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Prospective Governance Problems in Demutualized Stock Exchanges of India: Issues and Prescriptions

Dr. A. P. Pati*

Abstract

Governance is one of the pertinent issues considered with regard to the implementation of demutualization of stock exchange institutions. While the primary motive behind good governance practice is to deliver the best to all the stake holders, still investors, as the backbone of the exchange, and their interest remain as the focus area of any reform in the stock market. Investor's confidence is the most important capital on which a stock exchange can pursue its economic and social objectives. Over the years, the inadequacy of proper governance practices and standards of transparency in many traditional exchanges have eroded the investor's confidence in many of the economies and as a result a demutualized structure has found favor. The growing competition among the stock exchanges, the presence of global companies in most of the important international bourses and the advent of new information technology has warranted the world-wide move of demutualization. Since the present management structure of most of the India stock exchanges are dominated by the brokers, the governance has been a constant casualty. It is thus imperative for better governance that these exchanges are to be demutualized with corporate structure. However before demutualization the regional exchanges are to be consolidated. Demutualization, although alone does not provide solutions to all the existing problem, the new management structure with proper representation from the professionals with minimum control of the brokers on management shall pave the way for better governance practices. Earning sufficient return for the share holders in a exchange and at the same time rendering quality and unbiased service to the listed companies and to the investors will be the two crucial indicators of the efficient governance and to address these twin issues the demutualized management mechanism shall definitely prove handy and also provide the necessary cushion to absorb the risk of the changing new environment.

I. Prologue

Stock exchange governance has been a topic for discussion for quite some time. During the last few years among many issues, governance has become the pertinent issue considered with regard to the implementation of demutualization of stock exchange institutions. While the

primary motive behind good governance practice is to deliver the best to all the stake holders, still investor, as the backbone of the exchange, and their interest remain as the focus area of any reform in the stock market. The structure of an exchange exists because of the trusts imposed on it by the investors. This simply demands that the structure has to deliver the best to them. This ultimately emphasizes on the operational transparency and viability of the exchanges.

Traditionally, most of the stock exchanges around the world were mutual organizations, "not for profit" entities. The term "mutual" is best understood in relation to the common characteristics of these stock exchanges. The members, who provide brokerage services, also own, control and manage them. Although outside professionals have been appointed to positions such as executive director, research wings and so on, in practice the exchanges have been run by the broker members' elected representatives. As in the existing set up brokers either indirectly or directly own the exchanges, there is a conflict of interest. But during the last 10 years many SEs have become full corporate, "for-profit" entities through the process of demutualization, which talks about the segregation of ownership, management and trading membership in the exchanges. It is a mechanism to reduce the overbearing influence of the brokers on the management of the stock exchanges and thereby put a better governance practice in place. The recent structural changes witnessed in many stock exchanges have brought the commercial objectives into forefront and simultaneously the relationship among the board of directors, management and other stakeholders has come under severe scrutiny.

Although the process of demutualization started in 1989 in London Stock Exchange (LSE), the first demutualization was completed in 1993 for Stockholm exchange. Till date more 44 stock exchanges, out of 52 leading stock exchanges in the world that are members of the World Federation of the Exchanges have either demutualized or are in the process of doing so. The most prominent exchanges demutualized in recent past are London, Singapore, Hong Kong etc. and NYSE is in the process. Though caught-up little late, similar exercises have also been started in India. Successive union budgets

* Dr A.P.Pati, Reader, Dept. of Commerce, NEHU, Shillong. The views expressed and the approach suggested is of the author and not necessarily of NSE.

of last two years have raised the issue of demutualization in a wider forum. SEBI has also come with a detailed report on this issue.

II. The Status of SEs in India

The present status of SEs reveals that out of all the 23 stock exchanges operating in India only two i.e. OTCEI and NSE are demutualized. Further, 3 of them (Bombay, Ahmedabad and Madhya Pradesh) are operating as Association of Persons and 7 as company limited by guarantee. Thus before any demutualization of the rest of the exchanges i.e. 21; these 10 (i.e. 3 + 7) exchanges are to be converted into companies limited by shares.

The viability of the stock exchanges as presented in Table-1 portrays a quite gloomy picture for the regional bourses. In recent years nine of them have no turnover and many of them have shown negative growth of business. NSE and BSE combinedly are commanding

more than 90 percent of the total volume of turnover, thus raising a question mark on the viability of other regional stock exchanges.

