The Association of National Exchanges Members of India

India Country Report 2009

Presented by

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President - ANMI

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A Message from the President (2009-10)

Association of National Exchanges Members of India (ANMI)

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Dear Fellow Members of the ASF,

We extend Greetings to participants of all ASF Member Countries. We thank the ASF for providing this opportunity to meet with member associations and their representatives from the Asian Region. The topics covered at this conference are thought provoking and will clearly set the trend for future market developments.

The Financial Markets worldwide are inexorably moving towards globalization. The European Union already boasts of a single market. Differing regulatory structures is the only factor holding back further integration of the markets. The regulators are greatly concerned about the *quality of funds* and the *quality of regulations* of markets worldwide. The current crisis has raised an additional concern – the *quality of financial instruments.*

Before international markets take the first steps to provide open access to investors, it is important that member countries should be satisfied with the quality of regulations governing *movement of funds* and *adoption of the FATF money laundering guidelines.* Very soon, India will be a full-fledged member of the FATF.

Adoption of FATF guidelines by all countries will pave the way for transnational trade and abolition of all free trade barriers. An important offshoot of universal adoption of

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FATF guidelines will be universally acceptable Know Your Client Guidelines, which could lay the foundation for a universal client database. This will certainly lead to safer transnational trade.

The challenge of regulating financial markets is engaging the best minds in the industry. No doubt, the concept of super regulation is a long way off and a difficult subject to resolve.

We are happy that these concepts are the pre-dominant discussion at this conference. The debate on regulatory reforms is indeed a happy augury.

To our mind, the answer to whether regulations are stifling the growth of markets does not lie in promoting a continuance of a relaxed regulatory regime, *but rather whether freedom to innovate without countervailing regulatory over sight will lead to a systemic failure of the market.*

This assumes greater importance in view of the clear trend towards globalization of the markets. No country remains insulated from financial turmoil from the other. A depression or financial failure particularly in a major economy adversely affects world economies. Internationally countries are increasingly inter-dependent. Freedom is the handmaiden to greater responsibility. The countries that have caused this turmoil need to assume greater responsibility for maintaining market integrity.

No doubt, freedom to innovate is an inherent right of industry, but the recent crisis has proved without doubt that a lack of regulatory oversight will inexorably kill investors' confidence in the market. Further, in this discussion, we should bear in mind that regulatory oversight should include the Financial Market in its totality. India has developed a highly workable system where there is a high level of inter regulator cooperation to review market dynamics and the need for timely modifications of regulations.

In this context, the first step could possibly be the establishment of an international authority for dissemination of financial and corporate disclosures, assessment of risk factors of financial instruments and maintenance of client information.

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While Asian Markets have not quite suffered the impact that American and European markets have, the outflow of capital from Asian markets has been painful. We believe that the way ahead will be a more alert and keen regulation in all nations with global vetting of financial products before they are marketed or invested in by investors, be they multi-national corporations, banks or institutions.

The current financial crisis has undoubtedly led to a drying up of development funding. Signs of lower off take are clearly visible. This is clearly influencing the capital markets. Yet signs of a recovery are visible.

Once in a long time there comes an opportunity to make a fresh start, or an opportunity to re-launch a venture in a more accurate manner. The global recession should be seen in that perspective, particularly at a time when there is talk of signals of an imminent recovery.

Investors who had seen their portfolios erode in the past year will hope to see their values return. Readjusting or restructuring portfolios amidst hopes that stocks may reach their previous year peaks will be an onerous task.

In times of doubt, only those that raise funds with conservative valuations will succeed. Funds are abundantly available in economies that have sustained themselves in this global recession, and more funds will flow to those markets. The capital raising ability of companies will be the first clear indicator of recovery of financial markets in every country. Some countries have already succeeded in raising capital quite easily even in these times.

In India, the sustained growth rate of the economy has helped the economic reforms process gain momentum. A newly elected, stable government is in place and a new direct tax code is on the anvil. Divestment in government-held companies has begun and huge funds have successfully been raised from the public by selling a small portion of the stakes held. The government already plans many more such divestment programs. A major impetus to infrastructure is under planning with the use of these funds to provide a stimulus to the economy. The rise of the stock

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market index has largely helped investor sentiments. The corporates too have started working on their fund-raising plans, since the first few public offers have been very successful. Banks have displayed great strength in attracting more savings despite lower rates of interest. The rate of inflation has remained below zero for several months now. The credit off-take is low though banks are flush with funds, both because of corporates delaying their use of funds as well as banks being more careful in lending. This too is bound to change soon as there will be another thrust to economic activity due to government spending, and also when the signals of global recovery become stronger.

