

anmi JOURNAL

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Convention
Special
Supplement
of 20 Pages
with this Issue

SUSTAINING INVESTMENT GROWTH IN TURBULENT ECONOMIC SCENARIO

7th International Convention 2014



THE POTENTIAL OF THAILAND ~ GROWING NEED FOR MORE SOPHISTICATED INVESTMENT TOOLS

Interview of **Pattera Dilokrunghthirapop**
Chairperson of the Association of
Thai Securities Companies (ASCO)



INDIAN ECONOMIC SCENARIO PROBLEMS & PROSPECTS

Interview of **Mr Gopal Krishna Agarwal**
Managing Director, Voguestock Ltd.



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Consulting Editor

Blockbusters in the making

The world considers April 1 as “all fools day” – a banter or truth is what eludes us all. It is also the day when many of us begin a new financial year – this year April 1 is no different. On this day we all hope and pledge to do better in terms of economic performance on individual and collectively as a nation. Hope is the last straw for as living natural living beings we hope for a better tomorrow.

In India we also believe success of films as a signature of happiness – so as many as seven major movies are expected to hit the big screens, make money (hopefully) and move on. But the Great Indian Growth Story, like any Bollywood blockbuster, despite painting a very gullible story for the masses, will remain on economic screens of the country. However, it is certainly a flop for the present government and a nail biting beginning for the incumbent – the men to be in power.

A recent report by the UN World Economic Situation and Prospects 2014 says “India's economy is projected to grow at a slower-than-expected rate of 5.3 per cent this year. The country's slowdown may have bottomed out”. It states that a mild recovery in investment helped by stronger export growth will help in GDP picking up gradually.

The report says that the Indian economy, accounting for over 70 per cent of South Asia's total output, slowed further in 2013. The growth was held back by weak household consumption and sluggish investments in all major segments. Thus the year growth decelerated to 4.8 per cent in 2013 from 5.1 per cent in the calendar year 2012. Salvaging the situation pundits feel “India's slowdown may have bottomed out and a recovery is likely, though slower than expected. Economic activity is forecast to expand by 5.3 per cent in 2014 and 5.7 per cent in 2015,” the report states.

And there is inflation as its result, a seemingly larger giant than perceived who has eaten into flesh and blood of us all. To tame a giant as big, the RBI Governor raised key repo rates. This refocuses on an untamed inflation and the

threat of a weakening Rupee. The apex bank's concern is built on a double digit consumer price index leading to increase of costs. The decision has been expected for long but held back for an opportune moment.

The situation in markets is also not happy either. In the world markets too, sentiments are not good. Asian stocks stabilized on Tuesday as selling pressure eased after several days of steep losses and investors shifted to a holding pattern ahead of a Fed decision on scaling back stimulus. Investors worried about slowing growth in China, the world's second biggest economy. The roller coaster rides of Indian markets have begun too.

At home there may be many willing to party to the apparent success of setting the bottom of a falling economy, but is also worried on where to build the pillars of success. Everywhere one digs to lay a foundation the soil below sinks.

If we tend to believe in the fact that the growth story will be written on platforms of growing exports and investments we may have lots to debate. To exports to increase we have to produce more what the world may like to buy and they have to be at attractive costs. To produce more we need to have a congenial atmosphere that comes in the form of better infrastructure at lower costs. The government needs to create, unlock and facilitate large infrastructure projects that have long being bottled up for reasons other than economic sense. In February, with only a few months to the ballot, one may not expect that normally, but exceptions do happen.

Growths in business, markets and investments can best be done through a sustained growth of the rural India – through the farm and its output. Ours is a country where more than half the population is dependent on agriculture. Agriculture contributes 14 % to GDP but engages 52 % of the population. Good monsoons in the past two years have led to better farm produces in the current year and it is expected that yields will be better in 2014 -15 as well.

If we have a good monsoon this year too we will have better crop leading to softening of essential crop prices and toning down inflation. This assumes importance as we at home, are faced with rising costs in transportation and in infrastructure leading to high production costs. Talking of investments, we may have a better day ahead. Let us look at the stage that we just left behind.

Ernst & Young's third India Attractiveness Survey states "Tepid economic growth, lack of transparency and consistency in foreign direct investment (FDI) policies, infrastructure bottlenecks and regulatory hurdles have taken a toll on India's attractiveness as an investment destination". It highlights while projects with an FDI component across the globe declined 16.4 per cent in 2012 from the previous year, the decline was much steeper in India at 21 per cent. For instance, only 744 projects with FDI were initiated in 2012 compared to 945 in 2011. Capital investment also declined from \$48.9 billion in 2011 to \$30.9 billion in 2012. The situation worsened in 2013 when India received FDI for 310 projects in the first nine months compared to 579 projects in the same period of the previous year, a decline of 46 per cent.

The survey conducted on 500 international investors states despite India's ranking in the top five FDI destinations, its share in world projects, total investment value and job creation were low. In terms of value, India accounted for 5.5 per cent of FDI in 2012. During 2007 and 2012, the US investments were most with 30.2 per cent of total projects with FDI component. Technology, media and telecoms are the sectors that attracted most, followed closely by industrial business services and automotives. Also, services' share in the total number of FDI projects in the country increased to 61.3 per cent in 2012, while manufacturing decreased to 24.3 per cent.

However the appeal for India "lies in its competitive labor costs, lucrative domestic market, and its skilled workforce. Foreign investors also applaud its strong management and business education system, as well as its improving telecommunications infrastructure."

India also scores above China in terms of its democratic government and its significant proportion of English-speaking people. Moreover, minimum wages in China have increased over the years, and its cost advantage has been reduced. Also, foreign investors are now concerned about the insufficient transparency in China," says the survey. In fact 71 per cent of respondents found China as India's main competitor for FDI.

At present hopes are pinned with the economy slowly regaining momentum. Increasing foreign

investor interest has also been fuelled by recent reforms announced by the government such as raising FDI caps in the retail, airline, telecoms and defense sectors, introduction of the companies and land acquisition acts, and developing an automatic investment route. "Of the respondents who are looking to invest in India, the majority (57.9 per cent) are planning to expand their operations," the survey says.

Measuring success of the Indian Growth Story by comparing with numbers from the past may not be prudent. C Rangarajan feels determining the potential rate of growth of the economy, one can take the maximum growth rate achieved in the recent past as the lowest estimate of the potential. There is reason to believe that the maximum growth rate achieved in the recent past was not a one-off event. India achieved a growth rate of 9.5 per cent in 2005-06, followed by 9.6 per cent and 9.3 per cent in the subsequent two years.

On many dimensions, the growth rate was robust and not just fuelled by financial availability. This was the period during which the world economy was also booming. The growth rate slowed to 6.2 per cent in 2011-12, though this rate may be revised upwards. It came down to 5 per cent last year and this year it is expected to be around the same level.

So we may assume safely that with the rises in global economies India too will have a better day in the near future.

Thus it seems our Bollywood block buster film projects - The Great Indian Growth Story is more likely to live a longer at the box office despite being a child in poor health. Its return to a pink health will depend on setting a definite agenda for planning for a future without an override to compromise on political whims and fancies. Corporate governance has to improve, investors' education has to be on a fast track, small investors have to build confidence in the stock market – just like good packs of medicines.

The 1st of April 2014 will also herald a year that will set the stage for the launch of yet another block buster – the Lok Sabha elections. Yet another set of glittering posters will hit the streets. Once again millions will be eye washed and lose. So we will see India shining again, in a dazzle that will keep its economy happy for a while. The real story will be lost perhaps to the glitter and dazzle. To sustain a growth, to turn the fiction to reality, we all need to change from within. That includes changing our policies by swallowing a very bitter pill, not at all palatable to the electoral mass.

Let the box office sale of tickets decide.

President Writes



Dear Friends,

The New Year has made an extremely cold and hot beginning with Northern India, Europe, Trans Atlantic Nations experiencing bitter cold and the other side like Australia experiencing extreme heat. This has not been an usual phenomenon which makes one wonder whether nature is giving signs of its discomfort over extreme environmental impacting activities by Global Nations with focus only on returns but not on the harmful impact on environment.

USA showing signs of revival but other countries including India/Asia not showing clear signs of revival. In the meanwhile the World Bank has given a forecast that India will see a strong economic recovery amongst major developing countries during the period 2013-16.

The recent decision of the US Government tapering the Federal Reserve in a gradual manner created a significant impact in the global financial markets. This makes one ponder whether all the countries appear to be in a situation of being between “devil and deep sea” for the reason if the stimulus is withdrawn when economies are not showing clear signs of revival, it would again result in adverse impact. At the same time if the stimulus is continued for a long period, it would only result in financing the current need with little or no focus on investment triggered growth.

Friends, from the above it would appear to me that the Indian financial/capital market will continue to give conflicting signs in the next 3-4 months and investors of every order would adopt a wait and watch policy. It is in this scenario ANMI had its 7 International Convention on January 10, 11 2014 N Delhi on the topic “Sustaining Investment Growth in Turbulent Economic Scenario” which was a success from all perspective with enthusiastic participation and several important dignitaries gracing and addressing the convention.

Shri J. D. Seelam Minister of State, Finance who inaugurated the Convention, in his detailed address covered at length the current fiscal scenario in the country including inflation, GDP growth, subsidies etc and various Government measures to control inflation and trigger growth.

Shri U K Sinha in his address observed that SEBI as a regulator has been constantly endeavouring to build investor trust in the capital market to revive and sustain positive sentiments in the markets. He said every instance of lack of governance that emerge from time to time, immediately impact the stability of the market. He also broadly mentioned about the need for channelling long-term retirement funds in the capital market.

Ms Chitra Ramakrishna MD and CEO of NSE observed inter alia that the market intermediaries should focus on the potentials of Exchange Traded Funds. She also stated that the GoI plans for launching CPSE ETF could also bring in both institutional and retail investors.

Nearly 300 delegates including international participants, who attended the convention found the same timely and topical and appreciated ANMI in organising the event. A large number of ANMI officials were also present for the Convention.

Friends before concluding, I would once again touch upon the constant endeavour of ANMI to maintain close interaction with GoI, SEBI, Exchanges and other Regulators to take up regularly matter of concern to market intermediaries. It's a matter of deep satisfaction that ANMI intervention is given due consideration on various matters/new regulation before they are finalised. Do take time to interact with ANMI officials in the region close to you to provide your views and suggestions which we would always welcome.

With Warm Regards,

Dr R.M.C.V. Prasada Rao

President – ANMI



Indian Economic Scenario

Problems & Prospects

*The current economic crisis could have been avoided, says **Gopal Agarwal**, Managing Director, Voguestock Ltd., if the economic policies of the government were in the right direction, in an exclusive interview with ANMI*

Interview



Rampant corruption, high interest rates, high inflation, ineffective monetary policy, pillaging of natural resources, widening fiscal and current account deficit, wild fluctuation in rupee and policy paralysis are mainly responsible for the ongoing slowdown in the economy

India has been passing through an economic crisis where factors within and outside the country have affected parameters. Manufacturing sector has been hard hit by the slowdown. How much of this is recoverable in the immediate future?

While it is true that a part of the slowdown in the economy can be attributed to factors outside the control of Indian government, let us not hesitate in accepting that the problems are of our own making. A part of the economy can be put back on track in the immediate future but macroeconomic fundamentals would improve only over a period of time. The current economic crisis could have been avoided if the economic policies of the government were in the right direction.

The bottlenecks affecting manufacturing sector can be removed. The two major constraints are availability of capital and labor, this can be removed by keeping interest rate low and reforming the labor laws. Manufacturing sector also needs a strong demand push. When the agriculture economy is performing well it leads to increased purchasing power of the rural population, same is the case with enhanced liquidity in the system for urban population. Therefore manufacturing sector can see growth with low interest rates, labor reforms, vibrant agricultural sector and increased liquidity in the system.

What do you think have been the major cause at home for the economic slowdown?

Rampant Corruption, high interest rates, high inflation, ineffective monetary policy, pillaging of natural resources, widening fiscal and current account deficit, wild fluctuation in rupee and policy paralysis are mainly responsible for the ongoing slowdown in the economy.

How much of political compulsions been a hindrance for delayed or failed policy implementation? Do you consider that the present government has been able to implement good economic reforms for the masses? What in your opinion were the decisions that could have been avoided?

Coalition politics is antithesis to the stability in the country. The growth and mushrooming of small and regional parties create pulls and pressures on the central government in multiple directions.

The worst hit is economic policies when small parties with different ideological leaning come together to form government over fractured mandate. Having said this, the so-called 'political compulsion' has been used by the present government to justify its lack of action and initiative on multiple fronts. The government has totally failed in making and implementing sound economic policies for the

masses. The government should have avoided enactment of populist schemes with an eye on votes without sufficient budgetary provision. This leads to deficit financing and is the cause of widespread inflation and hardship to the common man.

The government should have been more careful and transparent in the allocation of 3G Spectrum and coal blocks. The Prime Minister should have stopped the non-transparent exercise of the veto power by the Environment Ministry. Announcing welfare schemes such as Farmer loan waiver etc. without budgetary provisions are ultimately anti public policies and should not be resorted to.

What steps do you consider should be taken to restore parity of the rupee compared to other major currencies?

The ineffectiveness of government and RBI in curbing inflation and control fiscal and current account deficit is the main cause of depreciation of the rupee. Also, highly unregulated non-deliverable forward (NDF) contracts in INR operating through major financial hubs world wide and without any of the government or RBI's influence/ control is also responsible for the mess-up of rupee.

However, let me reiterate that till the time government follows policies that lead to inflation, rupee would remain weak and vulnerable to speculative attacks. So the primary responsibility is with the government.

The recently announced measures by the RBI governor Shri Raghuran Rajan where controlling inflation has been made a primary objective of RBI policy with nominal anchor target to be set at 4% over two years horizon and fiscal deficit to be brought down to 3.0% by 2016-17 will help in curbing inflation, further the RBI, adapting CPI as the measure for policy communication is also a welcome step. But if RBI resorts to increase in interest rates, it will be harmful to industrial development. A delicate balance has to be maintained.

Do you think India has inner strength to be part of a global economic resurgence in the near future? Or will policies framed in the far west govern our performance at home?

India not only has the inner strength to be a part of a global economic resurgence in the near future but also to drive it. Ample natural resource, enough educated and trained youth, scope of improvement in infrastructure, booming entrepreneurship, wide array of venture capitalists and private equity participants willing to invest in India are all present in the Indian soil. Till the time we lack a strong and decisive leadership at center

we will let ourselves governed by policies and rules framed elsewhere.

Should BJP come to power at the center what would be the signature policies to be implemented to enliven the economy?

The policies of BJP led government would be consistent, transparent and predictable. BJP would make policies to promote higher investment in infrastructure to remove supply side bottlenecks, which would bring down inflation. The government would also initiate major reforms in taxation to not only simplify it but also to make it more equitable. Mr. Narendra Modi has given an eight-point development model for India wherein education and child development are the main focus area with strengthening of Federal structure. There will be large scale agricultural reforms with investment in supply chain management, setting up a National Agricultural market, strong focus on urban amenities in rural areas and measures like building 100 smart cities, availability of 24*7 electricity, bullet trains and setting up of National gas and water grid. Health care for all and empowerment of women and children. Controlling inflation will be our primary target with strong anti corruption measures for curbing black money.

A number of large infrastructure projects have been put on hold for lack of political willingness to implement. What do you think should be the call of the day to get them going?

Large infrastructure projects require teamwork. It is therefore not surprising that the present government could not pull off any major infrastructure project as its different ministers were pulling in different directions. The four areas that need urgent attention for large infrastructure projects to be successful are, availability of long term funding, streamlining of land acquisition process, transparent and time bound environmental clearance and revisiting the PPP models. Without tackling these four prerequisite, any progress in infrastructural development will not be possible and will ultimately create bottlenecks for the economic growth of the country. Without these linkages the country cannot progress.

What do you think will be the direction of the capital markets and why?

In near term it seems to lack any clear-cut direction. A dynamic, competitive capital market needs retail participants with less reliance on FIIs. At present FIIs dominates the Indian capital markets. Till there is some policy framework to promote Indian savings' participation in the capital market, the

Interview

market will continue to be FIIs driven and influenced by Fed monetary policies.

Securities transaction tax and plethora of taxes are major hurdles for the capital markets and these should be immediately streamlined.

Do you consider that financial institutions in the government and private sectors should be mobilized to lend a thrust to increase small savings in the rural and smaller towns and cities? What will be benefits?

India has a very high household savings rate. But the problem is that nearly 50 percent of all savings is in physical assets like real estate and gold, with the remaining 50 percent in financial assets, of which equity (both direct and through mutual funds) is just less than 4 percent of total household savings (according to CII estimate). The problem is how to increase the share of household saving in the capital market? Some mechanism/policy framework is required in this direction.

A higher financial intermediation would make a larger pool of funds available for investment in the economy. Mobilisation of small saving would bring these small savers within the ambit of modern system. It would provide them liquidity; make them eligible for bank loan etc. This is best possible when financial institutions are mobilized on a large scale. Creating awareness and educating investors on products and risk profiling is also necessary to achieve desired results.

What will be the thrust areas for BJP to put the economy on the growth path? Do you consider that your efforts will receive positive responses from foreign financial institutions? If so, why?

BJP would focus on investment in infrastructure, liberalisation of tax regime, creating linkages of all kind, strong push for power generation and sartorial reforms as mentioned earlier. I believe that the steps taken by the BJP government would receive positive response from the FIIs. BJP has a healthy track record of reform and pro business attitude. It consider private sector as a partner in the growth of the country.

BJPs vision focuses on harnessing India's strengths and addressing the aspirations of every section of the society with equity, growth and justice for all and appeasement for non. We believe in Empowerment and not Entitlement.

How do you wish to see India five years down?

Low inflation, higher per capita income as well as consumption with low fiscal as well as current account deficit, rise in infrastructure spending,

sustainable GDP growth path, less reliance on foreign funds for our companies, high and equitable employment rate across the length and breadth of the country. Strong growth in agriculture sector and rural economy. Ample opportunities within the country for harnessing the true potential for one and all. This is how I wish to see India five years down the lane.

How you perceive broking industry to perform in these challenging times?

A stable and mature capital markets, both primary and secondary, creates efficient capital raising opportunities for companies and also assist in channelizing domestic savings towards capital formation, catalyzing nation's economic growth. Indian broking industry will thrive only when domestic savers actively participate in the market. High volatility and scams such as NSEL would continue to keep domestic investors away. The depth and liquidity of financial markets need to be increased. Broking Industry should promote financial literacy among investors. Broking industry will have to offer value added services in the field of asset allocation and wealth management through research.

You have been active in ANMI since inception? Any views on the path ahead?

Indian capital markets have evolved dramatically over the past two decades. Rapid growth in capital markets can at times make the market vulnerable to fraud, volatility, excessive speculation and misuse. Capital markets ride on the savings of small and often uninformed retail investors. ANMI must ensure that the policy makers strike a balance between the pace of growth and conservatism that in turn ensure transparency and robustness in growth. Among others, there are a number of areas that require ANMI's attention - the first and foremost being Self Regulation. A thriving business is required for a healthy and a vibrant market. Currently, the profitability of broking industry is at strain, which may lead to mall practices. Plethora of taxes levied in the capital market has to be consolidated and reduced immediately.

New and innovative products, especially in debt market segment needs to be introduced. Rules and regulations regarding mergers and acquisitions have to be simplified so that the market intermediaries can consolidate amongst themselves, this will help in cost reduction in human resources and technology.

ANMI has a very strong role to play in emerging financial market scenario. Indian capital markets are poised for global benchmarks and will be a key player in the times to come.

Banks as insurance brokers

May be-May not be



Revati Kasture
CGM & Head
CARE Research

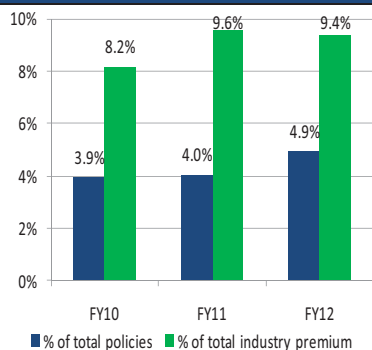
Since the introduction of the IRDA guidelines in 2000, permitting private participation, the insurance industry has expanded at a fast pace to reach 18,000 offices, ~ 24lakhs individual agents and ~900 corporate agents (FY12). However, the penetration of insurance products has merely achieved a level of ~4%. In order to provide greater thrust and faster penetration, IRDA formulated and notified guidelines in Aug-13 to permit banks to take up the business of insurance distribution departmentally. It has thus sought to provide regulatory support to the insurance industry to expand its reach through the well-diversified network of branches of banks in rural and semi-urban areas.

As per the earlier set of rules, banks could sell policies of only one life insurer, one non-life insurer and one standalone health insurer under the corporate agency model. Under the new guidelines, banks will be free to sell policies of multiple insurance companies as

insurance brokers. Bancassurance has been a successful model in developed and other emerging economies, motivating IRDA to formulate such rules. The contribution of banks to the premiums of insurance industry in France (60%), UK (16%), China (56%), Brazil (50%), South Korea (37%) and Taiwan (63%) is much higher than in India ~ merely 9.4% of total industry premium in FY12.

