

Solved Scanner Appendix

CS Prof. Prog. M - III (New Syllabus)
(Solutions of June - 2014 and Questions of December - 2014 Included)

Paper - 9.2: Capital, Commodity and Money Market

Chapter - 9: Resource Mobilization Through International Markets 2014 - June [4]

Companies either raise funds from the domestic market or through international market. One of the important mechanism through which investment in Indian Securities takes place in overseas market is through Depository Receipts (DRs). The DR route is attractive to investors because it offers a combination of simplicity, protection and flexibility, as compared to direct investment in foreign market. DR can be issued in the form of American Depository Receipt (ADRs) or Global Depository Receipts (GDRs). An American Depository Receipt (ADR) is a negotiable security representing ownership in some underlying shares of a non-US company, which can be traded on US stock exchanges. ADRs are denominated in US dollars and function on the lines of the shares of a US company in terms of trading and dividend payment. The following would clear the mechanism of the working of an ADR:

1. Indian company would issue rupee denominated shares to a Depository outside India where the ADRs are proposed to be issued.
2. Indian custodian would keep these securities in his custody.
3. The investment banker would organize road shows for marketing the issue.
4. The foreign Depository would issue dollar denominated ADRs to foreign investors.
5. Listing of ADRs in American Stock Exchanges would take place.
6. Indian company has to comply with various requirements of SEC requirements.

Chapter - 11: Commodities Market Operations 2014 - June [3]

For a market to succeed, it must have all three kinds of participants - hedgers, speculators and arbitrageurs. The confluence of these participants ensures liquidity and efficient price discovery on the market. Commodity markets give opportunity for all three kinds of participants.

1. **Hedgers:** Hedger is a user of the market, who enters into futures contract to manage the risk of adverse price fluctuation in respect of his existing or future asset. Hedgers are those who have an underlying interest in the commodity and are using futures market to insure themselves against adverse price fluctuations.
2. **Speculators:** A trader, who trades or takes position without having exposure in the physical market, with the sole intention of earning profit is a speculator. A speculator is one who enters the market to profit from the future price movements. Speculators accept the risk that hedgers seek to avoid, giving the required liquidity to the market. Contrary to the hedging, speculation involves risk but no offsetting of cash market position.
3. **Arbitrageurs:** A third category of market participants is the arbitrageurs. Arbitrage refers to the simultaneous purchase and sale in two markets so that the selling price is higher than the buying price by more than the transaction cost, resulting in risk-less profit to the arbitrageur. Arbitrage is making purchases and sales simultaneously in two different markets to profit from the price differences prevailing in those markets.

2014 - June [6]

Section 20 of the Forward Contracts (Regulation) Act, 1952 deals with the penalty for contravention of certain provisions of Chapter IV under this Act. Under this section any person who:

- (a) (i) in any return, statement or other document required by or under this Act, makes a statement which is false in any material particular, knowing it to be false, or wilfully omits to make a material statement; or
- (ii) without reasonable excuse (the burden of proving which shall be on him) fails to furnish any return, statement or other document or any information or to answer any question or to comply with any requisition made under this Act or any rules made thereunder; or
- (iii) enters into any forward contract during the period of suspension of business of a recognised association in pursuance of a notification under section 14; or
- (b) is a member of any association, other than a recognised association, to which a certificate of registration has not been granted under this Act; or
- (c) publishes or circulates information relating to the rate at which any forward contract has been entered into in contravention of any of the bye-laws of a recognised organisation; or
- (d) organises or assists in organising, or is a member of any association in contravention of the provisions contained in the proviso to sub-section (1) of Section 18; or

- (e) enters into any forward contract or any option in goods in contravention of any of the provisions contained in sub-section (1) or sub-section (3A) or sub-section (4) of Section 15, Section 17 or Section 19;

Shall on conviction be punishable:

- (i) for a first offence, with imprisonment which may extend to one year or with a fine of not less than one thousand rupees, or with both;
- (ii) for a second or subsequent offence under clause (d), or under clause (e) [other than an offence in respect of contravention of the provisions of sub-section (4) of Section 15 with imprisonment which may extend to one year and also with fine; provided that in the absence of special and adequate reasons to the contrary to be mentioned in the judgement of the Court, the imprisonment shall be not less than one month and the fine shall not be less than one thousand rupees.