The Asian regulatory success will attract more investments into this region. The doubts about the US Dollar will persist particularly due to the enormous investments made by national treasuries from across the globe into US Government backed securities. This will lead to greater attractiveness for Asian Currencies, which are not 'tightly linked' to the US Dollar, unlike the Euro.

Further, because of a sound financial system, it is likely that the abundant funds lying with banks and institutions along with direct investments flowing into the Asian Region will be used to absorb businesses and resources in the rest of the World wherever they are available, at a price far more attractive than they were a year or two ago.

This will make the Asian businesses economically more viable with captive resources and raw materials and financially stronger than even before. It would be some more time however, before money flow into investment funds and venture capital firms will reach the levels seen before the global recession.

Warmest Regards

EMC Palaniappan

President – ANMI

PS: - Conversion: - Rs. 1 Crore = US$ 208,333 (Calculated at Rs. 48 = 1 US$

State of the Indian Economy

Economic growth decelerated in 2008-09 to +6.7 per cent. This represented a decline of 2.1 per cent from the average growth rate of +8.8 per cent in the previous five years (2003-04 to 2007-08).

The five years of high growth raised the expectations of the people. Few remember that during the preceding five-year period from 1998-99 to 2002-03 average growth was only +5.4 per cent, while the highest growth rate achieved during the period was +6.7 per cent (in 1998-99).

Despite of the slowdown in growth, investments remained relatively buoyant, growing at a rate higher than that of GDP. The ratio of fixed investment to GDP consequently increased to 32.2 per cent of GDP in 2008-09 from 31.6 per cent in 2007-08. This reflects the resilience of Indian enterprise, in the face of a massive increase in global uncertainty and risk aversion and freezing of highly developed financial markets.

A noteworthy development during the year was a sharp rise in Wholesale Price Index (WPI) inflation followed by an equally sharp fall, with the WPI inflation falling to unprecedented level of close to zero percent by March 2009. This was driven largely by the rapid rise and equally rapid fall in global commodity prices during January 2008 to March 2009.

Global food prices also went through a similar cycle, but have not declined to the same extent. Although domestic food prices are partially delinked from global prices, these global developments affected domestic prices to some extent. Domestic food price inflation, as measured by the WPI food sub-index, though declining, remains much higher than overall inflation.

The global financial meltdown and consequent economic recession in developed economies have clearly been a major factor in India's economic slowdown. Given the origin and dimension of the crisis in the advanced countries, which some have called the worst since the Great Depression; every developing country has suffered

to a varying degree. No country, including India, remained immune to the global economic shock

Economic Growth During 2008-09

We could attribute the slowdown in manufacturing to the combined impact of a fall in exports followed by a decline in domestic demand, especially in the second half of the year. The rise in the cost of inputs during the beginning of the year and the cost of credit (through most of the year) reduced manufacturing margins and profitability. The growth in production sectors, especially manufacturing, was adversely affected by the impact of the global recession and associated factors. The electricity sector continued to be hampered by capacity constraints and the availability of coal, particularly during the first half of the year.

While the construction industry went through a boom phase with growth as high as 16.2 per cent in 2005-06 and continued to grow thereafter (albeit with moderation), the increase in the costs of construction due to a rise in the prices of inputs and interest costs had started impacting the industry. There was an excessive price build up in the form of a speculative bubble, related to limited supply of urban land for those segments. The rise in interest rates and the slowdown in housing loans also moderated demand. The double squeeze on the costs, as well as the demand slide, and the fall in the liquidity in mid-September 2008 precipitated a sharp downturn in this sector.

Agriculture Production

For three consecutive years (2005-06 to 2007-08), food grain production recorded an average annual increase of over 10 million tonnes. The stocks of wheat and rice in the Central pool by end-March 2009 were 35 million tonnes, which were more than double the buffer stock norms. Recently, the monsoon has been slightly erratic and there is a shortfall in non-food cash crops like sugarcane and pulses.

