Answer 1(a)

(i) **False:** Nifty index future contracts are each settled.

(ii) **True:** Margin Trading was introduced by SEBI to put a curb on tendency of short selling and short buying as reduction in short selling and short buying provides stability to the common investors.

(iii) **False**: Funds of funds (FOFS) is a mutual fund scheme, which intents in the scheme of same mutual funds or other mutual funds instead of investing in securities.

(iv) **False:** According to SEBI ICDR Regulations, 2009, IPO grading is mandatory for making an IPO and the IPO grade assigned to any issue represents a relative assessment of the 'Fundamentals' of that issue in relation to the universe of other listed equity securities in India.

(v) True: Dated security are government securities and threes are identified by their date of maturity and coupon rate i.e. rate of interest e.g. 10% Uttar Pradesh Government 2018 is a Utter Pradesh government securities maturing in Year 2018 which carries a coupon rate of 10%.

Answer 1(b)

(i) In the depository system, the ownership and transfer of securities takes place by means of **Electronic** book entries.

(ii) The Capital Markets have two major segments namely (Primary Market) and **Secondary Market.**

(iii) The **Principle Officer** of the company is responsible for timely submission of cash transaction report (CTR) and suspicious transaction report (STR) to Financial Intelligence Unit- India (FIU-IND).

(iv) **Market Abuse** is a board term, which includes manipulating price or volume movement.

(v) Negotiate deals refer to those deals where the shares are acquired through private and mutual **negotiations.**

Answer2(a)(i)

Secured Premium Notes

Secured Premium Notes (SPN) are issued with detachable warrants and are redeemable after a notified period of 4 – 7 years. No interest is paid within lock period to SPN holders. SPN holders will get principal amount along with interest on installment basis after lock in period of said period. Detachable warrants can be converted equity shares as per notification & time limit by the company.

Answer 2(a)(ii)

Private Equity Fund

A private equity fund, like a hedge fund, is an unregistered investment vehicle in which investors pool money to invest in various equities (and to a lesser extent debt). Private equity concentrates their investments in unregistered (and typically illiquid) securities. The investors in private equity typically high net worth individuals and families, pension funds, endowments, banks and insurance companies.

Answer 2(a)(iii)

Mini contracts on derivatives

SEBI has permitted Stock Exchanges to introduce mini derivative contract on Index (Sensex and Nifty) with a minimum contract size of INR 1 lakh in December, 2007. Mini contracts are a fraction of normal derivatives contracts and help individual investor to hedge risks of a smaller portfolio.

Bombay Stock Exchange offers mini Features and Options contracts on the leading Indian Equity Index 'Sensex' for retail investors to participate in the ever growing derivatives market. National Stock Exchange introduced Mini derivative contracts on S & P CNX index for trading F & O segment w.e.f. January 1, 2008

Answer 2(a)(iv)

Bills Rediscounting

Bills Rediscounting means the rediscounting of trade bills, which have already been purchased by/ discounted with the bank by the customer. These trade bills arise out of supply of goods/ services. Bill rediscounting is a money market instrument where the bank buys the bill (i.e. Bill of Exchange of Promissory Note) before it is due and credits the value of the bill after a discount- charge to the customer's account. Now, the bank which has discounted the bill may require getting it 'rediscounted' with some other bank to get the fund.

Answer 2(a)V

Minimum underwriting obligation

A lead merchant banker holding a certificate under Category I managing a public issue is required to accept a minimum underwriting obligation of 5% of the total underwriting commitment or Rs. 25 lakhs whichever is less in respect of such issue but if the lead merchant banker is unable to accept the minimum underwriting obligations, he should make an arrangement for having the issue underwritten to that extent by a merchant banker associated with issue and is required to inform SEBI of such arrangement. In case of issue made by a SME in accordance with Chapter XB of SEBI (ICDR) Regulations, 2009, the merchant banker should itself or jointly with other merchant bankers associated with the issues, underwrite atleast 15% of the issue size.

Answer 2(b)

(i) SGL – Subsidiary General Ledger

(ii) TFTS – Trade for Trade Settlement / Trade for Trade Segement

(iii) REMFS – Real Estate Mutual Fund Scheme

Answer 3(a)

Buy back is a process whereby a company purchases its own shares or other specified securities from the holders thereof. Regulation 19(5) of SEBI (Buy Back of Securities) Regulations, 1998 provides that the following Securities are not available to a company for buy back.