Looking at the turnover of the Indian stock exchanges the obvious question arises, whether we need such a number of regional stock exchanges (RSEs). After the advent of information technology the need of regional stock exchanges has been marginalized. In this respect SEBI has also felt that with the nationwide reach of BSE and NSE and poor performance of regional exchanges the very concept of such exchanges are to be abolished. Thus there is a need for either closer of regional SEs or consolidation by merger. The latter would be a better option in the interest of brokers and investors. There could be at best 4 regional exchanges catering to the need of East, West, North and South provinces of the country. Besides NSE, exchanges like Calcutta,

Table-1: Share of Indian Stock Exchanges in Total Turnover (1994-95 to 2001-02)

(%)

Sl.No	SEs	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	L. G. Rate*
1	NSE	5.015	33.444	48.923	47.179	46.051	48.214	53.434	57.284	76.92
2	Mumbai	39.926	20.927	18.054	20.333	27.639	28.889	30.230	34.314	44.80
3	Calcutta	31.159	25.969	15.349	17.528	15.217	15.062	10.715	3.022	9.53
4	Delhi	5.353	4.212	7.064	6.651	4.585	3.934	2.531	0.651	11.54
5	Ah'l'bad	3.330	3.673	2.983	3.017	2.634	1.584	1.631	1.657	23.34
6	UP	4.610	0.992	2.334	1.509	1.650	1.014	0.747	2.817	28.90
7	Ludh'na	1.466	2.027	0.766	0.815	0.530	0.326	0.294	0.096	-3.69
8	Pune	2.164	2.956	1.439	0.846	0.660	0.257	0.186	0.131	-11.53
9	Ban'ore	0.420	0.372	0.639	0.847	0.601	0.470	0.182	0.008	-4.79
10	Hy'bad	0.810	0.537	0.070	0.182	0.113	0.052	0.030	0.005	-24.39
11	ICSE	0.000	0.000	0.000	0.000	0.000	0.023	0.007	0.006	-
12	Cochin	0.352	0.754	0.204	0.175	0.068	0.000	0.006	0.000	-
13	OTCEI	0.215	0.091	0.032	0.012	0.013	0.151	0.004	0.000	-26.49
14	Madras	1.787	0.666	0.336	0.120	0.033	0.011	0.003	0.003	-48.15
15	MP	0.070	0.085	0.002	0.000	0.000	0.000	0.000	0.003	-33.93
16	Magdha	0.470	0.681	0.400	0.032	0.000	0.000	0.000	0.000	-
17	Va'dora	0.955	0.526	0.620	0.449	0.155	0.007	0.000	0.000	-
18	Gauhati	0.168	0.259	0.070	0.002	0.003	0.000	0.000	0.000	-
19	Bh'swar	0.084	0.094	0.034	0.020	0.007	0.003	0.000	0.000	-
20	Coim're	0.772	1.046	0.348	0.209	0.035	0.002	0.000	0.000	-
21	Jaipur	0.518	0.438	0.221	0.042	0.006	0.000	0.000	0.000	-
22	Mang're	0.037	0.016	0.054	0.030	0.001	0.000	0.000	0.000	-
23	SKSE	0.321	0.236	0.058	0.002	0.000	0.000	0.000	0.003	-
24	Total (Rs. Cr.)	169686	239236	688394	1019944	1128851	2371247	3313338	895826	40.56
25	NSE & BSE(%)	44.94	54.37	66.98	67.51	73.69	77.10	83.66	91.60	-

Source: NSE, Indian Securities Market: A Review, 2001 (for data up to 2000-01) and Indian Securities Market: A Review, 2002 (for data of 2001-02).

*L. G. Rate: Linear Growth Rate.



Bombay, Delhi and Madras could cater to the needs of these four provinces respectively. Other stock exchanges currently operating in these provinces could think of merger with these four SEs. Although there are many road blocks in this process but the recent cabinet approval on the amended SCRA laws shall come handy for the possible merger cases.

