MCX-SX

India's New Stock Exchange

CORPORATE EXCHANGE

A Newsletter for Indian Corporates

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www.mcx-sx.com

About MCX Stock Exchange

MCX Stock Exchange Limited (MCX-SX), India's new stock exchange, is recognized by Securities and Exchange Board of India under Section 4 of Securities Contracts (Regulation) Act, 1956. The Exchange was notified as a "recognized stock exchange" under Section 2(39) of the Companies Act, 1956 by Ministry of Corporate Affairs, Govt. of India on December 21, 2012. In line with global best practices and regulatory requirements, clearing and settlement of trades on the Exchange are conducted through a separate clearing corporation – MCX-SX Clearing Corporation Ltd.

MCX-SX offers an electronic, transparent and hi-tech platform for trading in Capital Market, Futures & Options, Currency Derivatives and Debt Market segments. MCX-SX shall soon launch a dedicated platform for trading in the SME segment. The Exchange commenced its operations in the Currency Derivatives (CD) Segment on October 7, 2008, under the regulatory framework of SEBI and Reserve Bank of India (RBI). MCX-SX launched Capital Market Segment, Futures and Options Segment and flagship index 'SX40' on February 9, 2013 and commenced trading from February 11, 2013. Trading in the 'SX40' index derivatives began from May 15, 2013. 'SX40', is a free-float based index consisting of 40 large-cap, liquid stocks representing diverse sectors of the economy. Its base value is 10,000 with the base date of March 31, 2010. The Debt Market Segment of MCX-SX, was launched on June 7, 2013, and trading commenced from June 10, 2013.

Commitment to Financial Literacy and Inclusion

'Information, Innovation, Education and Research' are the four cornerstones of the unique market development philosophy adopted by MCX-SX and supports its mission of Financial-literacy-for-Financial Inclusion™ as is envisaged by the Government of India.

As part of this mission, MCX-SX conducts large-scale investor education and awareness programmes, averaging at least programme one per working day, across the length and breadth of the country. The Exchange has collaborated with academic institutions of repute, media, trade bodies, international organisations and industry experts for organising literacy and awareness drives. MCX-SX has come out with a 'Manifesto of Change', which is a roadmap of what the Exchange intends to achieve in terms of driving market development and inclusive growth over the next 10 years.

Shareholders

MCX-SX's shareholders include India's top public sector banks, private sector banks and top Indian financial institutions.

In alphabetical order

From MD's Desk

Dear Readers,

On behalf of MCX-SX, I would like to thank all our stakeholders for their immense support because of which we have successfully completed first five months of our newly introduced Equity and Equity Derivatives Segment.

In this short span, we have demonstrated steady progress, technological edge, stability, market domain and implemented diverse segments which evolved on the existing exchanges over the last two decades. During the last five months, we commenced trading in Equity, Equity Derivatives segment, Index Derivatives on our benchmark index 'SX40' and Debt market. We also commenced listing services and began IPO and Secondary listings. We have witnessed a steady rise in volumes with Equity, Equity derivatives and SX40 turnover crossing Rs.1500 crores.

Since we launched our dedicated debt segment this quarter, the current issue is focused on the happenings in the Global Debt Market and also covers regulatory developments such as Private Placements by NBFCs, reforms announced by SEBI on Buyback, Registration of Foreign portfolio investors etc.

As always we seek your continued support in all our future endeavors.

Joseph Massey,
Managing Director & CEO

You may like to post your views at *listing-issuerservices@mcx-sx.com*

Board of Directors

The Board of Directors of the Exchange have proven expertise in financial markets, managing exchanges across multiple asset classes, and vast regulatory experience. Their vision, expertise and experience enables MCX-SX to ensure continuous product innovation, over cutting-edge technology as well as world-class services and cost optimisation.

