NISM CERTIFICATION EXAMINATION WORK BOOK

II-A

Registrars to an Issue and Share Transfer Agents - Corporate



National Institute of Securities Markets
A Capacity Building Initiative of SEBI

Workbook for

NISM-Series-II-A: Registrars to an Issue and Share Transfer Agents - Corporate Certification Examination

National Institute of Securities Markets

www.nism.ac.in

This workbook has been developed to assist candidates in preparing for the National Institute of Securities Markets (NISM) Certification Examination for Registrars to an Issue and Share Transfer Agents -Corporate.

Workbook Version: October 2025 [1]

Published by:

National Institute of Securities Markets

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[1] Note: The updates made in the workbook (version: October 2025) have been highlighted in YELLOW for easy identification. Kindly refer to the workbook (version: October 2025) for appearing in the Series II-A: Registrars to an Issue and Share Transfer Agents-Corporate Certification Examination or after November 30, 2025."

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Sashi Krishnan
Director, NISM

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Acknowledgement

This workbook has been developed and reviewed by the Certification Team of NISM in co-ordination with its Resource Person – Mr. Haresh Hinduja.

NISM gratefully acknowledges the contribution of Registrars and Transfer Agent Association of India (RAIN) and the Examination Committee for Registrar and Transfer Agent Examination consisting of nominated representatives from the RAIN.

About NISM Certifications

NISM is engaged in developing and administering Certification Examinations and Continuing Professional Education (CPE) Programmes for professionals employed in various segments of the Indian securities markets. These Certifications and CPE Programmes are being developed and administered by NISM as mandated under Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007.

The skills, expertise and ethics of professionals in the securities markets are crucial in providing effective intermediation to investors and in increasing the investor confidence in market systems and processes. NISM seeks to ensure that market intermediaries meet defined minimum common benchmark of required functional knowledge through Certification Examinations and CPE Programmes on Mutual Funds, Equities, Derivatives, Securities Operations, Compliance, Portfolio Management etc.

These Certifications create quality market professionals and catalyzes greater investor participation in the markets. They also provide structured career paths to students and job aspirants in the securities markets.

About the Certification Examination for Registrars to an Issue and Share Transfer Agents – Corporate

The examination seeks to create a common minimum knowledge benchmark for associated persons working in Registrars to an Issue and Share Transfer Agents (R&T agent) organizations performing any of the following functions for listed companies:

- dealing or interacting with the investors or issuers;
- dealing, collecting or processing applications from the applicants;
- dealing with matters relating to corporate actions, refunds or redemptions, repurchase of securities, etc;
- handling redressal of investors' grievances;
- responsible for internal control and risk management;
- responsible for any compliance of securities laws;
- responsible for any other activity performed under the Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993.

Examination Objectives

On successful completion of the examination the candidate should:

- Know the basics of securities and securities markets
- Understand broadly the role and functions of the R&T Agents in the corporate securities issuance and transaction process.
- Know the regulatory environment in which the R&T Agents operate in India.

Assessment Structure

The examination consists of 100 questions of 1 mark each and should be completed in 2 hours. The passing score for the examination is 50%. There shall be no negative marking.

Examination Structure

The exam covers knowledge competencies related to the basics of securities and markets and those related to the processing of corporate offerings and subsequent operations.

How to register and take the examination

To find out more and register for the examination, please visit www.nism.ac.in

Feedback and Queries

For any feedback and/or queries, please write back at certification@nism.ac.in.

Important

- Please note that the Test Centre workstations are equipped with either Microsoft Excel or OpenOffice Calc. Therefore, candidates are advised to be well versed with both of these softwares for computation of numericals.

- The sample caselets and multiple choice questions illustrated in the book are for reference purposes only. The level of difficulty may vary in the actual examination.

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CHAPTER 1: INTRODUCTION TO SECURITIES

LEARNING OBJECTIVES:

After studying this chapter, you should know about:

- Concept of Equity and Debt
- Features and Benefits of Equity Capital
- Features and Benefits of Debt Capital
- Features of Hybrid Instruments

1.1 Introduction to Equity and Debt

A firm that requires money to conduct its operations can fund its requirements through:

- Contribution by owners (either in form of loan or equity)
- Contribution from outsiders (either in form of loan or equity)

Businesses are typically created by promoters, who bring in the initial funds, to start and nurture a business. Later as the business grows in size, the need for money can be met by additional funds brought in by the owner(s) or contributions from outsiders (public). Similarly, an investor has a choice of owning a business by contributing to equity capital or lending to a business as debt capital.

Capital used in running a business can be primarily classified based on:

- The contributors of funds
- The period for which money is contributed
- The cost of the funds to the firm
- The rights that accrue to the contributors of the funds

Contributors

Fund brought in by promoters and owners of the business is called equity capital. Equity capital can be brought in at the start of a business or at a later date as the business grows. Equity capital also can be contributed by outside investors. To enable such contribution, the business offers equity shares to outside investors, who become shareholders.

Funds brought in as loan is called debt capital. Those that contribute debt capital are called as lenders to the business. Lenders can be individuals or institutions including banks. To enable such lending, a business issues debt instruments to investors, or obtains term loans by mortgaging the assets of the company.

Time Period

The period for which capital is brought in may vary. Equity capital cannot be taken out of the firm unless the firm is liquidated. Such capital is for perpetuity.

Debt has to be repaid by the company after a certain period. The period of repayment may be short-term (less than one year) or long-term (more than one year and may go up to even 30 years or more) and is decided at the time such funds are brought in.

Cost of Capital

The business has to pay a price for using equity or debt capital. The cost may be fixed at the time the money is brought in and may constitute an obligation for the company. Debt instruments usually pay a periodic interest. The rate of interest may be pre-determined or the method by which the rate will be determined, as in the case of floating rate bonds and inflation indexed bonds, will be described upfront.

The cost of capital may vary depending on the earnings of the company, as is the case with equity capital.

Both debt and equity are reflected in the liability side of the balance sheet indicating “source of funds”. A company must carefully decide the mix of debt and equity to be used in the business.

Rights of the Contributors

The contributors of capital enjoy certain rights and obligations depending upon the type of capital that they have brought in. Equity investors enjoy rights such as ownership and voting rights and rights to share the profits of the company. Debt investors have the right to receive periodic interest and return of the capital on the expiry of the fixed period. The contributors of debt capital may have their rights secured against the assets of the company.

1.2 Features of Equity Capital and Benefits to Equity Investors

Those who contribute equity capital to the company, buy equity shares, when they are issued by the company. They are called equity shareholders of the company.

Limited Liability

Equity capital is issued with limited liability. This means, if the creditors to a business are not able to recover their dues, equity shareholders will not be asked to pay up. The liability of

equity shareholders in a company is limited to their contribution made to its equity capital, or on any amount unpaid which they have agreed to pay.

Ownership Rights

Equity represents ownership of the company. Equity shareholders are owners of the company in portion of the shares held.

For example, if a company has an issued and paid-up capital of Rs.10 crore made up of 1 crore shares of Rs.10 each, and an investor owns 10 lakh equity shares, such investor owns 10 percent of the company.

Equity shareholders have the right to participate in the management of the company. They can do this through voting rights. Each equity share carries one vote. Major decisions of the company require resolutions to be passed, which have to be voted by a majority.

Equity capital entitles its contributors to participate in the residual profits of the company. After meeting all expenses and provisions, profit that remains in the books belongs to equity shareholders. This is generally distributed to the shareholders in the form of dividends.

Liquidity

Equity shares are first issued by a company to the public through a process called the Initial Public Offer (IPO). IPOs are made in primary market. The money raised in an IPO is used by the company for its business activities and reflected in the balance sheet of the company.

After IPO, the shares are listed on the stock exchanges, where they can be traded between one investor to another. This is called the secondary market. Such transactions do not result in change in the capital structure of the company. Secondary market provides liquidity to the investors.

Perpetuity

Equity capital is for perpetuity. It cannot be redeemed and the company does not have an obligation to repay it. In special situations, a company may buy-back its own shares from the shareholders. Such shares shall be extinguished by the company.

Uncertain Pay-outs

Shareholders enjoy return in the form of dividends paid by the company and may also benefit by the appreciation in share price. The investors can book capital gains by selling their shares

in secondary market at a price higher than the acquisition price. If share price goes down, this may result in capital loss. However, there is no guarantee of dividends or capital appreciation on equity capital. Thus, the returns from equity are uncertain.

1.3 Features of Debt Capital and Benefits to Debt Investors

Debt capital refers to the borrowings of a company. Those that contribute debt capital are lenders or creditors of the company. Debt capital implies regular return and security for the investor. For the company there is an obligation to make periodic interest payments and to repay the capital on maturity.

Debt is raised by companies either by issuing securities such as debentures, bonds and commercial papers to the lenders or by taking a loan from a bank or financial institution. The terms at which the borrowing is being made, are mentioned in the document (or certificate) that represents the debt.

Debt is raised by the company for a fixed period after which it has to be repaid. The period of borrowing will vary depending upon the need of the company. The interest rate or coupon rate of a bond/ debenture depends on the risk of default associated with the company issuing such securities. Thus credit rating of the debt security by SEBI registered Credit Rating Agency forms an important factor while investing in such securities.

Debt securities/ loans have differential rights such as secured or unsecured. A secured loan is one where lenders have a right against the assets of the company if the company fails to pay interest and/or return the principal amount borrowed. Unsecured loan is one where such rights do not exist. Debt instruments may be listed on a stock exchange.

A bond or debenture will be defined by:

- Face value
- Interest rate (also called coupon rate) and Frequency of interest payment
- Date of Maturity/ Redemption
- Other Rights of Bondholders (secured / unsecured)

A loan from a Bank or Financial Institution will be defined by:

- Amount of the Loan
- Interest Rate and Frequency of Payment
- Nature of Loan (Term Loan, overdraft limit, bill discounting etc.)
- Repayment Conditions and Time Line (As Negotiated between Borrower and Lender)
- Other Rights of Lender (secured / unsecured)

1.4 Hybrid Structures

Companies may raise capital in a form that combines the features of both debt and equity. These are called hybrid instruments.

Convertible Debentures

Convertible debentures pay interest like any other debt instrument till the date of maturity. On maturity, the debt is converted into equity shares. The terms of conversion, such as the number of equity shares that each debenture will be converted into and the price at which the conversion will take place are mentioned at the time of the issue of the debt instrument.

They are beneficial to a company as there is no cash outflow on maturity. The lender is benefitted if the conversion is below the prevailing market price of the share.

Preference Shares

Preference shares resemble debt instruments because they offer pre-determined rate of dividend. However, they do not have a fixed maturity period or a right over the assets of the company. They have a preference in the payment of dividend over ordinary equity shares and in the return of capital, if the company is wound up.

Chapter 1: Sample Questions

1. _____ capital is for perpetuity from the point of view of the company.
   - **a.** Debt
   - **b. Equity**
   - **c.** Both debt and equity
   - **d.** None of the above

2. Equity capital gives returns to the investors in the form of:
   - a. Dividend
   - b. Capital Appreciation
   - **c. Both Dividend and Capital appreciation**

3. The interest that a company will have to pay on the debt raised will depend upon its_____.
   - **a. Default Risk**
   - **b.** Market Risk
   - **c.** Liquidity Risk

4. Debt capital is always raised for short-term periods. State whether True or False.
   - **a.** TRUE
   - **b. FALSE**

5. Which of the following is a hybrid security?
   - a. Equity shares
   - b. **Preference shares**
   - c. Non-convertible debentures
   - d. All the options above

CHAPTER 2: CHARACTERISTICS OF EQUITY SHARES

LEARNING OBJECTIVES:

After studying this chapter, you should know about:

- Investors in equity shares
- Rights of a Shareholder
- Risks in Equity Investing
- Equity related terminology
- Corporate Actions
- Preference Shares, Rights Issue and Preferential Issue

2.1 Investors in Equity Shares

A company raises equity capital to meet its need for long-term funds for expansion or continuing operations of the company. Equity capital does not impose any liability on the company in terms of returns or repayment. However, when a company issues equity capital, the investors also get proportionate control and ownership.

A company can raise capital from different categories of investors. Different categories of investors have different requirements in terms of returns, risk and management control.

a. Promoters

Promoters are the group of investors who set up the company and bring in the initial capital required to start the business. This is the risk capital. At the initial stage the entire control of the company is with the promoters. They may bring in additional capital as and when required.

As the capital needs of the business grow, promoters may invite other investors. These may include both institutions and retail public investors.

Promoters usually retain the majority shareholding in the company so that they can continue to control its affairs even after their stakes are diluted. The stage at which the promoters bring in the initial capital is the riskiest. Further, it is generally assumed that the promoter knows the business the best. Thus, the promoter / owner is the logical manager of the business. However, ownership and management may be in separate hands.

b. Institutional Investors

Institutional investors include financial institutions, venture capital companies, mutual funds, foreign financial institutions and banks among others. These are professional investors who have the ability to evaluate the business proposition, the risks associated with it and the expected returns.

The company may allot shares to such investors through a private placement or preferential issue of shares. The risks and returns depend upon the stage at which the institutional investors bring in capital.

Some like venture capital firms may be willing to bring in capital for companies in the start-up stage while others like financial institutions invest in more established firms. Institutional investors such as venture capital firms may be actively involved in the management of the company while others like mutual funds may be more passive investors. To strike a balance between being a passive and active investor, SEBI has issued guidelines for mutual funds and alternative investment funds to ensure better corporate governance in listed companies where the funds have invested.[2]

Apart from the attractiveness of the business proposition, institutional investors would also be interested in factors such as exit options, since many of them may hold a significant proportion of the equity capital. Many institutional investors like venture capitalists, encourage a company to offer its shares to the public investors as an exit option for themselves.

c. Public Investors

When the equity shares are held by promoters and a few investors, it is said to be a closely held company. Such companies may also be private companies, which are not required to disclose too much of information about themselves to the public or the regulators.

When a company offers its equity shares to the public at large and lists its shares on a stock exchange, it moves from being a privately held or closely held company, to a publicly held company, which agrees to disclose periodic information about its operations and business to the public.

Investors, other than promoters, participate in the equity of a company when a company comes out with a public issue of shares (IPO). A public issue of shares requires regulatory compliance with SEBI's guidelines and regulations governing listing of the shares on a stock exchange.

Public investors in shares may be retail investors, high networth individuals (HNI), non-institutional investors or institutional investors. Retail investors, and to a great extent HNIs, are more interested in the returns that they can generate from their investment from capital

[2]SEBI Circular No.: CIR/CFD/CMD1/168/2019 on Stewardship Code for all Mutual Funds and all categories of AIFs, in relation to their investment in listed equities dated December 24, 2019.

appreciation in the value of the shares and dividend, rather than in the control and management of the company.

Large stake holders and institutional shareholders actively participate in the affairs of the company. Some large institutional investors may be given a seat on the board of the company. Regulations require extensive and timely disclosures of all information that affects the interests of the public investors in a company.

2.2 Rights of a Shareholder

Equity share capital has distinct features which define its risk and return. These features determine the suitability of raising equity capital for the company over other sources of financing such as debt. The equity shareholders have specific rights and privileges in the company as compared to debt holders. Some of the rights of common shareholders are discussed below:

- **Ownership Rights**

Issuing ordinary equity capital implies that the company is giving ownership rights to the shareholders. Investors are given voting rights which allow them to vote on important decisions taken by the company. The voting rights are in proportion to the number of shares held by the investor and allow them to express their views by voting 'For' or 'Against' a proposal.

The General Body Meeting of shareholders is the highest decision making authority in a corporate setup. Typically, a company will call a meeting of the shareholders once a year. This meeting is known as the Annual General Meeting (AGM). Shareholders have a right to attend the AGM of the company and participate in the proceedings. Shareholders have a right to express opinions on various aspects of the company working and vote on the various proposals put forth in the AGM.

- **Right to Dividend**

Ownership rights in a company also mean that the investors who hold equity shares are entitled to participate in the profits of the company. This participation will be in the form of dividends that are periodically declared by the company.

- **Ownership Transfer Rights**

A company is not required to return the equity capital to the investor as it is perpetual in nature. However, investors can sell their shares to other investors who may want to buy the shares.

- **Other Rights**

Shareholders have other rights such as right to inspect documents related to company workings, right to legal recourse in case of mis-management or wrong disclosure.

Also shareholders are sometimes provided with certain special rights such as Anti-dilution rights. Anti-dilution provision gives an investor the right to maintain the same percentage ownership in a company by purchasing a proportional amount of shares in future when securities are issued.

2.3 Risks in Equity Investing

Investment in equity shares also involves certain risks to the investors. They are explained as follows:

- **No Fixed Return**

The return in the form of dividend from equity is not pre-defined either in terms of the percentage of dividend or the date on which the payment will be made. Dividend is paid if the company makes sufficient profits and the management of the company feels it is appropriate for some of the profits to be distributed among the shareholders. In case the company makes losses or the profits made by the company is ploughed back for the expansion and other operations of the company, the shareholders may not get a dividend.

The other source of return for the holder of equity shares is the appreciation in the price of the share in the secondary market. This constitutes the major portion of the return for the equity investor. If the company's performance is bad or if the stock markets are going through a downturn, the value of the shares may actually depreciate leading to a loss for the investor. There is no guarantee that the principal amount invested in equity shares will remain intact.

- **No Fixed Tenor**

Equity shares are issued for perpetuity. This means that there is no period of maturity after which the money will be returned to the shareholders. Investors who want to exit their investments may do so by selling the shares on the stock exchange to other investors.

- **Liquidity Risk**

A shareholder has the right to sell his shares to other investors. However, there may be a difference between the price expected by the seller and the price offered by the potential buyer. This is referred to as "bid ask spread" or liquidity risk.

The risk to the shareholder arises if the shares are illiquid and not easily sold at its market value or if the shares are unlisted. The investor's investment may get stuck without an exit option or they may sell their shares at lower than fair value resulting in loss.

- **No Collateral Security**

Equity capital is not secured by the assets of the company. The cash and assets of the company are first applied to settle the claims of the lenders and creditors. The claims of the equity shareholders always rank last in order of preference. During the normal course of operations of the company, dividends are payable to the equity shareholders only after the expenses, interest and taxes are provided for. In the event of liquidation of the company, the equity shareholders are only entitled to a refund of capital after the claims of all the other creditors are satisfied from the sale of the company's assets.

2.4 Equity Terminology

i. Face Value

The total equity capital required by a company is divided into smaller denomination called the face value or par value of the equity shares. Face value of a share represents the book value of the share and always remains fixed. Face value of a share helps in calculating the dividend pay-out to the investors when dividends are declared by the company.

Example 1:

If a company wishes to raise Rs. 10,00,000 (ten lakh), this can be denominated as:

- one lakh shares with a face value of Rs. 10; or
- two lakh shares with a face value of Rs. 5; or
- ten lakh shares with a face value of Re. 1.

i. Share Premium

Companies issue shares at face value or at prices higher than the face value depending on the future prospects of the company. The excess amount received by the company over the face value is called the share premium.

Example 2:

A company issues 1 lakh equity shares of face value of Rs. 10 each, to the public at Rs. 50 per share, i.e.

- Face Value of each share is Rs. 10 (par value) and
- Share Premium on each share is Rs. 40 (Rs. 50 – Rs. 10).

ii. Authorised Capital

The maximum amount of equity capital that a company will have is defined in the Memorandum of Association (MoA) of the company and is called its authorised capital.

iii. Issued Capital

The company may issue a portion of its authorised capital as and when it requires capital. The capital may be issued to the promoters, public or to specified investors. The portion of authorised capital that has been issued to investors is called issued capital.

The capital may be issued by the company either at its face value or at a premium (higher than the face value). In special cases shares may be issued at a discount (lower than the face value).

iv. Paid-up Capital

When investors subscribe to the capital issued by a company, they may be required to pay the entire price at the time of issue or in tranches (instalments). The portion of the issued capital that has been fully paid-up by the shareholders is the paid-up capital of the company.

v. Outstanding shares

Outstanding shares refer to the total number of shares issued by the company to its investors (including retail and institutions).

Example 3:

A company decides that the maximum equity capital it needs is Rs.20 crore. In the initial stages, the need is Rs.10 crore. It issues equity shares of Rs.10 face value, at par. Investors are required to pay Rs.5 per share with application and Rs.5 after 6 months. What is the authorised, issued and paid-up capital of the company, before the issue, after allotment and after 6 months? What is the number of outstanding shares of the company?

Before the issue:

Authorised capital: Rs. 20 Crore

After allotment:

Authorised capital: Rs.20 Crore

Issued capital: Rs.10 Crore

Paid up capital: Rs.5 Crore

After 6 months:

Authorised capital: Rs. 20 Crore

Issued capital: Rs.10 Crore

Paid up capital: Rs.10 Crore

Number of Outstanding Shares: 1 crore (i.e. Rs. 10 crore/ Rs. 10)

One may remember that:

- Paid up capital is always less than or equal to issued capital;
- Issued capital is always less than or equal to authorised capital.
- Authorised capital is the maximum amount that can be issued or paid up.

vi. Fully Paid up Shares

Fully paid shares are those, of which entire face value amount is collected from shareholders upfront. Shareholder is not liable for any amount.

vii. Partly Paid up Shares

Partly paid-up shares are those on which entire face value amount is not collected from shareholders upfront. That means, company can make call for balance unpaid portion and the shareholder will be liable to pay such call money. If the shareholder does not pay the call money as per schedule, the shares can be forfeited, including the amount already paid thereon, by company.

2.5 Corporate Actions

A corporate action is an event initiated by a public company that will bring an actual change to the securities—equity or debt—issued by the company. Corporate actions are typically agreed upon by a company's board of directors and authorized by the shareholders.

a. Dividend

The most common corporate action is payment of dividend. Equity shareholders are entitled to share in the profits of the company. One way to do this is through the dividend that the company may periodically declare.

Dividend declared by a company is not pre-fixed in terms of the percentage of the dividend or the period when it will be declared. Dividends are declared by the company when there is sufficient profit that can be distributed among the shareholders. The board of directors of the company will take a decision on the dividend to be declared. Shareholders approve such dividend in an annual general meeting.

Dividend is computed as a percentage of the face value of the shares. A 40 percent dividend declared by a company will translate into a dividend of Rs. 4 for a share with a face or par value of Rs. 10 (i.e. 10*40/100), Rs. 2 for a share with a face value of Rs. 5 (i.e. 5*40/100). To ensure clarity for investors, SEBI has mandated that listed companies declare the dividend in terms of rupee per share.

Dividend for a company is usually declared at the end of a year which is called the final dividend. However, companies may also declare dividends during the year, called the interim dividend. Many companies have now made a regular practice of quarterly dividends.

The dividend declared by a company is a percentage of the face value of its shares. When the dividend received by an investor is compared to the market price of the share, it is called the dividend yield of the share.

Example 4:

A company declares a dividend of 60 percent on its shares which have a face value of Rs. 2. The market price of the share is Rs. 80. In this case, the dividend amount is Rs. 1.20 per share. The dividend yield is 1.5 percent (i.e. 1.2/80*100)

b. Buyback of shares

Buy-back of shares refers to repurchase of shares by the company from its existing shareholders. During the buy-back, the company usually offers a higher price to the shareholders. However, participation in a share buyback is voluntary. The shares acquired by a company in buyback are extinguished and this results in reduction of share capital. Buyback of securities are governed by SEBI (Buy-Back of Securities) Regulations, 2018.

c. Bonus issue

A company may issue additional shares to existing shareholders without any capital contribution from the shareholders based on the number of shares an investor holds. This is known as a bonus issue. The bonus is issued against accumulated profit of the company. Bonus issue results in increase in number of outstanding shares of the company.

Example 5:

ABC Company Ltd. declares a bonus issue in the ratio 1:2. This means that ABC Company Ltd. will issue 1 bonus share for every 2 shares held by the shareholder.

d. Stock split and Consolidation

A company may decide to change the face value of its shares. This is done through stock split or consolidation methods. These methods change the number of outstanding shares.

However, in both the cases, the value of the shares held by a shareholder remains unchanged.

When a higher face value of a share is reduced to a lower face value, it is called a stock split. It increases the number of shares in the hands of an investor, but reduces the face value of each share.

Example 6:

Mr. P holds 100 shares of face value Rs. 10 of ABC Ltd. The company decides to divide each share into 2 shares with face value of Rs. 5 each.

Before Stock Split: Value of Mr. P's holdings is Rs. 1000 (i.e. Rs. 10 x 100)

After Stock Split: Mr. P will now hold 200 shares of face value Rs. 5. Therefore, value of Mr. P's holdings is Rs. 1000 (i.e. Rs. 5 x 200).

A consolidation refers to increasing the face value of a share from lower amount to higher amount. This reduces the number of shares held by an investor, but increases the face value of each share.

Example 7:

Mr. S holds 100 shares of face value Rs. 2 of XYZ Ltd. The company decides to club 5 shares into 1 share with face value of Rs. 10 each.

Before Stock Consolidation: Value of Mr. S's holdings is Rs. 200 (i.e. Rs. 2 x 100)

After Stock Consolidation: Mr. S will now hold 20 shares of face value Rs. 10. Therefore, value of Mr. S's holdings is Rs. 200 (i.e. Rs. 10 x 20).

2.6 Reduction of Share Capital

The company may reduce its share capital in the following ways:

- Extinguishment of shares through buyback of shares.
- Forfeiture of shares in case of partly paid shares, where the balance call money remains unpaid after sufficient reminders for making the balance payment.

This proposed reduction in the capital must be approved by special resolution passed by the company. If the capital of a company is reduced, it results in alteration of its memorandum by reducing the amount of its share capital and outstanding shares accordingly. In case the company is in arrears in the repayment of any deposits accepted by it or the interest payable, then reduction of capital cannot be made.

2.7 Preference Shares

When we talk of shares of a company we usually refer to the ordinary shares of a company. A company may also raise equity capital with varying rights and entitlements. These are

called preference shares because they may offer certain special features or benefits to the investor. Some benefits that investors in ordinary equity capital have, such as, voting rights, may instead not be available to preference shareholders. Preference shares are usually given preference over equity shares in the payment of dividends and the repayment of capital, if the company is wound up.

Dividend is paid to the preference shareholder at a fixed rate mentioned at the time of the issue of the shares. The terms of issue may allow the preference shareholders to participate in the residual profits too in some defined ratio. These are called participating preference shares.

Preference shareholders are paid dividend only if the company has sufficient profits. The unpaid dividend may be carried forward to the following year(s) and paid if there are profits to pay the dividends, if the terms of issue of the shares so allow. Such shares are called cumulative preference shares.

The returns for the preference shares are primarily from the dividend the company pays. Non-convertible preference shares issued through a public issue or private placement may be listed on a stock exchange, provided the issue meets the terms laid down by SEBI in its regulations. The scope for capital appreciation in these types of shares may be limited because they do not participate in the profits of the company. Their value is not affected by the over-performance or under-performance of the company.

Though preference shares are similar to debentures, they differ on the following points:

- A preference shareholder is a shareholder of the company. A debenture holder is a creditor of the company.
- A debenture is usually secured on the assets of the company. A preference share is not secured since it is not a borrowing.
- The coupon interest on the debenture is an expense to be paid by the company before calculating the profits on which tax has to be paid. Dividends on preference shares are paid from the residual profits of the company after all external liabilities, including tax, have been paid.

2.8 Rights Issue of Shares

A company may raise equity capital from its investors at various times. Whenever a company makes a fresh issue of shares, it has an impact on the existing shareholders since their proportionate holding in the shares of the company gets diluted.

For example, a company may have 10 lakh outstanding shares of Rs.10 each, amounting to an issued and paid-up capital of Rs. 1 crore. If it issues another 10 lakh shares, to increase its capital, the proportion held by existing shareholders will come down by half, as the issued and paid up capital has doubled. This is called as dilution of holdings. To prevent this, Companies Act requires that a company which wants to raise more capital through an issue of shares must first offer them to the existing shareholders. An existing shareholder has a

right to proportionate participation in all capital raising activity. Thus the term Rights issue. A rights issue is subject to various SEBI regulations.

The rights shares are offered to the existing investors in a proportion as approved by the Board of the company. For example, the company may choose to issue rights at 1 for 1, to double its capital. This means each existing shareholders will get one equity share for every one equity share that they already hold. The issued and paid up capital will double, but proportionate holdings of each shareholder will not change. The ratio and price of the rights issue is proposed by the Board of the company, however the participation in a rights issue is voluntary.

2.9 Preferential Issue

A company may issue shares to a strategic investor or collaborator at a pre-negotiated price. The pricing for such an issue is determined under various SEBI guidelines. A preferential issue dilutes (reduces) the proportionate rights of existing shareholders and thus requires approval of existing shareholders.

Chapter 2: Sample Questions

1. _____ rights give the equity investor a say in the management of the company.
   a. **Voting**
   b. Dividend
   c. Both voting and dividend

2. A 20 percent dividend declared on face value of Rs. 10 and market price of Rs. 120 translates into a dividend payout of _____.
   a. **Rs. 2.00**
   b. Rs. 24.00
   c. Rs. 20.00
   d. Rs. 12.00

3. Preference shareholders get preference over debenture holders in the payment of dividend. State whether True or False.
   a. TRUE
   b. **FALSE**

4. Which of the following is/are examples of corporate actions?
   a. Dividend
   b. Bonus issue
   c. Stock split
   d. **All the options given**

5. A company may issue additional shares to existing shareholders without any capital contribution from the shareholders based on the number of shares an investor holds. This is known as _____.
   a. **Bonus issue**
   b. Rights issue
   c. Preferential issue

CHAPTER 3: CHARACTERISTICS OF DEBT SECURITIES

LEARNING OBJECTIVES:

After studying this chapter, you should know about:

- Features of Debt Security
- Market value of debt securities
- Yield to Maturity of debt instruments
- Types of Bonds
- Features of Fixed and Floating Rate Bonds
- Credit Rating
- Money Market instruments

3.1 Features of a Debt Security

A debt security denotes a contract between the issuer (company) and the lender (investor) which allows the issuer to borrow a sum of money at pre-determined terms.

These terms are referred to as the features of a bond and include the principal, coupon (interest rate) and the maturity date of the bond. In Indian securities markets, a debt instrument denoting the borrowing of a government or public sector organizations is called a bond and the borrowings by the private corporate sector is called debenture. The terms bonds and debentures are used interchangeably.

The principal is the amount which is being borrowed by the issuer. The face value or par value of the debenture is the amount of the principal that is due on each debenture at maturity. The face value of a debenture is usually Rs. 100 or Rs. 1,000.

The coupon is the rate of interest to be paid by the borrower to the lender. This is a percentage that is applied to the face value or par value of the bond. The periodicity of interest payment (annual, semi-annual, quarterly or monthly) is also specified.

The maturity date of a bond refers to the date on which the contract requires the borrower to repay the principal amount. Different combinations of each of these features can be used to create instruments that meet the specific requirements of the borrower or the lender.

It may, therefore, be emphasised that the debt securities have distinct characteristics in contrast to equities.

- The debt holders are lenders to the company, while equity-holders are owners of the company;
- The debt securities have fixed maturity period while equities are perpetual in nature;
- The return to debt holders are fixed at the time of issuance, whereas the equity-holders are entitled to residual profit, but not guaranteed;

- The debt holders enjoy preference over equity-holders in receiving back payments in case of winding up of the company.

3.2 Market Value of a Debt security

As stated earlier, the face value or par value of a debt instrument is its book value that represents the principal amount of the borrowing which is to be repaid to the investor at the time of maturity. If the debt instrument is traded in the market before its maturity, the value at which such trade is executed is called the market value of the debt instrument. Market value may be higher or lower than the face value of the debt instrument. Market value fluctuates due to market dynamics such as demand-supply condition, market interest rate scenario etc.

3.3 Yield from Debt Instruments

The returns to an investor in bonds, is primarily made up of the coupon payments. However, if the investor acquires or sells the bond at a price that is different from the par value it generates capital gains or loss, as the case may be. The returns to the investor in such a case can vary from the coupon. Therefore, the coupon rate of the bond is not an indicator of the returns on the bond, but merely helps in computing what cash flows would accrue periodically, to the investor.

The term 'yield', rather than 'coupon rate', is used to denote the returns to the investor.

- **Current Yield**

Current yield simply compares the coupon of a bond with its market price. For example, if a bond paying an annual coupon of 12 percent is trading in the market for Rs. 109.50, then the current yield is:

12/109.5*100

=10.96 percent

- **Yield to Maturity (YTM)**

Yield to maturity (YTM) is a popular and extensively used method for computing the return on a bond investment. Every bond is made up of a set of cash flows that accrue at various points in time, from the time the bond is acquired, until it is sold or redeemed.

Therefore, using the principle of finance to value the bond, the price at which the series of future cash flows should sell is the sum of the discounted value of these cash flows. The rate which equates the discounted value of the cash flows with the price of the bond is the yield to maturity of the bond.

3.4 Types of Debt Securities

i. Convertible Debt Securities

As already discussed in Chapter 1, convertible debt securities are hybrid instruments with features both of debt and equity. These securities pay the pre-determined coupon payments to the holders and on maturity the same is converted into equity based on pre-defined terms. The convertible debt securities are more suitable for low credit rating companies and companies with high growth potentials.

Advantage to Issuers: It is a low cost financing compared to other financing means, issuers pay lower coupons to the lenders and also on maturity, repayment of principal amount need not be made as the security is converted into equity.

Advantage to Investors: Though the investors are paid a lower coupon rate, compared to other debt securities, the potential to earn capital appreciation on the converted security (equity) compensates the receipt of lower interest rate.

However, there involves a risk of dilution of stake of the existing shareholders in the company on conversion of the debt securities.

ii. Zero Coupon Bond

In such a bond, no coupons are paid or specified. The bond is issued at a discount to its face value. There are no intermittent payments of interest. When such a bond is issued for a very long tenor, the issue price is at a steep discount to the redemption value. Such a zero coupon bond is also called a **deep discount bond**.

The effective or implied interest earned by the buyer is the difference between the face value and the discounted price at which the bond is bought. There are also instances of zero coupon bonds being issued at par, and redeemed with interest at a premium. The essential feature of this type of bonds is the absence of periodic interest payments. They are suitable for financing projects with long gestation periods.

iii. Fixed Rate Bonds

Fixed rate bonds pay a pre-defined interest that are payable at specified intervals. Such bonds are also called as the **plain vanilla bonds**. A plain vanilla bond will have a fixed term to maturity with coupon being paid at pre-defined periods and the principal amount is repaid on maturity. The bond is usually issued at its face value and redeemed at par.

The simple variations to this structure could be a slightly varied issue price, higher or lower than par and a slightly altered redemption price, higher or lower than par. In some cases, the frequency of the interest payment could vary, from monthly, to quarterly and annual. All these variations still come under the plain vanilla definition of a bond, where the interest is paid at a fixed rate periodically, and principal returned when the bond is retired.

iv. Floating Rate Bonds

Instead of a pre-determined rate at which coupons are paid, it is possible to structure bonds, where the rate of interest is reset periodically, based on a benchmark rate such as RBI Repo Rate. Such bonds whose coupon rate is not fixed, but reset with reference to a benchmark rate, are called floating rate bonds.

For example, a company can issue a 5-year floating rate bond, with the rates being reset semi-annually with reference to the 1-year yield on central government securities and a 50 basis point mark-up. In this bond, the coupon rate is reset every six months based on the 1-year benchmark rate on government securities.

The other names, by which floating rate bonds are known, are variable rate bonds and adjustable rate bonds. These terms are generally used in the case of bonds whose coupon rates are reset at longer time intervals of a year and above. These bonds are common in the housing loan markets.

v. Inflation Indexed Bonds

Inflation Indexed Bonds (IIB) are a category of floating rate bonds where the benchmark is the inflation rate. Such instruments are generally government securities issued by the RBI which provides inflation protected returns to the investors.

vi. Amortising Bonds

The structure of some bonds may be such that the principal is not repaid at the end/maturity, but over the life of the bond. A bond in which payments that are made by the borrower includes both interest and principal, is called an amortising bond. Auto loans, consumer loans and home loans are examples of amortising bonds. The maturity of the amortising bond refers only to the last payment in the amortising schedule, because the principal is repaid over time i.e. redemption in more than one instalment.

vii. Asset-backed Securities

Asset backed securities represent a class of fixed income products, created out of pooling together assets, and creating bonds that represent participation in the cash flows from the asset pool. For example, select housing loans of a loan originator (say, a housing finance company) can be pooled, and bonds can be created, which represent a claim on the repayments made by home loan borrowers. Such bonds are called mortgage–backed securities. In some markets like India, these bonds are known as structured obligations (SO). Assets with regular streams of cash flows are ideally suited for creating asset-backed securities.

viii. Other types of bonds

Some of other structures are: (a) deferred interest bonds, where the borrower could defer the payment of coupons in the initial 1 to 3 year period; (b) Step-up bonds, where the coupon is stepped up periodically, so that the interest burden in the initial years is lower, and increases over time.

3.5 Classification of Debt Market

There are two broad ways in which bond markets can be segmented.

- Based on the type of borrower, we can segment the market between the bonds issued by governments, and those issued by non-government agencies like banks, corporations and other such entities.
- Based on the tenor of the instrument, we can segment the bond markets as short-term, medium term and long term.

These are not mutually exclusive segments. The government issues bonds to meet its requirements for various periods as does the private sector. Each issued bond has an issuer and a tenor.

Government Securities comprises the central government bonds, and quasi-government bonds issued by local governments, state governments and municipal bodies. Government securities do not have credit or default risk.

Corporate bond markets comprise pre-dominantly of short-term commercial papers and long-term bonds. Another segment comprises of short term paper issued by banks, in the form of certificates of deposit. The rate at which the non-government segment borrows depends upon the credit quality of the borrower. The credit or default risk of the borrower is defined by the credit rating of the bond. Higher the credit rating, lower is the risk of default.

3.6 Credit Rating

The biggest risk faced by investors in debt securities is the possibility of the borrower not honouring their commitment on payment of interest on the borrowing and repayment of the principal on maturity of the instruments.

The ability of the borrower to meet its obligation will depend upon factors internal and external to the business. Lenders therefore evaluate these factors associated with the borrower before entering into the transaction. The decision of a lender on whether or not to lend to a borrower and at what cost would be determined by the risk associated with the borrower. This risk of the possibility of a default on obligations by the borrower is called the credit risk of the borrower.

The credit risk of a borrower is evaluated by credit rating agencies. Credit rating agencies have to be registered with SEBI and abide by the regulations laid down in SEBI (Credit Rating Agencies) Regulations, 1999 in the conduct of such evaluations.

The credit rating agencies consider all the qualitative and quantitative factors that impact the business of the borrower and consequently their ability to meet their financial obligations. The appraisal is done by industry experts and the information collected not only from the borrower but from other sources as well. Based on their appraisal, the rating committee of the credit rating agency will assign a rating to the borrowing. Rating is therefore an exercise that converts the ability and willingness of the company to service the instrument proposed to be issued into a symbol.