Chapter - 12: Money Market

2014 - June [5] (a), (b), (c)

- (a) Treasury Bills :** Treasury Bills are very useful instruments to deploy short term surpluses depending upon the availability and requirement. Besides, better yields and availability for very short tenors, another important advantage of treasury bills over bank deposits is that the surplus cash can be invested depending upon the staggered requirements. The benefits of treasury bill can be summarized as under:
- (a) No tax deducted at source
 - (b) Zero default risk being sovereign paper
 - (c) Highly liquid Money Market instrument
 - (d) Better returns especially in the short term
 - (e) Transparency
 - (f) Simplified settlement
 - (g) High degree of tradability and active secondary market facilitates 'meeting unplanned fund requirements.
- (b) Certificate of Deposit:** Certificate of Deposit (CD) provides higher yield than Treasury bills and savings account. CDs are liquid instruments as they are transferable by endorsement and delivery. The holder can resell his certificate to another. As the rate of interest is fixed, the return on investment is secured despite the rate fluctuations in the market. There is no Lock-in period for the CDs.
- (c) Commercial Paper:** Commercial Paper (CP) is a quick and cost effective way of raising working capital. Investing in CP is the best way to take the advantage of short term interest rate fluctuations in the market. It provides an easy exit option to the investors by quitting the investment. It has a wide range of maturity period.

Chapter - 13: Insider Trading

2014 - June [1]

BEFORE THE SECURITIES APPELATE TRIBUNAL AT MUMBAI

APPEAL NO. _____ OF 2014

In the matter of Securities and Exchange Board of India Act, 1992 (15 of 1992)

And

In the matter of SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter, "**PIT regulations**")

And

In the matter of powers conferred under section 15 I of the SEBI Act, 1992 read with rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter, "**Adjudication rules**")

And

In the matter of Appeal against the Adjudication Order No. JJ/AM/AO-35/2014 dated 15-05-2014 passed by the Ld. Adjudicating Officer, Securities and Exchange Board of India (hereinafter, **respondent**) *inter alia* imposing a monetary penalty of ₹ 4,00,000 (Rupees Four Lakh Only) under section 15A (b) of the SEBI Act, 1992 and Rule 5 of the Adjudication rules on the Appellant (hereinafter, "**impugned order**")

In the Matter of:

Ms. Rosy)
C/o Fantastic Limited)
Dalal Street, Fort,)
Mumbai - 400023)Appellant

Versus

The Ld. Adjudicating Officer)
Securities and Exchange Board of India)
Having its registered office at)
SEBI Bhavan, Plot No. C4-A, G-Block,)
Bandra Kurla Complex, Bandra (East))
Mumbai - 400051)Respondent

MEMORANDUM OF APPEAL

Details of Appeal:

1. Particulars of Appellant

- (i) Name of the Appellant : Ms. Rosy
(ii) Address of Registered office of the Appellant : C/o Fantastic Limited
Dalal Street, Fort, Mumbai - 400023
Tel. No.: 022 - 99999999
E-mail: rosy@fantastic.com

- (iii) Address of Service of all notices : Mr. Governance Professional
Practice Company Secretary
CBD Belapur, Navi Mumbai - 400614
- (iv) Telephone, Fax No. and e-mail : Tel. No. 022 - 99999999
Address, if any : E-mail: rosy@fantastic.com

2. Particulars of Respondent

- (i) Name of the Respondent : The Adjudicating Officer,
Securities and Exchange Board of India
- (ii) Office Address of the Respondent : SEBI Bhavan,
Mumbai - 400051
- (iii) Address of Respondent : Same as Above
For Service of all notices:
- (iv) Telephone, Fax No. and e-mail : Tel. No. 91-22-26449000
Address: Fax No. 91-22-26449019 to 9022

3. Jurisdiction of the Appellate Tribunal

The appellant declares that the matter of Appeal falls within the jurisdiction of the Appellate Tribunal.

