeable.

2015 - Dec [2] Explain the following:
(a) Primary market is of great significance to the economy of a country.
(3 marks)

Answer:
The primary market provides the channel for sale of new securities, while the secondary market deals in securities previously issued. The issuer of

securities sells the securities in the primary market to raise funds for investment and/or to discharge some obligation.

In other words, the market wherein resources are mobilised by companies through issue of new securities is called the primary market. These resources are required for new projects as well as for existing projects with a view to expansion, modernisation, diversification and upgradation.

The Primary Market (New Issues) is of great significance to the economy of a country. It is through the primary market that funds flow for productive purposes from investors to entrepreneurs. The latter use the funds for creating new products and rendering services to customers in India and abroad. The strength of the economy of a country is gauged by the activities of the Stock Exchanges. The primary market creates and offers the merchandise for the secondary market.

2015 - Dec [2] Explain the following:

(e) Venture capital funds invest in all types of securities. **(3 marks)**

Answer:

The given statement 'Venture capital funds invest in all type of securities' is incorrect. Because, venture capital funds will primarily invest in unlisted securities of start ups, emerging or early stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property rights based activities or a new business model.

2015 - Dec [2A] (Or) (iii) What do you understand by alternative investment fund? How they are different from mutual funds? **(3 marks)**

Answer:

(I) Definition of 'Alternative Investment Fund': As per SEBI (Alternative Investment Fund) Regulations, 2012, AIF means any fund established in India in the form of a trust, company, limited liability partnership or a body corporate which:

(i) is a privately pooled investment vehicle that collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and

(ii) is not covered under the **SEBI (Mutual Funds) Regulations, 1996**, **SEBI (Collective Investment Schemes) Regulations, 1999** or any other regulations of SEBI, which aims to regulate fund management activities.

The following are specifically excluded from the purview of AIF Regulations (subject to conditions in certain cases):

(a) Family Trusts;
(b) ESOP Trusts;
(c) Employee Welfare Trusts;
(d) Holding Companies within the meaning of **Section 2(46) of Companies Act, 2013;**
(e) Other Special Purpose Vehicles not established by fund managers, including securitization trusts, regulated under a specific regulatory framework;
(f) Funds managed by registered securitization company or reconstruction company; and
(g) Any such pool of funds which is directly regulated by any other Indian regulator.

(II) Differences between AIF and Mutual Funds:

(a) **Nature of investors:** The main purpose of AIF is to privately pool funds from High net worth individual, but under mutual funds, every type of investors are allowed to invest in units of mutual funds.
(b) **Investment of pooled fund:** AIF mainly invests its pooled fund in securities of unlisted companies, startups etc. while mutual funds invests their pooled funds in diversified way focusing on blue chip companies, which are listed on stock exchange.

2015 - Dec [4] (b) Explain briefly the following:

(i) Indian depository receipts **(3 marks)**

Answer:

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.

The issue of IDRs is governed by following statutes

(a) Sec. 390 of the Companies Act, 2013

(b) Rule 13 of the Companies (Registration of Foreign Companies) Rules, 2014

(c) Chapter VII & VIII of SEBI (ICDR) Regulations, 2018.

2015 - Dec [6] Comment on the following:

(c) Book-building process of determining price of a public issue is preferred in case of initial public offer (IPO) while fixed price process is used for further public offer (FPO). **(5 marks)**

Answer:

(c) Please refer 2013 - Dec [5] (a) on page no. 55

2016 - June [2A] (Or) (i) "A well functioning securities market is conducive to sustained economic growth." Explain. **(5 marks)**

Answer:

The given statement i.e. "A well functioning securities market is conducive to sustained economic growth" is correct. This statement highlights the significance of securities market into economic growth. The securities market fosters economic growth to the extent that it:

(a) augments the quantities of real savings and capital formation from any given level of national income,

(b) increases net capital inflow from abroad,

(c) raises the productivity of investment by improving allocation of investible funds, and

(d) reduces the cost of capital.

2016 - June [3] (a) Comment on the following and support your answer with necessary reasons:

(i) The capital market and the stock exchange in particular are referred to as the barometer of the economy. **(4 marks)**

(ii) Investment in Indian depository receipts (IDRs) is an opportunity for the Indian investors to invest funds in foreign equity. **(4 marks)**

Answer:

(i) (i) **Nature of Statement:** The given statement i.e. "The capital market and in particular the stock exchange is referred to as the barometer of the economy" is correct.

(ii) **Reason:**

- When capital market and in particular stock exchange performs well then it is said the economy of the country is on right track and growing and its opposite is also correct.
- Government's policy is so moulded that creation of wealth through products and services is facilitated and surpluses and profits are channelised into productive uses through capital market operations. Reasonable opportunities and protection are afforded by the Government through special measures in the capital market to get new investments from the public and the Institutions and to ensure their liquidity.

(ii) (i) **Nature of Statement:** The given statement i.e. "Investment in Indian Depository Receipts (IDRs) is an opportunity for the Indian Investors to invest funds in foreign equity." is correct.

(ii) **Reason:** IDRs give an additional opportunity to Indian investors for investing in securities of foreign entity without bothering for foreign law. By this way, they can diversify their investment portfolio and reduce the risk.

2016 - Dec [2] (a) "Not only Indian companies are going abroad to raise funds, foreign companies are also coming to India to raise funds." Name the instrument(s) through which a foreign company can raise funds in India by issuing its own equity shares. Also, state the eligibility and conditions for the issue of such instrument(s) in India. **(8 marks)**

Answer:

(i) **Name of Instrument:** Indian Depository Receipt (IDR) is the name of the instrument, through which foreign companies can raise funds in India by issuing its own shares.

(ii) **Eligibility for issue of IDRs:** Companies (Registration of Foreign Companies) **Rules, 2014** provides that an issuing company shall not issue IDRs unless:

(a) its pre-issue paid-up capital and free reserves are at least US $50 million and it has a minimum average market capitalization (during the last 3 years) in its parent country of at least US $ 100 million;

(b) it has a continuous trading record or history on a stock exchange in its parent country or home country for at least three immediately preceding years;

(c) it has a track record of distributable profits in terms of **Section 123 of the Companies Act, 2013,** for at least 3 out of immediately preceding 5 years;

(d) it has fulfilled such eligibility criteria as may be laid down by SEBI from time to time in this behalf.

Apart from above Rules, **SEBI (ICDR) Regulation, 2018** provides eligibility criteria for issue of IDR- the issuer company should be listed in its home country; has not been prohibited to issue securities by any Regulatory Body, has a good track record with respect to compliance with securities market regulations and any of its promoters or directors is not a fugitive economic offences.

(iii) **Conditions for issue of IDRs:** According to **SEBI (ICDR) Regulations, 2018**, an issuer company can issue IDRs only, if it satisfies the following conditions:

(a) issue size shall not be less than fifty crore rupees;

(b) at any given time, there shall be only one denomination of IDRs of the issuer.

(c) issuer shall ensure that the underlying equity shares against which IDRs are issued have been or will be listed in its home country before listing of IDRs in stock exchange(s).

(d) issuer shall ensure that the underlying shares of IDRs shall rank *pari passu* with the existing shares of the same class.

(e) it has made an application to one or more stock exchanges to seek an in-principle approval for listing of the IDRs on such stock exchanges and has chosen one of them as the designated stock exchange.