III. Forces behind the Demutualization

Demutualization as a concept is neither a very new concept nor very sophisticated. The essence lies with the separation of ownership and management. Thus it is well driven by the good intentions of proper governance, which has taken a new turn after the collapse of many large corporations in the year 2002. Although there is no exclusive definition of mutual or demutual organization, a 'mutual' organization is an enterprise owned by its members, providing a variety of service to the members for their benefit. This also implies that mutual are not for profit organizations; are restricted in their capacity to raise equity, and are characterized by diffused decision-making power. The expression demutualization means the transition from a mutual company, in which there are no shares, and every member has one vote, to a company limited by shares and one vote per share. But it is also used to describe the process by which a company limited by shares in which every member is required to have the same number of shares, converts to a more usual economic model; or simply one where the link between membership in the exchange company or ownership of a share in it, is broken. Thus the central idea with demutualization does not only rests on the basic status of the organization i.e., whether it is "for profit" or "not for profit". It is found that there are many "for profit" organizations even stock exchanges, which are not demutualized. The crux of the problem thus lies with the ownership of the exchange. Separation of ownership and membership is the fundamental ingredient of the demutualization as well as the essence of effective governance. The issues addressed here are essentially those arising from permitting non-brokers to own stake in the exchange, and brokers not to have an ownership interest of any kind or to have ownership to a limited extent.

The next question is why to demutualize the stock exchanges. The recent transformations in the global environment have added new dimensions to the trading, clearing/settlement and listing functions of SEs. Many of these functions have been come under actual or potential competitive threat. The need to meet the demand from its customers for lower transaction costs; more efficient services and new products are now become more crucial for the survival of SEs. The driving forces behind demutualization are found to be growing competition among SEs, increasing listing of global companies (MNCs) in many SEs around the world and the overall changes in market place due to the advent of new technology.

In the first place the primary function of a demutualization is to reduce the control of (particularly local) intermediaries over the strategic positioning of the exchange. This is in recognition of the fact that exchanges operating in a

competitive financial market must ultimately be able to reduce capital costs for a significant subset of companies, and raise investment returns for a significant subset of investors. For example, the growing competition among some of the European exchanges makes it difficult for members to protect their intermediation franchise, and therefore makes them more open to governance reform and outside ownership.

Secondly, the internationalization of membership also facilitated demutualization. local players (mostly brokers) have a strong incentive to maintain institutional barriers to disintermediation of their services, whereas international players tend to see governance reform as an effective weapon for increasing their strategic control of the exchange vis-à-vis the locals (typically by replacing "one member, one vote" and committee-based decision making with decision-making tied more directly to the size of the ownership stake).

Thirdly, technology has become the main force behind any structural changes of stock exchange (Williamson, 1999). Surge of new technology, which warranted a shifting from floor trading to a screen-based trading, has helped in the expansion of the population (both broking and investing) thus created a new demand for exchange governance. According to Domowitz and Steil, (1999) "trading market automation permits demutualization", meaning that the corporate structure of organization of a stock exchange is feasible when computerized trading replaces floor trading. For example in the mid -1990s the floor trading was converted to automated trading in many of the European Exchanges due to the pressure of large international banks and subsequently most of them have transformed them into demutualized format.

In Indian context, keeping in place the present structure of the SEs, which are more or less mutual entities, it is felt that the demand of the new economy would not be properly met. The broker-owned structure is to be diffused by the infusion of professionals from the industry. It is increasingly being believed that a demutualized organization can adapt more quickly; can raise more capital; can attract better administrators; can centralize control in a small, better-equipped groups; and as a result, can deliver higher profits to its owners, i.e. shareholders (NSE, 2001). With the objective of maximizing the value to the investors as well as to the members of the SEs through the investment in new technology and to meet the competitive pressures from the environment it has become imperative that the demutualization process should be hastened with a strong footing

The above paragraphs clearly indicate the growing concern among the investor community which has brought the need for demutualization to the fore front. The focus is obviously on the investor's side. The need for low-cost faster trading and better flexibility to adapt new situations has been cause of concerns for the investors. Demutualization is expected to bring the international technology, good governance and as well as the global competition. In all the

fronts investor is going to get a better bargain. The electronization of the markets and intermediaries shall enable millions of investors to trade faster, more cheaply, and with an impressive and ever expanding universe of mostly free financial information at their command. This will help expose foreign investors to listed companies at home and local investors to companies abroad. The efficiencies created by these economies of scale can then be passed on to investors and issuers alike. Simultaneously, the enhanced governance structure shall protect their rights and privileges through the rule enforcement and other investor protection services. Since investors will remain as the primary customers as in case of other corporate houses, the new structure will definitely try to put in place all the mechanism to attract more of them and also to build a strong customer relationship base.