4. Limitation

The appellant further declares that the Appeal is filed within the limitation as prescribed in Section 15W of the SEBI Act, 1992.

5. Facts of the Case and the Details of the Orders against which Appeal is Filed

This Appeal has been preferred against impugned order passed by respondent imposing a heavy penalty of ₹ 4,00,000/- (Rupees Four Lakh Only) under section 15A (b) of the SEBI Act, 1992 r.w. Rule 5 of the Adjudication rules for the alleged violation of Regulation 13(3) r/w Regulation 13(5) of PIT regulations for appellant's dealing in Fantastic Limited (hereinafter, "**Fantastic**"/ "**Company**"). The copy of impugned order dated 15-05-2014 is annexed hereto marked as "**Exhibit-A**".

Briefly stated, the facts of the case are as follows:

- 5.1** The appellant lady is a wife of promoter shareholder of the Company which is controlled and managed by AOIL. The appellant humbly states that she has been functioning as a law abiding citizen with a clean and unblemished track record and has never been penalized by SEBI for any violation of the SEBI Act, 1992 and rules & regulations framed thereunder save and except the present proceedings.
- 5.2** The list of dates and the chronology of events in the subject matter of the present proceedings are listed below:

Sr. No.	Particulars
1.	The appellant was holding 1,64,800 shares representing 5.03% of the total paid up capital of the Company as on 31-03-2005.
2.	On and around May 2005, under the scheme of family settlement, it was decided that out of her holding of total 1,64,800 shares (5.03%), ownership of 1,50,000 (4.58%) shares would be transferred to her brother-in-law Dr. AK so as to revive the Company.
3.	In pursuance thereto, on 31-05-2005 appellant sold/transferred 50,000 shares (1.53%) to Dr. AK. Thereafter on 03-06-2005 appellant transferred 1,00,000 shares (3.05%) by way of off market transfer to Dr. AK. Thereby her shareholding in the Company was reduced to 0.45%. It was only by execution of aforesaid off market transaction of 1,00,000 shares (3.05%) on 03-06-2005, change of appellant's shareholding in the Company exceeded 2% i.e. from the last disclosure of 5.03% as on 31-03-2005, it came down to 0.45% hence under regulation 13(3) of PIT Regulations, appellant was required to make disclosure to the Company in prescribed form i.e. Form C.
4.	During the relevant period, the Company was Sick Company and passing through difficult time hence there was no staff to maintain proper records of the Company. The Company remained under BIFR up to September 2009.
5.	Without any communication received from SEBI, present proceeding was initiated against the appellant by issuance of a Show Cause Notice dated 31-01-2014 (hereinafter, " SCN ") i.e. after nearly 8½ years from the execution of the impugned transaction calling upon the appellant to show cause as to why an inquiry should not be held against her for the alleged non compliances of disclosure requirements under PIT regulations on execution of the above referred transactions executed way back in June 2005. A copy of the aforesaid SCN dated 31-01-2014 is annexed hereto marked as " Exhibit-B ".
6.	An opportunity of personal hearing was granted to the appellant on 05-03-2014 wherein Mr. James, her authorised representative appeared before the respondent and made oral submissions and requested that under the peculiar facts and circumstances of the case, a lenient view may please be taken. A written submissions by letter dated 04-03-2014 were also filed wherein also request was made to drop the proceedings on the ground as mentioned therein. A copy of the proceeding sheet of the personal hearing dated 05-03-2014 and reply dated 05-03-2014 is annexed thereto marked as " Exhibit-C " and " Exhibit-D " respectively.