(i) Securities in lock-in period: Securities in lock – in period as per SEBI (ICDR) Regulations, 2009, are not available for buyback until the lock-in period expires.

(ii) Non- transferable Securities: Securities which are under lien or are pledge or Restricted by any Court.

(iii) Disputed Securities kept in abeyance: Securities which are under dispute and have been kept in abeyance under section 206A of the Companies Act 1956 or in respect of which transfer or transmission has not been effected are not available for buy back, before undertaking any buy the company should ensure that no transfer deed is providing for registration.

Answer 3(b)(i)

Exchange Traded Funds represent a basket of securities that are traded on an exchange and are traded more like a stock. Exchange Traded more like a stock. Exchange Traded Funds (ETFs) are a new variety of mutual fund that first introduce in 1993.

Answer 3(b)(ii)

Participatory notes (PNs) are derivatives instruments which are issued by Falls to foreign investors. Underlying securities in participatory notes are Indian Stock. Foreign investors who want to trade in Indian securities may anonymously use PN route without obtaining registration from SEBI.

Answer 3(b)(iii)

Stock Exchange represent the market place for buying and selling of securities and ensuring liquidity to them in the interest of investors. The stock exchanges are virtually the nerve centre of the capital market and reflect the health of the country's economy as a whole.

Answer 3(b) (iv)

Hedge Funds are similar to mutual funds as both entitles issue units or securities to investors and holds pool of securities to diversify investment, have professional asset manager and may, at times, have similar investment strategies.

Answer 3(b)(v)

Credit rating is useful both to investors and insurers. The main purpose of credit rating is to communicate to the investors the relative ranking of the default loss probability for a given fixed income investment, in comparison with other rated instruments. The market places immense faith in opinion of credit rating agencies, hence the issuers also depend on their critical analysis.

This enables the issuers of highly rated instruments to access the market during adverse market c conditions.

Answer 4(a)(i)

'Bullish trend' and 'Bearish trend'

When the price of shares moves in a particular direction which persists tor a period of time, a price line is regarded as established. When the movement is upward, the trend is called 'BULISH' and when the movement is downward it is called 'BEARISH'. Bear market is a weak or failing market characterized by the dominance of sellers. Whereas Bull Market is a rising market with abundance of buyers and relatively few sellers.

Answer 4(a) (iii)

'Call option' and 'Put option'

Call Option Contract conveys the right to sell a standard auantity of a specified asset at a fixed price per unit (the strike price) for a limited length of time (until expiration).

Answer 4(a)(iii)

'Commercial bills' and 'commercial papers'

Commercials bills are basically negotiable instruments accepted by buyers for goods or services obtained by them on credit. Such bills being bills of exchange can be kept upto the due date and en-cashed by the seller or may be endorsed to a third party in payment of dues owing to the latter.

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. CP is privately placed instrument. It enables highly railed corporate borrowers to diversify their resources of short term borrowings and to provide an additional instrument to investors.

Answer 4(a)(iv)

'floating rate bonds' and 'capital indexed bonds'

Floating Rate Bonds are bonds with variable interest rate with a fixed percentage over a benchmark rate. There may be a cap and a floor rate attached thereby fixing a maximum and minimum interest rate payable on it.

Capital indexed Bonds are bonds where interest rate is a fixed percentage over the wholesale price index. These provide investors with an effective hedge against inflation.

Answer 4(b)(i)

Dual option warrants are designed to provide the buyer with good potential of capital appreciation and limited downside risk. Dual option warrants may be used to sell equity share in different markets. For example, equity shares or debentures may be issued with two warrants-one warrant giving right to the purchaser to be allotted one equity share at the end of a certain period and another warrant with a debt or preference share option.

Answer 4(b)(ii)

Equity shares with detachable warrants

The holder of the warrant is eligible to apply for the specified number of shares on the appointed date at the pre-determined price. These warrants are separately registered with the stock exchanges and traded separately. Essar Gujarat, Ranbaxy and Reliance issued this type of instrument.

Answer4(b)(iii)

Equity shares with detachable warrants

The holder of the warrants is eligible to apply for the specified number of shares on the oppionted date at the pre-determined price. These warrants are separately registered with the stock exchanges and traded separately. Essar Gujrat, Ranbaxy abd Relience issued this type of instrument.