The credit rating assigned to an instrument is not static but is dynamic. This means that the credit risk associated with a borrowing may change over time. Credit rating agencies are required by SEBI to constantly monitor factors that affect the status of the instrument and to reassign a rating if the credit quality of the instrument improves or deteriorates.

Recently, SEBI issued detailed guidelines on provisional ratings assigned by Credit Rating Agencies to debt instruments.[3] A rating will be considered as provisional, and not final, in cases where certain compliances that are crucial to the assignment of credit rating are yet to be complied with or certain documentations remain to be executed at the time of rating. All provisional ratings ('long term' or 'short term') for debt instruments need to be prefixed as 'provisional' before the rating symbol in all communications-- rating letter, press release and rating rationale.

SEBI has standardized the rating symbols used by the credit rating agencies so that investors are able to easily gauge the level of credit risk assigned to an instrument. The rating symbols and their definitions are reproduced below.[4]

I. Rating Symbols and Definitions for Long Term Debt Instruments
Long term debt instruments: The instruments with original maturity exceeding one year
Rating symbols should have CRA's first name as prefix
AAA - Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.
AA - Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
A - Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.
BBB - Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.
BB - Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.

[3]SEBI Circular No.: SEBI/HO/MIRSD_CRADT/P/CIR/2021/554 dated April 27, 2021
[4]SEBI Circular No.: CIR/MIRSD/4/2011 dated June 15, 2011

B - Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations.
C - Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations.
D - Instruments with this rating are in default or are expected to be in default soon.
***Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories AA to C*. The modifiers reflect the comparative standing within the category.**
II. Rating Symbols and Definitions for Short Term Debt instruments
Short term debt instruments: The instruments with original maturity of upto one year
Rating symbols should have CRA's first name as prefix
A1 – Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.
A2 - Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations. Such instruments carry low credit risk.
A3 - Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.
A4- Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations. Such instruments carry very high credit risk and are susceptible to default.
D - Instruments with this rating are in default or expected to be in default on maturity.
***Modifier {"+" (plus)} can be used with the rating symbols for the categories A1 to A4.* The modifier reflects the comparative standing within the category.**

III. Rating Symbols and Definitions for Long Term Debt Mutual Fund Schemes
Long term debt mutual fund schemes: The debt mutual fund schemes that have an original maturity exceeding one year
Rating symbols should have CRA's first name as prefix
AAAmfs - Schemes with this rating are considered to have the highest degree of safety regarding timely receipt of payments from the investments that they have made.
AAmfs– Schemes with this rating are considered to have the high degree of safety regarding timely receipt of payments from the investments that they have made.
Amfs - Schemes with this rating are considered to have the adequate degree of safety regarding timely receipt of payments from the investments that they have made.
BBBmfs- Schemes with this rating are considered to have the moderate degree of safety regarding timely receipt of payments from the investments that they have made.
BBmfs - Schemes with this rating are considered to have moderate risk of default regarding timely receipt of payments from the investments that they have made.
Bmfs - Schemes with this rating are considered to have high risk of default regarding timely receipt of timely receipt of payments from the investments that they have made.
Cmfs - Schemes with this rating are considered to have very high risk of default regarding timely receipt of timely receipt of payments from the investments that they have made.
***Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories AAmfs to Cmfs*. The modifiers reflect the comparative standing within the category.**

IV. Rating Symbols and Definitions for Short Term Debt Mutual Fund Schemes
Short term debt mutual fund schemes: The debt mutual fund schemes that have an original maturity of upto one year

Rating symbols should have CRA's first name as prefix
A1mfs - Schemes with this rating are considered to have very strong degree of safety regarding timely receipt of payments from the investments that they have made.
A2mfs– Schemes with this rating are considered to have moderate degree of safety regarding timely receipt of payments from the investments that they have made.
A3mfs - Schemes with this rating are considered to have the adequate degree of safety regarding timely receipt of payments from the investments that they have made.
A4mfs- Schemes with this rating are considered to have minimal degree of safety regarding timely receipt of payments from the investments that they have made.
***Modifiers {"+" (plus)} can be used with the rating symbols for the categories A1mfs to A4mfs*. The modifier reflects the comparative standing within the category.**

Further to the above, the credit rating agencies suffix 'CE' i.e. Credit Enhancement, to the rating of instruments having explicit credit enhancement.[5] In addition to this, SEBI has introduced Expected Loss based Rating Scale for rating of projects/ instruments associated with infrastructure sector.[6]

3.6.1 Unrated Bonds

Bonds that do not have any current or valid rating by an external rating agency are unrated bonds. Since unrated instruments are more illiquid than rated instruments, the yield of such unrated instruments is higher. SEBI has provided guidelines for mutual funds on investments in unrated debt instruments.

3.7 Money Market Instruments

Money market refers to the market where instruments with a maturity of less than one year are issued and traded. Money market participants are generally commercial banks and the central bank. The money market is the platform for banks and government to finance their short term capital requirements. It is a wholesale market with large volumes. It is considered the most liquid of all financial markets with borrowing and lending transactions done for shorter periods such as one day. Instruments in money markets include Commercial papers, Certificates of deposit, Treasury Bills etc. that are due to mature within 365 days, and long term government debt.

3.7.1 Commercial Paper

Commercial Paper (CP), an unsecured money market instrument issued in the form of a promissory note, was introduced in India in 1990 with a view to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and provide an additional instrument to the investors. Subsequently, primary dealers (PDs) and all-India financial institutions (FIs) were also permitted to issue CP to enable them to meet their short-term funding requirements. The aggregate amount of CP that can be issued by an

[5] SEBI Circular No.: SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019.
[6] SEBI Circular No.: SEBI/HO/MIRSD/MIRSD_CRADT/P/CIR/2021/594 dated July 16, 2021.

issuer shall at all times be within the limit as approved by its Board of Directors or the quantum indicated by the Credit Rating Agency (CRA) for the specified rating, whichever is lower.

Individuals, banks, other corporate bodies (registered or incorporated in India) and unincorporated bodies, Non-Resident Indians and Foreign Portfolio Investors (FPIs) shall be eligible to invest in CPs. FPIs shall be eligible to invest in CPs subject to (i) such conditions as may be set for them by SEBI and (ii) compliance with the provisions of the Foreign Exchange Management Act, 1999, the Foreign Exchange (Deposit) Regulations, 2000 and the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, as amended from time to time.

Commercial paper has emerged as an effective instrument for all corporate companies to avail the short-term funds from the money market within the shortest possible time limit by avoiding the hassles of direct negotiation with the commercial banks for availing the short-term loans.

3.7.2 Certificate of Deposit

Certificate of Deposit (CD) is a negotiable money market instrument and issued in dematerialised form or as a Usance Promissory Note against funds deposited at a bank or other eligible financial institution for a specified time period. Guidelines for issue of CDs are presently governed by various directives issued by the Reserve Bank of India (RBI), as amended from time to time. CDs can be issued by (i) scheduled commercial banks (excluding Regional Rural Banks and Local Area Banks); and (ii) select All-India Financial Institutions (FIs) that have been permitted by RBI to raise short-term resources within the umbrella limit. Minimum amount of a CD should be Rs.1 lakh, i.e., the minimum deposit that could be accepted from a single subscriber should not be less than Rs.1 lakh, and in multiples of Rs. 1 lakh thereafter.

CDs can be issued to individuals, corporations, companies (including banks and PDs), trusts, funds, associations, etc. Non-Resident Indians (NRIs) may also subscribe to CDs, but only on non-repatriable basis, which should be clearly stated on the Certificate. Such CDs cannot be endorsed to another NRI in the secondary market. The maturity period of CDs issued by banks should not be less than 7 days and not more than one year, from the date of issue. The FIs can issue CDs for a period not less than 1 year and not exceeding 3 years from the date of issue.

3.7.3 Treasury Bills

Treasury bills or T-bills, which are money market instruments, are short term debt instruments issued by the Government of India and are presently issued in three tenors, namely, 91 day, 182 day and 364 day. Treasury bills are zero coupon securities and pay no interest. Instead, they are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of Rs. 100/- (face value) may be issued at say Rs. 98.20,

that is, at a discount of Rs. 1.80 (i.e. 100-98.20) and would be redeemed at the face value of Rs. 100/-. The return to the investors is the difference between the maturity value or the face value (i.e. Rs. 100) and the issue price (i.e. Rs. 98.20).

Chapter 3: Sample Questions

1. _____ of a bond refers to the interest payable on a bond.
   a. **Coupon**
   b. Inflation rate on Principal
   c. Market Price
   d. Face Value

2. A bond with a higher credit rating will pay _____ interest rates.
   a. Higher
   b. **Lower**
   c. Unrelated

3. The prices of bonds are _____ related to interest rate movements.
   a. Directly
   b. **Inversely**
   c. Not

4. A zero coupon bond is always issued at a premium. State whether True or False.
   a. TRUE
   b. **FALSE**

5. The YTM of a bond is the yield that investors will earn on holding a bond to maturity. State whether True or False.
   a. **TRUE**
   b. FALSE

CHAPTER 4: CHARACTERISTICS OF OTHER SECURITIES

Learning Objectives:

After studying this chapter, you should know about other types of securities such as:

- Warrants
- Convertible Debentures (CDs)
- Depository Receipts (DRs)
- Foreign Currency Convertible Bonds (FCCBs)
- Exchange Traded Funds (ETFs) and Index Funds
- Real Estate Investment Trusts (REITs)
- Infrastructure Investment Trusts (InvITs)

Companies raise capital using equity and debt instruments. The basic features of these instruments can be modified to suit the specific requirements of the borrowers or lenders. Such modifications bring advantages such as wider participation, better management of cash flows and better return prospects.

4.1 Warrants

Warrants give the investors the right to buy shares of the company in the future. The number of shares that the warrant entitles the holder to subscribe to at a pre-determined date and price are specified at the time of issue. Conversion/ exercise of the warrants results in increase in share capital. Warrants may be traded on the stock exchange as a security separate from the debenture with which it was issued. Warrants usually have a longer lifetime as compared to options contracts which they closely resemble.[7]

Warrants will be exercised if the share price at the time of exercise is higher than the price at which the investors have the right/ option to buy the shares. For example, assume a warrant enables an investor to buy an equity share of a company at Rs.100. The warrant will be exercised: (a) when it is due to be exercised, (b) if the price of the share in the market is more than Rs.100. If the market price is less than Rs.100, the investor can always buy from the market, rather than use the option to buy the same share at a higher price.

Warrants may be used by promoters to increase their stake in the company. Issue of warrants is subject to SEBI guidelines and shareholders' approval. The regulations include an upfront payment and a lock in on conversion.

[7]Options refer to a type of derivatives contract that gives buyer the right to exercise the option to buy or sell the underlying security at a pre-defined date and price.

4.2 Convertible Debentures

Convertible debentures are debt instruments that can be converted into equity shares of the company at a future date. The security has features of both debt and equity. It pays periodic coupon interest till the date of redemption/ conversion into equity shares, just like any other debt instrument.

At the time of redemption of the debenture, the investors can choose to receive shares of the company instead of cash redemption

The issuer specifies the details of the conversion at the time of making the issue. This will include:

- The date on which the conversion will be made.
- The ratio of conversion i.e. the number of shares that the investor will be eligible to get for each debenture.
- The price at which the shares will be allotted to the investor on conversion. Usually this is at a discount to the market price.
- The proportion (full or part) of the debenture that will be converted into equity shares. Accordingly, the debenture may be referred to as Fully Convertible Debenture (FCD) or Partly Convertible Debenture (PCD) or Non-Convertible Debenture (NCD).

As already discussed in Chapter 3, the advantage to the issuer of convertible debenture lies in the fact that convertible debentures usually have a lower coupon rate than pure debt instruments. This is because the yield to the investor in such debenture is not only from the coupon alone but also the possibility of capital appreciation in the investment once the debentures are converted into equity. Moreover, the issuer does not have to repay the debt on maturity since shares are issued in lieu of repayment, thus saving cash outflow. The shareholding percentage of the existing shareholders gets diluted when fresh shares are issued on conversion. Thus convertible debentures are normally issued on rights basis or with specific approval of existing shareholders. Issue of convertible debentures is governed by SEBI Regulations.

4.3 Depository Receipts

Depository receipts (DRs) are financial instruments that represent shares of a local company but are listed and traded on a stock exchange outside the country. DRs are issued in foreign currency, usually in US Dollars. DRs allow overseas investors to easily invest in a company.

To issue a DR, a specific quantity underlying equity shares of a company are lodged with a custodian bank, which authorises the issue of depository receipts against the shares.

Depending on the country of issue and conditions of issue, the DRs can be converted into equity shares.

DRs are called American Depository Receipts (ADRs) if they are listed on a stock exchange in the USA such as the New York Stock Exchange or NASDAQ. If the DRs are listed on a stock exchange outside the US, they are called Global Depository Receipts (GDRs). The listing requirements of stock exchanges can be different in terms of size of the company, state of its finances, shareholding pattern and disclosure requirements.

When DRs are issued in India and listed on stock exchanges in India with foreign company stocks as underlying shares, these are called Indian Depository Receipts (IDRs).

The company, whose shares are traded as DRs, gets a wider investor base from the international markets. Investors in international markets get easy access to invest in shares of an overseas company. Holding DRs, gives investors the right to dividends and capital appreciation from the underlying shares, but not voting rights.

The steps in issuing DRs are the following:

- The company has to comply with the listing requirements of the stock exchange and market regulator where they propose to get the DRs listed.
- The company appoints a depository bank which will hold the stock and issue DRs against it.
- If it is a sponsored issue, the stocks from existing shareholders are acquired and delivered to the local custodian of the depository bank. Else the company issues fresh shares against which the DRs will be issued.
- Each DR will represent certain number of underlying shares of the company.

Once the custodian confirms that the shares have been received by them, the depository bank in the foreign country will issue the depository receipts to the brokers to trade in the chosen stock exchange where the DRs have been listed.

4.4 Foreign Currency Convertible Bonds

Foreign Currency Convertible Bonds (FCCB) are issued by Indian companies and subscribed to by investors in foreign currency. They carry a fixed interest or coupon rate and are convertible into a certain number of ordinary shares at a preferred price.

The payment of interest and repayment of principal (if required) is in foreign currency. The conversion price is usually set at a premium to the current market price of the shares. FCCBs allow companies to raise debt at lower rates abroad. It also protects the cash flows since

maturity is by conversion of debt into equity. Also the time taken to raise FCCBs may be less than what takes to raise pure debt abroad.

Issuance of FCCBs is regulated by Reserve Bank of India (RBI) notifications under the Foreign Exchange Management Act (FEMA). The Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism), 1993 lays down the guidelines for such issues. The issue of FCCBs should be within the limits specified by RBI from time to time.

4.5 Exchange Traded Funds and Index Funds

Exchange Traded Funds (ETF) are a type of mutual funds that are listed and traded on a stock exchange. ETFs are passive funds that generate returns in line with the index or benchmark. There is no investment strategy used to generate higher returns other than what the index does.

Index Funds are also passive funds but are not traded on stock exchanges. They are expected to offer a return in line with the market because they invest in a portfolio that mimics a market index. The portfolio of index funds consists of the same securities as that of market index in the exact weightages allotted to each security.

Table 4:1 draws a comparative summary among Open-ended MFs, Close-ended MFs and Index based ETFs.

Table 4:1 Comparative Summary

Parameters	**Open-ended Mutual Funds**	**Close-ended Mutual Funds**	**Index based Exchange Traded Funds (ETFs)**
Unit capital	Flexible	Fixed	Flexible
Net Asset Value (NAV)	Daily	Daily	Real time
Liquidity provider	Fund	Stock market	Fund and stock market
Transaction price	NAV linked price	Significant premium / discount to NAV	Very close to real time NAV
Portfolio disclosure	Monthly	Monthly	Daily
Intra-day trading	Not possible	Expensive (due to bid-ask spreads)	Possible at low costs

Exchange traded funds are most popular as index based ETFs. However, other variants are also possible, such as, debt oriented ETFs and Gold ETFs. Exchange Traded Funds offer a low cost investment avenue to its investors.

4.6 Investment Trusts

An Investment Trust, pools the funds of its investors/ shareholders and invests them in a diversified portfolio of securities. Investment Trusts are typically close ended funds which can be traded on a stock exchange. In Indian markets, 2 types of investment trusts are operational under the appropriate SEBI Regulations.

i. Real Estate Investment Trusts (REITs)

REITs are trusts registered with SEBI that invest in commercial real estate assets. The REIT will raise funds through an initial offer and subsequently through follow-on offers, rights issue and institutional placements. The value of the assets owned or proposed to be owned by a REIT, coming out with an initial offer, will not be less than Rs. 500 crore and the minimum offer size will not be less than Rs.250 crore. The minimum subscription amount in an initial and follow-on offer shall be in the range of Rs. 10,000 to Rs. 15,000.[8] The units are listed on the stock exchange.

ii. Infrastructure Investment Trusts (InvITs)

InvITs are trusts registered with SEBI that invest in the infrastructure sector. The InvIT will raise funds from the public through an initial offer of units. The offer shall be for not less than Rs. 250 crores and the value of the proposed assets of the InvIT shall not be less than Rs. 500 crores. The minimum subscription amount in an initial and follow-on offer shall be in the range of Rs. 10,000 to Rs. 15,000.[9] The units are listed on a stock exchange.

4.7 Alternate Investment Funds (AIFs)

SEBI (Alternative Investment Funds) Regulations define AIFs as any fund established or incorporated in India in the form of a trust or company or a body corporate or a Limited Liability Partnership (LLP). AIFs are privately pooled investment vehicle that collect funds from investors (whether from Indian or foreign sources) for investing in accordance with a defined investment policy for the benefit of its investors.

AIFs has evolved as an important part of the financial system and global economy and influenced regulatory changes, economic cycles and technological developments. AIF acts as an alternative investment option that invests in alternative assets and strategies. AIF explores alternative investment opportunities and does not follow traditional ways of investing in stocks, bonds or commodities. There are 3 categories of AIFs, out of these, Category I and Category II are close-ended funds and only Category III is both open-ended and close-ended fund. In addition to these, SEBI introduced a 'specified AIF' category that includes Corporate Debt Market Development Fund.[10]

[8]Vide SEBI (Real Estate Investment Trusts) (Amendment) Regulations, 2021, w.e.f. 30.07.2021.
[9]Vide SEBI (Infrastructure Investment Trusts)(Amendment) Regulations, 2021, w.e.f. 30.07.2021.

[10] SEBI (Alternative Investment Funds) (Second Amendment) Regulation, 2023 w.e.f. June 15, 2023.

4.8 Corporate Fixed Deposits

The deposit placed by investors with companies for a fixed term carrying a prescribed rate of interest is called Company Fixed Deposit. Financial institutions and Non-Banking Finance Companies (NBFCs) also accept such deposits. Deposits thus mobilized, are governed by the Companies Act, 2013 under Section 76. These deposits are unsecured, i.e., if the company defaults, the investor cannot sell the documents to recover his capital, thus making them a risky investment option.

Chapter 4: Sample Questions

1. Warrants are usually issued along with _____.
   a. Equity shares
   b. Preference shares
   c. **Debentures**
   d. Mutual funds

2. The non-convertible portion of a partly convertible debenture is _____ on maturity.
   a. Issued as new debenture
   b. **Repaid through cheque/NEFT/IMPS**
   c. Converted into mutual fund units

3. The stocks which underlie a Depository Receipt (DR) issue are held by a _____.
   a. **Depository Bank/ (Local Custodian)**
   b. Stock Exchanges
   c. Registrars and Transfer Agents
   d. Stock Brokers

4. Holders of Depository Receipts do not have _____ rights.
   a. **Voting**
   b. Dividend
   c. Dividend and Voting
   d. Capital appreciation

5. The payment of interest and repayment of principal, in case of a Foreign Currency Convertible Bond (FCCB), is in foreign currency. State whether True or False.
   a. **TRUE**
   b. FALSE

CHAPTER 5: BASICS OF MUTUAL FUNDS

LEARNING OBJECTIVES:

After studying this chapter, you should know about the following:

- Collective Investment Vehicle with proportionate ownership
- Mutual Funds
- Advantages of Mutual Funds
- Assets under Management (AUM) and Net Asset Value (NAV)
- Role of RTAs related to NAV

5.1. Introduction to Mutual Funds

A mutual fund is an investment option, where investors contribute small amounts of money. These contributions are pooled together to make it a large sum. This sum is then invested in a portfolio of various securities.

When we say 'Mutual Fund' we are referring to the money contributed by the investors. When we say 'portfolio' we are referring to the securities in which the investments have been made.

A mutual fund thus enables investors to participate in securities markets and invest in equity shares, bonds and other such instruments by pooling their money together. A mutual fund will state its investment objective upfront. This indicates how the money will be invested and how the portfolio will be constructed. Investors choose a fund, which matches their own objectives.

For example, an equity fund may state that its objective is to invest in equity shares to generate long term growth. An investor, who likes to invest in a portfolio of equity shares, will buy the units of this fund. A liquid fund may state that its objective is to generate reasonable return with high liquidity from investing in money market instruments over the short term. Investors having a short term surplus may decide to invest in such a fund.

- **Collective Investment Vehicle**

A mutual fund is a collective investment vehicle. Usually a mutual fund product is first described by its investment objective. Investors then invest their money in the product. The money is pooled together and is invested according to the stated objective.

Example 1:

- ABC Income Fund is a debt fund that invests pre-dominantly in debt instruments, with the objective of generating regular income for its investors.
- ABCC Top 100 Fund is a fund that seeks to generate capital appreciation from a portfolio of equity shares of the 100 largest listed companies.

Fund managers invest the pool of money into securities such as equity and debt, according to the stated investment objective of the fund. The risk and return of the fund depend on the investment portfolio of the fund. The benefits from the investment portfolio accrue to those that contribute to the pool. There is thus mutuality in the contribution and the benefit. Hence the name 'mutual' fund.

When a mutual fund pools money from several investors, each investor does not contribute the same sum of money. Depending on their needs and preferences, investors put in money into the fund. Therefore, each investor's share in the pool of funds is not equal.

- **Proportionate Share of Benefits**

The benefits from the fund accrue to all investors in proportion to their share in the pool.

Example 2:

Three investors invest Rs. 10,000, Rs. 20,000 and Rs. 30,000 respectively in a mutual fund. So the pooled sum is Rs. 60,000. The money is invested and gains Rs. 12000 over time. This means, the pool is now worth Rs. 72,000. The value of the investors' holding in the mutual fund also goes up proportionately (in the ratio of 1:2:3) to Rs. 12,000, Rs. 24,000 and Rs. 36,000 respectively.

Investors can contribute into a fund or redeem and take away their contributions, depending on the nature of the pool. In a closed end fund, investors tend to stay until maturity. If a fund is open-ended, investors can come in and move out at will. Therefore, there is the need to standardize the contributions of investors to be able to objectively measure their share in the fund.

- **Units of a Mutual Fund**

When investors subscribe to a mutual fund, they buy a share in the pool of funds. This share is called a unit of the mutual fund scheme. The investment in a mutual fund by an investor is represented by the number of units held.

A mutual fund investor is called a unit holder just as an investor in equity shares is called a shareholder. The ownership of the fund is jointly held by all the unit holders. Just as investors in equity hold shares of a company, mutual fund investors hold units of the fund. Each unit has a face value. This is typically Rs. 10 per unit for most mutual funds.

Equity shares are offered to investors for the first time through an initial public offering (IPO). Subsequently equity shares are bought and sold on the stock exchange.

Likewise, mutual funds are offered for the first time to investors through a new fund offer (NFO). Open-ended mutual fund units can be bought and sold through the fund itself. Funds enable continuous transactions at their offices and at investor service centres. Closed-ended mutual funds are listed and can be bought and sold on the stock exchange.

Both the major stock exchanges, National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) have a separate segment for mutual fund trading. Certain types of funds called Exchange Traded Funds (ETFs) can only be bought and sold through the stock exchanges.

- **Unit Capital of a Mutual Fund scheme**

Unit capital of a mutual fund scheme denotes the total value of its corpus i.e. number of units outstanding multiplied by its face value. Post NFO, unit capital does not change for closed-ended mutual funds, whereas the unit capital of an open-ended mutual fund varies. Unit capital is discussed in detail in later sections.

Investments are made in rupee terms by the investor. But the fund will always record this investment in terms of number of units.

Number of units = Invested amount/price per unit

Example 3:

- If the value of a unit is Rs. 10, and 2000 units have been sold at Rs. 10 each, the value of the pool is 10 x 2000 = Rs. 20,000.

Example 4:

- If the price of 1 unit is Rs 10.225, and the amount invested is Rs 20,000, the number of units issued against this investment is 20,000/10.225 = 1955.99 units.

Units can thus be denoted also as a fractional value. Unit capital is a term used to denote the corpus of a fund. This is nothing but the total face value of all the units issued by a fund.

Example 5:

If a fund has issued 10,000 units so far, its unit capital is 10,000 x 10 (Face Value) = Rs. 1,00,000.

According to the SEBI Regulations, each mutual fund scheme has to have a separate account. Therefore, the unit capital of each scheme is maintained to reflect its current corpus.

5.2. Advantages of Mutual Funds

The following are the advantages of mutual funds to investors:

- Portfolio diversification from securities spread over various companies, industries, issuers and maturities. The portfolio will not be affected by the bad performance of one or few of the securities.
- Low transaction cost from economies of scale. Since the fund invests large sums of money, the transaction cost comes down. Small amounts invested by investors get benefits of the large pool.
- Professional managers who are employed by mutual funds offer their expertise in managing the investors' funds, given their knowledge of markets and securities, according to the investment objective of the scheme.
- Portfolio diversification and the professional management of funds offer reduction in risk for the investor. The investment is always in a managed portfolio and not a single stock or sector. A minimum level of diversification in a mutual fund portfolio is ensured by SEBI's regulations that mandate maximum exposure to a security/issuer.

- Investors can choose their investment to suit their particular needs and preferences.
- Minimum investment required is low for most funds.
- Mutual fund transactions are flexible and easy to conduct.
- Open-ended mutual funds structure the portfolio in such a way that they are able to provide liquidity to the investor. Investors can withdraw their money from the scheme as per their requirements.
- Close-ended mutual funds are mandatorily listed on stock exchanges to provide liquidity to its investors.

5.3. Open Ended and Close Ended Mutual Funds

Units of mutual funds are first issued to investors when the scheme is launched. Subsequently, the investors' purchase and sale transactions with the fund depend upon the structure of the mutual fund.

In an open ended fund, the number of units is not constant and changes based on daily purchase and redemptions by the unitholders. The open ended structure is highly liquid as unitholders can buy additional units or sell their existing units from the fund itself. As more investments are made in a fund, the number of units increases. Similarly, when more investors choose to exit the fund and redeem their units, the number of units decreases. Purchase and redemption transactions are done at NAV-linked prices.

In a closed ended fund, the number of units is fixed after the NFO. Purchase and redemption transactions from the fund are not allowed post NFO. To ensure liquidity, listing of closed ended funds is compulsory. Units are bought and sold in the stock exchanges at market price, based on demand and supply.

Table 5:1 provides a comparison between Open-ended and Close-ended funds.

Table 5:1 Comparison between Open-ended and Close-ended Funds

Parameters	**Open-ended Funds**	**Close-ended Funds**
Unit Capital	Changes on regular basis.	Fixed for the life of the fund.
Number of outstanding units in the fund	Number of units change on regular basis as the fund allows purchase of additional units or redemption of existing units.	Number of units is fixed as the fund is closed for subscriptions or redemptions.
Ongoing Transactions	Purchase and redemptions directly from/ to the fund are allowed throughout the life of the fund.	Purchase and redemptions directly from/ to the fund are not allowed, post NFO. However, units can be transacted through stock exchange platform between investors.
Liquidity	Highly liquid as investors can enter and exit the fund at any time after NFO.	Compulsory listing of units on stock exchange provide liquidity to the investors.

5.4. Assets under Management (AUM)

A portfolio is a collection of securities. These securities can be equity shares, bonds, debentures, deposits, money market instruments, derivatives and the like. Mutual funds can invest only in marketable securities, or securities that can be traded in a market and therefore have a market price.

The value of the fund's portfolio changes with changes in market value of the securities that have been bought. The portfolio is updated every day, to represent its current market value. This process is called 'marking to market'.

The market value of the portfolio is known as the assets under management (AUM) of the fund. The value of the portfolio changes every time there is a change in market price of the securities that a mutual fund holds. This point is explained with an illustration below.

Consider this table:

Col (1)	Col (2)	Col (3)	Col (4)	Col (5)	Col (6)
Security	**No of shares**	**Market Price Day1 (Rs.)**	**Market Value Day 1 (Rs.) [Col(2)*Col(3)]**	**Market Price Day 2 (Rs.)**	**Market Value Day2 (Rs.) [Col(2)*Col(5)]**
A	1,000	2,500	25,00,000	2,700	27,00,000
B	2,000	50	1,00,000	53	1,06,000
C	1,000	1,400	14,00,000	1,300	13,00,000
D	1,000	750	7,50,000	700	7,00,000
Total (Rs.) (AUM)			**47,50,000**		**48,06,000**
Number of Units			4,75,000		4,75,000
Value per unit (Rs.) (NAV)			**10.00**		**10.12**

As the market price of the shares changes, the value of the portfolio has changed from Rs. 47.50 lakh to Rs. 48.06 lakh. Therefore, if the units had been issued at Rs. 10 each (face value), there would be 4,75,000 outstanding units (i.e. 47,50,000/10). Their market value will now be 48,06,000 / 4,75,000, which is Rs. 10.12 per unit. The value per unit is higher than Rs.10 because the value of the portfolio has also moved up.

The value of the investors' unit holdings also changes along with the market value of the portfolio. The current market value per unit is called the net asset value (NAV). NAV can move up or down, depending upon whether the value of the portfolio has moved up or down.

If the value of the portfolio falls from Rs. 47,50,000 to Rs. 45,00,000, when the price of the shares held in the portfolio fall, this will lead to the NAV per unit falling from Rs. 10 to Rs. 9.47 (i.e. 45,00,000 / 4,75,000). Thus the current value of a unit depends on the value of the portfolio of the fund, and can go up and down with changes in the market value of the portfolio.

As new investors join the scheme the number of units will increase. These units will be issued at prevailing NAV. Similarly, if existing investors exit a scheme, the number of

units will decrease. Existing holders will exit the scheme at prevailing NAV. A detailed discussion on NAV is provided in section 5.5 of this Chapter.

Therefore, it is important to note that AUM represents the total value of the portfolio and NAV represents the value of an individual unit. NAV and AUM data are reported on a daily basis and are publicly available. Such reporting of data has to be done within strict timelines prescribed by SEBI.

RTAs play an important role in calculating the inflows and outflows of a mutual fund scheme. RTAs are responsible to maintain records of all the transactions done by the mutual fund investors on a daily basis to ascertain the quantum of inflows and outflows of the scheme. As the inflows to the scheme increases, the AUM of the scheme also goes up and vice-versa.

5.5. Net Assets

Net assets refer to the net value of the portfolio, after charging the expenses. When we divide the net assets of a fund by the number of outstanding units issued, we get the net asset value (NAV) per unit. Net assets of a mutual fund may change with the change in the market value of the portfolio or change in the expenses charged to the fund.

NAV is calculated as: (Total Assets – Liabilities) / No. of units outstanding

Investors make investments in round figures or in multiples of one rupee. The NAV is calculated upto 2 decimal places for equity oriented mutual funds and upto 4 decimal places for index funds and all types of debt/ liquid/ money market funds. Thus the number of units allotted to an investor will include fraction units. The issue of fraction units indicates proportionate ownership and ensures that the entire amount paid by the investor is invested.

Mutual funds declare the NAV of all their schemes on every business day. The NAV of all mutual fund schemes have to be uploaded on AMFI's website (*www.amfiindia.com*) and also on the Mutual Funds' website by the time as per applicable guidelines.[11]

Scheme Type	Timeline
Fund of Funds/ Schemes or Index Funds or ETFs investing at least 80% of total assets in permissible overseas investments	10 a.m. on T+1 day
Schemes having exposure to Exchange Traded Commodity Derivatives (ETCDs)	9 a.m. on T+1 day

[11] Vide SEBI Circular No.: SEBI/HO/IMD/IMD-I POD2/P/CIR/2023/48 on Review of time limit for disclosure of NAV of Mutual Fund schemes investing overseas dated March 29, 2023.

All other schemes	11 p.m. on T day

For an investor, NAV is the most important data point to evaluate the performance of their investments. RTAs ensure timely communication of latest NAVs to the unitholders.

- **Assets and Liabilities in a Mutual Fund Portfolio**

When we refer to total assets, we are referring to the market value of the mutual fund portfolio. A mutual fund rarely holds any other long-term asset in its balance sheet. There may be few receivables and accrued income, which are current assets. These are added to the portfolio value to get the total assets of the fund. Similarly, on the liability side, a mutual fund does not have long-term liabilities. The assets are fully funded by the unit capital contributed by the investors. Short term deposits not exceeding 20 percent of the net assets of the scheme and for a period not exceeding 91 days may be made for the purpose of redemption of units or paying dividends to the unit holders. Therefore, when we refer to liabilities, we are referring to current liabilities, in terms of payables that may be due.

The expenses associated with managing the portfolio are accrued as current liabilities and are paid as they become due. Therefore, net assets of a fund refer to the market value of the portfolio, plus accrued incomes, less any current liabilities and accrued expenses. Net asset value (NAV) is a 'per unit' representation of the net assets of a fund. NAV is a very frequently used term in the mutual fund industry. It refers to the current value per unit, deriving out of the current value of the mutual fund portfolio.

Example 6:

The market value of a fund's portfolio is Rs. 700 crore. If the current liabilities are Rs. 5 crore, what are the net assets?

Net assets = Portfolio value less liabilities

= 700 – 5

= Rs. 695 crore

Example 7:

Assume that the net assets of a fund are Rs. 750 crore. The unit capital (face value Rs. 10) is Rs. 250 crore. What is the NAV?

Number of units = Unit capital/Face value per unit

= 250/10

= 25 crore units

NAV = Net asset /number of units

= 750/25

= Rs. 30 per unit

Example 8:

If a fund's NAV was Rs. 15 and the number of units was 100 crore, what are its net assets?

Net Assets = NAV x Number of units

= 15 x 100

= Rs. 1500 crore

Chapter 5: Sample Questions

1. The securities that a mutual fund scheme invests in depend upon its _____.
   a. **Investment objective**
   b. Investment style
   c. Investment plan
   d. Tax scenario

2. The type of expenses that can be charged to a fund and its limit is decided by _____.
   a. Association of Mutual Funds in India
   b. **Securities and Exchange Board of India**
   c. Sponsors of Asset Management Companies
   d. Board of Trustees of Asset Management Companies

3. Mutual funds have lower risks because of _____ & _____ compared to direct investing.
   a. Portfolio diversification; Customization
   b. Professional Management; Asset concentration
   c. **Portfolio diversification; Professional Management**
   d. Asset concentration; Customization

4. The unit capital of a fund is the number of units issued multiplied by NAV of the fund. State whether True or False.
   a. TRUE
   b. **FALSE**

5. The open-ended mutual funds are mandatorily listed on the stock exchange. State whether True or False.
   a. TRUE
   b. **FALSE**

CHAPTER 6: SEBI - ROLE AND REGULATIONS

Learning Objectives:

After studying this chapter, you should know about:

- Securities and Exchange Board of India Act, 1992 and Role of SEBI
- SEBI Regulations Aimed at Investor Protection
    - SEBI (Prohibition of Insider Trading) Regulations, 2015
    - SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003
- Investor Education and Protection Fund
- SEBI Regulations for Registrars and Transfer Agents
    - SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993.
    - SEBI (Intermediaries) Regulations, 2008
    - SEBI (Depositories and Participants) Regulations, 2018

The existence of an efficient and stable financial system is essential to make the securities market vibrant, wide reaching and effective. An efficient capital market ensures that resources are priced and allocated correctly in an economy. Institutions and mechanisms that enable this must be supported by regulatory structures that will streamline and enable the proper functioning of the securities markets. The purpose of securities regulation should be to have markets that are fair, transparent and efficient and ensure protection of the investors' interests.

In India the prime regulators are the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), the Ministry of Corporate Affairs (MCA) and the Department of Economic Affairs (DEA). Both RBI and SEBI have been set up through Acts of the Parliament which define their role and responsibilities.

SEBI is the apex regulator of the securities market and also responsible for its orderly growth and protection of the investor's interests. The RBI, as the manager of public debt, is responsible for the primary issue of government securities, all contracts involving such securities and money market instruments. Other regulators such as the Insurance Regulatory Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA) have been set up with the specific mandate to regulate the functioning and growth of particular industries or markets.

6.1. Securities and Exchange Board of India Act, 1992 and Role of SEBI

The Securities and Exchange Board of India (SEBI) was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

The preamble of SEBI provides for "The establishment of a Board to protect the interests of investors in securities and to promote the development of and to regulate the securities market."

The objective of SEBI is therefore to facilitate the growth and development of the capital markets in terms of mechanisms, participants and securities and to ensure the protection of the investors in the securities market.

The SEBI Act entrusts the responsibility of inspection, investigation and enforcement of the activities, systems and mechanisms of the institutions and intermediaries of the securities market. SEBI has been assigned the powers of recognizing and regulating the functions of a stock market under the Securities Contracts (Regulation) Act (SCRA).

The requirements for granting recognition to a stock exchange include representation of SEBI on the board of the stock exchange and an undertaking to make and amend their rules only with the prior approval of SEBI. The stock exchanges have to furnish periodic reports to the regulator and submit bye-laws for SEBI's approval. Stock exchanges are required to send monitoring reports daily and for every settlement. SEBI has set up surveillance mechanisms, both internal and at stock exchanges, to deal with unfair trade practices. Measures such as circuit filters, price bands and caps have led to enhanced safety in the market.

An integrated surveillance mechanism which tracks the activities of the stock exchanges, the brokers, depository, R&T agents, custodians and clearing agents aim at timely identification of fraudulent activities. SEBI and the central government have over-riding powers under the SCRA in all matters relating to the stock markets.

Regulating market intermediaries through registration and supervision is a primary function of the securities market regulator. Market intermediaries such as brokers, R&T Agents, depositories, custodians, bankers, merchant bankers, portfolio managers etc. have to get themselves registered under the respective regulations of SEBI.

The regulations specify the net worth, experience, infrastructure and other requirements necessary for an intermediary to be eligible for registration. Compliance with the required eligibility provisions, the certificate of registration granted to intermediaries shall be permanent unless surrendered by the intermediary or suspended or cancelled by SEBI.

SEBI makes routine inspections of the intermediaries functioning in the securities markets to ensure compliance with prescribed standards. It also orders investigations into the operations of any of the constituents of the securities market for activities such as price manipulation, artificial volume creation, insider trading, violation of the takeover code or

any other regulation, public issue related malpractice or other unfair practices. Investigation is based on SEBI's surveillance activities or those of the stock exchange. A preliminary probe is conducted after which, if necessary, a full-fledged investigation is undertaken.

SEBI has the powers to call for information, summon persons for interrogation, examine witnesses and conduct search and seizure. If the investigations so require, SEBI is also empowered to penalize violators. The penalty could take the form of suspension, monetary penalties and cancelation of registration.