7.	Without considering factors as prescribed under section 15J of the SEBI Act, 1992 respondent passed impugned order on 15-05-2014 imposing a hefty penalty of ₹ 4,00,000/- on the appellant.
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- 5.3** The appellant humbly states that the contents of her submissions as listed hereinabove are not repeated for the sake of brevity and pleads before the Hon'ble Tribunal to consider the same as if, it is set out herein seriatim.
- 5.4** On the subject matter of present proceedings, the appellant would like to submit as under:
- (i) It was only pursuant to the “**Scheme of family settlement**”, shares of Fantastic owned by her were transferred in two tranches on 31-05-2005 and 03-06-2005. A copy of the family settlement agreement is annexed hereto marked as “**Exhibit-E**”.
 - (ii) The subject matter of examination pertains to a period more than 8½ years old and the appellant being an individual is not expected to preserve records beyond six years particularly when the matter is not ‘subjudice’. It is possible that she or someone on her behalf, appellant being wife of the promoter shareholder of the Company might have complied with the relevant disclosure requirements particularly when disclosure were required to made by the appellant to the Company only.
 - (iii) The impugned transaction is an interse transfer of shares between the promoters hence the same did not result in any change in control of the Company. Therefore appellant humbly submits that a disclosure requirement was of no material consequence to the investing public at large.
 - (iv) Further, the impugned transaction which triggered disclosure requirements was carried out through off market and has not taken place on the stock exchange hence had no impact on the trading operation of the Company on the stock exchange.
 - (v) It is indeed most pertinent to mention that there was no intention to suppress any material information from the shareholder of the company and that the Appellant had not consciously or deliberately avoided filing of the requisite information with the Company.
 - (vi) In the view of the aforesaid, the said violation, if any, is only technical, procedural and venial breach and has not caused any adverse consequences to anybody.
- 5.5** Thus appellant is aggrieved by the impugned order passed by respondent, imposing a heavy penalty of ₹ 4,00,000 (Rupees four lakh only) under section 15A(b) of SEBI Act, 1992 and Rule 5(1) of the Adjudication rules which in its humble submission is in violation of the principle of equity and good conscience.

5A. GROUNDS OF APPEAL

Being aggrieved and dissatisfied by the impugned order dated 15.05.2014 passed by respondent, appellant begs to prefer the present Appeal *inter alia* on the following grounds, each without prejudice to the other. The appellant craves leave to add, alter and amend such grounds if and when necessary.

- i. The respondent has failed to appreciate that the query with regard to disclosure requirement is made after a long gap of 8½ years and failure on the part of appellant to show the evidences ought not to result into imposition of penalty on the appellant.
- ii. In para (xiv) of the impugned order, respondent has erroneously held that the “investors were deprived of the important information at the relevant point of time” ignoring that disclosure was triggered pursuant to family settlement, transaction was executed off market between the promoters and that there was no change in management and control of the Company.
- iii. The respondent has failed to take a holistic approach on the submission made by the appellant and has failed to appreciate the peculiar facts and circumstance of the present case in its correct perspective.
- iv. The appellant humbly submits that it had not acted deliberately in defiance of law or was not guilty of conduct contumacious or dishonest or acted in conscious disregard of its obligation.
- v. Penalty imposed by respondent is grossly disproportionate to the alleged violation and grossly ignored the provisions of Section 15J of the SEBI Act, 1992 that no disproportionate gain or unfair advantage accrued to the appellant as a result of the default, if any; there is no investors complaint: no loss is caused to an investor or group of investors as a result of the default; and that even after recoding under para xiv of the impugned order that the nature of the default is not repetitive has not taken heed of any of the aforesaid factors.
- vi. Appellant would like to place reliance on the decision of the Hon’ble Tribunal in *Samrat Holdings Ltd. vs. SEBI & Ors (Appeal 23 of 2000)* & *Cabot International Capital Corporation vs. Adjudicating Officer, SEBI (Appeal 24 of 2000)* wherein the Hon’ble Tribunal had considered scope of Section 15J of SEBI Act, 1992 in context of unintentional failure to comply with the regulation and orders were set aside. A copy of the aforesaid orders of Hon’ble SAT are enclosed herewith marke as “**Exhibit-F**” and “**Exhibit-G**” respectively.
- vii. Appellant hereby reserves her right to add, amend or modify any of the grounds mentioned hereinabove as and when needed.
- viii. Appellant craves leave to refer to the contents of all other documents on which it places reliance, as and when produced.