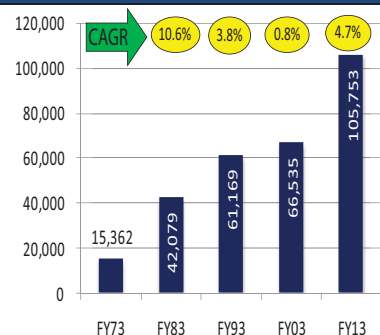
In order to supplement the efforts of IRDA, RBI has proposed draft guidelines to govern the insurance broking business of banks. The draft guidelines are an attempt to enable banks to leverage their branch network to increase availability of insurance products in underserved areas. CARE Research finds that the draft guidelines on "entry of banks into insurance broking business" (Nov 2013) are similar to the guidelines on "entry of banks into insurance business" issued in August 9, 2000 with the addition of rules permitting banks to undertake insurance broking departme-

Table1: Share of policies sold & premium income under bancassurance channel



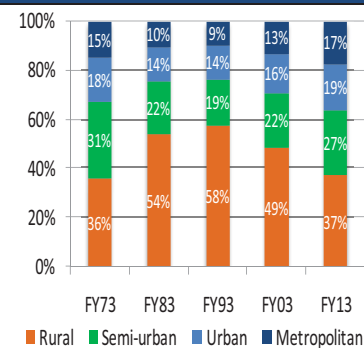
Source: CARE Research Report on 'Insurance Industry' (Nov 2013)

Table2: Decadal expansion of banks' branches in India



Source: CARE Research Report on 'Insurance Industry' (Nov 2013)

Table3: Decadal population-wise share of bank branches



Source: CARE Research Report on 'Insurance Industry' (Nov 2013)

Article

Table4: Public and private banks net-worth as on FY13

Public Banks (Rs. Crore)				Private Banks (Rs. Crore)			
SBI	98,884	Indian	10,439	ICICI	66,701	City Union	1,641
PNB	31,248	Corporation	9,566	HDFC	36,214	DCB	946
BoB	30,864	Syndicate	9,566	Axis	33,108	LVB	937
Canara	22,845	Andhra	8,441	IndusInd	7,407	Federal	838
BoI	22,735	UCO	7,315	KMB	6,365	Dhanlaxmi	731
IDBI	19,472	Dena	4,909	Yes	5,808		
UBI	15,689	BOM	4,689	J&K	4,865		
IOB	12,309	United Bank	4,459	ING Vysya	4,523		
OBC	12,099	Vijaya	4,096	KVB	3,083		
CBI	11,828	P&S	3,437	South Indian	3,006		
Allahabad	10,497			Karnataka	2,853		

Source: Ci3, Ace Equity and CARE Research Database

ntally and some modifications in eligibility criteria with regard to Net NPA levels. Also, the recent guidelines have specifically barred any additional corporate agency arrangements or insurance referral business for the banks offering insurance broking services.

The Indian banking system (SCBs) has 10 lakhs employees and 1 lakh branches spread across the nation, out of which 37% of the banks' branches are in rural areas (FY13). This massive spread of branches in rural and semi-urban areas augurs well for insurance companies to reach and increase the penetration. Industry experts opine that rural customers may find banks more reliable than insurance companies due to the presence and

business record of the former since past many years. CARE Research believes that if the database of banks' clients is analyzed using data analytical tools to find out homogenous groups of customers to whom specific/generic insurance products can be offered, the distribution chain would get considerably reduced and banks would be able to increase the Return on Assets (RoA). The fee income earned by banks from sale of insurance products is expected to improve the Return on Equity (RoE), as it requires marginal/low incremental investment in setting up the distribution chain.

Eligibility criteria and assessing its impact for insurance broking business

Table5: Public and private banks net NPA levels

	Public Banks							Private Banks							
	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14		4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14
United Bank	1.71%	1.74%	1.95%	2.22%	2.87%	3.86%	5.39%	LVB	1.81%	2.22%	2.90%	2.97%	2.43%	3.67%	3.71%
Allahabad	0.97%	1.08%	2.08%	2.04%	3.15%	3.82%	3.77%	Dhanlaxmi	0.35%	0.66%	2.50%	2.89%	3.36%	4.03%	3.69%
CBI	3.02%	4.72%	3.80%	3.70%	2.83%	3.74%	3.65%	Karnataka	2.10%	1.98%	2.07%	2.18%	1.50%	1.95%	2.24%
Andhra	1.19%	1.49%	2.12%	2.24%	2.41%	3.20%	3.45%	South Indian	0.28%	0.35%	0.86%	0.68%	0.78%	1.12%	1.40%
PNB	1.52%	1.67%	2.67%	2.55%	2.34%	2.97%	3.06%	Federal	0.53%	0.62%	0.68%	0.92%	0.98%	0.88%	0.95%
UCO	1.96%	2.19%	2.87%	3.23%	3.09%	3.06%	3.05%	DCB	0.57%	0.75%	0.68%	0.73%	0.75%	0.82%	0.85%
P&S	1.19%	1.23%	1.57%	1.84%	2.14%	2.45%	2.94%	ICICI	0.73%	0.71%	0.78%	0.76%	0.77%	0.82%	0.85%
SBI	1.82%	2.15%	2.37%	2.51%	2.04%	2.74%	2.82%	City Union	0.45%	0.50%	0.61%	0.63%	0.63%	0.63%	0.83%
IOB	1.33%	1.45%	2.20%	2.28%	2.45%	2.74%	2.77%	KMB	0.51%	0.66%	0.63%	0.54%	0.55%	0.80%	0.80%
IDBI	1.61%	2.05%	2.00%	1.93%	1.58%	2.16%	2.75%	KVB	0.28%	0.37%	0.32%	0.37%	0.38%	0.50%	0.50%
OBC	2.18%	2.02%	2.03%	2.11%	2.23%	2.29%	2.64%	Axis	0.28%	0.35%	0.38%	0.38%	0.36%	0.40%	0.42%
Indian	1.31%	1.03%	1.31%	2.14%	2.23%	2.28%	2.52%	HDFC	0.18%	0.19%	0.17%	0.20%	0.20%	0.33%	0.30%
Canara	1.46%	1.66%	2.12%	2.35%	2.18%	2.48%	2.30%	IndusInd	0.27%	0.27%	0.29%	0.29%	0.31%	0.21%	0.22%
Corporation	0.87%	1.20%	1.38%	1.63%	1.19%	1.93%	2.20%	ING Vysya	0.18%	0.19%	0.13%	0.05%	0.03%	0.19%	0.19%
UBI	1.70%	2.15%	2.01%	1.67%	1.58%	1.92%	2.11%	J&K	0.15%	0.14%	0.16%	0.14%	0.14%	0.14%	0.19%
Dena	1.00%	1.00%	1.22%	1.30%	1.38%	1.71%	1.99%	Yes	0.05%	0.06%	0.05%	0.04%	0.01%	0.00%	0.04%
BoB	0.54%	0.65%	0.82%	1.12%	1.28%	1.69%	1.86%								
BoI	1.45%	1.67%	2.04%	1.95%	2.03%	2.07%	1.83%								
BOM	0.82%	0.97%	0.88%	0.65%	0.51%	0.79%	1.76%								
Vijaya	1.72%	1.65%	1.87%	1.69%	1.29%	1.44%	1.72%								
Syndicate	0.96%	0.92%	0.92%	0.85%	0.76%	1.18%	1.64%								

Source: CARE Research Database

Table6: Public and private banks capital adequacy levels

Public Banks									Private Banks								
BASEL II								BASEL III	BASEL II								BASEL III
	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	2QFY14		4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	2QFY14
Indian	12.7%	13.0%	13.0%	13.1%	13.1%	13.1%	13.3%	12.8%	KMB	17.5%	16.6%	15.4%	15.6%	16.1%	18.2%	18.2%	18.2%
UCO	12.4%	12.3%	12.3%	13.2%	14.2%	13.7%	13.2%	12.3%	ICICI	18.5%	18.5%	18.3%	19.5%	18.7%	17.0%	16.5%	16.5%
SBI	13.8%	13.2%	12.6%	12.2%	12.9%	12.1%	12.9%	11.7%	ING Vysya	14.0%	13.4%	13.0%	12.5%	13.2%	12.6%	16.8%	16.5%
IDBI	14.6%	14.4%	13.9%	14.2%	13.1%	12.6%	12.4%	12.4%	Axis	13.7%	13.5%	13.9%	15.2%	17.0%	16.9%	16.4%	15.9%
PNB	12.6%	12.6%	11.7%	11.7%	12.7%	12.4%	12.3%	11.6%	Yes	17.9%	16.5%	17.5%	18.2%	18.3%	18.1%	18.2%	15.6%
BoB	14.7%	13.7%	12.9%	12.7%	13.3%	12.7%	12.3%	12.1%	Federal	16.6%	15.5%	15.8%	14.9%	14.7%	15.0%	NA	15.4%
OBC	12.7%	12.3%	12.1%	12.3%	12.0%	12.0%	12.1%	11.4%	HDFC	16.7%	15.5%	17.0%	17.0%	16.8%	16.0%	14.6%	14.6%
P&S	13.3%	13.1%	12.8%	12.2%	12.9%	12.6%	12.0%	11.1%	Indusind	13.9%	13.4%	12.9%	16.6%	15.4%	14.4%	13.6%	14.6%
Syndicate	12.2%	11.7%	11.3%	11.4%	12.6%	11.9%	11.9%	11.6%	City Union	12.6%	12.0%	13.3%	12.4%	14.0%	13.2%	14.3%	14.3%
BOM	12.4%	12.5%	10.8%	10.7%	12.6%	11.8%	11.7%	10.7%	DCB	15.4%	14.5%	14.0%	13.7%	13.6%	13.9%	14.0%	13.8%
Andhra	13.2%	12.7%	12.4%	11.9%	11.8%	11.5%	11.5%	11.4%	Karnataka	12.8%	12.5%	12.2%	12.9%	13.2%	14.1%	13.9%	13.2%
CBI	12.4%	11.6%	11.5%	10.8%	11.5%	11.4%	11.4%	10.2%	J&K	13.4%	13.8%	13.7%	13.8%	12.8%	13.9%	13.5%	13.2%
BoI	12.0%	11.4%	11.2%	10.6%	11.0%	10.7%	11.3%	10.8%	South Indian	14.0%	13.2%	14.4%	13.9%	13.9%	13.7%	13.2%	13.0%
Corporation	13.0%	12.9%	13.1%	12.6%	12.3%	12.1%	11.2%	10.6%	KVB	14.3%	14.7%	14.0%	13.4%	14.4%	12.9%	13.1%	12.8%
IOB	13.3%	12.6%	12.1%	11.7%	11.9%	11.3%	11.0%	10.7%	LVB	13.1%	13.5%	13.7%	12.2%	12.3%	12.0%	11.3%	11.0%
Vijaya	13.1%	13.2%	12.7%	11.8%	11.3%	10.9%	11.0%	10.6%	Dhanlaxmi	9.5%	10.4%	10.9%	11.6%	11.1%	11.7%	11.9%	10.5%
Canara	13.8%	13.2%	13.1%	12.6%	12.4%	11.4%	11.0%	10.6%									
Dena	11.5%	12.4%	12.1%	11.5%	11.0%	11.1%	10.7%	10.2%									
Allahabad	12.8%	12.9%	12.2%	12.0%	11.0%	11.1%	10.7%	10.7%									
UBI	11.9%	11.6%	11.4%	10.8%	11.5%	11.1%	10.4%	9.7%									
United Bank	12.7%	12.5%	12.1%	11.9%	11.7%	11.7%	10.4%	9.5%									

Source: CARE Research Database

RBI, in its draft guidelines, has put-up the following minimum eligibility criteria, to be met as per published account as on March 31, for banks intending to carry out insurance broking business:

- The net worth of the bank should not be less than Rs. 500 crores

CARE Research study suggests that all the SCBs under analysis have net worth of Rs. 500 crore as on March 31, 2013 and thus qualify the first eligibility criteria of having minimum net worth of Rs. 500 crore.

- Banks with <3% of Net NPA level to qualify for insurance broking business: more PSU banks with >3% level

On analyzing our banking database, we find that total of 7 banks (6 PSU and 1 private) would be ineligible for carrying out the insurance broking business operations if the guidelines become operational immediately. All these banks have cumulative branch strength of 23,010 as of June, 2013 accounting for 20.8% of total banking sector branches. CARE Research is of the view that these banks will have to increase provisioning in order to be eligible under these guidelines.

- Banks with <10% of CRAR level under BASEL III to be disqualified for carrying out insurance broking business: 2 PSU banks CRAR <10%

All public and private banks remained well-capitalized in comparison to regulatory capital

requirement of 10% as on March 31, 2013. However, it is pertinent to note that in case of Union Bank of India and United Bank of India the CRAR is lower than minimum stipulated requirement of 10% as on 2QFY14. CARE Research is of the opinion that these banks have to seek government support for fund infusion to achieve Bancassurance minimum criteria and meet BASEL III norms.

- Banks with profit (Profit After Tax) making in last 3 consecutive years, to be allowed for carrying out insurance broking business: 1 Private bank to be ineligible

RBI's draft guidelines specifically mentions that banks willing to initiate the insurance broking business should have a track record of consistent profit making in the last 3 consecutive years. Our study shows that 1 private bank will be disqualified under this norm of sustained profit making for last 3 years.

- The track record of the performance of the subsidiaries/JVs, if any, of the bank should be satisfactory

RBI also proposed to consider the performance of the subsidiaries/JVs of the bank, as one of the eligibility criteria for entry of banks into insurance broking business. The nitty-gritty of satisfactory performance vests with RBI and this will be taken into consideration on a case-to-case basis at the time of assessment of banks' applications for permission to operate as a broker.

Article

RBI, apart from above eligibility criteria, has also laid down the following specific stipulations for banks intending to offer insurance broking business:

- All employees dealing with insurance broking business should possess the requisite qualification prescribed by IRDA as insurance broking is a knowledge intensive activity involving specialized skills. The persons involved in insurance broking services should not be entrusted with any other approval/transactional process at bank branches.

- A robust internal grievance redressal mechanism should be put in place along with a board approved customer compensation policy for resolving issues related to services offered.

- No incentive (cash or non-cash) linked directly or indirectly to the income received from broking business should be paid to the staff engaged in insurance broking services. The staff of the bank is

also not permitted to receive any incentive (cash or non-cash) directly from the insurance company.

- In order to ensure transparency, banks should disclose to the customers, details of remuneration (in any form) received from various insurance companies for the broking business. The details of fees/brokerage received in respect of insurance broking business undertaken by them should also be disclosed in the 'Notes to Accounts' to their Balance Sheet.

- The deposit to be maintained by an insurance broker as per the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013, as amended from time to time, should be maintained with a scheduled commercial bank other than itself.

Impact analysis of the draft guidelines

CARE Research analysis suggests that enlisted

Table7: Public and private banks profitability (PAT) record in last 3 consecutive years

Public Banks (Rs. Crore)				Private Banks (Rs. Crore)			
	FY11	FY12	FY13		FY11	FY12	FY13
SBI	8,265	11,707	14,105	ICICI	5,151	6,465	8,325
PNB	4,433	4,884	4,748	HDFC	3,926	5,167	6,726
BoB	4,242	5,007	4,481	Axis	3,388	4,242	5,179
Canara	4,026	3,283	2,872	KMB	1,569	1,085	1,361
Bol	2,489	2,725	2,820	Yes	727	977	1,301
Syndicate	1,048	1,314	2,206	IndusInd	577	803	1,061
UBI	2,069	1,756	2,131	J&K	615	803	1,055
IDBI	1,650	2,032	1,882	Federal	587	777	838
Indian	1,714	1,747	1,581	ING Vysya	319	456	613
Corporation	1,413	1,506	1,435	KVB	416	502	550
OBC	1,503	1,142	1,328	South Indian	293	402	502
Andhra	1,267	1,345	1,289	Karnataka	205	246	348
Allahabad	1,423	1,867	1,185	City Union	215	280	322
CBI	1,252	533	1,015	DCB	21	55	102
Dena	612	803	810	LVB	101	107	92
BOM	330	431	760	Dhanlaxmi	26	(116)	3
UCO	907	1,109	618				
Vijaya	524	581	586				
IOB	1,073	1,050	567				
United Bank	524	633	392				
P&S	526	451	339				

Source: CARE Research Database

Table8: Total Number of branches of banking industry and players as on June 2013

	Metro	Urban	Semi-Urban	Rural	Total
PNB	985	1,253	1,410	2,281	5,929
CBI	739	832	1,174	1,571	4,316
UBI	685	764	1,013	1,058	3,520
Allahabad	511	556	555	1,105	2,727
UCO	501	526	632	970	2,629
Andhra	293	525	535	527	1,880
United Bank*	330	397	324	678	1,729
Dhanlaxmi	62	89	101	28	280
Total Banking Industry	20,143	21,889	28,984	39,858	110,874
Ineligible banks share in total SCBs branches in India	20.4%	22.6%	19.8%	20.6%	20.8%

Source: RBI, CARE Research Database

* represents FY13 numbers

banks' branches (as per table8) account for 20.8% of total banking industry's branches. Being disqualified from insurance broking business would trigger a potential loss of a good source of fee income for these banks amidst competitive pressure and suppressed margins. However, other banks are expected to benefit on account of first mover advantage. CARE Research understands that the ineligibility of these banks won't impact the expected accelerated increase in reach of insurance products in rural & semi-rural areas and rise in penetration, as the wide rural presence of other large banks would serve the ultimate purpose of increasing reach and penetration. On the other hand, if these banks (except Dhanlaxmi) report improved performance in H2-FY14, the guidelines (in the current draft form) may not impact them, making them eligible for the insurance broking business.

Through bancassurance, banks can take the experience of convenient shopping of financial products to the next level to its current as well as future potential customers and enable banks to enhance its fee based income.

However, the draft also includes additional responsibilities for banks, which would increase operational costs (training, department set-up, regular reporting & scrutiny and system integrations etc). Under the broking business, banks would earn lesser commission (30% of first year premium and 5% on renewal for selling a life insurance policy) as compared to corporate agency model (40% commission of first year premium and 7.5% on renewal for selling a life insurance policy).

CARE Research understands that the RBI is seeking to accomplish two objectives:

1) Financial inclusion, by bringing more people into the insurance market

2) Enable ethical insurance selling by increasing responsibilities of banks. However, RBI and IRDA have given most prominence to the ultimate objective of consumer protection. This can be gauged from the fact that the RBI has prescribed 'deterrent action' for banks that violate these draft guidelines in the form of raising of reserve requirements, withdrawal of facility of refinance from the RBI and denial of access to money markets. In CARE Research view, the success of these guidelines on bancassurance would largely hinge on:

- Ability of banks to incorporate effectively the broker model,
- Make-aware/educate the rural customers
- Being prepared to be held accountable on mis-selling
- Monitoring and adopting the changes and needs from time to time.

Further, the impact of guidelines will be most acutely felt on existing arrangements within the bank-insurance industry. In order to leverage on their respective brands strength/equity, many banks have already set up insurance subsidiaries.

As per the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013, in case the banks act as brokers for multiple insurance companies, only 25% of the banks' income from insurance broking can be earned from sale of their subsidiaries' products. This may work as a large disincentive for banks to apply for insurance broking licence.

Industry expects some relaxation in the stringent limits on income earned from sale of subsidiaries' insurance products, on finalisation of the draft guidelines.

BSE edge

Currency derivatives



Mr. Ashish Chauhan
MD & CEO, BSE Ltd.

BSE Ltd., Asia's first Stock Exchange and one of India's leading Exchange Groups, provides an efficient and transparent market for trading in equity, debt instruments, equity derivatives, SLB, mutual funds and small-and-medium enterprises (SME). It is the largest stock exchange globally in term of No. of Companies listed, 3rd largest in terms of options contracts traded (July 2013) and 7th largest in terms of Market Cap in Asia (July 2013).

Based on the evolving needs of the market participants, BSE has decided to further enhance its wide range of product offering by re-launching trading in the Currency Derivatives Segment.

Post this launch, BSE in a single platform will offer Equity, Fixed Income and FX, the 3 large asset classes.

In the context of growing integration of the Indian economy with the rest of the world and a continuous demand for exchange traded currency derivative products in other currency pairs, Reserve Bank of India and Securities Exchange Board of India have permitted trading in futures contracts on 4 currency pairs (USD-INR, EUR-INR, GBP-INR & JPY-INR) & on options contracts in USD-INR currency pair.