SEBI also has the mandate to ensure the streamlined functioning of the primary markets. It has laid out the eligibility, norms and rules to be followed for the public issue of securities in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

The regulations specify the eligibility conditions, common conditions for public issues of securities, minimum net worth requirements for an issuer, the minimum public holdings to be maintained and the lock-in on the holdings of the promoters. SEBI has also specified the roles and responsibilities of intermediaries in the primary markets such as the merchant bankers, underwriters, R&T Agents and brokers in the guidelines for each intermediary.

These regulations impose minimum disclosure requirements on the issuer to ensure that investors have all the relevant information before making the investment. The listing agreement that companies enter into with the stock exchange has clauses for continuous and timely flow of relevant information to the investors, corporate governance and investor protection. SEBI investigates and penalises the non-conformance to the regulations by the issuers and intermediaries.

SEBI has also issued a host of Investor Charters specifying about the roles of the intermediaries, rights and responsibilities of the investors and disclosure of grievance redressals by the intermediaries to facilitate investor awareness.

6.2. SEBI Regulations specifically aimed at Investor Protection

Discussed below are 2 regulations laid down by SEBI to prevent insider trading and unfair trade practices which are detrimental to the interests of the investors.

6.2.1 SEBI (Prohibition of Insider Trading) Regulations, 2015

Insider trading refers to the dealing in securities by persons connected with a company having unpublished price sensitive information that is not available to the public. Such persons include the directors and employees of the company, associates such as bankers

and tax consultants or employees of the stock exchanges etc. who possess unpublished price sensitive information.

Unpublished price sensitive information is any information relating to a company or its securities, directly or indirectly, that is not generally available to the public and which upon becoming generally available, is likely to materially affect the price of the securities. Such unpublished information includes financial results, dividends, change in capital structure, changes in key managerial personnel, mergers, de-mergers, acquisitions, de-listings, disposals and expansion of business and such other transactions.

The SEBI (Prohibition of Insider Trading) Regulations, 2015 seeks to prevent insider trading which erodes the confidence of the common investors in the securities markets. SEBI's guidelines require companies to have comprehensive code of conduct to prevent such activity. This includes appointing a compliance officer to enforce it, ensuring periodic disclosure of holding by all persons considered as insiders and ensuring data confidentiality and adherence to the requirements of the listing agreement on flow of price sensitive information.

As per the regulations, insiders are required to formulate and present their trading plans with Compliance Officer for approval and public disclosure. Thereafter, the insiders can carry out trades as per the approved plan. SEBI recently has introduced several amendments to enhance flexibility, transparency, and compliance aspects regarding the trading plan.[12] These changes aim to streamline trading activities for insiders while maintaining strict compliance and promoting fair market operations. These are:

- the waiting period for insiders to commence trading has been reduced from 6 months to 120 calendar days after the public disclosure of the trading plan;
- the requirement to maintain a minimum 12-month trading period has been eliminated, allowing insiders to conduct trades over shorter durations;
- set clear price limits for trades, specifying an upper price limit for buy trades and a lower price limit for sell trades;
- deviations from trading plans are now allowed only in exceptional cases, such as permanent incapacity, bankruptcy, or operation of law.

The Board of Directors or Head(s) of the organisation of every person required to handle unpublished price sensitive information ensures that a structured digital database is maintained containing: (a) the nature of unpublished price sensitive information, (b) the names of such persons who have shared the information, (c) the names of such persons with whom information is shared under this regulation along with the Permanent Account Number (PAN) or any other identifier authorized by law where PAN is not available. Such database are not be outsourced and are maintained internally with adequate internal controls and checks, such as time stamping and audit trails to ensure non tampering of the

[12] Vide SEBI (Prohibition of Insider Trading) (Second Amendment) Regulations, 2024 w.e.f. September 2024.

database. Further, the Board of Directors or Head(s) of the organisation of every person required to handle unpublished price sensitive information ensures that the structured digital database is preserved for a period of not less than 8 years after completion of the relevant transactions. In the event of receipt of any information from SEBI regarding any investigation or enforcement proceedings, the relevant information in the structured digital database are to be preserved till the completion of such proceedings.

If an insider trading charge is proved through SEBI's investigations, the penalties include monetary penalties, criminal prosecution, prohibiting persons from transacting in the securities markets and declaring transactions as void.

6.2.2 SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003

An important function of SEBI is to prohibit fraudulent and unfair trade practices relating to securities markets. The SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003 enable SEBI to investigate into cases of market manipulation and fraudulent and unfair trade practices.

The regulations give a formal definition to the terms 'fraud' and 'fraudulent'. Regulation 2(1) (c) defines fraud as inclusive of any act, expression, omission or concealment committed to induce another person or his agent to deal in securities. There may or may not be wrongful gain or avoidance of any loss. However, that is inconsequential in determining if fraud has been committed.

To prevent fraud, the regulations specify prohibition of certain dealings in securities and prohibition of manipulative, fraudulent and unfair trade practices. The Regulations also specify investigation powers of SEBI and applicable penalties in case of wrong doings.

6.3. Investor Education and Protection Fund (IEPF) Authority

The IEPF is a fund created by the Ministry of Corporate Affairs for promoting investors' awareness and protecting their interests. For administration of Investor Education and Protection Fund, Government of India has on 7th September, 2016 established Investor Education and Protection Fund Authority. This fund is utilized for refund of unclaimed and unpaid amounts, promotion of investors' awareness and protection of the interests of investors etc. in accordance with provisions of section 125(3) of the Companies Act, 2013.

The fund is created out of contributions from the central government, state government, companies and institutions. Apart from this, unpaid / unclaimed dividends, matured debentures and deposits, application and call money due for refund and interest on them

shall form part of the fund, provided such money has remained unpaid and unclaimed for a period of 7 years from the date they were due for payment.

The fund conducts investor education programs, media campaigns and seminars. It also funds investor education projects of institutions and organizations, engaged in similar investor education programs and also provides resources to conduct such programs. Multilingual Information, Education and Communication booklets and films have also been developed for creating awareness.

Ministry of Corporate Affairs (MCA) vide Gazette Notification published the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016. The Rules pertain to various aspects of accounting, audit, publish of statements, transfer of shares, refunds etc. and its various amendments.

The key highlights of the IEPFA (Accounting, Audit, Transfer and Refund) Rules, 2016 are as follows:[13]

- The IEPF shall be credited with all the following amounts:
    a. all the resultant benefits arising out of shares held by the IEPF Authority
    b. all grants, fees and charges received by the IEPF Authority under these rules
    c. all sums received by the Authority from such other sources as may be decided upon by the Central Government
    d. all income earned by the Authority in any year etc.
- In case of term deposits and debentures of companies, due unpaid or unclaimed interest shall be transferred to the Fund along with the transfer of the matured amount of such term deposits and debentures.
- IEPF Authority shall maintain proper accounts and other relevant records and prepare an annual statement of accounts in specified format.
- The accounts of the IEPF Authority shall be audited annually by the Internal Audit Party of the Office of Chief Controller of Accounts and Comptroller and Auditor-General of India.
- The company shall maintain the record in the same format along with all supporting documents and IEPF Authority shall have the powers to inspect such records.

[13] Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 and its amendments till 2023.

- Every company shall within a period of 60 days after the holding of Annual General Meeting (AGM) or the date on which it should have been held as per the provisions of section 96 of the Companies Act, whichever is earlier and every year thereafter till completion of the 7 years period, identify the unclaimed amounts as on the date of closure of financial year the account of which are to be adopted in the Annual General Meeting, separately furnish and upload on its own website and also on website of IEPF Authority or any other website as may be specified by the Government, a statement or information of unclaimed and unpaid amounts separately for each of the previous 7 financial years through Form No. IEPF-2, containing the following information:

    a. the names and last known addresses of the persons entitled to receive the sum;

    b. the nature of amount;

    c. the amount to which each person is entitled;

    d. the due date for transfer into the Investor Education and Protection Fund; and

    e. such other information as may be considered necessary

- The shares shall be credited to DEMAT Account of the IEPF within a period of 30 days of such shares becoming due to be transferred to the Fund.

- Company shall follow the procedure for transmission of shares instead of transfer of shares.

- Transfer of shares by the companies to IEPF shall be deemed to be transmission of shares and the procedure to be followed for transmission of shares shall be followed by the companies while transferring the shares to IEPF.

- For the purposes of effecting the transfer of shares held in physical form:

    a. the Company Secretary or the person authorised by the Board shall make an application, on behalf of the concerned shareholder, to the company, for issue of a new share certificate.

    b. on receipt of the application, a new share certificate for each such shareholder shall be issued and it shall be stated on the face of the certificate that: “Issued in lieu of share certificate No..... for the purpose of transfer to IEPF” and the same be recorded in the register maintained for the purpose.

    c. particulars of every share certificate shall be in Form No. SH-1 as specified in the Companies (Share Capital and Debentures) Rules, 2014.

d. after issue of a new share certificate, the company shall inform the depository by way of corporate action to convert the share certificates into DEMAT form and transfer in favour of the IEPF Authority.

- For the purposes of effecting the transfer of shares dealt with in a depository:

  a. the Company shall inform the depository by way of corporate action, where the shareholders have their accounts for transfer in favour of the IEPF Authority.

  b. on receipt of such intimation, the depository shall effect the transfer of shares in favour of DEMAT account of the IEPF Authority.

- Any person, whose shares, unclaimed dividend, matured deposits, matured debentures, application money due for refund, or interest thereon, sale proceeds of fractional shares, redemption proceeds of preference shares, etc. has been transferred to the Fund, may claim the shares to the Authority by submitting an application in Form IEPF- 5 online along with a requisite fee.

- IEPF Authority shall furnish its report to the Central Government as and when non-compliance of the IEPF rules by companies comes to its knowledge.

- Every company which is required to credit amounts or shares to the Fund or has deposited the amount or transferred the shares to the Fund shall nominate a Nodal Officer, who shall either be a Director or Chief Financial Officer or Company Secretary of the company, for the purposes of verification of claims and coordination with Investor Education and Protection Fund Authority.

- The details of the Nodal Officer and Deputy Nodal Officer duly indicating his or her designation, postal address, telephone and mobile number and company authorized e-mail ID shall be communicated to the Investor Education and Protection Fund Authority and the company shall display the name of Nodal Officer and his e-mail ID on its website. Any change in the Nodal Officer or his details shall be communicated to the IEPF Authority through Form No. IEPF-2 within 7 days of such change along with board resolution thereof.

- Nodal/Deputy Nodal Officers of companies are required to issue Entitlement Letters to claimants with all details required to file Form IEPF-5.

- Any fraudulent claim by the claimant shall be deemed to be fraud and the claimant shall be liable accordingly.

- The company shall be responsible for verifying the genuineness and entitlement of the claimant by doing the necessary verification through Aadhar Card, PAN Card, Passport, any other Government ID proof, matching of signature and photo etc. The company shall verify such documents as may be required and retain the originals submitted by

the claimant. The company shall be responsible to verify the amount and shares involved in the claim according to the e-filings made by it to the IEPF Authority. The company shall submit e-verification report to the IEPF Authority.

- IEPF Authority has introduced a Special Window Facility for claimants who are senior citizens of age 75 years and above. The claims by such claimant shall be prioritised after receipt of e-verification report from the companies.

6.4. SEBI Regulations for Registrars and Transfer Agents

Registrar and Transfer (R&T) Agents are identified as 'intermediaries' by the SEBI Act and are regulated by SEBI. They have to abide by the regulations and guidelines of the regulator. The primary regulations that govern the functioning of the R&T Agents are as follows:

1. SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993
2. SEBI (Intermediaries) Regulations, 2008
3. SEBI (Depositories and Participants) Regulations, 2018

6.4.1 SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993

The SEBI (Registrars to an Issue and Transfer Agents) Regulations came into effect in 1993 and is amended periodically. These regulations govern the constitution, capital adequacy, obligations and responsibilities, inspection and reporting norms that the R&T Agent has to abide by. A Registrar and Transfer Agent can register with SEBI as a **Category I** intermediary which allows the applicant to act as *registrar and transfer agent* or **Category II** which allows the applicant to act as *registrar or transfer agent*.

The SEBI (RTA) Regulations defines:

(A) Registrar to an Issue as the person appointed by a body corporate or any person or group of persons to carry on the following activities on its or his or their behalf:

i. collecting applications from investors in respect of an issue
ii. keeping a proper record of applications and monies received from investors or paid to the seller of the securities
iii. assisting body corporate or person or group of persons in:
    a. determining the basis of allotment of securities in consultation with stock exchange
    b. finalising list of persons entitled to allotment
    c. processing and dispatching allotment letters, refund orders or certificates and other related documents in respect of an issue

(B) Share Transfer Agent as –

i. any person, who on behalf of anybody corporate, maintains the records of holders of securities issued by such body corporate and deals with all matters connected with the transfer and redemption of its securities

ii. a department or division, by whatever name called, of a body corporate performing the activities referred in sub-clause (i) if at any time the total number of the holders of its securities issued exceed one lakh.

The broad heads under these regulations are:

- **Obligations and Responsibilities**

  The regulations require an R&T Agent shall:

  i. Abide by the code of conduct. (see Box 6.1)
  ii. Not act as R&T Agent for an associate company.
  iii. Maintain proper books of accounts and records for a minimum period of 8 years.
  iv. Appoint a Compliance Officer who shall ensure compliance with the regulations and shall report immediately and independently to SEBI any non-compliance observed by him.
  v. All claims/disputes arising between RTA and its clients shall be submitted to a dispute resolution mechanism that includes mediation, conciliation and arbitration.[14]
  vi. RTAs shall redress the investor grievances within 21 calendar days from the date of receipt of the grievance.[15]

Box 6.1: Code of Conduct for RTAs

Schedule III of SEBI (RTA) Regulations, 1993 provides a detailed Code of Conduct to be followed by SEBI registered RTAs. They are as follows:

1. A Registrar to an Issue and Share Transfer Agent shall maintain high standards of integrity in the conduct of its business.

2. A Registrar to an Issue and Share Transfer Agent shall fulfill its obligations in a prompt, ethical and professional manner.

3. A Registrar to an Issue and Share Transfer Agent shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.

4. A Registrar to an Issue and Share Transfer Agent shall exercise adequate care, caution and due diligence before dematerialisation of securities by

[14] Vide SEBI (Alternative Dispute Resolution Mechanism) (Amendment) Regulations, 2023 w.e.f. July 4, 2023.

[15] Vide SEBI (Facilitation of Grievance Redressal Mechanism) (Amendment) Regulations, 2023 w.e.f. August 18, 2023.

confirming and verifying that the securities to be dematerialized have been granted listing permission by the stock exchange/s.

5. A Registrar to an Issue and Share Transfer Agent shall always endeavor to ensure that - (a) inquiries from investors are adequately dealt with; (b) grievances of investors are redressed without any delay; (c) transfer of securities held in physical form and confirmation of dematerialisation / rematerialisation requests and distribution of corporate benefits and allotment of securities is done within the time specified under any law .

6. A Registrar to an Issue and Share Transfer Agent shall make reasonable efforts to avoid misrepresentation and ensure that the information provided to the investors is not misleading.

7. A Registrar to an Issue and Share Transfer Agent shall not reject the dematerialisation / rematerialisation requests on flimsy grounds. Such request could be rejected only on valid and proper grounds and supported by relevant documents.

8. A Registrar to an Issue and Share Transfer Agent shall avoid conflict of interest and make adequate disclosure of its interest.

9. A Registrar to an Issue and Share Transfer Agent shall put in place a mechanism to resolve any conflict of interest situation that may arise in the conduct of its business or where any conflict of interest arises, shall take reasonable steps to resolve the same in an equitable manner.

10. A Registrar to an Issue and Share Transfer Agent shall make appropriate disclosure to the client of its possible source or potential areas of conflict of duties and interest which would impair its ability to render fair, objective and unbiased services.

11. A Registrar to an Issue and Share Transfer Agent shall not indulge in any unfair competition, which is likely to harm the interests of other Registrar to the issue and Share Transfer Agent or investors or is likely to place such other Registrar in a disadvantageous position in relation to the Registrar to an issue and Share Transfer Agent while competing for or executing any assignment.

12. A Registrar to an Issue and Share Transfer Agent shall always endeavor to render the best possible advice to the clients having regard to their needs.

13. A Registrar to an Issue and Share Transfer Agent shall not divulge to other clients, press or any other person any confidential information about its clients which has come to its knowledge except with the approval / authorisation of the clients or when it is required to disclose the information under any law for the time being in force.

14. A Registrar to an Issue or Share Transfer Agent shall not discriminate amongst its clients, save and except on ethical and commercial considerations.

15. A Registrar to an Issue and Share Transfer Agent shall ensure that any change in registration status / any penal action taken by SEBI or any material change in financials which may adversely affect the interests of clients / investors is promptly informed to the clients.

16. A Registrar to an Issue and Share Transfer Agent shall maintain the required level of knowledge and competency and abide by the provisions of the Act, rules, regulations, circulars and directions issued by SEBI. The Registrar to an Issue and Share Transfer Agent shall also comply with the award of the Ombudsman passed under SEBI (Ombudsman) Regulations, 2003.

17. A Registrar to an Issue and Share Transfer Agent shall co-operate with SEBI as and when required.

18. A Registrar to an Issue and Share Transfer Agent shall not neglect or fail or refuse to submit to SEBI or other agencies with which he is registered, such books, documents, correspondence, and papers or any part thereof as may be demanded / requested from time to time.

19. A Registrar to an Issue and Share Transfer Agent shall ensure that SEBI is promptly informed about any action, legal proceeding etc. initiated against it in respect of any material breach or non-compliance by it, of any law, rules, regulations, directions of SEBI or of any other regulatory body.

20. A Registrar to an Issue and Share Transfer Agent shall take adequate and necessary steps to ensure that continuity in data and record keeping is maintained and that the data or records are not lost or destroyed. Further, it shall ensure that for electronic records and data, up-to-date back up is always available with it.

21. A Registrar to an Issue and Share Transfer Agent shall endeavor to resolve all the complaints against it or in respect of the activities carried out by it as quickly as possible.

22. (a) A Registrar to an Issue and Share Transfer Agent or any of its employees shall not render, directly or indirectly any investment advice about any security in the publicly accessible media, whether real-time or non-real-time, unless a disclosure of its long or short position in the said security has been made, while rendering such advice. (b) In case, an employee of a Registrar to an Issue and Share Transfer Agent is rendering such advice, the Registrar to an Issue and Share Transfer Agent shall ensure that it also discloses its own interest, the interests of his dependent family members and that of the employer including their long or short position in the said security, while rendering such advice.

23. A Registrar to an Issue and Share Transfer Agent shall hand-over all the records/ data and all related documents which are in its possession in its capacity as a Registrar to an Issue and / or Share Transfer Agent to the

respective clients, within one month from the date of termination of agreement with the respective clients or within one month from the date of expiry/cancellation of certificate of registration as Registrar to an Issue and / or Share Transfer Agent, whichever is earlier.

24. A Registrar to an Issue and Share Transfer Agent shall not make any exaggerated statement, whether oral or written, to the clients either about its qualifications or capability to render certain services or about its achievements in regard to services rendered to other clients.

25. A Registrar to an Issue and Share Transfer Agent shall ensure that it has satisfactory internal control procedures in place as well as adequate financial and operational capabilities which can be reasonably expected to take care of any losses arising due to theft, fraud and other dishonest acts, professional misconduct or omissions.

26. A Registrar to an Issue and Share Transfer Agent shall provide adequate freedom and powers to its compliance officer for the effective discharge of its duties.

27. A Registrar to an Issue and Share Transfer Agent shall develop its own internal code of conduct for governing its internal operations and laying down its standards of appropriate conduct for its employees and officers in carrying out its duties as a Registrar to an Issue and Share Transfer Agent and as a part of the industry. Such a code may extend to the maintenance of professional excellence and standards, integrity, confidentiality, objectivity, avoidance of conflict of interests, disclosure of shareholdings and interests etc.

28. A Registrar to an Issue and Share Transfer Agent shall ensure that good corporate policies and corporate governance are in place.

29. A Registrar to an Issue and Share Transfer Agent shall ensure that any person it employs or appoints to conduct business is fit and proper and otherwise qualified to act in the capacity so employed or appointed (including having relevant professional training or experience).

30. A Registrar to an Issue and Share Transfer Agent shall be responsible for the acts or omissions of its employees and agents in respect of the conduct of its business.

31. A Registrar to an Issue and Share Transfer Agent shall not, in respect of any dealings in securities, be party to or instrumental for - (a) creation of false market; (b) price rigging or manipulation; (c) passing of unpublished price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person or intermediary.

- **Inspection of R&T Agent's operations**

SEBI may appoint inspecting authority to inspect the operations of an agent either on receiving a complaint from an investor or otherwise to ensure compliance with the regulations. The R&T Agent is required to give all information and co-operation to enable the inspection. The inspecting authority needs to submit its inspection report to SEBI, based on which appropriate action is to be taken by SEBI. Further, SEBI may appoint a qualified auditor to investigate into the books of accounts of RTAs.

- **Cancellation/Suspension of Certificate**

SEBI may suspend or even cancel the registration granted to an R&T Agent in case of non-compliance with the provisions of the regulations. Such a penalty will be imposed only after holding an enquiry into the facts of the case and issuing a show cause notice to the R&T Agent.

- **Exemption from strict enforcement of regulations in special cases:**[16]

With the issuance of SEBI (Regulatory Sandbox) (Amendment) Regulations, 2020, SEBI has allowed exemptions from enforcement of SEBI (RTA) Regulations for promoting innovation relating to testing new products, processes, services, business models, etc. in live environment of regulatory sandbox in the securities markets.[17] The exemption may be given to any person or class of persons from the operation of all or any of the provisions of RTA Regulations for a period not exceeding 12 months, subject to satisfying specified eligibility conditions prescribed by SEBI from time to time.[18]

- **SEBI guidelines for strengthening RTA operations**

SEBI has issued a circular with the objective of raising industry standards for RTA, Issuer Companies and Banker to an Issue.[19] The circular has put in place detailed guidelines to streamline and strengthen procedures with regard to handling and maintenance of records, transfer of securities, and payment of dividend and redemptions by registrar and share transfer agents. Besides, the norms are applicable for issuer companies and bankers to an issue.

The guidelines broadly deal with areas like payment of dividend, interest and redemption; transfer, transmission, correction of errors; and compulsory internal audit of RTAs. All the records and documents, related to the above areas, are required to be maintained for period

[16]Vide SEBI (Regulatory Sandbox) (Amendment) Regulations, 2020 date April 17, 2020.

[17]Regulatory Sandbox means a live testing environment where new products, processes, services, business models, etc. may be deployed on a limited set of eligible customers for a specified period of time, for furthering innovation in the securities market, subject to such conditions as may be specified by the Board.

[18]SEBI Circular No.: SEBI/HO/ITD/CIR/P/2021/575 dated June 14, 2021.

[19] SEBI Circular No.: SEBI/HO/MIRSD/DOP1/CIR/P/2018/73 dated April 20, 2018 on Strengthening the Guidelines and Raising Industry standards for RTA, Issuer Companies and Banker to an Issue.

not less than 8 years after completion of the relevant transactions by bankers to an issue, issuer companies or by RTAs on behalf of such companies.

The circular also states that the issuer companies will have to strictly monitor the activities of their RTAs and ensure compliance. In case, share transfer agent activities are carried out in-house by issuer companies, such companies need to ensure that their in-house share transfer activities comply with the relevant norms as applicable to them. Below are the key pointers of the guidelines issued by SEBI:

i. Provisions with regard to Payment of Dividend/ Interest/ Redemption

- The issuer company, RTA and the dividend, interest, and redemption processing Bank will have to ensure that the master file, having detailed list of beneficiaries of dividend or redemption, need to include company name, folio number, client id, name of first securities holder, Dividend/interest/redemption payment date & amount, Payee details, Bank details etc. The file needs to be shared with the banker through a secured process.
- In case bank account details of the securities holder are not available with RTAs, the RTAs shall make efforts to obtain the details following the prescribed process and make the payments. Processing bank will have to ensure that any dividend, interest and redemption instruments lying unpaid beyond the validity period of the payment instrument needs to be cancelled. Such amount that has been transferred earlier by the issuer in the dividend/ redemption processing bank account will have be credited back immediately to the issuer company.
- The issuer company, RTA and the dividend/ redemption processing banks shall ensure that the Banks provide reconciliation of the Paid and Unpaid details quarterly till transfer of funds to Investor Education and Protection Fund. The reconciliation files sent by the Banker shall be maintained by all the three entities, RTA, the Issuer Company, and the dividend/interest/redemption payment processing Banker as its record for a period of eight years.

ii. Provisions with regard to Transfer/ Transmission/ Correction of Errors etc.

- RTAs and issuer companies will have to ensure that a folio once allotted to a person should never be re-allotted to any other person under any circumstances.
- RTAs shall follow the "Maker-Checker" concept in all of its activities to ensure accuracy of data and to put in place a mechanism to check unauthorised transaction and record is maintained.
- RTAs and Issuer Companies shall ensure that all updation in the folio records shall be enabled only through front end modules. No back-end entry/ updation /correction should be permitted.
- For any correction of errors, the RTAs must take prior approval from the company similar to cases of transfers and transmissions.
- If the security holder is holding physical securities, RTAs, Issuer Companies and Depositories shall ensure that the Bonus securities against these folios shall mandatorily be issued in physical mode only.

- Under these guidelines, the issuer company and RTAs will have to exercise enhanced due diligence where (i) dividend, interest and redemption remains unpaid for at least three years; (ii) PAN and bank account details are not available in the folio. RTAs need to maintain a list of such account folios and share with the issuer company at the end of every quarter of a financial year.

SEBI has issued detailed guidelines regarding processing of investor service requests, the same is discussed in detail in Chapter 13.

iii. Compulsory internal audit of RTAs

- All RTAs are required to carry out internal audit on annual basis by independent qualified Chartered Accountants or Company Secretaries or Cost and Management Accountants and Certified Information Systems Auditor (CISA) who do not have any conflict of interest. Such auditors will have a minimum experience of three years in the financial sector and need to be appointed for a maximum term of five years, with a cooling-off period of two years.
- The audit shall cover all aspects of RTA operations including investor grievance redressal mechanism and compliance with the requirements stipulated in the SEBI Act, Rules and Regulations made thereunder, and guidelines/circulars issued by SEBI from time to time. The scope of the audit shall cover all issues concerning the functioning of RTAs.
- The RTA will have to submit a copy of report of the internal audit to Issuer Company within three months from the end of the financial year.
- The Governing Council of the RTA shall consider the internal auditor report and take steps to rectify the deficiencies, if any. The RTA will have to send the Action Taken Report to Issuer Company within next one month and a copy need to be maintained by it.
- The audit observations along with the corrective steps taken by the RTA need to be placed before the issuer company's board of directors.

- **Enhanced monitoring guidelines for Qualified RTAs**

Qualified RTAs are market intermediaries who service more than 2 crore folios. They are also referred to as the Critical Infrastructure Institutions (CII). Given the large number of transactions handled by QRTAs, they are required to comply with enhanced monitoring requirements, through:

- adoption and implementation of internal policy framework and
- periodic reporting on-
  - key risk areas
  - data security measures
  - business continuity
  - governance structures
  - measures for enhanced investor services, service standards and grievance redressal
  - insurance against risks, etc.

6.4.2 SEBI (Intermediaries) Regulations, 2008

SEBI oversees and regulates the functioning of intermediaries such as brokers, R&T Agents, Merchant Bankers, Depository Participants, under specific regulations and guidelines issued by the regulator. The SEBI (Intermediaries) Regulations, 2008 consolidates the common requirements which will apply to all intermediaries. The salient features of the Regulations are as under:

(a) The Regulations put in place a comprehensive regulation which will apply to all intermediaries. The common requirements such as grant of registration, general obligations, common code of conduct, common procedure for action in case of default and miscellaneous provisions have been provided in the approved Intermediaries Regulations.

(b) Application for registration: An applicant may file application in the prescribed format along with additional information as required under the relevant regulations, along with the requisite fees. Such application may be made through the respective stock exchange, clearing corporation or depository participants if the intermediary is to be associated with these institutions. These institutions will examine the eligibility and other criterion before forwarding the application to SEBI.

The existing intermediaries who have already been registered under the relevant regulations have to file the disclosure in the specified Form. The disclosures shall be made public by uploading the information on the website specified by SEBI.

If a registered intermediary wants to operate as an intermediary in a new category, they need to file for registration by giving additional shortened forms disclosing the specific requirements of the new category as per the relevant regulations.

(c) The application will be considered based on factors such as eligibility criteria, activities in the securities market of persons associated with the applicant and whether the applicant can be considered 'Fit and Proper' based on integrity, honesty, ethical behaviour, reputation, fairness and character of the person, not incurring any disqualifications, specified by SEBI, such as criminal complaint filed, declared insolvent, categorised as a wilful defaulter etc.[20]

(d) The registration granted to intermediaries shall be permanent unless surrendered by the intermediary or suspended or cancelled in accordance with the regulation.

(e) Intermediaries are required, under the regulation, to:

- Appoint a compliance officer who will give a report to the regulator on adherence to all obligations, responsibilities and eligibility criteria.

[20]Vide SEBI (Intermediaries) (Third Amendment) Regulation, 2021 w.e.f. 17 November 2021.

- Redress investor grievance within 45 days from receipt of such complaint and to maintain records of the same.
- Make complete disclosure of interest before making any recommendation to invest in any security to a client.
- Abide by the specified code of conduct in terms of protecting investors' interests, disclosing all information, maintaining high levels of service, have adequate infrastructure, exercise due diligence in all activities.

(f) SEBI can undertake inspection of the books and records of an intermediary, after giving due notice, in the interest of investors. The intermediary is required to give all cooperation in this exercise.

(g) The certificate granted to an intermediary may be revoked if it fails to comply with the requirement of the regulations or any other guidelines issued from time to time. A show cause notice is issued to the intermediary before such action is taken.

(h) While common requirements will be governed by the SEBI (Intermediaries) Regulations, the intermediary-specific requirements will continue to be as per the relevant regulations applicable to individual intermediaries.

6.4.3 SEBI (Depositories and Participants) Regulations, 2018

R&T Agents are a category of intermediaries who are allowed to be participants of a Depository under the SEBI (Depositories and Participants) Regulations, 2018. R&T Agents have to abide by the regulations for their activities in this capacity. The application as participant must be made in accordance with the regulations and the certificate shall be granted if the Depository concerned and SEBI are satisfied as to the eligibility and competence of the R&T Agent. Under the regulations, the participant:

a) Undertakes to pay the fees, maintain records, address investor complaints within the specified time and comply with all requirements subject to which the certificate was granted.

b) Undertakes to abide by the code of conduct for participants which require them to:

i. Do all activities in such a way that investors' interests are protected.
ii. Redress investor complaints within 21 calendar days of the date of receipt of any complaint.
iii. Co-operate with the regulator in case of any enquiry or inspection.
iv. Have mechanisms in place, such as the maker-checker concept, to ensure there are checks and balances in all the transactions.
v. Maintain records and data carefully.
vi. Have good corporate governance policies in place.

c) The participant shall agree to:

i. Enter into agreements with the beneficiary owners according to the bye-laws of the Depository.
ii. Separate accounts shall be opened for each beneficial owner and the accounts shall be managed separately.
iii. They must have continuous electronic connectivity with the Depository.
iv. The participants must have good accounting systems and procedures in place. Records should be maintained as required and periodic reports sent to SEBI.
v. They must maintain records of all transactions between the investors and the participants- dematerialisation, rematerialisation, records of instructions and approvals.
vi. Integrity of data should be ensured and it should be protected from damage, loss or misuse. Records should be maintained depository-wise if the participant is associated with more than one Depository.

Chapter 6: Sample Questions

1. The Apex regulator of the securities markets in India is _____.
   a. Reserve Bank of India (RBI)
   b. **Securities and Exchange Board of India (SEBI)**
   c. Association of Mutual Funds in India (AMFI)
   d. Ministry of Corporate Affairs (MCA)

2. Insider trading is controlled by the regulations prescribed by _____.
   a. Reserve Bank of India (RBI)
   b. **Securities and Exchange Board of India (SEBI)**
   c. Association of Mutual Funds in India (AMFI)
   d. Ministry of Corporate Affairs (MCA)

3. The Investor Education and Protection Fund (IEPF) are funded by unpaid dividends remaining unclaimed for at least_____.
   a. Five years
   b. **Seven years**
   c. Eight years
   d. Ten years

4. The protection of investors' interests is a secondary objective of SEBI. State whether True or False.
   a. TRUE
   b. **FALSE**

5. SEBI has the power to enforce penalties. State whether True or False.
   a. **TRUE**
   b. FALSE

6. RTAs are required to redress investor grievances within how many calendar days?
   a. 7 days
   b. 15 days
   c. 21 days
   d. 30 days

7. The minimum period for which RTAs must maintain proper books and records is:
   a. 3 years
   b. 5 years
   c. 8 years
   d. 10 years

CHAPTER 7: PUBLIC OFFER OF SECURITIES

Learning Objectives:

After studying this chapter, you should know about the different ways of raising capital from the market:

- Issuing Equity Capital
- Public offer of shares
- Reservations
- Initial Public Offer
- Eligibility for public issue of shares
- Further public offer
- Buyback of Securities

The capital structure of a company is primarily made up of equity contributed by its shareholders. The first contribution to the equity capital happens from the promoters at the time the company is formed. Subsequently, the share capital increases every time the promoters and others bring in additional capital.

Apart from the promoters, the capital of a company may be contributed by institutional investors such as financial institutions and venture capitalists, large investor groups and retail investors. The capital structure of the company may be modified by actions such as raising fresh capital, offer for sale, rights and bonus issues, buy back and tender offers, splits and consolidation. The regulations that govern each type of action and group of investors will differ as well as the role of the constituents involved in it.

7.1 Issuing Equity Capital

A company may raise capital at different stages from different categories of investors. The capital raised can be categorised based on when it is raised, the investors to whom it is issued and the method used to raise capital. Based on when equity capital is raised, capital issues can be categorised as:

- Initial public offer
- Further public offer

Based on the category of investors, equity capital issues can be categorised as:

- Private placement of shares
- Preferential allotment of shares
- Qualified institutions placement
- Rights issue of shares

Based on the method of issue, equity capital issues can be categorised as:

- Fixed Price offer
- Book- building offer

The issue of capital by a company is governed by the regulations of SEBI and the Companies Act. The extent of regulatory compliances to be followed will depend upon the type of issue and the type of investors from whom capital is being raised.

If capital is being raised from large institutions that have the capacity to evaluate the issue or from promoters or existing investors who already have all relevant information about the company, the procedures and regulatory requirements are simpler, as compared to the company raising issue from the public.

7.2 Public Offer of Shares

In a public offer of shares, a company issues shares to a large number of new investors, who are members of the public. When these investors become shareholders of the company, none of them, in themselves, hold a large enough portion of the equity capital of a company to participate in the management of the company. Therefore, a public issue refers to a distribution, rather than concentration of ownership in a company.

This market for the first time offer of shares is called the primary market offer. It is an opportunity given by the promoters of the company for the retail investors to participate in the ownership of the company. This also means that the proportional holding of promoters and large investors in the company, will reduce after the public issue.

When a company offers shares to the public, they have to comply with the regulatory requirements laid down by SEBI and the Companies Act. The listing agreement that the company enters into with the stock exchange where the shares are to be listed, also provides for periodic disclosures.

The regulations of SEBI and the Companies Act aim at protecting the interest of the retail investors by prescribing:

- Disclosure of relevant information both at the time of the issue and periodically thereafter so that investors can evaluate the viability of their investments.
- Arrangement for the allotment of shares in dematerialised form.
- Listing the shares on a stock exchange so that investors have liquidity.
- The continued participation of the promoters in the business through a lock-in of the promoters' holdings.

The price at which the shares are issued to the public is decided by the company in consultation with the lead manager to the issue. A public offer of shares results in a change in the shareholding pattern of the company.

7.3 Reservations

A public issue of shares made through the book building process could be combined with a reservation of shares to certain categories of investors such as the employees, specified shareholders or retail individual investors for specified categories of issue. Offers may be made at different prices subject to following the norms specified in differential pricing.

The issuing company can have differential pricing for the retail investors, which can be at a discount not exceeding 10 percent of the price at which shares are allotted to other categories of investors.

The promoters of a company making a public issue of shares are required to continue to hold at least 20 percent of the post-issue paid up capital of the company. However, in case the post issue shareholding of the promoters is less than 20 percent, alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered under IRDAI may contribute for the purpose of meeting the shortfall in minimum contribution as specified for promoters, subject to a maximum of 10 percent of the post issue capital.

In case of further public offer, this is not required for a listed company whose equity shares are frequently traded on a stock exchange for a period of at least 3 years immediately preceding the reference date and (a) the issuer has redressed at least 95 percent of the complaints received from the investors till the end of the quarter immediately preceding the month of the reference date, and (b) the issuer has been in compliance with the SEBI (LODR) Regulations, 2015 for a minimum period of 3 years immediately preceding the reference date.[21]

The **minimum contribution** made by the promoters including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered under IRDAI will be locked-in for a period of 18 months from the date of allotment in the initial public offer. In case the majority of the issue proceeds (excluding portion of offer for sale) is proposed to be utilised for capital expenditure, the lock-in period shall be 3 years from the IPO allotment date.

[21]Vide SEBI (ICDR) (Amendment) Regulations, 2021 w.e.f. January 8, 2021.

Any **holding of the promoter in excess of the minimum prescribed holdings** will be locked-in for a period of 6 months from the date of allotment in the initial public offer. In case the majority of the issue proceeds (excluding portion of offer for sale) is proposed to be utilised for capital expenditure, the lock-in period shall be 1 year from the IPO allotment date.[22][23]

7.4 Initial Public Offer

The first public offer of shares made by a company is called an Initial Public Offer (IPO). An IPO is made by a company whose shares are not listed on a stock exchange. Once the IPO is made, the shares have to be compulsorily listed and the shares become available for trading on the stock exchange. An IPO can either be a fresh issue of shares or it can be an offer for sale of existing shares by any of the existing share holder.

A fresh issue of shares results in an increase in the share capital of the company. New shares are allotted to the investors. A fresh issue does not change the holding of shares of the investors prior to the issue in terms of the number of shares held. The percentage holding of the investors in the share capital of the company may however change.

Currently, the companies are free to price the issue. In today's scenario, there are two ways of pricing viz. fixed price or book built. In fixed price issue, the issuer fixes the price of the securities right at the beginning of the issue and the demand for the issue is known only at the end of the issue. In the book built method, the process aids price and demand discovery. It is a mechanism where, during the period for which the book for the offer is open, the bids are collected from investors at various prices, which are within the price band specified by the issuer. The process is directed towards both the institutional as well as the retail investors. The issue price is determined after the bid closure based on the demand generated in the process.