Savings and Investment

A notable feature of the growth of the Indian economy from 2002-03 has been the rising trend in the gross domestic capital formation. Gross capital formation (GCF), which was 25.2 per cent of the GDP in 2002-03, increased to 39.1 per cent in 2007-

08. Much of this increase is attributable to a rise in the rate of investment by the corporate sector. The rise in the rate of investment has been on account of various factors, the most important being the transformation in the investment climate, coupled with an optimistic outlook for the growth prospects for the Indian economy.

Gross Domestic Savings

The growth in capital formation in recent years has been amply supported by a rise in the savings rate. The gross domestic savings as a percentage of GDP at current market prices stood at 37.7 per cent in 2007-08, as compared to 29.8 per cent in 2003-04.

Capital Formation

The gross capital formation as a percentage of GDP steadily moved up from 27.6 per cent in 2003-04 to 39.1 per cent of GDP in 2007-08. There has been an increase in the rate of investment in both the public and private sectors.

Globalization of the Indian Economy

The structure of the Indian economy has undergone considerable change in the last decade. These include increasing importance of external trade and of external capital flows. The services sector has become a major part of the economy with GDP share of over 50 per cent and the country becoming an important hub for exporting IT services.

The rapid growth of the economy from 2003-04 to 2007-08 also made India an attractive destination for foreign capital inflows and net capital inflows that were 1.9 per cent of GDP in 2000-01 increased to 9.2 per cent in 2007-08. Foreign portfolio investment added buoyancy to the Indian capital markets and Indian corporates began aggressive acquisition spree overseas, which was reflected in the high volume of outbound direct investment flows.

Another important dimension has been the high degree of external dependence on imported energy sources, especially crude oil with the share of imported crude in domestic consumption exceeding 75 per cent. A major change in international crude prices is therefore bound to impact the Indian economy, as in early 2008-09.

Impact of Global Developments

India could not insulate itself from the adverse developments in the international financial markets, despite having a banking and financial system that had little to do with investments in structured financial instruments carved out of subprime mortgages, whose failure had set off the chain of events culminating in global crisis.

The effect on the Indian economy was not significant in the beginning. The initial effect of the subprime crisis was, in fact, positive, as the country received accelerated Foreign Institutional Investment (FII) flows during Sept07 to Jan08.

This contributed to the debate on "decoupling," where it was believed that the emerging economies could remain largely insulated from the crisis and provide an alternative engine of growth to the world economy. The argument soon proved unfounded as the global crisis intensified and spread to the emerging economies through capital and current account of the balance of payments (BoP). The net portfolio flows to India soon turned negative as Foreign Institutional Investors (FIIs) rushed to sell equity stakes in a bid to replenish overseas cash balances. This had an adverse effect on the stock market and the exchange rates through creating the supply demand imbalance in the foreign exchange market. The current account was affected mainly after September 2008 through slowdown in exports. Despite setbacks, however, the BOP situation of the country continues to remain resilient.

The global crisis also meant that the economy experienced extreme volatility in terms of fluctuations in stock market prices, exchange rates and inflation levels during a short duration necessitating reversal of policy to deal with emergent situations.

Before the onset of the financial crisis, the main concern of the policymakers was excessive capital inflows, which increased from 3.1 per cent of GDP in 2005-06 to 9.3 per cent in 2007-08. While this led to increase in foreign exchange reserves from US$ 151.6 billion at end-March 2006 to US$ 309.7 billion at end-March 2008, it also contributed to monetary expansion, which fuelled liquidity growth. WPI inflation reached a trough of 3.1 per cent in October 2007, a month before global commodity price inflation zoomed to double digits from low single digits. The rising oil and

commodity prices, contributed to a significant rise in prices, with annual WPI peaking at 12.8 per cent in August 2008. The monetary policy stance during the first half of 2008-09 was therefore directed at containing the prices rise.

The policy stance of the Reserve Bank of India (RBI) in the first half of the year was oriented towards controlling monetary expansion, in view of the apparent link between monetary expansion and inflationary expectations partly due to the perceived liquidity overhang. In the first six months of 2008-09, year-on-year growth of broad money was lower than the growth of reserve money The Government also took various fiscal and administrative measures during the first half of 2008-09 to rein in inflation.