Background

A currency future, also known as FX future, is a futures contract to exchange one currency for another at a specified date in the future at a price (exchange rate) that is fixed on the purchase date. The price of a future contract is in terms of INR per unit of other currency e.g. US Dollars. Currency future contracts allow investors to hedge against foreign exchange risk. As per regulatory approval the Currency Derivatives are available only on four currencies

viz. US Dollars (USD), Euro (EUR), Great Britain Pound (GBP) and Japanese Yen (JPY) against INR. Currency options are currently available on US Dollars – INR currency pair.

Over a period of time there has been increase in regulatory framework demanding better risk management alternatives from the market participants. Keeping in mind the market requirements, BSE decided to re-launch the segment & has received its approval from SEBI.

Currency Derivatives segment of BSE would provides trading in derivative instruments like Currency Futures on 4 pairs (USD-INR, EUR-INR, GBP-INR and JPY-INR) & USD-INR pair in Currency Options as approved by RBI & SEBI.

Highlights of BSE Currency Derivative Segment for Trading Members

- Zero Membership Fees
- Zero Deposit
- Zero Processing Fees
- Zero Transaction Charges for first 6 months

Currency Derivatives Segment, launched on November 29, 2013 on BSE has achieved a Turnover of Rs. 1118 Crores on December 16, 2013 with 178,633 contracts being traded on that day.

Membership

The membership process for BSE Currency derivative segment has been simplified to the maximum extent for both new & existing members. BSE is facilitating the members by not



charging any membership fees & ensuring minimal paper work required to comply with the regulatory requirements.

For its existing trading members in derivative segment there is no additional deposit requirement. All the applicants are required to do is complete the documentations & submit the same with the membership department of the BSE. The applicants can take the advantage of the Limited Trading Membership facility also (Membership of only Currency Derivative segment).

Further BSE has also decided to waive the transaction charges for the first 6 months from the date of the launch to facilitate the member brokers to participate in the Currency derivative market.

For more details you can get in touch with your respective Relationship Manager. You can also visit [www.bseindia.com/Members/New Membership/Currency Derivatives Segment](http://www.bseindia.com/Members/NewMembership/Currency%20Derivatives%20Segment) to get the details.

Trading

Deutsche Boerse AG, Germany (DBAG) is the strategic partner of BSE. BSE & Eurex, the derivative division of DBAG, have entered into a technology partnership agreement earlier this

year under which the technology would be implemented in three phases:

PHASE I- CURRENCY DERIVATIVES

PHASE II- EQUITY DERIVATIVES

PHASE III- EQUITY

This will not only introduce faster execution speed to the Indian market, it will also bring enormous order handling and execution capacity to the BSE as well as increased flexibility and time to market.

Currency Derivatives trade on BOLT + Technology, which BSE has acquired from Deutsche Boerse Group. This ensures faster trading speed from 10 milliseconds to 200 microseconds, making it the fastest trading platform in India. BOLT + enables BSE to have a higher order acceptance capacity of 500,000 orders per second. This indeed makes BSE's Trading Platform 10 times faster than competitor's Trading Platform.

The technology will bring superior execution quality to not only the manual traders but also to the program/ALGO/HFT traders.

With the global economy breaking barriers and financial markets becoming seamless along with sophisticated application of IT tools, the challenge to ensure transparency and Governance is growing

This technology is presently being used by Both Eurex & ISE since Jan 2013, two of the world's leading exchanges.

The implementation of this technology at BSE will enable the FII's & multinational financial houses who are also member brokers in Eurex & International Securities Exchange (ISE), USA to easily interact with BSE's systems. This will over a period of time encourage & increase the participation of large players on BSE derivatives segment.

Clearing and Settlement

Indian Clearing Corporation Limited ("ICCL") is promoted and wholly owned by Bombay Stock Exchange Ltd ("BSE"). ICCL has received its in-principle approval from SEBI to act as a Clearing Corporation.

The prime objective of ICCL is to improve efficiency in the transaction settlement process by providing fully automated, transparent Clearing

and Settlement services.

In its capacity as a Clearing Corporation, ICCL carries out the functions of clearing, settlement, collateral management and risk management for various segments of different stock exchanges. ICCL undertakes to act as the central counterparty to all the trades it provides settlement for.

ICCL has received SEBI approval for carrying out the clearing and settlement activities of the trades executed at the Currency derivatives segment of the BSE Ltd.

ICCL currently undertakes clearing and settlement activities for trades executed on the BSE platform, including Equity Cash, Corporate Debt, Equity F&O, BSE SME, Offer for Sale, Securities Lending & Borrowing, etc. and the Currency Derivatives Segment (Currency F&O) of United Stock Exchange (USE).

ICCL also undertakes settlement activities for trades reported on the debt and mutual fund segments of BSE. ICCL being a central counter-party (CCP) provides full Novation and thus provides settlement guarantee for BSE currency derivatives segment.

It eliminates counter-party risk of trading on the Exchange and the member is insulated from threat of credit risk. ICCL, with its own Network of approximately Rs. 450 Crore (vis-à-vis SEBI requirement of Rs. 300 Crore Network) is well capitalized to provide settlement guarantee to the trades executed on BSE platform. Further, ICCL has 21 schedules banks enrolled with it as clearing banks.

ICCL undertakes risk containment measures which inter-alia include monitoring of margins requirements, liquid net worth, collateral deposits, members positions, updating risk parameters etc.

We reap what we sow. We are the makers of our own fate. The wind is blowing; those vessels whose sails are unfurled catch it, and go forward on their way, but those which have their sails furled do not catch the wind. Is that the fault of the wind?..... We make our own destiny.

:: SWAMI VIVEKANANDA ::

To succeed in life, you need two things: ignorance and confidence.

:: MARK TWAIN ::

BASEL III ~ The Real Experience

Who has actually implemented it?

*Banks which have taken Basel II to the Advanced Level for Internal Ratings Based Approaches are going to find Basel III inherently easy, says **SK Menon**, Crystal Credit Consortium*



Mr. SK Menon
Crystal Credit Consortium

If you want to achieve a goal in life, any goal for what it's worth, sometimes the easiest way to move forward is to simply look at what someone else is doing. The same rule applies for building risk frameworks or Basel reporting programmes.

So with that in mind, who has actually implemented it?

There is in fact only one country that can really say with honesty, that as a nation of banks, it is not only on track with Basel III but has done quite a lot in this regard. That country is Australia. There are other jurisdictions in Europe that are close to being well ahead of the game but unfortunately for them, they have additional economic and banking problems which are becoming a distraction.

When Basel III was formally announced late last year, the Australian banking community put up its hand and said; we'll have this dusted in a couple of months. This is quite an accomplishment really. So the question is, what have the Australian banks done differently to make their Basel III agenda so straight forward?

The answer to that question sits deeply

in the predecessor of Basel III, namely Basel II.

Banks which have taken Basel II to the Advanced Level for Internal Ratings Based Approaches are going to find Basel III inherently easy to walk through. They will have all the specific risk framework parts in place to correctly measure credit risk, carryout internal ratings (a requirement of Basel III) and they will be able to report a risk weighted exposure as a floating function against recovery. More critically and from a Return on Equity perspective, they are also going to be able to report a solid Risk Adjusted Return on Capital number.

Banks which are stuck on the standardized approach for credit risk (much of South East Asia on a good day) are going to find they are hit with two courses:

[1] The first is that their capital floor will increase as a direct notional outcome of their banking and trading book size and, they won't be able to separate or internally adjust true risk weighted measures of exposure against this capital floor.

[2] Secondly, broader aspects of a functioning bank wide IRB frameworks can easily be leveraged off to achieve many of the reporting requirements for Basel III. Basel III in this sense becomes an extension of the Basel II risk reporting system. On the other hand, if a bank does not have an IRB framework in place, a lot

Article

Internal Ratings Based (IRB) Approach

Criteria	Standardized Approach	Foundation Approach	Advanced Approach
Rating	External	Internal	Internal
Risk Weight	Calibrated on the basis of external ratings by the BIS	Function provided by the Basel Committee	Function provided by the Basel Committee
Probability of Default (PD) the likelihood that a borrower will default over a given time period	Implicitly provided by the Basel Committee; tied to risk weights based on external ratings	Provided by bank based on own estimates	Provided by bank based on own estimates
Exposure at Default (EAD): for loans, the amount of the facility that is likely to be drawn if a default occurs	Supervisory values set by the Basel Committee	Supervisory values set by the Basel Committee	Provided by bank based on own estimates
Loss Given Default (LGD); the proportion of the exposure that will be lost if a default occurs	Implicitly provided by the Basel Committee; tied to risk weights based on external ratings	Supervisory values set by the Basel Committee	Provided by bank based on own estimates; extensive process and internal control requirement
Maturity: the remaining economic maturity of the exposure	Implicitly recognition	Supervisory values set by the Basel Committee Or national discretion, provided by bank based on own estimates with an allowance to exclude certain exposures	Provided by bank based on own estimates (with an allowance to exclude certain exposures)

of work will need to be done. From the ground up these minor "IRB-like" addendum's to the risk service become major system development projects. What is really tragic is that these risk system extensions probably come with the same costs as an IRB reporting facility but without the marginal capital benefits that a healthy IRB framework would normally offer.

For what it's worth, most banks in South East Asia are actually well capitalized, however, that still doesn't detract from the fact that some Asian banks need to do a lot of complex model development. The track record for Basel II in Asia hasn't been too crash hot either and over the last few years, Asian banks have in general been struggling with Basel II. This is an outcome of running these type of programmes on slim budgets and without particularly well managed results, cut the budget and the bank has to do a lot more work internally and some banks simply haven't picked up the baton.

Basel III wrong way risk modeling, internal ratings, liquidity risk and many other aspects of the new accord are just as complex to comprehend as Basel II-IRB and probably equally difficult to bed down in the bank. In short of it, the work doesn't go away, the requirements are just as elaborate and banks will end up having to complete Basel II Pillar II before really entertaining anything substantial from Basel III. There are also deeper concerns for South East Asia in respect to Basel III. Many of these issues can't be covered in this short article but I will certainly do so in subsequent posts.

One concern is the liquidity risk measurement requirement. For banks this isn't only working

out whether you can pay their electricity bills on time but more so, the transfer pricing between assets and liabilities across entities. Leading up to the credit crisis, some Asian Banks were looking at ALCO & Internal Enterprise Capital Adequacy Assessment Processes (ICAAP), a lot of local banks are also not through this work, yet some haven't even started. If you want to correctly measure liquidity risk, then this ALM/ICAAP element needs to be in place and fully functioning before you can open the Basel III book on liquidity.

Interestingly the banking landscape described in this article over a year ago is still current news. Not much has changed except the capital numbers referred to in the article have gone up. The Korean banking sector has gone down or to be precise, Korean banks need to be restructured and there seems to be no end to the runs on their deposits.

So what is the solution?

Well digging our heads into the sand (an endemic colloquial trait for some risk managers) won't help you if you are a risk department for a local bank. Risk managers need to be on the case of the local regulators, asking for guidance and the local regulators need to come forward with a stepped approach on how to deliver Basel III for their member banks. All they seem to be doing at present is mirroring what the European banking circuit is harping on about, which is, "capital is not enough and has to go up" or ironically "The banking sector is well capitalized, there isn't much to do". Please at the very least be original and tell us something

Internal Ratings Based (IRB) Approach

Criteria	Standardized Approach	Foundation Approach	Advanced Approach
Data Requirements	<ul style="list-style-type: none"> ● Provision dates ● Default events ● Exposure data ● Customer segmentation ● Data collateral segmentation ● External ratings ● Collateral data 	<ul style="list-style-type: none"> ● Rating data ● Default events ● Historical data to estimate PDs (5 years) ● Collateral data 	<ul style="list-style-type: none"> ● Same as IRB Foundation, plus: ● Historical loss data to estimate LGD (7 years) ● Historical exposure data to estimate EAD (7 years)
Credit Risk Mitigation Techniques (CRMT)	Defined by the supervisory regulator; including financial collateral, guarantees, credit derivatives, "netting" (on and off balance sheet), and real estate	All collaterals from Standardized Approach; receivables from goods and services; other physical securities if certain criteria are met	All types of collaterals if bank can prove a CRMT by internal estimation
Maturity: the remaining economic maturity of the exposure	<ul style="list-style-type: none"> ● Minimum requirements for collateral management (administration/evaluation) ● Provisioning process 	Same as Standardized, plus minimum requirements to ensure quality of internal ratings and PD estimation and their use in the risk management process	Same as IRB Foundation, plus minimum requirements to ensure quality of estimation of all parameters

we don't already know.

The Reserve Bank of India recommended tougher capital rules for new lenders and a mandatory share sale within two years as conditions for issuing new licences.

This is a good move but more work needs to be done on the reporting of exposures, embedding risk practices in the community of banks and the Indian banking sector like much of the local emerging markets, comprises of large local institutions and quasi lenders. The latter pose noticeable concentration and systemic risks to the banking network as a whole.

Bear in mind however, Indonesia's banks are still to calculate and report the capital adequacy ratios (CAR) according to the Basel II framework. Just in February 2011, Bank Indonesia Issued the final rule about the Basel II standardized approach for credit risk entering into force on 1st January 2012.

2012 for the finalization of the Basel II standardized approach is firstly a long way out and quite overdue.

It is also a massive distance from where banks need to be for Basel III and I struggle to see how much of Asia is going to be Basel III compliant anytime soon.



Give up the idea that by ruling over others you can do any good to them. But you can do just as much as you can in the case of the plant: you can supply the growing seed with the materials for the making up of its body, bringing to it the earth, the water, the air, that it wants. It will take all that it wants by its own nature, it will assimilate and grow by its own nature

:: SWAMI VIVEKANANDA ::

Happiness is when what you think, what you say, and what you do are in harmony.

:: MAHATMA GANDHI ::



Growing need for
more sophisticated
investment tools

The Potential of Thailand

The weakening global economy has definitely affected the Thai economy, particularly in the export sector, that had propelled the Thai economy for the past decades, says Pattera Dilokrunghthirapop, Chairperson of the Association of Thai Securities Companies (ASCO), in an exclusive interview with ANMI.



The Association of Thai Securities Companies (ASCO) has come a long way from protecting and preserving the interests of the securities industry to development of infrastructure of the capital market. It has also started embarking upon issuing guidelines to the members. What has been the driving force for this leadership?

Thailand securities industry has been around for almost 40 years and has mostly been focused on the traditional equity trading. As the country develops, there is a growing need for more sophisticated investment tools and techniques in order to meet investor's demand for higher return and lower risk on investment. To achieve the goal, the industry has to offer variety of products ranging from interesting new listings, derivative products, effective online trading platform, efficient back office system that includes multiple markets and currencies and most importantly, human resource development to cope with the changes.

However, the size of Thailand's equity market is not large enough to generate sufficient income to support new investments that will take Thai equity market to the next level. Furthermore, it would be very costly and time consuming if each securities company has to do its own investments particularly in the areas that are common to all. ASCO has subsequently played a vital role in putting the effort of its members together to come up with the best solutions for the industry. These include new initiatives on products, technologies, simplified processes and trainings. Despite various works that have been done to promote common framework and facilities, ASCO has never neglected the essence of competition and encourage its members to differentiate themselves from the others.

Another important role of ASCO is to promote Business Best Practice within the industry. The association has laid the ground rules and put in place a number of minimum standards and guidelines that are in compliance with the Securities and Exchange Commission's regulations. The ability to work with the regulators to issue some of the rules and guidelines related to the business helps to ensure that these rules and guidelines are workable and will not be an obstacle to the business when implemented.

"Matching Your Right Financial Opportunities" is the new mantra for development of quality investors' base, in which ASCO is working very closely with the Exchanges. How this scheme is faring?

Under this theme launched by the Stock Exchange of Thailand in 2013, the industry has to offer the right products that meet investor's financial objectives; both in the primary and secondary markets. For the

primary market, Thai companies, whether large or small, should be able to mobilize funds from the exchange in order to meet their business requirements. The fund raised may not be limited to just share placements but also include other type of vehicles such as property fund, infrastructure funds etc.

For the secondary market, the investor base must be diverse among institutions and retails and the intermediaries must be able to provide wide range of products and services that can meet investor's requirements that have become more and more challenging over the years. Over the past few years, Thai brokers have worked hard looking at systems and technologies with the aim to provide easily assessable trading channels with low latencies. Effective investment strategy and advice as well as leverage and funding facilities are equally important. All these are done in order to ensure that all participants can find and "Match" the "Right financial Opportunities" for their customers.

ASEAN countries have plans to harmonize and integrate their economies under the agreement called the ASEAN Economic Community or AEC in December, 2015

The collaboration, ASEAN trading link model, is something of a milestone and is widely viewed as the first steps of a pan-Asia trading community to mirror that of Europe under MIFID. How this whole idea was conceptualised and executed? What has been the experience so far?

ASEAN countries have plans to harmonize and integrate their economies under the agreement called the ASEAN Economic Community or AEC in December, 2015. Securities industry is part of the plan and ASEAN trading link is the initiative among the exchanges to link the trading facilities together via a regional network. Malaysia and Singapore are the first two countries that have joined the linkage in September 2012, followed by Thailand the month after. To date, trading activities is not substantial as there are still more work to be done on the clearing and settlement. In addition, investors are still learning about each other markets which will take sometime. Brokers that benefits from the linkage are the local companies that have no foreign partners or shareholders that are securities companies. The facilities offer them an inexpensive way to trade on other exchanges.

Interview/International

What challenges do you think are inevitable in the long run with this cross border initiative?

Although ASEAN link is well received, it is not widely used at present. This is because the present members which include Malaysia, Singapore and Thailand have already had the infrastructure that investors of these countries can trade with each other. ASEAN link simply provides an alternative mode of connectivity. The real benefit will come when the remaining ASEAN countries such as Vietnam, Philippines, Indonesia, Cambodia, Laos and Myanmar join the network and new products using ASEAN equity as underlining are being manufactured. This will take time as these markets are at the different stages of development at the present time.

For the secondary market, the investor base must be diverse among institutions and retails and the intermediaries must be able to provide wide range of products and services that can meet investor's requirements that have become more and more challenging over the years

The Collective Investment Scheme (CIS) by ASEAN Framework is a great initiative, and is targeting to be implemented in the year 2014. So what do you think how ready are fund managers to take on the regional challenge as outlined under the ASEAN CIS Framework?

ASEAN CIS is a framework for cross border offering of unit trusts among the three countries, namely Malaysia, Singapore and Thailand. By setting common standards concerning qualifications of fund management companies, fund supervisors, local representatives and prospectus, fund management companies across the three countries can cross sell their products. As the fund management industry of the three nations have long establishment and experiences, the scheme, which will be launched this year, should benefit both the operators and investors. Nonetheless, the benefits might not be equally weight in all areas depending on which angels we are looking at.

For example, Thai customers may enjoy new sophisticated products that are offered by a more developed industry like Singapore. This will put pressure on the Thai fund management industry to come up with more sophisticated products that

meet the Thai's tastes.

How Thailand is positioned today as an investment destination and how weakening world economy affects South East Asia?

As the second largest nation in term of GDP in South East Asia; Thailand is well positioned due to its strategic location, population as well as its strengths in agriculture, industrial production and tourism. The weakening global economy has definitely affected Thai economy particularly in the export sector that has propelled the Thai economy for the past decades.

Fortunately, domestic consumption has increased its dominant over the years and by far, has helped cushioned the short fall from the exporters. Looking ahead, Thailand still has a lot of potential as the rural provinces undergo urbanization process. In addition, the opening up of the neighbouring countries such Myanmar, Cambodia and Laos will keep the provincial economy buoyant and provides support for further economic expansion in the long run.

What is the quantum of interest of investors and market traders from Thailand in Indian bourses? Are there any kinds of bottlenecks being faced by investors from Thailand? What initiatives should India take to remove those restricted areas? What value additions the securities market in Thailand and Indian securities market can bring for a common benefit?

Investment in overseas markets is relatively new to Thai investors due to the government's policy on capital control and, only not so long ago that the Thais are permitted to divest their investment outside Thailand.

Recent efforts on overseas trading have been focused on ASEAN markets and the much larger market like the US. In order to attract the interests from Thai investors, such market must have interesting products, access to market information including listed company data, research and analysis, price feeds etc. In general, investors are more comfortable to invest in the companies that they can relate to e.g. Singapore Airline, Apple, and Google etc. Another area of importance is trading channels, for example online trading.

To overcome some of the problems, the Stock Exchange of Thailand has planned to launch a new product called "Transferable Depository Receipt" or TDR later this year. TRD allows foreign shares to list and trade on the Thai exchange. Perhaps, TDR on Indian stocks can be the first initiatives between the two countries.

Acknowledgment to Dr. Naresh Maheshwari (Past President of ANMI) for this Interview.

Margin collection and reporting

frequently asked questions (FAQs)

Whether collection of margins from clients is required in the capital market segment?

In case of capital market segment, Members should have a prudent system of risk management to protect themselves from client default. Margins are an important element of such a system. The risk management system should be well documented and be made accessible to the clients and the Exchange/NSCCL. However, the quantum of margins and the form and mode of collection of margins is left to the discretion of Members.

Whether collection of margins from clients is required in the F&O segment and Currency Derivatives segment?