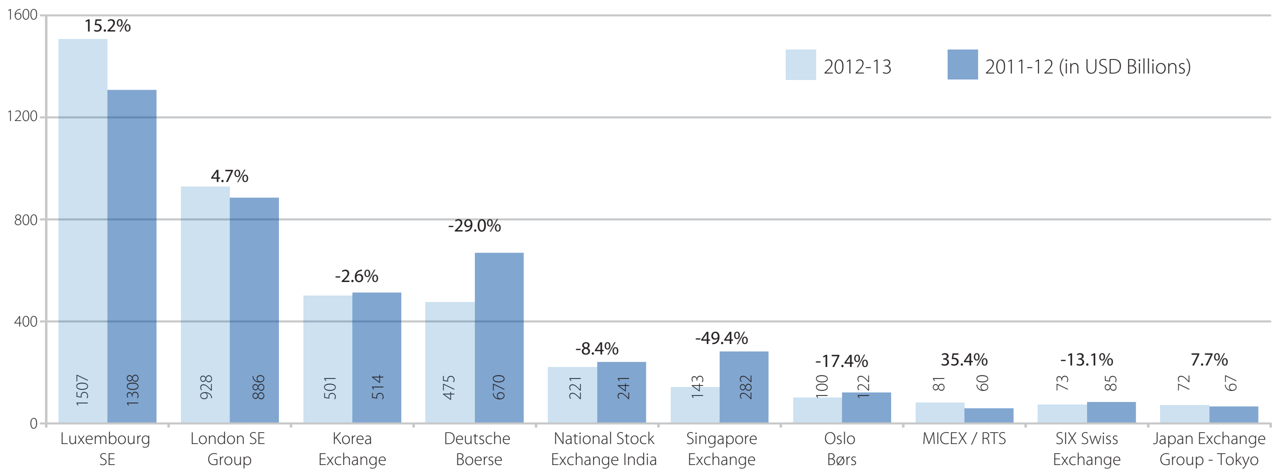
- Mr. S S Thakur – Public Interest Director
  Former Chairman, Central Depository Services (India) Ltd.; Founder Chairman, HDFC Bank Ltd.
- Mr. S U Kamdar – Public Interest Director
  Former Judge of the Bombay High Court
- Prof. (Mrs.) Ashima Goyal – Public Interest Director
  Professor, Indira Gandhi Institute of Development Research
- Mr. Jignesh Shah – Vice-Chairman (Shareholder Director)
  Chairman & CEO, Financial Technologies (India) Ltd.
- Mr. Ashok Jha, IAS (Retd.) – Shareholder Director
  Former Finance Secretary; Former Secretary, Dept. of Economic Affairs and Dept. of Industrial Policy & Promotion
- Mr. B D Sumitra – Shareholder Director
  Former MD, CCIL; Former Deputy MD, SBI
- Mr. Joseph Massey – Managing Director & CEO
  Chairman, South Asian Federation of Exchanges (SAFE);
  Former MD & CEO, Multi Commodity Exchange of India Ltd.
- Mr. U Venkataraman - CEO- Currency Derivatives Segment & Whole Time Director (Shareholder Director)
  Former Head-Treasury, IDBI Bank Ltd.

Global Bond Market

Capital raised by Bond Issuance

Most of the global markets witnessed a fall in the capital raised through bond issuance in the year 2012-13 as compared to 2011-12. While MICEX and Luxembourg Stock Exchange showed a decent rise of 35.4% and 15.2% respectively, Singapore Stock Exchange has seen the maximum fall of 49.4% followed by Deutsche Boerse and Oslo Børs.

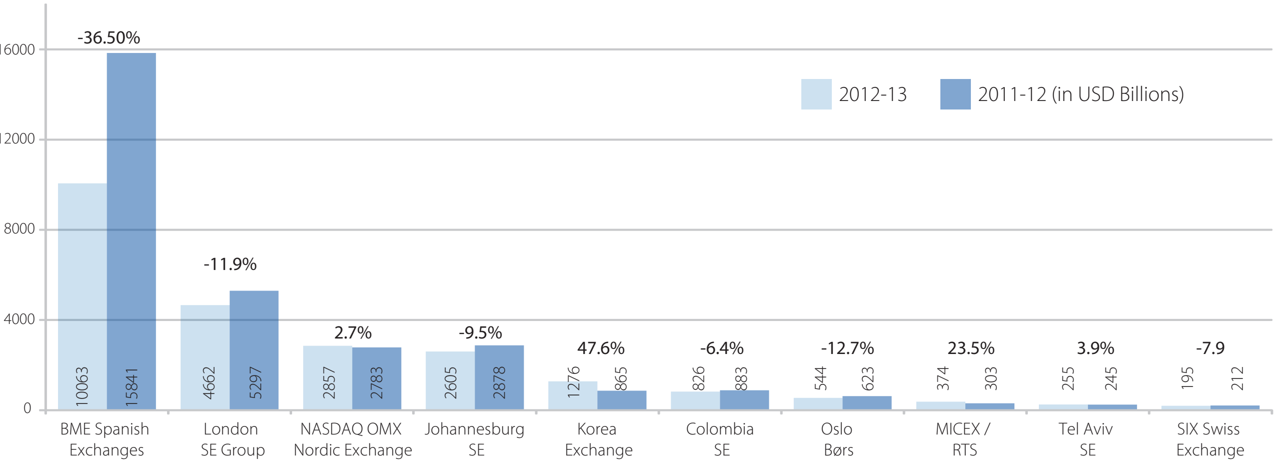
Top 10 Stock Exchanges by Capital Raised by Bonds Issuance (Fiscal End)



Value of Bonds Traded

Overall global markets have observed a decline in the value of bonds traded in the year 2012-13 as compared to the previous financial year. BME Spanish Exchange witnessed a maximum fall of 36.5% in the value of bonds traded followed by Oslo Børs and London Stock Exchange.