Exchange Rate Developments

The surge in the supply of foreign currency in the domestic market led inevitably to a rise in the price of the rupee. The rupee gradually appreciated from Rs. 46.54 per US dollar in August 2006 to Rs. 39.37 in January 2008, a movement that had begun to affect profitability and competitiveness of the export sector. The global financial crisis however reversed the rupee appreciation and after the end of positive shock around January 2008, rupee began a slow decline.

A major factor, which affected the emerging economies almost simultaneously, was the unwinding of stock positions by the FIIs to replenish cash balances abroad. The decline in rupee became more pronounced after the fall of Lehman Brothers in September 2008, requiring RBI intervention to reduce volatility. It is pertinent to note that a substantial part of the movement in the rupee-US dollar rate during this period has been a reflection of the movement of the dollar against a basket of currencies. The rupee stabilized after October 2008, with some volatility. With signs of recovery and return of FII flows after March 2009, rupee has again been strengthening against US dollar.

Inclusive Growth

Regardless of the impact of the global financial crisis on India, the fact remains that some of the challenges that India faces are of a continuing nature. These inter alia include eradicating poverty, improving its physical and social infrastructure, education and creating productive employment opportunities. In consonance with the commitment to ensure faster social development and achieving an inclusive pattern of growth, the government continued its focus on several initiatives and programmes towards that end.

Summing-Up

The fallout of the global financial crisis on the Indian economy has been palpable in the industry and trade sectors and has also permeated the services sector. While some segments, especially the export-oriented industries, suffered during the second half of the year, the Indian economy has withstood the adverse global economic situation and posted a growth rate of 6.7 per cent in 2008-09. The economy continues to face wide-ranging challenges— from improving its social and physical infrastructure to enhancing the productivity in agriculture and industry and addressing environmental concerns. Meeting these challenges will be critical for improving India's social and human development indicators and the quality of life.

At the same time, the Indian economy has shock absorbers that will facilitate early revival of growth. First, the banks are financially sound and well capitalized. The foreign exchange reserves position remains comfortable and the external debt position has been within the comfort zone. The rate of inflation has since abated and provides a degree of comfort on the cost side for the production sectors. Agriculture and rural demand continue to be strong and agriculture production prospects are only slightly below normal due to a weak monsoon. While there are indications that the economy may have weathered the worst of the downturn, in part, due to the resilience of the economy and also various monetary and fiscal measures initiated during 2008-09, nevertheless, the situation warrants close watch on various economic indicators including the impact of the economic stimulus and developments taking place in the international economy. Taking policy measures that squarely address the short and long-term challenges would help achieve

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tangible progress and ensure that the outlook for the economy remains firmly positive.

Key Indicators							
Item	**Units**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
1. GDP and related indicators							
GDP (current market prices)	Rs. crore	2754620	3149407	3586743	4129173	4723400	5321753 **RE**
Growth rate	%	12.2	14.3	13.9	15.1	14.4	12.7
GDP (constant market prices)	Rs. crore	2402727	2602065	2844942	3120029	3402716	3609425
Growth rate	%	8.4	8.3	9.3	9.7	9.1	6.1
Growth of GDP (factor cost, constant prices)	%	8.5	7.5	9.5	9.7	9.0	6.7
Savings Rate	% of GDP	29.8	31.7	34.2	35.7	37.7	Na
Capital formation (rate)	% of GDP	27.6	32.1	35.5	36.9	39.1	na
Per cap NNP (factor cost & current prices)	Rs	20871	23198	26003	29524	33283	37490
2. Production							
Food grains	Million tonne	213.2	198.4	208.6	217.3	230.8	229.9 **^^**
Index of Industrial production (growth)	Per cent	7.0	8.4	8.2	11.6	8.5	2.6
Electricity generation (growth)	Per cent	5.1	5.1	5.2	7.3	6.3	2.7
3. Prices							
Inflation (WPI) (52-week average)	%change	5.5	6.5	4.4	5.4	4.7	8.4
Inflation CPI (IW)	%change	3.9	3.8	4.4	6.7	6.2	9.1
4. External sector							
Export growth (US$)	%change	21.1	30.8	23.4	22.6	28.9	3.6
Import growth (US$)	%change	27.3	42.7	33.8	24.5	35.4	14.4
Current account deficit (CAD)/GDP	Per cent	2.3	-0.4	-1.2	-1.1	-1.5	-4.1 **^**
Foreign exchange reserves	US$ bn.	113.0	141.5	151.6	199.2	309.7	252.0 **@**
Average exchange rate	Rs./ US$	45.95	44.93	44.27	45.28	40.26	45.99
5. Money and credit							
(M3) (annual)	%change	16.8	12.3	17.0	21.3	21.2	18.4
Scheduled commercial bank credit (growth)	%change	15.2	30.7	37.0	28.5	22.3	17.5
6. Fiscal indicators (Centre)							
Gross fiscal deficit	% of GDP	4.5	4.0	4.1	3.5	2.7	6.2 **##**
Revenue deficit	% of GDP	3.6	2.5	2.6	1.9	1.1	4.6 **##**
Primary deficit	% of GDP	0.0	0.0	0.4	-0.2	-0.9	2.6 **##**
7. Population	Million	1072	1089	1106	1122	1138	1154