In the F&O segment, it is mandatory for Members to collect initial margins from respective clients/constituents on an upfront basis. Similarly in the Currency Derivatives segment also, it is mandatory for members to collect initial margins and extreme loss margins from their client / constituents on an upfront basis.

In what form should a Member collect margin from its constituents?

Members may collect margins from its respective client, in any of the following forms, after taking into account their risk management policy and liquidity aspects.

- Free and unencumbered Balances (funds and securities) available with the member of respective client in different segments of the Exchange*.
- Bank guarantee received towards margin, issued by any approved bank and discharged in favor of the Member.
- Fixed deposit receipts (FDRs) received towards margin issued by any approved bank and lien marked in favor of the Member.

- Securities in dematerialized form actively traded on the National Exchanges, not declared as illiquid securities by any of such Exchanges. (List of illiquid securities are declared on a regular basis by the Exchanges) with appropriate hair cut.

- Units of liquid mutual funds in dematerialized form, whose NAVs are available and which could be liquidated readily with appropriate hair cut.

- Government securities and Treasury bills in electronic form with appropriate hair cut.

- Free and unencumbered Balances (funds and securities) available with the member of respective client in different segments of any Stock Exchange, with specific Authorization from the client, subject to certification by independent Chartered Accountant.

- Securities given as margin which are sold in the cash market and the securities are in the pool account of the Trading Member but are not given as early pay in towards an obligation to deliver shares in the Capital Market Segment, benefit of margin be given to the client till T+1 day from the sale of securities without any hair cut.

- In case of clearing member, the amount of deposit of Trading Member with NSCCL on which NSCCL gives benefit to the clearing member.

- Any other such collaterals, as may be specified by NSCCL from time to time

*Free and unencumbered funds/securities in the account of the client for which the client has given POA in favour of the member client allowing the Member to transfer the same for the purpose of margin, may also be considered provided:

a) Trading Member or its associate company is a

Educational/Compliance Section

Depository Participant and POA for considering securities towards margins is in favor of Trading Member,

b) Funds available in the bank account of client and actually moved to client bank account maintained by the member by T+1 day, using POA issued by the client in favour of the member.

Can securities other than those in the approved list of securities be considered while reporting margin collection to the Exchange?

Liquid securities, in dematerialized form, actively traded on the National Exchanges, which are specifically not declared as illiquid securities by any Exchanges and are received from the respective client, may be considered by the member while reporting margins to the Exchange.

What is the procedure for valuation of Securities?

For the purpose of client Margin collection and reporting, the member shall compute the value of such securities as per the closing rate on T-1 day as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security on that day i.e. T-1 day.

What methodology should be adopted while reporting margin received in the form of liquid mutual funds?

Dematerialized units of liquid mutual funds whose NAVs are available and which could be liquidated readily may be considered while reporting margins collected from constituents. Such units should be available with the member or should be lien marked in favour of the member. The value of listed liquid mutual funds should be computed based on the NAV on T-1 day, reduced by a haircut equivalent to the VaR. In case of others (mutual funds not listed) the haircut should be equivalent to 10% of the NAV.

What methodology should be adopted while reporting margin received in the form of Government securities and Treasury Bills?

- G-Sec/T-Bills available in electronic form or lien marked in favour of the trading member / clearing member may also be considered while reporting margin collection to the Exchange.
- The valuation of G-Sec/T-Bill shall be based on closing price of G-Sec/T-Bills on NDS on T-1 day reduced by a haircut of 10%.

What precautions are to be kept in mind in case of cheques received from Members?

- Cheques received/recorded in the books of Trading Member on or before T day and deposited by member by T+1 day (excluding bank holiday, if any) and cleared subsequently, can be considered.
- In case a cheque is received from a client and the same is recorded in the books on or before T day and deposited by T+1 day, Member shall report the margin collected from such client after considering the effect of such cheque, if the same is cleared within T+5 days.
- Only cheques which are cleared should be considered and cheques dishonored or not cleared up to T+5 working days should not be reported as margin collected.
- If subsequent to the margin reporting by the Member, the cheque deposited by the Member is dishonored or not cleared within T+5 working days, then revised margin file shall be uploaded after factoring into the effect of such dishonored or non-cleared cheques, with incremental batch number within the above mentioned five days.

What precautions are to be taken in case of securities expected to be received in pay-out?

Only free and unencumbered balances of securities available with the Member for respective client in different segments of the Exchange shall be considered for margin collection and reporting. Accordingly, only securities received in pay out shall be considered only after it is actually received from the clearing corporation. However pay-in received from clients for such securities may be considered while calculating the ledger balance for the purpose of reporting of margins till T+1.

What are the related entities for a client, whose balances/securities can be considered for collection and reporting margin?

Margin collected/available in approved form from entities related to the client as mentioned below and certified by an independent Chartered Accountant with specific authorization/consent:

- In case of individuals having relationship as spouse, dependent children and parents with clients
- In case of HUF, any of the Co-parceners
- In case of a Trust, any of the trustees or beneficiaries
- In case of Partnership firm, the partners, their spouse, dependent children and parents

Educational/Compliance Section

- In case of Corporates, the promoters having controlling shareholdings, their spouse, dependent children and parents

What does short reporting of margin mean?

In case a Member fails to collect requisite margin from the respective client on an upfront basis and reports to the Exchange that margin collected from client is less than the actual amount of margins required to be collected (as per the MG12 / MG13), it is termed as short reporting of margin collection and shall attract applicable penalty.

What does false reporting of margin (Non Compliance) mean?

Where the Margin has not been collected by the Member in any of the modes prescribed above, however the same has been reported by the member as margins collected, it would be construed as false reporting to the Exchange/NSCCL.

In case of short reporting of margin can member pass on the penalty to the clients?

Where ever the penalty levied by the Clearing Corporation on the member for short reporting of client margin is attributable to failure on the part of the client to pay margins as required, member may pass on the actual penalty to the client, provided he has evidences to demonstrate that the client has not made payment of the margins as required. Wherever penalty for short reporting of margin is being passed on to the client relevant supporting documents for the same should be provided to the client.

Are members required to provide the margin related information to clients?

Members should send margin related information to their clients on a daily basis, which shall, inter-alia, include

- Client code and name, Trade day (T)
- Total margin deposit placed by the client up to day T-1 (with break-up in terms of cash, FDRs, BGs and securities)
- Margin utilized up to the end of day T-1
- Margin deposit placed by the client on day T (with break-up in terms of cash, FDRs, BGs and securities)
- Margin adjustments for day T
- Margin status (balance with the member / due from the client) at the end of day T

Additionally, every member shall maintain proper records of collateral received from clients as under:

- Receipt of collateral from client and acknowledgement issued to client on receipt of collateral
- Record of return of collateral to client
- Credit of corporate action benefits to clients

Members should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Members should also maintain records to ensure proper audit trail of use of client collateral.

The indicative format of Daily Margin Statement to be issued to client is as per Annexure B of the Exchange Circular number NSE/INSP/19583 dated December 14, 2011

Acknowledgement: National Stock Exchange of India Limited

Give up the idea that by ruling over others you can do any good to them. But you can do just as much as you can in the case of the plant: you can supply the growing seed with the materials for the making up of its body, bringing to it the earth, the water, the air, that it wants. It will take all that it wants by its own nature, it will assimilate and grow by its own nature

:: SWAMI VIVEKANANDA ::

Regulatory Spotlight

Regulatory Spotlight from Analyze N Control.com- 1st Fortnight of Jan 2014

SEBI / LAD-NRO/GN/2013-14/40/52 / 10-Jan-2014 / SEBI (Procedure for Search and Seizure) Regulations, 2014:

Adding extra powers to its crackdown against fraudsters, SEBI notified new norms empowering its Chairman to order search and seizure operations during investigations, while necessary safeguards have also been put in place to protect rights of affected persons.

These norms come a day after SEBI notified new regulations for greater oversight on Collective Investment Schemes, a stricter set of settlement procedures and a framework for providing refunds to small investors hit by irregularities in the markets.

The new norms providing SEBI with powers to conduct search and seizure have been finalized after taking into account suggestions from public and other stakeholders to draft regulations, which were issued in November 2013.

These regulations provide detailed procedures to be followed for issuance of warrants and execution of search and seizure orders, among others.

Besides, a necessary framework has been provided for the safeguards to be adopted during different stages of search and seizure and to protect the rights of those persons subjected to search and the obligations of the authorized persons.

These regulations would help SEBI exercise the powers of search and seizure at the time of investigation, harmonious with the rights of the persons who are subjected to search of their person and property, while pursuing the regulator's statutory mandate of investor protection, it said.

The new powers are aimed at making SEBI more effective in protecting investor interest and helping it to better regulate the market, including enforcement of securities laws.

The government had promulgated Securities Laws (Amendment) Second Ordinance, 2013 in September last conferring explicit powers on SEBI Chairman to authorize Investigating

Authority or any other officer of SEBI to conduct search and seizure under the SEBI Act.

The Ordinance also provided that SEBI may make necessary regulations in relation to search and seizure.

As per the new regulations, SEBI's Investigating Officer would have to request the SEBI Chairman for one or more Warrants of Authority for execution of search and seizure of a person, an enterprise, building, place, vessel, vehicle or aircraft.

These warrants would need to be returned to

SEBI Chairman after being executed fully along with the seizure memo, or even if not executed within the authorized time, if any.

Any search and seizure operation at a place of business or profession would need to be carried out during daytime (from 7 am to 6 pm), but a warrant can continue to be executed after daytime if the entry of the office is at daytime.

For vessel, vehicle, aircraft or place other than the dwelling place, the search can be initiated and continued at any time, while search at dwelling places would need to be initiated, resumed and completed in daytime, unless authorized to the contrary.

SEBI / LAD-NRO/GN/2013-14/38/49 / 09-Jan-2014 / SEBI (Investor Protection and Education fund) (Amendment) Regulations, 2014:

The disgorgement amount received and interest thereon will be used for cases where the Board deems fit to make restitution to eligible and identifiable investors who have suffered losses resulting from violation of securities laws, be utilised only for the purposes of such restitution

No claim for restitution from the disgorged amounts in a specific case shall be admissible after a period of seven years from the date of invitation of claims for disgorgement.

SEBI / LAD-NRO/GN/2013-14/37/50 / 09-Jan-2014 / SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014:

The regulations aim to strengthen measures pertaining to the settlement of administrative and civil proceedings, saying it will not settle an application if a default has been committed within a period of 24 months from the date of previous settlement or a plea filed earlier has been rejected by the regulator.

Further, a specified proceeding shall not be settled if it involves default involving insider trading, fraudulent and unfair trade practices, including front running which in the opinion of SEBI are serious and have a market wide impact or have caused substantial losses to or affect the rights of investors in securities, especially retail investors and small shareholders.

SEBI / LAD-NRO/GN/2013-14/39/51 / 09-Jan-2014 / SEBI (Collective Investment Schemes) (Amendment) Regulations, 2014:

The SEBI has made compulsory for all investments into collective investment scheme

funds to be made through banking channels, and not in cash, to thwart any money laundering activities through such schemes. Besides, the new norms would also help improve transparency in fund garnering activities through CIS activities and would make it easier to identify the source of funds and real investors involved in such schemes.

A large number of cases have come to light in past few years where gullible investors have been defrauded through illegal CIS activities, while their operators claim to have returned the money when caught by regulators and law enforcement agencies.

The new norms- SEBI CIS Amendment Regulations, 2014. As per the regulation, monies payable towards subscription of units of collective investment scheme shall be paid through cheque or demand draft or through any other banking channel, but not by cash.

For launching any such scheme, a person needs to make an application for registration as a Collective Investment Management Company provided that any scheme which is otherwise regulated or prohibited under any other law will not be deemed to be a CIS.

The Collective Investment Management Company will enter into an agreement with a depository for dematerialization of the units of the scheme proposed to be issued.

Further the Collective Investment Management Company should comply with Know Your Client guidelines.

This regulation shall come into force on 9th Jan 2014.

SEBI/ CIR/IMD/FIIC/02/2014 /08-Jan-2014 /Operational Guidelines for Designated Depository Participants:

SEBI has issued operating guidelines for DPs' to register these new entities and to ensure that their combined holding in any listed company remains capped at 10 per cent.

This new class of investors, FPIs, would encompass all FIIs, their sub-accounts and QFIs.

SEBI approved DDPs would grant registration to FPIs on behalf of the regulator and also carry out other allied activities in compliance with regulations.

Each FPI will engage a DDP before making investment in Indian securities market. At all times the DDP and custodian of securities of the

FPI will be the same entity.

The investors applying for registration as FPI needs to fill a form comprises information like name, category of the applicant, name of the country, whether the applicant is 'fit and proper' among others.

In case of an applicant being a bank or its subsidiary, the respective DDP will forward the relevant details of the applicant such as its name and address to SEBI. The regulator would in turn request RBI to provide its comments.

Based on the comments received from RBI, SEBI would intimate the comments of the apex bank to DDP accordingly.

According to SEBI, the depositories shall ensure that the aggregate holdings of all FPIs belonging to the same investor group should remain below 10 per cent of the paid up capital of the investee company.

In case the aggregate holdings of FPIs belonging to same investor group exceeds 10 per cent limit, depositories will put in place appropriate procedures and mechanism to bring back the holdings within the stipulated investment limit, in a reasonable period of time not exceeding seven days.

Also, the depositories will report the details of those FPIs who are responsible for such breach of investment limit to SEBI, forthwith.

These operational guidelines for DDPs are issued to facilitate implementation of SEBI

(FPI) Regulations 2014.

As per the FPI norms, FPIs have been divided into three categories as per their risk profile.

The category-I FPIs, which would be the lowest risk entities, would include foreign governments and government related foreign investors.

Category II FPIs would include appropriately regulated broad-based funds, whose investment manager is appropriately regulated, university funds, university-related endowments and pension funds.

The Category III FPIs would include all others not eligible under the first two categories.

SEBI / LAD-NRO/GN/2013-14/36/12 / 08-Jan-2014 / SEBI Foreign Portfolio Investors) Regulations, 2014:

SEBI has notified new Foreign Portfolio Investor (FPI) regulations to put in place an easier registration process and operating framework for



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overseas entities seeking to invest in Indian capital markets.

The new regulations, which have come into effect on 7th Jan 2014, replaces the existing SEBI regulations for foreign institutional investors (FIIs) and the new class of investors, FPIs, would encompass all FIIs, their sub-accounts and qualified foreign investors (QFIs).

Under the new norms, FPIs have been divided into three categories as per their risk profile and the KYC (know your client) requirements and other registration procedures would be much simpler for FPIs compared to current practices.

It now grants them a permanent registration, as against the current practice of granting approvals for one year or five years to the overseas entities seeking to invest in Indian markets. They will be permanent unless suspended or cancelled by the board or surrendered by the FPI.

FPIs would need to apply for registration through designated depository participants (DDPs), subject to compliance with KYC norms.

There will be an endeavor to dispose of the application for registration as soon as possible but not later than 30 days after receipt of application by the designated depository participant.

SEBI has also issued instructions regarding risk-based KYC for FPIs, as per their risk categories. The Category I FPIs, which would be the lowest risk entities, would include foreign governments and government related foreign investors.

Category II FPIs would include appropriately regulated broad based funds, appropriately regulated entities, broad-based funds whose investment manager is appropriately regulated, university funds, university related endowments, pension funds etc. The Category III FPIs would include all others not eligible under the first two categories.

Further all existing FIIs and sub-accounts may continue to buy, sell or otherwise deal in securities under the FPI regime.

All existing QFIs can also continue to buy, sell or otherwise deal in securities till the period of one year from the date of notification of this regulation. In the meantime, they may obtain FPI registration through DDPs.

The registration granted to FPIs by the DDPs on behalf of SEBI would be permanent unless suspended or cancelled by the regulator.

FPIs will be allowed to invest in all those securities wherein FIIs are allowed to invest. Category I and Category II FPIs will be allowed to issue, or otherwise deal in offshore derivative instruments (ODIs), directly or indirectly. However, FPI needs to be satisfied that such ODIs are issued only to persons who are regulated by

an appropriate foreign regulatory authority after ensuring compliance with KYC norms. SEBI-registered custodian of securities will be deemed to be DDP subject to payment of fees as prescribed in the regulations. Regulator-approved qualified depository participant who are not meeting the DDP eligibility criteria may operate as DDP for a period of one year.

SEBI would not charge any fees for granting registration to Category I foreign investors subject to common beneficial owner condition scenario given in the regulation, while the regulator would take an annual payment of \$3,000 and \$300 from Category II and Category III overseas entities, respectively, till the validity of their registration.

Also, fees of \$1,000 would be paid by the existing FIIs, sub-accounts and QFIs to obtain registration certificate to act as an FPI.

SEBI would not charge any fee from multilateral agency such as World Bank and other institutions, established outside India for providing aid, which have been granted privileges and immunities from payment of tax and duties by the central government to obtain registration certificate to act as an FPI.

FPIs would be allowed to invest in securities in the primary and secondary markets.

These would include unit of schemes floated by domestic mutual funds, treasury bills, dated government securities, equity derivatives, commercial papers, and Indian depository receipts, among others.

The FPIs would also need to obtain separate and distinct permanent account number (PAN) from the Income Tax department.

These measures come at a time when concerns are being raised about outflows of foreign capital and weakening of the rupee against the dollar and other foreign currencies.

The new norms are expected to make it much easier for the foreign investors to enter the country and make investment decisions.

To ring-fence the new regulations from possible misuse, the FPIs would need to be from countries that are member of global bodies like Financial Action Task Force (FATF), IOSCO (International Organization of Securities Commissions).

Besides, the entities from any country against which bodies like FATF have issued warning for AML/CFT (Anti-Money Laundering and Combating the Financing of Terrorism) deficiencies would not be allowed to register as FPIs.

SEBI /CIR/IMD/DF/1/2014 / 07-Jan-2014 / Reporting of Trades in Securitised Debt Instruments in Trade Reporting Platforms and Clearing and Settlement

of trades in Securitised Debt Instruments through Clearing Corporations:

NSE / Circular Ref No : 005/2014 / 09-Jan-2014 / Reporting of Trades in Securitised Debt Instruments in Trade Reporting Platforms and Clearing and Settlement of trades in Securitised Debt Instruments through Clearing Corporations:

It has now been decided that, all trades in Securitised Debt Instruments (listed or unlisted) by All institutional category and portfolio investors as specified in circular shall be reported on the trade reporting platform of either NSE, BSE or MCX-SX within fifteen minutes of the trade and shall necessarily be cleared and settled through the NSCCL or the Indian Clearing Corporation Limited (ICCL) or MCX-SX Clearing Corporation Limited (MCX-SX CCL).

The reporting should be on either of the exchange platform to avoid duplication

The reporting for a trade must be done by the buyer and the seller on the same platform to ensure matching of both sides of the trades.

To provide transparency and efficient pricing of Securitised Debt Instruments, the reporting platforms shall provide continuous data related to trade/reporting and also offer document/continuous disclosures by issuers

SEBI had earlier directed the intermediaries to report trades in Corporate Bonds (off market) on the trade reporting platform of exchanges and directed that trades shall be necessarily cleared and settled through the Clearing Corporation of the Stock Exchanges. This has helped in improving the transparency in trading of Corporate Bonds to a greater extent.

The circular shall come into effect from April 01, 2014.

SEBI /CIR/MRD/DP/ 01/2014 / 07-Jan-2014 / Delivery Instruction Slip (DIS) Issuance and Processing:

NSDL / NSDL/POLICY/2014/0004 / 08-Jan-2014 / 2014-0004-Policy-Delivery Instruction Slip (DIS) Issuance and Processing SIGNED:

CDSL / CDSL/OPS/DP/ POLCY/4166 / 08-Jan-2014 / SEBI Circular - Delivery Instruction Slip (DIS) Issuance and Processing:

In order to safeguard the interest of the investors, SEBI has put in place a new framework to strengthen the supervisory and monitoring role of depositories and their participants for issuance and processing of Delivery Instruction Slips.

DIS is standardised across all DPs in terms of serial number and layout and size of DIS to facilitate scanning and easy retrievability of records.

The DIS must have a pre-printed unique serial number, Same DIS shall not be used for giving both market and off-market instruction. And also will not be used for transactions with multiple execution dates.

Electronic control on issue of booklets or loose slips and receipt of same

DPs to validate and will ensure that no instructions accompanied by a used DIS or unissued DIS are processed.

The DPs to scan every DIS/annexures/printouts and ensure adequate infrastructure specified control to avoid any unauthorized access Control on DIS booklet issued.

All DIS issued prior to this circular will be phased out within a period of two years.

The provisions of this circular will come into effect six months from 7 Jan 2014.

SEBI-PRESS RELEASE \ PR No. 1/2014 \ 03-Jan-2014 \ PR - Qualified Central Counterparties in Securities Market:

NSCCL, ICCL and MCX-SX Clearing Corporation are qualified central counterparty as they are regulated by SEBI.

