



Banking & Finance

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DIGEST

Financial sector Reforms The way forward



Suman Das,
CFO, IT Co.

Rakesh Kapoor,
Banker -Treasury Dept.

M. Murleedharan,
Garment Exporter

Neeraj Zaveri,
Gold & Diamond Businessman



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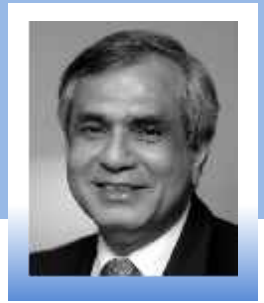
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Federation House Tansen Marg,
New Delhi - 110001
Phone: 23738760-70 (11 Lines)
Fax: 23320714, 23721504
E-Mail: ficci@ficci.com
Website: www.ficci.com

PREFACE



As you may be aware, through FICCI's Banking & Finance Digest, we endeavour to facilitate a comprehensive forum to deliberate upon key issues facing the Indian economy. The issues discussed herein form invaluable inputs for FICCI's extensive network of industry members and stakeholders.

It gives me immense pleasure to release the eleventh issue of our widely acclaimed Banking & Finance Digest. It is a well established fact that there is a positive correlation between the financial sector and the real economy. Therefore, growth oriented regulation of the financial sector with focus on reforms and prudential overlay becomes a key economic objective. As we embark on FY 13, this issue of FICCI's Banking & Finance Digest aims to bring to the forefront perspectives from stalwarts of Indian financial sector on 'Financial Sector Reforms: The Way Ahead'. We have invited eminent figures from various segments of financial sector to express their views on financial sector reforms, the opportunities and challenges.

We thank our partner MCX Stock Exchange for extending their support to help achieve our endeavor.

We do look forward to views and suggestion from the readers to help us improvise the content of the digest and make it more relevant and informative.

A handwritten signature in black ink, appearing to read 'Rajiv Kumar', written in a cursive style.

Dr. Rajiv Kumar

Financial Sector Reforms: The Way Ahead

*Mr Himanshu Kaji, Executive Director
Edelweiss Group*

Having weathered the storm of the challenging financial environment of the last few years with its fundamental strength relatively intact, the Indian economy is poised for significant growth over the next decade. We believe that a large part of this growth will come through financial services in the form of its three chief components: banking, insurance and capital markets.

These three branches of financial services have been significant drivers of India's growth, comprising between them around 75% of the country's Household Financial Savings in FY 2011. While their potential is irrefutable, we believe that there are certain areas where there is scope for structural improvement, which in turn would lead to a more evolved financial services industry. Some of these are discussed in detail in this article.

Development of the Corporate Bond Market

The corporate bond market has the potential to be a vital tool for mortgage and infrastructure financing, both of which are currently funded by banks. This leads to Asset-Liability mismatch, since mortgages and infrastructure obligations have long planning horizons, while banks are funded by short-term and medium-term deposits. This funding could be more efficiently managed using corporate bonds of the relevant duration. The extremely positive response to recent infrastructure bond issues is a sign of high latent demand for these instruments.

If a liquid market in corporate bonds could be developed, the advantage would not be solely in terms of Asset-Liability Management. A much broader investor base including pension funds and small retail investors would be

encouraged to participate if they were assured of being able to sell their bonds when they wished. This would lead to an active secondary market, which would further enhance liquidity. Improved market structure and technology would further increase retail participation.

One of the main challenges faced by the corporate bond market now is that it is unclear whether regulatory oversight rests with RBI or SEBI. Partly because of this, there is limited liquidity. There are regulatory caps on investment, which dampen investor interest. In



addition, stamp duty on debentures is 0.375%, compared to just 0.05% for promissory notes. This has a heavy impact on the cost of issuing bonds.

Bonds, moreover, need to be marked to market, leading to instability in balance sheet figures: for this reason, banks prefer to invest money through loans.

Another barrier to liquidity in the bond market is private placement. Issuers have increasingly been raising money through private placement rather than more expensive and time-consuming public issuances. They create several small issuances to circumvent the regulatory requirement that an issuance that has participation from fifty or more investors must be a public issue. Such fragmentation reduces the liquidity and depth of



the corporate bond market, makes consolidation of issues difficult, and increases trading cost.

The regulator should also revisit and possibly alter investment guidelines to make them more investor-friendly, and work on improving bankruptcy provisions

Regulatory Anomalies in the Current Scenario

At present, four regulators supervise financial services. RBI regulates banks and NBFCs, IRDA regulates insurance, FMC regulates commodities and SEBI regulates the capital markets. Because of this, there is no single entity that has a comprehensive view of the entire financial landscape. Regulation can sometimes be fragmented and inconsistent, leading to regulatory arbitrage or, more alarmingly, insufficient regulation.

Interest on bank deposits, for instance, is combined with regular income and taxed at the relevant rate, while debt fund returns for funds held longer than a year are subject to capital gains tax with indexation benefits. This means that money invested in a debt fund could yield significantly higher returns than a bank deposit made for the same period, even if the bank deposit offered a marginally higher rate of interest. In addition to this,

since dividend is tax-free, tax on debt funds can be further reduced through dividend payout and reinvestment options.

There is disparity in the regulations for banks and NBFCs. Banks have restrictions on CRR, SLR and branch expansion, while NBFCs do not. NBFCs are further permitted to provide funding to clients, while brokerages are only permitted to fund clients for margin trading. On the other hand, the Capital to Risk-Weighted Assets Ratio is 15% for NBFCs, compared to 9% for banks.

There are sometimes disagreements and confusion amongst the regulators themselves. A case in point is the recent disagreement between SEBI and IRDA over regulation and control of ULIPs.

Regulatory anomalies such as this could be eliminated through the creation of a single, unified regulator.

A Single, Unified Regulator

One of the most pressing needs today is for a single, unified regulator that will have both the authority and the expertise to supervise institutions across the spectrum of financial services. Such a regulator would boost the confidence of both domestic and international investors in the Indian

market and ensure more consistent and comprehensive regulation.

A unified regulator would have the advantage of providing more effective regulatory supervision for large, systemically important institutions. A single regulator would also be able to analyze the position of the top five or ten financial conglomerates in the country and provide high-level, in-depth, consolidated supervision. This would lead to consistent regulation for all systemically important institutions.

A single regulator would be able to identify regulatory gaps and take corrective action. In the current situation, even if a regulator noticed an area of financial services that was inadequately supervised, deciding who should be responsible for its supervision and the attendant legal process would be time-consuming. Gaps such as review of corporate accounting statements by a regulator would be filled.

A unified approach would also allow regulations that are more flexible, by eliminating the turf wars that could arise when there are multiple regulators. There would be economies of scale: a larger organization would allow for a more specialized labour force, joint database maintenance, and more efficient use of technology. This would lead to cost savings..

A good beginning would be to implement the unified regulator policy in areas where integration would be simple and efficient. As a first step, IRDA and PFRDA could be combined into one body. The insurance companies regulated by IRDA run annuity-based schemes which are similar to the pension funds regulated by PFRDA. The similarity of their investment objectives and the overlap in domain knowledge would make the process easy and painless.

We believe that if a single regulator were created, with the mandate, expertise and wherewithal to address the concerns raised in this note, the benefits to the Indian financial system would be substantial.

Restrictions on Commodity-Based Portfolio Management Services

Commodities as an asset class are currently kept out of the Indian PMS system due to regulatory concerns. Among the worries are that speculative investment could lead to high volatility and destabilize prices, causing inflation. This is particularly true of essential agri-commodities, where high prices would mean that a large portion of India's population would be in severe difficulty.



However, if this risk could be mitigated, there are significant potential benefits to investors in permitting commodity-based PMS. To begin with, PMS interest in the commodities market would encourage financial companies to allocate research budgets to the commodities market. There would be increased market tracking, and more comprehensive and reliable information would be freely available, along with greater expert focus on market trends. There would also be significant enhancements to the current advisory infrastructure. This would benefit retail investors.

At the moment, a retail investor who wants to invest in commodities must either choose an ETF (limited to bullion) or manage his or her own investments. Investors who do not have expert knowledge of the

commodities markets could be discouraged from investing in them, even if they perceive potential for growth. A PMS company would be better equipped than such investors to handle allocation and tracking and manage profitability. It would also have more sophisticated risk management systems and would be able to provide greater diversification, reducing the volatility of investor returns.

The advantages are not only to investors. The market as a whole would benefit; introducing lower ticket sizes would encourage small retail participants and thereby create a broader and far more liquid market. This will enhance the depth of spot markets also as PMS will involve acquiring commodities from mandis.

To mitigate the risk of price destabilization and uncontrolled inflation, safeguards could be introduced. As a first measure, the flow of short-term speculative investments to commodities, the chief cause of price volatility, could be controlled, if not curtailed entirely, by prescribing minimum holding periods for PMS investors. Stringent price circuit limits could be in place, with trading halting for the day on a move as low as 5%. In addition, PMS investors could be proscribed from investing in

essential commodities such as food grains or oil.

To ensure the reliability of the commodity-based PMS business and protect investor interests, certification to run PMS on commodities could be provided only subject to employees of the company clearing certain rigorous examinations. Increased transparency in reporting and KYC documentation would be another essential step.

Creation of a Financial Services Appellate Tribunal

In a scenario with independent financial services authorities, it is vital to have appeals systems for all aspects of regulatory decisions. At present, the Securities Appellate Tribunal functions for SEBI. RBI, IRDA and FMC are not subject to appellate oversight at this time. As more and more people participate in the financial services industry through their investments or bank deposits, decisions made by these organizations will affect a larger portion of the population.

At present, an appeal against a circular or show-cause notice issued or action taken by any regulator other than SEBI can be made only in the form of a writ petition. Writ

courts, unlike SAT, do not consider the merits of individual cases; they only examine whether due process has been followed. This was appropriate when investment in commodities, foreign exchange and bonds was done by a narrow group of specialists and the markets themselves were not as well-developed as they are today.

Now, the increased complexity of financial products and services available means that the appellate authority must have specialized domain knowledge. It is important that the designated arbitrators combine expertise with an efficient process and minimal delays. This can be best achieved by vesting appellate powers in an independent appellate tribunal.

One way to do this would be to extend the scope of SAT itself and converting it into a Financial Services Appellate Tribunal (FSAT). The new body would cover securities, capital markets, banking, insurance and pensions. This would enable a faster arbitration process and increase the stability and reliability of the system.

Conclusion

Financial Services is one of India's highest-growth sectors. It has the potential to be a major driver of India's GDP, both directly and indirectly.



Improved liquidity in the corporate bond markets will mean that companies can raise money through bond issues. There will be growth and expansion in several sectors, especially infrastructure, once companies have access to this source of funding. The elimination of regulatory anomalies through the creation of a single, unified regulator will lead to more efficient processes and reduced costs. This cost reduction will eventually be passed on to customers in the form of greater returns on investments, leading to increased consumption and a boost to the economy.

Commodity-based PMS is one important avenue through which investors could have access to these improved returns.

Finally, the creation of a unified appellate tribunal to go with the unified regulator would give companies and individuals a speedier and more effective means of appealing against regulatory decisions.

Thus, resolving regulatory and structural concerns in a few key areas could lead to significant benefits in economic growth. It will come both in the form of financial services revenues and investment returns and in the form of increased productivity and revenues in other sectors. Together, they could propel GDP growth of around 9% to 10% over the next decade.