RE GDP figures for 2008-09 are Revised Estimates
na not yet available / released for 2008-09
^^ for 2008-09 the figures are the 3rd Advance Estimates
^ CAD to GDP ratio for 2008-09 is for the period Apr-Dec 2008
@ as of March 31, 2009
fiscal indicators for 2008-09 are based on the provisional actuals for 2008-09

Capital and Commodity Markets

The capital and commodity markets experienced a downturn during 2008 due to the international financial crisis, slowdown in the global economic growth, volatility in the international food, commodity and fuel prices and international financial markets.

Capital Market

The Indian capital market began the year 2008 on a bullish note, with the BSE and NSE indices touching new peaks of 20,873 and 6,288, respectively, on January 8, 2008, but was affected adversely thereafter due to the global financial crisis. The movement in equity prices in Indian capital market was in tandem with trends in major international equity markets; and weakened further during September-December 2008, following sharp decline in stock markets across the globe and perceptible shift in investor preferences.

Primary Market

After recording strong growth during 2006 and 2007, the primary capital market received a setback in 2008. New issues declined sharply in 2008. The capital raised through equity issues during 2008 and. Initial public offerings (IPOs) declined sharply against 2007. However, the mean IPO size increased whilst. Private placement was lower in 2007. (Table 5.11)

Table 5.11 : Resource mobilization through primary market (Rs. crore)

		Calendar Year			
.	Mode	2005	2006	2007	2008 (Prov.)
1	**Debt**	66	389	594	0
2.	**Equity**	30,325	32,672	58,722	49,485
	of which, IPOs	9,918	24,779	33,912	18,393
	Number of IPOs	55	75	100	37
	Mean IPO size	180	330	339	497
3	**Private placement**	83,812	1,17,407	1,84,855	1,75,061
4.	**Euro issues (ADR/GDR)**	9,788	11,301	33,136	6,271
	Total (1 to 4)	**1,23,991**	**1,61,769**	**2,77,307**	**2,30,877**

Source : SEBI and RBI (for Euro Issues)

Volatility reduced the net inflow of savings into mutual funds, and turned negative in 2008 with heavy redemption pressure in 2008. Whilst the public sector mutual funds (other than UTI) mobilized higher inflows (Table 5.12).

	Table 5.12 : Trends in resource mobilization (net) by mutual funds (Rs. crore)					
	Sector	Calendar Year				
		2004	2005	2006	2007	2008
1.	UTI	-1,487	1,237	6,426	9,245	-2,704
2.	Public Sector	-1,262	4,446	12,229	8,259	14,587
3	Private Sector	7,524	19,735	86,295	1,20,766	12,506
4.	**Total (1 to 3)**	**4,775**	**25,454**	**1,04,950**	**1,38,270**	**-624**

Source : SEBI

Secondary Market

The momentum of up to January 2008 could not be sustained in tandem with the decline in international indices in second half of January 2008. January 21 2008 witnessed the highest intraday fall in the history of the Indian Capital Market. The market sentiment remained bearish due to the rising domestic inflation, increasing oil prices and volatility in international financial markets and negative portfolio investment flows during February-March 2008. The tables 5.13, 5.14 and 5.15 amply reflect the changes in movement of global indices, market capitalization, volatility, and PE ratios.