IV. Demutualization: The sequential steps

As elaborated in the previous paragraphs, the process of demutualization in India should start with the conversion of all the stock exchanges into company form of organization, limited by shares. This is to be followed by the reorganization of regional exchanges through mergers. Most of the handicaps in this process have been removed through necessary amendments of Income-Tax provisions with respect to the transfer of past profits to the new entity (particularly when the "not for-profit" character is to be changed). Similar provisions have also been inserted in the Indian Stamp Act and Sales Tax laws to exempt from stamp duty and sales tax, the transfer of the assets from the mutual stock exchanges and the issuance of shares by the new entity. Further, the Securities Contract (Regulation) Act (SCRA) has also been amended to facilitate corporatization and demutualization. The process would result in two classes of members namely, trading members and shareholder-members. Since presently as per SCRA 'members' mean the members of a recognized stock exchange i.e. trading member only, it is apprehended that the regulation may not accommodate different categories. But with the ruling of Supreme Court that apprehension has been sidelined (NSE, 2001).

As the third step, the membership value of the brokers is to be fixed with their exit and entry price. The due of the exiting members may be settled with debt securities or with equity shares. The decision of the Govt. to allow the existing members as either trading members or as ownership members is a welcome measure. But as a cautious measure, brokers may be allowed to the equity participation process with a minimal holding as practiced in London Stock Exchange. i.e. to a maximum of 4.9 percent.

Next step is to put corporate governance in place with the restructuring of board. Listing of the demutualized entity in a separate listing authority, possibly with the up coming Central Listing Authority (CLA) should be the next step. After this the exchange can issue shares to the public to become a full fledged corporate house.

V. Governance: The Crux of Demutualization

Despite of wide discussion on corporate governance in most of the forums still it is difficult to suggest a single definition. Because there are so many varying views on what corporate governance is as a definitive product, there is no globally applicable definition of corporate governance (Barnier, 2001). The 1992 Cadbury Report simply described corporate governance as "the system by which companies are directed and controlled". It can be confined to the 'Corporate Governance Tripod', that is, the relationship between shareholders, directors and management, an increasing number of definitions refer to the fact that many other groups have an interest in the company (Van den Berghe, De Ridder, 1999). As defined, by Cochran (1988) it is "...an umbrella term that includes specific issues arising from interactions among senior management, shareholders, boards of directors, and other corporate stakeholders." The working group headed by R.H.Patil (2001) has defined it "as the system by which business entities are monitored, managed and controlled". OECD in an attempt to standardize the governance principles across the countries has chalked five areas which cover (i) the rights of shareholders; (ii) the equitable treatment of shareholders; (iii) the role of stakeholders; (iv) disclosure and transparency; (v) the responsibilities of the board. So looking at these definitions and their scope the concept of governance can be well extended to the demutualized corporate SEs.

But on this issue of governance of SEs one pertinent question arises: Shall demutualization ensure better governance in stock exchanges? Domowitz and Steil (1999) have identified several benefits of the demutualized stock exchanges and opined that the primary driver for such benefits is the favorable governance structure associated with demutualized exchanges. However, worldwide, it is found that demutualization has been adopted by exchanges more for resource generation to meet rising capital requirements and less for better governance. But the recent problems in many Indian stock exchanges have raised the issues of governance to a new high, especially to bring independence to the risk management and surveillance function. It is apt here to mention that demutualization does end neither with corporatization nor at change in board structure or with the both. What is important is the demutualization of management. One could express this as the role of management is to run the enterprise and that the role of the board is to see that it is being run well and in the right direction.

Change of mutual organization to demutualization form would require a long-term planning. The public representatives, generally not conversant with market intricacies, deal with policy issues only in a board meeting against the regular presence of the elected directors after and during trading hours. Therefore, decision-making is largely member-dependent and varies with change in office-bearers, which indicates its short-term nature. Massey (2001)



has therefore emphasized on long-term planning for the change of mutual structure to demutual exchange.