(f) it has entered into an agreement with a depository for dematerialisation of the IDRs proposed to be issued;

(g) it has made firm arrangements of finance through verifiable means towards 75% of the stated means of finance for the project proposed to be funded from issue proceeds, excluding the amount to be raised through the proposed issue of IDRs or through existing identifiable internal accruals, have been made.

(h) the amount for general corporate purposes, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 25% of the amount being raised by the issuer.

2016 - Dec [2A] (Or) (ii) What do you mean by foreign currency covertible bonds (FCCBs)? State the benefits of FCCBs to investors and the issuer.

(5 marks)

Answer:

(I) **Meaning of foreign currency convertible bonds (FCCBs):**

The FCCBs are unsecured, carry a fixed rate of interest and an option for conversion into a fixed number of equity shares of the issuer company. Interest and redemption price (if conversion option is not exercised) is payable in dollars. FCCBs shall be denominated in any freely convertible Foreign Currency.

(II) **Benefits of FCCBs to investors:**

1. It has advantage of both equity and debt.
2. It gives the investor much of the upside of investment in equity, and the debt portion protects the downside.
3. Assured return on bond in the form of fixed coupon rate payments.
4. Ability to take advantage of price appreciation in the stock by means of warrants attached to the bonds, which are activated when price of a stock reaches a certain point.
5. Significant Yield to Maturity (YTM) is guaranteed at maturity.
6. Lower tax liability as compared to pure debt instruments due to lower coupon rate.

(III) **Benefits of FCCBs to issuer:**

1. Being Hybrid instrument, the coupon rate on FCCB is particularly lower than pure debt instrument thereby reducing the debt financing cost.
2. FCCBs are book value accretive on conversion. It saves risks of immediate equity dilution as in the case of public shares. Unlike debt, FCCB does not require any rating nor any covenant like securities, cover etc.
3. It can be raised within a month while pure debt takes a longer period to raise. Because the coupon is low and usually payable at the time of redeeming the instrument, the cost of withholding tax is also lower for FCCBs compared with other ECB instruments.

2016 - Dec [3] (a) What is a Real Estate Investment Trust (REIT)? What are the eligibility criteria for granting a certificate to an applicant to act as REIT as per SEBI guidelines in this regard? **(8 marks)**

Answer:

(I) Definition of Real Estate Investment Trust(REIT): "REIT" or "Real Estate Investment Trust" shall mean a trust registered as such under these regulations i.e. SEBI (Real Estate Investment Trusts)Regulations, 2014.

(II) Eligibility criteria [Regulation 4]:

For the purpose of the grant of certificate to an applicant, the Board shall consider all matters relevant to the activities as a REIT, namely,

(a) the applicant is a trust and the instrument of trust is in the form of a deed duly registered in India under the provisions of the Registration Act, 1908;

(b) the trust deed has its main objective as undertaking activity of REIT in accordance with these regulations and includes responsibilities of the Trustee in accordance with Regulation 9;

(c) persons have been designated as sponsor(s), manager and trustee under these regulations and all such persons are separate entities;

(d) **with regard to sponsor(s):**

(i) there are not more than 3 sponsors each holding or proposing to hold not less than 5% of the number of units of the REIT on post-initial offer basis;

(ii) the sponsor(s), on a collective basis, have a net worth of not less than one ₹ 100 crores,:

Provided that each sponsor has a net worth of not less than ₹ 25 crores; and

(iii) the sponsor or its associate(s) has not less than 5 years experience in development of real estate or fund management in the real estate industry:

Provided that where the sponsor is a developer, at least 2 projects of the sponsor have been completed;

(e) **with regard to the manager:**

(i) the manager has a net worth of not less than ₹ 10 crores, if the manager is a body corporate or a company or net tangible assets of value not less than ₹ 10 crores in case the manager is a LLP;

(ii) the manager or its associate has not less than 5 years experience in fund management or advisory services or property management in the real estate industry or in development of real estate;

(iii) the manager has not less than two key personnel who each have not less than 5 years experience in fund management or advisory services or property management in the real estate industry or in development of real estate;

(iv) the manager has not less than half, of its directors in the case of a company or of members of the governing Board in case of an LLP, as independent and not directors or members of the governing Board of another REIT; and

(v) the manager has entered into an investment management agreement with the trustee which provides for the responsibilities of the manager in accordance with regulation 10;

(f) **with regard to the trustee:**

(i) the trustee is registered with the Board under SEBI (Debenture Trustees) Regulations, 1993 and is not an associate of the sponsor(s) or manager; and 10

(ii) the trustee has such wherewithal with respect to infrastructure, personnel, etc. to the satisfaction of the Board and in accordance with circulars or guidelines as may be specified by the Board;

(g) no unit holder of the REIT enjoys preferential voting or any other rights over another unit holder;

(h) there are no multiple classes of units of REIT;

(i) the applicant has clearly described at the time of application for registration, details pertaining to proposed activities of the REIT;

(j) the applicant and parties to the REIT are fit and proper persons based on the criteria as specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008;

(k) whether any previous application for grant of certificate by the applicant or any related party has been rejected by the Board;

(l) whether any disciplinary action has been taken by the Board or any other regulatory authority against the applicant or any related party under any Act or the regulations or circulars or guidelines made thereunder.

2016 - Dec [6] (c) Define the following:

(ii) Green shoe option. **(3 marks)**

Answer:

Please refer 2013 - June [6] (i) on page no. 34

2017 - June [2] Explain the following:

(a) Functions of Securities Market **(3 marks)**

(c) Conditions for issue of IDR **(3 marks)**

Answer:

(a) Following are important functions of Securities Market:

(a) Securities market is a link between investment and savings;

(b) It mobilizes and channelizes savings;

(c) It provides liquidity to investors;

(d) It is a market place for purchase and sale of securities.

(c) An issuer shall be eligible to make an issue of IDRs, subject to following conditions:

(I) Conditions as to eligibility [Reg. 183(1)]: An issuer shall be eligible to make an issue of IDRs only if:

(a) the issuing company is listed in its home country for at least 3 immediately preceding years;

(b) the issuer is not prohibited to issue securities by any regulatory body;

(c) the issuer has a track record of compliance with the securities market regulations in its home country;

(d) any of its promoters or directors is not a fugitive economic offender.

(II) Other Conditions [Reg.183(2)]: The issue shall be subject to the following conditions:

(a) issue size shall not be less than ₹ 50 Crores;

(b) at any given time, there shall be only one denomination of IDRs of the issuer.

(c) issuer shall ensure that the underlying equity shares against which IDRs are issued have been or will be listed in its home country before listing of IDRs in stock exchange(s).

(d) issuer shall ensure that the underlying shares of IDRs shall rank paripassu with the existing shares of the same class.

(III) Conditions as to listing: The issuer shall ensure that:

(a) it has made an application to one or more stock exchanges to seek an in-principle approval for listing of the IDRs on such stock exchanges and has chosen one of them as the designated stock exchange;

(b) it has entered into an agreement with a depository for dematerialization of the IDRs proposed to be issued;

(c) it has made firm arrangements of finance through verifiable means towards 75% of the stated means of finance for the project proposed to be funded from issue proceeds, excluding the amount to be raised through the proposed issue of IDRs or through existing identifiable internal accruals, have been made.

(IV) The amount for general corporate purposes, as mentioned in objects of the issue in the draft offer document and the offer document, shall not exceed 25% of the amount being raised by the issuer.