Answer4(b)(iii)

Underwriting in auctions

Underwriting in auctions is primarily used in case of government securities. For the purpose of auctions of Government Securities, bids are invited from the Primary Dealers (PDs) one day before the auction wherein they indicated the amount to be underwritten by them and the underwriting which has been accepted. In case of the auction being fully subscribed, the underwriters do not have to subscribe to the issue necessarily unless they have bid for it. If there is a development, the successful bids in but the Primary Dealers are set-off against the amount underwritten by them deciding the amount of development.

Answer 5(a)

"Differential Voting Rights" (DVR) includes right as to dividend or voting, Rule, 3 of the companies (issue of share capital with differential voting rights) Rules, 2001 enables companies limited by shares to issue shares with differential rights as to dividend, voting or otherwise, subject to fulfillment of certain conditions. The conditions are:

(i) The company has distributed profits in terms of section 205 of the Companies Act, 1956, for preceding 3 financial years preceding the year in which it was decided to issue such shares.

(ii) The company has not failed to repay its deposits or interest due date or redeems its debentures on due date or pay dividend.

(iii) The company has not defaulted in meeting investors grievances.

(iv) The company has not defaulted in meeting investors grievances.

(v) The company has not been convicted of any offence arising under SEBI Act, 1992.

(vi) The holder of the equity shares with differential voting rights shall enjoy all other rights to which the holder is entitled to excepting the differential rights.

Answer 5(b)

Collective Investment Scheme (CIS) means any scheme or arrangement made or offered by any company under which (a) the contributions, or payments made by the investors, by whatever name called, are pooled and utilised solely for the purposes of the scheme or arrangement; (b) the contribution or payments are made to such scheme or arrangement by the investors with a view to receive profits, income, produce or property, whether movable or immovable from such scheme or arrangement; (c) the property, contribution or investment informing part of scheme or arrangement, whether indefinable or not, is managed on behalf of the investors; and (d) the investors do not have day to dya control over the management and operation of the scheme or arrangement.

The CIS, however, does not include any scheme or arrangement(a) made or offered by a co-operative society, (b) under which deposits are accepted by non banking financial companies, (c) being a contract of insurance, (d) providing for any scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provisions Act, 1952, (e) under which deposits are accepted under section 58A of the Companies Act, 1956, (i) under which deposits are accepted by a company declared as Nidhi or a mutual benefit society under section 620A of the Companies Act, 1956, (g) fialling within the meaning of Chit business ad defined in clause (d) of section 2 of Chit Fund Act, 1982 and (h) under which contribution made are in the nature of subscription to a mutual fund.

Answer 5(c)(i)

Merchant Banker

All public issues are required to be managed by at-least one Merchant Banker. Merchant banker undertakes activities relating to management of an issue of capital, investment advice and acts as manager, consultant, underwriter, advisor and portfolio manger.

Answer5(c)(ii)

Banker to an Issue carries on the activities relating to acceptance of application and application monies; acceptance of allotment or call monies; refund of application monies; payment of dividend or interest warrants. Bankers to an issue is under obligation to maintain records on applicators received with date, amount received and name of investors, time taken to forward the applications to issuer/ its register.

Answer 5(c)(iii)

Foreign Institutional investors

Foreign Institutional Investors (FIIs) is an institution established or incorporated outside India which proposes to make investment in India in securities. A Foreign Institutional Investor can issue, or otherwise deal in offshore derivative instruments, directly or indirectly, subject to certain conditions specified by SEBI, FIIS can invest in securities in the primary and secondary markets including shares, debentures and warrants of companies unlisted, listed or to be listed on a recognised stock exchange in India; and units of scheme floated by domestic mutual funds; dated Government Securities; derivatives traded on a recognized stock exchange, commercial paper and security receipts.

PART B

Answer 6(i)

Depository Receipts (DR) is a negotiable instrument evidencing a fixed number of equity shares of the issuing company generally denominated in US dollars. Depository Receipts are commonly used by those companies which sell their securities in international market and expand their shareholding absorb. These securities are listed and traded International Stock Exchanges. These can either American Depository Receipts (ADR) or Global depository Receipts (GDR). While DRs denominated Receipts (ADR) or Global Currency, generally in US dollar, are issued by the depository in the international market, the underlying shares denominated in Indian Rupees are issued in the domestic market by the issuing company.

Answer 6(ii)

Pre-marketing is a tool through which the syndicate members evaluate the prospectus of the issue. This is normally done closer to the issue. The research analysts along with the sales force of the syndicate members meet the prospective investors during pre-marketing road show. This enables the syndicate members to understand the market and the probable response from the prospective investors. The pre-marketing exercise helps in assessing the depth of investors' interest in the proposed issued, their view about the valuation of the share and the geographical locations of the investors who are interested in the issue. The response received during pre-marketing provides vital information for taking important decisions relating to timing, pricing and size of the issue. This would also help the syndicate members in evolving strategies for marketing the issue.