Top 10 Stock Exchanges by Value of Bonds Traded (Fiscal End)



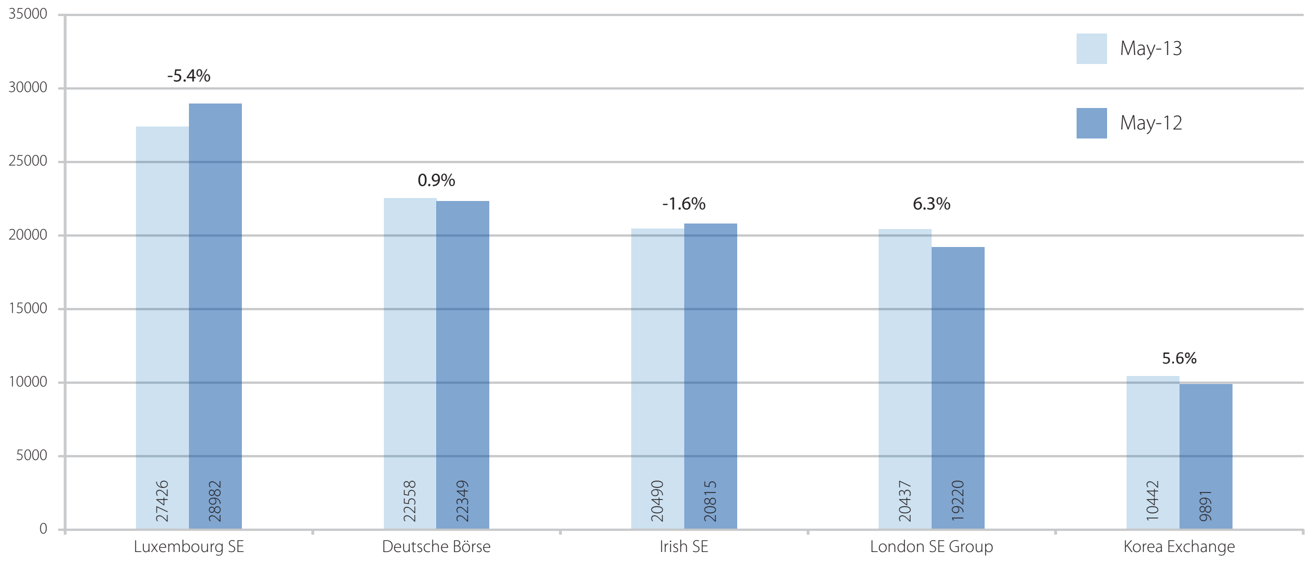
*Some Stock Exchanges not considered due to Data Unavailability

Global Bond Market

Number of Bonds Listed

London Stock Exchange showed a maximum rise in the number of bonds listed as on May 2013 as compared to May 2012, followed by Korea stock exchange and Deutsche Boerse.

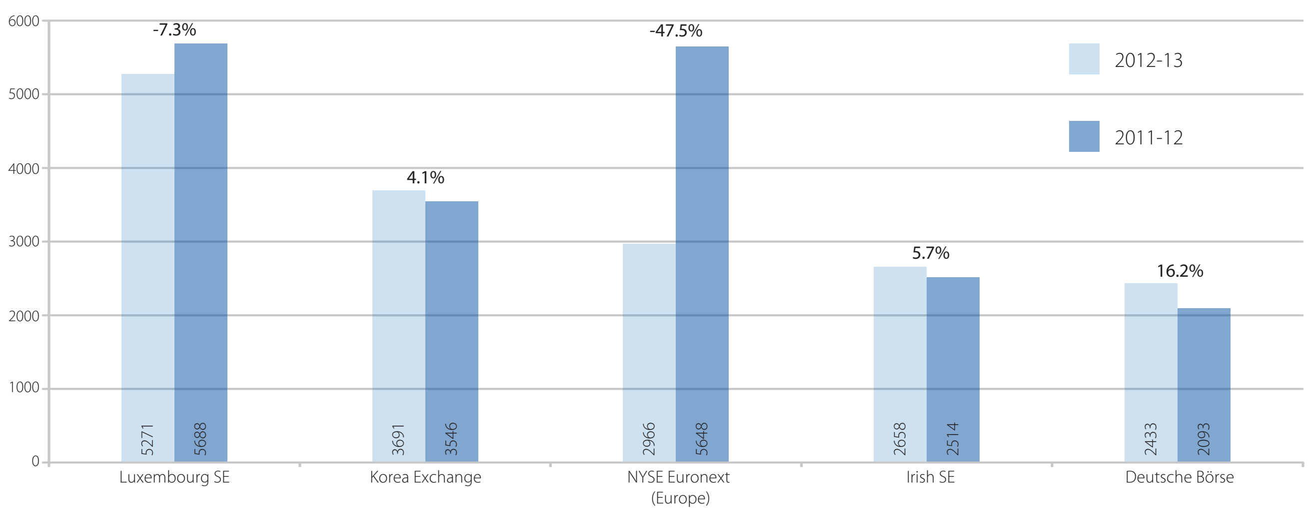
Top 5 Stock Exchanges by Number of Bonds Listed