QCCP is an entity that is licensed to operate as a central counterparty (including a license granted by way of confirming an exemption) and is permitted by the appropriate regulator to operate as such with respect to the products offered.

Clearing Corporations undertakes the activity of clearing and settlement of trades in securities or other instruments or products that are dealt with or traded on stock exchanges.

The international standards were issued in April 2012 and all G-20 nations are required to adhere to these strict standards to check derivative-related risks in the financial system.

These rules are issued to enhance safety and efficiency in payment, clearing, settlement, and recording arrangements, and more broadly, to limit systemic risk and foster transparency and financial stability.

The QCCP status will make these clearing corporations comply with the PFMI, an international standard to handle counterparty risk on derivatives.

These clearing corporations are subjected, on an on-going basis, to rules and regulations that are consistent with the PFMI issued by the CPSS and IOSCO.

SEBI-INFORMAL GUIDANCE / Informal Guidance in the matter of R Systems International Limited. / 08-Jan-2014 / Informal Guidance in the matter of R Systems International Limited:

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Since the Acquirer is a neither promoter nor part of the promoter group or is person acting in concert with the promoters, he falls under the category of public as defined under section 2 (d) of the SCRR. Further, Acquirer's shareholding in the Applicant Company will fall under the category of the "Public Shareholding" as defined under section 2 (e) of the SCRR. The same is also evident from the Shareholding Pattern filed by the company with the stock exchanges for the quarter ended September 2013 wherein the shareholding of Acquirer is shown under the category of "Public" and holding more than 5% of the total number of shares of the company.

Further, paragraph 3.1.2. of letter of offer dated December 22, 2012 categorically states that "...Notwithstanding that the Open Offer is being made under Regulation 4 of the SEBI (SAST) Regulations, the prime objective of the Acquirer behind the acquisition is the investment value in the Equity Shares of the Target Company and NOT substantial holding of shares/voting rights/control or management of the Target Company. Therefore, until and unless the Acquirer actually, acquires control of the Target Company, the Acquirer would be considered as "public".

SEBI-INFORMAL GUIDANCE / SEBI (Informal Guidance) Scheme, 2003 - Dtd. 08 Jan 2014 / 02-Jan-2014 / Request from ICICI Prudential Asset Management Company Limited for interpretative letter under SEBI (Informal Guidance) Scheme, 2003 - Guidance in connection with appointment of common independent dir:

In the instant case, the person being one of the directors of the Sponsor Company, who is otherwise satisfying the test of "independence", appears to qualify as an "associate" by virtue of the definition mentioned in the case.

Further, the applicability of specific provisions with regard to "associate" directors as laid down by SEBI (Mutual Fund) Regulations and the applicable circulars would be more appropriate in the present situation as compared to the provisions of Companies Act, 2013, Listing Agreement.

BSE \ 20140117-20 \ 17-Jan-2014 \ Standard Operating Procedure (SOP) for suspension and revocation of equity shares of listed entities for non compliance of certain clauses of the Listing Agreement and NSE / Circular Ref.No.:

1/2014. / 15-Jan-2014 / Amendments to Byelaws:

Amendments referred to non compliance of listing agreement and adherence to SOP for suspension and revocation of suspension of admission to dealings on the Exchange.

BSE \ 20140115-26 \ 15-Jan-2014 \ Enhancements in EOD File Formats of Equity Derivatives Segment – Update II:

This circular is in continuation with enhancements in EOD file formats of equity derivatives segment in order to bring in consistency and standardization in file formats across market segments.

Enhancements for the same has been made for daily price range file for Equity Derivatives Segment, existing files providing information of equity securities and equity derivatives contracts & Discontinuation of Series Master for equity derivatives segment.

BSE \ 20140113-1 \ 13-Jan-2014 \ ICCL – BSE Interest Rate Futures (IRF) Contracts on 10 Year Cash Settled Government Securities - Clearing and Settlement Process:

ICCL will be undertaking clearing and settlement activities for IRF Contracts on 10 Year Cash Settled Government Securities in the ICCL – BSE Currency Derivatives Segment as per the guidelines issued by SEBI. Norms pertaining to clearing and settlement process, margins, etc are enclosed in the Annexure I & II of the circular.

BSE \ 20140110-29 \ 10-Jan-2014 \ Facility for creating multiple log-in IDs in RTRMS module:

ICCL has provided a new facility for creating multiple log-in IDs for the existing RTRMS module.

RTRMS module will be made available to members from Tuesday, January 14, 2014.

BSE \ 20140110-22 \ 10-Jan-2014 \ Zero Terminal for Currency Derivatives Segment:

Exchange has introduced web based Zero Terminal (ZT) for Currency Derivatives segment.

The ZT for the Currency Derivatives segment is an enhanced version of the Admin terminal providing greater flexibility and control to the Admin user of a trading member firm to perform various admin and risk management functions.

ZT has been integrated as a module within Real Time Risk Management System (RTRMS) which is already used by trading members.

Trading members can use their existing login credentials of RTRMS to access the ZT module. This will facilitate the trading member to simultaneously control his order level and post-trade level risk management activities through a single system.

Through this system trading member can view all the trades performed by all his trading users, all the pending orders entered by all his trading users, can cancel all the pending orders for all his trading users and can control maximum order quantity allowed in a single order for his trading user. Based on the single order quantity limit is set for the trading user.

BSE \ 20140110-20 \ 10-Jan-2014 \ Download of Penalty Report for modification of Client Codes of non institutional trades (All Segments):

Members are requested to save the Penalty Report for modification of Client Codes of non institutional trades downloaded in DLOAD 32 and extranet

BSE \ 20140109-25 \ 09-Jan-2014 \ Periodic Call Auction Session for Illiquid Scrips – Change in treatment of unmatched orders:

It has been decided that going forward, unmatched orders at the end of each periodic call auction session will not be returned but carried forward to the next session. Further, all unmatched orders at the end of last periodic call auction session shall be returned at close of the market.

There is no other change in periodic call auction trading mechanism.

This change shall be made live with effect from Monday, January 13, 2014.

BSE \ 20140106-21 \ 07-Jan-2014 \ Periodic Call Auction For illiquid Scrips:

SEBI has reportedly rationalized the periodic call auction mechanism by modifying how it classifies the so-called illiquid stocks. A stock would now be classified as illiquid if its average daily turnover is less than Rs 2 lakh in the previous two quarters and if it is classified as illiquid at all the exchanges where it is traded. Earlier, a stock was classified to be illiquid if its average daily trading volume in a quarter was less than 10,000, the average daily number of trades was less than 50 in a quarter and if it was

classified as illiquid by all the exchanges where it traded.

Call auctions will not apply to shares where a company is profitable in at least two of the past three years and not more than 20% of promoters' shareholding is pledged in the latest quarter and the book value is three times or more than the face value. The new rules also exclude companies with a market capitalization of at least Rs 10 crore or which have paid a dividend in at least two of the past three years.

The above will rationalize the number of stocks traded in call auction trading.

Further now exchanges will, reduce number of sessions to at least two sessions in a trading day, with one uniform closing session across the exchanges. This is a critical and meaningful change as multiple sessions were making the entire segment non tradable

Carrying forward of the unexecuted order was a much required change as earlier the unexecuted orders had to be re-entered in each session thereby giving inflated order quantity vis a vis executed trades. This carry forward of unexecuted orders will give the clear picture of the relevant number of orders entered by respective clients.

BSE \ 20140103-20 \ 03-Jan-2014 \ Trading in Interest Rate Futures (IRF) Contracts on 10 Year Cash Settled Government Securities at BSE and NSE / Circular Ref. No: 002/2014/ Launch of trading in IRF / 09-Jan-2014 / Launch of trading in Interest Rate Futures:

MCX-SX / MCX-SX/CDS/TRD/1703/2014 / 14-Jan-2014 / Launch of Cash Settled Interest Rate Futures (IRF) on 10-Year Government of India Security:

It has been decided to introduce cash settled Interest Rate Futures on 10-year Government of India security.

A copy of the Interest Rate Futures Directions, 2013 is placed on the RBI Website.

Following are the Eligible instruments which are permitted on the recognised stock exchanges:

- (i) 91-Day Treasury Bills;
- (ii) 2-year, 5-year and 10-year coupon bearing notional Government of India security, and
- (iii) Coupon bearing Government of India security.

Following are the Eligible entities and conditions:

- (1) Persons resident in India are permitted to purchase or sell Interest Rate Futures both

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for hedging an exposure to interest rate risk or otherwise.

(2) Foreign Institutional Investors, registered with Securities and Exchange Board of India, are permitted to purchase or sell Interest Rate Futures, subject to the condition that the total gross long (bought) position in the spot Government securities market and Interest Rate Futures markets taken together does not exceed the aggregate permissible limit for investment in Government securities and the total gross short (sold) position of each Foreign Institutional Investor in Interest Rate Futures, does not exceed their long position in the Government securities and in Interest Rate Futures at any point in time.

(3) Scheduled bank or such other agency falling under the regulatory purview of the RBI Act, 1934, the Banking Regulation Act, 1949 or any other Act or instrument having the force of law shall participate in the IRF market with prior approval of RBI.

(4) (a) Regulated entities or agencies other than those referred above falling under the regulatory purview of any other regulator can participate only with resp regulator approval.

(4) (b) Participation of such entities or agencies referred in clause (a) above shall be subject to specified conditions or limits

BSE \ 20140102-18 \ 02-Jan-2014 \ Enhancements in EOD File Formats of Equity Derivatives segment:

EOD file formats of the Currency Derivatives segment have been designed to bring in consistency and standardization with current market practices.

Enhancements have been done in Contract master and other EOD back-office files of Equity Derivatives segment as provided in Annexure.

BSE \ 20140101-16 \ 01-Jan-2014 \ SEBI Renewal fees: Sub broker registered between April 01, 2009 to March 31, 2010:

NSE / Circular Ref.No.: 124/2014 / 14-Jan-2014 / Renewal Fees: Sub-broker Registered between April 01, 2009 and March 31, 2010:

Sub-Brokers who wish to continue business after March 31, 2014 are liable to pay the SEBI renewal fee of Rs.5000/- for the block of five financial years commencing from April 1, 2014.

For sub broker who wish to discontinue business after March 31, 2014 the members are requested to submit an application to the Exchange on or before March 15 2014. Late Application for cancellation received after March 15, 2014 will be liable for payment of fees

of Rs.5000/-.

Members are requested to send the details of Sub-brokers who shall be continuing in the prescribed format provided by exchange.

NSE / Circular Ref. No : 035/2014 / 09-Jan-2014 / Cash Settled Interest Rate Futures (IRF) on 10-Year Government of India Securities:

Consolidated circular w.r.t Clearing, Settlement and Risk Management for cash settled on Cash Settled Interest Rate Futures (IRF) on 10-Year Government of India Securities

MCX-SX / MCX-SX/C&S/1717/2014 / 18-Jan-2014 / Deposit Requirements for Members of Debt Market Segment:

Exchange has provided net worth and deposit requirement for Clearing Members in Debt Market Segment. Members are requested to make a note for the same.

MCX-SX / MCX-SX/MEM/1715/2014 / 17-Jan-2014 / Membership requirement for Interest Rate Futures:

Existing members trading in CD segment are enabled by Exchange to trade in IRF under CD segment.

Existing members trading only in Futures & Options segment of the Exchange i.e. members not registered under CD segment are required to submit the documents as specified in Annexure of this circular.

MCX-SX / MCX-SX/C&S/1704/2014 / 14-Jan-2014 / Clearing, Settlement and Risk Management of Interest Rate Futures (IRF):

The circulars covers consolidated procedures on :

- a) Settlement Procedure
- b) Settlement Price
- c) Margins including-Initial Margin, Extreme Loss Margin and
- d) Margin on Calendar Spread Positions and Margin collection and enforcement.

MCX-SX / MCX-SX/CDS/TRD/1697/2014 / 09-Jan-2014 / Mock Trading in Currency Derivatives Segment Jan 13-15, 2014:

Exchange is conducting mock trading sessions in Interest Rate Futures from Monday, January 13, 2014 to Wednesday, January 15, 2014.

Procedure and relevant information about

Interest Rate Future contracts is specified in Annexure attached.

USE / USE/CMPL/446/2014 / 01-Jan-2014 / Know Your Client Requirements:

SEBI has simplified investor account opening procedures by doing away with details about income and occupation of the applicant for the purpose of a centralized KYC registration agency (KRA)

According to SEBI certain information about applicants like gross annual income details, occupation, permanent address proof and whether the applicant is a politically exposed person are not required for the centralized KYC Registration Agency (KRA). With the centralized KRA system in place, the client has to undertake the KYC process of the account opening process only once.

Information as contained in revised Part I of AOF will only be required to be captured in the systems of KRAs henceforth. A time period of six months, effective from the date of this circular, is provided to bring about the aforementioned modifications in the KYC form. Members to ensure suitable changes in KYC format and KYC module of Back office appropriately.

CDSL / CDSL/AUDIT/DP/POLCY/4165 / 08-Jan-2014 / REVISED-FORMAT-FOR-IAR-AND-CAR:

The internal audit covers all aspects of DP operations. A checklist of audit points is given in the circular which stipulates the minimum areas to be verified. Over and above, internal auditors may adopt more stringent requirements and expand the scope of audit or add more audit points to achieve the internal audit objectives.

CDSL / CDSL/OPS/DP/POLCY/4160 / 06-Jan-2014 / INSURANCE POLICY FOR WAREHOUSE RECEIPTS HELD IN DEMATERIALIZED FORM:

This circular is with regards to renewal of insurance policy to cover the risks associated with warehouse receipts held by the investors in dematerialized form in CDSL system.

Insurance charges to be paid for covering risk from January 01, 2014 to June 30, 2014 is Rs. 857/-.

CDSL / CDSL/NP/DP/STMT/4153 / 02-Jan-2014 / DISPATCH OF RIGHTS AND OBLIGATIONS DOCUMENT TO BOs ON BEHALF OF DEPOSITORY PAR-

TICIPANTS:

CDSL has been receiving requests from DPs to dispatch the Rights and Obligations document along with the transaction-cum-holding statements on behalf of DPs and would commence providing this facility from January 2014 and continue up to May 2014.

Document for Rights and Obligations along with the transaction-cum-holding statements for BOs will be sent through Email or in physical form, but subject to charges specified in circular.

NSDL / NSDL/POLICY/2014/0002 / 06-Jan-2014 / Launch of e-DIS facility for pay-in Instructions on SPEED-e:

Depository has announced launch of e-DIS for pay-in Instructions on password based SPEED-e facility.

With the launch of e-DIS facility clients can submit instructions to their Participants either by entering instructions details in favor of the pre-notified CM or by confirming the instruction details uploaded by the pre-notified CM.

RBI / RBI/2013-2014/452 A.P. (DIR Series) Circular No.95 / 17-Jan-2014 / Merchanting Trade Transactions;

Guidelines for merchanting or intermediary trade transactions have been revised effective from 17 Jan 2014.

Additionally following guidelines has been provided which are:

a] While handling merchant trade transactions or intermediary trade transactions, can follow the guidelines as provided in the circular.

b] Confirmed orders have to be received from the genuine buyers and transactions should result in reasonable profits

c] Inward remittance from the overseas buyer to be received first and the outward remittance to the overseas supplier will be made subsequently.

d] An irrevocable Letter of Credit can be opened by the buyer in favor of the merchant similarly merchant in turn can open a LC in favor of the overseas supplier.

e] Export LC to be issued in the name of original merchanting trader in India and import LC in the original supplier.

f] No opening of export LC in case of advance export leg payment. However such amount needs to be held in a separate deposit / current account in foreign currency or Indian Rupees.

g] Advance for the import to seller, should be paid against bank guarantee from an international bank.

h] Import leg Amount to be earmarked till the payment of import and should be used for

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import payment or short-term deployment of fund limited to the import payable.

i] Reporting requirements as specified

RBI / RBI/2013-2014/449 A.P. (DIR Series) Circular No. 94 / 16-Jan-2014 / Conversion of External Commercial Borrowing and Lumpsum Fee/Royalty into Equity:

Case of exchange rate as against the amount of foreign currency borrowed or owed by the resident entity from/to the non-resident entity.

Further exchange rate prevailing on the date of the agreement between the parties concerned for such conversion will be applied.

The principle of calculation of INR equivalent for a liability denominated in foreign currency as mentioned at paragraph 3 of circular shall apply, mutatis mutandis, to all cases where any payables/liability by an Indian company such as, lump sum fees/royalties, etc. are permitted to be converted to equity shares or other securities to be issued to a non-resident subject to the conditions stipulated under the respective Regulations.

RBI / RBI/2013-2014/448 DBOD.No.BP.BC. 85 /21.06.200/2013-14 / 15-Jan-2014 / Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposure:

Considering the extent of unhedged foreign currency exposures of the entities continues to be significant and this can increase the probability of default in times of high currency volatility.

Hence incremental provisioning and capital requirements for bank exposures to entities with unhedged foreign currency exposures has been introduced. The following methodology has been highlighted for banks to :

a) Ascertain the amount of Unhedged Foreign Currency Exposure (UFCE) on account of natural and financial hedges

b) Estimate the extent of likely loss

c) Estimate the riskiness of unhedged position and provide appropriately

Banks have to provide 80 basis points on total credit exposure over and above the standard provisioning requirement if the likely loss is more than 75 per cent. For such losses, an additional risk weight of 25 per cent has also been prescribed.

RBI said if the likely loss was up to 15 per cent, no additional provision was required. For losses

of 15-30 per cent, the additional provisioning requirement will be 20 basis points, for 30-50 per cent 40 basis points and for a likely loss of 50-75 per cent, additional provisioning will be 60 basis points. The additional provisioning and risk weight norms will come into effect from April 1, 2014.

Banks have to monitor the UFCE on a monthly interval and Banks should calculate the incremental provisioning and capital requirements at least on a quarterly basis. However, during high USD-INR volatility, the calculations should ideally be on monthly intervals.

For Foreign MNCs intra-group foreign currency exposures (e.g. a subsidiary of a foreign MNC in India may have borrowed from its parent) may be excluded if the bank is satisfied that such foreign currency exposures are appropriately hedged or managed robustly by the parent.

Banks should ensure that the risk of unhedged foreign currency exposure are effectively incorporated in their internal credit rating system and ensure that their loan pricing policies adequately reflect overall credit risks. Implementation of these requirements will be dependent on a robust MIS for getting sufficient and credible data on a regular basis from the borrowers.

RBI / RBI/2013-2014/447 A.P. (DIR Series) Circular No.93 / 15-Jan-2014 / Clarification- Establishment of Liaison Office/ Branch Office/ Project Office in India by Foreign Entities- General Permission:

Addition of further 2 country - Hong Kong and Macau to comply with the foreign exchange management regulations 2000 for the purpose of Establishment in India of Branch or Office or other Place of Business.

RBI / RBI/2013-2014/446 A.P. (DIR Series) Circular No. 92. / 13-Jan-2014 / Risk Management and Inter Bank Dealings:

It has been decided to allow, in case of contracted exposures, forward contracts in respect of all current account transactions as well as capital account transactions with a residual maturity of one year or less to be freely cancelled and rebooked. As far as the exposure of the FIIs/QFIs/other portfolio investors is concerned, forward contracts booked by these investors, once cancelled, can be rebooked up to the extent of 10 per cent of the value of the contracts cancelled. The forward contracts booked by these investors

may, however, be rolled over on or before maturity.

RBI / RBI/2013-2014/443 DNBS(PD).CC. No 366/03.10.42/2013-14 / 10-Jan-2014 / Implementation of Section 51-A of UAPA, 1967 -Updates of the UNSCR 1267 (1999) /1989 (2011) Committee's AI Qaida Sanctions List and Consolidated List:

RBI / RBI/2013-2014/432 DPSS. CO. AD. No. 1502/02.27.005/2013-14 / 07-Jan-2014 / Implementation of Section 51-A of UAPA, 1967 - Updates of the UNSCR 1267 (1999) / 1989(2011) Committee's AI Qaida Sanctions List and Consolidated List:

Banks/All India Financial Institutions are required to update the list of individuals/entities as circulated by Reserve Bank and before opening any new account, it should be ensured that the name/s of the proposed customer does not appear in the list.

Banks should scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list.

RBI / RBI/2013-2014/441 RPCD.RRB.RCB.AML.BC.No. 75/07.51.018/2013-14 / 09-Jan-2014 / Know Your Customer (KYC) Norms /Anti-Money Laundering (AML) Standards/ Combating of Financing of Terrorism (CFT)/Obligation of banks under Prevention of Money Laundering Act (PMLA), 2002 – Amendment:

Amendment to Section 13 of the Act which provides for “Powers of Director to impose fine”

If the Director, in the course of any inquiry, finds that a reporting entity or its designated director on the Board or any of its employees has failed to comply with the obligations under this Chapter, then action taken can be taken under this amendment on which includes issue of warning letter, direct to comply with specific instructions, to send reports at such interval as may be prescribed or levy a fine which shall not be less than ten thousand rupees but may extend to one lakh rupees for each failure.