Table 5.13 : Cumulative change in movement of global indices					
Index	Cumulative change over end-2003 level				
	2004	2005	2006	2007	2008
BSE Sensex, India	13.1	61.0	136.1	247.4	65.2
Hang Seng Index, Hong Kong	13.2	18.3	58.8	121.2	1.1
Jakarta Composite Index, Indonesia	44.5	68.1	161.0	296.8	35.5
Nikkei 225, Japan	7.6	50.9	61.3	43.4	-22.9
Kospi Index, South Korea	10.5	69.7	76.8	133.9	25.6
Kuala Lumpur Comp Index, Malaysia	14.2	13.4	38.0	82.0	-3.3
TSEC Weighted Index, Taiwan	4.2	11.2	32.8	44.4	-25.2
SSE Composite Index, China	-15.4	-22.4	78.7	251.5	43.7

Source : Derived from various country sources.
*** End year closing.**

Notwithstanding the sharp correction in the valuation of Indian stocks, the year-end valuation of stocks in terms of P/E ratio of Indian indices at 12.4-12.9 at end-December 2008 was the highest amongst select emerging market economies such as South Korea, Thailand, Malaysia and Taiwan (Table 5.16).

Table 5.14 : Equity returns, volatility, market capitalization & P/E ratio				
Index	Calendar Year			
	2005	2006	2007	2008
Nifty :				
Returns (per cent)	36.34	39.83	54.77	-51.79
End-year market capitalization (Rs. crore)	13,50,394	19,75,603	35,22,527	18,32,610
Daily volatility	* 1.11	1.64	1.60	2.81
End-year P/E	17.07	21.26	27.62	12.97
BSE Sensex:				
Returns (per cent)	42.3	46.7	47.2	-52.48
End-year market capitalization (Rs. crore)	12,13,867	17,58,865	28,61,341	14,63,165
Daily volatility	* 1.1	1.6	1.5	2.85
End-year P/E	18.6	22.8	27 7	12.36

Source: NSE and BSE
*** Standard deviation values**

Table 5.15 : Volatility of weekly returns on the equity markets (standard deviation)		
Class of stocks	Period	
	Jan 2006 / Dec 2007	Jan 2007 / Dec 2008
India		
Top 50 **(NIFTY)**	2.45	4.30
Next 50 (Nifty Junior)	2.85	4.89
SENSEX	3.17	4.57
BSE 500	3.30	4.68
Outside India		
U.S (S&P 500)	1.28	3.83
Korea (Kospi)	2.17	4.19

Source : NSE and BSE

Table 5.16 : P/E ratios in select emerging markets		
Index/Market	Mar. 2008	Dec. 2008
South Korea, KOSPI	14.23	10.95
Thailand, SET	16.61	7.26
Indonesia, JCI	16.90	8.26
Malaysia, KLCI	13.65	10.09
Taiwan, TWSE	18.36	9.31
India, BSE Sensex	20.11	12.36
India, S&P CNX Nifty	20.63	12.97

Source: SEBI and Bloomberg Financial Services

The institutional players, and mutual funds, de-leveraged their activity in the equity market during 2008. The net investment by FIIs in spot market recorded an outflow during 2008.

The turnover in the spot market on the NSE continued its upward trend in 2008, while the BSE spot market turnover registered a decline of 6.4 per cent. However, the turnover in the derivatives market on NSE and BSE were lower by 2.4 per cent and 65.8 per cent respectively in 2008 (Table 5.18).

Table 5.18 : Market turnover (Rs. crore)				
	Calendar year			
Market	2005	2006	2007	2008
NSE Spot	18,88,112	19,16,227	30,93,982	31,88,510
BSE Spot	7,01,025	9,61,653	14,14,727	13,24,053
NSE Derivatives	39,26,843	70,46,665	1,19,40,877	1,16,54,375
BSE Derivatives,	1,965	18,071 2	19,824	75,178

Source: NSE and BSE

AUM of mutual funds declined sharply during the period with a shift from growth-oriented schemes to income/debt oriented schemes. The decline in assets was across the schemes; the exceptions being Gilt and Gold ETF Schemes, which showed larger AUM in 2008.