2017 - June [6] Comment on the following statement:

(d) "Every Institutional Buyer is qualified institutional buyer." **(4 marks)**

Answer:

Please refer 2013 - Dec [5] (e) on page no. 55

2018 - June [2] Explain the following:

(b) Option Contract

(c) Futures **(3 marks each)**

Answer:

(b) **An option contract conveys the right, but not the obligation, to buy or sell** a specific security or commodity at specified price within a specified period of time. The right to buy is referred to as a call option whereas the right to sell is known as a put option. An option contract comprises of its type a put or call, underlying security or commodity expiry date, strike price at which it may be exercised.

Option provides the investor with the opportunity to hedge investments in the underlying shares and share portfolios and can thus reduce the overall risk related to the investments significantly.

Generally two type of options namely:

- **European option:** an option that may only be exercised on expiration.
- **American option:** an option that may be exercised on any trading day on or before expiry

(c)
- Futures is a contract between two parties to buy or sell a underlying asset of standardized quantity and quality for a price agreed upon today with delivery and payment occurring at a specified future date.

- Underlying assets for the purpose include equities, foreign exchange, interest bearing securities and commodities.
- The idea behind financial futures contract is to transfer future changes in security prices from one party in the contract to the other.
- It offers a means to manage risk in participating financial market. Futures basically transfer value rather than create it. It is a means for reducing risk or assuming risk in the hope of profit. Every futures contract entered into has two side willing buyer and a willing seller. If one side of contract makes a profit, the other side must make a loss. All futures market participants taken together can neither lose nor gain the futures market is a zero sum game.

2018 - June [3] (b) SEBI has classified Alternative Investment Fund (AIF) into three broad categories i.e. Category I, Category II and Category III. Discuss key features of AIF categories. **(5 marks)**

(c) Indian companies are allowed to raise equity capital in the international market through the issue of ADR/GDR/FCCB/FCEB. Briefly discuss the regulatory framework of ADR & GDR in India. **(5 marks)**

Answer:

(b) SEBI has classified AIF into the following three broad categories, which are as follows:

Category I: Fund that invest in start-up or early stage ventures or social ventures or Small and Medium Enterprises (SMEs) or infrastructure or other sectors which the government or regulators consider as socially or economically desirable which include VCF, SME Funds, Social Venture Funds (SVF), Infra Funds and such other AIFs as may be specified in the AIF Regulations.

Category II: Funds that do not fall in Category I and III AIF and those that do not undertake leverage or borrowing other than to meet the permitted day to day operational requirement including Private Equity Funds or Debt Funds.

Category III: Funds that employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives, for e.g. Hedge Funds.

SEBI has allowed the Category - III Alternative Investment Funds (AIFs) to participate in the commodity derivatives market.

(c) Issue of ADR/GDR/FCCBs/FCEBs are regulated by the following regulations in India:

- The Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993.
- Foreign Currency Exchangeable Bonds Scheme, 2008
- Depository Receipts Scheme, 2014
- Notifications/Circulars issued by Ministry of Finance (MoF), GOI.
- Consolidated FDI Policy.
- RBI Regulations/Circulars.
- Companies Act and Rules thereunder.
- Listing Regulations.

2018 - June [4] (a) Discuss the procedure for making an issue of Indian Depository Receipts under Rule 13 of the Companies (Registration of Foreign Companies) Rules, 2014. **(8 marks)**

Answer:

Rule13(3) of the Companies (registration of foreign companies) rules, 2014 lays down the procedure for making an issue of IDRs. The issuing company shall follow the following procedure for making an issue of IDRs:

(a) the issuing company shall, where required, obtain the necessary approvals or exemptions from the appropriate authorities from the country of its incorporation under the relevant laws relating to issue of capital and IDRs.

(b) issuing company shall obtain prior written approval from SEBI on an application made in this behalf for issue of IDRs along with the issue size.

(c) an application under clause (b) shall be made to SEBI (along with draft prospectus) at least ninety days prior to the opening date of the IDRs issue, in such form, along with such fee and furnishing such information as may be specified by the SEBI from time to time.

However, the issuing company shall also file with SEBI, through a Merchant Banker, a due diligence report along with the application under clause (b) in the form specified by SEBI.

(d) SEBI may, within a period of thirty days of receipt of an application under clause (c), call for such further information, and explanations, as it may deem necessary, for disposal of such application and shall dispose the application within a period of thirty days of receipt of further information or explanation.

However, if within a period of sixty days from the date of submission of application or draft prospectus, SEBI specifies any changes to be made in the draft prospectus, the prospectus shall not be filed with SEBI or Registrar of Companies unless such changes have been incorporated therein.

(e) the issuing company shall on approval being granted by the SEBI to an application under clause (b), pay to the SEBI an issue fee as may be prescribed from time to time by the SEBI.

(f) the issuing company shall file a prospectus, certified by two authorized signatories of the issuing company, one of whom shall be a whole-time director and other the Chief Financial Officer, stating the particulars of the resolution of the Board by which it was approved with SEBI and Registrar of Companies, New Delhi before such issue.

However, at the time of filing of said prospectus with the Registrar of Companies, New Delhi, a copy of approval granted by SEBI and the statement of fees paid by the Issuing Company to SEBI shall also be attached.

(g) the prospectus to be filed with SEBI and the Registrar of Companies, New Delhi shall contain the particulars as prescribed in sub-rule (8) and shall be signed by all the whole-time directors of the issuing company, and the Chief Financial Officer.

(h) the issuing company shall appoint an overseas custodian bank, a Domestic Depository and a Merchant Banker for the purpose of issue of IDRs.

(i) the issuing company may appoint underwriters registered with SEBI to underwrite the issue of IDRs.

(j) the issuing company shall deliver the underlying equity shares or cause them to be delivered to an Overseas Custodian Bank and the said bank shall authorize the domestic depository to issue IDRs.

(k) the issuing company shall obtain in-principle listing permission from one or more stock exchanges having nationwide trading terminals in India.

2018 - June [5] Answer the following:

(c) "The book building process is very transparent. All investors including small investors can see the book is being built before applying". Explain the bidding process used in Book Building Process. **(6 marks)**

Answer:

(a) The bidding process shall only be through an electronically linked transparent bidding facility provided by the stock exchange (s).

(b) The lead manager(s) shall ensure the availability of adequate infrastructure with the syndicate member(s) for data entry of the bids in a timely manner.

(c) At each of the bidding centres, at least one electronically linked computer terminal shall be available for the purpose of bidding.

(d) During the period the issue is open to the public for bidding, the applicants may approach the stock brokers of the stock exchange/s through which the securities are offered under on-line system, self-certified syndicate bank(s), registrar and share transfer agents or depository participants, as the case may be, to place their bids.

(e) Every stock broker, self-certified syndicate bank, registrar and share transfer agent and depository participant shall accept applications supported by blocked amount.

(f) The qualified institutional buyers shall place their bids only through the stock broker(s) who shall have the right to vet the bids;

(g) At the end of each day of the bidding period, the demand, shall be shown graphically on the bidding terminals of the syndicate member(s) and websites of the stock exchanges for information of the public (details in relation to allocation made to anchor investors shall also be disclosed).

(h) The retail individual investors may either withdraw or revise their bids until the closure of the issue.

(i) The qualified institutional buyers and the non-institutional investors shall not be permitted to withdraw or lower the size of their bids at any stage of the issue.

(j) The issuer may decide to close the bidding by the qualified institutional buyers one day prior to the closure of the issue, subject to the following conditions:

(i) the bidding period shall be minimum of three days for all categories of applicants;

(ii) necessary disclosures are made in the red herring prospectus regarding the issuer's intent to close the bidding by the qualified institutional buyers one day prior to the closure of the issue.