Presence of non-broker members in these organizations would perhaps crop laxity in the management. Particularly, the public representatives would not show any interest in the intricacies of stock exchange's functioning. This will breed a different group of directors in the board and gradually the latter will be dominated by the few. This will definitely affect the quality of governance and ultimately the performance.

Another conflict arises on the issue of participation of brokers in the management. Whether the traders will be allowed to hold stake in the exchange is a debatable point. Globally, the shareholders are traders, individual and institutions. But the conflict of owning the capital as well as trading for business would create governance problem. While keeping trading members in the board is a matter of time, it is pertinent to sound a word of caution that a trading member should not act as a chairman of the board. It is worthy enough to keep experienced brokers in the board to facilitate policy making at the same time it is important for other members to see that brokers control the minimum functional areas. The inclusion of outside directors on board to serve as a check and promote integrity in the decision-making could reduce this risk but the regulators may think of simultaneous imposition of statutory duties on public directors (Ramaseshan, 2002).

The literature on member's heterogeneity and governance problem do not provide any unique solution. Pirrong (2000) concludes that more heterogeneity favors a not-for-profit structure and does not favor separation of ownership from membership, thus disclaims demutualization. Whereas Hart and Moore's (1996) version of the for-profit exchange separates ownership from membership entirely favors demutualization. His model illustrated that member-owners want both low exchange costs and high exchange profits, whereas outside owners only want high profits. This very different incentive structure can have a significant impact on exchange policies. Pirrong's version of a for-profit exchange is therefore much more similar to a traditional not-for-profit mutual than a contemporary for-profit exchange with a diversified shareholder base.

One way to resolve this structure conflict is to allow the traders to hold small chunk of capital with a restriction to hold important office. This will help the Board to capitalize on the broker's experience. On the other hand, if the exchange were to be owned fully by private shareholders, the chances of slackness in regulatory action due to the fear of its impact on business and profitability would arise. So to avoid the conflict of ownership public representative should be the chairman of the board, as is the global practice, with some representation from traders (barring important offices). Public representatives should be appointed for a longer term and they should get proper

exposure to the intricacies of the functioning of SEs through familiarization programmes.

Governance problem can also arise due to the conflict on the issues of self listing and self regulation. While listing of a demutualized exchange either can be done in itself or in other exchanges, the problem of governance particularly lies with the former. Stock Exchanges as self-regulatory organizations has to carry out functions like i) listed company governance and disclosure; ii) surveillance and discipline of their markets and specialists, floor brokers and market makers; iii) member firm financial and operational compliance; and iv) fair and equitable treatment of customers (Karmel, 2000). As these functions need to be carried out effectively in any securities market, it is important to consider carefully whether demutualization implies that an exchange will be less motivated or less able to manage them.

Conflicts arise because the members are being asked to: a) set rules in the public interest that may negatively affect their own commercial interests; and b) monitor and enforce these rules against each other. The offsetting benefit to these conflicts lies in the expectation that self-regulation produces better rules as industry participants have the most expertise in and knowledge of their industry. The members are also more likely to follow rules that they have participated in developing. In a member-owned exchange, the members share the financial and reputational risks of a failure to regulate appropriately. Finally, the bulk of the cost of regulation is likely to be borne by the regulated industry (Cameron, 2002).

ISOCO (2001) in its issue paper, has suggested several alternatives to resolve these conflicts, like functional separation of the commercial activities of the exchange from its regulatory functions by establishing a separate legal entity or transfer of some or all regulatory responsibilities to the exchange's regulator or another body. However, questions are raised on the regulator's jurisdiction over the entity assuming the tasks; the need to assess the resources, experience and reputation of that entity; the continuing degree of responsibility that the exchange may have for its contractor; how to structure the oversight activities of the regulator; and other issues where the contractor is now performing these functions (Cameron, 2002). Thus striking a perfect balance between the commercial and these regulatory roles shall determine the future success of the demutualized stock exchanges.

