NCFM

NSE's CERTIFICATION IN FINANCIAL MARKETS

Securities Market (Basic) Module

Corrigendum

NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Securities Market (Basic) Module

To be read under the section related to 'Trading'

Contract specifications for stock options

Trading in stock options commenced on the NSE from July 2001. Currently these contracts are European style and are settled in cash. The expiration cycle for stock options is the same as for index futures and index options. A new contract is introduced on the trading day following the expiry of the near month contract. NSE provides a minimum of seven strike prices for every option type (i.e. call and put) during the trading month. There are at least three in-the-money contracts, three out-of-the-money contracts and one at-the-money contract available for trading. Table below gives the contract specifications for stock options.

Table: Contract specification: Stock options

Underlying	Individual securities available for trading in cash market
Exchange of trading	National Stock Exchange of India Limited
Security descriptor	OPTSTK.
Style of option	European
Strike price interval	As specified by the exchange
Contract size	As specified by the exchange (minimum value of Rs.2 lakh)
Price steps	Re. 0.05
Price bands	Not applicable
Trading cycle	The options contracts will have a maximum of three month trading cycle - the near month (one), the next month (two) and the far month (three). New contract will be introduced on the next trading day following the expiry of near month contract.
Expiry day	The last Thursday of the expiry month or the previous trading day if the last Thursday is a trading holiday.

Settlement basis	Daily settlement on T+1 basis and final option exercise settlement on T+1 basis
Daily settlement price	Premium value (net)
Final settlement price	Closing price of underlying on exercise day or expiry day
Settlement day	Last trading day

Exercise process

The period during which an option is exercisable depends on the style of the option. On NSE, index options and options on securities are European style, i.e. options are only subject to automatic exercise on the expiration day, if they are in-the-money. Automatic exercise means that all in-the-money options would be exercised by NSCCL on the expiration day of the contract. The buyer of such options need not give an exercise notice in such cases.

To be read in place of SEBI Guidelines on Disclosure and Investor Protection (DIP)

SEBI Issue of Capital and Disclosure Requirements (ICDR) Regulations 2009[1]

The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 are applicable for public issue; rights issue[2], preferential issue; an issue of bonus shares by a listed issuer; qualified institutions placement by a listed issuer and issue of Indian Depository Receipts[3].

General conditions for public issues and rights issues

An issuer cannot make a public issue or rights issue of equity shares and convertible securities[4] under the following conditions:

a. If the issuer, any of its promoters, promoter group or directors or persons in control of the issuer are debarred from accessing the capital market by SEBI or

b. If any of the promoters, director or person in control of the issuer was or also is a promoter, director or person in control of any other company which is debarred from accessing the capital market under the order or directions made by SEBI.

c. If the issuer of convertible debt instruments[5] is in the list of willful defaulters published by the RBI or it is in default of payment of interest or repayment

---

[1] Only some provisions pertaining to ICDR Regulations 2009 are discussed here. For greater details, it is recommended that original regulation may be referred to. The regulations are updated as of December 31, 2010.

[2] where the aggregate value of specified securities offered is Rs.50 lakh or more;

[3] The ICDR Regulations 2009 have been made primarily by conversion of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 (rescinded). ICDR were notified on August 26, 2009.While incorporating the provisions of the rescinded Guidelines into the ICDR Regulations, certain changes have been made by removing the redundant provisions, modifying certain provisions on account of changes necessitated due to market design and bringing more clarity to the provisions of the rescinded Guidelines. (sourced from SEBI circular (SEBI/CFD/DIL/ICDRR/1/2009/03/09) dated September 3, 2009)

[4] Convertible security means a security which is convertible into or exchangeable with equity shares at a later date with or without the option of the holder of the security and includes convertible debt instrument and convertible preference shares.