New Bonds Listing

Deutsche Boerse witnessed a substantial rise of 16.2% in terms of number of new bonds listed, followed by Irish Stock Exchange and Korea Stock Exchange. NYSE Euronext observed the maximum decline in the number of new bonds listed.

Top 5 Stock Exchanges by Number of New Bonds Listed



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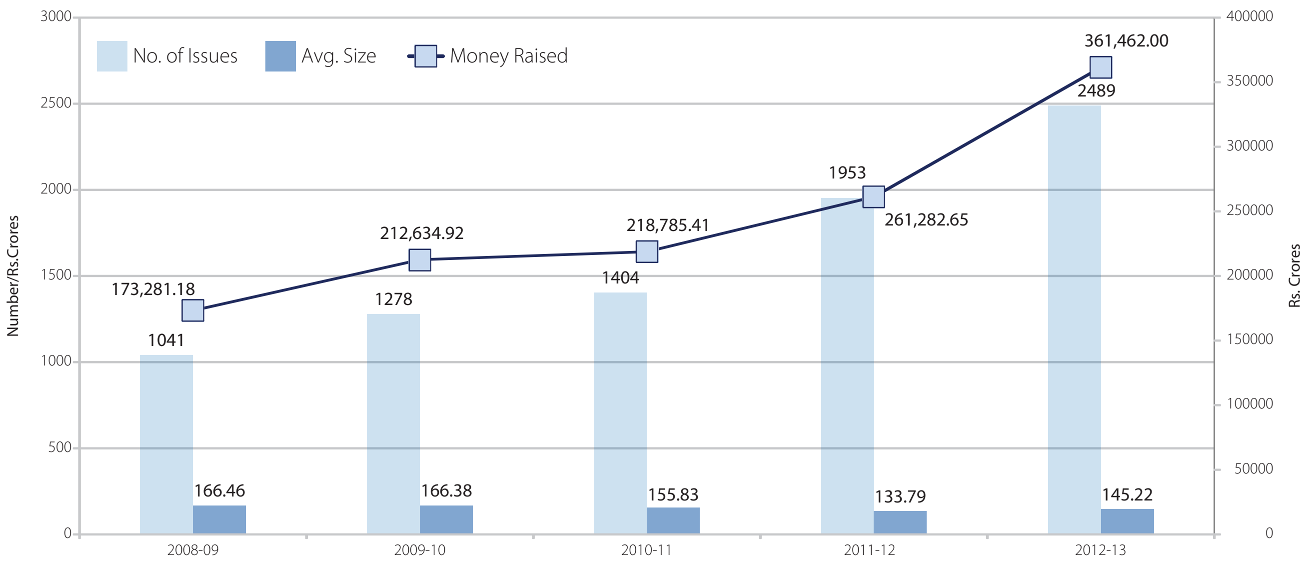
Domestic Bond Market