VI. Epilogue

The globalization of markets, the integration of cash and derivatives segments of SEs, the growing intensity of competition, the presence of MNCs, the continuing pressure on costs and the accelerating pace of change will require that the mutual exchange to get them transformed to demutualized format. The process will definitely bring good and effective governance,

greater speed and flexibility in decision-making, reduction in ownership and management conflict and ultimately offer the real value to the members. This will further bring greater access to capital; flexibility in future negotiations relating to alliances, mergers and similar transactions; ability to encourage management appropriately; and market discipline on management. Simultaneously, this would also expose some pertinent issues to the forefront, but with the proper regulatory framework from SEBI and GoI, this could bring the desired result i.e. generation of additional resources for exchanges along with independent and professional corporate governance. It will be successful only when the shareholders shall be responsible to all the stakeholders as well as adapt to the changing dimensions of the domestic and international scenario. Since many of the exchanges around the globe have transformed them to demutualization framework with a view to effectively respond competition, it is likely that the new set up will not insulate them from the same. Facing the challenge of the new world order shall depend on the effective governance structure of the demutualized exchange. While the functioning of Central Listing Authority (CLA) in line with Financial Services Authority (FSA) of UK, shall solve some of the regulatory problems, the Indian regulators should think of implementing all the governance practices in these demutualized entities at par with other corporate bodies. Even the newly enacted Sarbanes-Oxley Act, 2002, U.S.A. which has made its inroad in to the Indian corporate houses with more or less similar recommendations of Naresh Chandra Committee, 2002 should also be applied to these exchanges.

Demutualization, although alone does not provide solutions to all the existing problems, the new management structure with proper representation from the professionals with minimum control of the brokers on management shall pave the way for better governance practices. Earning sufficient return for the shareholders in an exchange and at the same time rendering quality and unbiased service to the listed companies will be the two crucial indicators of the efficient governance and to address these twin issues the demutualized management mechanism shall definitely prove handy and also provide the necessary cushion to absorb the risk of the changing new environment. While governance remains as the core problem of the whole exercise, its effectiveness in handling the contentious issues along with the protection of the investor's interest and delivering value for their money shall be the deciding factors for the success of demutualization.

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GOVERNMENT NEWS

Amendment in the Securities Contracts (Regulation) Act, 1957

Pursuant to the recommendations of SEBI Committee under the chairmanship of Shri K. R. Ramamoorthy, Advisor, CRISIL, amendments have been made in the Securities Contracts (Regulation) Rules, 1957. These rules shall be called the Securities Contracts (Regulation) Amendment Rules, 2003. It allows securities brokers to participate in the commodity derivatives market only, though states that no member may conduct business in commodity derivatives, except by setting up a separate company which shall comply with the regulatory requirements, such as net worth, capital adequacy, margins and exposure norms as maybe specified by the Forward Market Commission from time to time.

Source: GOI Gazette Notification Ref. No. G.S.R. 696 (E) Dated October 5, 2003.

SEBI NEWS

I. Amendment to SEBI (Depositories and Participants) (Second Amendment) Regulations 2003

The SEBI Board amended the SEBI (Depositories and Participants) Regulations 1996. The amended regulations shall be called the SEBI (Depositories and Participants) (Second Amendment) Regulations, 2003. The amended regulations shall include the following new clauses:

*"53A- Manner of handling share registry work-*All matters relating to transfer of securities, maintenance of records of holders of securities, handling of physical securities and establishing connectivity with the depositories shall be handled and maintained at a single point i.e. either in-house by the issuer or by a Share Transfer Agent registered with the Board.

53B- Redressal of investor grievances - Every issuer or its agent or any person who is registered as an intermediary under this Act, shall redress the grievances of beneficial owners within thirty days of the date of receipt of the complaint and keep the depository informed about the number and nature of grievances redressed by it and the number of grievances pending before it."

In regulation 54, sub-regulation (4) and (5) shall be substituted by the following sub-regulation, namely-

*"54(4)-*The participant shall, within seven days of the receipt of certificate of security referred to in sub-

regulation (1) furnish to the issuer details specified in sub-regulation (2) along with the certificate of security."

*"54 (5)-*Within 15 days of receipt of the certificate of security from the participant the issuer shall confirm to the depository that securities comprised in the said certificate have been listed on the stock exchange or exchanges where the earlier issued securities are listed and shall also after due verification immediately mutilate and cancel the certificate of security and substitute in its record the name of the depository as the registered owner and shall send a certificate to this effect to the depository and to every stock exchange where the security is listed. Provided that in case of unlisted companies the condition of listing on all the stock exchanges where earlier issued shares are listed shall not be applicable."