RBI / RBI/2013-2014/437 A.P. (DIR Series) Circular No. 87 / 09-Jan-2014 / Resident Bank account maintained by

residents in India – Joint holder – liberalization:

For operational convenience the NRIs, as defined in Regulation 2(vi) of FEMA Notification No.5 dated May 3, 2000, may be permitted to operate accounts on “Either or Survivor” basis.

Accordingly, it has been decided that AD banks may include an NRI close relative (relatives as defined in Section 6 of the Companies Act, 1956) in existing / new resident bank accounts as joint holder with the resident account holder on “Either or Survivor” basis.

Further AD bank to obtain the declaration in specified format for opening joint account duly signed by the non-resident account holder.

RBI / RBI/2013-2014/436 A.P. (DIR Series) Circular No. 86 / 09-Jan-2014 / Foreign Direct Investment- Pricing Guidelines for FDI instruments with optionality clauses:

The RBI has eased rules for FDI, allowing exits subject to a lock-in period and without an assured return.

It has been decided that optionality clauses may henceforth be allowed in equity shares and compulsorily and mandatorily convertible preference shares/debentures to be issued to a person resident outside India under the FDI Scheme.

The permission to allow exit is subject to certain conditions such as:

a) Minimum lock-in period of one year or a minimum lock-in period as prescribed under FDI Regulations, whichever is higher.

b) After the lock-in period, a non-resident investor can exit without any assured return. For a listed company, the non-resident investor can get out at the market price prevailing at the stock exchanges. In the case of an unlisted company, an investor can exit in equity shares at a price not exceeding that arrived at on the basis of return on equity. Any agreement permitting a return linked to equity as explained shall not be treated as violation of FDI policy and the foreign exchange laws.

c) Investments in CCDs and CCPS of an investee company may be transferred at a price worked out as per any internationally accepted pricing methodology at the time of exit duly certified by a Chartered Accountant or a SEBI registered Merchant Banker.

RBI / RBI/2013-2014/438 A. P. (DIR Series) Circular No. 88 / 09-Jan-2014 / Memorandum of Instructions for Opening and Maintenance of Rupee /

Regulatory Spotlight

Foreign Currency Vostro Accounts of Non-resident Exchange Houses:

It has been decided to include additional items under Permitted Transactions under RDAs such as:

a) Payments to utility service providers in India, for services such as water supply, electricity supply, telephone (except for mobile top-ups), internet, television etc.

b) Tax payments in India

c) EMI payments in India to Banks and Non-Banking Financial Companies (NBFCs) for repayment of loans RBI / RBI/2013-2014/440 A.P. (DIR Series) Circular No. 90 / 09-Jan-2014 / Provisions under section 6 (4) of Foreign Exchange Management Act, 1999 – Clarifications:

This circular is with regards to person resident in India who may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.

This circulars clarifies scenarios with regard to provisions under section 6 (4) of FEMA 1999.

RBI / RBI/2013-2014/435 DNBS.CC.PD.No. 365/03.10.01/2013-14 / 08-Jan-2014 / Lending Against Security of Single Product – Gold Jewellery:

Loan-to-value ratio for the NBFCs has been raised to 75% of the value of gold pledged as loan from the earlier 60% with immediate effect.

The lending limit has been hiked on par with the recommendations by the KUB Rao Working Group formed by the RBI in 2012. It has suggested extension of limit to facilitate monetisation of idle gold.

Only the intrinsic value of the gold will be taken into account while calculating the loan amount and no other costs such as making charges will be added to it.

Certification on purity of gold by NBFC's is necessary to establish the maximum loan amount and the reserve price for auction. However, the firms can include suitable caveats to safeguard them from disputes on redemption.

In case, gold jewellery used as collateral weighs more than 20g, verification of ownership is mandatory via a suitable document stating the manner in which the ownership was established.

Auction to be conducted in the same town or taluk in which the branch that had extended the loan is located will remain the same.

Disbursement of high value loans of Rs. one lakh and above, through cheque also remains the same.

RBI / RBI/2013-2014/431 DPSS. CO. AD. No. 1503/02.27.005/2013-14 / 07-Jan-2014 / Anti- Money Laundering (AML) / Combating of Financing of Terrorism (CFT) – Standards:

In order to identify and work with jurisdictions with strategic AML/CFT deficiencies, exchange has provided FATF plenary statement. Members are requested to ensure to avoid transaction under such jurisdiction.

RBI / RBI/2013-2014/430 DBOD.No.BP.BC.82/21.06.217/2013-14 / 07-Jan-2014 / Banks' Exposure to Central Counterparties (CCPs) - Interim Arrangements:

The RBI has said banks' exposure to qualified central counterparties for clearing activity pertaining to derivative products will be kept outside the ceiling on the permitted amount of loans and credit lines to a single such entity.

At present, the ceiling on such exposure to a single counterparty is 15 per cent of capital funds.

Clearing exposure would include trade exposure and default fund exposure.

RBI would consider a revised framework on banks' exposure to QCCPs as and when the Basel Committee on Banking Supervision finalizes its proposal in this regard.

Other exposures to QCCPs — such as loans, credit lines, investments in the capital of a CCP, liquidity facilities, etc — will continue to be within the existing exposure ceiling of 15 per cent of capital funds to a single counterparty.

Currently, there are four CCPs — Clearing Corporation of India (CCIL), National Securities Clearing Corporation, Indian Clearing Corporation and MCX- SX Clearing Corporation.

CCIL has been granted the status of a QCCP by the central bank and the other three have been granted by SEBI.

Banks are to report their clearing exposures to each QCCP to RBI within seven days of each succeeding month. In cases where a bank's exposure is considered high, RBI may tell it to reduce the exposure within ascertain time period or maintain a higher level of capital on such exposure.



Compiled by Ms Rekha Shah of Analyze N Control

Income-tax Act

1. D.H. Securities Pvt. Ltd. v. Dy. CIT, 4(1), Mumbai, [ITA No. 5724/Mum/2011 dated November 27, 2013 (ITAT MUM-TM)]

Section 14A of the Income-tax Act, 1961 read with Rule 8D of the Income-tax Rules, 1962 -

Assessee is engaged in the business of trading in shares and therefore its main object is to earn profit on purchase and sale of shares and not to earn dividend income from such shares - Shares were held by it as stock in trade - According to the assessee, the accrual of dividend from such shares, which is exempt from tax, is merely incidental to holding of shares held as stock in trade and not as investment - It was also submitted that no expenditure/interest can be disallowed under section 14A by relating the same to the dividend income because no expenditure was, as a matter of fact, incurred with the view to earn dividend - Held, disallowance under section 14A can be made in conformity with law even in cases where dividend income has been earned on shares held as stock in trade

2. CIT Vs. Excel Industries Ltd., Civil Appeal No. 125 of 2013, October 8, 2013 (SC), (Assessment Year 2001-02)]
Section 28(iv) of the Income-tax Act, 1961 - Value of any benefit of Perquisite - Benefit of an entitlement to make duty free imports of raw materials obtained by the assessee through advance licences and duty entitlement pass book issued against export obligations is income which does not accrue in the year of export but in the year in which the imports are made

Applying the three tests laid

down by various decisions of this Court, namely, whether the income accrued to the assessee is real or hypothetical; whether there is a corresponding liability of the other party to pass on the benefits of duty free import to the assessee even without any imports having been made; and the probability or improbability of realisation of the benefits by the assessee considered from a realistic and practical point of view (the assessee may not have made imports), it is quite clear that in fact no real income but only hypothetical income had accrued to the assessee and Section 28(iv) would be inapplicable to the facts and circumstances of the case.

Essentially, the Assessing Officer is required to be pragmatic and not pedantic.

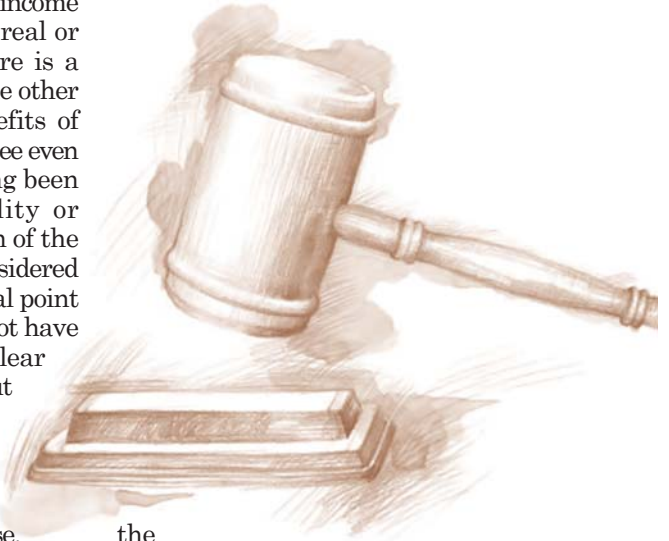
Secondly, a consistent view has been taken in favour of the assessee on the questions raised, that the benefits under the advance licences or under the duty entitlement pass book do not represent the real income of the assessee.

Note: Decision of the High Court, upheld.

3. Chironjilal Sharma HUF Vs. UOI, [Civil Appeal No. 10601 of 2013, November 26, 2013 (SC)]

Section 132B read with Section 132 of the Income-tax Act, 1961 - Search and seizure - Application of assets seized or requisitioned - Cash seized during search was in excess of tax liability - Assessee would be entitled to interest for the period from expiry of period of six months from the date of order under Section 132(5) to the date of regular assessment order

A close look at section 132B and, particularly, clause (b) of Section 132B(4) clearly shows that where the aggregate of the amounts retained under Section 132 exceeds



the amounts required to meet the liability under Section 132B(1)(i), the department is liable to pay simple interest at the rate of fifteen percent on expiry of six months from the date of the order under Section 132(5) to the date of the regular assessment or re-assessment or the last of such assessments or reassessments, as the case may be. It is true that in the regular assessment done by the Assessing Officer, the tax liability for the relevant period was found to be higher and, accordingly, the seized cash under Section 132 was appropriated against the assessee's tax liability but the fact of the matter is that the order of the Assessing Officer was over-turned by the Tribunal finally on 20.2.2004. As a matter of fact, the interest for the post assessment period i.e. from 4.3.1994 until refund on the excess amount has already been paid by the department to the assessee. The department denied the payment of interest to the assessee under Section 132B(4)(b), on the ground that the refund of excess amount is governed by Section 240 and Section 132B(4)(b) has no application. But, Section 132B(4)(b) deals with pre-assessment period and there is no conflict between this provision and Section 240 or for that matter 244(A). The former deals with pre-assessment period in the matters of search and seizure and the later



Legal Update

deals with post assessment period as per the order in appeal.

Note: Decision of the High Court, set aside.

4. CIT-II, Ahmedabad Vs. Mastek Ltd., [Special Leave to (Civil) CC3075/2013, March 4, 2013 (SC)]

Section 260A of the Income-tax Act, 1961 - High Court - Appeal to - High Court's power to frame substantial question(s) of law at the time of hearing of the appeal other than the questions on appeal has been admitted remains under Section 260A(4) - This power is subject, however, to two conditions, (1) the Court must be satisfied that appeal involves such questions, and (2) the Court has to record reasons therefor

Note: Decision of the Gujarat High Court in ITA No. 472/2012 dated -8-2012, upheld.

Service Tax

5. British Airways PLC India Branch Vs. Commissioner of Service Tax, New Delhi, [Civil Appeal No. 6378 of 2013, August 2, 2013 (SC)] Section 78, read with sections 76 and 80, of the Finance Act, 1994 - Penalty for suppressing value of taxable service - Tribunal upheld the confirmation of demand of service tax and cess along with interest on account of statutory levy and charges by the Commissioner - Tribunal also upheld the confirmation of demand of service tax and cess along with interest by the Commissioner with regard to air ticket sold prior to 1.5.2006 and journey undertaken on 1.5.2006 or thereafter - By virtue of second proviso to Section 78(2), if the penalty is payable under Section 78, penalty cannot be imposed under Section 76

There was no justification to stay the demand of service tax under the impugned order. Prayer for stay to that extent is rejected. The appellant should pay balance Rs. 7 crore.

As regards penalty under Section 76, two aspects need to be noted, first, penalty has also been imposed on the appellant under Section 78. That amount has already been paid by the appellant. By virtue of second proviso to Section 78(2), if the penalty is payable under Section 78, penalty cannot be imposed under Section 76. Secondly, in the order in original, a specific finding has been recorded that the appellant has not indulged in fraud, collusion or wilful misstatement nor has the appellant contravened the provisions with intent to evade payment of service tax.

Having regard to the above two aspects, until final disposal of appeal, recovery of penalty amount amounting to Rs. 16.75 Cr. (imposed under section 76) deserves to be stayed.

Banking Laws

6. Standard Chartered Bank Vs. Dharminder Bhohi, [Civil Appeal No. 8486 of 2013, September 13, 2013 (SC)]

Section 17 read with Section 13 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 read with Section 22 of the Recovery of Debts due to Banks and Financial Institutions Act, 1993 - Right to Appeal - Debt Recovery Appellate Tribunal (DRAT) has limited but special jurisdiction under the special legislation; when the borrower and the auction purchaser have entered into a compromise and the bank was not a party to the compromise, DRAT has no jurisdiction to grant any liberty to the auction purchaser that he is at liberty to file any action against the bank for any omission committed by it

The intention of this legislation is for speedy recovery of dues to the bank. In this backdrop, the tribunals are expected to act in quite promptitude regard being had to the

nature of the lis and see to it that an ingenious litigant does not take recourse to dilatory tactics. It may be aptly noted that an action taken by the bank under SARFAESI Act is subject to assail before the DRT and a further appeal to the DRAT. Neither the DRT nor the appellate tribunal can afford to sit over matters as that would fundamentally frustrate the purpose of the legislation.

A tribunal dealing with an appeal should not allow adjournments for the asking. It should be kept uppermost in mind of the Presiding Officer of the tribunal that grant of an adjournment should be an exception and not to be granted in a routine and mechanical matter. In the case at hand, such a delineation by the DRAT only indicates its apathy and indifference to the role ascribed to it under the enactment and the trust bestowed on it by the legislature. A curative step is warranted and the Chairman and the members of the DRAT shall endeavour to remain alive to the obligations as expected of them by such special legislations, namely, the SARFAESI Act and the RDB Act.

Be it noted, the principal purpose is to see that recovery of dues which is essential function of any banking institution does not get halted because of procrastinated delineation by the tribunal. It is worthy to note that the legislature by its wisdom under Section 22 of the RDB Act has provided that the DRT and the appellate tribunal shall not be bound by the procedure laid down by the Code of Civil Procedure, but shall be guided by the principles of natural justice and subject to the rules framed. They have been conferred powers to regulate their own procedure as given to them. It is so, for the very purpose of their establishment is to expedite disposal of the applications and the appeals preferred before them. They have the character of specialized institutions with expertise and conferred jurisdiction to decide the lis in speedy manner so that the larger public interest, that is, the economy of the country does not suffer. But, a pregnant one,

in the case at hand the DRAT did not dispose of the appeal for four and a half years. It can only say that apart from the curative step the tribunal as well as the DRAT has to rise to the occasion, for delay in adjudication of these type of litigations brings a long term disaster. A cute slumber shall not do.

Section 19 makes it quite clear that the tribunal has been given power under the statute to pass such other orders and give such directions to give effect to its orders or to prevent abuse of its process or to secure the ends of justice. Thus, the tribunal is required to function within the statutory parameters. The tribunal does not have any inherent powers and it is limpid that Section 19(25) confers limited powers.

The principles that have been culled out by the Constitution Bench in the case of *Union of India v. R. Gandhi, President, Madras Bar Association*, [2010] 11 SCC 1, it is perceptible that a tribunal is established under a statute to adjudicate upon disputes arising under the said statute. The tribunal under the RDB Act has been established with a specific purpose. Its duty is to see that the disputes are disposed of quickly regard being had to the larger public interest. It is also graphically clear that the role of the tribunal has not been fettered by technicalities. The tribunal is required to bestow attention and give priority to the real controversy before it arising out of the special legislations. As has been stated earlier, it is really free from the shackles of procedural law and only guided by fair play and principles of natural justice and the regulations formed by it. The procedure of tribunals has been elaborately stated in Section 19 of the RDB Act.

Section 34 of the RDB Act provides that the said Act would have overriding effect. With the sacrosanct purpose, the tribunals have been established is to put the controversy to rest between the banks and the borrowers and any third party who has acquired any interest. They have been

conferred jurisdiction by special legislations to exercise a particular power in a particular manner as provided under the Act. It cannot assume the role of a court of different nature which really can grant "liberty to initiate any action against the bank". It is only required to decide the lis that comes within its own domain. If it does not fall within its sphere of jurisdiction it is required to say so. Taking note of a submission made at the behest of the auction purchaser and then proceed to say that he is at liberty to file any action against the bank for any omission committed by it has no sanction of law. The said observation is wholly bereft of jurisdiction, and indubitably is totally unwarranted in the obtaining factual matrix. Therefore, the liberty could not be given to the auction purchaser to file action against the bank for any omission committed by it.

The High Court could not decline to interfere with the grant of liberty by the DRAT. Such grant of liberty was not within the domain of the tribunal regard being had to its limited jurisdiction under such special legislation and further, especially, when the bank was not a party to the compromise.

DRAT is required to adjudicate the lis in an apposite manner. It is hearing an appeal from an order passed by the DRT. It cannot afford to pass a laconic order.

Note: Judgment of High Court of Delhi in Writ Petition (C) No. 4694 of 2010, dated 16-7-2010, Set aside.

7. Sandeep Badriprasad Agrawal Vs. SEBI, [PIL No. 43 of 2013, October 9, 2013 (BOM)]

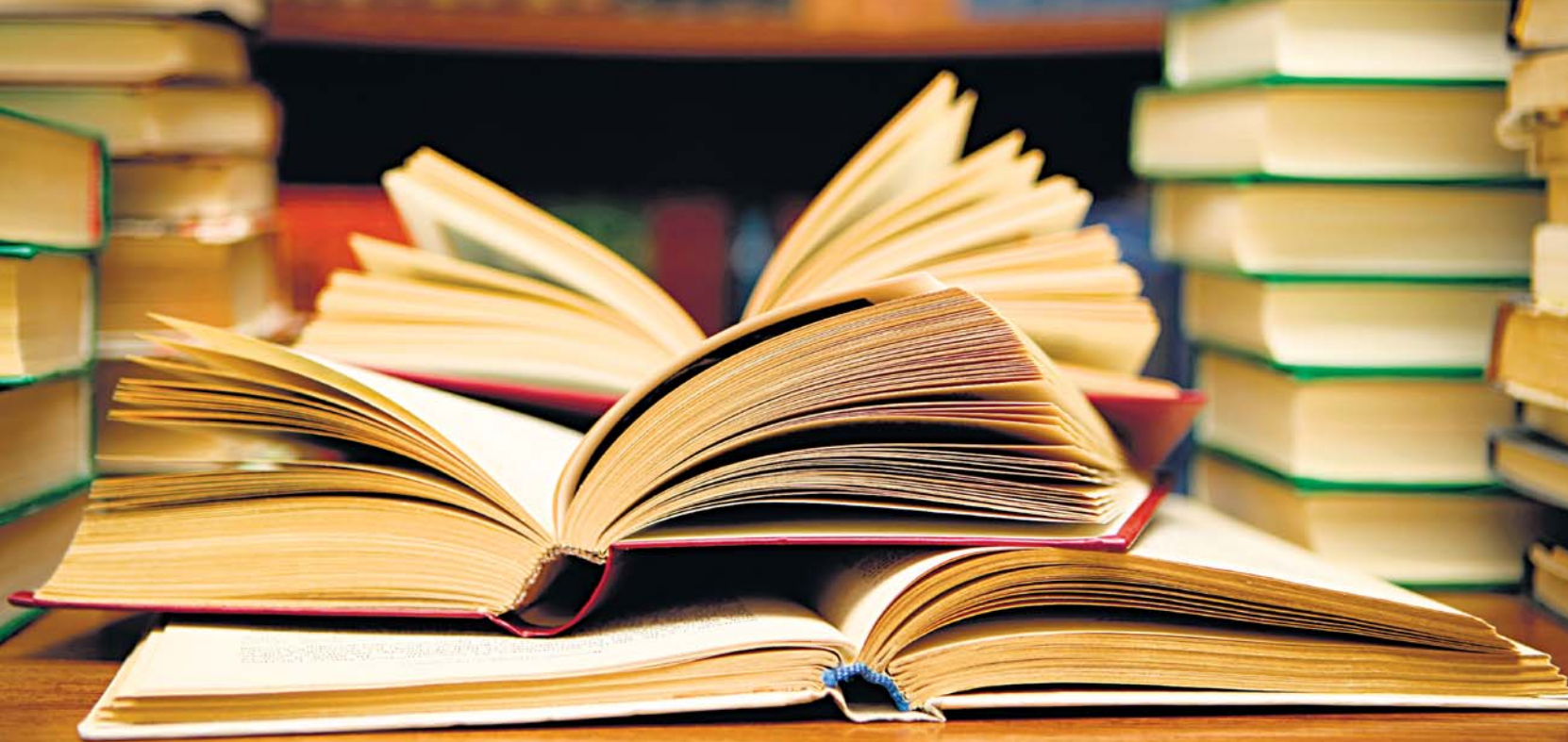
Section 11 of the Securities and Exchange Board of India Act, 1992 – Power and Functions of the Board - Jewellery shop owners are running a scheme popularly known as 'BC', under which the said shop owners are receiving monthly installments for a period of 11 months and at the end of 11 months are giving golden ornaments equal to the said amount - No public

interest is involved in the petition - If any shop owner is running such a scheme and the consumers are voluntarily taking part in such a scheme, it is purely a commercial transaction between a businessman and a consumer - SEBI cannot take action against jewellery shop owners who launch such scheme

8. A. Venkatramani Vs. SEBI, [Writ Appeal No. 405 & 406 of 2013, August 22, 2013 (MAD)]

Section 15T of the Securities and Exchange Board of India Act, 1992 – Appeal to Securities Appellate Tribunal - SEBI prevented the petitioner company from accessing the capital Market - The writ petitions filed by the company as well as by the promoter respectively were dismissed on the ground that an effective alternative remedy is available before the Securities Appellate Tribunal - On writ appeals, it was represented that the Securities Appellate Tribunal is not having a Judicial Member and it is functioning with a single Non-Judicial Member and therefore, as on date of moving the writ appeals, there is no possibility of preferring the appeals before the Tribunal - Additional Solicitor General, represented that as par the notification issued by the Ministry of Finance new Presiding Officer/Judicial Member for the Securities Appellate Tribunal had been appointed - In view of new appointment, liberty was to be given to the appellant to file appeal before SAT, instead of resorting to writ jurisdiction





Reply to Queries on Income-tax



**Mr. Subash
Agarwal**
Advocate

Query No. 1

In the relevant year, the assessee company in the Profit and Loss Account claimed loss in trading in Nifty futures. In course of assessment proceedings, it was explained that the said loss had been incurred by the assessee company in the course of trading in derivatives.