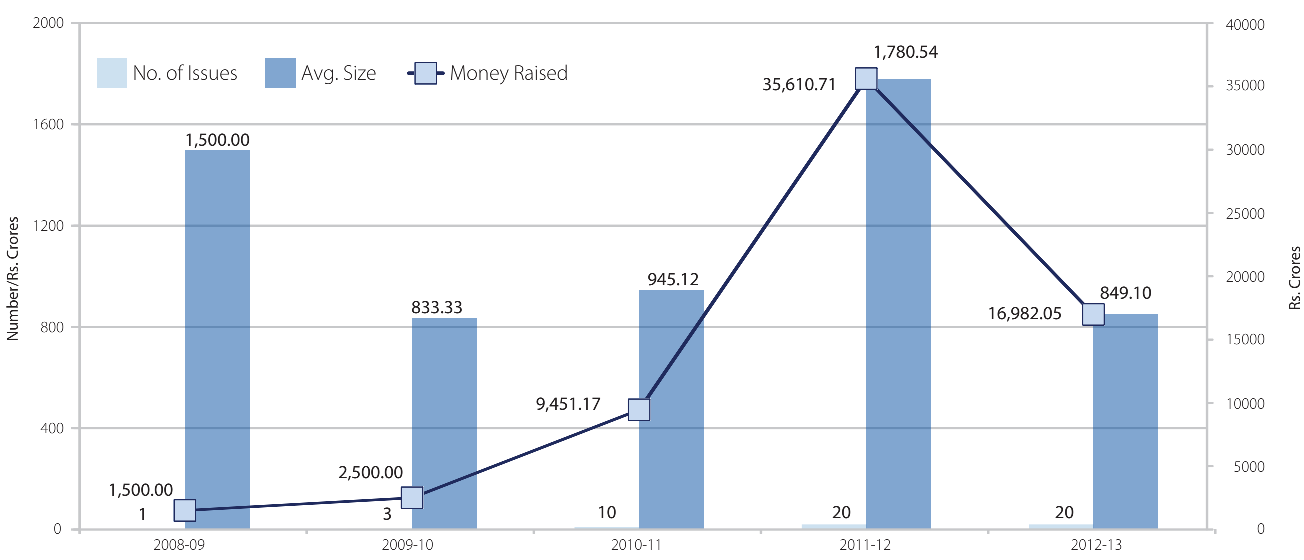
Capital raised through Private Placement of Bonds

The Indian Markets have observed a consistent rise in the amount of money raised annually through private placement of corporate bonds over the last five financial years.



Money raised through Public Issues of Bonds

FY 2012-13 as compared to FY 2011-12 remained sluggish in terms of money raised through Debt Public Issue. However, number of issues remain the same.



Important Regulatory Developments

Private Placement by NBFCs

RBI vides its circular dated June 27, 2013 has come up with some additional requirements pertaining to fund raising through private placement by NBFCs.

RBI has observed that freedom currently available to NBFCs to raise funds through NCDs without any restrictions has resulted in inadequate resource planning and higher transaction cost. Object of the change in regulations is to promote discipline in resource planning and raising.

The Guidelines require NBFCs to space out such issuances and also aim to bring NBFCs at par with other financial entities as far as private placement is concerned by restricting the maximum number of subscribers to forty nine. Currently the ceiling of investors stipulated by the Companies Act 1956 for private placement is not applicable for NBFCs.

All other existing guidelines on private placement remain unchanged. The provisions of these guidelines will however override other instructions in this regard, wherever contradictory.

Salient Features of Guidelines on Private Placement by NBFCs:

- The offer document for private placement should be issued within a maximum period of 6 months from the date of the Board Resolution authorizing the issue.
- The offer document should include the names and designations of the officials who are authorised to issue the offer document. The Board Resolution and the offer document must contain object of the issue.
- An NBFC shall only issue debentures for deployment of funds on its own balance sheet and not to facilitate resource requests of group entities/ parent company / associates. However the same shall not be applicable for core investment companies.
- Private placement by all NBFCs shall be restricted to not more than 49 investors, identified upfront by the NBFC.
- The minimum subscription amount for a single investor shall be Rs. 25 lakh and in multiples of Rs.10 lakh thereafter.
- There should be a minimum time gap of at least six months between two private placements. However the same is not applicable with immediate effect, applicability of the same shall be intimated by RBI in due course.

- Minimum time gap of six months between two private placement – not applicable immediately
- Security cover for debentures – not applicable to subordinated debt
- Issue of debentures for deployment of funds on its own balance sheet – not applicable to core investment companies

- An NBFC shall not extend loans against the security of its own debentures (issued either by way of private placement or public issue).
- All other extant instructions with regard to private placement remain unchanged.
- The provisions of the Guidelines shall override other instructions wherever contradictory.

Security covers for debentures (by private placement or public issue:

NBFCs shall ensure that at all points of time the debentures issued, including short term NCDs, are fully secured. Therefore in case, at the stage of issue, the security cover is insufficient /not created, the issue proceeds shall be placed under escrow until creation of security, which in any case should be within one month from the date of issue. However the same shall not be applicable for subordinate debt.