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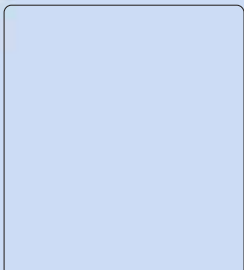
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Mr Himanshu Kaji
Executive Director
Edelweiss Group

Mr. Himanshu Kaji brings to the table diverse experience of over two decades in the financial services space. In addition to his responsibilities as Executive Director, Mr. Kaji continues to be Group Chief Operating Officer managing Finance, Risk, Operations, Technology, Governance, Administration, Investor Relations and Compliance at the Edelweiss Group. He is also in charge of Corporate Planning, which looks at Strategy Development and Execution for the Group.

A Chartered Accountant with a Post Graduate Diploma in Securities Law, Mr. Kaji gave up his investment banking job at ICICI Limited to join his family business of broking. During this period he played a key role in the overhaul of the oldest stock exchange in Asia – the Bombay Stock Exchange (BSE). Himanshu was on the board of BSE and a part of a select group which oversaw the corporatisation and the de-mutualisation of the BSE. Mr. Kaji has been involved with Edelweiss since the early days, advising Edelweiss through strategic and broking challenges.

Delisting Regulations Should Now Be On The List

*Mr Sunil Sanghai, MD and Head-Global Banking (India)
HSBC*

Background

The process of delisting of equity shares entails removal of the equity shares from the stock exchanges on which it trades.

Various sources indicate that approximately less than 50 per cent of the companies, currently listed on various Indian stock exchanges, are being actively traded. With limited trading, investors are faced with illiquid investments. Typically, investors would look to release funds tied up in such companies and invest in relatively active scripts – voluntary delisting by the majority shareholder is one such mechanism.

Delisting of less active and thinly traded stocks provides option to investors to invest in more active counters where long term value creation opportunity are higher and decision to enter and exit is not restricted. Such recycling of capital

is critical for a vibrant and efficient Indian equity capital markets.

The capital markets regulator, SEBI, in 1998 first directed stock exchanges to amend the listing agreement and other bye laws to provide for delisting procedure including pricing for delisting offers.

Pricing considerations in the 1998 circular took into consideration trading history of the securities over the past six months. Should such security not be classified as a frequently traded one, pricing for delisting was to be determined by the statutory auditors of the company as the fair price for delisting i.e. shareholders had no say on pricing. This arrangement came in for criticism from public shareholders and various investor forums as the price was solely determined by the statutory auditors of the company. Independence and role of the

statutory auditors and potential influence of the controlling shareholders in determining the price for delisting were also questioned.

Current Situation

To address these concerns, in 2003 SEBI introduced a price discovery mechanism in the form of reverse book building for the delisting of equity shares. Price for delisting was based on the price at which maximum number of shares was



tendered by the minority/public shareholders. Revised rules provided flexibility to the controlling shareholder to accept or reject the price determined by the reverse book building process.

In June 2009, SEBI outlined further changes to the earlier guidelines and introduced new regulations for delisting of equity shares. Key changes included were the new thresholds for delisting proposals - (a) approval of delisting proposal by the minority shareholders and (b) determining success or failure of the proposal under reverse book building. These regulations remain in force at present.

The regulations require that votes cast by the minority shareholders in favour should be at least two times the number of votes cast against the resolution for a voluntary delisting by a majority shareholder. Also, for a delisting offer to be successful, the controlling shareholder has to reach either ninety (90) per cent of the voting capital or fifty (50) per cent of the voting capital held by minority shareholders plus the aggregate percentage of the pre-offer promoter shareholding, whichever is higher. These changes were in addition to the price discovery mechanism envisaged through reverse book building.

SEBI should be complimented for a progressive approach towards delisting - in particular, for recognising the minority shareholders as a separate class of shareholders, an international best practice, thereby requiring them to approve the delisting offer by two thirds majority.

Reality Check

However, a combination of increased threshold and reverse book building has led to significant powers in the hands of minority shareholders. A closer scrutiny of the how the current delisting rules have worked, particularly the reverse book building process, indicates a disconnect between the intent of the regulations and the actual implementation. Recent experiences provide evidence that the reverse book building process, which was to facilitate an investor friendly mechanism of price discovery and to aid determination of a fair exit value for the minority/public shareholders, is not fully achieving the objective. The mechanism is not necessarily translating into genuine discovery of price.

1. Shareholders holding significant stake amongst the minority shareholder exercise disproportionate powers while a delisting proposal is being



considered for benefit of larger set of minority shareholders. This is contrary to fundamental corporate law principle that all shareholders should be treated equally.

2. Odd bids are submitted by arbitragers and other market participants who have neither invested in the company or are looking to be a long term shareholder in the company. Such bids destabilise the delisting process for minority shareholder who have undertaken risk of investing over a longer horizon and are denied a fair exit.
3. Mutually agreed by a few market participants in the price discovery process which may work adversely for the other minority shareholders intending to participate in delisting process.

A historical analysis of the premium paid in the delisting process in the past couple of years indicates that companies indicating to delist have paid premium in excess of 70% of the floor price.

Need of the hour

Reverse book building mechanism is not observed in most of the developed markets and a consistent practice is to enable the majority shareholder to indicate a price for delisting and the same being approved by the minority shareholders. A review of the delisting regulations in other jurisdictions with healthy capital markets (the UK, Hong Kong, Singapore) suggest that minority shareholders approve, via a shareholders' resolution, a delisting offer as well as the price offered by the majority/controlling shareholder. This enables an equitable say to all shareholders.

There is a need for modifications of the existing delisting regulations, in

particular the pricing mechanism, for efficient functioning of the capital markets.

The reverse book building process could include price determination parameter like introduction of a price band along the lines of the price discovery process for new equity issuance to avoid frivolous bids. The floor price for the price band can be determined as per the current regulations which assess the floor price on basis of factors like trading history, fair value by independent agency, historical deals done etc.

The higher end of price band can be determined by the majority shareholder. To protect the interest of minority shareholders, a committee of independent directors in consultation with the merchant bankers would provide a recommendation on the price band. The independent directors and the merchant banker would consider market scenario, company performance, willingness of

controlling/promoter shareholders to delist, quantum of funds required etc.

The delisting offer price should be the price point, within the pricing band, at which such number of shares have been tendered for delisting which enables the majority shareholder to meet the relevant threshold. This price shall be binding on the controlling/promoter shareholders and shall be paid uniformly to all minority shareholders.

This mechanism would address the balance between controlling/promoter and minority shareholder. This also provides an independent oversight over pricing to ensure that minority shareholders receive a fair exit. Such a process will be a key enabler for minority/public shareholders to release capital invested in such companies and recycle capital and contribute to efficient functioning of the Indian equity capital markets.



Mr Sunil Sanghai
MD and Head-Global
Banking (India) HSBC

Mr. Sanghai is the Managing Director and Head-Global Banking (India), HSBC.

Prior to joining HSBC, he was the Managing Director and Co-Head Investment Banking India at Goldman Sachs. He joined Goldman Sachs in 2006. Prior to that he spent many years with JM Morgan Stanley (a joint venture between JM Financial and Morgan Stanley), based in Mumbai and with Morgan Stanley in Singapore.

He started his investment banking career in 1992 and has rich experience in mergers and acquisitions, corporate restructuring, advisory and domestic and global capital markets. He has been involved in many significant and large capital markets and M&A transactions in India.

Financial sector Reforms

The way forward

Mr Gagan Banga, CEO
Indiabulls Financial Services

Introduction

Financial sector reforms in India now have a history of about 20 years, during which period the entire financial system has seen transformation and liberalization. The path of reforms taken by the system administrators has been gradual, steady and measured and has been significantly different from that followed by other developing countries.

Banks and other financial institutions have experienced an overall growth owing to a number of positive factors over the last decade. Implementation of the SARFAESI Act, technological improvements, Credit Information Bureaus, improved risk management and regulation and improved monitoring processes have all contributed to the overall development of Indian financial sector. The implementation of the

above and similar smaller policy changes & initiatives have helped the financial system to overcome the temporary slowdown in economic activity in 2008-09, which was marked by tight liquidity situation and changes in regulations by Reserve Bank of India. Indian banks have since come out stronger due to the self imposed regulations in terms of capital adequacy and conservative policy approach.

Challenges and Reforms for the banking sector

In spite of the cautious approach followed by the Indian banks, there are challenges that the banking sector has to face in the near future such as deregulation of interest rates on saving deposits, tighter monetary and fiscal policies, a large fiscal deficit and slowdown in GDP growth with increased stress in the



infrastructure sector. Due to the slowdown in growth and industrial output, there is an increased possibility of restructuring loan accounts. The other challenges that the banks have to face are unamortized pension and gratuity liabilities, and implementation of the Basel III norms.

The Reserve Bank of India (RBI) has been considering giving some additional banking licenses to private sector players as well as some NBFCs since RBI envisages that vast segments of the population, especially the underprivileged sections of the society, have still no access to formal banking services. Ten new banks were set up in the private sector after the 1993 guidelines and two new banks after the guidelines were revised in 2001. Of these four were promoted by financial

institutions, one each by conversion of a co-operative bank and an NBFC into commercial banks, and the remaining six by individual banking professionals and an established media house. Of the four banks promoted by individuals in 1993, only one has survived with muted growth. Of the remaining six, five have either merged with the parent or rebranded and achieved growth. Only those banks that had adequate experience in broad financial sector, financial strength, managed by people with adequate and appropriate knowledge about the synergies involved in converting to a bank and those with a strong and competent management have been able to withstand the rigorous demands of promoting and managing a bank. Thus challenges in converting to a bank from a corporate house or an NBFC are tremendous.

RBI has been focusing on Basel III norms with a view to bring Indian banks at par with the global financial institutions. RBI's proposed guidelines for implementing Basel III norms may negatively affect credit growth of a few Indian banks though it will strengthen their capitalization and credit profiles. The RBI's proposals on capitalization are more stringent than that of the Basel Committee on Banking Supervision. Increased capital requirements could make it harder for Indian banks to grow. Delays in raising capital may also limit the credit growth of some banks. However in the long run, there would be greater stability and the probability of financial sector crisis will be greatly reduced. The norms should be stringent enough to keep the sector in control; however, the focus should also be on growth.

Challenges and Reforms for the NBFC sector

NBFCs are primarily involved in retail financing of home loans, vehicles such as cars, commercial vehicles (CVs), tractors, utility vehicles (UVs), and two wheelers. Some NBFCs are also involved in financing of consumer durables, business loans against hypothecation of plant and machinery and loans against property. Beyond this, some NBFCs



extend term loans and working capital loans to various corporates. NBFCs possess unique strengths that ensure their continued existence. The core strengths of NBFCs lie in their strong customer relationships, prompt loan processing, good understanding of regional dynamics, focus on service and ability to identify and cater to customers who are financially capable but are under banked. Because of their niche strengths, local knowledge, and presence in remote geographies, NBFCs have been successful in appraising and servicing such customer profiles and have been able to capture good market share. Thus such NBFCs supplement the role of banks and help in the cause of financial inclusion.

Amongst the major reforms proposed for NBFCs, extension of SARFAESI Act remains one of the most landmark reforms in the financial sector. In order to provide a structured platform to the Banking sector for managing its increasing NPAs and also to keep abreast with international standards, the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act was put in place. SARFAESI allows banks and other Financial Institutions which are allowed by RBI to take possession of securities and sell them without recourse to

traditional Civil Courts. The SARFAESI Act has greatly helped the financial institutions in asset recovery and reconstruction.