(k) The names of the qualified institutional buyers making the bids shall not be made public.

(l) The retail individual investors may bid at the "cut off" price instead of a specific bid price.

(m) The stock exchanges shall continue to display on their website, the book building data in a uniform format, inter alia, giving category-wise details of the bids received, for a period of at least three days after the closure of the issue. Such display shall be as per the format specified in Part B of this Schedule.

2018 - Dec [5] (b) What is meant by Anchor Investor? What are the limitations of allocation to anchor investors in the Book building process?

(5 marks)

Answer:

According to Regulation 2(1)(c) of SEBI (Issue of Capital and Disclosure Requirements) Regulation 2018 "Anchor Investor" means a qualified institutional buyer who makes an application for a value of ₹ 10 crores or more in a public issue on the main board made through the book building process in accordance with these regulations.

Allocation to anchor investors shall be on a discretionary basis and subject to the following:

1. Maximum of two such investors shall be permitted for allocation up to ₹ 10 crores.

2. Minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹ 10 crore and up to ₹ 250 crore subject to minimum allotment of ₹ 5 crore per such investors
3. In case of allocation above ₹ 250 crore; minimum of five such investors and a maximum of 15 such investors for allocation up to ₹ 250 crores and an additional 10 such investors for every additional ₹ 250 crore or part thereof, shall be permitted, subject to a minimum allotment of ₹ 5 crore per such investors. The bidding for Anchor Investors shall open one day before the issue opening date.
4. Allocation to Anchor investors shall be completed on the day of bidding by Anchor Investors.
5. Shares allotted to the anchor investor shall be locked-in-for 30 days from the date of allotment in the public issue.

Up to 60% of the portion available for allocation to QIB shall be available to Anchor Investors for allocation/allotment ("anchor investor portion") and one third of the anchor investor portion shall be reserved for domestic mutual funds.

2019 - June [6A] (Or) (i) "An Alternative Investment Fund which has been granted registration under a particular category cannot change its category subsequent to registration, except with the approval of the SEBI". Enumerate the conditions for approval of SEBI. **(5 marks)**

Answer:

As per SEBI Circular No. CIR/IMD/DF/12/2013 dated 7th August, 2013, only AIFs who have not made any investments under the category in which they were registered earlier shall be allowed to make application for change in category. Such AIFs are required to make an application in Form A along with necessary supporting documents. Application fees of ₹ 1,00,000 must be paid along with the application to SEBI. AIFs are not required to pay registration fees for such applications.

If the AIF has received commitments/ raised funds prior to application for change in category, the AIF shall be required to send letters/emails to all its investors providing them the option to withdraw their commitments/fund raised without any penalties/charges. Any fees collected from investors seeking to withdraw commitments/ funds shall be returned to them. Partial withdrawal may be allowed subject to compliance with the minimum investment amount required under the AIF regulations.

The AIF shall not make any investments till deployment of fund as per the scheme other than in liquid funds/bank deposits until approval for change in category is granted by SEBI.

On approval of the request from SEBI, the AIF is required to send a copy of the revised placement memorandum and other relevant information to all its investors.

2019 - Dec [5] (a) The stock market of a developing countries is normally attractive for the foreign investors. A foreign endowments fund is planning to invest in equity shares of Indian companies. State the category under which this Foreign Portfolio Investor (FPI) be covered. Will your answer be different if it is a central bank of a foreign country? **(5 marks)**

Answer:

As per Regulation 5 of the SEBI (Foreign Portfolio Investors), Regulations, 2014, an applicant shall seek registration as a foreign portfolio investor in one of the categories mentioned under the regulations or any other category as may be specified by the SEBI from time to time.

The foreign endowments fund will be covered under category III. This category includes foreign portfolio investor which shall include all others not eligible under Category I and II foreign portfolio investors such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts, individuals and family offices.

Yes, if it is central bank of a foreign country, this will include in Category – I. The Category – I includes foreign portfolio investor which includes Government and Government related investors such as central banks, Governmental agencies, sovereign wealth funds and international or multilateral organizations or agencies.

2019 - Dec [5] (b) What is Unified Payments Interface (UPI)? How is public issue application using UPI different from public issue application using ASBA submitted with intermediaries? Explain. **(5 marks)**

Answer:

Unified Payments Interface (UPI): UPI is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI regulated entity. UPI is built over the IMPS (Immediate Payment Service) infrastructure and allows you to instantly transfer money between any two parties' bank accounts. UPI as a payment mechanism is available for all public issues for which Red Herring Prospectus is filed after January 01, 2019.

Public issue application using UPI is a step towards digitizing the offline processes involved in the application process by moving the same online. This requires you to have to create a UPI ID and PIN using any of the UPI enabled mobile application. The UPI ID can be used for blocking of funds and making payment in the public issue process. One can accept the request to block the funds for the amount they have bid by entering their UPI PIN in the mobile application. The money shall be blocked and shall be automatically remitted to the Escrow Bank, in case of allotment. UPI in public issue process shall essentially bring in comfort, ease of use and reduce the listing time for public issues.

The limit for Initial Public Offer (IPO) application is 2 Lakhs per transaction on UPI.

Only retail individual investors are allowed to use UPI for payment in public issues. Qualified Institutional Buyers and High Net-worth Individuals shall continue to apply as per the existing process.

2019 - Dec [5] (c) Z holding equity shares in PQR Ltd. made a request to the company to issue shares with differential voting rights. Enumerate the conditions if any to be satisfied by the PQR Ltd. For issue of shares with differential voting rights to Z. **(5 marks)**

Answer:

Section 43(a)(ii) of the Companies Act, 2013, authorizes equity share capital with differential rights as to dividend, voting or otherwise in accordance with Rule 4 of Companies (Share Capital and Debentures) Rules, 2014 which prescribes the following conditions for issue of DVRs:

(a) the articles of association of the company authorizes the issue of shares with differential rights;

(b) the issue of shares is authorized by ordinary resolution passed at a general meeting of the shareholders. Where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot at a general meeting;

(c) the voting power in respect of shares with differential rights of the company shall not exceed 74% of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;

(d) omitted [earlier it was as: the company having consistent track record of distributable profit for the last three years];

(e) the company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;

(f) the company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;

(g) the company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government.

However, a company may issue equity shares with differential rights upon expiry of five years from the end of the financial year in which such default was made good.

(h) the company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, Securities and Exchange Board of India Act, 1992, Securities Contracts (Regulation) Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act under which such companies being regulated by sectoral regulators.

(i) The explanatory statement to be annexed to the notice of the general meeting in pursuance of **Section 102** or of a postal ballot in pursuance of **Section 110 of the Companies Act, 2013** shall contain the disclosures as mentioned in the rules.

(j) The company shall not convert its existing share capital with voting rights into equity share capital carrying differential voting rights and vice-versa.

(k) The Board of Directors shall disclose in the Board's Report for the financial year in which the issue of equity shares with differential rights was completed, the details as mentioned in the rules.

(l) The holders of the equity shares with differential rights shall enjoy all other rights such as bonus shares, rights shares etc., which the holders of equity shares are entitled to, subject to the differential rights with which such shares have been issued.

(m) The register of members maintained under **Section 88 of the Companies Act, 2013,** shall contain all the relevant particulars of the shares so issued along with details of the shareholders.