6. RELIEFS SOUGHT

Based on the above submissions, appellant humbly prays for the following relief:

- 6.1** That the impugned Order dated 15.05.2014 (being “**Exhibit-A**” to the Appeal) passed by the respondent be set aside;
- 6.2** For such other relief’s as may be warranted on the basis of the facts and circumstances to this Appeal in furthering justice as this Hon’ble Tribunal deems fit.

7. INTERIM RELIEFS

The Appellant prays:

- (i) that pending the hearing and final disposal of the Appeal, this Hon’ble Tribunal be pleased to stay the operation and implementation of the said order dated 15.05.2014 being **Exhibit “A”** to the Appeal.
- (ii) that pending the hearing and final disposal of the Appeal, this Hon’ble Tribunal be pleased to restrain the Respondents from acting upon or in pursuance or furtherance of the said impugned order dated 15.05.2014 being **Exhibit “A”** to the Appeal.

GROUND FOR INTERIM ORDER

- (i) The balance of convenience requires that the interim relief as prayed for be granted by this Hon’ble Tribunal.
- (ii) No harm, loss, prejudice or damage would be caused to the Respondent or the securities market if such reliefs are granted.

8. MATTER NOT PENDING WITH ANY OTHER COURT ETC.

The appellant declares that no other proceedings have been filed by the appellant in respect to the subject matter of this Appeal and therefore the subject matter of this Appeal is not pending before any Court of Law, Tribunal or other Authority.

9. PARTICULARS IN RESPECT OF FEE PAID

The appellant has paid fees towards this Appeal as per Rule 9 of the Securities Appellate Tribunal (procedure) Rules, 2000, the details whereof are as under:

Amount of Fees:

Name of the Bank:

Demand Draft No:

Demand Draft Date:

10. DETAILS OF INDEX:

An index containing the details of the documents to be relied upon is enclosed.

11. List of Enclosures : As per attached Sheet

Date : July 11, 2014

Place : Mumbai

Ms. Rosy

Appellant

Verification

I, Ms. Rosy, appellant do hereby declare and verify that the contents of paragraphs number 1 to 11 are true to the best of my personal knowledge and belief and that I have not suppressed material fact.

Date : July 11, 2014

Place : Mumbai

Ms. Rosy
Appellant

Chapter - 14: Substantial Acquisition of Shares and Takeovers

2014 - June [2]