On the other hand, the NBFCs today have to take the route of Civil Courts for recovery of their NPAs. On an average, a civil suit decision takes anywhere between 5 to 7 years to issue an order, which is a punitively long duration for a growing NBFC. The extension of SARFAESI to NBFCs will lead to speedy recovery of dues and provide them comfort enabling them to reach out to a larger customer base. This, in turn, could encourage NBFCs to provide access to a wider range of financial products and better serve the cause of financial inclusion.

Also, the SARFAESI Act today face issues such as thin investor base and investor appetite. The SARFAESI Act has been structured to enable security receipts (SR) to be issued and held by Qualified Institutional Buyers (QIB's). It does not include NBFCs or other bodies unless specified by the Central Government as a financial institution (FI). Thus there is a need for increasing the investor base and including NBFCs in this.

Some of the other reforms which are important from the NBFCs perspective are elaborated as below:

1. Parity in risk weights for bank financing to NBFCs

Currently bank financing to non-deposit taking systemically important NBFCs attract a risk weight of 100%, this should be brought in parity with that of rated corporate, i.e. Lending to a AA+ rated NBFC should attract the same risk weight of 30% as to that of lending to any other AA+ rated corporate. This move shall help both the banks and NBFCs by freeing valuable capital for banks and giving NBFCs access to cheaper funds.

2. Introduction of dynamic risk weighting for NBFCs Secured Assets

NBFCs should be allowed to set aside lesser capital for secured assets as the inherent risk reduces because of the presence of collateral (Mortgage) vis-à-vis unsecured assets which only have a personal guarantee and are riskier than assets backed by collateral.





3. Introduction of Priority Sector Bonds

As an extension to the tax free bonds that have been issued lately in the market by issuers such as PFC, NHAI, IRFC and HUDCO, the Reserve Bank of India (RBI) can allow NBFCs to come out with priority sector

bonds (similar to covered bonds issued in other nations). These bonds can be backed by cash flows from the underlying pool of priority sector loans, and as and when the underlying loans get repaid the bonds can be redeemed. The bonds can be listed on the exchange, thereby allowing for liquidity in the instrument. The bonds shall qualify for fulfilling the priority sector lending quota of banks / other institutions.

4. Parity with Banks

a. Like banks NBFCs should also be allowed deduction for tax purposes on provision for non-performing assets. Currently, NBFCs make provisions for NPAs as required by RBI directions, but they do not get any tax deduction for the same.

There has to be parity between banks and NBFCs in terms of tax deductibility – something that would require amendment of the Income-tax law.

b. Banks are given shelter under Section 194 (A) of the Income Tax Act for exemption of TDS under interest paid to banks for borrowings. This section should also be extended for NBFCs.

5. ECBs for specific onward lending

NBFCs should be allowed to borrow through ECBs for specific onward lending to sectors which qualify under priority sector or in need of credit as per the regulatory authorities for eg. Commercial vehicles, SME, Agriculture, etc.



Mr Gagan Banga
CEO

Indiabulls Financial Services

Mr. Gagan Banga has a 10 year track record with the Indiabulls Financial Services Ltd, during the course of which he has had a challenging and a fast growing career across businesses and roles. Gagan, who holds a Masters degree in Business Administration, has been the CEO of Indiabulls Financial Services Ltd since 2006 and has been instrumental in growing the company from a single product lending company to one of the largest NBFC-HFC in the country. Under Gagan's leadership, the company today is a lender of considerable size, repute and presence in asset classes such as Home Loans, Loans Against Property, Commercial Vehicle Loans, Business Loans and Corporate Credit. The company boasts a net worth of over USD 1 billion with an asset book of over Rs. 25,000 Cr and has cumulatively disbursed over Rs. 60,000 Cr to date.

Financial Market Reforms – Case for Corporate Bond Markets and the Way Forward

Dr V Shunmugam, Chief Economist
MCX Stock Exchange

Mr. Arbind Kumar, FRM
MCX Stock Exchange

As reforms take the drivers' seat in the economy, a road map to the destination with connectivity to all groups of stakeholders would help keep the country's economic growth on a sustainable growth path. Private and Public enterprises in the economy which are expected to play the anchor role in the liberalized economy are a significant stakeholder group on whom this logic would be equally applicable. Private enterprises are often built and operated with a mix of risk and debt capital. While the existence of vibrant capital markets help enterprises raise risk capital whose returns are better determined by the collective wisdom, institutional lending continue to play a significant role in the markets for debt capital be it for the corporate or the last mile stakeholders of the economy. Existence of markets for debt capital would not only make capital structuring decisions of the

businesses easier but also makes it possible the creation of a long term market meant for management of risks in returns to debt capital.

While administered rates help bridge short term differences in expectations between the lenders and borrowers, in the long-term, presence of a market for debt capital would help improve the competitiveness of the businesses and hence the economy due to the high risk premiums to be paid by the borrowers that would get built into products and services they offer and hence into the economy. Existence of a well functioning corporate bond market would provide the economy an opportunity to spread risks in corporate bond markets across stakeholders of the economy. As the Indian economy globalizes and liberalizes, competitiveness remains the key for the stakeholders not only to reap the economic benefits but also continue to grow in their

businesses. Competitiveness is brought about by being able to price products and services optimally in an economy and yet earn the best possible returns to their investments. Being able to manage costs a part of which is cost of capital also contributes in a major way to the competitiveness of the businesses.





Corporate Bond: Role in Entrepreneurship and Economic Growth

During the initial phase of businesses, an entrepreneur expecting future profit generating capacity to be higher than the current cost of debt capital, would be incentivized to retain most of the management control by opting for the debt capital. Though it may be in the reverse in the claim priority, it is risk capital that determines the management control and the ownership structure. Despite the stages of evolution of business enterprises, debt capital plays a key role in their functioning and its business growth. While the existence of well functioning capital markets are not only enabling businesses to evolve in terms of their risk capital needs, but also enable businesses maintain a

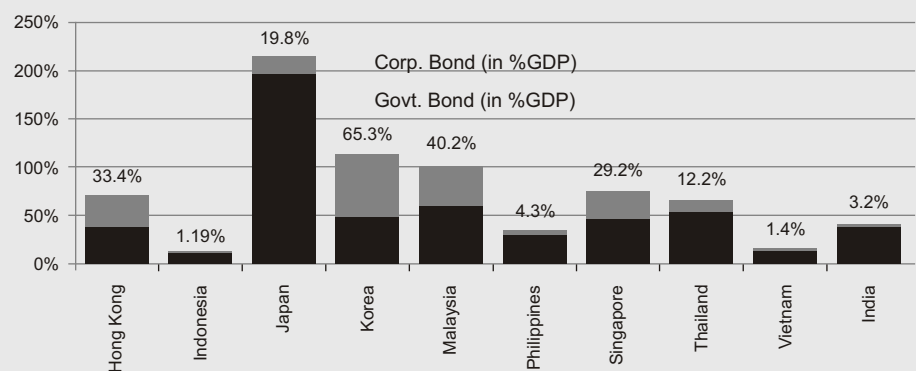
healthy balance of capital mix (of equity and debt), putting them on the right growth path as well as sharing profit and growth with economic stakeholders in an appropriate manner. The presence of a well developed debt market and access to cost effective institutional lending would help early stage entrepreneurs to achieve business growth retaining most of their management control; put together help collectively reap the growth potential in the economy. Access to corporate debt markets would enable the he early stage enterprises to decide the choice of capital either from the debt market or from risk capital providers such as private equity and venture capital funds. This choice also depends on various factors, some of which include, the existence of a well developed debt market, interest in the sector shown by PE / VC funds, flexibility in Management control,

potentials for growth, to name a few.

Economic Significance of Corporate Bond Markets

The economic importance of corporate bond markets is well established by the experience of the developed economies and few emerging nations such as Malaysia and South Korea. The fact that corporate bond markets constitute about 55 and 57 percent of the respective GDPs in South Korea and Malaysia (Figure 1) prove it that corporate bond markets are well entrenched in their respective economies providing businesses with access to risk and debt capital on an equal footing and thus keeping them and the respective national economies on a vibrant growth path with an appropriate mix of both forms of capital. It has been proven from various economic

Figure - 1: Share of Corporate/Government Bond Markets to GDP in ASEAN and India



Source: Asian Development Bank India-as on 2009; Other Countries-As on Sep 2011

studies that existence of and access to corporate bond markets aid the corporate to better structure their capital base aligning profit generation and hence their growth aspiration with that of management control. Various academic studies also indicate that a widely participated corporate bond market coexisting with a vibrant stock market would help make economic growth of the nation an inclusive process.

Role of Corporate Bond Markets in an Economy

It is well known fact that corporate and organized sectors contribute significantly to the country's economic growth since the last two decades. It is necessary that the corporate growth clock is kept ticking making available funds at appropriate costs. The cost of funds and intermediation is a direct function of level of information symmetry in the financial markets, which would equally apply to the market for debt products as well. Efficient bond prices incorporating all possible information would provide better signals to investors as well as savers and enable the corporate obtain funds at the optimal cost possible besides minimizing intermediation costs to the economic stakeholders. A well developed corporate bond market

allows lenders to invest in relatively low risk assets and borrowers obtain funds in relatively liquid markets. Besides playing a key role in determining prices in markets for other asset classes, bond markets also help the banking system follow market-determined interest rates on bonds. It is particularly important as the central bank is moving towards liberalized rate regime on the lending side by providing a yield curve – a market determined term-structure of interest rates. It also forms the basis for creation of derivative markets for interest rates and debt capital. It would provide banks an opportunity to transfer risks by way of securitization of their corporate lending exposure. In a nutshell, various research studies have concluded that the level of activity in an economy is significantly influenced by the level of development of bond markets in it.

Structural Issues in development of Corporate Bond Markets in India

The structural issues to the growth of Corporate Bond Markets could be better addressed depending on its origination that is from the supply side or the demand side. Firstly, from the demand side banks would tend to prefer loans to bonds due to the limitations associated with marking their position to the market in the case of bonds whereas, loans carried in the books are free from this requirement. Parking of funds in corporate bonds by Pension and mutual funds is dependent on the secondary market liquidity and compliance requirements. Investments in corporate bonds could be made attractive to the subscribers through creation of markets trading in financial



instruments that help the corporate bond holders manage their risks. More fundamentally, a liquid benchmark yield curve in the country is *sin-qua-non* for the development of healthy secondary markets. A well developed system to address concerns associated with corporate financial distress situation will improve the trust level in markets. Additionally improved bankruptcy protection measures for investors and preference of claim in case of solvency equivalent to a bank loan will win over investors' confidence in corporate bond markets in India.

When it comes to the issuers of corporate debts, the corporate will look to the competitiveness of domestic rate regime *vis-à-vis* the offshore market if the corresponding currency risk can be effectively managed. Existence of effective corporate governance regime could make it cheaper for the corporates to issue bonds than obtaining syndicated bank loans. A strong corporate governance regime shall not only improve the trust of the subscribers on corporate debt issuances but also have to be cost-effective for compliance in the case of bond issuance compared with loan products. Cost of issuance of a corporate bond is also a function of existence of strong bankruptcy

protection measures and hence the return expectations of the subscribers besides the secondary market liquidity.

The way forward

Rationalization of accounting measures to create a balance in treatment of bank loans and their exposure to corporate debt market would go a long way in encouraging institutional participation in corporate debt market. Relaxation of valuation norms, investment guidelines, and improvement of corporate governance would help increase the participation interest amongst insurance, pension and mutual funds.