2019 - Dec [6A] (Or) (iii) What is Pension Fund and Government Pension? State the legislation governing pension in India. **(5 marks)**

Answer:

Pension Fund: Pension Fund means a fund established by an employer to facilitate and organize the investment of employees' retirement funds which is contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement. Pension funds are commonly run by some sort of financial intermediary for the company and its employees like N.P.S. scheme is managed by UTIAMC (Retirement Solutions), although or some larger corporations operate their pension funds in-house. Pension funds control relatively large amounts of capital and represent the largest institutional investors in many nations. Pension funds play a huge role in development of the economy and it play active role in the Indian equity market. This pension fund ensures a change in their investment attitudes and in the regulatory climate, encouraging them to increase their investment levels in equities and would have a massive impact on capital market and on the economy as a whole.

Pensions broadly divided into two sectors:

A. Formal sector Pensions

B. Informal sector Pensions

Pensions in India can be divided into three categories such as pensions under an Act or Statute, Government pensions and voluntary pensions.

Government Pension: Government pensions in India are referred under the Directive Principles of State Policy and are therefore not covered under a Statute. The Government amended the regulations to put in place the new pension system. The old scheme continues for the existing employees (i.e. those who joined service prior to January 1, 2004). Pensions for government employees would include employees of the central as well as the state governments. (A) Central Government Pensions like Civil servants pensions, Defences, Railways and Posts (B) State Government Pensions, Bank pensions like Reserve Bank of India (RBI), Public Sector Banks, National Bank for Agriculture and Rural Development (NABARD) and other banks pensions.

Legislations governing pension in India

There are following three Acts for pensions in India.

1. **Pensions under the Employees Provident Fund & Miscellaneous Provisions Act 1952 (EPF&MP):** These include the Employees Provident Fund, Employees Pension Scheme, and Employees Deposit Linked Insurance Scheme.

2. **Pensions under the Coal mines Provident Fund & Miscellaneous Provisions Act 1948 :** These include Coal mines provident fund, Coal mines pension scheme & Coal mines linked insurance scheme.
3. **Gratuity under the Payment of Gratuity Act, 1972:** There are other provident funds in India like Assam Tea Plantations Provident Fund, J&K Provident Fund, and Seamens Provident Fund etc.

2020 - Dec [6A] (Or) (iii) The Companies Act, 2013 has authorised equity share capital with differential rights as to dividend, voting or otherwise read with rules under Companies (Share Capital and Debentures) Rules, 2014. Briefly explain the conditions for issue of shares with differential voting rights under the Act. **(5 marks)**

Answer:

Shares with Differential Voting Rights (DVRs)

Section 43(a)(ii) of the Companies Act, 2013, authorized equity share capital with differential rights as to dividend, voting or otherwise in accordance with rule 4 of Companies (Share Capital and Debentures) Rules, 2014 which prescribes the following conditions for issue of DVRs :

a. the articles of association of the company authorizes the issue of shares with differential rights;
b. the issue of shares is authorized by ordinary resolution passed at a general meeting of the shareholders. Where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot at a general meeting;
c. the voting power in respect of shares with differential rights of the company shall not exceed seventy four per cent of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;
d. the company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
e. the company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or

redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;

f. the company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or state level financial institution or scheduled bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government. However, a company may issue equity shares with differential rights upon expiry of five years from the end of the financial year in which such default was made good;

g. the company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, Securities and Exchange Board of India Act, 1992, Securities Contracts (Regulation) Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act under which such companies being regulated by sectoral regulators;

h. the explanatory statement to be annexed to the notice of the general meeting in pursuance of section 102 or of a postal ballot in pursuance of section 110 of the Companies Act, 2013 shall contain the disclosures as mentioned in the rules;

i. the company shall not convert its existing share capital with voting rights into equity share capital carrying differential voting rights and *vice-versa*;

j. the Board of Directors shall disclose in the Board's Report for the financial year in which the issue of equity shares with differential rights was completed, the details as mentioned in the rules;

k. the holders of the equity shares with differential rights shall enjoy all other rights such as bonus shares, rights shares etc., which the holders of equity shares are entitled to, subject to the differential rights with which such shares have been issued;

l. the register of members maintained under section 88 of the Companies Act, 2013, shall contain all the relevant particulars of the shares so issued along with details of the shareholders.

2021 - Aug [6A] (Or) (i) (a) What is future contract? **(2 marks)**

Answer:

(a) Future refers to a future contract which means an exchange traded forward contract to buy or sell a predetermined quantity of an asset on a predetermined future date at a predetermined price. Contracts are standardized and there's centralized trading ensuring liquidity.

There are two positions that one can take in a future contract:

(a) Long Position-This is when a futures contract is purchased and the buyer agrees to receive delivery of the underlying asset. (Stock/Indices/Commodities)

(b) Short Position-This is when a futures contract is sold and the seller agrees to make delivery of the underlying asset. (stock/Indices/Commodities)

2021 - Dec [5] (b) What is the option contract ? How the option contract is classified on the basis of party who exercise the option and time at which the option can be exercised ? **(5 marks)**

Answer:

(b) (1) **Meaning:** Options Contract give its holder the right, but not the obligation, to take or make delivery on or before a specified date at a stated price. But this option is given to only one party in the transaction while the other party has an obligation to take or make delivery. Since the other party has an obligation and a risk associated with making good the obligation, he receives a payment for that. This payment is called as option premium

(2) Option contracts are classified into two types on the basis of which party has the option:

- **Call option -** A call option is with the buyer and gives the holder a right to take delivery.
- **Put option -** The put option is with the seller and the option gives the right to take delivery.

(3) Option Contracts are classified into two types on the basis of time at which the option can be exercised:–

- **European Option –** European style options are those contacts where the option can be exercised only on the expiration date. Options traded on Indian stock exchanges are of European Style.
- **American Option –** American style options are those contacts where the option can be exercised on or before the expiration date.

2021 - Dec [5] (c) What do you mean by Unified Payments Interface (UPI)? Whether use of UPI, as a payment mechanism in public issues is mandatory? What is the limit one can apply for a public issue through UPI?
(5 marks)

Answer:

(c) (I) Unified Payments Interface (UPI) is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI regulated entity. UPI is built over the IMPS (Immediate Payment Service) infrastructure and allows you to instantly transfer money between any two parties' bank accounts. UPI as a payment mechanism is available for all public issues for which Red Herring Prospectus is filed after January 01, 2019.

(II) Whether use of UPI, as a payment mechanism in public issues, is mandatory?

The applicability of UPI as a payment mechanism has been prescribed in a Phased manner as under:

- **Phase I:** From January 01, 2019, the UPI mechanism for retail individual investors through intermediaries will be made effective along with the existing process and existing timeline of T+6 days. The same will continue, for a period of 3 months or floating of 5 main board public issues, whichever is later.
- **Phase II:** Thereafter, for applications by retail individual investors through intermediaries, the existing process of physical movement of forms from intermediaries to Self-Certified Syndicate Banks (SCSBs) for blocking of funds will be discontinued and only the UPI mechanism with existing timeline

of T+6 days will continue, for a period of 3 months or floating of 5 main board public issues, whichever is later.

- **Phase III:** Subsequently, final reduced timeline will be made effective using the UPI mechanism.

(III) Up to what limit one can apply for a public issue in UPI?
The limit for IPO application is 2 Lakhs per transaction on UPI.