Answer 6(iv)

Preferential issue means issuance of equity shares to promoter group or selected investors. It covers allotment of fully convertible debentures, partly convertible debentures or any other financial instruments that could be converted into equity shares at a later date. The investors could be institutional investors, private equity investors, high networth individuals, or companies. Thus, preferential issue is not for retail investors.

Answer 6(v)

External Commercial Borrowings (ECB) refer to commercial loans in the form of bank loans, buyers, credit, suppliers, credit, securitized instruments (e.g. floating rate notes and fixed rate bonds, non-convertible, optionally convertible or partially convertible debentures or any other financial instruments that could be converted into equity shares at a later) availed of from non-resident lenders with a minimum average maturity of 3 years, CEB for investment in real sector-industrial sector, infrastructure sector-in India, and specified service are under – Automatic Route, i.e. do not require Reserve Bank/ Government of India approval.

Answer 6(vii)

An issuer can offer specified securities at different prices, subject to the following:

(a) retail individual investors or retail individual shareholders can be offered specified securities at a price lower than the price at which net offer is made to other categories of applicants. However, such difference shall not be more than 10% of the price at which specified securities are offered to other categories of applicants.

(b) in case of a book built issue, the price of the specified securities offered to an another investor should not be lower than the price offered to other applicants;

(c) in case of a composite issue, the price of the specified securities offered in the public issue can be different from the price offered in rights issued and justification for such price difference should be given in the offer documents.

Answer 7(a)

1. A listed issuer may make a preferential issue of specified shares/ securities, if;

- a special resolution has been passed by its shareholders
- all the equity shares, if any, held by the proposed allottees in the issuer are in demerrialized form;
- the issuer is in compliance with the conditions for continuous listing of equity shares as specified in the listing agreement with the recognized stock exchange where the equity shares of the issuer are listed.

2. The issuer shall not make preferential issue of specified securities to any person who has sold any equity shares of the issuer during the six month preceding the relevant date.

3. Any person belonging to promoter(s) or the promoter group has previously subscribes to warrants of an issuer but failed to exercise the warrants, the promoter(s) and promoter group shall be ineligible for issue of specified securities of such issuer on preferential basis for a period of one year from:

- the date of expiry of the tenure of the warrants due to non- exercise of the option to convert, or
- the date of cancellation of the warrant.

Answer 7(b)

Various approvals required for issuance of Global Depository Receipts

(i) Approval of the Board of Directors

(ii) Approval of shareholders

(iii) Two stage approval Ministry of Finance – in principle and final.

(iv) Approval of Ministry of Corporate Affairs.

(v) Approval of Reserve Bank of India

(vi) in principal consent of Stock Exchange for listing of underlying shares.

(vii) in principal consent of Financial Institutions.

Answer7(c)(i)

Acceptance of Depositors

Section 58A of the Companies Act, 1956 provides that no Company shall invite any public deposits without issuing an advertisement in accordance with the Companies (Acceptance of Deposit) Rules, 1975. In the said advertisement the Company is under obligation to indicate its financial position as also details about the Company's business, Board directors etc.

Answer 7(c)(iii)

Non- Payment of Dividend

Section 204 of the Companies Act, 1956, inter alia, requires a company who has declared a dividend for any financial year to deposit the amount of such dividend (including interim dividend, if any) in separate bank account within 5 days from the date of declaration of such dividend. Section 205A provides that where a dividend has been declared by a company which has not been paid or claimed within 30 days from the date of such declaration, the company shall within 7 days of expiry of the said period of 30 days transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by a company in this behalf. This section also provide for penalty for non complying with the above requirement and the same by way of interest @ 12% on the amount of unpaid/ unclaimed dividend not transferred to the special account.

Answer 7(d)

The redemption and roll-over of the debt securities, whether issued to the public or privately placed, are required to be made in accordance with the provisions of SEBI (Issue and Listing of Debt Securities) Regulations, 2008 and redemption and roll-over of debt securities that are convertible, either partially or fully or optionally into listed or unlisted equity shall be guided by the disclosure norms applicable to equity or other instruments offered on conversion in terms of SEBI(Issue of capital and disclosure requirements) Regulations, 2009.