Creation of vibrant secondary markets for short and long dated government securities will help improve the rate discovery process in the markets through

development of a benchmark yield curve for pricing of other debt and credit products including Corporate Bonds. Allowing STRIPS (Separate Trading of Registered Interest and Principal Securities) and issuance of ZEROs (Zero coupon Bonds) would enhance the efficiency of the benchmark yield curve. Measures such as acceptance of investment grade corporate bonds against various financial positions taken in the markets, such as wider acceptance as a cost-effective collateral against loan, and use by clearing houses, would help improve transaction and thereby transparency in the secondary market.

Moving forward with economic and policy reform measures that provide financial stability and sustainability of competitive interest rate regime will improve the supply side of the corporate bond





markets. A National Bond Market Committee shall be created in line with the Malaysian model to

provide policy direction comprising of representatives of various functionaries from SEBI, RBI, Ministry of Corporate Affairs, Ministry of Finance and Ministry of Labor. This committee could jointly look into measures to improve the systems to facilitate smoother financing decisions by the Indian businesses and prescribe strong insolvency measures keeping in

mind its implication for development of a healthy corporate bond market. All the above measures taken up in a logical sequence would help in healthy development of markets for corporate bonds without increasing systemic risks in the economy would contribute to healthy development of corporate sector in the economy.



Dr V Shunmugam
Chief Economist
MCX Stock Exchange

Dr. V Shunmugam is the Chief Economist at MCX Stock Exchange Pvt Ltd. (MCX-SX), Mumbai. Having obtained extensive experience in economic research, commodity and currency markets and policy analysis, his key responsibility as the Head of Research at MCX-SX is to analyse market data and trends and informing market participants, regulators and policymakers about how the markets are trending and, therefore, the course that ought to be taken in line with the changing global and domestic socio-economic and political needs.

As an expert on forex and commodity markets, Dr. Shunmugam also propagates the need and benefits of hedging risks in foreign currency on the exchange platform via his articles, white paper, case studies, lectures and speeches etc, for various market participants like corporates, SMEs, importers and exporters, among others.

Earlier, Dr. Shunmugam was the Chief Economist at the Multi Commodity Exchange of India Ltd. (MCX), and as the Head - Economic Analysis and Publications Division, he analysed commodity market trends, regulations and policy issues and kept the stakeholders updated about the same.

Dr. Shunmugam regularly contributes research papers, analyses, articles, etc. on subjects ranging from commodities to capital markets to issues related to trade policy, financial markets and the recent global financial crisis in national and international publications of repute, including journals, books, financial dailies and trade publications.

Prior to joining MCX, he was an Agricultural Specialist at US Department of Agriculture (USDA), where he spent more than 8 years.

Dr. Shunmugam has a Ph. D. in Agricultural Economics from Indian Agricultural Research Institute, New Delhi.



Mr Arbind Kumar FRM
MCX Stock Exchange

Arbind Kumar FRM is a senior member of the Research and Product Development team at MCX Stock Exchange. Mr. Kumar's extensive experience of nearly two decades in various industries includes several financial products and their derivatives across asset classes as Equity, Indices, Interest Rate, FX, Commodities; Traditional as well Alternative investments, Risk Management and Consulting.

A member of Global Association of Risk Professionals, USA, Mr. Kumar has an MBA (Finance). He coaches Finance professionals in Advanced Derivatives Trading strategies, Risk Management and advanced Portfolio Analysis Models.

Indian Economy- An update

Box1. Key Facts

- The GDP growth for the fiscal 2011-12 has been estimated at 6.9 cent, as per the Advanced Estimates. Growth rate for the December quarter fell to 6.1 per cent (y-o-y), the lowest pace in almost three years.
- Since November 2011, inflation has shown significant moderation. The WPI based inflation eased to 6.5 per cent in January 2012, its lowest level in more than two years.
- Industrial growth, at sluggish 1.8 per cent slowed sharply in December 2011. For the fiscal so far, IIP index displayed a low growth of 3.6 per cent in April-December 2011 as against 8.3 per cent in the corresponding period last year.
- The World Bank has projected the global economic growth to be 2.5 per cent and 3.1 per cent in 2012 and 2013 against its earlier projections (June 2011) of 3.6 per cent for both years. against its earlier projections (June 2011) of 3.6 per cent for both years.

Economic Scenario

Concerns of a significant downturn in economic activity are going stronger. Indian economy grew at 6.1 per cent in Q3 FY 2011-12, its weakest pace in almost three years. This reveals the heavy toll that high interest rates and fragile global economic scenario are having on our growth prospects.



RBI in its third quarter review of the monetary policy revised downward its projections for GDP growth this fiscal from 7.6 per cent to 7.0 per cent. Earlier, both IMF and ADB have projected a moderation in the growth prospects for the Indian economy on account of base effects and policy tightening.

As per the latest FICCI Economic Outlook Survey, GDP growth rate for this fiscal has been forecasted to be 6.9 per cent which matched the Advance Estimates for FY 2011-12

FICCI's Projection on Growth rates

Projection on Growth rates	2011-12	2012-13
GDP growth rate (in %)	6.9	7.1

Source:FICCI Economic Outlook Survey, January 2011

released by the Central Statistical Organisation. Going forward in next fiscal, the growth outlook is not expected to be significantly better unless the global economic scenario improves. The GDP growth has been projected to be 7.1 per cent for FY 2012-13.

As for the global economic growth prospects, the World Bank in its bi-annual report sharply lowered its global economic growth forecast for 2012, citing European financial turmoil and weak growth prospects

in emerging nations, including India. The global economy is now expected to expand 2.5 per cent and 3.1 per cent in 2012 and 2013 against earlier projections (June 2011) of 3.6 per cent for both years.

Inflation

Persistently high headline inflation has shown some signs of abatement since November 2011. WPI based inflation rate at 6.5 per cent in January 2012 decelerated to its lowest level in more than two-years. More importantly, the core inflation (non-food manufactured products) has declined consistently from 8.4 per cent in November 2011 to 6.7 per cent in January 2012. However, the core inflation still remains significantly high, reflecting input cost pressures, as the impact of imported inflation resulting from the rupee depreciation more than

offset the sobering impact of weakening domestic demand and softer global commodity prices.

According to RBI, there are upside risks to the projected inflation rate of 7 per cent for March 2012 from the insufficient supply responses, exchange rate pass-through and suppressed inflation in the energy segment.

FICCI estimates shows that the WPI based inflation rate is projected to be around 7 – 7.5 per cent by end March 2012.

Performance of IIP

In December 2011, overall growth in the Index of Industrial Production (IIP) declined sharply on a month on month basis. The industrial production grew by 1.8 per cent against a growth of 5.9 per cent witnessed in November 2011.

During the first quarters of the fiscal, industrial growth as reflected by the IIP was significantly lower at 3.6 per cent against 8.3 per cent during 2010-11.

What concerns the most is the declining trend in manufacturing sector growth. Average growth in the manufacturing sector for April - December 2011 slowed down to 3.9 per cent as against 9.0 per cent in the corresponding period last year.

The slowdown in industrial growth is all pervasive, with both investment demand (capital goods growth at -2.9 per cent during April-December 2011 vis-à-vis 18.4 per cent in the like period previous year) and consumer demand (consumer durables goods growth at 5.3 per cent during April - December 2011 vis-à-vis 13.8 per cent in the like period previous year) being hit. This indicates weakening of both investment and private consumption which would impact the aggregate demand in the domestic economy.

Fiscal Performance & Balance of Payment

The fiscal deficit surpassed the budgetary target for 2011-12 during the April-January period. As a proportion of budget estimate, fiscal deficit during April-January period was 105.4 per cent. The rise



in fiscal deficit is mainly on account of high subsidy bill, increasing crude oil prices, low tax collection and poor realisation from sale of government equity in state-owned companies.

As per the latest FICCI Economic Outlook Survey, the slippage in fiscal in current may be more than 100 basis points vis-à-vis the budgeted fiscal deficit, going by the estimates. However, more importantly, the consensus fiscal deficit estimate in the next fiscal is 5.1 per cent, indicating that the process of fiscal consolidation will be long and arduous and it may be difficult to plough it back to the levels witnessed prior to the crisis.

There is now an increasing consensus that the recent decline in rupee value (the good news is that the rupee has ploughed back recently on the back of currency supportive measures by RBI and portfolio inflows since the beginning of 2012) is because of the huge Current Account Deficit (CAD). In this context, it may be noted that India is only country with a CAD among Asian peers.

Liquidity Position & Financial Markets

The domestic liquidity deficit has remained significantly above the Reserve Bank's comfort zone of 1 per cent of NDTL since November

2011. Money market liquidity tightened significantly partly due to dollar sales by RBI. Credit growth slowed below RBI's indicative projection due to demand as well as supply side factors, reflecting the combined effect of a slowing economy and increasing risk aversion by banks.

The impact of stress in global financial markets witnessed during Q3 of 2011-12 has been evident in Indian financial markets as well. The impact of the global financial instability on India can be witnessed in the performance of domestic equity and currency markets. Capital flow moderation coupled with higher trade deficit led to a sharp fall in the exchange rate of the Indian rupee during August - December 2011. As a result, the corporate sector abstained from mobilising resources by way of public issues during Q3 FY 2011-12. However, since the beginning of 2012, there has been a pick up in capital inflows that have led to decline in pressure on Indian capital markets and domestic currency.



Banking Sector

RBI's mid-quarter policy statement

RBI left interest rates unchanged on March 15th, citing concern over resurgent inflation risks, even as economic growth remains sluggish. The RBI kept its policy repo rate on hold at 8.50 percent, as had widely been expected. It also kept the cash reserve ratio unchanged at 4.75 percent after cutting it by 75 basis points earlier in a surprise out-of-cycle move. "Upside risks to inflation have increased from the recent surge in oil prices, fiscal slippage and rupee depreciation," the RBI said in its mid-quarter policy statement.

RBI slashes CRR by 0.75 basis points

The Reserve Bank of India slashed the cash reserve ratio (CRR) by 75 basis points to 4.75 per cent. The cut in CRR infuses liquidity into the

cash-starved banking system. The big reduction in CRR - the portion of total bank deposits kept with the RBI - will infuse around Rs 48,000 crore of primary liquidity into the banking system with effect from March 10. CRR was first reduced by 50 basis points in the third quarter review of January 2012, injecting primary liquidity of Rs 31,500 crore into the banking system.

Bank borrowing at record high of 1.81 lakh crore

Banks' demand for overnight funds from RBI rose to an all-time peak of Rs 1.81 lakh crore on February 28th. Banks say one reason for this could be oil companies borrowing more to fund imports as sales realizations are falling short after the sharp spike in crude prices. The liquidity shortage is also attributed to RBI's sale of dollars to support the rupee, which drains the currency out of the system. The third factor is increased cash withdrawals during state elections and lack of government spending.

RBI notifies increased tenor of gold loan for re-exporters news

The RBI has notified an increase in the tenor of gold loan, or stand-by letter of credit, offered by banks for import and re-export of gold to 270 days from the previous 240 days. Accordingly, re-exporters should complete the process of manufacture and export within 90 days, instead of the 60 days prescribed earlier, RBI said in a notification. As per the Foreign Trade Policy 2004-2009, the RBI had, on 18 February 2005, notified the maximum tenor of gold loan as 240 days, consisting of 60 days for manufacture and exports and 180 days for fixing the price and repayment of gold loan.

Mr D. K. Mittal, Secretary, Department of Financial Services nominated to be on RBI Central Board

In a move that indicates that the Central Government may have more say in the functioning of the RBI, the former has nominated one more director on the central board of directors of the banking regulator. Mr D. K. Mittal, Secretary, Department of Financial Services, Ministry of Finance, is the second government nominee on the RBI board. Besides Mr Mittal, the other government nominee on the RBI



board is Mr R. Gopalan, Secretary (Department of Economic Affairs), Ministry of Finance. Following this nomination, the RBI's central board now has 18 directors.