2021 - Dec [6A] (Or) (iii) Venture Capital is one of the innovative financing resources for an enterprise. Explain briefly and indicate the areas of investment of Venture Capital. **(5 marks)**

Answer:

Venture Capital is one of the innovative financing resource for a company in which the promoter has to give up some level of ownership and control of business in exchange for capital for a limited period, say, 3-5 years. Venture Capital is generally equity investments made by Venture Capital funds, at an early stage in privately held companies, having potential to provide a high rate of return on their investments. It is a resource for supporting innovation, knowledge based ideas and technology and human capital intensive enterprises.

"Venture Capital Fund" means an Alternative Investment Fund which invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model and shall include an angel fund.

Essentially, a venture capital company is a group of investors who pool investments focused within certain parameters. The participants in venture capital firms can be institutional investors like pension funds, insurance companies, foundations, corporations or individuals but these are high risk investments which may give high returns or high loss.

Areas of Investment

Different venture groups prefer different types of investments. Some specialize in seed capital and early expansion while others focus on exit financing. Biotechnology, medical services, communications, electronic components and software companies seem to be the most likely attraction of may venture firms and receiving the most financing. Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability.

In India, software sector has been attracting a lot of venture finance. Besides media, health and pharmaceuticals, agri-business and retailing are the other areas that are favoured by a lot of venture companies.

2022 - June [6A] (Or) (i) Define derivative. Explain about Currency derivatives and Commodity derivatives. **(5 marks)**

Answer:

Derivative: A derivative is a financial instrument that derives its value from an underlying asset. This underlying asset can be stocks, bonds, currency, commodities, metals and even intangible, assets like stock indices. Derivatives can be of different types like futures, options, swaps, caps, floor, collars etc. The most popular derivative instruments are futures and options.

Derivative includes:

(a) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;

(b) a contract which derives its value from the prices, or index of prices, of underlying securities;

(c) commodity derivatives; and

(d) such other instruments as may be declared by the Central Government to be derivatives.

Currency Derivatives: Currency derivatives are financial contracts between the buyer and seller involving the exchange of two currencies at a future date, and at a stipulated rate. Currency Derivative trading is similar to Stock Futures and Options trading. However, the underlying asset are currency pairs (such as USDINR or EURINR) instead of Stocks. Currency Options and Currency Futures trading is done in the Foreign Exchange markets. Forex rates are the value of a foreign currency relative to domestic currency. The major participants of Currency Trading in India are banks, corporations, exporters and importers.

Benefits of currency derivatives include:

- Diversification of investments

- Easy investment in currencies
- Hedging opportunity to importers & exporters
- Trading opportunity due to volatility in currency
- Exchange-traded and hence systematically regulated
- Provides transparent rates

Commodity Derivatives: Commodity is a physical good attributable to a natural resource that is tradable and supplied without substantial differentiation by the general public. Commodities trade in physical (spot) markets and in futures and forward markets. Spot markets involve the physical transfer of goods between buyers and sellers; prices in these markets reflect current (or very near term) supply and demand conditions.

Commodity derivatives are financial instruments whose value is based on underlying commodities, such as oil, gas, metals, agricultural products and minerals. Other assets such as emissions trading credits, freight rates and even the weather can also underlie commodity derivatives.

Commodity Derivatives markets are a good source of critical information and indicator of market sentiments. Since, commodities are frequently used as input in the production of goods or services, uncertainty and volatility in commodity prices and raw materials makes the business environment erratic, unpredictable and subject to unforeseeable risks.

Volatility in raw material costs affects businesses and can be significant given that commodity prices are driven by supply and demand from domestics as well as global markets. Ability to manage or mitigate risks by using suitable hedging in commodity derivative products, can positively affect business performance.

2022 - Dec [5] (b) Who are Anchor Investors ? How is allocation made to Anchor Investors? **(5 marks)**

Answer:

Anchor investor means a Qualified Institutional Buyer (QIB) who makes an application for a value of at least 10 crore rupees in a public issue on the main board made through the book building process or makes an application for a value of atleast ₹ 2 crore for an public issue on the Small and Medium

Enterprises (SME) exchange made in accordance with Chapter IX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Allocation to anchor investors shall be on a discretionary basis and subject to the following:

(I) In case of public issue on the main board, through the book building process:

(i) Maximum of 2 such investors shall be permitted for allocation up to ₹ 10 crore.

(ii) Minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹ 10 crore and upto ₹ 250 crore, subject to minimum allotment of ₹ 5 crore per such investor.

(iii) In case of allocation above ₹ 250 crore; a minimum of 5 such investors and a maximum of 15 such investors for allocation upto ₹ 250 crore and an additional 10 such investors for every additional ₹ 250 crore or part thereof, shall be permitted, subject to a minimum allotment of ₹ 5 crore per such investor.

(II) In case of public issue on the SME exchange, through the book building process:

(i) Maximum of 2 such investors shall be permitted for allocation up to ₹ 2 crore;

(ii) Minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹ 2 crore and up to ₹ 25 crore, subject to minimum allotment of ₹ 1 crore per such investor;

(iii) In case of allocation above ₹ 25 crore; a minimum of 5 such investors and a maximum of 15 such investors for allocation up to ₹ 25 crore and an additional 10 such investors for every additional ₹ 25 crore or part thereof, shall be permitted, subject to a minimum allotment of ₹ 1 crore per such investor.

Upto 60% of the portion available for allocation to qualified institutional buyers shall be available to anchor investor(s) for allocation/ allotment ("anchor investor portion") and one-third of the anchor investor portion shall be reserved for domestic mutual funds.

2022 - Dec [6A] (Or) (i) Define Alternative Investment Fund (AIF). Name the entities which are not to be considered as AIF. **(5 marks)**

Answer:

According to SEBI (AIF) Regulations, 2012, "Alternative Investment Fund" means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which,-

(i) is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and

(ii) is not covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of SEBI to regulate fund management activities.

However, the following shall not be considered as Alternative Investment Fund for the purpose of these regulations,

(i) Family trusts set up for the benefit of 'relatives' as defined under Companies Act, 2013.

(ii) ESOP Trusts set up under the SEBI (Shares Based Employee Benefits) Regulations, 2014 or as permitted under Companies Act, 2013.

(iii) Employee welfare trusts or gratuity trusts set up for the benefit of employees.

(iv) Holding companies within the meaning of Section 2(46) of the Companies Act, 2013.

(v) Other special purpose vehicles not established by fund managers, including securitization trusts, regulated under a specific regulatory framework.

(vi) Funds managed by securitisation company or reconstruction company which is registered with the Reserve Bank of India under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

(vii) Any such pool of funds which is directly regulated by any other regulator in India.

2022 - Dec [6A] (Or) (ii) Define special situation fund. How investment in special situation fund is made as per SEBI (AIF) Regulations, 2012 as amended? **(5 marks)**

Answer:

As per SEBI (Alternative Investment Funds) Regulations, 2012, "Special situation fund" means a Category 1 Alternative Investment Fund that invests in special situation assets in accordance with its investment objectives and may act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016.

Investment in special situation funds:

1. Each scheme of a special situation fund shall have a corpus as may be specified by the SEBI.
2. The special situation fund shall accept from an investor, an investment of such value as may be specified by the SEBI.
3. The special situation fund shall not accept investments from any other Alternative Investment Fund other than a special situation fund.