But the A.O. disallowed the said loss stating that the said loss was a speculation loss as defined u/s. 43(5) of the Income Tax Act.

It is pertinent to note here that in the instant case the assessee has entered into transactions through the Bombay Stock Exchange Ltd. and the National Stock Exchange Ltd. and all the transactions have been carried out electronically which have been supported by the time stamped contract notes issued by the Stock broker.

Is the action of the A.O. justified?

(a) According to the A.O., the loss incurred by the assessee on trading in Nifty Futures is a speculation loss. Though it is true that in trading in Futures, the transactions are not settled by taking and giving delivery of shares, but the contention of the A.O. that such transactions fall within the realm of "speculative transactions" is not at all correct.

Apparently, the A.O. has relied upon the definition of "Speculative Transaction" as per section 43(5) of the Act which states as under-

"Speculative Transaction" means a transaction in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips".

(b) Though from the plain reading of the above definition of "Speculative Transaction",

transactions in Futures trading appear to be speculative in nature, but it is imperative to analyse the clause (d) of the proviso appended to section 43(5) which carves out exception to the above- stated rule.

Clause (d) states that an eligible transaction in respect of trading in derivatives referred to in clause (ac) of section 2 of the Securities Contracts (Regulation) Act, 1956 carried out in a recognised stock exchange shall not be deemed to be a speculative transaction;

Further, the meaning of the term "eligible transaction" has been explained in the "Explanation" appended to section 43(5).

It is worthwhile to mention here that the transactions in the recognized stock exchanges conform to the criteria laid down for making the transactions eligible.

(c) In the instant case, the assessee has entered into transactions through the Bombay Stock Exchange Ltd. and the National Stock Exchange Ltd. i.e. through a recognised stock exchange. Therefore, the Ld. A.O. has ignored the "exception" to section 43(5), being clause (d) thereof.

Thus, the transactions in question cannot at all be said to be "Speculative Transactions".

Query No. 2

Company X Ltd. is engaged in the business of investment, finance and share trading. During the relevant year, the assessee incurred loss in Options trading and included the same in the share purchases account.

During the course of assessment proceedings, it was explained that the quantum of the sales and purchases effected in Options trading had not been indicated separately and the net effect of the said transactions had been included in the share purchase account. The A.O. disallowed the said loss stating that-

- Options trading constitute sale and purchases of shares which is periodically or ultimately settled otherwise than by the actual delivery and transfer.
- The said transactions in the Options, therefore, constitute a speculative transaction as defined in section 43(5) of the Income Tax Act, 1961.
- The said loss constitutes a speculation loss which under section 73(1) of the income tax Act, 1961 was not permitted to be set off against other incomes.

- Hence, the set off of the loss made by the assessee against other business incomes is disallowed as being a speculation loss.

Please give your valuable opinion in respect of the above-mentioned action of the A.O.

It is worthwhile to note that section 2(ac) of the Securities Contracts (Regulation) Act, 1956 defines "derivatives" as under-
"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;

From the above, it is clear that "Futures" and "Options" are part of derivative transactions, since the value of such contracts varies with the price of the underlying security viz., shares, exchange rate / currency rate. In DCIT vs. Paterson Securities (P) Ltd. 127 ITD 386 (Chennai)/134 TTJ 777 (Chennai), it was held that a derivative is a financial instrument, the price of which has a strong correlation with an underlying commodity, currency, economic variable or financial instrument. The different types of derivatives are "future contracts and options".

The losses under "Futures" and "Options" are covered by clause (d) of the proviso appended to sec. 43(5), which is an exception to sec. 43(5) i.e., "speculative transaction".

Therefore, "Options" trading will also be considered to be a normal business transaction and any loss arising there from can be set off against other business income.

Query No. 3

Y Company Ltd. is engaged in the business of trading in shares, broking business and financing business. During the relevant year the assessee derived various incomes (gross) under the following broad heads -

Broad Heads of Income	Amount
Share Trading (delivery based)	(-)Rs.6 crores
Interest on loans Advanced	Rs.1 Crore
Dividend on shares	Rs.3 lakhs
Dividend on Mutual Fund	Rs.11 lakhs
Profit on Derivatives	Rs.1 crore
Share Speculation Profit	(-)Rs.0.80 lakhs
Brokerage Income	Rs.2 crores

Further, in the Balance-sheet, the following

Tax Talks

assets are reflected -

Broad Heads of Income	Amount
Value of Stock-in-trade (of shares) as on 31.03.2013	Rs.8 crores
Value of loans advanced as on 31.03.2013	Rs.10 crores

The assessment of the assessee-company was completed by the A.O. by passing an order u/s. 143(3).

In the said order, the A.O. disallowed business loss of Rs. 6,00,00,000/- by treating the same as speculation loss by applying the provisions of Explanation to sec. 73 of the Act. At the time of making such disallowance, the Ld. A.O. contended that -

- Since the assessee has derived income mainly from business of shares, the first exception to explanation to sec. 73 is not applicable. It is by now well settled that the words "income" or "profits and gains" should be understood as including losses also so that in one sense "profits and gains" represent "positive income" whereas "losses" represent "negative income". In other words, loss is negative profit. Both positive and negative profits are of revenue character. Both must enter into computation, wherever it becomes material, in the same mode of the taxable income of the assessee. Reliance is placed on decision taken by the Hon'ble Calcutta High Court in the case of Eastern Aviation and Industries (208 ITR 1023).
- So far as the second exception is concerned, the principal business of the assessee is not granting of loans & advances because the assessee has interest income of Rs. 1 crore, while it has income from trading in shares of (-) Rs.6 crores.

Is it fruitful to file an appeal before the CIT(A) against the order of the A.O.?

(a) A perusal of the provision of Explanation below sec. 73 will reveal that the said provision is a deeming provision and as per this provision, in the case of corporate assessee even normal purchase and sale transactions in shares resulting into delivery are treated as "speculative transaction" (thus not entitling the assessee to claim set off of share trading losses with other incomes) barring the two exceptions provided therein. The two exceptions relate to -

- (i) Head of Income criterion or
- (ii) Principal business criterion.

Thus, the mischief of "Explanation to sec. 73" will not apply (as provided therein) in any of the following situations-

- (i) Where the income under the head business is less than the income earned under all other heads of income taken together or
- (ii) Where the principal business of the assessee is that of granting of loans
 - (b) In the instant case, the Ld. A.O has basically examined the case from the point of view of the "Head of Income criterion" and came to a conclusion that explanation to sec.73 applies to the assessee's case. He has not examined the instant assessee's case from the point of view of the "principal business" criterion.
 - (c) The term "principal business" has not been defined in the Act.

In the case of CIT vs. Kanoria Investments (P) Ltd. 232 ITR 7, Hon'ble Calcutta High Court approved the view of both the CIT(A) and Tribunal that the "principal business" is determined on the basis of fund deployed in a particular business and not on the basis of income earned from the particular business.

From the data given, it is amply clear that the assessee is carrying on two types of business i.e., share trading business/ brokerage business and the business of granting of loans and advances. Between the two types of business carried on by the assessee, it is to be seen what is the quantum of deployment of funds in the business of granting of loans and advances and in share business?

If it is found that the deployment of funds in the business of granting of loans and advances is higher than in share business, there is no doubt that the principal business of the assessee is granting of loans and advances following the ratio laid down by the Hon'ble Calcutta High Court in the case of CIT vs. Kanoria Investment (P) Ltd. (supra).

(d) In the context of Explanation to section 73, Hon'ble Kolkata bench of the Tribunal in the case of Off-Shore India Ltd. vs. ITO 15 ITD 549 has also recognized the principal that the "Principal Business" is to be determined on the basis of fund deployment.

(e) In the case of ITO vs. M/s Vaishno Tradelink (P) Ltd., ITA No. 1666 (Kol) 2005, order dated 14.07.2006 (a case which yours truly had the privilege of representing before the ITAT), Hon'ble Kolkata Bench of ITAT held that where more funds were deployed in granting loans and advances than in shares and the said business is authorised by the Memorandum of Association of the company, the principal business of the company is granting of loans and advances and the provisions of explanation to section 73 will not apply in such cases.

(f) However, in this context, the Special Bench

of ITAT in the case of DCIT vs. Venkateshwar Investment & finance (P) Ltd. 93 ITD 177 (Cal.) (Spl.) has held as under-

"What constitutes the "principal business" has not been defined anywhere in the Act. What constitutes the principal business will depend on the facts and circumstances of each case. The memorandum and the articles of association of the company, past history of the assessee, current and past year's deployment of the capital of the assessee, break-up of the income earned during the relevant and past years and the nature of activities of the assessee will all help in determining the principal business of the assessee".

(g) Thus, in the instant case, assuming that the assessee is authorised by its MOA to carry on the business of granting of loans and in the past years also the quantum of loans advanced is more than the amount of stock - in - trade of shares, the mischief of "explanation to sec.73" will not apply and the assessee will be entitled to set - off loss incurred in share trading amounting to Rs.6 crores with other heads of income.

Query No. 4

P. Co. Ltd. suffered a loss due to valuation of stock of shares which were acquired out of allotments in IPOs.

Does the share loss in respect of shares acquired as allotment in IPOs, which has arisen due to valuation of shares held in stock, come within the purview of speculation loss as per the provision of explanation to section 73 of the I.T. Act, '61'?

It was held in the following cases that losses incurred in shares, which are acquired by way of IPOs, cannot be treated as speculation loss within the purview of explanation to sec.73 -

(i) Vodik Finvest Pvt. Ltd. vs. ITO, ITA No. 275/Cal/99

(ii) M/s. Naseeb Holdings Pvt. Ltd. vs. ITO, ITA No. 2824 (Cal) of 1997.

In the above-stated cases (unreported) of ITAT, Kolkata, it was held that the mischief of "Explanation to sec. 73" applies where the business of a company relates to purchase and sale of shares of other companies but acquisition of shares through IPOs is not tantamount to purchase and sale of shares.

However, ITAT, Ahmedabad (Special Bench) in the case of AMP SPG. & WVG. MILLS (P.) LTD. v. ITO 100 ITD 142 (Ahd.)(Spl.) has taken a contrary view and has held that when a price is paid for allotment of shares, it is purchase of shares in general law as well as for the purposes of Explanation to sec. 73. Therefore, loss arising from shares acquired by a dealer by making application for allotment of shares in public issue is a speculative loss in view of the Explanation to sec. 73.

It is pertinent to note that the view of the Special Bench holds the field and in view of the Special Bench of ITAT, Ahmedabad, the ITAT, Kolkata Benches' orders taking a view in favour of the assessee will no more be binding precedents.

The plain language of the provisions of Explanation is to be adopted particularly when there is no ambiguity or other reasons to have resort to external aids of construction (of a statute). What is to be seen is that the business of the assessee is of purchase and sale of shares and not how the shares came into existence.

Therefore, the loss on valuation of closing stock of shares, in the present case, cannot be treated any different than a normal trading loss; such loss is an integral part of the loss on trading, i.e., purchase and sale of shares. Therefore, in my opinion even the loss occurring due to fall in the value of shares on the valuation date i.e., 31st March is covered by Explanation to section 73 of the Act. In this regard, reference may be made to the following case-laws, where a view in favour of the above proposition has been taken -

(i) CIT vs. Sun Distributors & Mining Co. Ltd. 68 Taxman 223 (Cal.)

(ii) Prudential Construction Co. Ltd. vs. ACIT 75 ITD 338 (Hyd.)

(iii) Paharpur Cooling Towers Ltd. v. Dy. CIT 85 ITD 745 (Cal.)

You will never be happy if you continue to search for what happiness consists of. You will never live if you are looking for the meaning of life.

:: SWAMI VIVEKANANDA ::

Data Sheet

Global									
	USA	EuroArea	China	Japan	Germany	UK	Brazil	India	Indonesia
GDP Billion USD	15685	12195	8230	5960	3400	2440	2435	1842	878
GDP YoY	2.00%	-0.30%	7.70%	2.40%	1.10%	2.80%	2.20%	4.80%	5.62%
GDP QoQ	4.10%	0.10%	1.80%	0.30%	0.25%	0.70%	-0.50%	0.60%	2.96%
Interest rate	0.25%	0.25%	6.00%	0.00%	0.25%	0.50%	10.50%	8.00%	7.50%
Inflation rate	1.50%	0.80%	2.50%	1.50%	1.43%	2.00%	5.91%	6.16%	8.38%
Jobless rate	6.70%	12.10%	4.00%	4.00%	5.20%	7.10%	4.60%	-	6.25%
Gov. Budget	-4.10%	-3.70%	-1.50%	-9.20%	-0.10%	-6.10%	1.80%	-5.30%	-1.77%
Debt/GDP	101.60%	90.60%	26.00%	211.70%	81.00%	88.70%	65.10%	67.57%	23.10%

Domestic (Monthly)									
Monthly Data	Month	Unit	Latest	Year Ago	Monthly Data	Month	Unit	Latest	Year Ago
Manufacturing PMI	Dec	Index	50.7	51.3	Coal production	Nov	mln tn	47.3	42.5
Services PMI	Dec	Index	46.7	47.2	Steel production	Nov	mln tn	6.62	6.58
Composite PMI	Dec	Index	48.1	48.5	Cars sales	Dec	numbers	132,561	142,849
WPI inflation	Dec	y-o-y % chg	6.16	7.52	Commercial vehicles sales	Dec	numbers	46,757	43,730
CPI (Combined) inflation	Dec	% chg	9.87	11.16	Two-wheeler sales	Dec	numbers	1,163,465	1,240,732
CPI-AL inflation	Dec	% chg	11.19	13.43	Federal govt fiscal deficit	Nov	bln rupees	516.71	457.98
CPI-IW inflation	Nov	y-o-y % chg	11.47	11.06	Federal govt total receipts	Nov	bln rupees	475.15	671.61
Exports	Dec	US\$ bln	26.346	24.613	Federal govt total expenditure	Nov	bln rupees	991.86	1,129.59
Imports	Dec	US\$ bln	36.486	33.833	Federal govt tax collections	Nov	bln rupees	648.28	740.5
Trade gap	Dec	US\$ bln	10.14	9.22	FDI inflow	Nov	US\$ bln	2.47	2.16
Oil imports	Dec	US\$ bln	13.9	12.965	FII net equity investment	Dec	US\$ bln	2.527	1.13
Industrial production index	Nov	y-o-y % chg	(-)2.1	(-)1.6	FII net debt investment	Dec	US\$ bln	0.863	(-)0.784
Infrastructure output index	Nov	y-o-y % chg	1.7	(-)0.6	Fund net equity investment	Dec	bln rupees	(-)4.109	(-)4.822
Crude oil production	Dec	mln tn	3.256	3.141	Foreign tourist arrivals	Dec	mln	0.8	0.718
Refinery output	Dec	mln tn	18.631	17.806	FX tourist earnings	Dec	US\$ bln	1.886	1.665
Natural gas production	Dec	bln cu mtr	3.002	2.893	GSM mobile additions	Dec	mln	6.802	4.867
Electricity generation	Dec	bln kWh	82.31	77.57	Rail freight traffic	Dec	mln tn	92.16	84.31
Cement production	Nov	mln tn	18.86	20.61	Indian crude basket (average)	Dec	US\$/barrel	108.72	106.56

Domestic (Cumulative)				
Cumulative Data	Period	Unit	Latest	Year ago
Exports	Apr-Dec	US \$ bln	230.336	217.415
Imports	Apr-Dec	US \$ bln	340.378	364.242
Trade gap	Apr-Dec	US \$ bln	110.042	146.827
Oil imports	Apr-Dec	US \$ bln	124.958	121.832
Industrial production index	Apr-Nov	y-o-y % chg	(-)0.2	0.9
Infrastructure output index	Apr-Nov	y-o-y % chg	2.5	6.7
Crude oil production	Apr-Dec	mln tn	28.411	28.595
Refinery output	Apr-Dec	mln tn	166.617	163.256
Natural gas production	Apr-Dec	bln cu mtr	26.682	31.38
Electricity generation	Apr-Dec	bln kWh	721.47	684.34
Car sales	Apr-Dec	number	1,294,403	1,361,419
Commercial vehicles sales	Apr-Dec	number	470,668	576,649
Two-wheeler sales	Apr-Dec	mln	10.937	10.377
Federal govt fiscal deficit	Apr-Nov	bln rupees	5,095.57	4,129.26
Federal govt tax collection	Apr-Nov	bln rupees	5,970.49	5,444.73
Real GDP	Apr-Sep	% growth	4.6	5.3

Currency					
	Latest	1M Ago	3M Ago	6M Ago	1Yr Ago
Indian Rupees (USD/INR)	62.19	62.26	61.6	60.79	53.53
Indian Rupees (EURO/INR)	84.98	85.68	85.61	80.94	72.56
Indian Rupees (GBP/INR)	103.12	102.52	99.02	91.17	84.36
Yen (USD/JPY)	102.24	104.92	98.47	98.08	91
Euro (EURO/USD)	1.37	1.38	1.37	1.32	1.36
Dollar Index	80.51	80	79.78	81.83	79.29

Commodity					
	Latest	1M Ago	3M Ago	6M Ago	1Yr Ago
NYMEX Light Crude	97.4	100.3	96.8	103.1	97.9
ICE Brent Crude	107.4	112.2	109.9	106.9	114.9
NYMEX Natural Gas	5.364	4.149	3.708	3.794	4.005
COMEX Gold	1251	1215	1355	1324	1678
COMEX Silver	19.7	19.9	22.2	19.9	31.4
LME Copper	7215	7387	7234	6805	8176
LME Aluminium	1713	1771	1844	1742	2047
CBOT Corn	428.2	423.4	424.4	490.2	602.2
CBOT Wheat	553.6	605.3	686.4	678	826

The month that was: Equity

Relative performance (as on January 29, 2014)

Indices*	1M	3M	6M	1YR	Div. Yield#	P/E#
India (NIFTY)	-2.72%	-1.62%	4.95%	0.75%	1.90%	14.6
China (SANGHAI COMPOSITE)	-2.43%	-5.09%	3.02%	-13.94%	4.70%	6.5
Germany (DAX)	-2.64%	3.62%	12.88%	19.52%	2.60%	15.9
Hong Kong (HANG SANG)	-4.74%	-4.99%	0.86%	-7.06%	3.00%	11.4
Japan (NIKKEI)	-4.91%	6.08%	10.92%	38.42%	1.70%	15.8
USA (DOW JONES)	-4.49%	0.37%	1.40%	13.26%	2.30%	15.7
UK (FTSE 100)	-3.05%	-3.44%	-0.40%	3.50%	3.20%	14.1

*Relative performance of respective indices. # - P/E and yield of the country; relate to a sample of stocks that cover at least 75% of each market capitalization. Losses are excluded from the P/E calculation on country indices. Div. Yield and P/E as on Jan 29.