Central bank autonomy

The RBI Governor has been underscoring the importance of central bank autonomy at various public forums. In a recent speech, the Governor emphasised that the fundamental responsibility of central banks for price stability should not be compromised. He pointed out that central banks should have a lead, but not exclusive, responsibility, for financial stability. "The boundaries of central bank responsibility for sovereign debt sustainability should be clearly defined. In the matter of ensuring financial stability, the government must normally leave the responsibility to the regulators, assuming an activist role only in times of crisis,"

RBI Governor not keen for third term

The 62-year-old IAS officer was appointed the 22nd Governor of the RBI (RBI) in September, 2008 for a three-year term. In September last year, his term was extended for another two-years. Reserve Bank Governor D Subbarao, who has been having tough times in dealing with spiralling inflation without hurting economic growth, does not want a third term at the helm of the

central bank. Subbarao took the reins of the RBI from Y V Reddy at a time the global economic crisis was at its peak. He is credited with taking a tough monetary stance to check inflation.

Growth to improve next fiscal on rate cuts: RBI

RBI expects growth to be higher in 2013 than in 2012, partly because at some point in time we might start easing the interest rate cycle. RBI expects a number of factors, including market sentiment that inhibits investment, to improve by then. In its bid to tame inflation, the RBI has hiked interest rate (repo rate) by 375 basis points since March 2010.

RBI may cut CRR further: Gokarn

RBI Deputy Governor Subir Gokarn in February said the apex bank may consider a further cut in the cash



reserve ratio (CRR) in the policy statement if the systemic liquidity conditions continue to be tight.

Public sector banks announce small cuts in home loan rates

The RBI's signal to cut rates over the course of this year has triggered the move. RBI cut the Cash Reserve Ratio (CRR) by 0.5 per cent (50 basis points) in its third quarter policy review on January 24, injecting Rs 32,000 crore into the system. RBI raised rates 13 times since March 2010. This affected the overall growth in the economy and hurt the real estate sector the most. High interest rates resulted in home buyers delaying decisions. In the credit policy statement in January 2012, RBI signalled softening of interest rates by cutting CRR by 0.5 per cent.

RBI realigns Bank Rate with MSF

The RBI (RBI) in February decided to increase the Bank Rate by 350 basis points from 6 per cent to 9.50 per cent per annum with immediate effect. The RBI said that it realigned the Bank Rate with Marginal Standing Facility (MSF) rate, which, in turn, is linked to the policy repo rate. The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements (cash reserve ratio and statutory liquidity ratio). The Bank Rate is also used by several other organisations as a reference

rate for indexation purposes.

RBI hikes bank rate after nine years to 9.5%

After a gap of nearly nine years, the Reserve Bank has increased the bank rate by 3.50 percentage points to 9.5 per cent with immediate effect. This increase should be viewed and understood as one-time technical adjustment to align the Bank Rate with the marginal standing facility (MSF) rate rather than a change in the monetary policy stance," RBI said in a notification, adding the new rate would be effective from February 13.

RBI issues draft norms on White Label ATMs owned by non-banks

In a bid to accelerate the growth and wider spread of ATMs, the Reserve Bank issued draft guidelines for permitting non-banking entities to set up, own and operate such money dispensing machines. Non-bank entities proposing to set up such service will have to have a minimum net worth of Rs 100 crore, RBI said. The RBI has sought views/comments on the draft circular from banks, authorised ATM network operators, non-bank entities and members of public," it said, adding that the stakeholders can make suggestions by March 6.

Postal Department has applied for Banking License

The Postal Department has applied to the RBI for a banking licence, the Communications Minister, Mr Kapil Sibal and Mr Sibal has subsequently written to the Finance Minister, Mr Pranab Mukherjee, to expedite the granting of licence.

Speaking on the sidelines of the postal policy round table organised by FICCI, Mr Sibal said, "A national postal policy targeting expansion and modernisation of the postal network would be announced during this year. The Government does not intend to issue licences to courier service companies, but would make it mandatory for them to register."

Aimed at modernising postal services, the policy is expected to make the department adopt a more financially viable revenue model. It would also provide affordable services at all points in the country as part of its Universal Service Obligation, the Minister said.



Capital Market

SEBI order for 'fair valuation' of short-term debt leaves fund managers in a fix

A recent SEBI notification on valuation of debt funds has left fund managers in a quandary. The regulator has asked fund houses to value debt instrument below 61 days on the basis of a "fair valuation" method worked out by asset management companies. But, there are 8 to 10 different ways of calculating fair valuation, each having a different impact on the returns of debt schemes. The regulator has not proposed any 'fair valuation' model.

SEBI allows fund managers to manage both domestic, overseas money

SEBI has allowed fund managers to manage both domestic and overseas money across all their activities, including mutual funds, offshore and portfolio management service. Asset management companies will have to disclose on their websites all details of debt and money market securities transacted (including inter scheme transfers) in their schemes' portfolios. The details should then be forwarded to industry body AMFI for

consolidation and dissemination. These disclosures shall be made settlement date-wise on a daily basis with a time lag of 30 days.

Don't outsource due diligence of distributors: SEBI to AMCs/ Mfs

SEBI has asked mutual funds and asset management companies not to delegate due diligence activities of distributors to any agency as it is their "sole responsibility" to carry out the process. However, it added, that they can take assistance from agencies of repute while carrying out the due diligence process of distributors.

MFs get time till Sept to implement new debt valuation norms

SEBI has given seven months to asset management companies (AMCs) to implement the new valuation norms for liquid funds. Under this, the regulator has decided to bring down the threshold for marked to market (MTM) requirements to 60 days from 91 days earlier. The new norms will be

effective from September 30, 2012. The SEBI circular also said that to enhance transparency, AMCs should disclose all details of debt and money market securities transacted in its schemes portfolio on their websites.

SEBI mandates separate fund manager for each scheme

SEBI has put out a circular that mandates that the asset management companies (AMCs) will appoint one fund manager per scheme so as to avoid any conflict of interest that might arise from managing multiples funds at the same time. However, exception can be made in cases where the various funds managed by the fund manager have same investment objectives and asset allocations. This also applies to the usage of the same portfolio of instruments across all funds. In such a case, however, at least 70 per cent of the portfolio has to be replicated across the schemes for them to be managed by the same fund manager.

SEBI goes slow on nod for new derivative products

SEBI is going slow on approvals of several index-based derivative products. Several new products proposed by the exchanges had not been cleared by the regulator owing to concerns over their suitability to the small investors.

SEBI may relax net worth norms for intermediaries

In a move which might give a boost to the recently-introduced Qualified Foreign Investor (QFI) route, SEBI is considering relaxing entry norms for intermediaries. SEBI was open to easing the minimum net worth requirement of Rs 50 crore prescribed for qualified depository participants (QDPs) on a case by case basis.

SEBI moves to check MF-PMS conflict of interest

SEBI has asked asset management companies to make disclosures that would expose any preferential treatment given to schemes designed for larger investors. While allowing asset management companies to use the same fund manager for similar schemes made available for both retail and high networth individuals, SEBI has asked them to periodically disclose the returns of such schemes and explain any significant difference between the two.



SEBI brings bank loan facilities under its ambit

SEBI has brought loan facilities provided by banks under its purview. These facilities would be instruments such as "other securities/ instruments, loans and facilities" provided by banks that are appraised by credit rating agencies. This has been done after consultation with other regulators and credit rating agencies. With this, SEBI aims to apply to these instruments the same stringent rating norms used for rating IPOs and public issues. Henceforth, SEBI's half yearly audit of ratings done by agencies would also include ratings of the above mentioned instruments.

SAT clears air over insider trading rule

A recent ruling by the Securities Appellate Tribunal ("SAT") has sparked afresh, the debate over how the concept of insider trading is to be understood and applied. This is the first time, the SAT has explicitly interpreted the scope of Regulation 3 of the SEBI (Prohibition of Insider Trading) Regulations, 1992 ("Insider Trading Regulations"), which is the heart of law on insider trading in India. Regulation 3 prohibits, since 2002, insiders from dealing in securities while "in possession of" unpublished price-sensitive information. Prior to an



amendment in 2002, the provision specified that insiders were prohibited from dealing in securities "on the basis of" unpublished price sensitive information.

SEBI may probe bid timing in ONGC offer-for-sale

The bailout of ONGC's offer-for-sale by LIC could prompt SEBI to investigate whether orders were punched after market hours. This has been triggered by the delay in the announcement of subscription numbers by the stock exchanges.

New Clearing Houses for OTC Debt instruments

SEBI has directed that all SEBI regulated entities shall settle their OTC trades in Certificate of Deposits (CDs) and Commercial Papers (CPs) on the lines of already existing process for settlement of OTC trades in corporate bonds, through National Securities Clearing

Corporation Limited (NSCCL) and Indian Clearing Corporation Limited (ICCL) from April 1, 2012.

Currently, it is mandatory for that all SEBI regulated entities report their OTC transactions in CDs and CPs on the FIMMDA reporting platform within 15 minutes of the trade for online dissemination of market information. CDs and CPs are short term borrowing instruments used by banks and corporates, respectively. Debt instruments contribute more than two thirds of the industry assets under management (AUM). Considering the overall debt AUM as on January 31 was at Rs 4.45 lakh crore, the shift would be significant.

SEBI to review rules after assessing auction window experience

SEBI will assess the experience of issuance of shares by private firms on the newly-introduced auction



window before carrying out any review of the rules after last week's share sales by the state-run ONGC.

The sale of 5% of ONGC shares was the first to be kicked off after SEBI allowed auctioning of securities through a separate window, where investors are required to make an upfront payment, with the settlement to be done on what is known as trade-for-trade basis. In a trade-for-trade settlement, the buyer cannot sell the shares on the same day of purchase until those shares are delivered into his account.

SEBI re-writing rules on consent orders

SEBI is rewriting the rules on consent orders to ensure that major securities market violations like insider trading, front-running and intentional manipulation of mutual funds' NAV cannot be settled through negotiation and by paying a monetary penalty as is the practice now. The consent order mechanism is similar to a negotiated settlement of civil proceedings between the regulator and securities law

offenders. It is aimed at avoiding lengthy litigations.

NSE launches know-your-customer registration agency (KRA)

NSE has launched a know-your-customer registration agency (KRA) through its subsidiary Dotex International. The move comes in the wake of specific directive from SEBI to start KRAs.

Parliamentary panel on DTC favours STT abolition, 30% corporate tax

The Parliamentary Standing Committee on Finance, which submitted its report on the Direct Taxes Code Bill, 2010, to Lok Sabha Speaker has suggested abolition of the securities transaction tax (STT) that is levied at rates ranging from 0.025 per cent to 0.25 per cent depending on the transaction and security. It has also recommended that the government should calibrate the capital gains tax regime for long term and short term. It also suggested a corporate tax rate of 30 per cent, a rethink on the General Anti-Avoidance Rules (GAAR) to plug tax avoidance by companies.

SEBI plans speed limits on high frequency trades

SEBI is considering imposing speed limits on high-frequency trading of listed Indian shares. Earlier, it was

200 micro second speed, then 20 micro second and then 8 micro seconds, and there are still demands to reduce it even further.

Expanded Investment Horizon For Foreign Venture Capital Investors: RBI Provides A Much Needed Breather

The RBI vide circular dated March 19, 2012 ("Circular") has allowed SEBI-registered foreign venture capital investors ("FVCIs") to invest in Eligible Securities by way of private arrangement or purchase from a third party. RBI has also clarified vide the Circular that FVCIs would be allowed to invest in securities on a recognized stock exchange subject to the provisions of the SEBI (FVCI) Regulations, 2000, as amended from time to time ("FVCI Regulations").