[5] means an instrument which creates or acknowledges indebtedness and is convertible into equity shares of the issuer at a later date at or without the option of the holder of the instrument, whether constituting a charge on the assets of the issuer or not

of principal amount in respect of debt instruments issued by it to the public, if any, for a period of more than 6 months.

d. Unless an application is made to one or more recognised stock exchanges for listing of equity shares and convertible securities on such stock exchanges and has chosen one of them as a designated stock exchange. However, in case of an initial public offer, the issuer should make an application for listing of the equity shares and convertible securities in at least one recognised stock exchange having nationwide trading terminals.

e. Unless it has entered into an agreement with a depository for dematerialisation of equity shares and convertible securities already issued or proposed to be issued.

f. Unless all existing partly paid-up equity shares of the issuer have either been fully paid up or forfeited.

g. Unless firm arrangements of finance through verifiable means towards 75% of the stated means of finance, excluding the amount to be raised through the proposed public issue or rights issue or through existing identifiable internal accruals, have been made.

Appointment of Merchant banker and other intermediaries

The issuer should appoint one or more merchant bankers, at least one of whom should be a lead merchant banker. The issuer should also appoint other intermediaries, in consultation with the lead merchant banker, to carry out the obligations relating to the issue. The issuer should in consultation with the lead merchant banker, appoint only those intermediaries which are registered with SEBI. Where the issue is managed by more than one merchant banker, the rights, obligations and responsibilities, relating inter alia to disclosures, allotment, refund and underwriting obligations, if any, of each merchant banker should be predetermined and disclosed in the offer document.

Conditions for Initial Public Offer

1) An issuer may make an initial public offer (an offer of equity shares and convertible debentures by an unlisted issuer to the public for subscription and includes an offer for sale of specified securities to the public by an existing holder of such securities in an unlisted issuer) if:

a. The issuer has net tangible assets of at least Rs.3 crores in each of the preceding 3 years (of 12 months each) of which not more than 50% are held in monetary assets. If more than 50% of the net tangible assets are held in monetary assets, then the issuer has to make firm commitment to utilize such excess monetary assets in its business or project.
b. The issuer has a track of distributable profits[6] in at least 3 out of the immediately preceding 5 years[7].
c. The issuer company have a net worth of at least Rs.1 crores in each of the preceding 3 full years (of 12 months each).
d. The aggregate of the proposed issue and all previous issues made in the same financial year in terms of issue size does not exceed 5 times its pre-issue net worth as per the audited balance sheet of the preceding financial year.
e. In case of change of name by the issuer company within last one year, at least 50% of the revenue for the preceding one year should have been earned by the company from the activity indicated by the new name.

2) Any issuer not satisfying any of the conditions stipulated above may make an initial public offer if:
   a. The issue is made through the book building process and the issuer undertakes to allot at least 50% of the net offer to public to qualified institutional buyers and to refund full subscription monies if it fails to make allotment to the qualified institutional buyers OR At least 15% of the cost of project is contributed by scheduled commercial banks or public financial institutions, of which not less than 10% would come from the appraisers and the issuer undertakes to allot at least 10% of the net offer to public to qualified institutional buyers and to refund full subscription monies if it fails to make the allotment to the qualified institutional buyers.
   b. The minimum post-issue face value capital of the issuer should be Rs.10 crore; OR the issuer undertakes to provide compulsory market

[6] Distributable profits have to be in terms of section 205 of the Companies Act 1956.
[7] Provided that extraordinary items shall not be considered for calculating distributable profits

making for at least 2 years from the date of listing of the equity shares and convertible securities subject to the conditions that a) the Market makers undertake to offer buy and sell quotes for a minimum depth of 300 equity shares and convertible securities and ensure that the bid-ask spread for their quotes should not at any time exceed 10 % b) the inventory of the market makers, as on the date of allotment of the equity shares and convertible securities should be at least 5% of the proposed issue.

3) An issuer may make an initial public offer of convertible debt instruments without making a prior public issue of its equity shares and listing.
4) An issuer cannot make an allotment pursuant to a public issue if the number of prospective allottees is less than one thousand.
5) No issuer can make an initial public offer if there are any outstanding convertible securities or any other right which would entitle any person any option to receive equity shares after the initial public offer. However, this is not applicable to:
   - a public issue made during the currency of convertible debt instruments which were issued through an earlier initial public offer, if the conversion price of such convertible debt instruments was determined and disclosed in the prospectus of the earlier issue of convertible debt instruments;
   - outstanding options granted to employees pursuant to an employee stock option scheme framed in accordance with the relevant Guidance Note or Accounting Standards, if any, issued by the Institute of Chartered Accountants of India in this regard.
   - Fully paid-up outstanding securities which are required to be converted on or before the date of filing of the red herring prospectus (in case of book built issues) or the prospectus (in case of fixed price issues), as the case may be.