The listed issuer can make a Qualified Institutions Placement (QIP) only if they fulfil certain conditions.[24] The Compliance Officer is required to check whether the issuer is eligible to make a QIP and whether the conditions specified are fulfilled. The QIP is discussed in detail in Chapter 8.

In an offer for sale, existing promoters/or any other existing share holder (venture fund or private equity) off-load a portion of their holdings to the public. This will not increase the share capital of the company. The proceeds of the public offer go to the persons off-loading

[22]Vide SEBI (ICDR) (Third Amendment) Regulations, 2021 w.e.f. August 13, 2021.

[23]Capital expenditure includes civil work, miscellaneous fixed assets, purchase of land, building and plant and machinery, etc.

[24] SEBI (ICDR) Regulations, 2018 define Qualified Institutions Placement as an issue of eligible securities by a listed issuer to qualified institutional buyers on a private placement and includes an offer for sale of specified securities by the promoters/ and promoter group on a private placement basis.

the shares and not to the company. In a public offer, the money invested by the new shareholders, goes to the company, and its share capital increases.

In an offer for sale, the promoters' holding or the existing shareholder who has sold his shares in the company comes down and new shareholders get added to the list of shareholders. There is a change in the list of shareholders, but not in the amount of share capital. The Government had made offer for sale of its holding in several public sector companies/banks to the public, through the divestment route. The shares of the company get listed on the stock market after the offer for sale is over.

7.5 Eligibility for Initial Public Offer of Shares

SEBI's regulations prescribe certain eligibility requirements for a company planning a public issue. This includes:

1. The issuer company should have net tangible assets of at least Rs. 3 crores in each of the preceding 3 full years (of 12 months each) of which not more than 50 percent are held in monetary assets. The limit of 50 percent on monetary assets is not applicable in case the IPO is made entirely through an offer for sale.
2. It has an average operating profit of at least Rs.15 crores, calculated on a restated and consolidated basis, during the preceding 3years, with operating profit in each of these preceding 3 years.
3. It has a net worth of at least Rs. 1 crore in each of the preceding 3 full years, calculated on a restated and consolidated basis.
4. If the issuer company has changed its name within the last one year, at least 50 percent of the revenue, calculated on restated and consolidated basis, for the preceding 1 full year has been earned by it from the activity indicated by its new name.

An issuer not satisfying the conditions stipulated above may make an initial public offer only if the issue is made through the book-building process and the issuer undertakes to allot, at least 75 percent of the net offer to qualified institutional buyers and to refund the full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.

7.6 Further Public Offer

A further public offer is made by a listed company. This means, a company that has already made an IPO in the past and the shares have been listed now makes a further issue of shares to the public. A further public offer may be through an issue of additional shares or through an offer for sale.

When a company wants additional capital for growth or to redo its capital structure by retiring debt, it raises equity capital through a further public offer. A further public offer may also be through an offer for sale. This usually happens when it is necessary to increase the public shareholding to meet the requirements laid down by the listing agreement between the company and the stock exchange. Or promoters may look to dilute their holdings in the company after the lock-in imposed at the time of the IPO is over.

A public offer, whether an IPO or a further public offer has to meet the regulatory requirements laid down by SEBI and the Companies Act. A listed company can also make a further issue of shares if it complies with the regulatory requirements laid down for IPOs. The securities after the closure of public issue, i.e. both IPO and FPO, are to be listed within 3 working days (i.e. T+3 days, where T is issue closing date).[25]

SEBI has also proposed reduction in the timeline for listing of debt securities and Non-Convertible Redeemable Preference Shares to T+3 working days from existing T + 6 working days (as an option to issuers for a period of one year opening on or after November 01, 2024 and on a permanent basis thereafter such that all listings occur on a T+3 basis, opening on or after November 01, 2025).[26]

Further, in order to streamline and align the process of applying in the public issue of debt securities, non-convertible redeemable preference shares, municipal debt securities and securitised debt instruments with that of public issue of equity shares and convertibles, it has been decided that all individual investors applying in public issues of such securities through intermediaries (viz. syndicate members, registered stock brokers, registrar to an issue and transfer agent and depository participants), where the application amount is upto Rs. 5 Lakh, shall only use UPI for the purpose of blocking of funds and provide his/ her bank account linked UPI ID in the bid-cum-application form submitted with intermediaries.[27] Further, individual investors shall continue to have the choice of availing other modes (viz. through SCSBs, Stock Exchange Platform and 3-in-1 account) for making an application in the public issue.[28]

[25] SEBI Circular No.: SEBI/HO/CFD/TPD1/CIR/P/2023/140 dated August 9, 2023.
[26] SEBI Circular No.: SEBI/HO/DDHS/DDHS-PoD-1/P/CIR/2024/129 dated September 26, 2024 on Reduction in the timeline of debt securities non-convertible redeemable preference shares.
[27] SEBI Circular SEBI/HO/DDHS/DDHS-PoD-1/P/CIR/2024/128 dated September 24, 2024 on Usage of UPI by individual investors for making an application in public issue of securities through intermediaries.
[28] SEBI Circular No.: SEBI/HO/DDHS/DDHS-PoD-1/P/CIR/2024/142 dated October 18, 2024 on Clarification with regard to usage of 3-in-1 type accounts for making an application in public issue of securities.

7.7 Buy Back of Securities[29]

The SEBI (Buy-back of Securities) Regulations, 2018 apply to listed companies and the rules issued by the Ministry of Company Affairs apply to unlisted companies. The Companies Act along with the regulations have laid down the rules and procedures to be followed by a company making an offer for buying back its shares. A company would consider buying back shares to increase the promoters holding, increase the earnings per share of the company, to stave off or prevent a take-over bid or to use the cash surplus available with the company. A company can use the free reserves available, amounts available in the share premium account or from the proceeds of securities issued for buying back its securities. However, a company cannot use the proceeds from an earlier issue of the same class of securities that are being bought back.

The process of making a buy-back offer is described in the regulations. The buy-back needs to be authorised by company's article; Special Board resolution is required to be passed in all cases of buy-back; and prior consent of the lenders is required in case of a breach of any covenant with such lenders.

If the buy-back is within 10 percent of the aggregate of the paid-up equity capital and free reserves of the company, the regulations require only a board resolution to be passed and certain other conditions to be fulfilled. A special resolution has to be passed at the general meeting allowing the buy-back of securities if the proposed buy back is in excess of 10 percent of the aggregate of the paid-up equity capital and free reserves of the company. Buy-back cannot however exceed 25 percent of the total of the paid-up capital and free reserves of the company, based on standalone or consolidated financial statements of the company, whichever sets out a lower amount. Every buy-backs are to be completed within 1 year from the date of passing of the special resolution at general meeting or the resolution passed by the board of directors of the company, as the case may be. All shares or other specified securities for buy-back must be fully paid-up.

The company must give a public notice of the buy-back in nationwide newspapers (1 English, 1 Hindi and 1 regional language newspaper where the company is registered) within 2 working days from the day of passing the resolution. The public notice should provide details of the proposed buy-back; the reasons for the buy-back; the total number and percentage of the shares and the price at which they are being bought back; the process and funding of the buy-back; the specified date and the timetable of the buy-back. The copy of this public announcement shall also be submitted in electronic mode to SEBI and the stock exchanges on which its shares are listed. The company shall also submit other specified documents in electronic mode, along with prescribed fees to SEBI within 2 working days from the record date. of the public announcement.

A company shall open an escrow account within 2 working days of the public announcement by way of security. The deposit in the escrow account shall be in the following manner:

[29] Vide SEBI (Buy-Back of Securities) (Amendment) Regulations, 2023 w.e.f. March 9, 2023.

1. If the consideration payable does not exceed Rs. 100 crores – 25 percent of the consideration payable;
2. If the consideration payable exceeds Rs. 100 crores – 25 percent upto Rs. 100 crores and 10 percent thereafter.

The amount due can be maintained in the form of cash including bank deposits with any scheduled commercial banks, bank guarantees issued in favour of merchant bankers by any scheduled commercial banks or government securities or units of mutual funds invested in gilt funds and overnight schemes or combination of all. Any amount remaining in the account after payment of consideration to all security holders will be released to the company.

A company can buy back its securities in any one of the following ways:

- Through a tender offer to existing shareholders to buy back the shares on a proportionate basis; or
- From the open market either through a book building process or through the stock exchange; or

However, buy-back from open market through stock exchanges shall be phased-out gradually. Such open market buy-backs through stock exchanges shall not be allowed effective from April 1, 2025.

A company, however, cannot buy back its shares through a private negotiated deal.

SEBI issued amendments on procedure for tendering of shares through stock exchanges. Lien should be marked against the shares of the shareholders participating in the tender offer for buy back. Upon finalization of the entitlement, only accepted quantity of shares are to be debited from the demat account of the shareholders, and the lien marked against unaccepted shares are to be released.[30]

- **Buy Back through a Tender**

A company may buy-back its shares or other specified securities from its existing security-holders on a proportionate basis.[31] However, 15 percent of the number of securities which the company proposes to buy back or number of securities entitled as per their shareholding, whichever is higher, shall be reserved for small shareholders. 'Small shareholder' means a shareholder of a company, who holds shares or other

[30]SEBI Circular No.: SEBI/HO/CFD/DCR-III/CIR/P/2021/615 dated August 13, 2021.
[31]Specified securities include employees' stock option or other securities as may be notified by the Central Government from time to time.
[28] SECURITIES AND EXCHANGE BOARD OF INDIA (BUY-BACK OF SECURITIES) (AMENDMENT) REGULATIONS, 2024 dated May 17, 2024.

specified securities whose market value, on the basis of closing price of shares or other specified securities, on the recognised stock exchange in which highest trading volume in respect of such securities, as on record date, is not more than Rs. 2 lakh.

If the buy back is through a tender offer, the maximum price at which the buyback of shares will be made should be disclosed.

If the promoters are tendering the shares, then the proposal seeking the approval of the shareholders should include information on the quantum of shares to be tendered and the details of the transactions and holdings of the promoters in the securities in the last 6 months prior to the special resolution authorizing the buyback of shares, including information of the number of shares acquired, price and the date of acquisition. The public notice shall mention the record date which is the date for the purpose of specifying the eligible shareholders to whom the offer letter shall be sent.

In case of buy-back through tender offer, no draft letter of offer is required to be filed with SEBI. The public announcement shall disclose that the dispatch of the letter of offer, shall be through electronic mode in accordance with the provisions of the Companies Act, within 2 working days from the record date and that in the case of receipt of a request from any shareholder to receive a copy of the letter of offer in physical form, the same shall be provided. The date of the opening of the offer shall be not later than 4 working days from the record date. The offer for buy-back shall remain open for a period of 5 working days.

The company shall accept shares or other specified securities from the security holders on the basis of their entitlement as on record date. The shares proposed to be bought back shall be divided into two categories; (a) reserved category for small shareholders and (b) the general category for other shareholders, and the entitlement of a shareholder in each category shall be calculated accordingly. As stated above, in the reserved category 15 percent of the number of securities which the company proposes to buy back or number of securities entitled as per their shareholding, whichever is higher, shall be reserved for small shareholders. After accepting the shares or other specified securities tendered on the basis of entitlement, shares or other specified securities left to be bought back, if any in one category, shall first be accepted, in proportion to the shares or other specified securities tendered over and above their entitlement in the offer by security holders in that category and thereafter from security holders who have tendered over and above their entitlement in other category.

Within 5 working days from the closure of the buy-back offer, the payment has to be made to the shareholders or share certificates returned if the offer is rejected. The share certificates representing the shares that have been bought back will be destroyed and a certificate to that effect signed by the Registrar of the issue, the secretarial auditor and directors of the company will be submitted to SEBI.

- **Buy Back Through Stock Exchange**

If the buy back is made through a stock exchange, the company has to appoint a merchant banker to manage the buy back. The public notice shall give details of the brokers and stock exchanges through which the buyback will be conducted. The company can only use a stock exchange with nation-wide trading terminals. The buy-back through stock exchanges is undertaken only in respect of frequently traded shares. The buy-back offer on stock exchange shall open not later than 4 working days from the record date. As discussed earlier, buy-back from the open market through the stock exchange shall not be allowed with effect from April 1, 2025.

Information about the shares bought-back shall be given to the stock exchange on a daily basis and also the company shall upload the information of securities bought back on its website on a daily basis. The shares bought back will be extinguished and a certificate to that effect be given to SEBI and the stock exchange.

- **Buy Back Through a Book Building Process**

If the buy-back is through a book building process then the company has to appoint a merchant banker to manage the issue. Only listed companies are allowed to have a buy back through this process. The public notice should give details of book building process to be followed. The book building will be done through an electronically linked facility.

The offer shall remain open for a minimum of 2 trading days. The certificates pertaining to the accepted bids will be destroyed and the shares tendered in electronic form will be extinguished.

Chapter 7: Sample Questions

1. The first contribution of equity capital is made by the _____.
   a. **Promoters**
   b. Public Investors
   c. Government

2. A company has to follow the regulations laid down by _____ for the issue of capital.
   a. **SEBI**
   b. State Governments
   c. Stock exchanges

3. Only a listed company can make a public issue of shares. State whether True or False.
   a. TRUE
   b. **FALSE**

4. Which of the following types of issue can be made only by a listed company?
   a. Initial Public Offer
   b. **Further Public Offer**
   c. New Fund Offer
   d. All the options given

5. SEBI's regulation does not consider the financial performance of a company in specifying the eligibility norms for a public issue. State whether True or False.
   a. TRUE
   b. **FALSE**

CHAPTER 8: MODES OF ALLOTMENT OF SHARES OTHER THAN PUBLIC OFFERS

Learning Objectives:

After studying this chapter, you should know about private placement of shares:

- Private Placement of Shares
- Qualified Institutions Placement (QIP)
- Rights Issues
- Employee Stock Options (ESOPs)
- Conversion of Convertible Debentures/Bonds into shares

A public offer of shares involves regulatory compliances and process that have been laid down to ensure that public investors are protected. These requirements can be time-consuming, elaborate, and intended to protect the less informed investor.

A company may decide to make an offer to a selected group of investors, who may be better informed, and therefore not requiring elaborate protection mechanisms. The company can also save time, cost and effort in placing its shares to such a group. This is called a private placement of shares.

A private placement of shares can be done by a company irrespective of whether it has made a public offer of shares or not. A private placement of shares made by a listed company is called a preferential allotment of shares. Since the company is listed and has public shareholders, it is required to meet the regulation in this regard of SEBI and the Companies Act.

These regulations aim at ensuring that promoters and large investor groups do not take any action that may be detrimental to the interests of the public investors. The regulations require that a resolution is passed by the shareholders allowing such allotment of shares.

If the shares are allotted to promoter or promoter group, the said shares shall be locked-in for a period of 18 months from the date of trading approval. The shares that are allotted to other than promoter or promoter group, will be locked-in for a period of 6 months from the date of trading approval.[32]

8.1. Private Placement of Shares

Under section 42 of the Companies Act, 2013, a company may make allotment of share through private placement subject to certain conditions. A company shall make private placement to select group of persons as identified by the company ("Identified Persons").

[32] Vide SEBI (ICDR) (Amendment) Regulations, 2022 w.e.f. January 14. 2022.

Number of allottees shall not exceed 50 or such higher number as may be prescribed, (excluding Qualified Institutional Buyers, and employees of the company) in a financial year. Shares allotted to the qualified institutional buyers and employees of the company being offered securities under a scheme of employees' stock option shall not be considered in aforementioned number. Company shall issue private placement offer and application in prescribed manner to identified persons. Company is required to record name and addresses of such identified persons. Every identified person who is willing to subscribe shall apply for allotment for shares along with subscription money either paid by cheque or Demand Draft or other banking channels but not by cash.

The company has to file details about the allotment to Registrar of Companies (RoC). No fresh offer or invitation for private placement can be made till the time earlier issued offer or invitation (if any) is pending. The company shall make allotment of shares within 60 days of receipt of application money. If the company fails to make allotment of shares within 60 days then the company will be liable to refund such money to the subscribers within 15 days from expiry of such 60 days. Further, if the company fails to repay the money within the aforesaid period, it will be liable to repay that money along with interest at the rate of 12 percent per annum from the expiry of the 60th day. Money received on application for private placement shall be kept in a separate bank account in a scheduled bank and shall not be utilised for any purpose other than:

(a) for adjustment against allotment of securities; or
(b) for repayment of monies where the company is unable to allot securities.

No company issuing securities under this section shall release any public advertisements or utilise any media to inform the public at large about such an issue.

8.2. Qualified Institutions Placement

Qualified institutions placement (QIP) is a private placement of eligible securities made by a listed company to certain identified categories of investors known as Qualified Institutional Buyers (QIBs) and includes offer for sale of specified securities by the promoter or promoter group.[33] To be eligible to make such a placement, the shares of the company should have been listed on the stock exchange for a period of at least one year before the notice of such issue is given.

A qualified institutions placement will be made at a price not less than the average of the weekly high and low of the closing prices for the two weeks preceding the relevant date. However, the issuer may offer a discount of not more than 5 percent on the price so calculated for the qualified institutions placement, subject to approval of shareholders. Qualified institutional buyers (QIB) include financial institutions, mutual funds, alternative investment funds, venture capital funds, scheduled commercial banks, foreign portfolio investors (other than individuals, corporate bodies and family offices) and the like.

[33]SEBI (ICDR) Regulations, 2018 define 'eligible securities' that include equity shares, non-convertible debt instruments along with warrants and convertible securities other than warrants.

There must be a minimum of 2 allottees under QIP category, if the issue size is less than or equal to Rs. 250 crore; and minimum of 5 allotees, if the issue size is more than Rs. 250 crore. However, no single allottee in a QIP shall be allotted more than 50 percent of the issue size. A sale of shares allotted under this category, within one year from the date of allotment, can be made by the QIB only on a recognised stock exchange. A placement document giving all material information will be made available to select investors and on the websites of the company and the stock exchange.

8.3. Rights Issue

A rights issue is an issue of fresh capital made to the existing investors of a company. In a rights issue the company has to decide on the proportion of fresh shares to be issued to the investors.

For example, a company may decide to issue rights shares in the ratio 2:3. This means that existing investors of the company on a specified date called the record date will be entitled to 2 shares for every 3 shares held by them. When this results in a fractional entitlement, the decision is left to the discretion of the Board of Directors.

An investor's percentage holding in the company remains the same after the rights issue unless the shares are foregone by the investor. If specified in the letter of offer, promoters may subscribe to the unsubscribed portion of the rights issue over and above their entitlement.

The issuer may make a reservation for employees along with the rights issue subject to the condition that the value of allotment to any employee does not exceed Rs. 2 lakh.

The rights issue by a listed issuer is subject to the Companies Act as well as the SEBI (ICDR) Regulations. Most of the conditions applicable for public issue also apply to the rights issue. In addition, specific requirements have been prescribed for rights issue like announcement of record date, restrictions on rights issue, letter of offer, abridged letter of offer, pre-issue advertisement for rights, reservation for employees along with rights issue and utilisation of funds raised in rights issue.

Rights Issue process has undergone significant changes. Payments of all applications in a rights issue have to be through Applications Supported by Blocked Amount (ASBA) facility only. Validation of application bids received for subscribing to the shares in rights issue and finalization of basis of allotment shall also be carried out by the Stock Exchanges and

Depositories along with the Registrar to the issue.[34] Also, email delivery of entitlement form and offer document is permitted which makes it convenient for investors who have registered their email ID with Depository Participants (DP) or Registrar and Transfer Agents (RTA) to receive it electronically. Introduction of a new concept of Rights Entitlement (REs) allows electronic trading of REs through stock exchanges which is more efficient.[35] Discontinuing allotment in physical mode in favour of electronic credit ensures elimination of additional paper based holdings.

8.4. Employee Stock Options (ESOPs)

ESOP is a scheme or plan or programme set up by a company for its employees. Employee Stock Options are options under which a company gives the right to its employees to purchase its shares at a discounted price. ESOP is a type of retirement and employee benefit plan which offers its employees, ownership interest in the shares of the company on fulfilment of certain conditions.

Employees Stock Option means the options given to the directors, officers or employees of the company or of its holding company or subsidiary company or companies, if any, which gives such directors, officers or employees, the benefit or right to purchase, or to subscribe for, the shares of the company at a future date at a pre-determined price. Few terminologies related to ESOPs are discussed below:

- **Stock options**: These are not shares, but the right to own shares at a future date by paying the price.
- **Vesting period**: This is the period only after which the employees are allowed to exercise the options and convert them to shares. The minimum vesting period of 1 year is prescribed for the same. During this period, the employees who have been granted the options are required to stay in the company if they want to become the shareholders in the future.
- **Exercise period**: This is the period during which the employees can exercise their right to convert stock options to shares.
- **Exercise price/ Grant price/ Strike price**: This is the price at which the employees are given shares of the company.
- **Expiration date**: ESOP is valid only for a limited period, i.e., during the exercise period. After the expiry of this period, they cannot be converted into shares. The expiration date is the date by which the employees must exercise their options.

The Finance Act, 2020 has made amendments to the relevant provisions of the Income-tax Act to defer the collection of tax on perquisite value of ESOPs. The benefit is given to the eligible Start-ups only.

[34] SEBI Circular No.: SEBI/HO/CFD/CFD-PoD-1/P/CIR/2025/31 dated March 11, 2025 on Faster Rights issue with a flexibility of allotment to specific investor(s).

[35] SEBI Circular No.: SEBI/HO/CFD/DIL2/CIR/P/2020/13 dated January 22, 2020 on Streamlining the process of Rights Issue.

8.5. Conversion of Convertible Debentures/Bonds into shares

Convertible debentures or bonds are long-term debt instruments issued by a company that can be converted into equity shares of the company on a future date. They can be fully, partially or optionally convertible. They pay a lower coupon rate (interest) than pure debt instruments. A debenture holder is a creditor or lender of the company. Investors benefit from interest payment and have the option to convert the loan into equity to participate in the growth of the company.

A convertible debenture is a hybrid product which tries to strike a balance between equity and debt. An investor will be paid a fixed-rate and will also have an option to take part in a stock price increase. In case an issuer's stock price dips, an investor can hold the bond until maturity and receive interest income. For early-stage companies, a convertible debenture is a very useful financial instrument.

Chapter 8: Sample Questions

1. A private placement of shares by a listed company is called a _____ of shares.
   - **a.** Bonus issue
   - **b.** Initial public offer
   - **c.** **Preferential allotment**

2. Privately placed shares issued to other than promoters are locked-in for how many years?
   - **a.** **6 months**
   - **b.** 1 year
   - **c.** 18 months
   - **d.** 3 years

3. A Qualified Institutions Placement (QIP) of shares can be made only to Qualified Institutional Buyers (QIBs). State whether True or False.
   - **a.** **TRUE**
   - **b.** FALSE

4. A 3:4 rights issue of shares means the investor is entitled to _____.
   - **a.** **Three shares for every four shares held**
   - **b.** Four shares for every 3 shares held

5. A private placement of shares is not regulated by SEBI or the Companies Act. State whether True or False.
   - **a.** TRUE
   - **b.** **FALSE**

CHAPTER 9: PROCESSES RELATED TO PUBLIC OFFERING OF SHARES

Learning Objectives:

After studying this chapter, you should know about the different process involved in public offering of shares:

- Pre-issue Work
- Post Issue Work
- Prospectus & Red Herring Prospectus
- Underwriting
- Green Shoe Option
- Methods of making a public issue of share
- Small and Medium Enterprise Initial Public Offer (SME IPO)

A company making an issue of shares has to go through certain internal and external steps to give effect to the issue. Internally, the company needs to get the approval of the board of directors and the existing shareholders for the issue. Once this is done, the company has to appoint a merchant banker who will be the lead manager of the issue. The lead manager is responsible for ensuring that the regulatory requirements of the issue are complied with. The lead manager is responsible for all activities till the issue is listed.

9.1 Pre-Issue Work

The lead manager undertakes the following steps in managing a public offer of shares:

- Appoint R&T agents, bankers, syndicate brokers, brokers and underwriters to the issue. In case of a book built issue, the book runners, who are merchant bankers, will be appointed. The merchant banker has to ensure that the constituents are registered with SEBI.
- Obtain the in-principle approval of the recognised stock exchanges where the shares are proposed to be listed. Designated Stock Exchange means the recognised Stock Exchange in which the Basis of Allotment has to be approved and chosen by the issuer as a Designated Stock Exchange for the purposes of the current issue.
- Ensure that the mandatory number of bidding centres is covered by the syndicate brokers to the issue.
- For an issue by an unlisted company, get the IPO graded by an approved credit rating agency.
- Enter into agreements with depositories for the admission of the securities in both the depositories before filing of Draft Red Herring Prospectus (DRHP) with SEBI.
- File DRHP with SEBI.

- Make changes, if any, to the DRHP as suggested by SEBI and file the Red Herring Prospectus (RHP) with the Registrar of Companies.
- Sign the due diligence that all the regulatory requirements are complied with.
- Issue advertisements in national papers as required by regulations.
- Arrange for the printing and dispatch of prospectus and application forms and other issue material.
- Ensure that every application form is accompanied by an abridged prospectus.

9.2 Post-Issue Work

An issue is required to be kept open for a minimum of 3 working days and a maximum of 10 working days. The following are the functions of the lead manager in the post-issue period:

- Once the issue opens, ensure that the Self Certified Syndicate Banks (SCSBs) block the funds as per the amounts mentioned in the application forms and then bid the applications. Effective September 1st, 2022, the ASBA applications in Public Issues shall be processed only after the application monies are blocked in the investor's bank accounts.
- Ensure the R&T agent collect the bid data from Stock Exchanges and reconcile the data received from the SCSBs and obtain a final collection certificates.
- Finalize the basis of allotment in consultation with the designated stock exchange.

Basis of allotment is the process of deciding the number of shares that each investor is entitled to be allotted. The issuer shall not make any allotment if the number of prospective allottees is less than 1000. Once the issue closes, the applications /bids are collated under various categories such as retail investors, Non-Institutional Investors (NIIs), Qualified Institutional Buyers (QIBs) and reservations. The number of shares applied for is compared with the shares reserved for each category and the over-subscription ratio is calculated. This is applied to each application to determine the shares to be allotted.

If the number of shares that have been subscribed for is equal to or less than the number of shares offered by the company, then each investor will get the same number of shares he has applied for. If the issue is over-subscribed, then the number of shares allotted to each investor will be in proportion to the over-subscription within the specified investor categories, except for retail individual investors, non-institutional investors and anchor investors. In the event the number of retail applicants who have submitted valid bids in the issue is equal to or less than maximum retail allottees, (i) all such retail applicants shall be allotted the minimum bid lot; and (ii) the balance available equity shares, if any, remaining in the retail category shall be allotted on a proportionate basis to the retail applicants, who have received allotment as per (i) for the balance demand of the equity shares bid by them (i.e. who have bid for more than the minimum bid lot).

Similarly, the allotment of specified securities to each Non-Institutional Investor (NII) shall not be less than the minimum application size, subject to availability in the Non-Institutional Portion, and the remainder, if any, shall be allotted on a proportionate basis in accordance with the conditions specified in the SEBI (ICDR) Regulations.[36]

The authorised employees of the designated stock exchange, along with the lead manager(s) and registrars to the issue, shall ensure that the basis of allotment is finalised in a fair and proper manner as prescribed in SEBI (ICDR) Regulations.

The basis of allotment has to be approved by the board of directors of the company and published in national newspapers.

- Ensure that the shares are credited to the individual shareholders' depository account and refund/unblocking of application money are done electronically.
- Seek listing of shares on the stock exchanges and commencement of trading.

9.3 Terms and Concepts in Public Issue of Shares

A public issue of shares has certain processes, commitments and concepts that require understanding.

Categories of Investors in Public Issue

The various categories of investors who are eligible to invest in a public issue of shares are as follows:

- Retail Individual Investors are those who invest not more than Rs. 2 lakh in an issue. In a book building issue this category of investors are alone allowed to bid at cut-off price. They are required to tender the entire subscription amount through ASBA facility at the time of making the application; unless otherwise specified in the Prospectus.
- Non-Institutional Investors invest Rs.2 lakh or above in an issue. The allocation within the NII category is as follows:
    - one-third is reserved for application size of more than Rs 2 lakhs and upto Rs 10 lakhs;
    - two-thirds is reserved for application size above Rs 10 lakhs.
    - In addition, the allotment for the NII categories will be done by draw of lots (like retail segment) for allotment of minimum application size of NII / HNI and balance, if available, on proportionate basis.

- Qualified Institutional Buyers (QIB) which includes mutual funds, financial institutions, scheduled commercial banks, alternative investment funds etc.

[36] Vide SEBI (ICDR) (Amendment) Regulations, 2022 w.e.f. April 1, 2022 and SEBI (ICDR) (Second Amendment) Regulations, 2022 w.e.f. July 1, 2022.

- Anchor Investors are Qualified Institutional Buyers who make an application for a value of Rs. 10 crore or more in a public issue on the main board made through the book building process. 50 percent of anchor allotment will have a 30-day lock-in and the balance 50 percent will be locked in for 90 days.
- Shareholders of the promoter group companies
- Employees; and in case of a new issuer, persons who are in the permanent and full time employment of the promoting companies excluding the promoters and an immediate relative of the promoter of such companies.
- Qualified Foreign Investors

At least 25 percent of each class or kind of equity shares is required to be offered and allotted to public if the post issue capital of the company calculated at offer price is less than or equal to Rs. 1,600 crore. If the post issue capital of the company calculated at offer price is more than Rs. 4,000 crore, the company is required to offer and allot at least 10 percent of each class or kind of equity shares to the public. However, the company shall increase its public shareholding to at least 25 percent within a period of 3 years from the date of listing of the securities in the manner specified by SEBI.

The remaining portion of the public issue can be reserved on a competitive basis or allotted on a firm allotment basis or on preferential basis to categories of investors such as employees, mutual funds, FPIs, shareholders of the promoting company, employees of the issuer company and scheduled banks.

In case an initial public offer is made through book building process, out of the total issue, not more than 50 percent shall be offered to the QIBs, out of which 5 percent shall be allocated to mutual funds. Not less than 15 percent to non-institutional investors and not less than 35 percent to the retail individual investors of the net offer to be allocated. For fixed price offers, a minimum of 50 percent of the net offer of securities to the public shall be initially made for allotment to retail individual investors and the balance to individual applicants other than retail individual investors and other investors including corporate bodies or institutions.

9.4 Prospectus

The prospectus is the document which contains all the information relevant to an investor to make an investment in a public issue of shares made through a fixed price offer. The content and format of the prospectus is prescribed by SEBI in its regulations.

A company making a public issue of shares files a draft prospectus with SEBI through the lead manager of the issue. SEBI may require clarifications or changes to be made to the draft prospectus which have to be complied with before the prospectus is filed with the Registrar of Companies.

9.5 Red Herring Prospectus

Draft Red Herring Prospectus (DRHP) is a draft prospectus which is used in book built issues. It contains all disclosures except the price. It is filed with SEBI for their observations/ comments, if any. DRHP contains all statutory disclosures.

Red Herring Prospectus (RHP) contains the issue dates. It is filed with the Registrar of Companies (ROC) prior to the bid opening date.

The upper and lower band of the price and the number of shares may or may not be disclosed or the issue size may or may not be mentioned. This is because the price at which the shares are being issued will be determined based on the bids received in a book building offer which will be known only after the issue closes.

A preliminary red herring prospectus is filed with SEBI before the issue opens and the observations made by SEBI, if any, are incorporated into it. Once the price is discovered, it is included in the offer document along with the number of shares if not already mentioned and the prospectus signed and dated is filed with the Registrar of Companies and SEBI.

SEBI has recently notified that salient disclosures made in the DRHP, RHP and price band advertisement for public issues shall also be made available in Audio Visual format (AV) for ease in understanding the features of public issues. Such AV shall be prepared and placed in the public domain for all main board public issues. The same shall initially be in bilingual format i.e. English and Hindi.[37]

9.6 Underwriting

SEBI's Regulations on public issues and the Companies Act require that an issue should receive subscription of a minimum of 90 percent of the net offer to the public, failing which the company has to refund (i.e. unblock) the entire subscription amount received within 4 days from the close of the issue.[38] To protect against this, Companies enter into an underwriting agreement with lead managers or syndicate members or merchant bankers or stock brokers, registered with SEBI, prior to filing of the prospectus/ red herring prospectus, to subscribe to the shares of the company if they remain unsubscribed by the investors. For undertaking this commitment, the underwriters are paid a commission. Underwriting is mandatory. For an issue that is underwritten, SEBI's minimum subscription requirement will be 90 percent of the net public offer including the subscription by the underwriters.

[37] SEBI circular No.: SEBI/HO/CFD/CFD-TPD-1/P/CIR/2024/55 dated May 24, 2024 on Audiovisual (AV) presentation of disclosures made in public issue offer documents.

[38] SEBI Circular No.: SEBI/HO/CFD/DIL1/CIR/P/2021/47 dated March 31, 2021.

The underwriting may be a hard or soft commitment. In hard underwriting, the underwriter is expected to subscribe to the extent of commitment if the issue is undersubscribed. In soft underwriting, the underwriter buys the share at a later stage when the pricing process is complete and if investor's amounts are not blocked due to insufficient funds in their accounts. They usually place these shares with institutional investors.

The minimum subscription norms of SEBI, and hence the requirement for underwriting, does not apply for a public issue through an offer for sale.

9.7 Green Shoe Option

Companies may also go in for a Green Shoe Option (GSO). The objective of this option is to provide stability to the price of the share in the secondary market immediately on listing. A company, which opts for Green Shoe option shall disclose the same in the offer document. The company can allot additional shares not exceeding 15 percent of the issue size to the general public who have subscribed in the issue.

The shares will be allotted in the same ratio in which reservation is being made for the various categories. For this purpose, the required over allotment shares will be lent by the promoter and/or any investor holding more than 5 percent of the total issued capital.

The money realised out of this over-allotment will be kept in a separate bank account to be designated as GSO bank Account. This amount will be used by the Stabilizing Agent (SA), who is usually one of the merchant bankers or lead managers to the issue.

The SA will utilize the money for buying shares from the secondary market whenever the market price goes below the issue price. However, he is under no obligation to take any direction from the issuing company or the promoter for his market operations.

The SA can only buy shares and cannot sell any shares. Moreover, he can buy a maximum up to the extent of the over-allotment made. The shares purchased from the secondary market will be kept in a separate demat account designated as GSO demat account.

The entire process of stabilization will be available only for a period of 30 days from the date on which the shares are listed and traded. At the end of the 30 day period, the SA will take stock of the shares purchased and these shares will be returned to the lender/promoter.

In the event of any shortfall in the shares bought in relation to the shares lent, additional allotment will be made by the company against the unutilised funds lying in the GSO Bank Account. This will be at the same price as per the original issue price.

Any balance money lying in the GSO bank Account (arising out of difference between the issue and buying price of the SA) will be transferred by the SA to the Investor Protection Fund of the designated stock exchange.

The GSO bank Account and the GSO demat account are closed once the period of stabilization is over.

9.8 Methods of Making a Public Issue of Shares

There are basically two ways in which a company can raise capital from a public issue of shares. These are

- Fixed Price Issue
- Book Built Issue

Fixed Price Issue

In a fixed price issue of shares to the public, the company in consultation with the lead manager to the issue would decide on the price at which the shares will be issued.

Companies can freely price the issue. The price is justified by the company on the basis of quantitative and qualitative factors. This is clearly laid out in the prospectus for the investors to make an informed investment decision. Investors know the price at which the shares will be allotted to them at the time of making the application.

Shares allotted to the investor will depend upon the basis of allotment finalised after the issue closes. If the issue is oversubscribed, the investor will get shares proportionate to the oversubscription in the respective category. The investor is sent a Confirmatory Allotment Note (CAN)/ refund order within the prescribed timelines.

Book Built Issue

The objective of a book build process is to identify the price that the market is willing to pay for the shares being issued by the company.

The company and its lead managers will specify either a floor price or a price band within which investors can bid. This information is in the red herring prospectus. When the issue opens, investors will put in bid applications specifying the price and the number of shares bid at that price. The price bid should be above the floor price or within the price band, as applicable, depending upon the specification in the red herring prospectus of the issue.

Investors can revise the bids in the period when the issue is open. The issuer, in consultation with the book running lead manager will decide on the cut-off price at which the issue gets subscribed.

All allottees who bid at or above the cut-off price are successful bidders and are eligible for allotment in the respective categories.

For example, a company wants to issue 5000 shares through a book built offer within a price band of Rs 120-Rs 144. Bids are received as follows:

Sl. No.	**Price**	**No. of shares demanded**	**Total**
1	Rs. 120	500	6500
2	Rs. 130	1000	6000
3	**Rs. 135**	**2500**	**5000**
4	Rs. 140	1500	2500
5	Rs. 144	1000	1000

The offer is filled up at the cut-off price of Rs 135. All investors who bid at this price and higher are eligible for allotment in their respective categories. The company may decide the cut-off price at a price lower than the price at which the issue is subscribed for the benefit of the investors.

Book built issues may also have a clause which allows allotment to retail investors at a price that is at a discount to the cut off price which cannot however exceed 10 percent of the price at which shares are allotted to the other category of investors.

Regulatory requirements in a book building offer

- The issue must be compulsorily underwritten to the extent of net offer to the public.
- The lead managers have to be appointed as the book runner.
- The cap of the price band will not be higher than 20 percent of the floor price.
- The price band can be revised during the offer period within the 20 percent band between floor and cap price. The revision will have to be advertised and the issue period extended by 3 days.
- In a book built offer, typically not less than 35 percent of the net offer to the public will be reserved for retail individual investors, not less than 15 percent for non-institutional investors and not more than 50% for qualified institutional buyers.

The issue will be open for a minimum of 3 working days and if the price band is revised, then the issue will be open for a maximum of 10 working days.

The details of the syndicate members who can accept the bids as well as bidding centres all of which should have electronically connected terminals and should be made widely available. Bids can also be placed with the syndicate members who are brokers of the exchange, SCSBs, Non Syndicate Registered Brokers, Collecting Depository Participants and RTAs, who are authorised to collect bids, through which the securities are being offered under the online system. All bids shall be accepted in the standardised bid forms that will have the details of the investor, the price and the quantity bid for. The bids can be revised during the period that the offer is open.

Investors who are entitled to allotment in the issue should be sent intimations after the issue closing. Demat credit of shares or unblocking of funds should be completed within 3 working days of the closure of the issue.[39]

9.9 Initial Public Offer (IPO) by Small and Medium Enterprises (SME)

SEBI (ICDR) Regulations provide detailed requirements for public issue by small and medium enterprises. SMEs issue capital to public and get listed on SME exchanges.

The regulation defines 'SME Exchange' as a trading platform of a recognized stock exchange having nationwide trading terminals permitted by SEBI to list the specified securities issued in accordance with SEBI (ICDR) Regulations and includes a stock exchange granted recognition for this purpose but does not include the Main Board. Main Board is a recognized stock exchange having nationwide trading terminals, other than SME exchange.