Key Reforms announced by SEBI

Reforms announced by SEBI during the quarter

Amendments to SEBI (Buy Back of Securities) Regulations, 1998

- The mandatory minimum buy-back has been increased to 50% of the amount earmarked for the buy-back, as against existing 25%, failing which amount in the escrow account would be forfeited subject to a maximum of 2.5% of the total amount earmarked.
- The Buy-back period has been reduced to 6 months from 12 months.
- The companies shall create an escrow account towards security for performance with an amount equivalent to at least 25% of the amount earmarked for buy-back.
- The company shall not raise further capital for a period of one year from the closure of the buy-back except in discharge of subsisting obligations as against the existing 6 months.
- The company shall not make another buy-back offer within a period of one year from the date of closure of the preceding offer.
- The companies are permitted to extinguish shares bought back during the month, within fifteen days of the succeeding month subject to the last extinguishment within seven days of the completion of the offer.
- Buy-back of 15% or more of paid-up capital and free reserves can be done only by way of tender offer.
- The promoters of the company shall not execute any transaction, either on-market or off-market, during the buyback period.

Listing without IPOs for Start-Ups and SMEs: A route for listing on an institutional trading platform

Lack of exit opportunities for the existing investors and restricted access to new investors is one of the problems faced by Start-Ups and SMEs. With a view to provide easier exit options for informed investors like Angel Investors, VCFs and PE etc. to provide better visibility, wider investor base and greater fund raising capabilities to such companies, the SEBI Board approved the proposal to amend the SEBI (ICDR) Regulations to permit listing of Startups and SMEs in Institutional Trading platform (ITP) without having to make an IPO.

Listing without IPO for start-ups - Institutional trading platform

Rationalisation of Investment Routes and Monitoring of Foreign Portfolio Investments

- Such companies eligible to be listed on this 'Institutional Trading Platform' shall be accessible for investment to the informed investors only.
- Therefore the minimum amount for trading or investment on the ITP will be Rs.10 lakh.
- These companies shall be exempted from the requirements of rule 19(2)(b) of SC(R)R 1957 under which companies have to offer upto 25% of its shareholding to public through an offer document in order to get listed. Therefore the listing can be done without an IPO and the expenses associated with it. While such companies are listed on the ITP they will not be permitted to raise capital though they can continue to make private placements.

Listing on ITP by Start-Ups and SMEs is expected to offer their existing investors better chances to find alternate buyers than if they search using their own network in the investment community. Standardized norms of entry for companies, eligibility criteria, continuous disclosure requirements, simplified exit rules and corporate governance norms will be prescribed.

Committee on Rationalization of Investment Routes and Monitoring of Foreign Portfolio Investments

SEBI in its Board meeting discussed the report of the "Committee on Rationalization of Investment Routes and Monitoring of Foreign Portfolio Investments", under the Chairmanship of Shri K. M. Chandrasekhar, former Cabinet Secretary, Government of India (GoI).

The Board accepted the recommendations of the Committee which, inter alia, include:

- Simplified and uniform entry norms for foreign investors by merging existing FIIs, Sub Accounts and Qualified Foreign Investors (QFIs) into a new investor class to be termed as "Foreign Portfolio Investors" (FPIs).
- In order to make the procedure much simpler, prior direct registration of FIIs and Sub Accounts with SEBI be done away with. Instead, DDPs authorized by SEBI would register FPIs on behalf of SEBI subject to compliance with KYC requirements.
- Risk Based Approach towards Know Your Client (KYC) – From the point of KYC, the Committee recommended for categorization of FPIs into three categories.

Category I

Which would include Government and Government related entities such as Foreign Central Banks, Sovereign Wealth Funds, Multilateral Organizations etc.

Category II

Which would include regulated entities such as Banks, Asset Management Companies, Broad Based Funds such as Mutual Funds, Investment Trusts, Insurance and Reinsurance Companies, University Funds, Pension Funds and University related Endowments already registered with SEBI.

Category III

All other FPIs not eligible to be included in the above two Categories.

The approach to KYC will be risk based. The documents needed for registration and onboarding would be the simplest for Category I and most stringent for Category III.

- Portfolio investments to be defined as investment by any single investor or investor group, which shall not exceed 10% of the equity of an Indian company. Any investment beyond the threshold of 10% shall be considered as Foreign Direct Investment (FDI).

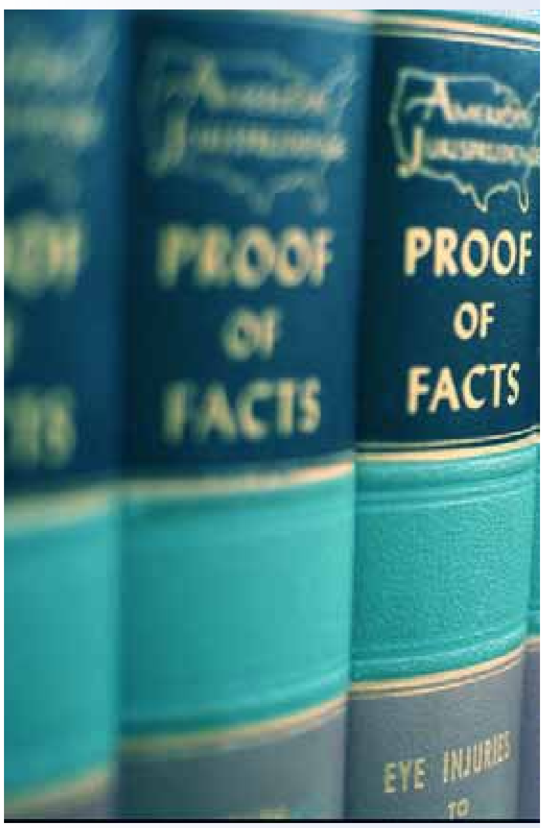
Amendments to SEBI (Issue of Capital and Disclosure requirements) Regulations 2009 relating to preferential issue