- (a) 'B' is acquiring 50% share capital of XYZ Ltd. by way of preferential allotment. Since this would entitle it to exercise more than 25% of voting rights of XYZ Ltd., it is obliged to make an open offer under regulation 3(1) of the Takeover Regulation, 2011. Regulation 10 does not exempt this kind of acquisitions from the obligation to make an open offer. Regulation 7(1) requires that the open offer shall be for at least twenty six per cent of total shares of the target company. This is irrespective of the size of public holding.
- (b) 'A' is not an acquirer or a PAC with the acquirer. He can tender shares in the open offer made by 'B'. This is evident from regulation 3(1) read with regulation 7(1) make it clear that the open offer is required to be made by the acquirer and PAC with him. Regulation 7(6) prescribes that open offer shall be made to all shareholders of the target company, other than the acquirer, PAC with him and the parties to any underlying agreement including persons deemed to be acting in concert with such parties. It is thus clear that any shareholder, other than acquirer and PACs with him, can tender shares in the open offer. Even the promoters of the company, not acting in concert with the acquirer, can participate in the open offer and exit by tendering their shares. It has been held in *M/s. Modipon Limited vs. SEBI* (Appeal No. 34/2001, SAT Order dated 31.7.2001): "For the reasons stated above though SEBI's finding that the Appellant is a promoter of MRL is tenable it cannot be held that the Appellant is an acquirer or a person acting or deemed to be acting in concert with the acquirers and thereby ineligible to participate in the public offer. I am of the view that there is no legal backing flowing from the Act, or the Regulations to uphold the SEBI's decision holding the Appellant ineligible to participate in the public offer made vide letter dated May 30, 2001". Therefore 'A' can tender shares in the open offer as it is not an acquirer or a PAC. Even if 'A' continues to be a promoter depending on the nature and extent of preferential allotment, it can still tender the shares.

- (c) 'A' does not remain promoter after the preferential allotment. Under rule 2(d) of the SCRR, public includes all shareholders except the promoters and promoter group. Since 'A' is not a promoter any more, its holding would be a part of 'public holding' under rule 2(e) of the SCRR. Further, Clause 35 of the Listing Agreement requires that in all cases wherein the change in capital structure due to restructuring exceeds +/- 2% of the paid up share capital, the company shall file a revised shareholding pattern with the stock exchanges within 10 days from the date of allotment of shares pursuant to such change in the capital structure. This filing would obviously indicate who the new promoters are, if there is any change, and what are their holdings. Hence, it is not that once a person becomes promoter, he remains promoter forever. In the instant case, the capital of the XYZ Ltd. increases by 100% and this would necessitate a filing of revised shareholding pattern within 10 days and depending on the nature of preferential allotment, 'A' may or may not continue to be the promoter.

The definition of 'control' is an inclusive one and not exhaustive and has two distinct and separate limbs: (a) the right to appoint majority of directors, or (b) the ability to control the management or policy decisions by various means referred to in the definition. This control of management or policy decisions could be by virtue of shareholding or management rights or shareholder agreement or voting agreements or in any other manner. In the instant case, the shareholding of 'A' in XYZ Ltd. reduces to 25%. It loses the right to appoint majority of directors and the ability to control management or policy decisions. It has no understanding or agreement whatsoever with 'B' to retain or acquire such right or ability. Therefore, 'A' does remain 'promoter' after the preferential allotment within the inclusive definition of 'control'. As regards non-inclusive aspects of control, reliance can be placed on the ratio in *M/s. Subhkam Ventures (I) Private Ltd. vs SEBI* (Appeal No. 8/2009, Order dated 15.1.10) where it has been held in the context of an acquirer: "Control is a proactive and not a reactive power. It is a power by which an acquirer can command the target company to do what it wants to do. Control really means creating or controlling a situation by taking the initiative. Power by which an acquirer can only prevent a company from doing what the latter wants to do is by itself not control. In that event, the acquirer is only reacting rather than taking the initiative. The test is whether the acquirer is in the driving seat. To extend the metaphor further, the question would be whether he controls the steering, accelerator, the gears and the brakes. If the answer to these questions is in the affirmative, then alone would he be in the control of the company. In other words, the question to be asked in each case would be whether the acquirer is then driving force behind the company and whether he is the one providing motion to

the organization. If yes, he is in control but not otherwise. In short, control means effective control.” By this ratio, ‘A’ does not continue to have control over XYZ Ltd. after the preferential allotment and therefore, does not remain promoter. ‘B’ acquires de fact and dejure control with the preferential allotment and becomes new promoter of XYZ Ltd.