The difference between the Main Board IPOs and SME IPOs are enumerated in Table 9.1 below:

Table 9.1: Difference between Main Board and SME IPOs

Parameters	Main Board IPO	SME IPO
Post – Issue paid up capital (Face value)	Not less than Rs. 10 crore	Any amount less than Rs. 25 crores
Minimum number of allotees	1,000	50
IPO Application Size	Rs. 10,000 –Rs. 15,000	Minimum of Rs. 1,00,000
Observation on DRHP	By SEBI	By Exchange

[39] SEBI Circular No. SEBI/HO/CFD/TPD1/CIR/P/2023/140 dated August 9, 2023 on Reduction on timeline for listing of shares in Public Issue from existing T+6 days to T+3 days.

Parameters	Main Board IPO	SME IPO
Track record	Preceding 3 years of track record of profitability	Relaxed norms of Track record
IPO Underwriting	Mandatory (however, not required where 50 percent of the issue offered for subscription to QIB's)	Mandatory (100 percent underwritten, out of which 15 percent compulsorily by Lead Managers)
Market Making	Non Mandatory	Mandatory
Reporting Requirements	Quarterly	Half Yearly
Annual Reports	Specific and complex annual report with strict governing regulations	Abridged version of annual report and simple regulations in relation thereto

9.9.1. Regulatory requirements for SME IPOs

- Incorporation: The Company shall be incorporated under the Companies Act.
- Tangible Assets: The net tangible assets should be Rs. 3 crores in last preceding 2 full financial years.
- Track Record:
  - The company or the partnership/proprietorship/LLP Firm or the firm which have been converted into the company should have combined track record of at least 3 years. **OR**
  - In case it has not completed its operation for 3 years then the company/partnership/proprietorship/LLP should have been funded by NABARD or SIDBI or Banks or financial institutions and should have a track record of operations for 1 full financial year and audited financial result for 1 full financial year.
- Disclosures: A certificate from the applicant company / promoting companies stating the following:
  - "The Company has not been referred to the Board for Industrial and Financial Reconstruction (BIFR)."
  - There is no winding up petition against the company, which has been admitted by the court or a liquidator has not been appointed.
- Trading lot size:
  - The minimum application and trading lot size shall not be less than Rs. 1,00,000.
  - The minimum depth shall be Rs 1,00,000 and at any point of time it shall not be less than Rs 1,00,000.
  - The investors holding securities amounting to less than Rs 1,00,000 shall be allowed to offer their holding to the Market Maker in one lot. However in functionality market maker shall not sell in lots less than the minimum contract size allowed for trading on the SME exchange.
- Participants: The existing members of the stock exchange shall be eligible to

participate in SME Platform.

- Other Requirements:
  - It is mandatory for a company to have a website.
  - It is mandatory for the company to facilitate trading in demat securities and enter into an agreement with both the depositories.
  - There should not be any change in the promoters of the company in preceding 1 year from date of filing the application to the stock exchange for listing under SME segment.

Chapter 9: Sample Questions

1. The due diligence certificate in issue process is signed by _____.
   a. **Lead Managers**
   b. Registrar and Transfer Agents
   c. Stock Brokers
   d. SEBI

2. A company must make a minimum public issue of _____.
   a. 50 percent of the post issue capital
   b. **25 percent of the post issue capital**
   c. 10 percent of the post issue capital

3. All public issue of shares have to get a credit rating done. State whether True or False.
   a. TRUE
   b. **FALSE**

4. A company has to refund the monies collected in a public issue if the issue does not garner _____ subscription in the issue.
   a. 80 percent
   b. **90 percent**
   c. 50 percent
   d. 25 percent

5. In a fixed price issue, the price of the shares is decided according to the formula defined by SEBI. State whether True or False.
   a. TRUE
   b. **FALSE**

CHAPTER 10: ROLES AND RESPONSIBILITIES IN A PUBLIC ISSUE

Learning Objectives:

After studying this chapter, you should know about the role and responsibilities in a Public Issue and the parties involved, payment facilities available:

- Registrar and Transfer Agents
- Sponsor Bank
- Bankers to an Issue
- Brokers to the Issue / Syndicate Members
- Application Supported by Blocked Amount (ASBA) facility with Unified Payment Interface (UPI)

An issue of shares by a company involves detailed activity, co-ordination and compliance with regulatory requirements. The lead manager to the issue is primarily responsible for the issue process. The other entities who are involved include the registrar and transfer agents, bankers and brokers to the issue.

The role and responsibility of each constituent is clearly laid out by SEBI. All constituents who are involved with an issue have to be registered with SEBI under the relevant regulations.

10.1 Registrar and Transfer Agents

The R&T agents have a significant role to play in a public issue of shares. They are appointed by the issuer in consultation with the lead manager to the issue and enter into an agreement detailing their responsibility in the issue work. The scope of activity of the R&T agents is spread before the issue opens, during the period of issue and after the issue closes.

Pre-Issue Work

- To enter into an Escrow Agreement with the Company, Selling Shareholders, the book running lead managers (BRLMs) and the Bankers to the Offer where-in the Registrar shall issue requisite instructions to the Bankers to the Offer in terms of the Escrow Account Agreement.

- If applicable to enter into a Share Escrow Agreement with the Company and the Selling Shareholders (Share Escrow Agreement) in terms of which the Selling Shareholders shall prior to the filing of the Red Herring Prospectus open a share escrow account (Share Escrow Account) with the Registrar wherein the Selling Shareholders shall transfer its Offered Shares. The Registrar shall operate the said Share Escrow Account in terms of the instructions issued by the BRLMs and in terms of the Share Escrow Account Agreement.
- To enter into the 'Syndicate Agreement' with the Company, the Selling Shareholders and the BRLMs and an 'Underwriting Agreement' with the Company, the Selling

Shareholders, the BRLMs in terms of which the members of the Syndicate shall fulfil their underwriting obligations and the Registrar shall provide the necessary notices and perform such other functions as may be agreed upon in accordance with such Underwriting Agreement.

- Liaising with the Depositories on behalf of the Company for obtaining the International Securities Identification Number (ISIN) and for finalising the tripartite agreement to be entered into with the Depositories.

- Liaising with the Company for dematerialization of the Equity Shares held by the existing shareholders of the Company in physical form, including, the Promoters, the Selling Shareholders and members of the Promoter Group, if any, prior to the filing of the Draft Red Herring Prospectus.

- Provide detailed instructions to the Self-Certified Syndicate Banks (SCSBs), including the format and timeline of receipt of information.

- Provide/ specify the format to the Designated Intermediaries in which information in relation to ASBA is required.

- Intimation on the amount of processing fees payable to SCSBs in respect of syndicate ASBA and brokerage and selling commission payable to the members of the Syndicate, Registered Brokers, RTAs and CDPs.

Post- Issue Work

- The sole responsibility of the Registrar is to procure and collect the final certificates from all the SCSBs, including the syndicate SCSBs, participating in the Offer, within two working days from the closure of the Offer.

- While collecting the final certificates, the Registrar shall check the accuracy of the date of such certificates and confirm that such certificates, duly signed on the letterhead/ stamped, have been received within specified time limit as mentioned in the applicable regulations and relevant circulars issued by SEBI.

- To obtain from the Depositories the Demographic Details of the Bidders (including PAN) and to validate this data with the Bid file and highlight any discrepancies.

    a) Prepare rejection list based on the electronic Bid files received from the Stock Exchanges without reference to the physical Bid cum Application Forms;

    b) Deliver the Bid file received from the Stock Exchanges containing the application numbers, number of Equity Shares, amount and any other additional fields as may be required to all the SCSBs who shall use such information for due validation;

c) Reconcile the compiled data received from the Stock Exchanges and all SCSBs, and match the same with the depository database for correctness of DP ID, Client ID and PAN;

d) To ensure that the Basis of Allotment is in accordance with the SEBI (ICDR) Regulations, guidelines and notifications and as specified in the Offer Documents;

e) To assist in seeking approval of the Basis of Allotment with the Designated Stock Exchange as per the SEBI (ICDR) Regulations and the relevant provisions of the Offer Documents along with the BRLMs and the Company;

f) To prepare the complete list of valid applications (after all rejections), and present the same category-wise;

g) To prepare a statement of Bids proposed to be rejected, separately for QIBs, Non-Institutional Investors and Retail Individual Investors;

h) To prepare a technical rejection list, including rejected Bids, based on the electronic Bid files received from the Stock Exchanges and the Depositories' database;

i) To send the Confirmation Allocation Note (CAN) to the Anchor Investors and the Allotment Advice to Bidders as applicable who have been Allotted Equity Shares in the Offer;

j) To keep accurately, at all times, the electronic records relating to Bids received from all SCSBs, the Designated Intermediaries and the BRLMs, including:

   i. Bids from the online Bidding system of the Stock Exchanges and Bids furnished by SCSBs, the Designated Intermediaries;

   ii. Particulars relating to the allocation and Allotment of Equity Shares against valid Bids;

   iii. Particulars relating to the requisite money to be transferred to Public Offer Account, in accordance with the terms of this Agreement, the Red Herring Prospectus, the Prospectus, the SEBI (ICDR) Regulations and the Companies Act; and
   iv. Particulars relating to, rejected/ unsuccessful Bids.

k) To specifically record cases of multiple Bids and keep them available for inspection along with the relevant records, namely the electronic data received from the Stock Exchanges and the data validated from the Depositories;

l) To prepare distribution schedule and analysis form (for purposes of the Stock Exchanges or the Company);

m) Prepare the following registers and other data:
   i. Top 50/100 shareholders (for the Stock Exchanges)
   ii. Allotment registers
   iii. Register of members
   iv. Index of members;
   v. Return of Allotment (for the Registrar of Companies)
   vi. Cross Reference Register
   vii. Postal journal for documents mailed
   viii. Number of Equity Shares to be allotted against each valid Bid and the list of successful Bidders
   ix. Details of rejected Bids, if any, along with reasons for rejection and details of unsuccessful Bids, if any, to enable the Bankers to the Offer or the SCSBs to refund the amount or unblock the relevant bank accounts, as the case maybe.

n) In case of failure of the Offer, to give appropriate instructions for unblocking of the relevant ASBA bank accounts/ issuance of instructions for refund to the Anchor Investors.

- To give instructions to the Depositories to carry out lock-in for the pre-Offer share capital (except the Offered Shares, ESOP etc.) as per the SEBI (ICDR) Regulations.

- To dispatch Allotment Advice / intimations and credit of the equity shares to the allottees' respective demat accounts.

10.2 Sponsor Bank

The Sponsor Bank is registered with SEBI as Banker to an Offer in terms of SEBI (Bankers to an Issue) Regulations, 1994 and has obtained Unified Payment Interface (UPI) certification from National Payments Corporation of India (NPCI) and is registered with SEBI as a Sponsor Bank. Further, the Sponsor Bank ensures that applications by only Retail Individual Investors shall be made through the UPI mechanism.

Sponsor Bank shall be act as a conduit between the Stock Exchanges and NPCI in order to push the mandate collect requests and / or payment instructions of the retail investors into the UPI mechanism.

10.3 Bankers to the Issue

Banker to an issue means a scheduled bank or such other banking company, as specified by SEBI, to carry out activities such as: (i) acceptance of application and application monies; (ii) acceptance of allotment or call monies; (iii) refund of application monies; and (iv) payment of dividend or interest warrants.[40] The bankers to the issue are appointed by the

[40]Vide SEBI (Bankers to an Issue) (Amendment) Regulations, 2021 w.e.f. July 30, 2021.

Issuer for Anchor Investors, to manage the collection of funds in the issue into the escrow account opened for the purpose.

SEBI has permitted the non-scheduled Payments Banks, having prior approval from RBI, to register as Bankers to an Issue. These non-scheduled Payments Banks are also allowed to act as a Self-Certified Syndicate Bank, subject to the fulfilment criteria specified by SEBI. The blocking or movement of funds between investors and issuers will only be through the savings account of the investor held with these payments banks.[41]

10.3.1. Application Supported by Blocked Amount (ASBA)

SEBI has made Applications Supported by Blocked Amount popularly known as "ASBA", as mandatory mode of payment in Initial Public Offerings and Rights Issues for all categories of Investors from January 1, 2016. ASBA is an application for subscription to an issue containing an authorisation to the investors' bank to block the application money in his bank account.

For availing this facility, the investor's bank should have been registered with SEBI as Self Certified Syndicate Bank (SCSB). The SCSB will identify its designated branches (DB) where the ASBA investor can submit his form. All the DBs of an SCSB will be controlled by one branch of that Bank which will be designated as Controlling Branch (CB). All investors will be eligible to apply through the ASBA process. SCSB is required to give ASBA investors an acknowledgement for receipt of ASBA.

SEBI has also introduced additional channels for making subscription and/or paying call money in respect of partly paid specified securities through SCSBs and intermediaries. Such additional channels are:[42]

- Online ASBA: This facility can be availed through an online portal of SCSB. The SCSB will send the application to the RTA and block funds in shareholders account.
- Physical ASBA: This can be availed physically at a SCSB branch. The SCSB will send the application to the RTA and block funds in shareholders account.
- Additional Online mode: This mode is availed through the linked online trading-demat-bank account provided by some brokers.

- **ASBA Process**

An ASBA investor shall submit the application physically or through electronic means to the SCSB with whom the bank Account to be blocked is maintained. The SCSB will block the application money in the investor's account, which will remain so till finalisation of the basis of allotment or till withdrawal of the issue or withdrawal by the applicant.

[41]SEBI Circular No.: SEBI/HO/MIRSD/MIRSD_DOR/P/CIR/605/2021 dated August 3, 2021.
[42]SEBI Circular No.: SEBI/HO/CFD/DIL1/CIR/238/2020 dated December 8, 2020.

The SCSB thereafter will upload the application data through a web-enabled interface to be provided by the stock exchanges. After the basis of allotment is finalised, the registrar shall apply the basis and identify against each one of the ASBA investor the number of shares, if any, allotted and the amount if any to be appropriated for the allotment made and the balance amount to be unblocked/refunded. This information will be furnished by the registrar to the controlling branch who in turn debits the required amount from the investors account to be given to the issuer for the shares allotted. They will also unblock the balance amount in the account of the investor on receipt of instructions from the registrar.

ASBA investor interested in withdrawing his/her application during the bidding process will approach the SCSB and request for deletion of the bids. SCSB will do the necessary to delete the bids from electronic bidding system and unblock the bank account. Syndicate / sub-syndicate members/ designated intermediaries may procure ASBA forms from the investors and submit it to the Self Certified Syndicate Banks (SCSBs).[43]

Syndicate / sub-syndicate members would be required to upload the bid and other relevant details of such ASBA forms in the bidding platform provided by the stock exchanges and forward the same to the respective SCSBs. SCSBs shall carry out further action for such ASBA forms such as signature verification, blocking of funds etc. and forward these forms to the registrar to the issue.

SEBI has also suggested uniform policy for minimum compensation payable to Retail Individual Investors (RIIs) in an IPO due to error or failure on part of SCSBs resulting in rejection in the applications submitted by RIIs.

These policies provide a mechanism of compensation to investors for delay in unblocking of application amounts by SCSBs and prescribe certain compliance and reporting standards to be adopted by SCSBs. Investors are sent timely information about blocking/unblocking of application amounts through SMS alerts.[44]

- **Role and Responsibilities of the Registrar to the Issue regarding ASBA process**

Role and responsibilities of the Registrar to the Issue is specified in the circular issued by SEBI on ASBA process. The extract of the same is given below.

Role and responsibilities of Registrar to the Issue shall include the following:

[43]"Syndicate member" means an intermediary registered with SEBI and who is permitted to accept bids, applications and place orders with respect to the issue and carry on the activity as an underwriter.

[44] SEBI Circular No. SEBI/HO/CFD/DIL2/CIR/P/2022/51 dated April 20, 2022 on Streamlining the process of public issues and redressal of investor grievances.

1. Registrar to the Issue shall obtain the electronic bid data (including the Application Supported by Blocked Amount (ASBA) bid data) from the Stock Exchange(s) and match the DP ID, Client ID and PAN specified in the electronic bid file with the depository's database, for the purpose of acceptance of applications and finalisation of the basis of allotment.

2. Registrar to the issue shall intimate before opening of the issue the basis of commission payable to SCSBs, the bid/ issue opening and closing date/time, including details of revision in price band/ floor price/ bidding period, if any to SCSBs.

3. Once the basis of allotment is approved by the Designated Stock Exchange, the Registrar to the Issue shall provide the following details to the Controlling Branch (CB) of each SCSB, along with instructions to unblock the relevant bank accounts and transfer the requisite money to the issuer's account designated for this purpose, within the timelines specified in the ASBA facility:

(i) Number of shares to be allotted against each valid ASBA.

(ii) Amount to be transferred from the relevant bank account to the issuer's account, for each valid ASBA.

(iii) The date by which the funds referred in sub-para (ii) above, shall be transferred to the issuer's account designated for this purpose.

(iv) Details of rejected ASBAs, if any, along with reasons for rejection and details of unsuccessful ASBAs, if any, to enable SCSBs to unblock the respective bank accounts.

4. The Registrar to the Issue shall be responsible for the correctness and validity of the information furnished by it to SCSBs and shall be liable for all its omissions and commissions in discharging its responsibilities in the ASBA facility.

5. Registrar to the Issue shall act as a nodal agency for redressing complaints of ASBA, including providing guidance to ASBA investors regarding approaching the SCSB concerned.

6. Registrar to the Issue shall maintain accurately, at all times, the electronic records relating to ASBAs received from all SCSBs, including the following:

(i) ASBAs taken from the electronic bidding system of the Stock Exchange(s) and ASBAs furnished by SCSBs in respect of the issue;

(ii) Particulars relating to allotment of equity shares against valid ASBAs;

(iii) Particulars relating to the requisite money to be transferred to the issuer's account against valid ASBAs; and

(iv) Details of rejected/ unsuccessful ASBAs, if any.

10.3.2. Unified Payment Interface (UPI) Mechanism

Unified Payment Interface (UPI) is an instant payment system developed by the NPCI. It enables merging several banking features, seamless fund routing & merchant payments into one hood. UPI allows instant transfer of money between any two persons' bank accounts using a payment address which uniquely identifies a person's bank account. The purpose of introduction of the UPI payment mechanism with ASBA is to increase efficiency, eliminate the need for manual intervention at various stages, and reduce the time duration from issue closure to listing.

SEBI as a part of its continuing efforts to streamline the public issue process, has introduced the use of Unified Payment Interface (UPI) as a payment mechanism with Application Supported by Blocked Amount (ASBA) for applications in public issues by retail individual investors through intermediaries (Syndicate members, Registered Stock Brokers, Registrar and Transfer Agents and Depository Participants) in a phased manner from January 1, 2019.[45] The UPI mechanism for public issues is available for application value upto Rs. 5 lakhs.[46] In addition to SMS alerts, UPI Apps, eligible for public issues, shall send invoice in the inbox to verify the UPI mandate details.

- **Role and Responsibilities of the Registrar to the Issue regarding UPI Mechanism**

  Role and responsibilities of Registrar to the Issue shall include the following:

1. Registrar to an issue or other specified intermediaries in the issue process shall, at the time of receipt of application, provide an acknowledgement to investor, by giving the counter foil or specifying the application number to the investor, as a proof of having accepted the application form, in physical or electronic mode, respectively.
2. Registrar shall obtain electronic Bid details from the Stock Exchanges immediately following the Bid / Offer Closing Date. The Registrar to the Offer shall provide the file containing the Bid details received from the Stock Exchanges to all the SCSBs (including the Sponsor Bank) on the Bid / Offer Closing Date who may use the file for validation / reconciliation at their end.
3. Registrar shall reconcile the compiled data received from the stock exchange(s), all SCSBs and Sponsor Bank and reject multiple applications determined based on common PAN.
4. Registrars shall submit the details of cancelled/ withdrawn/ deleted applications to SCSB's on daily basis within 60 minutes of bid closure time from the Issue opening date till Issue closing date (T) by obtaining the same from Stock Exchanges. SCSB's shall unblock such applications by the closing hours of the bank day and submit the confirmation to the Lead Managers and RTA on

[45]SEBI Circulars No.: SEBI/HO/CFD/DIL2/CIR/P/2018/138 dated November 1, 2018, SEBI/HO/CFD/DIL2/CIR/P/2019/76 dated June 28, 2019 and SEBI/HO/CFD/DCR2/CIR/P/2019/133 dated November 8, 2019 regarding implementation of Unified Payment Interface (UPI) with ASBA.
[46]SEBI Circular Nos.: SEBI/HO/DDHS/CIR/P/2020/233 dated November 23, 2020 and SEBI/HO/CFD/DIL2/CIR/P/2022/45 dated April 5,2022 on UPI limits.

daily basis.[47]

5. In respect of bids made by Retail Individual Bidders using UPI ID, Registrar shall share the debit file post approval of the Basis of Allotment with the Sponsor Bank to enable transfer of funds from the ASBA Account to the Public Offer Account.
6. The unblocking of UPI mandates for non-allotted/ partial allotted applications to be completed by T+2 days (T being the issue closing day).[48]

Box 10.1 details about the processes involved in applying for public issue using UPI payment option.

Box 10.1: UPI as a payment option used in Public Issue Process[49]

UPI as part of bidding

- Investor will fill in the bid details in the application form or the mobile device / web interface of the intermediary along with his UPI ID.
- As per the existing process, investor may submit the application or fill in the bid details on the mobile device / web interface with any of the intermediaries (Syndicate Member / Registered Stock Brokers / Registrar and Transfer Agents / Depository Participants), who, on receipt of application will upload the bid details along with UPI id in the stock exchange bidding platform.
- The stock exchange will electronically share the bid details, along with investors UPI id, with the Sponsor Bank appointed by the issuer company.

UPI as part of blocking of funds

- The Sponsor Bank will request the investor to authorize blocking of funds equivalent to application amount and subsequently debit funds in case of allotment.
- The request raised by the Sponsor Bank, would be electronically received by the investor as SMS/intimation on his / her bank provided mobile no./ mobile app is linked to UPI ID.
- Upon validation of mandate fund block request by the investor by entering his UPI PIN, the said information would be electronically received by the investors' bank, where the funds, equivalent to application amount, would get blocked in investors account. Intimation regarding confirmation of such block of funds in investors account would also be received by the investor.

UPI as part of payment for shares post allocation process

- The registrar to the issue, based on information of bidding and blocking received from stock exchange, would undertake reconciliation and prepare the basis of allotment.
- Upon approval of such basis, the instructions would be sent to sponsor bank to initiate process for credit of funds in the public issue escrow account and unblocking excess money.

[47]SEBI Circular No.: SEBI/HO/CFD/DIL2/CIR/P/2021/2480/1/M dated March 16, 2021.

[48] SEBI circular no. SEBI/HO/CFD/TPD1/CIR/P/2023/140 dated August 9, 2023

SEBI Circular No.: SEBI/HO/DEPA-II/DEPA-II_SRG/P/CIR/2025/86 dated June 11,2025

[49]SEBI FAQ pertaining to use of UPI with ASBA https://www.sebi.gov.in/sebi_data/faqfiles/apr-2022/1649405387200.pdf

- Based on authorization given by investor using UPI PIN at the time of fund blocking, the funds, equivalent to the allotment, would be debited from investors account and remaining funds, if any, would be unblocked.

10.3.3 Adoption of Standardised, Validated and Exclusive UPI IDs [50]

Unified Payments Interface (UPI) has become a popular and convenient mode of money transfer. With an objective to enhance accessibility and safety in the securities market, SEBI proposes to offer structured Unified Payment Interface ('UPI') option for investors making payments to market intermediaries. The transfer of funds through this mechanism will assure investors that their payments are being made to the verified and registered market intermediaries. A verified UPI ID is linked to a validated bank account of the user thus ensuring secure transactions. RTAs are required to make this facility available by October 1, 2025. The investor shall be at liberty to use UPI or any other payment mechanism.

Responsibilities of the Registrar to the Issue

1. Create investor awareness about UPI payment handles and "SEBI Check" functionality through modes like SMS, e-mail communications, social media posts and audio-visual messages.

2. Create awareness and educational content for investors by placing relevant FAQS on respective websites.

10.4 Brokers to the Issue/Syndicate Members/ Designated Intermediaries

Brokers to the issue are appointed to facilitate the collections of application forms and bids. They are members of stock exchanges. They are responsible for collecting the bid/ application forms and ensure that it is accompanied by a payment instrument. They are paid a commission for their role depending upon their collection.

[50] **SEBI Circular No.: SEBI/HO/DEPA-II/DEPA-II_SRG/P/CIR/2025/86 dated June 11,2025**

10.5 Indicative timeline of activities for listing of shares through Public Issues

Sequence of Activities	**Listing within T+3 days (T is Issue Closing Date)**
Application Submission by Investors	Electronic Applications (Online ASBA through 3-in-1 accounts) – **Upto 5 pm on T day**. Electronic Applications (Bank ASBA through Online channels like Internet Banking, Mobile Banking and Syndicate UPI ASBA etc) – **Upto 4 pm on T day**. Electronic Applications (Syndicate Non-Retail, Non-Individual Applications) – **Upto 3 pm on T day**.
	Physical Applications (Bank ASBA) – **Upto 1 pm on T day**. Physical Applications (Syndicate Non-Retail, Non Individual Applications of QIBs and NIIs) – **Upto 12 pm on T day** and Syndicate members shall transfer such applications to banks **before 1 pm on T day**.
Bid Modification	From Issue opening date up to **5 pm on T day.**
Validation of bid details with depositories	From Issue opening date up to **5 pm on T day.**
Reconciliation of UPI mandate transactions (Based on the guidelines issued by NPCI from time to time): Among Stock Exchanges – Sponsor Banks – NPCI and NPCI – PSPs/TPAPs – Issuer Banks; Reporting formats of bid information, UPI analysis report and compliance timelines.	On Daily basis Merchant Bankers to submit to SEBI, as and when sought.
UPI Mandate acceptance time	**T day – 5 pm**

Sequence of Activities	**Listing within T+3 days (T is Issue Closing Date)**
Issue Closure	**T day – 4 pm** for QIB and NII categories **T day – 5 pm** for Retail and other reserved categories
<u>Submission of final certificates</u>**:** -For UPI from Sponsor Bank -For Bank ASBA, from all SCSBs -For syndicate ASBA	UPI ASBA – Before **09:30 pm on T day**. All SCSBs for Direct ASBA – Before **07:30 pm on T day.** Syndicate ASBA - Before **07:30 pm on T day.**
Third party check on UPI applications	On daily basis and to be completed before **9:30 AM on T+1 day**.
Third party check on Non-UPI applications	On daily basis and to be completed before **1 pm on T+1 day.**
Finalization of rejections and completion of basis	Before **6 pm on T+1 day.**
Approval of basis by Stock Exchange	Before **9 pm on T+1 day**.
<u>Issuance of fund transfer instructions in separate files for debit and unblock</u> For **Bank ASBA** and **Online ASBA** – To all SCSBs For **UPI ASBA** – To Sponsor Bank	Initiation not later than **09:30 am on T+2 day**; Completion before **2 pm on T+2 day** for fund transfer; Completion before **4 pm on T+2 day** for unblocking.
Corporate action execution for credit of shares	Initiation before **2 pm on T+2 day** Completion before **6 pm on T+2 day**
Filing of listing application with Stock Exchanges and issuance of trading notice	Before **7:30 pm on T+2 day**

Sequence of Activities	**Listing within T+3 days (T is Issue Closing Date)**
Publish allotment advertisement	On website of Issuer, Merchant Banker and RTI - before **9 pm on T+2 day**. In newspapers – **On T+3 day** but not later than **T+4 day.**
Trading starts	**T+3 day**

Chapter 10: Sample Questions

1. The role and responsibility of each constituent (intermediary) in an issue process is defined by the lead manager. State whether True or False.
   a. TRUE
   b. FALSE

2. In an initial public offer of shares, which of the following modes of payment is mandatory?
   a. Cheque
   b. Demand Draft
   c. Application supported by blocked amount
   d. Cash

3. Register of Members and Allotment Registers are prepared by which of the following?
   a. Lead Managers
   b. Registrar and Transfer Agents
   c. Bankers to an Issue
   d. Stock Brokers

4. Bankers to an issue are appointed by the _____ for an anchor investors.
   a. Issuers
   b. Custodians
   c. Lead Managers
   d. Registrar and Transfer Agents

5. Registrar to the Issue shall maintain accurately, at all times, the electronic records relating to ASBAs. State whether True or False.
   a. TRUE
   b. FALSE

CHAPTER 11: DEPOSITORY SERVICES

Learning Objectives:

After studying this chapter, you should know about the role of depository in the public issue of shares:

- Dematerialisation
- Constituents of depository system
- Investor Interface with the Depository

A depository is an institution that offers the service of holding the securities of the investors in electronic form. Its services can be compared to that of a bank which holds the depositors' funds and facilitates the conduct of fund related transactions.

Similarly, a depository allows the investors to hold their securities in electronic rather than physical form and provides services related to transaction in securities.

The Depositories Act was passed in 1996 which allow companies and investors to issue, hold and transact in securities through a depository. There are currently two depositories operational in India, National Securities Depository Ltd. (NSDL) & Central Depository Services (India) Ltd. (CDSL). The securities can be dematerialised at the time of issue or subsequently.

SEBI (Issue of Capital and Disclosure Requirements) Regulations require all issues by public limited companies to be only in dematerialised format.

11.1 Dematerialisation

Companies are required to apply to a depository for dematerialising their securities. The executive committee of the depository will evaluate the eligibility of the securities for admission.

Under the SEBI (Depository and Participants) Regulations the categories of securities eligible for dematerialisation are:

- Shares, scrips, stocks, bonds, debentures, debenture stock, Indian Depository Receipts, Electronic Gold Receipts or other marketable security of any incorporated company or other body corporate.
- Units of a mutual fund, rights under a collective investment scheme, venture capital funds, certificates of deposit, commercial paper, money market instruments, government securities and unlisted securities.

Under the Depository Act, the physical securities that are dematerialised are required to be destroyed by the R&T agent and a credit entry is made in the electronic records of the depository.

The dematerialised securities are fungible. This means that once a share certificate is dematerialised, it does not have a distinctive identity in terms of share certificate number or distinctive numbers or folio numbers.

The investor's ownership of the security is described in terms of number of shares held. In the depository, the dematerialised securities are identified in terms of the ISIN (International Securities Identification Number) and the number of shares. The ISIN is a unique 12 digit number allotted to each security in conformity with the ISIN Standard. The first two digits identify the country. For example, for India it is IN. The next 9 alpha-numeric characters are the basic numbers that identify the company and the specific security of the company. The last digit is the check digit.

11.2 Constituents of the Depository System

The services of the depository such as electronic transaction in securities, is provided in conjunction with the constituents of the system namely the Issuing Company/ R&T agent and the depository participants.

The depository, the issuer company and the registrar and transfer agent enter into a tripartite agreement that lays down the role and responsibilities of each party. The responsibilities of the parties to the agreement are as follows:

Depository

- The depository shall assign a unique identity code to the dematerialised security.
- The depository shall give the list of beneficial owners periodically to the issuer/R&T agent.
- The depository will provide the details of beneficial owners as on the record date for a corporate action.
- The depository shall give information sought by the issuer such as pending dematerialisation requests or information about beneficial owners within a specified period on the payment of a prescribed fee.
- Any complaint received from a beneficial owner will be resolved within a period of 21 calendar days.[51]

[51] SEBI (Facilitation of Grievance Redressal Mechanism) (Amendment) Regulations, 2023 w.e.f. August 18, 2023.

Issuer / R&T Agent

- The issuer/R&T agent shall enable continuous electronic connectivity with the depository and will ensure that the hardware, software and other system requirements, specified by the depository, is used for the operations.
- The issuer/R&T agent will give appropriate notice to the depository of any fresh issues and other corporate actions such as dividends and bonus.
- The issuer/R&T agent will abide with the 15 days and 30 days limit for processing requests for dematerialisation and rematerialisation of securities respectively.
- The issuer/R&T agent will be responsible for the destruction, cancellation and mutilation of certificates received for dematerialisation.
- The issuer/R&T agent will be responsible for any liability undertaken by the depository according to the bye-laws laid down.
- Any complaint received from a beneficial owner will be resolved within a period of 21 calendar days.

Depository Participants

The investor's interface with the depository happens through an entity called the depository participant (DP). The DPs are appointed by the depository to act as their agents or contact points for the investor. The investor has to open a demat account through the DP to avail of the services offered by the depository. DP will ensure that all KYC (Know Your Client) norms are followed and the KYC's are regularly updated. Where eligible demat account holders fail to link their PAN with Aadhaar within the specified time period, such demat accounts will become KYC non-complaint (i.e. inoperative PAN) and will have restrictions on Debit and Credit transactions.

DPs are appointed by the depository with the approval of SEBI. The SEBI (Depositories and Participants) Regulations, 2018 lays down the eligibility criteria to become a DP. The following categories are eligible to become DPs:

- Banks, including foreign banks operating in India
- Financial Institutions
- Non-banking Finance Companies
- Stock brokers
- R&T Agents
- Custodians
- Clearing Corporations

SEBI has prescribed minimum net worth requirements for stock brokers, NBFCs and R&T agents to act as DPs. However, there is no net worth requirements for other categories of persons to act as DPs. The extent of business that a stock broker can undertake, in terms of the value of the securities held in dematerialised form for beneficial owners, is a

multiple of the net worth of the stock broker. The depository can prescribe a higher net worth requirement for the participants.

Designated Depository Participants

SEBI (Foreign Portfolio Investors) Regulations, 2019 states that Designated Depository Participants (DDPs) would grant registration to FPIs on behalf of SEBI and also carry out other allied activities in compliance with the Regulations and other guidelines, circulars, issued thereunder.

Each FPI shall engage a DDP before making investment in Indian securities market. At all times the DDP and the Custodian of securities (Custodian) of the FPI shall be the same entity.

The FPI needs to have a valid registration as long as it is holding securities or derivatives in India. However, as per a recent SEBI amendment, the FPI holding securities or derivatives in India, whose certificate of registration is not valid as on the Commencement Date, is allowed to sell such securities or wind up their open position in derivatives in India within 360 days from the Commencement Date.[52] Further, an FPI is required to pay the registration fees for every period of 3 years, before commencement of the said period.

11.3 Investor's Interface with the Depository

The Depository Act permits investors to hold and transact in securities in electronic form rather than in physical form. Holding securities in the electronic form or in a dematerialised form has the following advantages:

- The risks of loss, mutilation and forgery associated with physical securities are eliminated.
- The time taken to transact in securities is reduced.
- The cost of transaction, including stamp duty is reduced.
- Services such as transfer, transmission, nomination, receipt of benefits, automatic credit of shares arising out of Bonus Issue, Split, Consolidation, Mergers and the like are done faster and more efficiently.
- Consolidation of holding across folios and across instruments such as equity, debt and government securities becomes possible.

An investor who wants to hold and transact in securities in the dematerialised form has to first open an account with a DP. There are certain formalities such as proof of identity, proof of address, and PAN card that have to be submitted for opening a demat account.

[52] Vide SEBI (FPI) (Amendment) Regulations, 2024 w.e.f. June 3, 2024.

Once the account is opened, securities of the investor get credited to the account in two ways:

- Securities applied for in a public offer or in any issue including bonus are credited directly to the investor's DP account mentioned in the application form.
- Physical securities held by the investor can be submitted for dematerialisation. Once the securities are dematerialised, it gets credited to the investor's account.

Once the securities are dematerialised, their position is as follows:

In the Records of the Issuer

The investor is the beneficial owner. This means that all the corporate benefits of a shareholder, such as dividends, bonus, rights, voting rights and the like are with the investor. The Depository is the registered owner of the securities.

In the Records of the DP

Separate accounts have to be maintained for each beneficial owner. Transfer to and from the account of the beneficial owner and all other entries in the account must be supported by instructions from the client. The DP should provide a transaction statement at least on a monthly basis to the clients.

Rights of the Investor as the Beneficial Owner

The investor is the beneficial owner of the securities held in electronic form with the depository through the account with the depository participants.

This entitles the investors to:

- Transact in the securities as they deem fit.
- Receive all entitlements such as dividends, bonus, rights, interest and the like.
- Exercise voting rights on the shares held in their account.
- Avail facilities such as consolidation, transfer, transposition, nomination, pledge and other transactions as deemed fit.
- Receive periodic information, as agreed, from the depository participant about the status of their account.

Chapter 11: Sample Questions

1. Physical shares that are dematerialised are _____ by the R&T agent.
   a. **Destroyed**
   b. Preserved

2. An investor opens a demat account with _____.
   a. Stock Brokers
   b. **Depository Participants**
   c. Stock Exchanges

3. _____ is the registered owner of the shares held in the dematerialised form.
   a. Issuer company
   b. Investor
   c. **Depository**
   d. Registrar and Transfer Agent

4. Shares can be dematerialised only at the time of public issue. State whether True or False.
   a. TRUE
   b. **FALSE**

5. Fungibility means that the certificate number, distinctive numbers and folio numbers of dematerialised shares are preserved. State whether True or False.
   a. TRUE
   b. **FALSE**

CHAPTER 12: PROCESSES RELATED TO DEPOSITORIES

Learning Objectives:

After studying this chapter, you should know about the Processes related to Depositories:

- Dematerialisation of Securities
- Rematerialisation of Securities
- Trading and Settlement
- Beneficial Owner Reporting
- Corporate Action
- Reconciliation

12.1 Dematerialisation of Securities

Dematerialisation is the process of converting physical securities into electronic form. It involves the investor, the DP, the issuer/R&T Agent and the Depository.[53]

The steps in this are:

- Investor hands over the securities to be dematerialised along with the Dematerialisation Request Form (DRF) to the DP.
- The DP sends the request through the electronic system to the issuer/R&T Agent via the Depository interface system. The Dematerialisation Request Number (DRN) that is generated by the system is entered on the DRF and sent along with the physical certificate and a standard covering letter to the R&T Agent.
- The certificates received by the R&T Agent will have the words 'Surrendered for Dematerialisation' on it, upon completion of demat process the certificates will be mutilated by the R&T Agent.

The R&T Agent has to verify that:

- The DRF has the DP's authorization
- The dematerialisation request has been received in electronic as well as physical form.
- The DRN in the physical documents matches with the DRN in the electronic request.
- The certificates have the distinguishing marks such as hologram/water mark. Certificate issued with the remarks "Lock in period" shall also carry such tag in demat mode provided that such lock-in is still in force.
- The inward counter of the R&T Agent will verify the physical documents with the details in the covering letter and DRF and forward the documents for dematerialisation.

[53] SEBI Circular No.: SEBI/HO/MIRSD/RTAMB/CIR/P/2019/122 dated November 5, 2019 on Enhanced due diligence for dematerialisation of physical securities.

The process of giving effect to dematerialisation by the R&T Agent is similar to that of transfer of registered ownership. The data to be captured, reports to be generated, documents to be filed are similar. In the Register of Members (ROM) of the company, the Depository's name is included in the place of the investor to the extent of securities dematerialised. However, no stamp duty is payable on dematerialisation unlike other transfer of ownership transactions.

Once the ROM of the company is amended, confirmation is sent to the Depository and the investor's account with the DP is credited with the number of dematerialised shares.