Source: www.markets.ft.com

Sector Performance				Nifty Top 10 Gainers				Nifty Top 10 Losers			
INDEX	29-Jan	27-Dec	% Chg	Company	29-Jan	27-Dec	% Chg	Company	29-Jan	27-Dec	% Chg
CNX IT	9896.70	9579.10	3.32	HCL Tech	1422.30	1246.05	14.14	Ranbaxy	328.45	463.95	-29.21
CNX Nifty Junior	11960.80	12903.05	-7.30	Dr Reddy's	2655.25	2519.65	5.38	JP Asso	40.95	53.90	-24.03
BANK Nifty	10437.75	11459.70	-8.92	H D F C	825.15	788.40	4.66	Tata Power	73.00	89.65	-18.57
CNX Midcap	7474.10	8034.85	-6.98	Infosys	3717.80	3561.30	4.39	DLF	141.10	171.40	-17.68
CNX 500	4720.60	4914.70	-3.95	Wipro	571.50	555.10	2.95	Tata Steel	358.00	425.05	-15.77
CNX 100	5999.20	6231.35	-3.73	Sun Pharma	591.45	575.95	2.69	PNB	540.45	635.10	-14.90
Nifty Midcap 50	2106.65	2297.45	-8.30	Cipla	414.50	405.15	2.31	BOB	555.80	652.45	-14.81
CNX Realty	155.90	187.25	-16.74	TCS	2209.80	2160.65	2.27	Ambuja	158.60	184.90	-14.22
CNX Infra	2238.55	2479.40	-9.71	GAIL (India)	346.00	340.25	1.69	ACC	988.30	1122.45	-11.95
CNX Energy	7522.85	7903.25	-4.81	NMDC	142.85	141.50	0.95	Axis Bank	1140.25	1294.50	-11.92

Source: BSE & NSE Website

A civilization which leaves so large a number of its participants unsatisfied and drives them into revolt neither has nor deserves the prospect of a lasting existence.

:: SIGMUND FREUD ::

The will to win, the desire to succeed, the urge to reach your full potential... these are the keys that will unlock the door to personal excellence.

:: SIGMUND FREUD ::

If you talk to a man in a language he understands, that goes to his head. If you talk to him in his language, that goes to his heart.

:: SWAMI VIVEKANANDA ::

ANMI Activities/Calendar

Bangladesh SEC Delegation with ANMI

Bangladesh Securities and Exchange Commission headed by Mr. Md. Saifur Rahman, Executive Director, Mr. Mohammed Jahangir Alam, Director and other officials visited India on 3 day official tour to study and understand Risk based Networth stipulations for Capital Market Intermediaries in India.

They visited SEBI, NSE & BSE. ANMI representatives Mr. Naresh Tejwani, Alternate President, Mr. Hemant Majethia, Director ANMI and Chairman, SEBI affairs committee and Mr. Nirav Gandhi, Member Exchange Committee met the visitors and apprised them about Role and Working of ANMI as well as Net Worth guidelines in India.

The Meeting was very interactive and visitors apprised of developments in Capital Markets in Bangladesh. The visitors also expressed in understanding Margin Funding Business in India and role of NBFC in Margin Funding.



Mr. Hemant Majethia, Mr. Nirav Gandhi, Mr. Naresh Tejwani, Mr. Arup Mukherjee of NSE, Mr. Md. Saifur Rahman, Executive Director, Bangladesh SEC and second from left Mr. Mohammed Jahangir Alam, Director, Bangladesh SEC along with other visiting officials.



Compliance Calendar

FEB-MAR 2014

Feb 10 Stamp Duty - Payment of Stamp duty - Security Exchange and Commodity Exchange	Feb 10 Depository (NSDL / CDSL) - Investor Grievances Report (Compulsory In Electronic Format in case of CDSL) • CDSL & • NSDL	Feb 15 MCX-SX - Filing of Margin Funding File for the month of January, 2014	Mar 1-8 BSE - Uploading of margin funding file for the month of February 2014	Mar 5 Payment of SEBI fees for the month of February, 2014 (Cash and F & O segment) - through settlement account
Mar 6 Service Tax Payment for the month of February, 2014 for Corporate. (If paid through electronic mode)	Mar 7 NSE - Uploading of margin funding file for the month of February 2014	Mar 7 Income Tax - TDS Payment for the Month of February 2014 for Corporate and Individual.	Mar 5 PMS - Uploading of activity report on SEBI Portal	Mar 5 Service Tax Payment for the month of February, 2014 for Corporate. (If paid through physical mode)
Mar 15 Income Tax - Advance payment of Income Tax	Mar 15 BSE - Sub-brokers registered between April 01, 2009 to March 31, 2010 and do not intend to continue their registration, to apply for cancellation of their registration	Mar 20 NSE - Sub broker Registered between 01.04.2009 to 31.03.2010 and do not intend to continue their registration should apply for cancellation	Mar 10 Payment of Stamp duty - Security and Commodity Exchanges	Mar 7 Investor Grievances (Report) • CDSL & • NSDL
			Mar 31 Service Tax Payment for the month of March 2014 (For All categories)	Compiled by Kamlesh P. Mehta Email kamleshmehta@gmail.com

ANMI ABCD - A unique feature

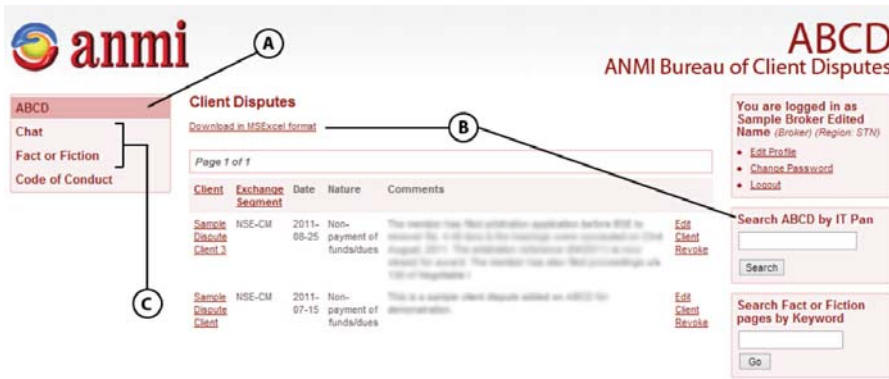


About ABCD (ANMI Bureau of Client Disputes)
 ANMI takes pride in announcing another valuable initiative for its members - the ANMI Bureau of Client Disputes, or ABCD as it is known in short. ABCD is a secure, online application intended to help ANMI Members to stay informed on disputes that other ANMI Members have faced with their clients.
 Here is a brief introduction of what ABCD can do for you:

A) The main functionality of the ABCD application is the ability to log in Client Disputes faced, and to access disputes that have been logged by other ANMI Members.

B) It is possible to access disputes logged by other Members in two ways - either by searching by PAN Number, or by downloading disputes data in MS Excel format

Option to be provided to import the ANMI ABCD database into the back office. The sample format of database is given in next page:



Client Name	PAN	Client Type	Exchange	Broker Segment
ASHISH KUMAR DUBEY LTD.	AJSPD0452G 2/20/2008 0:00	Individual Market Manipulation	NSE-CM	MAVERICK SHARE BROKER (P)
P K SHANBHAG Ltd	ABIPS4900N 4/5/2006 0:00	Individual Non-payment of funds/dues	NSE-FO	Innova Securities & Investment
Umed Singh Balyan 10/30/2009 0:00	AEWPB9276P Non-payment of funds/dues	Individual	NSE-CM	HR FINANCE & INVESTMENTS
Tej Kaur 11/26/2009 0:00	AKQPK4103L Non-payment of funds/dues	Individual	NSE-CM	HR FINANCE & INVESTMENTS

Process :

The broker will log into ANMI website and download an Excel file in the above format. An option to be provided in back office software to import this XLS file format into the back office database of the respective broker.

Back office areas where checks need to be incorporated based on ANMI ABCD data.

1. When a new KYC is created in back office, there must be a warning prompt when the PAN number is entered for the new KYC which matches that of listed in ANMI ABCD database. The prompt must display the above information giving details of the issues reported by the respective broker against the client.
2. There must a report in back office which can scan all the existing KYC PAN numbers against the PAN numbers listed in ANMI database and give an output for those PAN which matches along with details as given in the above table.

Request the back office vendors to incorporate these features in their back office.



You will never be happy if you continue to search for what happiness consists of. You will never live if you are looking for the meaning of life.

:: ALBERT CAMUS ::



KIDNEY STONE

A kidney stone is a small stone, usually made up of calcium crystals, that forms inside the part of the kidney where urine collects. The stone usually causes little problem until it falls into the ureter, the tube that drains the kidney into the bladder, and causes an obstruction, preventing urine from draining out of the kidney and often causing severe pain.

One of the roles of the kidney is to remove waste from the body by filtering blood and making urine. That urine flows from the kidney into the bladder through the ureter, a thin tube that connects the two. The bladder empties through the urethra, a tube much wider than the ureter.

A variety of minerals and chemicals are excreted in the urine and sometimes these combine to form the beginning of a stone. Over time, this can grow from an invisible speck of sand into a stone that can be an inch in diameter or larger.

There are different terms for kidney stones depending upon where they are located within the urinary tract:

- **Urolith:** A stone anywhere within the urinary tract
- **Nephrolith:** A stone within the kidney
- **Ureterolith:** A stone within the ureter
- **Calculus:** A stone within the body

What causes kidney stones?

It isn't exactly clear what causes kidney stones to form in some people and not others. Usually it requires concentrated urine that allows minerals like calcium to come in close contact with each other. Changes in the acid-base balance (pH) of the urine, how concentrated it is, and the concentration of minerals and chemicals within the urine are all factors that can begin the formation of a stone.

Crystals can form the beginning of the stone and eventually grow large enough to cause problems. Concentrated urine often occurs during an episode of dehydration, setting the stage for the beginning of stone formation. The consequences of that stone, when it is

large enough to cause an obstruction, may occur weeks, months, or years later.

Symptoms

About 10% of people will get a kidney stone in their lifetime. Kidney stones are most common in men, but doctors are now seeing more cases of kidney stones in women and children. Dietary factors may play a role in the increased rates of kidney stones.

1. No Symptoms

Many people who have kidney stones do not have any symptoms (asymptomatic). If you have a kidney stone that is very small, you may pass it unnoticed. Sometimes small stones like these are found if you undergo imaging tests (X-ray, CT scan, or ultrasound) for a reason unrelated to kidney issues. Your doctor may take a "watch and wait approach" if it is discovered that you have a kidney stone without any troubling symptoms.

2. Pain

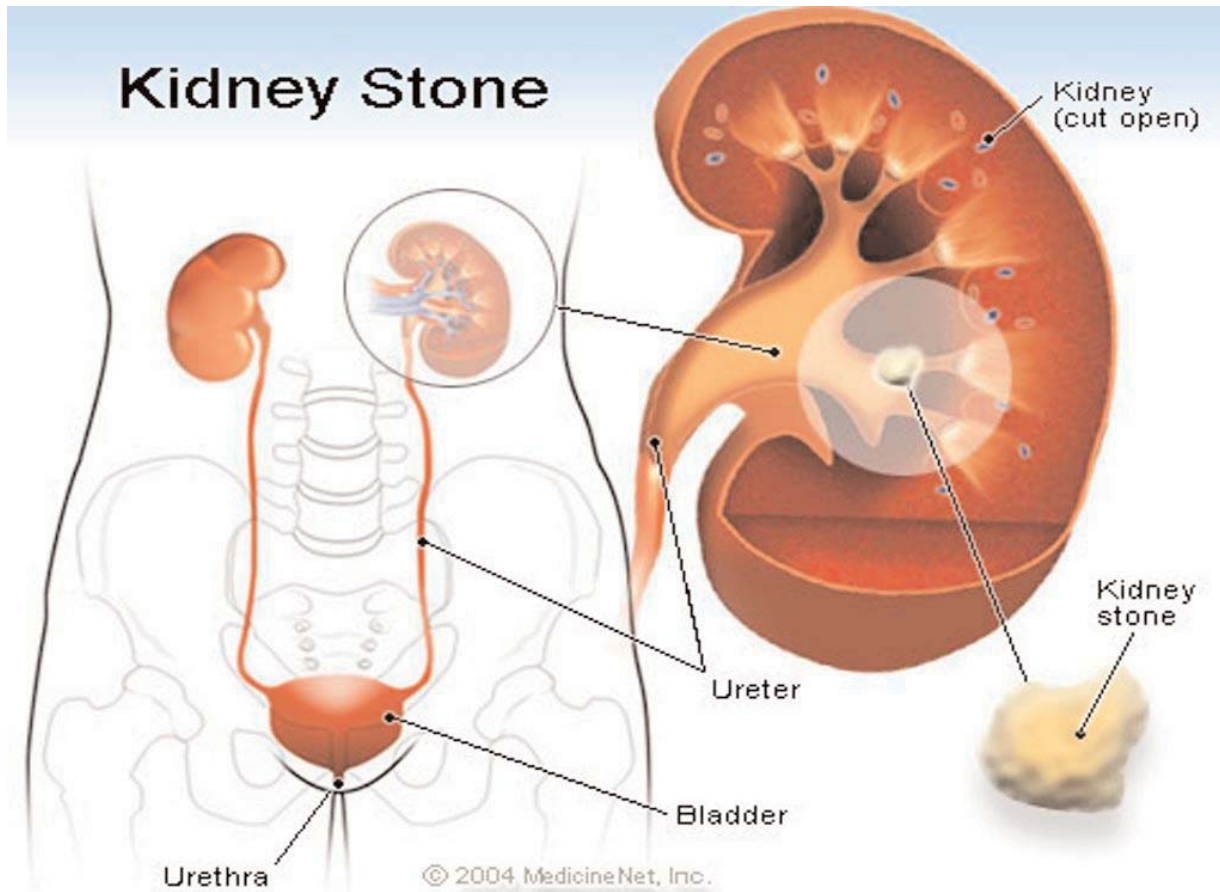
Pain due to kidney stones can be mild to severe and dull to sharp. Larger kidney stones are more likely to cause pain as they travel down the ureters and out of your body through the urine. The most common sites for kidney stone related pain are the low back (on either side), the low abdomen and groin area, and below the ribs. The pain may come in waves. You may also experience frequent, painful urination if you have a kidney stone.

3. Nausea and Vomiting

The pain you have with a kidney stone may be so severe that you develop nausea and vomiting. As the kidney stone moves down the ureter and blocks the flow of urine, this causes intense pain that is described as worse than that of childbirth. This severe pain, nausea, and vomiting must often be treated with strong pain medications, antiemetics, and IV fluids.

4. Fever and Chills

Fever and chills are sometimes symptoms of



a kidney stone. These are troubling symptoms that require immediate medical evaluation because they could mean that you have an infection (potentially life-threatening, if not treated). You should seek immediate treatment if you have a fever and chills associated with a kidney stone, even if you have only mild pain.

5. Blood in Urine

Blood in the urine, called “hematuria,” is another common symptom of kidney stones. As a stone passes through the urinary tract, it scrapes and irritates the ureters causing bleeding. Your urine may look pink or reddish depending on the severity of the bleeding. Blood in the urine is a serious symptom that warrants prompt evaluation by your doctor.

6. Other Urine Changes

If you have cloudy or very bad-smelling urine, these can be signs of an infection related to kidney stones. However, these can be signs of other medical issues such as urinary tract infection (UTI), bladder infection, cystitis, or even sexually transmitted diseases (STDs) like gonorrhea. If you have cloudy or foul-smelling urine, see your doctor right away.

Treatment for Kidney Stonest

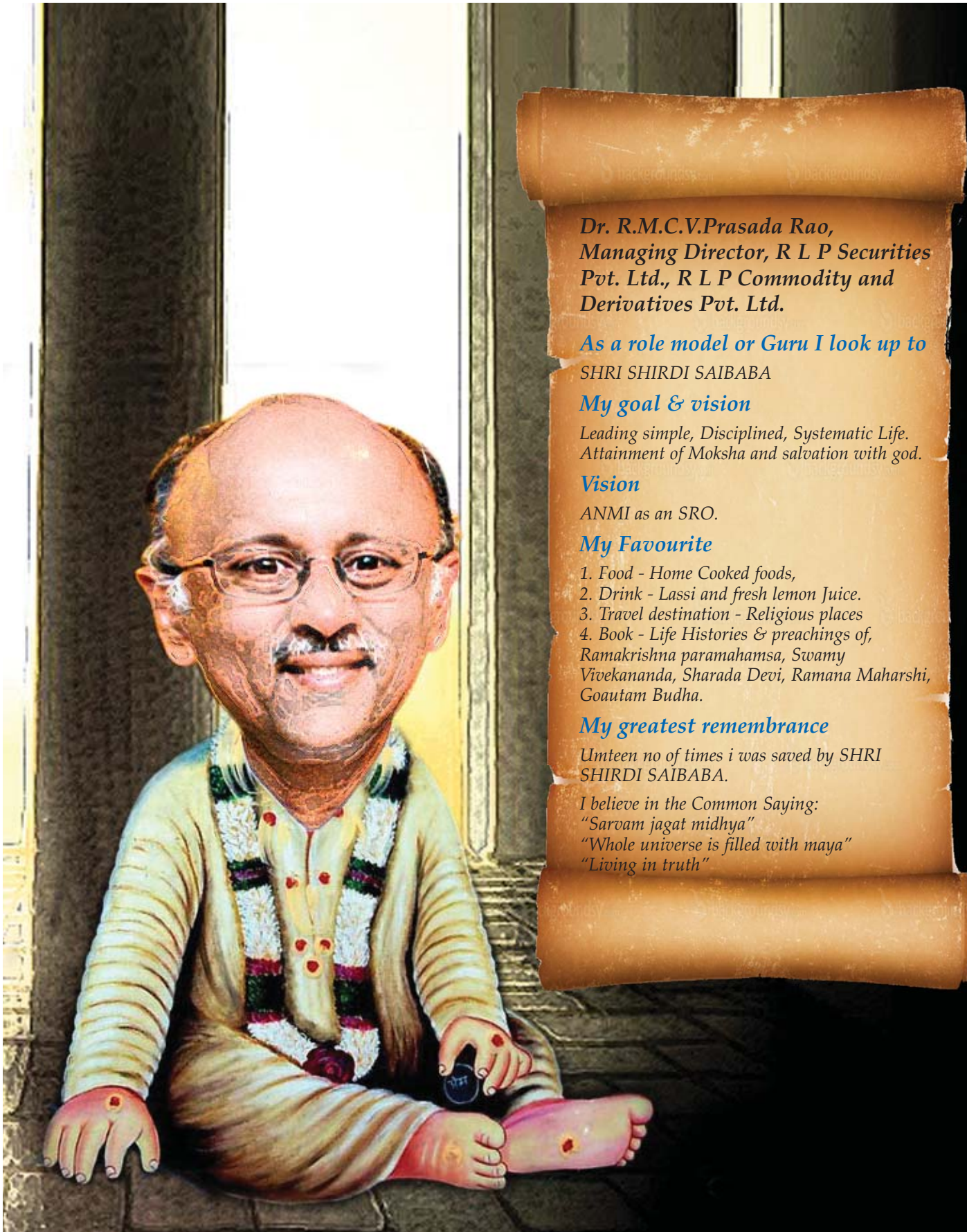
The treatment for the renal colic of a kidney stone includes pain control and hydration. For severe pain, some patients present to the emergency department and often receive intravenous medications including narcotics, anti-inflammatory medications, and medications to control vomiting.

Once the pain is under control in the emergency department, the patient may be discharged home with pain medications and the recommendation to take ibuprofen as an anti-inflammatory. Tamsulosin (Flomax) is a medication often prescribed to help promote stone passage.

In the uncomplicated situation, the stone may be allowed to pass on its own and it may take 2 to 3 weeks or longer. However, there are certain situations where more urgent action may be required.

Patients with a large stone that fills the whole kidney (staghorn calculi) may require removal using a special instrument inserted through an incision in the skin directly into the kidney (percutaneous nephrolithotomy).



CEO Mantra

**Dr. R.M.C.V. Prasada Rao,
Managing Director, R L P Securities
Pvt. Ltd., R L P Commodity and
Derivatives Pvt. Ltd.**

**As a role model or Guru I look up to
SHRI SHIRDI SAIBABA**

My goal & vision

*Leading simple, Disciplined, Systematic Life.
Attainment of Moksha and salvation with god.*

Vision

ANMI as an SRO.

My Favourite

1. Food - Home Cooked foods,
2. Drink - Lassi and fresh lemon Juice.
3. Travel destination - Religious places
4. Book - Life Histories & preachings of,
Ramakrishna paramahansa, Swamy
Vivekananda, Sharada Devi, Ramana Maharshi,
Goautam Budha.

My greatest remembrance

*Umteen no of times i was saved by SHRI
SHIRDI SAIBABA.*

I believe in the Common Saying:

"Sarvam jagat midhya"

"Whole universe is filled with maya"

"Living in truth"