Conditions for further public offer

An issuer may make a further public offer (an offer of equity shares and convertible securities) if it satisfies the following conditions:

a) the aggregate of the proposed issue and all previous issues made in the same financial year in terms of issue size does not exceed 5 times its pre-issue net worth as per the audited balance sheet of the preceding financial year;

(b) if it has changed its name within the last one year, at least 50% of the revenue for the preceding one full year has been earned by it from the activity indicated by the new name.

If the issuer does not satisfy the above conditions, it may make a further public offer if it satisfies the following conditions:

(i) the issue is made through the book building process and the issuer undertakes to allot at least 50% of the net offer to public to qualified institutional buyers and to refund full subscription monies if it fails to make allotment to the qualified institutional buyers; or at least 15% of the cost of the project is contributed by scheduled commercial banks or public financial institutions, of which not less than 10% should come from the appraisers and the issuer undertakes to allot at least 10% of the net offer to public to qualified institutional buyers and to refund full subscription monies if it fails to make the allotment to the qualified institutional buyers;

(ii) the minimum post-issue face value capital of the issuer is Rs.10 crore; or the issuer undertakes to provide market-making for at least 2 years from the date of listing of the specified securities, subject to the two conditions that a) the market makers offer buy and sell quotes for a minimum depth of three hundred specified securities and ensure that the bid-ask spread for their quotes does not, at any time, exceed 10%; b) the inventory of the market makers, as on the date of allotment of the specified securities, should be at least 5% of the proposed issue.

Pricing in Public Issues

The issuer determines the price of the equity shares and convertible securities[8] in consultation with the lead merchant banker or through the book building process. In case of debt instruments, the issuer determines the coupon rate and conversion price of the convertible debt instruments in consultation with the lead merchant banker or through the book building process.

Differential Pricing

An issuer may offer equity shares and convertible securities at different prices; subject to the following condition;

---

[8] convertible security" means a security which is convertible into or exchangeable with equity shares of the issuer at a later date, with or without the option of the holder of the security and includes convertible debt instrument and convertible preference shares.

(a) the retail individual investors/shareholders or employees entitled for reservation making an application for equity shares and convertible securities[9] of value not more than Rs.2 lakh, may be offered equity shares and convertible securities at a price lower than the price at which net offer is made to other categories of applicants provided that such difference is not more than 10% of the price at which equity shares and convertible securities are offered to other categories of applicants;

(b) in case of a book built issue, the price of the equity shares and convertible securities offered to an anchor investor[10] cannot be lower than the price offered to other applicants;

(c) in case of a composite issue[11], the price of the equity shares and convertible securities offered in the public issue may be different from the price offered in rights issue and justification for such price difference should be given in the offer document.

(d) in case the issuer opts for the alternate method of book building, the issuer may offer specified securities to its employees at a price lower than the floor price. However, the difference between the floor price and the price at which equity shares and convertible securities are offered to employees should not be more than 10% of the floor price.

Promoters' Contribution

The promoters' minimum contribution varies from case to case. The promoters of the issuer are required to contribute in the public issue as follows:

In case of an **initial public offer**, the minimum contribution should not be ess than 20% of the post issue capital;

In case of **further public offer**, it should be either to the extent of 20 % of the proposed issue size or to the extent of 20% of the post-issue capital;

In case of a **composite issue**, either to the extent of 20% of the proposed issue size or to the extent of 20% of the post-issue capital excluding the rights issue component.

---

[9] Made under regulation 42 pertaining to Reservation on competitive basis.

[10] Anchor investor" means a qualified institutional buyer who makes an application for a value of Rs.10 crores or more in a public issue through the book building process in accordance with the ICDR regulations 2009.