- (d) Under regulation 7(5) of the SEBI (SAST) Regulations, 2011, the acquirer cannot make a voluntary delisting offer under the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009, unless a period of twelve months has elapsed from the date of the completion of the offer period. Therefore, the acquirer is required under regulation 7(4) to bring down the non-public shareholding to the level specified and within the time permitted under the SCRR. As specified under clause 40 of the Listing Agreement, it could be done by: (a) issuance of shares to public through prospectus; or (b) offer for sale of shares held by promoters to public through prospectus /stock exchanges; or (c) sale of shares held by promoters through the secondary market.

Questions Paper of December - 2014

2014 - Dec [1] Amazing Co. Ltd. (ACL) is a company listed on BSE and NSE for over 15 years. The financial performance of the company is rated to be good while the stock performance is lacklustre. The liquidity in the stock is random and often neglected. Poor liquidity is often attributed to poor holding of stock in the hands of retail investors. The shareholding pattern of the company as filed with the stock exchange is as under:

S. No.	Category of shareholder	No. of shareholders	No. of shares (₹ 10 each)
1.	Promoter & promoter group and persons acting in concert	15	29,56,500
2.	Public financial institutions	4	1,50,000
3.	Foreign institutional investors	2	50,000
4.	Bodies corporate	15	27,340
5.	Resident individuals	102	34,450
6.	Others	6	3,400
		144	32,21,690
7.	GDR	74	1,24,400
		218	33,46,090

The company also allotted 1,67,304 convertible debentures of ₹ 100 each to promoters, which are due for conversion in the next six months. Each debenture will be converted into one equity share of ₹ 10 each at a premium of ₹ 90 each.

In light of the above, answer the following:

- (a) What is the percentage of public holding required to be maintained in ACL under Rule 19A of the Securities Contracts (Regulation) Rules, 1957? How much of the promoter holding is required to be diluted to comply with the continuous listing requirements? Also, mention the percentage of holding by each category of shareholders. (8 marks)
- (b) Justify whether the underlying shares issued against GDR constitute public holding. (8 marks)
- (c) What are the options available to promoters for increasing public holding and the pros and cons of each process? (12 marks)
- (d) Whether the acquisition by way of convertible debentures trigger the provisions of takeover code? Analyse with relevant provisions. (8 marks)
- (e) Briefly describe the process of offer for sale (OFS) for dilution of promoter holding. (14 marks)

2014 - Dec [2] (a) XYZ Ltd. is considering merger with ABC Ltd. The shares of XYZ Ltd. are currently traded @ ₹ 25 each. It has 2,00,000 shares outstanding and its earnings after tax (EAT) amount to ₹ 4,00,000.

ABC Ltd. has 1,00,000 shares outstanding, current market price per share is ₹ 12.50 and its EAT are ₹ 1,00,000. The merger will be effected by means of stock swaps (exchange). ABC Ltd. has agreed to a plan under which XYZ Ltd. will offer the current market value of the shares of ABC Ltd.:

- (i) What are the pre-merger earnings per share (EPS) and P/E ratio of both the companies?
 - (ii) If P/E ratio of ABC Ltd. is 8, what is the current market price of the share of the company? What is the exchange ratio? What will be the post-merger EPS of XYZ Ltd.?
 - (iii) What must be the exchange ratio for XYZ Ltd. so that pre and post-merger EPS be the same? (10 marks)
- (b) Poor due diligence erodes the confidence of public investing in capital market. Justify and elaborate as to what constitutes due diligence. (10marks)
- (c) What are the norms for framing a corporate disclosure policy? (10 marks)

2014 - Dec [3] Explain briefly about money market mutual funds (MMMFs). (5 marks)

2014 - Dec [4] What do you understand by exchange traded funds (ETFs)? Briefly discuss the various types of ETFs traded on stock exchanges. (5 marks)

2014 - Dec [5] What do you mean by investible weight factors (IWFs)? Explain with the help of an example. (5 marks)

2014 - Dec [6] What do you understand by a designated depository participant (DDP)? Describe the eligibility criteria required to be fulfilled to become a DDP. (5 marks)

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