QDPs unable to get QFIs on Indian bourses due to tax issues

Qualified depository participants (QDP) are unable to get qualified foreign investors (QFI) on Indian bourses due to tax issues. The Central Board of Direct Taxes (CBDT) has to notify whether it is mandatory for a QFI to file income-tax returns in India. This would happen only when the current Finance Bill (Budget) becomes an Act.

MCA initiates talks on framing Corporate Governance Policy

In an attempt to strengthen transparency in India Inc, the Corporate Affairs Ministry (MCA) is set to come out with a specific policy relating to corporate governance. For this purpose, MCA has formed a core committee which would also have representatives of India Inc. Once the policy takes shape, MCA is likely to take Cabinet approval on the matter by May this year. It is learnt that apart from framing the rules of corporate governance, the Committee would also look at areas of overlap with SEBI's listing agreement. However, while SEBI's corporate governance guidelines under clause 49 relates to only listed firms, MCA's corporate governance policy would also pertain to unlisted companies. It is being hoped that while the policy may not be binding upon companies to follow in totality, it would create peer pressure in India Inc.

Government sets up 12-member Advisory Group on International Taxation and Transfer Pricing

The Finance Ministry has set up a 12-member advisory group headed by the Revenue Secretary on the proposed amendments to the

Income Tax Act that seek to empower the government to tax corporate deals with retrospective effect. The group can have consultations on emerging issues of taxation in the area of international taxation and transfer pricing. The group can also advice the government about legislative amendments and administrative measures, which can help reduce tax litigation and bring in more tax certainty. The group will have representatives from industry chambers, besides government officials.

SEBI plans no-frills demat accounts to attract retail investors

SEBI is exploring the option of low-cost, no-frills demat accounts, hoping it will encourage more investors to take a plunge into

equities. Annual depository account maintenance charges can be as high as Rs 1,000, discouraging retail investors who may want to invest small sums in equities.

The initiative to drop cost of accessing equities market follows budget announcement of a Rajiv Gandhi Equity Savings Schemes that is aimed at encouraging flow of savings into shares and deepening the capital market. The scheme provides tax incentives to first time investors in shares, but high entry and transactions costs could undermine the attractiveness of the scheme. The Finance Ministry is considering a waiver of first year demat account charges under the scheme to further incentivise participation.

Bombay High Court rules in favour of MCX-SX

The Bombay High Court has set aside the SEBI order denying MCX-



SX permission to conduct any business of a stock exchange other than trade in currency derivatives and directed SEBI to consider MCX-SX application afresh. The Court has deemed unsound the various grounds on which SEBI had disqualified MCX-SX. The Court has also obtained an undertaking by two of the exchange's promoters, MCX and Financial Technologies, to bring their combined holding in the exchange below 5%.

SEBI plans a detailed review of all regulations

SEBI is planning a comprehensive review of all its regulations to align them to the latest market developments and innovative products. It is learnt that an internal committee headed by Mr. Prashant Saran, Whole-time member, SEBI, has already started this exercise which is aimed at bringing the existing rules in line with international standards. The Committee will have to suggest changes to about 20 regulations in the next year or so before it submits its report to the SEBI board, which will take the final decision. As part of the overhaul, SEBI will carry out a detailed study to suggest changes in the regulations governing fraudulent and unfair trade practices, insider trading and foreign institutional investors, among others.

BSE, NSE launch exchanges for SMEs

Asia's oldest bourse, BSE Ltd, kicked off its platform for small and medium enterprises (SME) with the listing of Mumbai-based BCB Finance Ltd and the NSE announced the launch of its own SME platform, Emerge. The move follows months of consultations with small firms, industry representatives, merchant bankers and SEBI which in May last year had given in-principle approvals to both the national exchanges for the same. Small corporates will be able to raise capital from the primary markets by way of an initial public offering or private placements and later through rights issues. An IPO can be made through the fixed price method, book building method or a combination of both.

Investment bankers to follow due diligence rule book

Investment bankers will soon have to follow a uniform rule book while conducting due diligence of companies that plan to tap public funds. The Association of Investment Bankers of India (AIBI) has already finalized a due diligence manual and given it to SEBI for vetting.

SEBI mulling whether to allow loss-making companies to list on stock exchanges

SEBI is considering whether or not to allow loss-making companies to list on stock exchanges. Under the existing norms, only those companies which have been making profit for the previous three years can go for a listing, though exemption is given to loss-making entities to go public with a caveat that they can do so only with pre-determined issue price. But this clause prevents a company from fully realising its true value. SEBI is also contemplating to shift illiquid shares from the main exchanges to the recently set up SME exchanges.

Union Budget 2012-13

Various proposals were announced in the Union Budget 2012-13 for deepening Indian Capital Markets and increase retail participation. They are as follows:



- Announcement of the Rajiv Gandhi Equity Saving Scheme with a tax break for investments up to Rs 50,000 for individuals with income up to Rs 10 lakh. This will help in deepening the reach of the Capital Markets significantly. The 3 year lock in provision will ensure long term equity holding.
- Reduction of STT to 0.1 per cent on delivery based transactions will help bring back volumes to the Cash Equity Market.
- Allowing Qualified Foreign Investors (QFIs) to access Indian Corporate Bond market.
- Simplifying the process of issuing Initial Public Offers (IPOs), lowering their costs and helping companies reach more retail investors in small towns.
- Proposal to make it mandatory for companies to issue IPOs of ` 10 crore and above in electronic form through nationwide broker network of stock exchanges.
- Providing opportunities for wider shareholder participation in important decisions of the companies through electronic voting facilities, besides existing process for shareholder voting, which would be made mandatory initially for top listed companies.
- Permitting two-way fungibility in Indian Depository Receipts subject to a ceiling with the objective of encouraging greater foreign participation in Indian capital market.
- Removal of the cascading impact of Dividend Distribution Tax is again a very positive and welcome measure.
- A central Know Your Customer (KYC) depository, popularly called the KYC Registration Agency (KRA) that will eliminate duplication of efforts on the part of investors and companies. It will also have several long-term positive implications for investors and companies alike in the financial sector. So, when an investor registers himself with one pan India KRA, it will be valid for all his subsequent investments and relationships, be it banks, stocks, mutual funds, insurance and pension products , etc.
- Proposal for the removal of sectoral restriction on venture capital funds, a move that would help domestic funds to avail tax benefits across sectors. Currently, as per section 10(23FB) of the Income Tax Act, 1961, venture capital funds registered with market regulator SEBI are eligible to a tax pass-through status to the extent they invest in firms engaged in nine business activities --



nanotechnology, hardware and software development, seed research and development, biotechnology, research and development of new chemicals and medicines, production of bio-fuels, construction of hotel-cum-convention centre with seating capacity of more than 3,000, development and operation of any infrastructure complex, dairy and poultry facilities. These restrictions were introduced by the government four years ago.

- Increase in Customs duty on Gold may help in making gold relatively less lucrative which may help in diverting flow of funds, especially household savings, to the Capital Markets.

Budget 2012-13: Tax-free infra bonds doubled to Rs 60,000 crores

In Budget 2012-13, it has been proposed to allow tax free bonds of

Rs 60,000 crore to be issued by various Government undertakings, which is double the Rs 30,000 crore assigned in the year 2011-2012. This includes Indian Railway Finance Corporation, IRFC, Rs 10,000 crore and National Highway Authority of India, NHAI, Rs 10,000 crore, HUDCO Rs 5,000 crore and Ports Rs 5,000 crore. In order to give a boost to infrastructure development, the Finance Minister will allow QFIs in corporate bond market.

SEBI's move to detect frauds

SEBI has formed a separate unit called Forensic Accounting Cell to speed up the investigation process for detecting financial and corporate fraud. It will be a part of SEBI's corporate finance department. The decision comes after the regulator observed a rise in the investors' complaints against companies for rigging financial statements. Forensic accounting is used to detect financial frauds such as altering of financial statements to hide the company's real weakness.

Government to ease forward contracts curbs to facilitate strategic sales

The government plans to change rules and provide Indian companies with the flexibility of buying or selling shares to a strategic partner in future, easing decade-old restrictions on forward contracts.

Companies, both in India and abroad, include clauses relating to put and call options in negotiated agreements to protect and hedge the interests of the seller and the buyer. India's securities laws don't allow certain contracts unless they are either related to spot delivery or settled in cash.

SEBI to launch Investor Education and Awareness campaign

SEBI will launch a big investor education programme through short films, TV and radio commercials in English and regional languages. The objective is to create general awareness on securities market, various products available in securities market and facilitate the participation of the retail investors in the securities market to invest with knowledge.

Circuit limits on listing day

In a circular released by SEBI, it has mandated that for an issue size of over Rs 250 crore, there will be a one-hour pre-open call auction method for IPOs on the listing day from 9 a.m. to 10 a.m. During this period, there will not be any circuit limits. During this one hour period, any price level is possible. On the basis of the bids during this period, equilibrium price will be arrived at. After the end of pre-open session at 10 a.m., there will be normal market

hours for IPOs. During these normal market hours, there will be circuit limit of 20 per cent of the equilibrium price.

SEBI may change market making rules in SME bourses

SEBI is considering a proposal to tweak rules for market making in SME exchanges. Merchant bankers are mandated to provide market-making to primary offerings of SMEs for 75% of total trading time up to three years after the listing. But, the exchanges have put forward certain practical difficulties and requested certain changes in the rules and consequently, the launch of SME platforms on both NSE and BSE has been delayed. Though the regulator is not too keen to relax the timeline of three years, it is considering other proposals.

No regulatory vetting of M&As involving up to 25% control

Relaxing the rule on mergers and acquisitions to be vetted by it, the Competition Commission of India (CCI) has exempted acquisitions resulting in a cumulative control of up to 25 per cent of shareholding or voting rights from such scrutiny. The current practice sets the limit at 15 per cent. This change is in sync with SEBI's new takeover code, which raised the open offer trigger from

15 to 25 per cent of the shares acquired. Besides, intra-group mergers or amalgamations involving enterprises wholly owned by group companies will escape CCI vetting. However, companies that need to undergo CCI scrutiny will now have to pay a higher fee of Rs 10 lakh (raised from Rs 50,000) for normal M&A (merger and acquisition) and Rs 40 lakh (instead of the earlier Rs 10 lakh) in cases where intense scrutiny is required.

Domestic managers may get to run offshore funds

Indian fund managers will soon be able to manage domestic and offshore funds. SEBI is planning to relax rules that require funds to appoint separate managers for each activity - mutual funds, portfolio management services and offshore advisory services. This move is expected to result in lower cost for fund houses while investors will be able to enjoy the benefits of the cumulative experience of the investment team. Also, international investors have more faith in local fund managers as they have a better understanding of the market.

SEBI to extend mark-to-market (MTM) valuations norms for liquid mutual funds to all securities

The mark-to-market (MTM)

valuations norms for liquid mutual funds could be extended to all securities within one year. It was suggested that MTM rules shall be extended to instruments with residual maturity of up to 30 days in the next six months and further to all securities in another six months. SEBI has already approved the first phase of this move at a recent board meeting. The new MTM threshold of 60 days on debt and money market securities has already taken effect.