[11] "Composite issue" means an issue of equity shares and convertible securities by a listed issuer on public cum-rights basis, wherein the allotment in both public issue and rights issue is proposed to be made simultaneously.

Lock-in of specified securities held by promoters.

In a public issue, the equity shares and convertible debentures held by promoters are locked-in for the period stipulated below:

(a) minimum promoters' contribution is locked-in for a period of 3 years from the date of commencement[12] of commercial production or date of allotment in the public issue, whichever is later;

(b) promoters' holding in excess of minimum promoters' contribution is locked-in for a period of 1 year:

However, excess promoters' contribution in a further public offer[13] are not subject to lock in.

Book Building

Book Building means a process undertaken to elicit demand and to assess the price for determination of the quantum or value of specified securities or Indian Depository Receipts, as the case may be in accordance with the SEBI ICDR Regulations 2009.

In an issue made through the book building process, the allocation in the net offer to public category is made as follows

i) Not less than 35 % to retail individual investors.

ii) Not less than 15 % to non institutional investors i.e. investors other than retail individual investors and qualified institutional buyers.

iii) Not more than 50% to Qualified Institutional Buyers; 5 % of which would be allocated to mutual funds[14].

---

[12] "date of commencement of commercial production" means the last date of the month in which commercial production in a manufacturing company is expected to commence as stated in the offer document.

[13] where the equity shares of the same class which are proposed to be allotted pursuant to conversion or exchange of convertible securities offered through the offer or are proposed to be allotted in the offer have been listed and are not infrequently traded in a recognised stock exchange for a period of at least three years and the issuer has a track record of dividend payment for at least immediately preceding three years.Provided that where promoters propose to subscribe to the specified securities offered to the extent greater than higher of the two options available in clause (b) of sub-regulation (1) of regulation 32, the subscription in excess of such percentage shall be made at a price determined in terms of the provisions of regulation 76 or the issue price, whichever is higher.shall not be subject to lock-in.

However, if the issue is made through the book building process and the issuer undertakes to allot at least 50% of the net offer to public to qualified institutional buyers and to refund full subscription monies if it fails to make allotment to the qualified institutional buyers then in that case at least 50% of the net offer to public should be allotted to qualified institutional buyers.

In an issue made through the book building process, the issuer may allocate upto 30% of the portion available for allocation to qualified institutional buyers to an anchor investor in accordance with the conditions laid down in ICDR Regulations 2009[15].

In an issue made other than through the book building process, allocation in the net offer to public category will be made as follows:

(a) minimum 50% to retail individual investors; and

(b) remaining to individual applicants other than retail individual investors and) other investors including corporate bodies or institutions, irrespective of the number of equity shares and convertible securities applied for;

(c) the unsubscribed portion in either of the categories specified above (point a and b) may be allocated to applicants in the other category.

If the retail individual investor category is entitled to more than 50% on proportionate basis, the retail individual investors will be allocated that higher percentage.

Indian Depository Receipts

A foreign company can access Indian securities market for raising funds through issue of Indian Depository Receipts (IDRs).

An IDR is an instrument denominated in Indian Rupees in the form of a depository receipt created by a Domestic Depository (custodian of securities registered with the Securities and Exchange Board of India) against the underlying equity of issuing company to enable foreign companies to raise funds from the Indian securities markets.[16]

---

[14] In addition to the 5% allocation, mutual funds are eligible for allocation under the balance available for qualified institutional buyers.

[15] Conditions laid down in the Schedule XI of ICDR regulations.

[16] Sourced from SEBI FAQ on Primary issuance

An issuing company making an issue of IDR is required to satisfy the following:

(a) it should be listed in its home country[17].

(b) it should not be prohibited to issue securities by any regulatory body.

(c) it should have a track record of compliance with securities market regulations in its home country.

Conditions for issue of IDR.

An issue of IDR is subject to the following conditions:

(a) issue size should not be less than Rs.50 crore.

(b) procedure to be followed by each class of applicant for applying should be mentioned in the prospectus;

(c) minimum application amount should be Rs.20,000;

(d) at least 50 %. of the IDR issued should be allotted to qualified institutional buyers on proportionate basis.