- The redemption and roll of the debt securities are required to fulfill certain conditions which are as follows:
- The issuer shall redeem the debt securities whether non- convertible or convertible in terms of the offer document.
- Roll-over of non convertible debt securities requires passing of a special resolution of holders of such securities and give twenty one days notice of the proposed roll over.
- Disclosure has been made in respect of the credit rating obtained for the debt securities.

Answer 8(i)

Promoters' minimum contribution

The promoters of the issuer should contribute in the public issue as follows:

(i) in case of an initial public offer, not loss then twenty percent of the post issue capital;

In case the post- issue shareholding of the promoters is less than 20%, alternative investment funds may contribute for the purpose of meeting the shortfall in minimum

contribution as specified for promoters, subject to a maximum of 10% of the post issue capital;

(ii) in case of a further public offer, either to the extent of twenty percent of the proposed issue size of to the extent of twenty per cent of the post- issue capital;

(iii) in case of a composite issue, either to the extent of twenty percent of the proposed issue size or to the extent of twenty percent of the post-issue capital excluding the rights issue component.

Answer 8(ii)

Fixed Income Products

Fixed Income Products are investment vehicles which provide for fixed income returns on investments. Fixed Income Products includes Bank Fixed Deposits, Corporate Fixed deposits, Public Provident Fund, Kisan Vikas Patra, National Savings Certificate etc. A bank basically has three types of deposits, i.e., time deposit, savings deposit and current account. NBFs also accept various types of deposits.

Answer 8(iii)

Listing of Indian Depository Receipts (IDRs)

The IDRs issued should be listed on the recongnized Stock Exchange(s) in India as specified and such IDRs may be purchased, possessed and freely transferred by a person resident in India.

However, the IRDs issued by an issuing company may be purchased, possessed and transferred by a person other than a person resident in India if such Issuing Company obtains specific approval from Reserve Bank of India in this regard or complies with any policy or guidelines that may be issued by RBI on the subject matter.

Banks: They invest in all instruments ranging form T- bills, CPs and CDs to GOISECs, private sector debentures etc. Banks lend to corporate sector directly by way of loans and advances and also invest in debentures issued by the private corporate sector and in PSU bonds.

Insurance Companies: The second largest category of investors in the debt market is the insurance companies.

Provident funds: Provident funds are estimated to be the third largest investors in the debt market. Investment guidelines for provident funds are being progressively liberalized and investment in private sector debentures is one step in this direction.

Mutual Funds: Mutual funds represent an extremely important category of investors in debt market. World over, they have almost surpassed banks as the largest direct collector of primary savings from retail investors and therefore as investors in the wholesale debt market.

Trusts: Corporate Treasuries. Foreign Institutional and Retail Investors also invest in the debt market through financial institutions, governmental bodies or bank.

Answer 8(v)

Qualified Institutional buyers(QIBs)

"Qualified Institutional Buyer" means:

(i) Annual fund, venture capital fund and foreign venture capital investor registered with the SEBI;

(ii) a foreign institutional investor and sub-account (other than a sub- account wich is a foreign corporate or foreign individual), registred with the SEBI;

(iii) a public financial institution as defined in section 4A of the Companies Act, 1956;

(iv) a scheduled commercial bank;

(v) a multilateral and bilateral development financial institution;

(vi) a state industrial development corporation;

(vii) an insurance company registered with the Insurance Regulatory and Development Authority.

(viii) a provident fund with minimum corpus of twenty five crore rupees.

(ix) a pension fund with minimum corpus of twenty five crore rupees

(x) National Investment Fund set up by resolution no. F. No 2/3/2005-DDII dated November 23,2005 of the government of India Published in the Gazette of India;

(xi) insurance funds set up and managed by army, navy or air force of the Union of India;

(xii) insurance funds set up and managed by the Department of Posts, India.

Answer 8(vi)

Employees Stock Purchase Scheme (ESPS)

Employees stock purchased scheme (ESPS) means a scheme under which the company offers shares to employees as part of a public issue or otherwise.

(i) An employee eligible to participate in the scheme should be:

1. A permanent employee of the company working in India or out of India; or
2. A director of the company, whether a whole time director or not;
3. An employees as defined in sub-clauses (1) or (2) of a subsidiary, in India or out of India, or of a holding company of the company.

(ii) The employee should by himself or through nor belongs to the promoter group.

(iii) A director who either by himself or through his relatives or through any body corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the company cannot participate, as he is not eligible to participate in the scheme.