SME announces lot sizes for SME IPOs

Companies in the SME sector entering the capital markets will be prescribed 'lot sizes' for shares in an initial public offering. In a recently released circular, SEBI mandated specific lot sizes for IPOs in different price bands. For a price band of up to Rs 14, the lot size would be 10,000 shares. For a band of Rs 14-18, the lot size has been fixed at 8,000 shares. As the value of the price band progressively increases from Rs 14 to above Rs 1000, the number of shares in the lot size decreases from 10,000 shares to 100 shares.

The circular clarifies that if the price during the public offering stage falls between two different price bands, then the minimum allotment size would be decided on the higher price band.

KYC norms, tax muddle discourage foreign investors

Stringent know-your-customer (KYC) norms and lack of clarity in taxation are keeping away qualified foreign investors (QFI) from putting money in India. The CBDT has to address the issue and see what relief can be provided to QFIs to obviate payment of withholding tax and filing of returns. SEBI is expected to come out with a detailed note on QFI investments in Indian equities soon.

Panel of Secretaries suggests new guidelines for FDI inflow in key sectors

A panel of Secretaries has issued guidelines aimed at avoiding any clash with markets regulator SEBI on foreign direct investments in sectors that have an FDI cap of 26 and 49 per cent. In case of sectors with 26 per cent FDI cap, the panel



has decided that foreign investor will make an open offer for 26 per cent of the equity of the share capital, making it a one stage process. In case of a shortfall resulting from the open offer, the gap will be made up by issue of shares by the Indian company either from promoter's holdings or by fresh issue of shares to the foreign investor as per SEBI guidelines.

SEBI tightens advertisement and valuation norms for Mutual Funds

SEBI has further tightened advertisement norms for asset management companies (AMCs), putting greater responsibility for fair valuations on fund managers. In its latest amendment to regulations for the fund industry, SEBI has widened the definition of "advertisement" to include all forms of communications on behalf of an AMC, which may influence the decision of an investor. Fund houses have been barred from using a celebrity as part of the advertisement and also been asked to discourage any slogan unwarranted and unrelated to the nature, risk and return profile of the product. AMC and the fund's sponsor would be liable to compensate the affected investors for unfair treatment as a result of inappropriate valuation.

SEBI tells fund managers to evolve 'fair' valuation of debt schemes

SEBI has made changes in the code for valuation of investments. The rationale behind this is the failure in realising the fair value of the underlying assets in the debt schemes of mutual funds. To this extent, SEBI's notification says that the valuation of investments should be reflective of the realisable value of the securities or assets.

SEBI Committee to overhaul IPO process

SEBI has set up a committee, under the chairmanship of Mr. T. V. Mohandas Pai, to overhaul IPO processes. The 18-member Committee will comprise of intermediaries, consultants, lawyers, industry associations and token investor representatives

SEBI sets up a separate cell to detect corporate frauds

SEBI has formed a separate team to detect financial or corporate frauds in a bid to beef up its investigation process. The new unit, called Forensic Accounting Cell, will be part of SEBI's corporate finance department that will aim at creating a mechanism to warn against corporate scandals.

BSE launches 'Greenex' for eco-friendly investors

BSE has launched the BSE Greenex - India's first index based on carbon efficiency, designed to set a benchmark for socially conscious investors. The 20-share Greenex comprises of some of India's leading companies selected on greenhouse gas numbers, free float market capitalisation, and turnover. Greenex has been constructed to specifically promote green investing, with emphasis on financial performance and long-term viability.

SEBI: Share transfer among promoters is equity sale

SEBI has said any transfer of shares even within the promoter group of a company would be considered as an equity sale, when it comes to promoters getting a preferential treatment for allotment of fresh shares or warrants. Accordingly, the promoters of a listed company would not be eligible for preferential allotment of shares or warrants, if there has been any inter-se transfer of shares among the promoter group firms in the past six months.

Infra corporate debt: Minimum bid for FII's cut to Rs 1 crore

To encourage greater participation of FII's in the infrastructure sector, SEBI has reduced the minimum bid amount for allocation of

investments in long-term infrastructure corporate debt for such investors to Rs 1 crore from Rs 250 crore. The maximum bid amount has been reduced to Rs 1,000 crore from the earlier existing Rs 10,000 crore.

Give more financial ratio info before listing: SEBI

Firms that are planning to list on stock exchanges may have to disclose more financial ratios in their offer documents. SEBI is considering asking IPO aspirants to share liquidity ratios (that measure a company's short term ability to meet current obligations), long-term solvency ratios (that reflect a firm's ability to meet the interest costs and payment schedules of its long term obligations), profitability ratios (that capture the overall performance and effectiveness of the firm) and activity ratios (that measure the speed with which assets are being used to generate sales).

India to consider allowing foreign investors to buy corporate bonds directly

The Ministry of Finance is considering allowing foreign individuals to directly buy local corporate bonds, in a move aimed at deepening the country's bond market. This adds to a government move in January to allow qualified

foreign investors to put money directly into local share markets to attract foreign capital and fund a wide current account deficit. The ministry's capital markets division has been discussing the proposal with the Reserve Bank of India.

Government to improve foreign investor regime

The Union Finance Ministry is considering a proposal to relax the tax structure for Qualified Foreign Investors (QFIs). RBI and SEBI have come out with operational circulars for implementation of this regime.

SEBI to tighten price-sensitive information disclosure norms

SEBI may tighten norms related to mandatory disclosure of price-sensitive information by listed companies, amid an emerging trend of key business developments being announced outside the regulatory framework, especially to the media. Besides expanding the existing list of 'price sensitive information', SEBI would also look at making its guidelines more specific in this regard.

New disclosure norms for MFs to boost transparency

To help investors assess the quality of their investments and calibre of their fund managers, SEBI for the first time has asked the Rs.6.8

trillion mutual fund industry to disclose every detail of the schemes it sells. India's 44 fund houses have been asked to provide details of all their schemes, the common benchmark and their returns, returns since inception of a particular scheme, and benchmark of the schemes and their returns.

SEBI eases preferential norms for MFs, insurers

SEBI has relaxed preferential allotment norms for insurance companies and mutual funds, besides raising the minimum investment limit under portfolio management services by five times to Rs 25 lakh.

At present, if a mutual fund or an insurance company sells its holding in a company and the latter comes out with a preferential issue within six months of this sale, the preferential allotment cannot be done to the entity who has sold the shares. This condition has now been removed.



SEBI asks Fixed Maturity Plans (FMPs) to curb investment in high yielding risk assets

As investors rush to put money in fixed maturity plans (FMPs) - one of the hottest mutual fund products, SEBI is trying to make sure that the bets don't backfire badly. In the last few weeks, fund houses coming out with new FMPs have been asked by senior SEBI officials to spell out the sectors they will refrain from investing in.

Disclose fund utilisation of warrants: SEBI to companies

To bring more transparency in capital markets, SEBI said that listed firms would have to disclose details of the utilisation of funds raised through warrants. The new rule, a part of its amendments to the equity listing agreement, will take effect immediately. This is in continuation of the regulator's policy to monitor the use of proceeds of money raised through different market instruments.

SEBI wants 500 violators blacklisted

SEBI has decided to share with the Ministry of Corporate Affairs the names of about 500 companies that allegedly garnered money from investors in violation of its Collective

Investment Scheme (CIS) rules so that necessary action can be taken to prevent these companies and persons from associating with any new company. In Collective Investment Schemes, where an entity pools in money from investors for certain pre-specified purposes and later distributes the profits or income, come under SEBI's ambit.

Industry opposes tax on commodity transactions

Apex industry associations have opposed the possible imposition of a commodities transaction tax (CTT) in the forthcoming budget for fiscal 2012-13. There is speculation that the government is planning to cut securities transaction tax (STT) to boost the stock markets and extend its scope to other asset trading classes such as commodities. There is a view that this may be in the offing to mop up revenues and also to check speculation in the commodity markets. Stock markets are seeking a STT cut which they claim is high and required to boost retail sentiment.

SEBI introduces 15% quota for small investors in buybacks

SEBI has modified norms for share buyback through the tender offer route under which companies will have to reserve 15% of the offer for small shareholders (who hold shares not exceeding Rs two lakh of a listed company). The buyback process can be completed within 41 days of the board approval.

SEBI's 'perform or perish' norm will only benefit large players

In the latest informal understanding between SEBI and fund houses, only new fund offers (NFOs) that can rope in substantial investor response (at least Rs 10 crore) will get SEBI's approval.

Stock exchanges for abolition of STT in Budget

Stock exchanges today pitched for abolition of the Securities Transaction Tax (STT) on equity trades at their meeting with Ministry of Finance.

IPP & OFS Guidelines

SEBI has introduced the Institutional Placement Programme and other amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. SEBI has also introduced the mechanism for offer for sale of shares by promoters through the stock exchange mechanism.

SEBI had provided a long-stop date of June 3, 2013, by which all public listed companies in India (excluding public sector companies) were expected to reduce their promoter holding to a maximum level of 75%. In line with this direction, SEBI vide Press Release dated January 3, 2012, decided to provide alternative methods namely (i) IPP and (ii) Offer

for Sale through Stock Exchanges (2) for companies to raise additional capital and/or increase their public shareholding to 25% or more.

SEBI panel to widen MF reach

The International Advisory Board (IAB) of SEBI observed that there is a need to widen the reach of the mutual fund industry. It emphasized that in order to enhance the participation of households, the MF industry has to educate investors of the attractiveness of mutual funds vis-a-vis other financial products. The panel also stressed the need for mutual funds to offer life cycle products along with regular products and the need to have in place an effective framework for regulation of distributors.

IRDA sets benchmark for IPOs by insurance companies

IRDA issued the initial public offering (IPO) regulation for life insurance companies on December 1, 2011, based on the Gazette notification of November 14, 2011. The regulation enables those life insurance companies that have completed 10 years of operation to increase equity capital under ICDR (Issue of Capital and Disclosure requirements) Regulation, 2009, of SEBI, either through fresh issue of equity capital or divestment of equity by one or more of the promoters through a public offer for

sale. The insurance company has to get the approval of IRDA before applying to SEBI.

DPs can hold QFI funds for more days

SEBI said qualified depository participants can now hold funds on behalf of qualified foreign investors (QFIs) for five working days before redeployment or repatriation. This would be irrespective of whether they come through the direct equity or mutual fund route. Earlier, repatriation in case of non-allotment of mutual units were to be done within three working days, redeployment of proceeds in MF schemes within two working days and remittance of MF dividends (to a designated foreign currency account) credited in the rupee pool account of a qualified DP in two working days. SEBI also amended the eligibility criteria for registered DPs to become a qualified DP to handle qualified foreign investor business.

Stock exchanges shouldn't nominate trading members on its arbitration panel: SEBI

SEBI has directed stock exchanges that it shouldn't nominate trading members on its arbitration panel, a deviation from its earlier stand where trading members were allowed to represent such a

committee, provided it didn't exceed 20% of the members.

SEBI plans slew of measures for market operations

SEBI has in the pipeline plans to reduce transaction costs for investors, limit liabilities of clearing corporations and protect the market from unwarranted risks and manipulation. The three critical changes being planned are: allowing interoperability of clearing corporations, imposing pre-trade order limits on exchanges and segregating brokers' accounts from those of clients.



Insurance

Budget 2012: Increase in Tax Exemption limit for mediclaim

Within the existing limit for deduction allowed for health insurance (Rs 15000 for individuals and Rs 20000 for senior citizens), a deduction of upto Rs.5000 is being allowed for preventive health check-up

IRDA appoints Mr M Rama Prasad as Health Insurance Forum Chairman

The Insurance Regulatory and Development Authority has nominated Mr M. Rama Prasad, Member (Non-Life), as the Chairman of the Health Insurance Forum.