PRACTICAL QUESTIONS

2017 - Dec [1] Attempt the following question:

(b) XYZ Ltd. is proposing to make a public issue of 400 crore equity shares through the book building mechanism where 50% of the issue size is required to be allotted to Qualified Institutional Buyers. Determine the following:
   (i) The quantum available for allocation to anchor investors.
   (ii) The quantum reserved for domestic mutual funds in the anchor investor portion, if any.
   (iii) The amount, if any, required to be brought in by the anchor investors given:
      (a) The price at which allocation is made to anchor investors is ₹ 855 per share, and
      (b) The price fixed as a result of book building is ₹ 858 per share.

(5 marks)

Answer:

(i) Computation of the quantum available for allocation to anchor investors

Issue Size = 400 crore equity shares

Portion available to QIBs = 50%

= 200 crore equity shares

Anchor Investor Portion = Upto 60% of the portion available to QIBs

= 120 crore equity shares.

(ii) Computation of the quantum reserved for domestic Mutual Funds in the anchor investor portion

= One-third of the Anchor Investor portion

= 40 crore equity shares.

(iii) Computation of the amount required to be brought in by anchor investors given

Book building price = ₹ 858/- per equity share

Anchor Investor allocation price = ₹ 855/- per equity share

Since the price fixed as a result of book building is higher than the price at which allocation is made to anchor investor, hence the anchor investor shall be required to bring in the additional amount i.e., ₹ 3/- per equity share allocated.

2018 - Dec [5] (a) Naman had executed following trades on Gama Ltd. stock:

(i) Purchased one 3-month call option with a premium of ₹ 25 at an exercise price of ₹ 530.

(ii) Purchased one 3-month put option with a premium of ₹ 5 at an exercise price of ₹ 430.

The lot size is 100 share per lot and the current price of Gama Ltd. stock is ₹ 500. Determine Naman's profit or loss, if the price of Gama Ltd. stock after 3 months is:

(a) ₹ 500

(b) ₹ 350. **(5 marks)**

Answer:

(i) Total premium paid on purchasing a call and put option:

= (₹ 25 per share × 100 shares) + (₹ 5 per share × 100 shares)
In this case, Naman neither exercises the call option nor the put option, as both will result in a loss for him.
Ending value : ₹ 3,000 + Nil gain
i.e. Net Loss : ₹ 3,000

(ii) The price of stock is below the exercise price of the call, the call will not be exercised but put is valuable and is exercised.
Total premium paid : ₹ 3,000 is calculated above
Ending value : ₹ – 3,000 + [(₹ 430 – ₹ 350) × 100 shares
Net Gain : ₹ 5,000

2018 - Dec [5] (c) A listed company, Nishan Hitech Ltd. issued 10 lakh equity shares at a price of ₹ 150 per share. The company provided Green shoe option for stabilizing the post listing price of the shares. On the day of listing of shares, the news of trade war between the two developed countries flashes and the price of shares of company fall to ₹ 110. Decide how many shares can be purchased by the stabilizing agent to control the price? State the provisions for balance money lying in the special account for green shoe option. **(5 marks)**

Answer:

As per regulation 57(1) of the SEBI (ICDR) Regulations, 2018, the maximum number of securities that may be borrowed for the purpose of allotment or allocation of securities in excess of issue isze shall not be more than 15% of the issue size. Therefore, stabilizing agent can purchase only 1.5 lakh equity shares to control the price.

The stabilizing agent shall remit the monies with respect to the specified securities allotted to the issue from the special bank account known as GSO Bank A/c. Any money left in the special bank account after remittance of monies to the issuer for securities allotted and deduction of expenses incurred by the stabilizing agent for the sterilization process shall be transferred to the investor Protection and Education Fund established by the SEBI and the special bank account shall be closed soon thereafter.

2019 - June [5] (a) What are the Option contracts? You are required to compute the profit/loss for each investors in below option contracts:

(i) Mr. X writes a call option to purchase share at an exercise price of ₹ 60 for a premium of ₹ 12 per share. The share price rises to ₹ 62 by the time the option expires.

(ii) Mr. Y buys a put option at an exercise price of ₹ 80 for a premium of ₹ 8.50 per share. The share price falls to ₹ 60 by the time the option expires.

(iii) Mr. Z writes a put option at an exercise price of ₹ 80 for a premium of ₹ 11 per share. The price of the share rises to ₹ 96 by the time the option expires.

(iv) Mr. XY writes a put option with an exercise price of ₹ 70 for a premium of ₹ 8 per share. The price falls to ₹ 48 by the time the option expires.

(5 marks)

Answer:

Option Contract give its holder the right, but not the obligation, take or make delivery on or before a specified date at a stated price.

Option Contracts are classified into two types on the basis of which party has the option:

(a) Call Option: A call option is with the buyer and gives the right to take delivery. The buyer of the call option has a right to buy the underlying asset from the option seller.

(b) Put Option: The put option is with the seller and the option gives the right to take delivery. The buyer of the put option has a right to sell the underlying asset to the option seller.

(i) For Mr. X : Profit = [{₹ 60 – ₹ 62} + ₹ 12] = ₹ 10

(ii) For Mr. Y : Profit = [{₹ 80 – ₹ 60} – ₹ 8.50] = ₹ 11.50

(iii) For Mr. Z : Profit = ₹ 11.00 (Option will not be exercised)

(iv) For Mr. XY : Loss = [{₹ – 70 + ₹ 48} + ₹ 8] = – ₹ 14

2020 - Dec [5] (c) Raman Ltd. issued 50 Lakh equity shares at a price of ₹ 200 per share. The company provided Green Shoe Option for stabilizing the post listing price of the shares. The issue was oversubscribed and it was decided that stabilizing agent would borrow maximum number of shares permitted by SEBI (ICDR) regulations. Due to rise in price during Green

Shoe Option period, only 5 Lakh shares could be bought back at the price of ₹ 180. You are required to :

(i) Calculate the number of shares that the stabilizing agent needs to borrow in this case at the time of allotment and explain the same with relevant provisions.

(ii) Explain the responsibility of Issuer Company in the above case with respect to shortfall while exercising Green Shoe Option.

(iii) Calculate the amount if any, to be transferred to Investor Protection and Education Fund. **(5 marks)**

Answer:

(i) As per SEBI (ICDR) Regulations, 2018, the maximum number of shares that can be borrowed by the stabilizing agent shall not be in excess of 15% of the issue size.

In the given case, stabilizing agent can borrow 7.5 Lakh shares (15% of 50 Lakh shares).

(ii) The issuer company would allot the differential 2.5 Lakhs shares into the Green Shoe Demat Account to cover up the shortfall, and the Stabilising Agent would discharge his obligation to the lending shareholder(s) by returning the 7.5 Lakhs shares that had been borrowed from them.

The issuer company would need to apply to the exchanges for obtaining listing/trading permissions for the incremental shares allotted by them, pursuant to the Green Shoe mechanism.

(iii) The Amount which should be transferred to Investor Protection and Education Fund will be calculated as follows:

= 5,00,000 (200-180) = ₹1,00,00,000

2021 - Aug [5] (a) Aruna Steel Ltd. issued Bonds with the following terms :

Issue price of the Bond : ₹ 1,000

Coupon rate : 3%

Maturity : 5 years
Convertible into equity shares @ ₹ 500 per share
Ivan had purchased 20 bonds. At the time of maturity, the market price of the equity shares was ₹400.
What are the options available to Ivan on the maturity date and which option he should prefer ? **(5 marks)**

Answer:

Ivan purchased 20 bonds @₹1,000 per bond
Total amount invested ₹20,000. He will get interest for 5 years on the date of maturity. After five years, he has the following options:

(i) He may claim redemption and get the bonds converted into fully paid equity shares@ 500 each.
Thus on conversion, he will get 40 equity shares (₹20,000 / ₹500)

(ii) As the equity shares are also traded in stock exchange, he may buy from market at the prevailing market price of ₹400. Therefore, from the maturity proceed of ₹20,000, he can buy 50 equity shares (₹20,000/₹400) from the market.