(e) the balance 50 % may be allocated among the categories of non-institutional investors and retail individual investors including employees[18] at the discretion of the issuer and the manner of allocation has to be disclosed in the prospectus. Allotment to investors within a category will be on proportionate basis.

Further, atleast 30% of the IDRs issued will be allocated to retail individual investors and in case of under-subscription in retail individual investor category, spill over to other categories to the extent of under-subscription may be permitted.

(f) At any given time, there will be only one denomination of IDR of the issuing company.

---

[17] Home country means the country where the issuing company is incorporated and listed.

[18] “employee” means a resident of India, and is a permanent and full-time employee or a director, whether whole time or part time, of the issuer or of the holding company or subsidiary company or of the material associate(s) of the issuer, whose financial statements are consolidated with the issuer’s financial statements, working in India and does not include promoters and an immediate relative of the promoter (i.e., any spouse of that person, or any parent, brother, sister or child of the person or of the spouse

To be read as an addition under 'Cross Margining' under the section related to overview of the securities market

In December 2008, SEBI extended the cross margin facility across Cash and F&O segment and to all the market participants. The salient features of the cross margining are as under :

1. Cross margin is available across Cash and F&O segment and to all categories of market participants.
2. The positions of clients in both the Cash and F&O segments to the extent they offset each other shall be considered for the purpose of cross margining as per the following priority.
   a. Index futures and constituent stock futures in F&O segment.
   b. Index futures and constituent stock positions in Cash segment.
   c. Stock futures in F&O segment and stock positions in Cash segment
3. In order to extend the cross margin benefit as per 2 (a) and (b) above, the basket of constituent stock futures/ stock positions shall be a complete replica of the index futures
4. The positions in F&O segment for stock futures and index futures shall be in the same expiry month to be eligible for cross margin benefit.
5. Positions in option contracts shall not be considered for cross margining benefit.
6. The Computation of cross margin shall be at client level on an on-line real time basis.
7. For institutional investors the positions in Cash segment shall be considered only after confirmation by the custodian on T+1 basis and on confirmation by the clearing member in F&O segment.
8. The positions in the Cash and F&O segment shall be considered for cross margining only till time the margins are levied on such positions.
9. The positions which are eligible for offset, shall be subject to spread margins. The spread margins shall be 25% of the applicable upfront margins on the offsetting positions.

To be read under section related to overview of the securities market

Securities Lending and Borrowing

SEBI issued a SLB scheme on December 20, 2007. The salient features of the scheme are as under:

- All Clearing members of NSCCL including Banks and Custodians referred to as 'Participant' are registered as Approved Intermediaries (AIs) under the SLS, 1997.
- The SLB would take place on an automated, screen based, order-matching platform which will be provided by the AIs. This platform would be independent of the other trading platforms.
- Currently, securities available for trading in F&O segment of National Stock Exchange of India Ltd. (NSEIL) would be eligible for lending & borrowing under the scheme. Securities lending and borrowing is permitted in dematerialized form only
- All categories of investors including retail, institutional etc. will be permitted to borrow and lend securities. The borrowers and lenders would access the platform for lending/borrowing set up by the AIs through the clearing members (CMs) who are authorized by the AIs in this regard.
- The tenure of lending/borrowing would be fixed as standardized contracts. Accordingly the return of securities by borrower is scheduled on the respective reverse leg settlement day. Each reverse leg settlement date is assigned a specific series number. The tenure of lending and borrowing ranges from 1 month up to a maximum period of 12 months.
- The first leg of the transactions across all series including early recall/ repayment transactions are settled on T+1 day on a gross basis.. The settlement of lending and borrowing transactions would be independent of normal market settlement.
- The settlement of the lending and borrowing transactions should be done on a gross basis at the level of the clients i.e. no netting of transactions at any level will be permitted.

NSCCL, as an Approved Intermediary (AI) launched the Securities Lending & Borrowing Scheme from April 21, 2008. Lending & Borrowing is carried on an automated screen based platform where the order matching is done on basis of price time priority.