The forum will have 32 members, including CEOs of health insurance companies, life insurers, third party administrators (TPAs), officials from labour and health ministries and representatives of health service providers.

Third-party motor pool size to shrink, says IRDA

The Insurance Regulatory and Development Authority, or Irda, has laid down a method for transferring risks to the newly formed declined risk pool for third-party motor policies.

Irda has said that the declined risk pool would apply to commercial vehicles for standalone third-party liability insurance and no comprehensive motor insurance policy can be settled from the pool. The size of the pool is likely to shrink to a quarter because of the comprehensive policy going out of the ambit of the pool.

At present, the pool corpus is Rs 4,000 crore. It is expected to come down to Rs 1,000 crore from the next financial year when the pool gets effective.

IRDA wants softer impact of DTC

IRDA has written to the government seeking changes in the provisions of the Direct Taxes Code (DTC) which proposes a minimum level of 20 times the annual premium as cover on a life policy. Currently, an insurance policy with five times the annual premium as cover qualifies for tax savings on entry and exit. IRDA wants the DTC to allow 10 times the annual premium to qualify for tax savings.

Demat in Insurance

Insurance Regulatory and Development Authority (Irda) has already initiated the process of making available the insurance policies in Demat form. Demat in insurance is expected to work in the same way as stocks or MFs where

policies would be stored in electronic form. The process of having an existing policy or subsequent policies converted or purchased in electronic form is also as simple as placing a formal request to the insurer or directly with the repository agencies to open an e-Insurance Account (eIA). Once you get an eIA number, you will become compliant with know-your-client (KYC) norms. The process would be successful only if it benefits the key stakeholders.

Insurers can designate new agents to service orphan policies: Irda

In a bid to improve customer service in the insurance sector, the insurance regulator is planning to allow new agents to service orphan policies. Orphan policies are those policies where the original agent is



not available for servicing, thereby resulting in non-payment of premiums.

The Insurance Regulatory and Development Authority (Irda), in the draft guidelines on servicing orphan policies, has recommended insurance companies to have an option to designate another agent for servicing such policies. In such cases, the new agent would be entitled to full commission according to the original policy document.

Irda wants cap on sum assured on life insurance policies

Insurance Regulatory and Development Authority (Irda) has proposed to set a maximum limit for sum assured on life insurance policies. The move is to ensure that insurers take on the maximum risk on themselves rather than the current practice of heavily relying on reinsurance companies to honour insurance claims.

As per the regulator, most products filed for clearance assign "no limit" to the maximum sum assured, which leads to fronting, which means more reliance on the reinsurer. Insurers that have reinsured very little risk may find it difficult to honour claims, which will damage the trust built on the industry.

Irda set to revamp packaging of life insurance products

The Insurance Regulatory and Development Authority (Irda) is set to revamp product designing practices in the life insurance industry to protect consumer interest and ensure orderly growth of the industry.

The insurance regulator has proposed wholesome changes in various aspects - participating and non-participating products, group long-term covers, products offering 'low' insurance covers, single premiums or products with limited premium payment terms, net asset value (NAV)-guaranteed products and benefit illustration procedures.

Insurance policies may soon be available in demat

After shares and mutual funds, it is now the turn of insurance policies to be digitised, with the Insurance Regulatory and Development Authority (IRDA) expected to give the nod for making policies available in demat form.

Insurance companies and insurance repositories are working on issues connected to the proposal. Several aspects related to making insurance policies available in demat form have been discussed. An insurance repository is a company maintaining data on insurance policies in

electronic form on behalf of insurers, including the history of transactions during the term of the policy, which have to be vetted and approved by the IRDA.

IRDA bringing in transparency in tying and bundling insurance products

Insurance Regulatory and Development Authority (IRDA) has come out with a discussion paper which details the aspects of tying and bundling insurance products.

According to IRDA, "One of the concerns that arise is the manner in which the insurance cover is advertised by the service provider. Providing information regarding the insurance cover is okay but highlighting that more than the core service being provided misleads the public. This violates the IRDA (Insurance Advertisements) Regulations, 2000. The insurance



cover will have to be incidental to the other financial product. There could be instances where the public is led to believe that the insurance cover is the main feature of the product that is being sold."

This move therefore aims at bringing transparency in the way an insurance product is pushed by an intermediary and is in the best interest of the customer.

Needs Analysis proposed for sale of life insurance policy

IRDA has proposed Needs Analysis by the intermediaries and the insurance companies is necessary before effecting the sale of a life insurance policy in order to ensure that the product that is proposed to be sold is suitable for the prospect and meets his or her needs.

It is proposed to mandate carrying out Needs Analysis for life insurance policies. Insurers shall, in terms of Regulation 4 (1) of the IRDA (Insurance Regulatory and Development Authority) Regulations for Protection of Policyholders' Interests, 2002, adopt a standard Proposal cum Needs Analysis form.

It is also proposed to issue guidelines to life insurance companies to develop and implement a Prospect Product Matrix that will serve as a tool to assess whether or not the proposed

sale is based on the Needs Analysis. This shall currently be made applicable to all life insurance policies (Traditional, ULIPs, Pension and Health) sold as individual policies.

IRDA asks for standard protocol for investments

The Insurance Regulatory and Development Authority has asked the Union Health Ministry to come up with standard protocols for treatment of various ailments. "This will help in streamlining health costs and standardisation of health insurance," said IRDA.

IRDA asks companies to design daycare products

Insurance Regulatory and Development Authority (Irda)

chairman J Hari Narayan has asked health insurance companies to devise products to cover daycare procedures. Stressing the need for responsiveness from companies to changes that are coming through technological advancements in the medical field, he said, "the number and scope of daycare procedures have to expand within the context of insurance policies to enable these kind of procedures to take effect and be incorporated."

IRDA forms Health Insurance Forum for consultation

Sectoral regulator Insurance Regulatory and Development Authority of India (IRDA) has set up a forum that would eventually become a self-regulatory



organization, in order to help promote health insurance, reports PTI. The health insurance forum, IRDA said, would help in evolving policies and processes for the health insurance sector.

Insurance policies may soon be available in demat form

India would probably be the first country in the world to undertake such a huge exercise to transform physical insurance policy certificates into electronic form. In fact, life insurance policies are the only major retail financial product that are still issued and maintained entirely in physical, paper form.

Health insurance for unorganised sector too

The Rashtriya Swasthya Bima Yojana is set for a big expansion, with the Prime Minister's Office clearing extension of the health insurance scheme meant for the poor to unorganised sector workers. The PMO has also directed the Labour Ministry to set up an autonomous body to oversee smooth implementation of the scheme.

Healthcare industry needs land at institutional rates: Walia

Delhi health minister A.K. Walia has urged the Centre to provide land at institutional rates for meeting the increasing needs of healthcare

industry and encourage accreditation based on optimum standards to prioritise quality services at affordable costs. He also said that Delhi government would like to add about 12 hospitals and at least three medical colleges in the near future to tackle new lifestyle diseases like diabetes, hypertension, cancer and cardiovascular diseases.

Irda sees 13-14 % de-growth in Indian insurance sector

The Indian insurance regulator Insurance Regulatory and Development Authority (Irda) expects the domestic insurance sector to suffer de-growth of at least 13-14 % during the current fiscal to March 2012, said Chairman J Hari Narayan. The life insurance sector saw a paradigm shift after September 2010 with new



regulations, while the general insurance sector witnessed its bleeding third party motor pool scrapped recently. Over the last 18 months, the growth of the sector was stalled with the insurers grappling with new distribution strategies and new products to cope with changing regulations.

Jammu and Kashmir Govt. announces health insurance for BPL families

The Jammu and Kashmir Government has announced a health insurance cover under the RSBY scheme for 66,000 families in the state who fall in the category of Below Poverty Line (BPL).

Time for insurance-led financial inclusion: Pranab

With banking inclusion reaching an inflexion point, it is now time to look at insurance-led financial inclusion in the country. This was stated by the Finance Minister, Mr Pranab Mukherjee who has urged insurance companies to take concerted efforts to create insurance literacy and awareness. He also asked them to be customer-friendly and devise products that are easier to understand. Specific products may have to be designed for women and workers in the unorganised sector, he added.

FICCI-ANMI Roundtable on 'Revival of Indian Capital Markets' in February 22, 2012 in Mumbai

FICCI, jointly with ANMI (Association of National Exchanges Members of India), organized a roundtable on 'Revival of Indian Capital Markets' on 22nd February 2012 at Federation House, New Delhi.

The meeting was attended by senior Officials from SEBI, Ministry of

Finance, NSDL (National Securities Depositories Ltd.), National Stock Exchange, Bombay Stock Exchange, United Stock Exchange, MCX-SX, regional stock exchanges, credit rating agencies, mutual funds, venture funds, banks, ICSI, economists, institutional brokers and merchant bankers.

The participants deliberated on reasons for low retail participation in Indian capital markets and the policy initiatives and incentives that would address these issues and encourage investors, both domestic and foreign, to invest capital over a long-term.



L to R: Mr. Vijay Bhushan, Vice Chairman, ANMI, Mr. Rajiv Gupta, Chairman, ANMI-Northern Region, Dr. Naresh Maheshwari, President, ANMI, Dr. Rajiv Kumar, Secretary General, FICCI, Ms. Shivani Singh, Director-Department of Disinvestment, Ministry of Finance and Mr Rajesh Kumar Dangeti, DGM-Market Regulations Department, SEBI

FICCI Breakfast meeting with US Delegation February 28, 2012 at Hotel Taj Mahal, Mumbai

FICCI hosted a working group breakfast meeting for a delegation of senior level financial sector officials from the USA on 28th February, 2012 at Hotel Taj Mahal, Mumbai.

The aim of this meeting was to facilitate a dialogue between senior level representatives of financial services sector and policy makers from the USA and

from India. The delegation visited Mumbai primarily to reaffirm the commitment of global financial institutions to India's financial stability, capital markets development, and financial inclusion.

The participants from USA side included senior level officials from Visa Inc, Aegon Asia, Master Card, Metlife, Goldman Sachs, Western Union Business

Solutions, CME Group, New York Stock Exchange, Bank of New York Mellon, etc.

The participants from Indian side included senior level officials from Edelweiss Financial Services, MCX Stock Exchange, Royal Bank of Scotland, Bombay Stock Exchange, HSBC, AMFI, Citi, Religare, Aditya Birla Group, J M Financial, AMFI, TD Bank, etc

FICCI Workshop on “Strengthening Microfinance Institution (MFIs): Good Governance and Strategic People Practices”

FICCI is organising an one day Workshop on "Strengthening Microfinance Institution (MFIs): Good Governance and Strategic People Practices" on April 23, 2012 in Mumbai. Mr. Anand Sinha, Deputy Governor, Reserve Bank of India, has kindly agreed to inaugurate the Workshop and deliver the Keynote Address.

Given the state of play in the Indian microfinance sector, good governance holds the key to ensure the sector's sustainable growth.

FICCI firmly believes that MFIs have a critical role to play in assuring inclusive growth of the economy. However, MFIs need to strengthen their governance systems to be able to deliver their stated mission effectively. With this view, the workshop will focus on governance aspects and effective deliverance of good governance through appropriate systems and structures. The workshop would provide qualitative insight into how leaders of the micro finance institutions think about governance issues.

FICCI, through this forum, would also bring forth some of the best industry experiences for MFIs which will help them strengthen their governance practices and also help in scaling up their operations to achieve the goal of Financial Inclusion. The workshop participants would include Senior Executives from Microfinance Institutions, Banks and other financial institutions that are involved in management and organizational strategy.



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