It is clear from the above two options; Ivan should choose option (ii) as he will get more equity share than conversion from company.

2021 - Aug [5] (b) Good Luck Finance Ltd., a listed company issued 20 lakh equity shares of ₹180 each. The Company provided Green Shoe Option and Nishan was nominated as Stabilising Agent. On the date of listing, Corona Virus threat spread across the globe. Consequently post listing, the share price of the company fall to ₹150.
From the above

(i) Compute the quantum of shares that can be bought by Nishan

(ii) State the provisions for balance of shares lying in the special account for Green Shoe Option. **(5 marks)**

Answer:

Green Shoe Option is a post listing price stabilising mechanism. Good Luck Finance Ltd. issued 20 lakh equity shares@₹180 each. As per SEBI (ICDR) Regulations, 2018, the maximum number of securities that can be borrowed

for the purpose of allotment/ allocation of securities in excess of issue size shall not be more than 15% of the issue size.
Hence, Nishan (Stabilising agent) can purchase 3,00,000 equity shares (15% of 20,00,000 equity shares) to stabilise the price.

Having bought back all of the 300000 equity shares, these shares would be temporarily held in a special depository account with the depository participant (Green Shoe Demat Account), and would then be returned back to the lender shareholders, within a maximum period of two days after the stabilisation period.

Any surplus lying in the Green Shoe Escrow Account would then be transferred to the Investor Protection and Education Fund established by SEBI.

2021 - Aug [5] (c) ABC Limited, a public company, has come with public issue of 15,00,000 equity shares through a book building process. The price band is ₹500- ₹600. The following table shows demand of securities at various price levels. What should be the cut-off price as per book building mechanism?

Bid Price (₹)	**Number of Investors**	**Demand (Number of Shares)**
520	25	8,50,000
530	10	4,00,000
535	15	2,00,000
545	4	4,00,000
560	6	1,00,000
575	5	2,00,000
585	3	1,10,000
590	3	1,40,000
595	3	3,50,000
600	1	7,00,000
	Total 75	**34,50,000**

(5 marks)

Answer:

Cut off price: Cut off price is the highest price at which demand for securities is fulfilled. Simply, it is the highest price at which all shares offered can be sold by the company. All those investors who have submitted their bid at price equal to or above the cut off price are known as successful bidder and they are entitled for the allotment of shares as per method prescribed in SEBI (ICDR) Regulation, 2018.

In the given question, we calculate cut off price as under:

Total number of Equity Shares for public issue: 15,00,000

Price Band: ₹ 500 - ₹ 600

Firstly, we have to arrange the demand for shares on the basis of price in descending order and cumulative demand has been calculated.

S. No.	Demand (Number of Shares)	Cumulative Demand	Bid Price (in ₹)
1.	7,00,000	7,00,000	600
2.	3,50,000	10,50,000	595
3.	1,40,000	11,90,000	590
4.	1,10,000	13,00,000	585
5.	2,00,000	15,00,000	575
6.	1,00,000	16,00,000	560
7.	4,00,000	20,00,000	545
8.	2,00,000	22,00,000	535
9.	4,00,000	26,00,000	530
10.	8,50,000	34,50,000	520

From the above table it is clear that the demand is fulfilled at a price of ₹575, so cut off price will be ₹575. Bids that are at or above the issue price only qualify for share allotment.

All those investors who have applied at ₹575 and above shall be eligible for allotment.

2021 - Aug [6A] (Or) (i) (b) Akshay buys 500 shares of PQR Limited @ ₹210 per share on the stock exchange platform. In order to hedge the position, he sells 300 futures of PQR Limited @ ₹195 each. Due to fall in the share and futures price by 5% and 3% respectively on next day, Akshay closes his position by counter transactions. Find out his profit or loss. **(3 marks)**

Answer:

Akshay has to suffer loss of ₹10.50 per share on 500 shares, which is equal to ₹5,250. Although his gain on future transaction is ₹5.85 per future on 300 i.e. ₹1,755. So net loss will be ₹3,495 (₹5,250 - 1755).

2021 - Dec [5] (a) Suppose B. Co. Ltd. issues bonds with following terms :
Issue price of Bond ₹2000
Coupon rate 2% with maturity period of 2 years
Convertible into equity shares @ ₹100 per share
Y has subscribed for 5 bonds and made an investment of ₹10,000. On maturity date, investor will have an option to either claim full redemption amount or convert the Bonds into equity @ ₹100 per share. The quoted share price on maturity date is ₹150. If he goes for conversion how many shares Y will get ? Will it be fair enough if he opts for redemption value ? Calculate which option is best suitable to Y ? **(5 marks)**

Answer:

(a) Issue Price per Bond is = ₹ 2000/-
Coupon rate = 2%
Maturity period = 2 years
Convertible into equity per share will be @ ₹ 100/

Option-I:

Y the investor has subscribed for 5 bonds. The total investment made by him will be ₹ 10,000/-He is entitled to get interest @2% p.a.
The interest will be ₹ 400 (₹ 10,000*2% for 2 years)
Thus his total investment for 2 years period becomes ₹ 10,400/- and the conversion price of equity on maturity will be ₹ 100/-
Therefore, he will get 104 equity shares i.e. 10,400/100

Option-II:

If the Equity shares are quoted at ₹ 150/- per share on maturity date, then Y will get 104 x ₹ 150
= ₹ 15,600.
Therefore, Y can opt for conversion of Bonds in to Equity shares rather than accepting the maturity redemption value of ₹ 10,400/-

TOPIC NOT YET ASKED BUT EQUALLY IMPORTANT FOR EXAMINATION

SHORT NOTES

Q1. Write short note on Angel Fund.

Answer:

An angel investor or angel (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors invest online through equity crowd funding or organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies.

Angel investments are typically the earliest equity investments made in start-up companies. They commonly band together in investor networks. Often these networks are based on regional, industry in investor or academic affiliation. Angel Investors are often former entrepreneurs themselves, and typically enjoy working with companies at the earliest stages of business formation. As per SEBI (Alternative Investment Fund) Regulations, 2012, angel fund is a sub-category of venture capital. Procurement of funds from angel investors of their further investment has to be conducted as per these regulations.

Q2. Write short notes on Pension Fund.

Answer:

Pension Fund means a fund established by an employer to facilitate and organize the investment of employees' retirement funds which is contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement. Pension funds are commonly run by some sort of financial intermediary for the company and its employees like N.P.S. scheme is managed by UTIAMC (Retirement Solutions), although some larger corporations operate their pension funds in-house. Pension funds control relatively large amounts of capital and represent the largest institutional investors in many nations.

Pension funds play a huge role in development of the economy and it play active role in the Indian equity market. This pension fund ensures a change in their investment attitudes and in the regulatory climate, encouraging them to increase their investment levels in equities and would have a massive impact on capital market and on the economy as a whole.

Pensions broadly divided into two sector:

A - Formal sector Pensions

B - Informal sector Pensions

A. Formal Sector Pensions

Formal sector pensions in India can be divided into three categories; viz pensions under an Act or Statute, Government pensions and voluntary pensions.