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Currency Derivatives

Trading in the currency futures segment commenced at NSE in August 2008 and later, at the BSE and Multi Commodity Exchange of India Ltd. (MCX). The average daily trading value has shown an increase from month-to-month.

Commodity Futures Market

Commodities traded on the commodity futures market during 2008 included a variety of agricultural commodities, bullion, crude oil, energy and metal products. In 2008, aviation turbine fuel, carbon credit, carbon financial instrument, red areca nut, coriander seeds, garlic, steel long (ingots/ billets) and thermal coal were added. Total value of trading in commodities markets grew from 36 lakh crores in 2007 to 50 lakh crores in 2008.

Policy Developments

Some of the salient policy initiatives relating to the capital market taken during the year 2008 were:

Primary Market

The amendments made to the SEBI Disclosure and Investment Protection (DIP) Guidelines, 2000 included the following:

- Introduction of a supplementary process of applying in public issues, with, "applications supported by blocked amount" (ASBA) process for IPO applications.
- Reduction in timelines for rights issues
- Expansion of the eligibility criteria for listed companies desirous of making Qualified Institutional Placement (QIP)
- Modification in the pricing guidelines for QIP through change in the floor price formula and definition of relevant date and extending these guidelines to preferential allotment to QIBs.
- The lock-in period of shares in preferential allotment, pursuant to exercise of warrants to be the full lock-in period of one year or three years,.
- Permission to a listed company to make a combined offering of Non-Convertible Debentures (NCDs) with warrants through the QIP mechanism. NCDs and warrants issued pursuant to a combined offering can be listed and traded separately.

- Timeline for completion of bonus issues by listed companies stipulated at 15 days from the date of approval by the board of directors of the issuer.
- A simplified listing agreement for debt securities prescribed, in case the equity of an issuer is already listed.

Secondary Market

- Modification of the broad framework for short selling and securities lending and borrowing (SLB) scheme for all market participants as on April 21, 2008.
- Increase in tenure for SLB to 30 days from 7 days,
- Margining of institutional trades was made mandatory WEF from April 21,
- Collection of margins from institutional investors on a T+1 basis.
- Direct Market Access facility introduced for institutional investors, allowing brokers to offer clients direct access to the exchange trading system through the broker's infrastructure without manual intervention by the broker,
- The cross margining facility was extended to all market participants for offsetting positions in cash and derivatives market.

Mutual Funds

- Allow short selling of and lending and borrowing of securities after additional disclosures including risk factors in the Scheme Information Document.
- The aggregate ceiling for overseas investments by mutual funds was enhanced from US$ 5 billion to US$ 7 billion.
- Extensive amendments to the SEBI (Mutual Funds) Regulations with regard to Real Estate Mutual Funds

Foreign Institutional Investment

- It was decided to discontinue the quantitative restrictions on Overseas Derivative Instrument (ODI) issuance capabilities and restrictions on ODIs on derivatives. Limit for investments in debt by the FIIs in the government securities increased from US$ 3.2 billion to US$ 5 billion and in corporate debt from US$ 1.5 billion to US$ 3 billion.
- The corporate bond investment limits increased from US$6 bill. to US$ 15 bill.
- The restriction on investment of FIIs in the ratio of 70:30 in equity and debt respectively removed.

Corporate Debt Market

- To facilitate development of a vibrant primary market for corporate bonds in India, SEBI notified “Issue and Listing of Debt Securities Regulations” for a simplified regulatory framework for issuance and listing of non-convertible debt securities (excluding bonds issued by the Government) issued by any company, public sector undertaking or statutory corporation.

Regulatory Changes

- A comprehensive regulation applicable to all intermediaries with registration process simplified. The fit and proper criteria modified as principle based.
- The requirement of the depositories to ensure payments before effecting the transfer in the demat system was dispensed.
- Increase in net worth for portfolio management services from Rs. 5 million to Rs. 20 million.
- SEBI Regulations amended for trading in currency derivatives on stock exchanges.
- SEBI (Substantial Acquisition of Shares and Takeovers) Regulations amended. It was clarified that no acquirer, who together with persons acting in concert with him held 55 per cent or more but less than 75 per cent of the shares or voting rights in a target company, should acquire additional shares entitling him to exercise voting rights without a due public announcement.
- Equity Listing Agreement was amended to include details of shares pledged or otherwise encumbered by promoters and promoter group entities.

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