A dematerialisation request may be fully or partially rejected for the following reasons:

- Mismatch in the information between the DRF and physical certificates.
- Certificates are fake, stolen or for which duplicates have been issued.
- Securities stand in a different name(s) from that mentioned in the DRF.
- The Securities do not pertain to the issuer/R&T Agent.
- Signature of the holders does not tally with the records of the R&T Agent.
- Delay of more than 30 days in the receipt of physical securities from the day of electronic request.

The R&T Agent shreds the certificates once the process of dematerialisation is complete, after the specific retention period. The details of the certificate destroyed are entered into the Register of Destroyed Certificates.

The account number of the beneficial owner is entered into the holding master maintained by the R&T Agent for future reference. The process of dematerialisation has to be completed within a period of 15 days from receiving the physical request.

For dematerialisation at the time of an IPO, the following steps have to be followed:

- The Company, R&T Agent and the Depository enter into an agreement for admission of securities in the Depository.
- The Depository assigns an ISIN for the security.
- The allotment advice for demat shares will have the client account number, DP id and Depository details.
- For the demat shares, the Depository will be entered as the registered holder in the Register of Members of the company and the details of the corresponding beneficial owners will be uploaded in the Depository's system.
- The issuing company or the R&T Agent may also maintain the details of the beneficial owners.

The DRFs are required to be stored for atleast a period of 8 years.

12.2 Rematerialisation of Securities

Rematerialisation of securities is the process of converting the securities in electronic holding to physical form.

The steps involved in this process are:

- Investor submits a Rematerialisation Request Form (RRF) to the DP.
- The DP validates the signature and the availability of the shares in free form in the investor's account.
- The request is then electronically forwarded to the Depository.
- The RRF will have details such as the name(s) of the holder(s), signature, Number of shares to be rematerialised, address, bank account details, PAN , age, tax status, lock-in indicator, if any, and nominees, if any.
- The depository validates the information and forwards an electronic request through the Depository system to R&T Agent. This can also be viewed by the DP.
- The DP sends the RRF to the Issuer/R&T Agent who cross verifies it with the electronic confirmation received from the Depository and forwards it for processing.
- Acknowledgement of this is sent to the DP.
- The R&T Agent will capture the information in the RRF and create a new folio or add to an existing folio. The procedure to be followed is the same as that for creating a folio in case of transfer of securities in physical mode.
- The R&T Agent will assign a new certificate number and distinctive numbers from the set of shares already dematerialised.
- The names of the beneficial owners along with shares rematerialised will be included in the Register of Members of the company and such shares standing in the name of the Depository be removed to that extent.
- In the records of the Depository, the investor's account will show a reduction of shares to the extent of rematerialisation.
- The R&T Agent shall ensure that the applicable revenue stamps are affixed on newly rematerialised share certificate.
- The R&T Agent will print certificates in the name of the investor along with the lock-in period indicator, if any, and dispatch them directly to the shareholder after affixing common seal on the face of the certificate.
- Confirmation of the rematerialisation will be electronically sent to the DP via the Depository system interface.

Rematerialisation of securities will have to be completed within a period of 30 days from the receipt of physical RRFs. The RRF should be stored for atleast a period of 8 years.

12.3 Trading and Settlement

One of the primary functions of a Depository is to facilitate the movement of securities that is necessitated by trading activities.

Trading in securities involves the movement and transfer of securities between the seller and the buyer. These transactions may be done within the structure of a stock exchange or on a person to person basis outside the purview of the stock exchange.

Trades done and settled within the mechanism provided by the exchange are called market trades. Trades done one-on-one and settled outside the clearing and settlement mechanism of a stock exchange are called off-market trades. Both market and off-market trades involve movement of securities from the seller to the buyers and hence the involvement of the Depository.

The beneficiary account of a holder can be debited or credited only on the instruction of the holder. For debits, the account holder gives this instruction to the DP through a Delivery Instruction Slip (DIS). The DIS form has the name, address and DP id pre-printed on the form. The client id is also pre-stamped on the form.

The account holder will have to fill in the following information:

- Receiver details- For market trades this would be the clearing member id, for off-market trades the DP id, the DP name and the client id of the receiver
- The settlement number of market trades
- The ISIN and the name of the security
- The quantity in figures and words
- The execution date which is the date on which the account will be debited
- The signature of all the holders of the account

Credits to the account are received automatically if the account holder has given standing instructions (SI) to the DP for receipts. If SI has not been given, then a receipt instruction has to be given every time a credit is expected. The receipt instruction will have to be filled in for:

- Details of the client and DP, clearing member id, settlement number if receipt is expected from a client, clearing member or as a result of market trade respectively.
- The ISIN and name of security
- The quantity of security
- The execution date
- The signature of all account holders

Off-Market Trades

In an off-market trade, there is no participation of the stock exchange or its institutions such as the clearing corporation. Usually large trades between institutions and large private clients among others may be done as off-market trades.

The securities involved in the trade, if held in electronic form, will have to be transferred from the beneficiary account of the seller to that of the buyer. The Depository mechanism is used only for the transfer of securities; the cash settlement is done outside the ambit of the Depository.

The process is as follows:

- The seller gives instructions to the DP to debit the sellers beneficiary owners account with the securities according to the details in the DIS.
- The DP verifies the signature of the holders on the DIS and enters the instruction on the depository system. The securities are moved out of the sellers account on the execution date.
- The account of the buyer receives credit of the securities if a standing instruction has been given to the buyer's DP.

Market Trades

Market trades are trades done through the trading, clearing and settlement mechanism of the stock exchange. The transfer of shares available for trading in the dematerialised form is conducted through the depository system.

Since the trades done on a stock exchange are anonymous, the clearing corporation of the exchange stands between all trades. There is no direct transfer of shares between the buyer and the seller.

The transfer of securities for trades done on an exchange has to be within the time cycle, called the settlement cycle, specified by the exchange. The details of the settlement positions of each trading member in terms of obligation for delivery and receipt of shares are downloaded by the exchange to each broker.

Market trades are done through members of the stock exchange who are required to be participants in the depository system also.

Once a trade is done, the securities move in the following manner:

- The seller gives instructions to his DP to move securities to the clearing member account of the broker.

- The broker will in turn transfer the securities to the clearing corporation by the pay-in date specified in the settlement schedule of the exchange.
- The clearing corporation will transfer the securities to the clearing member account id of the receiving broker, i.e. the broker through whom the buyer bought the shares, on the pay-out day.
- The buyer's broker will give instructions to transfer the securities to the beneficiary account of the buyer. For this, either the buyer should have given standing instructions to his DP to receive all credits to his beneficiary account or give receipt instruction for every credit that is expected.

Movement of securities entailed by a market trade is according to the schedule prescribed by the exchange in the settlement schedule.

Secondary market trades in India, have moved into the T+1 (Trade + 1) settlement cycle from 27 January 2023. SEBI has implemented this new cycle to bring operational efficiency, quicker fund remittances, share delivery, and easy trading for stock market investors.

Inter-depository Delivery

Trades done on a stock exchange may require transfer of securities between depositories. The SEBI (Depositories and Participants) Regulations, 2018 requires depositories to be inter-connected.

Inter-depository delivery of securities is possible only if the security is available for dematerialisation in both the depositories. For inter-depository debits and credits, instructions have to be given in the inter-depository delivery or receipt forms to the DPs of the seller and the buyer.

Inter-depository transfer instructions are exchanged on-line for each day between the depositories.

12.4 Beneficial Owner Reporting

An investor holding dematerialised shares can conduct transactions such as transfer of shares without having to resort to the Issuer/ R&T agent.

However, information about the change in the holding of beneficial owners of the shares of the company and details of new beneficial owners have to be periodically provided to the issuer depending upon the agreement between the Issuer and the depository. In case of the entry of a new beneficial owner, the information that is provided by the depository are:

- ISIN
- Name(s) of the holder(s)
- Address
- Minor Indicator/Date of Birth
- PAN details
- Bank account details
- Nominee details, if any
- Details of the DP
- Client account number of the beneficial owner
- Number of shares

The Beneficial Owner Master Register is updated by the R&T agent based on the above information. For existing beneficial owners, any change of information such as address, bank information and nominee details shall be communicated to the DP. The issuer/R&T agent need to download the Beneficial Owner Master every time there is a corporate action such as dividend, bonus and the like. The depository provides a beneficial owner download as on the record date/book closure for the corporate actions which have all the following information of the beneficiary owner including:

- ISIN
- Name of beneficial owner(s)
- Address & Bank Info of beneficial owner
- Quantity of shares held in the account
- Details of the shares under lock-in period

The entitlement of beneficial owners to corporate actions depends upon the holding as per the download provided as of record date/book closure.

12.5 Corporate Actions

Apart from the public issue of shares, the depository, issuer, R&T agent, DP and the investor are involved to give effect to other corporate actions such as:

- Bonus/Split/Consolidation
- Rights
- Mergers/Acquisitions

Bonus Issue/Split/Consolidation

The company informs the depository as well as R&T agents about the record date for the bonus issue. The depository generates a beneficial owner's report as on this date based on which the R&T agent updates the beneficial owner master and calculates the entitlements for each beneficial owner.

The R&T Agent obtains the download from the depository as of the record date/book closure date and after the Company completes the listing formalities with the Stock Exchanges on the basis of the "In principle approval for listing of the shares" given by the Stock Exchange. Then they approach the depository for carrying out a corporate action for crediting the bonus shares into the respective investors account. After the shares are credited, the R&T Agent will send a communication to the investors for the corporate action carried out.

As per the present directions given by SEBI, a company is not permitted more than one ISIN for its equity shares unless the amount called and paid is not the same or the shares have differential voting rights. In other words, all shares under an ISIN shall be *pari pasu* in all respects.

SEBI has also specified that allotment of Bonus shares is to be done only in dematerialised form, after ensuring issuer has received approval from the stock exchanges for listing and trading of all the securities, excluding options granted to employees pursuant to an employee stock option scheme and convertible securities, prior to the issuance of bonus shares.

Aimed at improving the efficiency of bonus share issues and streamlining processes and protect investor interests, SEBI mandates a reduction in the time for trading bonus shares from the record date, effective from October 1, 2024.[54] Issuers must apply for approval of the bonus issue within 5 working days of the Board meeting and fix the record date (T Day), with the deemed date of allotment being T+1. Stock exchanges will notify the record date and allotment date, while issuers are required to submit documents to depositories by noon the next working day (T+1). Bonus shares will be available for trading on T+2 day. Additionally, the requirement for temporary ISINs for bonus shares is exempted, allowing direct credit into the permanent ISIN.

Rights Issue

When a company is planning a rights issue it has to obtain the beneficial owner download from the depository by giving details of the ISIN for which they want the report and the book closure period/record date.

The R&T agent calculate the rights allotment of each beneficial owner and send the composite application form to them. The beneficial owners/ renouncees mention in the form whether they want the rights allotted (electronic or physical) and submit it to the ASBA / Collection bank.

[54] SEBI Circular No.: CIR/CFD/PoD/2024/122 dated September 16, 2024.

The process of allotment, refund and intimation of allotment follows the normal procedure. The depository's name is included in the register of members of the company for the shares allotted to investors in the electronic form.

After verification, the R&T agent sends the information of the rights allotted through a credit corporate action to the depository. The statement gives details of the client account number, DP Id, ISIN and quantity allotted. The depository validates, acknowledges receipt of the statement and downloads the information to the DPs who inform their clients. The R&T Agent also sends an individual communication to the investor.

Mergers and Amalgamations

In a merger of two companies or a takeover of a company by another (transferee company), a scheme of amalgamation or takeover is decided which defines the number of shares of one company that will be exchanged for the other or issued in the other company.

The various scenarios are as follows:

- If the shares of both the companies have been included for dematerialisation by the depository then the exchange of shares are done electronically.
- If the shares of the acquiring company alone have been admitted for dematerialisation, the investors of the acquired company have the option of receiving shares in the electronic form.
- If the shares of the acquired company alone are admitted for dematerialisation, the depository give a list of beneficial owners to the acquiring company/R&T agent who are eligible for shares of the company. The physical securities are then sent to the beneficial owners.
- If the two companies are to be merged into a new entity and the shares of the new company has been admitted to a depository, the shareholders are required to receive their shares in electronic form.

The R&T agent of the transferee company is responsible for undertaking all activities related to the merger/takeover such as:

- Informing the depository about the corporate action and record date.
- Obtaining the record of beneficial owners, if applicable.
- Calculating the entitlement according to the scheme of amalgamation/takeover.
- Informing the shareholders and beneficial owners of the details of the scheme of amalgamation/takeover and the option, if available, to receive shares in the electronic form.
- Completing the process of allotment of shares in electronic and/or physical form just as it is done for a rights issue of shares, downloading the

information to the depository, if shares are being allotted in the electronic form and obtaining the acknowledgement from the depository.

- Including the depository in the register of members for the shares allotted in electronic form and updating the beneficial owners' master.

12.6 Reconciliation

The records of the holdings in a security are maintained by the issuer/R&T agent through the register of members. If the shares are also held in electronic form, then a record of the holdings are also available with the depository.

The records held with the R&T agent and with the depository are reconciled on a daily basis to check the integrity of the total capital issued by the Company. The reconciliation is an end of day process done on a daily basis.

The holding in the register of members along with the pending dematerialisation and rematerialisation requests should be equal to the holding in the depository along with the pending dematerialisation and rematerialisation requests. If there is a discrepancy, the same has to be resolved between the issuer and the depository before any other activity is undertaken. The common reasons for discrepancies are requests which are in transit between the DP and the R&T agent or a communication failure between the depository and the R&T agent.

12.6.1 Database for Distinctive Number (DN) of Shares

The Depository System Review Committee (DSRC), constituted by SEBI, while emphasising on the issuer's responsibility for reconciling records of total issued capital, listed capital and capital held by depositories in dematerialized form, recommended that the depositories may maintain complete reconciled record of total issued and listed capital, including both physical and dematerialized shares.

Subsequently SEBI issued a circular, CIR/MRD/DP/ 10 /2015 dated June 5, 2015, to ensure centralised record of all securities, including both physical and dematerialised shares, issued by the company and its reconciliation thereof, it had been decided that the Depositories shall create and maintain a database of distinctive numbers (DN) of equity shares of listed companies with details of DN in respect of all physical shares and overall DN range for dematerialised shares.

The DN database shall make available, information in respect of issued capital, such as DN Range, number of equity shares issued, name of stock exchange where the shares are listed, date of in-principle listing / final trading approval / dealing permission, shares held in physical or demat form, date of allotment, shares dematerialized under temporary (frozen) ISIN (International Securities Identification Number) or Permanent (active) ISIN etc., at one place.

Process for handling of Distinctive Numbers for fresh issuance, transfers, duplicate and split of shares are discussed below:

Part – I (Physical Mode)

1. When a company is incorporated and shares are allotted to their promoters and subscribers to memorandum, the distinctive numbers are assigned to each share that gets allotted as per Table 12.1 shown below:

Table 12.1:

Name of Shareholder	Folio Number	Certificate Number	Distinctive Number		Number of Shares
			From	To	
A	00000001	0001	1	10,000	10,000
B	00000002	0002	10,001	15,000	5,000
C	00000003	0003	15,001	19,600	4,600
D	00000004	0004	19,601	19,700	100
E	00000005	0005	19,701	19,800	100
F	00000006	0006	19,801	19,900	100
G	00000007	0007	19,901	20,000	100
				Total Capital	20,000

2. When shares are transferred in physical form from one person to another, new folio will be allotted and the same certificate number and distinctive number will be carried on to the new person.

Instance: Shareholder C transfers his entire holding of 4600 shares to H: (see Table 12.2 below)

Table 12.2:

Name of Shareholder	Folio Number	Certificate Number	Distinctive Number		Distinctive Number
			From	To	
A	00000001	0001	1	10,000	10,000
B	00000002	0002	10,001	15,000	5,000
C	00000003	Ceases to be member and folio will carry Nil holding			
D	00000004	0004	19,601	19,700	100
E	00000005	0005	19,701	19,800	100
F	00000006	0006	19,801	19,900	100

G	00000007	0007	19,901	20,000	100
H	00000008	0003	15,001	19,600	4,600
				Total Capital	20,000

2a. In case of partial transfer, then the certificate is split into two and then the transfer is affected

Instance: Shareholder C transfers 600 shares to H: (see Table 12.3 below)

Table 12.3:

Name of Shareholder	Folio Number	Certificate Number	Distinctive Number		Distinctive Number
			From	To	
A	00000001	0001	1	10,000	10,000
B	00000002	0002	10,001	15,000	5,000
C	00000003	~~0003~~	Certificate split into two – no.0008 & 0009		
		0008	15,001	19,000	4,000
D	00000004	0004	19,601	19,700	100
E	00000005	0005	19,701	19,800	100
F	00000006	0006	19,801	19,900	100
G	00000007	0007	19,901	20,000	100
H	00000008	0009	19,001	19,600	600
				Total Capital	20,000

3. When share certificates are lost and a duplicate certificate is issued, the certificate number alone will be changing, while distinctive numbers and folio numbers will remain the same.

Instance: Shareholder G seeks duplicate share certificate: (see Table 12.4 below)

Table 12.4:

Name of Shareholder	Folio Number	Certificate Number	Distinctive Number		Distinctive Number
			From	To	
A	00000001	0001	1	10,000	10,000
B	00000002	0002	10,001	15,000	5,000
C	00000003	~~0003~~	Certificate split into two – no.0008 & 0009		
		0008	15,001	19,000	4,000

D	00000004	0004	19,601	19,700	100
E	00000005	0005	19,701	19,800	100
F	00000006	0006	19,801	19,900	100
G	00000007	~~0007~~	Certificate number will cease to be valid-Dup		
		0010	19,901	20,000	100
H	00000008	0009	19,001	19,600	600
				Total Capital	20000

4. Transmission and Transposition will be same process as that of Transfer with regard to updation of the Register of Members, except that the type of transaction in the records will be showing as Transmission/Transposition, as the case may be.

5. When Certificate split or consolidation requests are processed, only the certificate number changes and the distinctive number for the shares remains the same. In respect of split, the distinctive numbers will be split as to the number of shares split is requested for. In respect of consolidation, the distinctive numbers will be consolidated and reflect under same certificate number.

Part – 2 (Demat Mode)

6. When this company gets demat connectivity, the depositories will be added in the Register of Members as a shareholder. When a few of their shareholders gets their shares dematerialised with NSDL and CDSL, their respective distinctive numbers will be moved to the folio of NSDL and CDSL in the Register of Members (RoM). For arriving at the beneficiary owners, the BenPos received form NSDL and CDSL will be considered. The RoM after demat will be as given in Table 12.5 below :

   Instance: A and C get their shares dematerialised with NSDL. D gets his shares dematerialised with CDSL.

Table 12.5:

Name of Shareholder	Folio Number	Certificate Number	Distinctive Number		Distinctive Number
			From	To	
A	~~00000001~~	~~0001~~	Dematerialised and folio ceases to be valid		
B	00000002	0002	10,001	15,000	5,000
C	~~00000003~~	~~0003~~	Certificate split into two – no.0008 & 0009		
		0008	Dematerialised and folio ceases to be valid		

D	~~00000004~~	0004	Dematerialised and folio ceases to be valid		
E	00000005	0005	19,701	19,800	100
F	00000006	0006	19,801	19,900	100
G	00000007	~~0007~~	Certificate number will cease to be valid-Dup		
		0010	19,901	20,000	100
H	00000008	0009	19,001	19,600	600
NSDL	99999999		1	10,000	14,000
			15,001	19,000	
CDSL	77777777		19,601	19,700	100
				Total Capital	20,000

7. When a shareholder wants to Remat the shares, the shares are converted into physical mode, where a new folio and new certificate number (which will be the running number), will be allotted to the shareholder and distinctive numbers will be moved from the folio of the respective depository, from where Remat request is confirmed:

   Instance: J sends request for Remat of 100 shares from his demat a/c held with a NSDL DP. (see Table 12.6 below)

   Table 12.6:

Name of Shareholder	Folio Number	Certificate Number	Distinctive Number		Distinctive Number
			From	To	
A	~~00000001~~	~~0001~~	Dematerialised and folio ceases to be valid		
B	00000002	0002	10,001	15,000	5,000
C	~~00000003~~	~~0003~~	Certificate split into two – no.0008 & 0009		
		0008	Dematerialised and folio ceases to be valid		
D	00000004	0004	Dematerialised and folio ceases to be valid		
E	00000005	0005	19,701	19,800	100
F	00000006	0006	19,801	19,900	100
G	~~00000007~~	0007	Certificate number will cease to be valid-Dup		

	00000007	0010	19,901	20,000	100
H	00000008	0009	19,001	19,600	600
NSDL	99999999	-	1	10,000	
			15,001	18,900	13,900
CDSL	77777777	-	19,601	19,700	100
J	00000009	0011	18,901	19,000	100
				Total Capital	20,000

12.7 Crediting shares to IEPF Account

Procedure for transferring shares to fund:

- Shares to be credited to demat account of IEPF Authority within 30 days of such shares becoming due for transfer to IEPF.
- The transfer of shares by the companies to IEPF shall be deemed to be transmission of shares and the procedure for transmission of shares to be followed while transferring the shares to IEPF.
- Board of Directors shall authorize Company Secretary or any other person to sign the necessary documents for effecting transfer of shares to IEPF.
- Company shall inform, at the latest available address, the shareholder concerned regarding the transfer of shares. Such details shall also be posted on website of the company.
- Simultaneously, the company to publish a notice in a leading newspaper in English and regional language having wide circulation informing the concerned that the names of such shareholders and their folio number or DP Id and Client Id are available on their website and duly mentioning the website address.
- Company to inform CDSL and NSDL by way of corporate action requesting them to transfer the shares to the demat account of IEPF Authority (if the shares are held in demat form). On receipt of such information, the depository shall effect the transfer of shares in favour of demat account of IEPF Authority.
- The company shall make such transfers through corporate action and shall preserve copies for its records.
- While effecting such transfer, the company shall send statement to the Authority in Form No. IEPF – 4 containing such transfer.
- Voting rights on the shares transferred to the IEPF shall remain frozen until the rightful owner claims the shares.
- For the purpose of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, the shares which have been transferred to the Authority shall not be excluded while calculating the total voting rights.
- The company shall maintain details of shareholding of each individual shareholding whose shares have been credited to the demat account of the IEPF Authority.

- All the benefits accruing on such shares i.e. bonus shares, split, consolidation, fraction shares etc, except right issue, shall also be credited to the demat account.

Procedure to claim Refund:

- The refund claim to be filed in Form IEPF-5, downloadable from the IEPF website: http://www.iepf.gov.in. The claimant should read the instructions provided on the website/instruction kit along with the e-form carefully before filling the form.
- Submit the duly filled in form online by following the instructions given in the upload link on the website. On successful uploading an acknowledgement will be generated.
- The claimant should submit an indemnity bond in original, copy of acknowledgement and self-attested copy of e-form along with the other documents as mentioned in the Form IEPF-5 to Nodal Officer (IEPF) of the company at its registered office in an envelope marked "Claim for refund from IEPF Authority".
- Claim forms completed in all aspects will be verified by the concerned company and on the basis of company's verification report, refund will be released by the IEPF Authority in favour of claimants' Aadhaar linked bank account through electronic transfer.

Chapter 12: Sample Questions

1. On dematerialisation, the name of the _____ is entered in the Register of Members.
   a. Depository
   b. Depository Participant
   c. Registrar and Transfer Agent

2. The database of distinctive numbers (DN) of equity shares of listed companies are created and maintained by _____.
   a. Issuer company
   b. Depository
   c. Custodians
   d. SEBI

3. Credits are received automatically to a beneficiary account only if standing instructions are given by the account holder. State whether True or False.
   a. TRUE
   b. FALSE

4. Every time there is a bonus or rights issue a new ISIN is created by the depository. State whether True or False.
   a. TRUE
   b. FALSE

5. Debits to a beneficiary account can be initiated only on receipt of _____.
   a. Receipt Instruction
   b. Delivery Instruction
   c. Credit Instruction

6. What is the main function of a depository in trading activities?
   a. **Facilitating the movement of securities between buyer and seller**
   b. Determining the price of securities
   c. Managing investor portfolios
   d. Conducting stock exchange audits

7. Shares transferred to IEPF are treated as:
   a. Fresh allotment
   b. Transmission of shares

c. Bonus shares
d. Rights conversion

8. To claim refund from IEPF, shareholders must file:
   a. Form IEPF-1
   b. Form IEPF-3
   c. Form IEPF-5
   d. Form IEPF-7

CHAPTER 13: INVESTOR INTERFACE WITH THE R&T AGENT

Learning Objectives:

After studying this chapter, you should know about the Investor Interface with the R&T agent:

- Transfer of Securities
- Recording change in Investor information
- Issue of duplicate certificate of securities
- Stop Transfers
- Transmission
- Facilitating the Annual General Meeting and e-voting facilities

The R&T agent is the focal point for all service requirements for the investors' holdings in securities. If the securities are dematerialised, the depository participant is the contact point for the investor. The common service requests that investors have are:

- Transfer of ownership
- Recording change in address, bank particulars, power of attorney etc.
- Issue of duplicate share certificates
- Stop Transfers
- Transmission

Where shares are held in the physical form, the R&T Agent is approached for such service requirements.

As an on-going measure to enhance ease of dealing in securities markets by investors, all listed companies shall issue the securities in dematerialized form only, while processing the following service request:[55]

i. Issue of duplicate securities certificate
ii. Claim from Unclaimed Suspense Account
iii. Renewal / Exchange of securities certificate
iv. Endorsement
v. Sub-division / Splitting of securities certificate
vi. Consolidation of securities certificates/folios
vii. Transmission
viii. Transposition

The RTA / Issuer Companies shall verify and process the service requests and thereafter issue a 'Letter of confirmation' in lieu of physical securities certificate(s), to the securities holder/claimant within 30 days of its receipt of such request after removing objections, if

[55] SEBI Circular No.: SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/8 dated January 25, 2022 on Issuance of securities in dematerialized form in case of Investor Service Requests.

any. The 'Letter of Confirmation' shall be valid for a period of 120 days from the date of its issuance, within which the securities holder/claimant shall make a request to the Depository Participant for dematerializing the said securities.

For dematerialised shares, the request has to be submitted to the Depository Participants along with supporting documents and the request is given effect electronically. For physical shares, most service requirements would mean that the original certificates along with supporting documents have to move to and from the R&T Agent.

The R&T Agent, therefore, needs to put in place an efficient system to receive, verify, acknowledge and dispatch documents. An Inward Register in which details of the documents received are entered is maintained by the R&T Agent, either in physical or electronic form. The details captured include the mode of receipt (hand delivered, courier, post), the date of receipt and the nature of the document. Similarly, for documents, going out of the R&T Agent's office, an outward register (physical or electronic form) is maintained in which the details are recorded.

SEBI has issued an Investor Charter for the RTAs[56] and listed down the following services provided by RTAs:

- Providing details of allotment and clarification on allotment.
- Processing change in/ updation of the KYC details of the investors for physical holdings like change of address/bank account details/ e-mail address/ telephone/ mobile/ nomination and PAN.
- Processing and updating investor holding/ title change requests viz, name deletion, transmission, transposition, issue of duplicate shares, dematerialization and rematerialisation of securities.
- Processing of other requests, viz., recording of declaration w.r.t. exemption/ lower tax rates for TDS on dividend/interest, revalidation and reissue of dividend and interest instruments.
- Processing investor service requests in timely manner and providing details of discrepancies observed in the documents to the investors in one go.
- Execution and intimation of other corporate actions viz., ESOPs, Dividend payment, Stock split, Bonus issue and Merger/Demerger activities.
- Communication of Rights issue entitlements.
- Communication of Buyback, exit offer, take-over made by the company/acquirer, and the procedure to be followed by investor in respect of these issues.
- Mandatory execution of transfer of shares and dividends to IEPF and transfer of undelivered share certificates to Suspense account.
- Process grievance received through e-mails and Letters and those through SCORES also.

56 **Circular No.: SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/67 dated May 14,2025**

Know Your Client (KYC)

KYC means identifying and verifying the client's identity and the identity of the beneficial owner through documents submitted for Proof of Identity (PoI) and Proof of Address (PoA) and compliance with rules, regulations, guidelines and circulars issued by the Board or any other authority for Prevention of Money Laundering from time to time.

Beneficial owner is the natural person or persons who ultimately own, control or influence a client and / or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

KYC is to be carried out at the time of commencement of an account-based relationship or at the time of allotment. Existing clients are required to update their KYC documents from time to time.

The Prevention of Money Laundering Act, 2002 (PMLA) along with the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PML Rules) are the principal laws enacted to prevent money laundering activities in India. As per PMLA and Rules framed thereunder, intermediaries in securities market are required to perform Client Due Diligence. KYC records including details submitted for account opening of the client play a crucial role in ensuring Client Due Diligence.

The main aim of conducting KYC is to verify the identity of clients / beneficial owners, nature and purpose of client relationships and examine the probabilities of any illegal wrongdoings. Additionally, KYC helps to make sure that all transactions are legitimate and transparent.

Updating KYC details from time to time with the intermediaries, aids the investors in receiving timely information.

13.1 Transfer of Securities

Securities are bought and sold either in the stock markets or on a person to person basis in 'off-market' deals. Whenever a transaction is done, it requires a transfer of ownership from the transferor to the transferee. When the transaction is of physical securities, the request for transfer of ownership is sent to the R&T Agent.

The procedure to be followed is as follows:

- The original securities along with an instrument of transfer duly filled in, signed by the transferor(s) and the transferee(s) and franked/stamped with the value of stamp duty is sent to the R&T Agent.

- The R&T Agent verifies the signature(s) of the transferor(s) with the specimen signatures already recorded while taking up the documents for further processing.
- The instrument of transfer attached to the documents have to be scrutinised for the following:
  - Submission of proper instrument of transfer (Form No. SH-4), duly stamped, dated and executed by the transferor(s) and transferee(s) and specifying the name, address and occupation, if any of the transferee(s).
  - Validity of the instrument of transfer. It is considered valid if it is presented within a period of sixty days from the date of execution.
  - Correctness of the details of the securities such as Name of the Company, Kind / Class of securities, nominal value, folio number, certificate number, number and distinctive numbers of securities.
  - Consideration amount is filled and the instrument of transfer is franked / stamped, as relevant.
  - Complete details of the witness.
  - The original certificate should comply with SEBI's norms.
  - Signature(s) of the transferee(s) in the relevant two field(s).
  - Self-attested photocopies of PAN Cards of all the transferor(s) and the transferee(s).

The documents have to be returned to the proposed transferee if there is any objection within a period of 15 days from receipt of documents. If all the documents are in order, then the transfer should be effected within 15 days from receipt of documents. The Register of members should be updated and the details of the transferee(s) should be endorsed on the certificate(s) and sent to the transferee.

SEBI has decided that except in case of transmission(transfer of title of shares by way of inheritance/ succession) or transposition (re-arrangement/ interchanging of the order of name of shareholders) of securities, requests for effecting transfer of securities shall not be processed unless the securities are held in dematerialized form with a depository. This measure came into effect from April 01, 2019. Subsequently, SEBI also clarified:

1. The above decision does not prohibit the investor from holding the shares in physical form; investor has the option of holding shares in physical form even after April 01, 2019.
2. Any investor who is desirous of transferring shares (which are held in physical form) after April 01, 2019 can do so only after the shares are dematerialized.
3. The transfer deed(s) once lodged prior to deadline and returned due to deficiency in the document may be re-lodged for transfer even after the deadline of April 01, 2019.

The cut-off date for such re-lodgement was fixed at March 31, 2021, however, all the shares that were re-lodged for transfer were issued only in demat mode.[57] In this regard, SEBI has issued a detailed operational guideline for transfer and dematerialisation of re-lodged physical shares.[58]

Issuer Companies are required to open a separate demat account for dealing with unclaimed securities i.e., holders of Letters of Confirmation who did not submit the request to the DP for dematerialisation of securities within the prescribed timeline, securities which could not be allotted to the rightful holder(s) due to insufficient/incorrect information or any other reason. Procedure for opening 'Suspense Escrow Demat Account' by Issuer Company has been issued by the depositories.[59]

13.2 Recording Change in Investor Information[60]

All holders of physical securities in listed companies are mandatorily required to furnish PAN, nomination/ opt-out of nomination, contact details, bank account details and specimen signature for their corresponding folio numbers.[61] These information of the investor are maintained by the issuer/R&T Agent. Any change in the information shall have to be intimated and the records modified accordingly. Annexure 13.1 details out the standard operating procedures (SOPs) followed by RTAs in recording investor information change.

13.2.1 Change in Address

A request for change of address should be signed by the first named security holder and supported by proof of identity viz. self-attested copy of PAN Card / Valid Passport and self-attested copy of proof of new address viz. Valid Passport or Aadhaar Card or Election Identity Card or Utility Bill [i.e. Electricity Bill or Telephone Bill (landline only)] or Bank Statement along with 1st page of the Bank Passbook, showing the new address, which is not more than 3 months old.

The R&T Agent shall verify the signature with the specimen signature recorded with them and, if found in order shall update the records with the new address. The intimation of the change shall be sent to the new and old address of the security holder.

13.2.2 Change in Bank Details

The request for change in bank details must be signed by the first named security holder as per the specimen signature recorded with the R&T Agent and supported by an original

[57]SEBI Circular No.: SEBI/HO/MIRSD/RTAMB/CIR/P/2020/166 dated September 7, 2020.
[58]SEBI Circular No.: SEBI/HO/MIRSD/RTAMB/CIR/P/2020/236 dated December 2, 2020.
[59] Vide NSDL Circular No.: NSDL/POLICY/2022/113 dated August 11, 2022.
[60] Various forms related to KYC updation can be accessed at: https://liiplweb.linkintime.co.in/KYC-downloads.html
[61] SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/37 dated March 16, 2023.

unsigned cancelled cheque for the said account, bearing the name of the security holder. After verifying the signature with the specimen, the R&T Agent shall update the records with the new bank details and intimate the security holder of the same. On a case to case basis, additional documentary proof of identity may be sought from the security holder by the R&T Agent, to enable updation of change of bank details.

13.2.3 Registering a Power of Attorney (POA)

The R&T Agent, on receipt of the document, verifies the signature of the security holder and the powers assigned to the donee. If signature tallies, then the details of the holder and the attorney are recorded in a register maintained in physical or electronic form for this purpose and a registration number is assigned along with date which is intimated to the security holder or the donee who has lodged the document for registration. The registration number should be indicated at the time of lodgement of any further requests or transactions for the said folio. The signature of the donee is scanned and maintained by the R&T Agent.

13.2.4 Registering Nomination

The R&T Agent, on receipt of the SH-13 document, verifies the signatures of the security holder/s, correct folio no etc. along with the following documents of the nominee.

- The address details of the Nominee are taken on records.
- A self-attested copy of photo identity proof of nominee like PAN / Passport is required to be attached and verified.
- The Nominee's signature has been duly witnessed.
- In case the nominee is found to be a minor, then a proof of date of birth is taken on the records. The details of the Guardian with photograph, address proof and the attested signatures are also taken on records.

The nomination details such as nomination number, date of nominee registration, name and address of nominee, phone number are entered in the system and thereafter the system shall generate a unique Nomination ID. This ID shall be noted down on all the Nomination request documents. Any existing nominations can be changed/cancelled through Form SH-14. Further, investors may declare to opt-out of nomination through Form ISR-3 after cancelling the existing nomination, if any.

13.2.5 Registering Form 15H and 15G for dividend processing

The Finance Act, 2020 has been amended as a result of which the dividend income distributed by a company is taxable in the hands of shareholders at the applicable rates. The dividend earned will be part of their total income earned for the financial year and tax as per their respective tax slabs. Therefore, if the dividend income is within exempted limits, shareholders need to submit Form 15G or Form 15H to the company in order to avoid tax deduction at source (TDS).

Form 15G can be submitted by individual below the age of 60 years while Form 15H can be submitted by senior citizens (60 years & above) either in physical form or through the website of the RTA. While submitting the form online, the shareholder needs to select the company, enter the correct folio and certificate no. or DPID / Client ID, PAN details, Financial Year, Form (15G or 15H), scan copy of PAN and Forms. On receipt of the above, the RTA will provide an acknowledgement of the submission of the Form 15G or 15H to the shareholder.

Annexure 13.4 provides the SEBI prescribed common form (Form ISR-1) for registering/ updation of PAN and KYC details for securities of listed companies held in physical mode. It is to be noted that from January 1, 2022 onwards, no investor service requests/ complaints will be processed by RTA till PAN, KYC and Nomination documents/ details are received.

All service requests are to be processed by RTAs within stipulated timeframe from receipt of the complete documents. Below are the revised norms regarding the following investor service requests:

1. **Mismatch in signature**: In case of minor mismatch between the present signature and the signature record available with RTA, the RTA will intimate the holder about the mismatch and provide 15 days for raising any objection, if any. In absence of any objection, the service requests will be processed. The timeline to process the service request will commence after the aforesaid 15 days. In case of major signature mismatch or unavailability of present signature in RTAs records, the holder is required to furnish original cancelled cheque with name of the security holder printed on it/ self-attested Bank Passbook/Bank Statement, and banker's attestation of the signature in the SEBI prescribed form.
2. **Mismatch in name**: In case of minor mismatch in name between documents submitted by investor for any service requests, RTA is required to collect additional document such as Aadhaar Card or valid Passport or Diving License (Smart Card form/ Book form/ Copy of digital form) etc. In case of major mismatch of name due to marriage or otherwise, supporting documents such as marriage certificate, publication of name change in Official Gazette etc. need to be furnished.
3. **Proof of address:** In case of registering or updation of change in address, RTA should collect any one document such as, valid Passport, Driving License, Utility bills, not more than 3 months old, proof of address in name of spouse (along with self-attested copy of Identity Proof of the holder) etc. RTA should send intimation to both the old and the new address of the investor regarding the address request and provide a window of 15 days to raise any objection. In absence of any objection, the change request will be processed. However, the address change request can be processed without holding for 15 days, as mentioned above, if signature of the holder matches with the record available with RTA.

Further to these, SEBI has also clarified that hardcopies of supporting documents, that are submitted by holders, for all service requests, are to be self-attested by the holder. RTAs should not insist on affidavits/ attestation/ notarisation of these documents. Also, RTAs should not insist on indemnity for any service requests, except for transmission and request for issuance of duplicate securities, unless the same is provided under the SEBI Regulations/ Companies Act/ allied Rules.

Investors can submit their service requests along with the supporting documents in the following modes: :

- Self-attested and dated hard copies through Post
- E-Signed electronic copies[62]
- In Person Verification (IPV) mode i.e. original documents verified by authorised person of RTA and copies of the same is retained with IPV stamping, date and initials.

In case the documents are submitted through in person verification, the RTA shall provide acknowledgement with IPV stamping with date and initials. In any other mode, the RTA shall acknowledge the receipt of the documents by intimating the security holder through post or by sending e-mail on the registered e-mail ID.