- Preferential issue shall be subscribed only through the allottee's own bank account. Further, the issuing company shall disclose the ultimate beneficial owner of allotted shares.
- Allotments in preferential issues shall only be made in dematerialized form.
- Shares allotted in the preferential issue shall not be transferred till trading approval is granted for such shares by the Stock Exchanges. Further, the lock-in period shall commence on the date of such trading approval.

Amendments to SEBI ICDR Regulations 2009 relating to preferential issue

Key Reforms announced by SEBI

Amendments to SEBI (Alternative Investment Funds) Regulations, 2012: Angel funds introduced as a Category-I AIF



Amendments to SEBI (Alternative Investment Funds) Regulations, 2012: Angel funds introduced as a Category-I AIF

Giving effect to the announcement in Budget for FY 2013-14 by Union Finance Minister on angel investor pools, the Board approved amendments to SEBI (Alternative Investment Funds) Regulations, 2012 (“AIF Regulations”) thereby providing a framework for registration and regulation of angel pools under a sub- category 'Angel Funds' under Category I- Venture Capital Funds.

- Angel Funds shall be included in the definition of "Venture Capital Funds" under the SEBI (Alternative Investment Funds) Regulations, 2012.
- Angel Funds shall have a corpus of atleast Rs.10 crore (as against Rs. 20 crore for other AIFs) and minimum investment by an investor shall be Rs. 25 lakh as against Rs. 1 crore for other AIFs. Further, the continuing interest by sponsor/manager in the Angel Fund shall be not less than 2.5% of the corpus or Rs. 50 lakh, whichever is lesser.
- For ensuring investments are genuine angel investments, angel funds shall invest only in investee companies which:
  - o are incorporated in India and are not more than 3 years old and
  - o are unlisted and have a turnover not exceeding Rs.25 crore;
  - o are not promoted, sponsored or related to an Industrial Group whose group turnover is in excess of Rs.300 crore and has no family connection with the investors proposing to invest in the company.
- Further, investment in an investee company by an angel fund shall be not less than Rs.50 lakh and not more than Rs.5 crore and shall be required to be held for a period of at least 3 years.

Other Key Highlights

- SEBI has amended SEBI (Stock-Brokers and Sub-Brokers) Regulations, 1992 amendments with respect to debt segment on stock exchanges.
- Asset management companies managing schemes of mutual funds can take membership of debt segment of stock exchanges under 'Proprietary Trading Member' (PTM) category.
- SEBI has decided to allow Mutual fund distributors to take limited purpose membership of Stock Exchange with lesser financial and compliance burden to use infrastructure of Stock Exchanges for distribution & redemption of Mutual Fund Units

Updates on General Changes by SEBI

- **Redress of investor grievances through SEBI Complaints Redress System (SCORES)** *(Ref. Press Release dated February 22, 2013)*

  SEBI vide its circular dated April 17, 2013 has informed all listed companies to obtain the SCORES user ID and password within 30 days of issue of this circular. Further, failure by companies to file ATR under SCORES within 30 days of date of receipt of the grievance may also attract the provisions of Section 15A (a) of the SEBI Act, 1992.

- **Amendments to SEBI Employee Stock Option Scheme and Employee Stock Purchase scheme Guidelines, 1999 and Equity Listing Agreement Clarification** *(Ref. CIR/CFD/DIL/7/2013 dated May 13, 2013)*

  SEBI vide Circular No. CIR/CFD/DIL/3/2013 dated January 17, 2013 made amendments to Equity Listing Agreement through insertion of Clause 35 C, mandating that all the employee benefit schemes involving the securities of the company shall be in compliance with SEBI (ESOS and ESPS) Guidelines, 1999 and any other guidelines, regulations etc. framed by SEBI in this regard.