13.3 Issue of Duplicate Certificate for Securities

If a certificate for securities is lost, the security holder can apply to the R&T Agent for a duplicate certificate. The security holder must intimate the R&T Agent of the loss following which a 'Stop Transfer' shall be marked on the lost securities. It is mandatory for the security holder to file a Police Complaint/ FIR/e-FIR, reporting loss of the securities and furnish proof to the R&T Agent.

Where securities were lost in transit before transfer of ownership, the proposed transferee is required to provide proof of purchase such as contract note and proof of payment if the shares were purchased from a stock exchange. If the shares were purchased in an 'off-market' deal, the claimant is required to ask the security holder to apply for a duplicate share certificate and also execute a fresh instrument of transfer (Form No. ISR-4) for transferring the securities.

The proposed transferee / claimant has to furnish an indemnity bond and an Affidavit attested by a Notary Public or First Class Magistrate. If the value of the securities is above

[62]E-Sign is an integrated service which facilitates issuing a Digital Signature Certificate and performing signing of requested data by eSign user. The holder/claimant may approach any of the empanelled eSign Service Provider, for the purpose of obtaining an e-sign.

a specified limit, the proposed transferee/claimant is also required to advertise the loss of securities in the Gazette and/or in a widely circulated newspaper, circulating at the place where the Registered Office of the Company is situated. These requirements may differ from Company to Company.

The R&T Agent shall verify the documents and send them to the Issuer Company for approval. On receipt of the approval, the duplicate certificate shall be issued with the legend, "Duplicate certificate issued in lieu of certificate no._____" printed on it. The stamp duty, as applicable, has to be paid on it. The process has to be completed within a period of 30 days from receipt of duly completed documents. The Stock Exchange where the securities are listed shall also be informed of the loss of certificate and issue of duplicate certificates within 2 days of getting the information.

With a view to make issuance of duplicate securities more efficient and investor friendly, SEBI has specified requirement of the following documents:[63]

1. Submission by the security holder of copy of FIR including e-FIR/Police complaint/Court injunction order etc. necessarily having details of the securities, folio number, distinctive number range and certificate numbers.
2. Issuance of advertisement regarding loss of securities in a widely circulated newspaper.

The above documents are not applicable if the value of securities, as on the date of submission of application, along with complete documentation as prescribed by SEBI does not exceed Rs.5 Lakhs.

3. Submission of Affidavit and Indemnity bond as per the format prescribed by SEBI However, there shall be no requirement of submission of surety for issuance of duplicate securities.

Annexure 13.2 details out the standard operating procedures followed by RTAs for issue of duplicate share certificates.

13.4 Stop Transfers

A security holder can request the R&T Agent to effect a "Stop Transfer" against securities that have been lost. The R&T Agent shall give effect to this and call for an FIR/ Acknowledged copy of police complaint. Stop transfer is also noted where a restraining Order from a Court of competent jurisdiction is received.

If FIR/ Acknowledged copy of police complaint is not submitted within 21 days from the date of notice of loss to the R&T Agent, the direction to 'stop transfer' shall be removed. If the holder of the securities requests for removal of a 'stop transfer' direction, the R&T

[63] SEBI Circular No. SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/70 dated May 25, 2022.

Agent will give effect to the same after verifying the signature of the holder. The removal of the stop transfer direction shall be communicated to the holder by the R&T Agent.

If the R&T Agent receives a document for certain service requests against which a 'stop transfer' directive has been recorded, the R&T Agent intimates the holder of the same or processes the request after due verification.

If the documents to support the 'stop transfer' directive are not received by the R&T Agent within a period of 15 days from informing the holder about the receipt of documents, the R&T Agent can process the service request, subject to the documents lodged being in order.

If the supporting documents are received from the security holder, then the service request shall not be processed.

In case a security holder intimates that documents sent by the R&T Agent are not received by the holder, the R & T Agent records a 'stop transfer' on the securities and keeps the stock exchanges informed.

13.5 Transmission[64]

On the death of a security holder, the surviving holder(s) shall apply for deletion of the name of the deceased holder and transmission of the securities to the surviving holder(s). The request has to be submitted to the R&T Agent in the prescribed form along with the original certificates for the securities, a certified true copy of the death certificate and self-attested photocopy(ies) of PAN Card(s) of the surviving holder(s).

On receipt of the same, the R&T Agent shall verify the documents, record the death in their document registration system by assigning a number, delete the name of the deceased holder, update the Register of Members and send the certificates to the first surviving holder who now becomes the first security holder.

If the deceased security holder who was a single holder had registered a nomination, then the nominee can apply for the transmission of shares to his name. This shall be supported by a certified true copy of the death certificate, completed transmission form, self-attested copy of PAN Card of the nominee as proof of identity.

After verifying the documents, the R&T Agent will effect the transmission. This involves updating the Register of Members with the information of the nominee and scanning the

[64] SEBI Circular No. SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/65 dated May 18, 2022

signature of the nominee for the records before sending the share certificate to the new holder.

If the deceased security holder who was a single holder did not have a registered nominee, then the legal heir can apply for the transmission of shares to his name. This shall be supported by a certified true copy of the death certificate, completed transmission form, self- attested copy of PAN Card of the legal heir as proof of identity, a notarized affidavit from all legal heirs made on non-judicial stamp paper of appropriate value and copies of any other requisite documents (such as succession certificate/ probate of will/ will along with notarized indemnity bond/ letter of administration etc.). In case the legal heir(s)/claimant(s) is named in any transmission documents, an affidavit from such legal heir(s)/claimant(s) alone would be sufficient.

SEBI, in its recent circular, decided that a standard reason code "TLH" (i.e Transmission to legal Heirs) shall be used by the reporting entities while reporting the transmission of securities from nominee to legal heirs, to the CBDT so as to enable proper application of the provision of the Income Tax Act,1961.[65]

As per SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 (LODR), if the value of the securities is upto Rs. 5 lakhs per listed entity as on the date of application (submission of complete documentation) in case of securities held in physical mode and upto Rs. 15 lakhs per beneficial owner in case of securities held in dematerialized form, the following documents may also be submitted:

- No objection certificate from all legal heir(s) who do not object to the transmission or copy of family settlement deed duly notarized and executed by all legal heirs of the deceased holder; and
- An Indemnity bond made on appropriate non judicial stamp paper, indemnifying the Share Transfer Agent/listed entity;

After verifying the documents and obtaining the approval of the Issuer Company, the R&T Agent will remove the 'stop transfer' on the securities, capture the information about the legal heir/claimant including signature for the records, update the Register of Members, endorse the legal heir / claimant as the security holder on the original certificate and dispatch the certificate to the new holder.

The transfer of shares by the companies to the IEPF Account shall be deemed to be transmission of shares and the procedure to be followed for transmission of shares shall be followed by the companies while transferring the shares to the IEPF Account.

[65] SEBI Circular No. dated 19 September 2025, https://www.sebi.gov.in/legal/circulars/sep-2025/ease-of-doing-investment-smooth-transmission-of-securities-from-nominee-to-legal-heir_96711.html

The R&T Agent has to give effect to the transmission of securities held in dematerialised mode and physical mode within 7 days and 21 days respectively of receiving all valid documents. Annexure 13.3 details out the standard operating procedures followed by RTAs in transmission of securities.

13.6 Timelines pertaining to investor services provided by RTA[66]

Sr No	Nature of Service	Expected Timelines (number of days)
A	**Investor Service Request**	
1	Processing of transmission request	21
2	Processing of issue of duplicate security certificate request	30
3	Processing of dematerialization request	15
4	Processing of remat request	30
5	Processing of Transposition request	15
6	I. Processing of request for change in / updation of a. Name	30
	b. Signature	30
	c. Nomination	30
	d. Contact details (Address, E-mail address and Mobile number)	15
	e. Bank account details	15
	II. Processing of request for Updation of PAN	15
7	Processing of Re-validation of dividend / interest / redemption instruments and sending the remittance request files to the bank / Company	15
B	**Grievance Redressal**	
1	Providing response to the inquiries of the investors and Redressal of Grievance	21
C	**Other Operational Activities**	
1	Allotment of securities (IPO)	6
2	Intimation regarding distribution of corporate benefits (dividend, bonus, stock Split) a. E-mail communication b. Physical communication	 15 30

66 SEBI Circular No.: SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/67 dated May 14,2025

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13.7 Online processing of investor service requests and complaints by RTAs:[67]

Holders of physical security certificates are required to submit various documents to the RTAs with respect to various service requests/ complaints.

In order to digitize this process, SEBI notified a mechanism for the investor to lodge service requests and complaints online; track the status and obtain periodical updates. The following are the benefits of using the digitized process:

- Database for service requests and complaints
- Online acknowledgement and intimation to the investor
- Online tracking of status of service requests and complaints by investors

The above mentioned online processes need to be implemented in 2 phases:

- In Phase I of the Online Portal, all RTAs servicing listed companies shall have a functional website mandatorily displaying the relevant information, such as RTA registration number, registered head office/branch address, names and contact details of Key Managerial Personnel, procedures for filing service requests/complaints etc. Also, all RTAs shall set up a user-friendly online mechanism/portal for service requests/ complaints.
- In Phase II of the Online Portal, all RTAs to have a common website, made and operated by QRTAs from July 1, 2024, through which investors shall be redirected to individual web-based portal/website of the concerned RTA for further resolution by putting the name of the listed company.

13.8 Annual General Meeting

The R&T Agent assists in conducting Annual General Meeting (AGM) / Extraordinary General Meeting (EGM) / Court Convened Meeting (CCM) and postal ballots including gadget based (tab) electronic voting facility if desired and acts as a connecting link between the Client (issuer company) and their Shareholders.

The R & T Agent assists the listed entity to send the annual report in not less than 21 days before the annual general meeting in the following manner to the shareholders:

(a) Soft copies of full annual report to all those shareholder(s) who have registered their email addresses for the purpose;

(b) Hard copy of statement containing the salient features of all the documents, as prescribed in Section 136 of Companies Act, 2013 or rules made thereunder to those shareholder(s) who have not so registered;

(c) Hard copies of full annual reports to those shareholders, who request for the same.

Ministry of Corporate Affairs (MCA) through various circulars have allowed certain classes of companies to conduct their Annual General Meeting (AGM) through video conferencing (VC) or other audio-visual means (OAVM), during the calendar year 2020.[68] Subsequently, due to the ongoing pandemic, MCA has further allowed the companies to conduct their AGM, that become due on or before September 30, 2024.[69] MCA has also extended the relaxation from sending physical copies of financial statements to the shareholders, for the AGMs conducted till September 30, 2025.[70] In view of the same, SEBI has also extended the relaxation of conducting AGMs in electronic mode till September 30, 2025.[71]

For all companies which are required to provide the facility of e-voting or any other company which has opted for such facility:

- In such meetings, other than ordinary business, only those items of special business, which are considered to be unavoidable by the board of the company, may be transacted.
- In case of a public company, the recorded transcript of the meeting, shall as soon as possible, be also made available on the website (if any) of the company.
- Convenience of different persons positioned in different time zones shall be kept in mind before scheduling the meeting.
- To ensure that such meeting allows two way teleconferencing or webex for the ease of participation of the members and the participants are allowed to pose questions concurrently or given time to submit questions in advance on the e-mail address of the company. Such facility must have a capacity to allow at least 1000 members to participate on a first-come-first-served basis.

13.9 E Voting

The e-Voting platform aims to improve transparency and Corporate Governance standards and also helps in reducing the administrative cost associated with Postal Ballot while facilitating declaration of results immediately after the close of the voting. Additionally investors are also benefited where they can cast their votes on till last day from the comfort of their home / office, while eliminating the chances of their votes being declared invalid.

Advantages of E- Voting:

- To eliminate paper in the voting process.
- This involves sending of notices and ballot papers and receiving the said ballot votes.

BI Circular No.: SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2021/670 dated November 26, 2021.
020 dated May 5, 2020 and 28/2020 dated August 17, 2020.
[69]MCA Circular No.: 9/2023 dated September 25, 2023.
[70] MCA Circular No.: 09/2024 dated September 19, 2024.
[71] SEBI Circular No.: 133/2024 dated October 3, 2024.

- Facilitate electronic voting on resolutions of companies in a fair and transparent manner for all classes of security/stakeholders.
- Enable security holders to vote at a time and place of their convenience.
- Eliminate postal and other natural delays which cause a hindrance to postal ballot.
- Increase shareholder participation in shareholder meetings.

Despite the various advantages of e-voting facility, the usage of the same is negligible at the public non-institutional shareholders/ retail shareholders level due to the requirement of maintaining separate login ids for each e-voting service providers (ESP). In order to make the voting process more efficient and seamless, SEBI has enable e-voting to all demat account holders by way of a single login credential through their demat accounts/ websites of Depositories/ Depository Participants. The same is implemented in a phased manner. However, ESPs may continue to provide the facility of e-voting as per the existing process to all physical shareholders and shareholders other than individuals viz. institutions/corporate shareholders.[72]

13.10 Responsibilities of RTA during Annual General Meetings (AGM)

Following are the responsibilities of RTAs in AGMs:

Pre-AGM activities

- Set up e-Voting event, upload the data base and create user id/password credentials. Create e-Voting instructions along with Notice and credentials
- Send the Notice by email / speed post / registered post / courier / fax as per prescribed timelines i.e. 25 days in advance in case of post/Courier and 21 days in advance case of email. The notice shall be sent to Members, Statutory auditors, Secretarial auditors, all directors, Debenture trustee (if any).
- Arrange for upload of AGM notice on company and e-voting websites.
- Activate the e-voting site as per the date given by the company and close the session on the previous day of the AGM at 5.00PM.
- Prepare Attendance Registers, Proxy Register.
- Ensure the proxy forms are received by the Company at least 48 hours before the time fixed for holding the AGM (including major shareholders and representation letters from financial institutions)

During AGM activities

- Ensure Quorum is present in the meeting. Quorum is based on the number of the members of the Company. RTA to inform number of registrations (members, Proxies) to the company secretary.
- Make the arrangements for video web casting of the AGM proceedings & Activate as per the AGM schedule time.

[72]SEBI Circular No.: SEBI/HO/CFD/CMD/CIR/P/2020/242 dated December 9, 2020.

- Activate the e-Voting at the AGM as per the Chairman instructions. Note down conclusion time of the AGM and conclude the e-Voting session

Post AGM activities

- Provide the Attendance Register, Votes polled in the remote voting and at the AGM and the results thereof.

Annexure 13.1: Standard Operating Procedure for Change of Address

I. Recording change of Investor address:

Documents required

- For all shareholders:
    - Self-attested Copy of address proof and PAN
    - Request letter duly signed by all holders with details of Address, email address and mobile no.
- For Non Resident investors:
    - Self-attested copy of address proof
    - Request letter duly signed by all holders with address, email address, mobile no
    - Self-attested copy of Passport
- For Corporate Shareholders:
    - Board Resolution
    - List of Authorised Signatories duly certified
    - Request letter on the letter head of corporate duly signed by an authorized person.

II. Registering Power of Attorney (PoA):

Documents required

- For all shareholders:
    - Request letter
    - Original Power of Attorney
- For Corporate shareholders
    - Request letter
    - Board Resolution
    - List of Authorised signatories

III. Registering Nomination:

Documents required

- For all shareholders:
    - Form SH-13 in duplicate duly executed
- For Corporate shareholders
    - Board Resolution
    - List of Authorised signatories duly certified

Procedures

1.	Requests for changes to be received at (a) RTA's office or (b) Company's registered office.
2.	Documents received are to be verified to ensure completeness.

3.	Scan the physical documents and put barcode on it.
4.	RTA to:
	a. Ensure the receipt of the aforesaid documents and the same are in order.
	b. Check for restrictions and follow procedure for removal after consulting the Company. Special care has to be taken in case of restrictions in the dormant/unpaid dividend / deceased shareholder/ court matter etc.
	c. Check History Run Sheet for critical evaluation of previous inwards, dividend history etc. i. Look for repeated requests for change of address. Run sheet to throw up an indication of number of instances of change of address against the folio d. Refer to previous reply(ies)
	e. Verify signature of the shareholders
	In case the signature is not available or there is a signature mismatch: a. send objection memo to shareholder through speed/registered post/courier along with documents marking reason as "non-availability of signature" and to submit requested documents. b. state following requirements in the objection memo for change of address: - Signature attestation by the Branch Manager, with the details (not older than 6 months as on the date of receipt of signature attestation), preferably of a Nationalized Bank, with address of account holder as per bank details. Address mentioned on the attestation form should tally with the address registered with the Company. - Self-attested copy of Proof of Identity; preferably PAN card - Self-attested copy of Proof of Address.(In case, address differs from the Registered Address) - Affidavit for Change in Signature as per SEBI format - Copy of cancelled cheque leaf.
	f. Check Trigger/ Watch/ Fraud Address List

	g. For address change requests: i. Verify address proof and id proof ii. Check for cases appearing to be critical while verifying and suggest for personal verification. iii. Check for NIL holding and ensure that in case of NIL folio, a note should appear in the communication that the holding against the folio is NIL. h. For registering nomination: i. Check whether folio number is correctly mentioned. ii. Check whether form 13 duly executed in duplicate received. i. For registering power of attorney (PoA): i. Check whether folio number is correctly mentioned. ii. Check if the request letter is received from the registered shareholder. iii. If the request is received from PoA holder or from the registered shareholder with different address, send notice to the shareholder at the registered address and wait for 15 days before effecting registration of PoA. iv. Check whether the PoA carries the signature of POA holder. If signature is not there, then bank attestation is mandatory. v. Check whether PoA specifically give authority to PoA holder to deal in equity shares of the Company.
5.	RTA to update the address, nominee and PoA details in the system against the respective folio and inform the shareholders accordingly. For address change request: RTA to send address confirmation letter to both old and new addresses of the shareholder. For nomination registration request: RTA shall return one copy of Form No. SH-13 duly stamped and signed to the shareholder post registration of nominee.

Annexure 13.2: Standard Operating Procedure for Issuance of Duplicate Share Certificate

A. Documents Required

For all investors

a) Indemnity Bond on stamp paper of Rs. 200 signed by all holders along with two guarantors and two witness who are different from the guarantors

b) ID proof and IT returns of Guarantors, where applicable

c) Affidavit on Stamp paper of Rs. 100

d) Original Copy of FIR

e) Self-attested copy of PAN Card

f) Newspaper advertisement in original

Additional documents for Corporate Investors

g) Board Resolution

h) List of Authorised Signatories

B. Approval Process

1. Check whether the loss of certificates is for full holding or part-holding.
2. Check whether the indemnity bond is filled and executed in all respects, including the precise circumstances of loss/theft/misplacement, etc. Specifically check if the guarantor's particulars are duly filled in with full postal/communication address.
3. Check the Affidavit for father's/husband's name and match with other details available in the data base.
4. Verify Signature.
5. Check whether the address on the indemnity bond is same as given in the master. If not send intimation letter to the address in the system and wait 7 days for reply.
6. Write to guarantors and wait for 15 days.
7. Following person can act as guarantors:-
    A) Gazetted Officers (Exhaustive list to be included)
    B) SEBI registered brokers,
    C) Chartered Accountants in practice (with membership no. and seal),
    D) Company Secretaries in practice (with membership no. and seal),
    E) Advocates (with Bar Council number),
    F) Doctors (with IMA Registration number)
8. If an investor expresses his/ her inability to get the guarantee from any of the above mentioned Guarantors, then Guarantee from any other person may be accepted

provided a copy of previous year's income tax return filed by such a person (who is acting as a Guarantor) is submitted.

9. Check whether amount of return is equal to or more than market value of the shares involved.
10. Check whether there are any restrictions and follow procedure for removal if required. Special care to be taken for restrictions of following category
    a) dormant
    b) unpaid dividend
    c) deceased shareholder
    d) court matter
11. Check old records / Files Master lists
12. If there is a request for change in address – the issue of duplicate certificates will follow only after the change of address is settled
13. Are the shares Returned Undelivered
14. Check the dividend status for the last 3 years
15. Check Trigger / Watch List / Fraud Address List. All addresses given in the document including the guarantor's address should be verified in trigger / watch list / fraud address list.
16. Verify the publication of advertisement /original clipping of the News Paper where advertisement made by the applicant.
17. Review indemnity bond after expiry of waiting period for guarantors to reply.

Annexure 13.3: Standard Operating Procedure for Transmission of securities

A. Documents Required

For all investors

a) Original Share certificate

b) Death certificate of deceased holder attested by notary public in original.

c) Self-attested copies of PAN Card of the successor

d) Transmission Form.

e) Self-attested copy of proof of residence where there is change of address

f) FIR or copy of the acknowledgement of police complaint where share certificates have been lost.

Additional Documents for Cases upto Rs. 5 Lakhs in value (held in physical form)

g) Indemnity Bond on stamp paper

h) Affidavit of Renunciation, if any

i) Legal heir certificate attested by notary public in original

j) Succession Certificate/Probated will/Letters of Administration

B. Approval Process

a. Check whether Folio No. is correctly mentioned

b. Check whether Total holdings lodged for process. If not then call for balance shares.

c. Check whether the request made by the successors/Representative. If not then ask for fresh request duly signed by successors/Representative.

d. Check whether death certificate certified in the original

e. Check whether there is an address change requested

f. Check critical evaluation of previous inwards, dividend history, CRT inwards etc.

g. Verify Indemnity bonds & Affidavit of renunciation

h. Check whether all shares covered in the Indemnity

i. Check whether Indemnity given by all the legal heirs

j. Write to guarantors and wait for 15 days.

k. Following person can act as guarantors:-

1. Gazetted Officers (Exhaustive list to be included)
2. SEBI registered brokers,
3. Chartered Accountants in practice (with membership no. and seal),
4. Company Secretaries in practice (with membership no. and seal),
5. Advocates (with Bar Council number),

6. Doctors (with IMA Registration number)

l. If an investor expresses his/ her inability to get the guarantee from any of the above mentioned Guarantors, then Guarantee from any other person may be accepted provided a copy of previous year's income tax return filed by such a person (who is acting as a Guarantor) is submitted.

m. Check whether amount of return is equal to or more than market value of the shares involved.

n. Verification of endorsed certificates and the covering letter to be done by Auditors.

o. Despatch endorsed certificates by Registered Post/ Speed Post and preserve copy of covering letter and postal proof.

p. Release all unclaimed dividends to the Claimant(s) after transmission.

C. Post processing the Transmission Request

a. After verifying and processing the request, the RTA / Issuer Companies shall intimate the claimant(s) about its execution as may be applicable, by way of issuing a Letter of Confirmation.

b. The RTA shall retain the physical securities as per the existing procedure and

c. deface the certificate with a stamp "Letter of Confirmation Issued" on the face/

d. reverse of the certificate, subsequent to processing of service request.

e. The Letter of Confirmation shall, inter-alia, contain details of folio and demat account number (if available) of the claimant(s).

f. The Letter of Confirmation shall be sent by the RTA / Issuer Companies through Registered / Speed Post to the claimant(s) and a digitally signed copy of the Letter of Confirmation shall be sent by the RTA/Issuer Companies to the claimant(s) through e-mail.

g. Within 120 days of issue of the Letter of Confirmation, the claimant(s) shall submit the demat request, along with the original Letter of Confirmation or the digitally signed copy of the Letter of Confirmation, to the Depository Participant ("DP").

h. DP shall generate the demat request on the basis of the Letter of confirmation and forward the same to the Issuer Company / RTA for processing the demat request.

i. In case of the securities which are required to be locked in, the RTA while approving / confirming the demat request, shall incorporate / intimate the Depository about the lock-in and its period.

j. The RTA / Issuer Companies shall issue a reminder after the end of 45 days and 90 days from the date of issuance of the Letter of Confirmation, informing

the claimant(s) to submit the demat request as above, in case no such request has been received by the RTA / Issuer Company.

k. In case of non-receipt of demat request from the claimant(s) within 120 days of the date of issue of the Letter of Confirmation, the securities shall be credited to Suspense Escrow Demat Account of the Issuer Company.

SEBI has provided guidance in this regard as follows:

(i) Opening of Suspense Escrow Demat Account:

1. Companies are required to open a separate Demat account with the nomenclature "Suspense Escrow Demat Account" for the purpose of this circular
2. Companies which have not yet opened a "Suspense Escrow Demat Account" and are currently using a "Suspense Escrow Demat Account/unclaimed Suspense Account" as provided under Schedule VI of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for the purpose of Letter of Confirmation cases, shall move securities pertaining to Letter of Confirmation cases to newly opened "Suspense Escrow Demat Account" latest by January 31, 2023.

(ii) Process to credit shares to Suspense Escrow Demat Account:

1. In cases where the securities holder/claimant fails to submit the Demat request to the depository participant within the period of 120 days from the date of issuance of the letter of confirmation, RTA shall move the said securities to a physical folio "Suspense Escrow Demat Account" and issue a consolidated letter of confirmation to the Company for the said securities in the "Suspense Escrow Demat Account" on monthly basis.
2. Thereafter, the listed entity shall dematerialise these securities in the "Suspense Escrow Demat Account" with one of the depository participants within seven days of receipt of such LOC from RTA.
3. The listed entity shall maintain details of the security holding of each individual securities holder(s) whose securities are credited to such "Suspense Escrow Demat Account"
4. "Suspense Escrow Demat Account" shall be held by the listed entity purely on behalf of the securities holders who are entitled to the securities and the securities held in such account shall not be transferred in any manner whatsoever except for the purpose of moving the securities from "Suspense Escrow Demat Account" to the security holder's claimant's Demat account as and when the security holder/claimant approaches the listed entity.

(iii) Process for claiming securities from Suspense Escrow Demat Account

1. Securities which have been moved to 'Suspense Escrow Demat Account' may be claimed by the security holder/claimant on submission of the following

documents to RTA: a. Duly filled in and signed form ISR-4 b. Client master list ('CML') of the Demat account for crediting the securities to the security holder's / claimant's account provided the details in the CML should match with the details recorded with the RTA / issuer company.

Annexure 13.4: Format for registering or updating PAN, KYC details

Form ISR – 1

(see SEBI circular No. SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2021/655 dated November 03, 2021 on Common and Simplified Norms for processing investor's service request by RTAs and norms for furnishing PAN, KYC details and Nomination)

REQUEST FOR REGISTERING PAN, KYC DETAILS OR CHANGES / UPDATION THEREOF

[For Securities (Shares / Debentures / Bonds, etc.) of listed companies held in physical form]

Date:___ /___ /_____

A. I / We request you to Register / Change / Update the following (Tick ✓ relevant box)

☐ PAN	☐ Postal Address
☐ Bank details	☐ E-mail address
☐ Signature	☐ Mobile number
☐ Demat Account details	

B. Security Details:

Name of the Issuer Company		Folio No.:
Name(s) of the Security holder(s) as per the Certificate(s)	1. 2. 3.	
Number & Face value of securities		
Distinctive number of securities	From	To

C. I / We are submitting documents as per Table below (tick ✓as relevant, refer to the instructions):

	✓	Document / Information / Details	Instruction / Remark
1	PAN of (all) the (joint) holder(s)		
		PAN Whether it is Valid (linked to Aadhaar): ☐ Yes ☐ No	☐☐☐☐☐☐☐☐☐☐ PAN shall be valid only if it is linked to Aadhaar by March 31, 2022* For Exemptions / Clarifications on PAN, please refer to Objection Memo in page 4

2		Demat Account Number	□□□□□□□□ □□□□□□□□ Also provide Client Master List (**CML**) of your Demat Account, provided by the Depository Participant.
3		Proof of Address of the first holder	Provide any one of the documents, only if there is change in the address; • Client Master List (**CML**) of your Demat Account, provided by the Depository Participant • Valid Passport/ Ration Card/ Registered Lease or Sale Agreement of Residence / Driving License / Flat Maintenance bill. • Utility bills like Telephone Bill (only land line), Electricity bill or Gas bill - Not more than 3 months old. • Identity card / document with address, issued by any of the following: Central/State Government and its Departments, Statutory / Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions. • For FII / sub account, Power of Attorney given by FII / sub-account to the Custodians (which are duly notarized and / or apostilled or consularised) that gives the registered address should be taken. • The proof of address in the name of the spouse
4		Bank details	Provide the copy of the bank statement with details of bank name, branch, account number and IFS Code or copy of cheque leaf. Alternatively, Bank details available in the CML will be updated in the folio.
5		E-mail address	_____ Alternatively the e-mail address available in the CML will be updated in the folio
6		Mobile	_____ Alternatively the mobile number available in the CML will be updated in the folio
7		Specimen Signature	• Provide banker's attestation of the signature of the holder(s) as per Form ISR – 2 in SEBI circular SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2021/655 dated November 03, 2021) and • Original cancelled cheque
8		Nomination**	• Providing Nomination: Please submit the duly filled up Nomination Form (SH-13) or 'Declaration to Opt out of Nomination' as per Form ISR–3, in SEBI circular SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2021/655 dated November 03, 2021 • Change in Existing Nomination: Please use Form SH-14 in SEBI circular SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2021/655 • Cancellation of Existing Nomination: Please use Form SH-14 and Form ISR – 3

* or any date as may be specified by the CBDT

** Nomination (**Form SH-13 or SH-14**) / 'Declaration to Opt-Out of nomination' (**Form ISR – 3**), has to furnished by the holder(s) separately for each listed company.

Mode of submission of documents to the RTA

Please use any one of the following mode;

1. In Person Verification (**IPV**): by producing the originals to the authorized person of the RTA, who will retain copy(ies) of the document(s)
2. In hard copy: by furnishing self-attested photocopy(ies) of the relevant document, with date
3. Through e-mail address already registered with the RTA, with e-sign of scanned copies of documents
4. Service portal of the RTA with e-sign with scanned copies of documents, if the RTA is providing such facility

Note

- It is mandatory for holders of physical securities in listed company to furnish PAN, full KYC details (address proof, bank details, e-mail address, mobile number) and Nomination (for all the eligible folios).

- Upon receipt or up-dation of bank details, the RTA automatically, pay electronically, all the moneys of / payments to the holder that were previous unclaimed / unsuccessful.

- RTA shall update the folio with PAN, KYC details and Nominee, within seven working days of its receipt. However, cancellation of nomination, shall take effect from the date on which this intimation is received by the company / RTA.

- RTA shall not insist on Affidavits or Attestation / Notarization or indemnity for registering / up-dating / changing PAN, KYC details and Nomination.

Authorization: I / We authorise you (RTA) to update the above PAN and KYC details in my / our folio (s) _____, _____, in which I / We are the holder(s) (strike off what is not applicable).

Declaration: All the above facts stated are true and correct.

	Holder 1	Holder 2	Holder 3
Signature	✓	✓	✓
Name	✓	✓	✓
Full postal address	✓		
PIN	✓ □□□□□□		

(Page 4 is for information to investors; print out of the same is not needed.)

Annexure 13.5: The investor charter details out the rights of investors, and Do's and Don'ts of investors.

Rights of Investors

The rights of investors, as stated in the investor charters, are as follows:

- Right to receive all the benefits/ material information declared by the Company
- Right to fair and equitable treatment.
- Right to actively participate in the AGM / EGM of the company & E-voting events so as to be a part of the decision making of the Company's business resolutions.
- Right to approach RTA, Depository, Company, Stock Exchange or SEBI for resolution within prescribed timelines, in case of any grievances.
- Right to ask for and receive information about all the statutory and regulatory disclosures.
- Right to sell/transfer securities with minimal documentation.
- Right to get access to services in a suitable manner even if differently abled.
- Right to get access to educational materials of RTAs.
- Right to get customised services as per requirement at fair price.
- Right to have access to the escalation matrix for communication with the RTA.
- Right to not be bound by any clause prescribed by the Issuer Company/RTA which are contravening to the Regulatory provisions.
- Right to get updates with respect to various service requests filed with the RTA.

Dos and DON'Ts for Investor

Do's	Don'ts
1. Encash dividend/Interest regularly to avoid transfer of unclaimed amount/underlying securities to IEPF. 2. Follow up diligently and promptly if you have not received allotment intimation/certificate/dividend/interest etc. 3. Ensure that your PAN is registered with the RTA for all your folios. 4. Ensure nomination is registered for all your securities to smoothen the transmission. 5. Ensure that all KYC details viz., full postal address with PIN, mobile number, e-mail address etc. are updated to facilitate the RTA for sending communication.	1. Do not keep your folios without PAN. 2. Do not keep your folios without nomination 3. Do not deal with unauthorized persons for any investor service requests such as change in / updation of address, e-mail address, mobile number and bank details. 4. Do not share security details, viz., folio number, certificate number, distinctive number(s), bank details, specimen signature, KYC documents, etc. with unknown person(s).

6. Ensure that correct and complete Bank details are recorded with RTA to facilitate prompt electronic credit of dividend/ interest/ redemption amounts and eliminate possibility of unclaimed amounts/ underlying securities being transferred to IEPF. 7. Promptly inform the RTA in writing and complete required formalities in case of loss of securities. 8. Ensure that the documents provided for availing any investor service request are complete in all respects and keep copies of documents sent to the RTA. 9. Monitor all corporate announcements pertaining to investments made.	

Chapter 13: Sample Questions

1. Issue of duplicate certificates in place of lost ones have to be completed within_____ days of submission of duly completed documents.
   - **a.** 15 days
   - **b.** **30 days**
   - **c.** 7 days
   - **d.** 60 days

2. On registering a power of attorney (PoA), the R&T Agent assigns a _____.
   - **a.** **Registration number**
   - **b.** Client servicing officer
   - **c.** Compliance Officer

3. Transmission of shares is possible only if there are multiple holders. State whether True or False.
   - **a.** TRUE
   - **b.** **FALSE**

4. A request for change of address needs to be signed by the first holder only. State whether True or False.
   - **a.** **TRUE**
   - **b.** FALSE

5. If the dividend income is within exempted limits, shareholders _____ years age need to submit Form 15G.
   - **a.** **Below 60**
   - **b.** Above 60

CHAPTER 14: SECONDARY MARKET TRANSACTIONS

Learning Objectives:

After studying this chapter, you should know about the secondary market transactions:

- Stock markets
- Participants in the Stock markets
- Listing of Securities
- Custodians
- Registrar and Transfer Agents

A company issues securities for the first time to different classes of investors in the primary markets. An Initial Public Offer (IPO) or a Further Public Offer (FPO) is an offer of shares to the public at large while a private placement of shares is an offer made to a select group of investors such as financial institutions, mutual funds, group companies and the like.

The proceeds of shares sold in the primary market go to the company and it increases the share capital of the company. The only exception to this is the offer for sale of shares in the primary market where the proceeds go to the person(s) making the offer and not to the company.

Once the shares are issued, they may be traded among investors. This market for trading in securities that have already been issued is called the secondary market for securities. In the secondary market, the securities are purchased from other investors rather than from the issuer. The proceeds of the transaction go to the selling investor and not to the issuing company.

The need for a secondary market in securities arises because of the important role it plays in the following ways.

- **Providing a mechanism for price discovery**

  The investors in a stock would buy and sell the share depending upon their estimation of the value of the stock. The estimation that the investor makes takes into consideration all the information available which will impact the performance of the company. When many investors evaluate a stock, it is possible to arrive at the appropriate price for the stock.

- **Providing a mechanism for dissemination of information**

  Determining the price of a stock would depend on the quality and timeliness of the information that the investor has to evaluate. An efficient secondary market will provide the way for periodic, relevant and timely information to reach the investors.

- **Providing liquidity**

  Investors who have bought securities may want to exit the investment. A secondary market provides a way for the investor to find buyers at prices that reflect the valuation of the stock and are acceptable to them. The efficiency of a secondary market lies in enabling this in a cost-effective way.

14.1 Stock Markets

The organised secondary market for securities is called a stock market. The principal stock exchanges in India are the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).

A stock market will have the following features:

- It will be regulated by the regulator of capital markets in the country. In India the stock exchanges are regulated by SEBI.
- It will provide a platform for trading, clearing and settlement of trades.

The principal features of a stock exchange are:

- **Trading Platform** – The main stock exchanges in India facilitate screen based trading from member offices around the country. The trading system provides for anonymous trades and price-time priority in the prices at which trades are done. This basically means that trades are executed at the best price (lowest if the investor is buying and highest if the investor is selling) at a given point of time. The system also allows options for the investor to structure the trade in terms of the period of validity of the order, the manner in which the order will be filled and the like.
- **Clearing and Settlement System**- The stock exchange provides facilities of a clearing corporation whose function is to identify the net trade obligations of each party and what each party is owed for trades done in terms of securities and funds. The clearing corporation also stands guarantee for the trades done on the exchange.

Trading in dematerialised securities has the advantages of:

- Quicker settlement
- Elimination of threat of loss of certificates

- Elimination of bad deliveries through fake certificates, mutilation and the like
- Ease of transactions such as transfer, nomination
- Lower costs of transactions as stamp duty is not applicable

Stock exchanges enrol and regulate members and institutions who are allowed to participate in the markets. It sets guidelines for the conduct of transactions in securities and the conduct of members through the prescription of bye-laws for membership, capital requirements etc. Further, SEBI has also laid down the operating procedure to handle cases of outage due to any technical glitch at any stock exchanges and extension of trading hours thereof.[73]

14.2 Participants in the Stock Markets

The participants in a stock market process are

- Investors
- Intermediaries
- Companies

Investors

Investors come to the stock exchange to buy and sell securities. SEBI's regulations permit Resident investors, Non-resident Indians, Corporate bodies, Trusts, FPIs who are registered with SEBI, among others, to invest in stock markets in India. Overseas corporate bodies are prohibited from investing in Indian securities markets. On January 1, 2012, the government decided to allow Qualified Foreign Investors (QFIs) to invest directly in the Indian equities market to boost capital inflows. QFIs can be individuals, groups or associations based abroad who are allowed by the government to invest directly in mutual funds and stocks of Indian companies. QFIs and investments by QFIs are discussed later in this section.

Investors cannot directly trade on the stock market. They have to go through intermediaries called brokers. Brokers are members of the stock exchange. The investors have to open a trading account with the broker. They are required to comply with the "Know your Customer" (KYC) norms. This seeks to establish the identity and bona-fides of the investor.

Investors will also need to open a beneficiary account with a Depository Participant (DP) to be able to trade in dematerialised securities. This account will hold the shares which the investor will buy and sell.

[73] SEBI Circular No.: SEBI/HO/MRD-TPD-1/CIR/P/2023/7 dated January 9, 2023.

Once the formality of account opening is done, investors can put through their transactions through their broker's terminal. The trades have to be settled, i.e. securities delivered/received and funds paid out/received, according to the settlement schedule (i.e. currently T+1). Investors have to give instructions to the DP to transfer securities from their account to that of the broker who is also a clearing member; or, give standing instructions to receive securities if they have bought shares. Similarly, they have to ensure that funds are available in their bank account to settle for shares they have bought.

SEBI has issued detailed operational guidelines for qualified DPs for investment in equity shares by QFI vide circular number CIR/ IMD/FII&C/3/2012 on January 13, 2012. Eligible transactions by QFIs as mentioned in the circular are as below:

1. Purchase of equity shares in public issues, to be listed on recognised stock exchange(s).
2. Purchase of listed equity shares through SEBI registered stock brokers, on recognized stock exchanges in India.
3. Sale of equity shares which are held in their demat account through SEBI registered stock brokers.
4. Purchase of equity shares against rights issues.
5. Receipt of bonus shares or receipt of shares on stock split/ consolidation.
6. Receipt of equity shares due to amalgamation, demerger or such other corporate actions, subject to the investment limits.
7. Receipt of dividends.
8. Tender equity shares in open offer in compliance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, as amended.
9. Tender equity shares in delisting offer in compliance with SEBI (Delisting of Equity Shares) Regulations, 2009, as amended.
10. Tender equity shares in case of buy-back by listed companies in compliance with SEBI (Buy-back of Securities) Regulations, 2018, as amended.

To provide protection to the investors from the default of member(s) [i.e. 'trading member' (TM) / 'clearing member' (CM)], SEBI introduced a supplementary process for trading in secondary market based on blocked funds in investor's bank account, instead of transferring them upfront to the trading member, thereby providing enhanced protection of cash collateral. The facility is provided by integrating Reserve Bank of India (RBI) approved Unified Payments Interface (UPI) mandate service of single-block-and-multiple-debits with the secondary market trading and settlement process and is referred to as 'UPI block facility'. Under the framework, funds will remain in the account of client but will be blocked in favour of the clearing corporation (CC) till the expiry date of the block mandate or till block is released by the CC, or debit of the block towards obligations arising out of the trading activity of the client, whichever is earlier. Further, settlement for funds and

securities will be done by the CC without the need for handling of client funds and securities by the member.[74]

Brokers

Intermediaries in the secondary market process include brokers and Depository Participants. Brokers are members of a stock exchange who are alone authorised to put through trades on the stock exchange. Brokers may be individuals or institutions who are registered with SEBI and meet the respective stock exchange's eligibility criteria for becoming a member of the exchange.

The stock exchange will specify minimum eligibility requirements such as base capital to be collected from the member brokers which are in line with SEBI's regulations on the same. The exposure that a broker can take in the market will be a multiple of the base capital that is deposited with the exchange.

Depository Participants

Depository Participants (DP) are associates of a Depository through whom the investors will hold their beneficiary accounts to enable them to trade in dematerialised shares.

The SEBI (Depositories and Participants) Regulations, 2018 specify the eligibility requirements for a DP. Banks, financial institutions, brokers, custodians, R&T Agents, NBFCs among others are eligible to become DPs. Apart from this, the DPs are required to have minimum net worth as specified by the regulations. This could range from Rs 10 crores for R&T Agents who are DPs to Rs 50 crores for NBFCs.

The DPs are responsible for executing the investor's directions on delivery and receipt of shares from their beneficiary account to settle the trades done on the secondary markets.

14.3 Listing of Securities

Companies list their shares on the stock exchange and they are bought and sold by investors using the mechanism of the stock exchange. A company has to meet certain eligibility requirements to be able to list its shares on a stock exchange. These include:

- Minimum continuous public holding of 25 percent of total number of issued shares of every class of security listed. The public shareholding can be 10 percent for those classes of shares where the post issue capital of the company calculated at offer price is more than Rs.4000 crores but less than Rs. 1 lakh crore.[75]

[74] SEBI Circular No.: SEBI/HO/MRD/MRD-POD-2/P/CIR/2023/99 dated June 23, 2023 on Trading supported by blocked amount in Secondary Market.

[75] Vide Securities Contracts (Regulation) (Amendment) Rules, 2021 w.e.f. June 18, 2021.

- A minimum average operating profit of Rs. 15 crore, calculated on a restated and consolidated basis, during the preceding 3 years, with operating profit in each of these preceding 3 years.
- The memorandum and articles of association of the company must be approved by the stock exchange and contain the relevant provisions required by the SCRA.
- The requirements are :
    - Dividends will not be forfeited unless time-barred
    - A common transfer form will be used
    - Transfer of shares will not be denied on account of any obligation of the investor to the issuer
    - The fully paid-up shares will be free of lien
    - The draft prospectus will be approved by the stock exchange as to its compliance with the Exchange's listing requirements

The Company signs the listing agreement with the stock exchange which lays down the obligation of the company with regard to its investors. The primary requirements in the agreement are:

- The issuer will give the stock exchange due notice of meetings of board of directors where corporate actions such as dividends, bonus, buyback, rights issue and the like is to be considered.
- The proceedings of the meeting will also be intimated to the exchange within 15 minutes of the closure of the meeting.
- The issuer will ensure flow and dissemination of information by providing the exchange copies of the balance sheet, the profit and loss account, all periodic and special reports, minutes of general body meetings and the like.
- The issuer will submit accounts and cash flow statements as required by the accounting standards and disclose all financial transactions with associates.
- Any information that has a bearing on the operations of the company and is price-sensitive will be disclosed to the exchange.
- The issuer will give effect to transfer of shares where all documents and formalities are in order. If there are minor discrepancies, the transfer will be done after getting the approval of the transferor.
- The issuer will undertake to maintain the minimum public shareholding as required by the provisions of the SCRR.
- The company will abide with the requirements of corporate governance in terms of:
    - Composition, remuneration, operations and conduct of the board of directors

- An audit committee that will oversee the financial aspects of the company
- Overseeing the operations of subsidiary unlisted companies
- Complete disclosure to the board and the audit committee on all matters that have an implication on the operations and finances of the company

14.4 SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (LODR)

The SEBI (LODR) Regulations prescribe different Disclosure Requirements for different types of listed securities. SEBI has issued several amendments to the SEBI (LODR) Regulations, such as:

- SEBI had put in place a mechanism to review the audit qualifications contained in the audit reports of the listed entities.
- Dividend Distribution Policy shall be disclosed in the Annual Reports and on the websites of top 1000 listed entities.
- The title of the regulation is substituted with "Obligations with respect to employees including senior management, key managerial persons (KMP), directors and promoters.
- No employees, including key managerial persons or director or promoter of a listed entity shall enter into any agreement for compensation or profit sharing in connection with dealings in the securities of such listed entity, directly or indirectly (for himself or on behalf of any other person), with any shareholder or any other third party, unless prior approval for the same has been obtained from the Board of Directors and public shareholders by way of an ordinary resolution.
- Based on the report of the Committee on Corporate Governance under the Chairmanship of Mr. Uday Kotak, SEBI has accepted several recommendations such as every listed entity and their material unlisted subsidiaries shall undertake mandated secretarial audit and annex the same with its audit report[76]; at least 1 woman independent director in the top 1000 listed entities by market capitalisation.
- Amendments pertain to compliances in relation to corporate governance provisions for listed entities which have issued shares with Superior Rights (SRs). SEBI has issued a framework for issuance of DVR.

Broad Features of the Regulations

- Applicability of the Regulations
- Common obligations to be performed by listed entities

[76]SEBI (LODR) Regulations define 'material subsidiary' as a subsidiary whose income or net worth exceeds 10 percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

- Quarterly compliances including time thereof
- Events requiring prior intimation
- Events Requiring Intimation within 24 Hours of Occurrence of Event
- Composition of Board and its Committees thereof
- Related party transaction
- Agendas of Board Meetings as per Regulation
- Agendas of Audit Committee Meetings
- Agendas to be placed at upcoming General Meeting

To strengthen the listing regime for listed companies and debenture issuers, protect the interests of investors, and promote market integrity, SEBI notified a few amendments to compliance with corporate governance norms, disclosure norms on shareholders' money, and certain fees or changes to fees related to the listing of corporations and debentures. Further, the amendments have introduced certain provisions, related to insider trading, related party transactions, utilization of substantial acquisition of shares and takeover regulations etc.

I. Applicability of the Regulations

The SEBI (LODR) Regulations are applicable on listed entities which have listed any of the following designated securities on recognised stock exchange(s): -

(a) Specified securities listed on main board or SME Exchange or Innovators Growth Platform;[77]

(b) Non-convertible securities;[78]

(c) Indian depository receipts;

(d) Securitised debt instruments;

(e) Security receipts;

(f) Units issued by mutual funds;

(f) Any other securities as may be specified by SEBI.

II. Common Obligations of Listed Entities

This part deals with the obligations and responsibilities upon all the listed entities. The Key Managerial Personnel (KMPs), Directors, and Promoters shall comply with responsibilities or obligations assigned to them under these regulations. The following are the common obligations on listed entities:

[77]Vide SEBI (LODR) (Second Amendment) Regulations, 2021 w.e.f. May 5, 2021.
[78]Vide SEBI (LODR) (Fifth Amendment) Regulations, 2021 w.e.f. September 7, 2021.

Regulation No.	Nature of Compliance	Compliance
6	**Compliance Officer**	A listed entity shall appoint a qualified Company Secretary as the Compliance Officer. The Compliance officer so appointed shall be responsible for ensuring conformity with regulatory compliance, co-ordination and reporting to SEBI, ensuring that correct procedures have been followed that would result in correctness of information filed by the listed entity under the regulations and monitoring email address of grievance redressal division.
7	**Share Transfer Agent**	The listed entity shall appoint a share transfer agent or manage the share transfer facility in-house. Where the facility is managed in-house, as and when the total number of holders exceeds 1 lakh, the listed entity has 2 options: either to register with SEBI as Category II Share transfer agent, OR to appoint a Registrar to an Issue and Share Transfer Agent registered with the SEBI. ***Manner of Appointment of New Share Transfer Agent***: In case of any change or appointment of new share transfer agent, the listed entity shall enter into tripartite agreement between the existing share transfer agent, the new share transfer agent and the listed entity.[79] ***Intimation of Appointment of New Share Transfer Agent***: The listed entity shall inform the stock exchange about the appointment of New Share Transfer Agent within 7 days of entering into Agreement. The Agreement referred herein-above shall be placed at the subsequent Board Meeting.
9	**Preservation of Documents**	The listed entity shall have policy for preservation of documents, bifurcated and categorised into 2 types:- (i) Documents whose preservation shall be permanent in nature

[79] SEBI Circular No.: SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/79 dated May25, 2023.

Regulation No.	Nature of Compliance	Compliance
		(ii) Documents whose preservation period shall be of not less than 8 years after completion of the relevant transactions. These documents may be preserved in electronic mode.
24	**Corporate governance requirements with respect to subsidiary of listed entity**	Atleast 1 Independent Director on Board of Directors of the listed entity shall be a Director on the Board of Unlisted Material Subsidiary, whether incorporated in India or not. The management of the unlisted subsidiary shall periodically bring to the notice of the board of directors of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary. A listed entity shall not dispose of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than or equal to 50 percent or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal or under a resolution plan approved under the Insolvency Code and such an event is disclosed to the recognised stock exchanges within 1 day of the resolution plan being approved. Selling, disposing and leasing of assets amounting to more than 20 percent of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/ disposal/ lease is made under a scheme of arrangement duly approved by a Court/Tribunal or under a resolution plan approved under the Insolvency Code and such an event is disclosed to the recognised stock exchanges within 1 day of the resolution plan being approved.

III. Quarterly Compliances[80]

[80] Vide SEBI Circular No.: SEBI/HO/CFD/CFD-PoD-2/CIR/P/2024/185 dated December 31, 2024.

In order to facilitate ease of filing and compliance for listed entities, SEBI has introduced Integrated Filing for Governance and Financial related periodic filing requirements under LODR.

Regulation No.	**Time Limit**	**Compliance / Intimation to Stock Exchange about**
13(3)	Within 30 days from end of each Quarter	A statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed off during the quarter and those remaining unresolved at the end of the quarter.
27(2)	Within 30 days from the end of each quarter	A listed entity shall submit quarterly compliance report on corporate governance in the format as specified by SEBI to the recognised stock exchange(s). Details of all material transactions with related parties shall be disclosed along with the report. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the listed entity. Also, details of cyber security# incidents or breaches or loss of data or documents shall be disclosed along with the report.
31(1)	(a) Within 21 days from end of each quarter; (b) 1 day prior to listing of its securities on the stock exchange(s); (c) Within 10 days of any capital restructuring of the listed entity resulting in a change exceeding 2 percent of the total paid-up share capital	A listed entity shall submit a statement showing holding of securities and shareholding pattern separately for each class of securities as per the given timelines. [In case, the securities are listed on SME Exchange, the shareholding statement shall be submitted on a half yearly basis within 21 days from end of each half year.]

Regulation No.	Time Limit	Compliance / Intimation to Stock Exchange about
33(3)	Within 45 days from end of the quarter & 60 days from end of the last quarter	The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange within 45 days of end of each quarter, other than the last quarter. In case the listed entity has subsidiaries, the listed entity, in addition to the above, shall also submit quarterly/ year-to-date consolidated financial results.
32(1)	Within 45 days of the end of the quarter & 60 days from end of the last quarter	A listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc. (a) indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable; (b) indicating category wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilisation of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilisation of funds.

 # SEBI Cybersecurity and Cyber Resilience Framework (CSCRF) for SEBI Regulated Entities (REs)[81]

In order to strengthen the cybersecurity measures in Indian securities market, and to ensure adequate cyber resiliency against cybersecurity incidents/ attacks, SEBI has released the Cybersecurity and Cyber Resilience Framework (CSCRF). The CSCRF aims to provide standards and guidelines for strengthening cyber resilience and maintaining robust cybersecurity of SEBI regulated entities (REs). This framework shall supersede existing SEBI cybersecurity circulars/ guidelines/ advisories/ letters.

REs shall put in place appropriate systems and procedures to ensure compliance with the provisions of CSCRF and conduct cyber audit. Cyber audit reports along with other required documents shall be submitted as per timelines provided in the CSCRF.

The CSCRF is standards based and broadly covers the five cyber resiliency goals adopted from Cyber Crisis Management Plan (CCMP) of Indian Computer Emergency Response Team (CERT-In)- Anticipate, Withstand, Contain, Recover, Evolve. These cyber resiliency goals have been linked with the following cybersecurity functions - Governance, Identify, Protect, Detect, Respond, Recover.

Cyber Capability Index

CSCRF has introduced a Cyber Capability Index (CCI). The CCI enables rating the cybersecurity and resilience controls of the REs and submit their CCI scores. The CCI for MIIs and Qualified REs shall help these REs to monitor and assess their progress and cyber resilience on a periodic basis.

IV. Prior intimation of Board Meeting at which following agendas will / proposed to be discussed / other events

Regulation No.	**Board Meeting at which following agendas are to be discussed:**	**Compliance / Intimation to Stock Exchange about**
29(1)	Financial Results (quarterly, half-yearly, annually)	At least 2 working days in advance (excluding date of meeting and date of intimation)
	proposal for buyback of securities	
	proposal for voluntary delisting by the listed entity from the stock exchange(s);	
	fund raising by way of issue of securities (excluding security receipts, securitized debt instruments or money market instruments	

[81] SEBI Circular No.: SEBI/HO/ITD-1/ITD_CSC_EXT/P/CIR/2024/113 dated August 20, 2024.

Regulation No.	Board Meeting at which following agendas are to be discussed:	Compliance / Intimation to Stock Exchange about
	regulated by RBI), through further public offer, rights issue, American Depository Receipts/Global Depository Receipts/Foreign Currency Convertible Bonds, qualified institutions placement, debt issue, preferential issue or any other method and for determination of issue price; However, the intimation for determination of issue price in a qualified institutions placement (QIP) is not required if such placement is done in accordance with the provisions of SEBI (ICDR).	
	declaration/recommendation of dividend, issue of convertible securities including convertible debentures or of debentures carrying a right to subscribe to equity shares or the passing over of dividend;	
	the proposal for declaration of bonus securities	
	any alteration in the form or nature of any of its securities that are listed on the stock exchange or in the rights or privileges of the holders thereof;	
	any alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.	
46(3)	A listed entity shall update any change in the content of its website	Within 2 working days from the date of such change in content.

V. Compliances post conclusion of Board Meeting

Regulation No.	Compliance regarding:	Timeline
52(8)	Publish the financial results and the specified line items in at least one English national daily newspaper circulating in the whole or substantially the whole of India.[82] The listed entities to publish simplified newspaper advertisements for financial results using a Quick Response Code (QR code) and provide the link to their website and stock exchange(s). Preconditions include: (i) obtaining prior approval from the debenture trustee for existing non-convertible securities and (ii) disclosure in offer documents for new issuances after the amendment's notification date.	within 2 working days of the conclusion of the meeting of the Board of Directors

Regulation No.	Time Limit	Compliance / Intimation to Stock Exchange about
33(3)	Within 60 days from end of Financial Year	The listed entity shall submit annual audited standalone financial results for the financial year, along with the audit report and Statement on Impact of Audit Qualifications (applicable only for audit report with modified opinion).
34(1)	Not later than the day of commencement of dispatch to its shareholders	A listed entity shall submit the annual report along with notice of Annual General Meeting (AGM) to the stock exchange and publish on its website. In the event of any changes to the annual report, along with the change details and explanation thereof shall be sent not later than 48 hours after the AGM.

[82] Vide SEBI (LODR) (Second Amendment) Regulations, 2024 w.e.f. July 8, 2024.

VI. Annual / Yearly Compliances

VII. Intimation within 24 Hours of Occurrence of Event

This is divided into 2 parts:

(i) Disclosures to be given even when materiality does not triggers/guidelines of materiality are not applicable.

(ii) Disclosures to be given when materiality triggers/guidelines of materiality are applicable.

Regulation No.	Disclosure regarding:	Timeline
30(6)	Listed entities are required to make disclosures to stock exchanges of material events/ information as soon as reasonably possible and no later than:[83]	30 minutes from the closure of the board meeting in which the decision pertaining to the event or information has been taken; however, if the board meeting closes after normal trading hours of that day but more than 3 hours before the beginning of the normal trading hours of the next trading day, then the listed entity shall disclose the decision pertaining to the event/ information, within 3 hours from the closure of the board meeting;[84] 12 hours from the occurrence of the event/information, in case the event/information is emanating from within the listed entity; 24 hours from the occurrence of the event/information, in case the event/information is not emanating from within the listed entity.

[83] SEBI Circular No.: SEBI/HO/CFD/CFD-PoD-1/P/CIR/2023/123 dated July 13, 2023.

[84] Vide SEBI Circular No.: SEBI/HO/CFD/CFD-PoD-2/CIR/P/2024/185 dated December 31, 2024.

Chapter 14: Sample Questions

1. The proceeds of the trades done on the secondary market goes to the _____.
   a. Seller
   b. Company
   c. Depository

2. _____ stands guarantee for trades done on the stock exchange.
   a. Clearing Corporation
   b. Registrar and Transfer Agent
   c. Custodians
   d. Stock Exchange

3. Stock markets are regulated by _____.
   a. RBI
   b. SEBI
   c. Ministry of Corporate Affairs

4. The KYC norms are optional formalities imposed by some market participants to protect themselves. State whether True or False.
   a. TRUE
   b. FALSE

5. Brokers are members of a stock exchange who are authorised to put through trades on the stock exchange. State whether True or False.
   a. TRUE
   b. FALSE

CHAPTER 15: CLIENT SERVICING

Learning Objectives:

After studying this chapter, you should know about the importance of investor services:

- Definition of Investor First Time Rights (FTR) Approach
- Principles of Investor Servicing
- Basic Rules to be followed as per SOP
- Dos and Don'ts Thanking the Investors

15.1 Investor in context of RTA organisation

An investor is any person or other entity (such as a firm or mutual fund) who commits capital with the expectation of receiving financial returns. Investors rely on different financial instruments like equity shares (through an IPO or purchasing from the stock market), or debt instruments or units of mutual fund schemes, to earn a rate of return and accomplish important financial objectives like building retirement corpus, funding education, or merely accumulating additional wealth over time.

Investors play a crucial role by investing their capital in financial instruments. In the long term, investment is important for improving productivity and increasing the competitiveness of an economy. Without investment, an economy could enjoy high levels of consumption, but this creates an unbalanced economy.

15.2 First Time Right (FTR)

Approach

The concept of ensuring that any procedure/ activity is performed in the right manner, the first time and every time, is referred to as 'First Time Right' (FTR) and originates from Six Sigma.

Example:

1. A customer not requiring to repeat their regular order at the take-away joint;
2. A bank executive or an RTA executive handing a customer inquiry and providing correct guidance.

If FTR process is to work well, there are a few essential ingredients required:

- Single point of contact
- Staffs' ability to access and provide information/ solution to investors promptly
- Professional service delivery style

Such an approach requires extensive product knowledge by the client servicing executive along with polite and elegant communications skills. And this is where techniques, such as use of exactly the same words, phrases and tonality as the fellow investor, proves useful in creating rapid rapport and a sense of understanding.

15.3 Principles of Client Servicing

Customer servicing or client servicing skill is a very vital part of the service industry. The success in the industry depends upon treating the customers patiently and with care.

Discussed below are few important traits for an executive dealing in customer services:

15.3.1 Attitude

The first step of client servicing roles and responsibilities is keeping the right attitude and the motive of satisfying a customer. A nice pleasant face with a smile and a positive attitude is just the right way to greet a customer who walks in or calls.

15.3.2 Patience

Patience is sometimes seen as an old-fashioned concept, a virtue that has little place in our fast-moving world. It is, however, important in customer service, because many customers only contact organisations when they are already frustrated and cross. This may well make them communicate less clearly than usual. It will not help if the front line customer executive becomes frustrated and angry too. Cultivating patience enables listening skills thereby helping to point out the important issues to address. It will also help to ensure that the issue is genuinely resolved, and not be tempted to rush off at a tangent, or only a part of the problem has been addressed.

15.3.3 Empathy

Empathy, or the ability to put oneself into someone else's shoes and be aware of their feelings and emotions, is an important skill for anyone dealing with other people, but particularly for people in service for customers.

Customers who contact organisations with a problem may well be feeling extremely emotional: angry, frustrated, or even helpless. Being able to recognise these emotions, even via the phone or online messaging is a vital skill.

At its simplest, it means that the customers' issues and problems are understood to resolve them in a way that will work for them. In particular, it will mean appreciating and responding to their emotions as well as the logic of their problem. This ability to 'feel' as well as 'hear' is an important part of providing great customer service, because it ensures that customers genuinely feel understood.

15.3.4 Compassion

Compassion is the ability to feel for another human, and it results in the desire to "relieve their pain." To show compassion, consider how the customer feels, their current situation, consider their needs in the situation, and how to help fix the problem. The customer doesn't really care about the company's problems; but need help to solve their problems. Tailoring conversations and responses to address those needs first, rather than explaining the company's position first, should be the priority of the individual in customer services.

15.3.5 Liaising

Client service executive acts as a liaison between a company or other intermediaries or regulators and its customers/investors. Liaising skills are essential to ensure the executive provide investors with reliable and impeccable service. A client service executive liaises with all concern, to ensure investors' queries are satisfactorily answered, orders or transactions are correctly processed and customer complaints are resolved.

15.3.6 Communication skills

In investor service interactions, communication means everything. Investor service executives need to use the right skills to connect with investors in a way that leaves them calmer, satisfied, and confident.

Here are some rules for effective investor service communication that will empower executives and the investors:

- Personalize the interaction
- Avoid negative phrases
- Use positive language with a touch of empathy
- Listen closely and avoid interrupting the customer
- Use consistent brand vocabulary
- Give thorough answers to technical questions
- Make communication clear and concise

15.4 Service etiquettes of RTA organisations in Client Servicing

Etiquette, in investor service, is a conduct that is acceptable to investors and behaviour that encompasses the expectations investors have when dealing with the RTA organisation.

Listed below are certain service etiquettes, investor service associates need to follow to understand the investors and handle their queries/ grievances efficiently:

- Being transparent about products and services - Investors look for transparent information about RTA role and services and the executives must understand from customers' perspective to what they want to know and hear.
- Being truthful and accurate - Impart authentic information related to RTA services to avoid future confusion among investors.
- Keeping promises – Do not make fake commitments and set customer expectations that will break their trust and loyalty.
- Sharing the knowledge – Know the various regulations, SEBI (LODR), SEBI (ICDR), SEBI (Buy-back of securities) and Companies Act, 2013, prior to sharing the knowledge with the investors or clients to maintain trust.
- Offering proactive support services - Being proactive means understanding investors' issues and offering support before the customer escalates the matter.
- Asking the customer for feedback after a resolution - Through feedback, RTA client servicing team can improve the effectiveness of their services. The best time to ask clients for feedback is after the successful resolution of the problem.
- Using the right words - It is very important to choose the right words before client servicing team speak to the investors. The investors can get a bad impression with certain words or phrases used by the investor support team, and therefore use of such words or phrases need to be strictly prohibited.
- Maintaining a professional attitude - Being a professional is a very important client service etiquette that needs to be maintained in all scenarios.
- Offering gratitude to the investors - An important principle of investor service etiquette is to demonstrate good manners. RTA investor servicing team should be well trained to offer gratitude or thanking the investors at the end of the conversation.

15.4.1 Basic rules as per the Standard Operating Procedures (SOP)

- All incoming requests must be Inwarded and verified during the Inwarding Process. A separate Inward Number must be allotted by the System for the Transaction.

- There shall be a maker and checker concept to be followed wherein the documents processed by the users.

- In case of any objection, standard objection processing shall be taken up and an Objection letter shall be sent to the Shareholder with all original documents enclosed through Speed Post or Registered Post.

- In case the total value of securities lodged exceeds certain amount, then the same shall be sorted separately and first verified by the Team Leader/ Management Team.

- PAN card for identity proof and Self-attested copy of Aadhaar card/ Passport/ Driving license for address proof and utility bills, not older than 3 months, are part of mandatory KYC.

- All documents need to be processed with the prescribed time limits of various regulatory requirements and client requirements.

- Documents have to be stored in orderly fashion and all important documents are to be stored under lock and key.

- Documents required to be shredded only after obtaining written approval from the client company. Entries shall be made in the Document shredding/destruction register while making any request for shredding/destructing the documents.

15.4.2 Dos and Don'ts in Client Servicing

Dos:

- Ensure that inquiries from investors are adequately and promptly dealt with First Time Right Approach.
- Ensure that transfer of securities held in physical form and confirmation of dematerialisation/ rematerialisation requests and distribution of corporate benefits and allotment of securities is done within the time specified under any law.
- Endeavour to render fair, objective and unbiased services.
- Ensure to collect relevant information for future communication with Investor.

Don'ts:

- Avoid misrepresentation and ensure that the information provided to the investors is not misleading.
- Avoid any rejections / requests / allotments on flimsy grounds.
- Do not indulge in any unfair competition.
- Do not divulge to other any investors'confidential information except with the approval / authorisation of the clients or when it is required to disclose the information under any law.
- Do not discriminate amongst investors.

15.4.3 Emphasize on effective resolution of investor grievances

RTA investor servicing team shall ensure to redress investor grievances promptly and shall maintain records regarding investor grievances received by it and redressal of such grievances. Once the complaint is registered, ensure a Complaint Registration Number is generated and sent to email id and to mobile number of the complainant.

Investors should be requested to provide the following details to ensure effective resolution of investor grievances:

Name of the complainant
PAN details
Aadhaar Number (optional)
Company Name(s) in which securities are held.

DP ID and Client ID or Physical Folio Nos.
Address for Communication
Contact Nos. - Mobile No. or Landline No.
Email Id.

In order to bring about transparency in the Investor Grievance Redressal Mechanism, SEBI has decided that all the registered RTAs shall disclose on their respective websites, the data on complaints received against them or against issues dealt by them and redressal thereof, latest by 7th of succeeding month, as per the prescribed format

Grievance Redressal Routes:[85]

Investors need to first take up their grievances for redressal with the entity concerned, through their designated persons/officials who handle issues relating to compliance and redressal of investor grievances. In case, the entity concerned fails to redress the complaint within the specified timeline, the investor may then file their complaint in SCORES [86] platform. All RTAs are required to implement their own online web-based complaints redressal system on the lines of SCORES, to allow investors to file and escalate complaints.

After exhausting all available options for resolution of the grievance, if the investor/client is still not satisfied with the outcome, then dispute online resolution through the SMARTODR (online dispute resolution) portal can be initiated.[87]

Alternatively, an aggrieved investor/ client can initiate dispute online resolution through the SMARTODR portal, if the grievance lodged with the concerned market participant was not satisfactorily resolved or are pending at any stage of the subsequent escalations. The concerned market participant may also initiate dispute resolution through the ODR portal after giving due notice (as stipulated) to the investor/client for resolution of the dispute which has not been satisfactorily resolved between them.

85 SEBI Circular No.: SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/67 dated May 14,2025, Investor Charter for Registrar to an Issue and Share Transfer Agents (RTAs)

86 In April 2024, SEBI introduced the latest version of the SEBI Complaint Redress System (SCORES), SCORES 2.0 which enhances investor grievance resolution in the securities market with improved efficiency through auto-routing, auto-escalation, oversight by 'Designated Bodies,' and streamlined timelines.

87 SEBI Circular No. SEBI/HO/OIAE/OIAE_IAD-1/P/CIR/2023/131 dated Jul 31, 2023, Online Resolution of Disputes in the Indian Securities Market.

All market infrastructure institutes (MIIs) have established a common Online Dispute Resolution (ODR) portal where all listed companies, specified intermediaries and regulated entities in the securities market have enrolled. MIIs have also empanelled ODR Institutions to operate the ODR portal. These ODR institutions, in turn, provides the services of qualified arbitrators and conciliators and charge a fee for the proceedings. The ODR Institutions conduct conciliation and arbitration in online mode, enabling online/audio-video participation by the investor/client, the Market Participant and the conciliator or the arbitrator, as the case may be.

Stock exchanges have also put in place a Standard Operating Procedure (SOP) for operationalizing the resolution of all disputes pertaining to investor services.[88] Investors could lodge their complaints in the format prescribed by the stock exchange along with the supporting documents. Investors/members who are not satisfied with the recommendation of the grievance redressal committee also have the option of taking their complaint through the process of arbitration. The process of arbitration is governed by the rules and regulations prescribed by SEBI and the stock exchange from time to time. The Arbitration mechanism is initiated post exhausting all actions for resolution of complaints including those received through SCORES Portal.

Further, any party aggrieved by the arbitrator's award may appeal to the appellate panel of arbitrators within stipulated time. Finally, the party, who is aggrieved with the decision of the appellate arbitrator, may appeal to the High Court.

Table 15.1: The below table sets out the Process of investor grievance

1.	Investor complaint/Grievances	Investors can lodge complaint with SCORE 2.0 portal. Investors may also raise complaints by writing to the designated Investor Grievance Email ID of the Listed Company or its Registrar and Transfer Agent (RTA).	The grievance must be redressed immediately, but no later than 21 days from the date of receipt.
2.	Online Dispute Resolution (ODR) platform for online conciliation and Arbitration	If Investor is not satisfied with the resolution provided by Market Participants, he/she has either of the 2 options. (i)Investor may escalate the complaint on SEBI SCORES portal	Within 21 days from receipt of complaint on SMARTODR

[88] SEBI Circular No. SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/76 dated May 30, 2022.

		(ii) Investor may file complaint/grievance on SMARTODR through online conciliation or arbitration	
3.	Conciliation Process	(i)The Conciliator will endeavour to achieve an amicable settlement. (ii)If conciliation unsuccessful, the Investor may request to refer the matter for arbitration.	(i) Within 21 days, extendable by 10 days with consent of both parties. (ii) Arbitration process to be concluded within 30 days, which is extendable by 30 days with consent of the parties to dispute.

15.4.4 Importance of thanking the investors

Thanking investors is important for many reasons. First and foremost, it can help make investors happy; and a happy investor is more likely to spread the good word about the company. This can help build RTAs reputation as a good organisation to do business with.

Some of the points to keep in mind while thanking the Investors are:

1. Greet your Investor by name once you are introduced.
2. Express your gratitude and clearly state why you enjoyed your experience with this investor (be specific and personalize it as much as possible).
3. Repeat your thanks.

Chapter 15: Sample Questions

1. Any procedure that is performed in the right manner the first time and every time is referred to as _____.
    a. First In First Out
    b. **First Time Right**

2. Right attitude and patience are not part of key skill requirements for client servicing profiles. State whether True or False.
    a. TRUE
    b. **FALSE**

3. _____ is the ability to put yourself into someone else's shoes and be aware of their feelings and emotions.
    a. **Empathy**
    b. Sympathy
    c. Patience

4. Client servicing requires extensive product knowledge. State whether True or False.
    a. **TRUE**
    b. FALSE

5. _____ helps in improving the productivity of the economy.
    a. Planning
    b. Setting up financial goals
    c. **Investment**

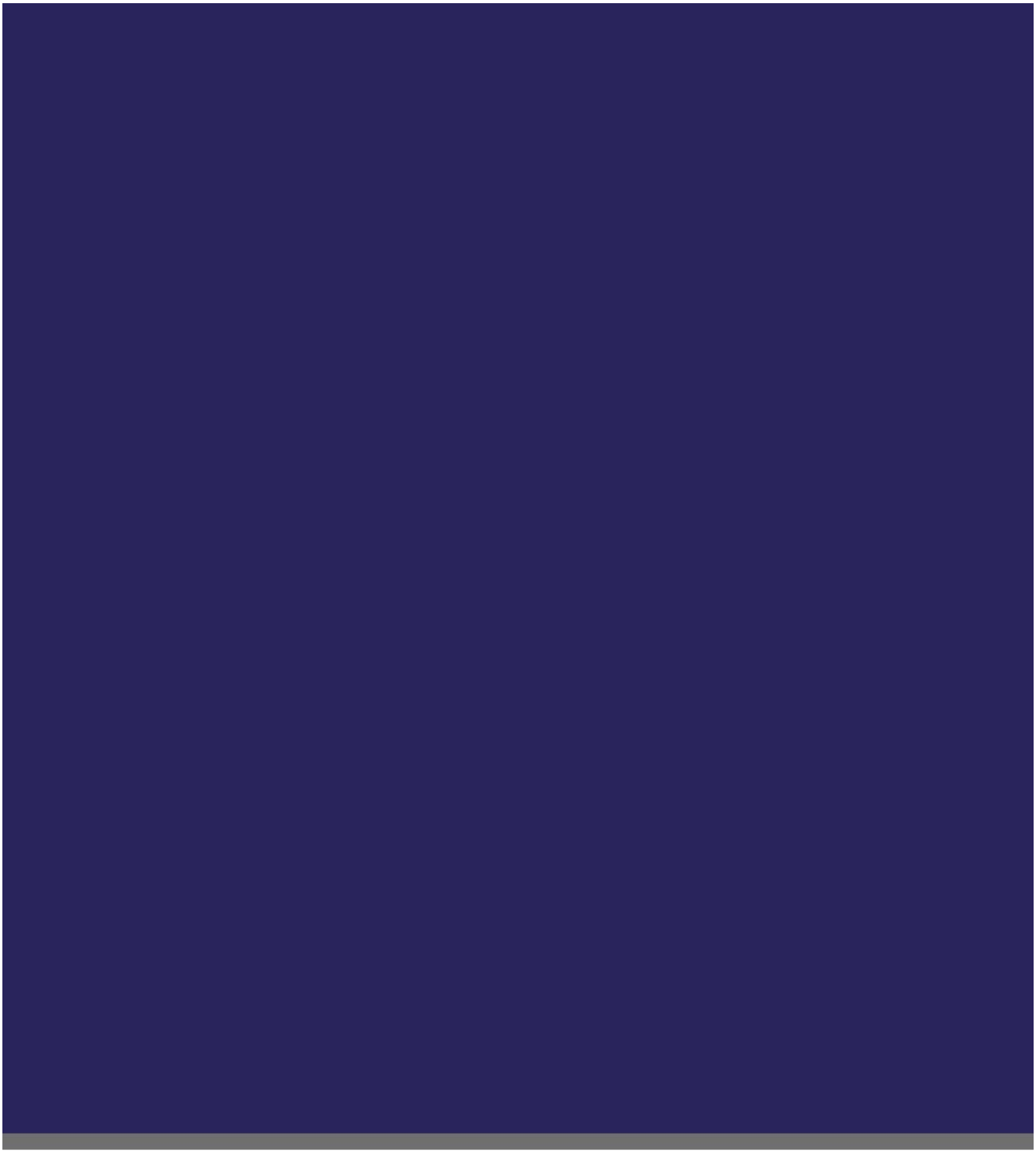
LIST OF ABBREVIATIONS

ADR	American Depository Receipt
AMC	Asset Management Company
ASBA	Application Supported by Blocked Amount
AUM	Assets Under Management
BRLM	Book Running Lead Manager
BSE	BSE Ltd.
CAN	Confirmation of Allotment Notice
CB	Controlling Branch
CBLO	Collateralized Borrowing Lending Obligation
CD	Certificate of Deposit
CoA	Change of Address
CoB	Change of Bank
CP	Commercial Paper
CDSL	Central Depository Services (I) Limited
DB	Designated Branch
DIS	Delivery Instruction Slip
DP	Depository Participant
DR	Depository Receipt
DRF	Dematerialisation Request Form
DRN	Dematerialisation Request Number
FCCB	Foreign Currency Convertible Bond
FCD	Fully Convertible Debenture
FCNR	Foreign Currency Non Resident
FEMA	Foreign Exchange Management Act
FI	Financial Institution
FPI	Foreign Portfolio Investment
FPO	Further Public Offer
FTR	First Time Right
GDR	Global Depository Receipt
GSO	Green Shoe Option
HNI	High Net worth Individual
IDR	Indian Depository Receipt
IEPF	Investor Education and Protection Fund
IPO	Initial Public Offer
IRDAI	Insurance Regulatory Development Authority of India
ISC	Investor Service Centre
ISIN	International Securities Identification Number
KIM	Key Information Memorandum
KYC	Know Your Customer
LODR	(Listing Obligations and Disclosure Requirements), Regulations, 2015
MoA	Memorandum of Association
MCA	Ministry of Corporate Affairs

MII	Market Infrastructure Institution
NAV	Net Asset Value
NBFC	Non Banking Finance Company
NFO	New Fund Offer
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
OCB	Overseas Corporate Bodies
ODR	Online Dispute Resolution
PCD	Partially Convertible Debenture
PDC	Post- dated Cheque
PMLA	Prevention of Money Laundering Act
PoA	Power of Attorney
QFI	Qualified Foreign Investor
QIB	Qualified Institutional Buyer
QIP	Qualified Institutional Placement
RTA	Registrar and Transfer Agent
RBI	Reserve Bank of India
RoM	Register of Members
RRF	Rematerialisation Request Form
SA	Stabilizing Agent
SCCB	Self Certified Syndicate Bank
SCRA	Securities Contract Regulation Act
SEBI	Securities and Exchange Board of India
SI	Standing Instruction
SO	Structured Obligation
SOP	Standard Operating Procedure
UPI	Unified Payments Interface
YTM	Yield to Maturity

LIST OF IMPORTANT WEBSITES

SEBI	https://www.sebi.gov.in/
MCA	http://www.mca.gov.in/
IEPF	http://www.iepf.gov.in/
NSDL	https://nsdl.co.in/
CDSL	https://www.cdslindia.com/
NSE	https://www.nseindia.com/
BSE	https://www.bseindia.com/
NISM	https://www.nism.ac.in/



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