- **Scheme of Arrangement under the Companies Act, 1956 – Revised requirements for the Stock Exchanges and Listed Companies – Clarification** *(Ref. CIR/CFD/DIL/8/2013 dated May 21, 2013)*

  SEBI vide its Circular No. CIR/CFD/DIL/8/2013 dated May 21, 2013 has clarified that all clauses of the listing agreement across all Stock Exchanges are inserted / amended based on directives / circulars / amendments issued by SEBI from time to time.

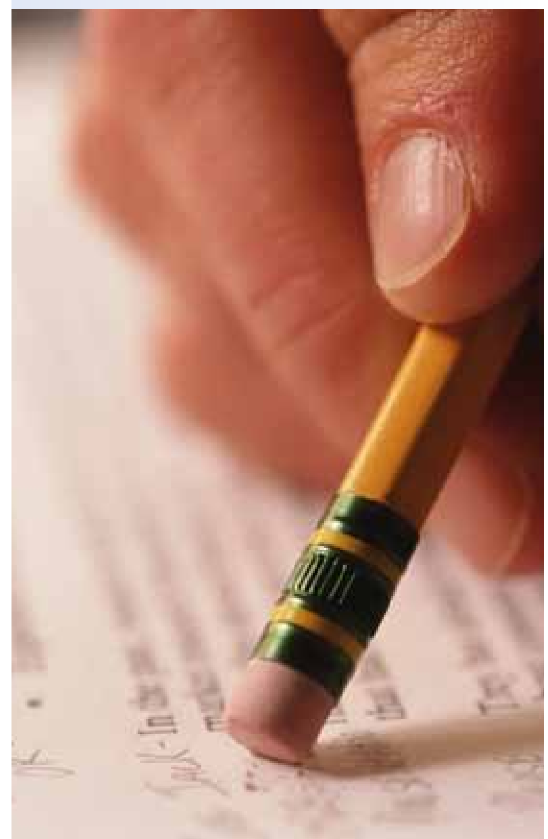
- **Comprehensive guidelines on Offer for Sale (OFS) of Shares by Promoters through the Stock Exchange Mechanism** *(Ref. CIR/MRD/DP/ 17 /2013 dated May 30, 2013)*

  SEBI vide its Circular No. CIR/MRD/DP/ 17 /2013 dated May 30, 2013 has clarified that Seller(s) shall announce the intention of sale of shares at least on the day prior to the offer for sale.

- **Clarification on SEBI's Circular dated August 13, 2012 providing for the "Manner of Dealing with Audit Reports filed by Listed Companies"** *(Ref. CIR/CFD/DIL/9/2013 dated June 05, 2013)*

  SEBI vide its Circular dated June 05, 2013 mandated listed companies to submit either Form A (Unqualified/ Matter of Emphasis Report) or Form B (Qualified/ Subject To/ Except For Audit Report) along with the Annual Report to the Stock Exchanges.

Amendment to SEBI ESOP & ESPS guidelines



Enhancement in **Foreign Investment limits** in Government debt

Enhancement in Foreign Investment limits in Government debt

(Ref. CIR/IMD/FIIC/8/2013 dated June 12, 2013)

The Government of India has enhanced the Government Debt Limits by USD 5 billion. It has been decided that the aforesaid enhanced limit of USD 5 billion shall be available for investments only to those FIIs which are registered with SEBI under the categories of Sovereign Wealth Funds (SWFs), Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks.

Updates on General Changes by RBI & MCA

Updates on General Changes by RBI:

- **Auction for Sale of a New Inflation Indexed Government Stock of 10 years** *(Ref. Notification dated May 29, 2013)*

  Government of India hereby notifies sale of Inflation Indexed Government Stock-2023 (securities) of 10 year tenure for an aggregate amount of Rs.1000 crore.

- **Buyback / prepayment of Foreign Currency Convertible Bonds (FCCBs)** *(Ref. Notification dated June 25, 2013)*

  RBI vide its notification dated June 25, 2013 notified that considering the developments in the global financial markets, it has been decided that the existing scheme of Buyback / Prepayment of FCCBs under the approval route which expired on March 31, 2013 maybe continued till December 31, 2013 and shall stand discontinued thereafter.

Updates on General Changes by MCA:

Power of ROCs to obtain declaration/affidavits from subscribers/first directors at the time of incorporation.

(Ref. circular No. 11 / 2013 dated May 29, 2013)

MCA vide its circular dated May 29, 2013 has clarified that keeping in view the need to protect the interest of investors and ensure that companies raise monies in accordance with provisions of Companies Act, the Registrar of Companies may obtain declaration/affidavits from subscribers/first directors at the time of incorporation.

Sale of a New Inflation Indexed Government Stock

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India's New Stock Exchange

You may like to post your views at **listing-issuerservices@mcx-sx.com** | **Data Source – MCA, RBI, SEBI and WFE**

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