After regulation 55, the following new regulation shall be inserted, namely -

"55A. Audit-(1) Every issuer shall submit audit report on a quarterly basis, starting from September 30, 2003, to the concerned stock exchanges audited by a qualified Chartered Accountant or a practicing Company Secretary, for the purpose of reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, the details of changes in share capital during the quarter and the in-principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital.

(2) The audit report under sub-regulation (1) shall also give the updated status of the register of members of the issuer and confirm that securities have been dematerialized as per requests within 21 days from the date of receipt of requests by the issuer and where the dematerialization has not been effected within the said stipulated period, the report shall disclose the reasons for such delay.

(3) The issuer shall immediately bring to the notice of the depositories and the stock exchanges, any difference observed in its issued, listed, and the capital held by depositories in dematerialised form."

Source: SEBI Notification Ref. No. F. No. SEBI/LE/16451/2003 Dated October 6, 2003

II. Amendment to SEBI (Foreign Institutional Investors) (Second Amendment) Regulations 2003

The SEBI Board amended the SEBI (Foreign Institutional Investors) Regulations 1995. The amended

regulations shall be called the SEBI (Depositories and Participants) (Second Amendment) Regulations, 2003. . The amended regulations shall include the following new clauses:

"20A- Foreign Institutional Investors (FIIs) shall fully disclose information concerning the terms of and parties to off-shore derivative instruments such as Participatory Notes, Equity Linked Notes or any other such instruments, by whatever names they are called, entered into by it or its sub-accounts or affiliates relating to any securities listed or proposed to be listed in any stock exchange in India, as and when and in such form as the Board may require."

In regulation 7, a sub regulation 7A shall be inserted, namely

"7A- A FII holding a certificate shall, at all times, abide by the Code of Conduct as specified in Third Schedule".

The Code of Conduct as specified in the third Schedule shall include the following:

1. A FII and its key personnel shall observe high standards of integrity, fairness and professionalism in all dealings in the Indian securities market with intermediaries, regulatory and other government authorities.
2. A FII shall, at all times, render high standards of service, exercise due diligence and independent professional judgment.
3. A FII shall ensure and maintain confidentiality in respect of trades done on its own behalf and/or on behalf of its sub-accounts/clients.
4. A FII shall ensure (a) clear segregation of its own money/securities and sub-accounts' money/securities (b) arms length relationship between its business of fund management/investment and its other business.
5. A FII shall maintain an appropriate level of knowledge and competency and abide by the provisions of the Act, regulations made thereunder and the circulars and guidelines, which may be applicable and relevant to the activities carried on by it. Every FII shall also comply with award of the Ombudsman and decision of the Board under Securities and Exchange Board of India (Ombudsman) Regulations, 2003.
6. A FII shall not make any untrue statement or suppress any material fact in any documents, reports

or information furnished to the Board.

7. A FII shall ensure that good corporate policies and corporate governance are observed by it.
8. A FII shall ensure that it does not engage in fraudulent and manipulative transactions in the securities listed in any stock exchange in India.
9. A FII or any of its directors or manager shall not, either through its/his own account or through any associate or family members, relatives or friends indulge in any insider trading.
10. A FII shall not be a party to or instrumental for (a) creation of false market in securities listed or proposed to be listed in any stock exchange in India; (b) price rigging or manipulation of prices of securities listed or proposed to be listed in any stock exchange in India; (c) passing of price sensitive information to any person or intermediary in the securities market."

Source: SEBI Notification Ref. No. F. No. SEBI/LAD/DOP/16098/2003 Dated October 6, 2003.

III. Investment Limits for Government Guaranteed Debt Securities

Clause 1 and 1A of Schedule VII of SEBI (Mutual Fund) Regulations, 1996 contain prudential investment norms stipulating limits on investments in debt securities issued by a single issuer. It has been clarified that the aforesaid investment limits are applicable to all debt securities which are issued by public bodies/institutions such as electricity boards, municipal corporations, state transport corporations etc guaranteed by either state or central government. However, Government securities issued by central/state government or on its behalf by the RBI are exempt from the above referred investment limits.

Source: SEBI Circular Ref. No. SEBI/MFD/Cir No. 8/18944/03 Dated October 6, 2003.

IV. SEBI (Central Database of Market Participants) Regulations, 2003

Pursuant to the feedback received on the discussion paper on 'Development of Central Database for Market Participants and Investors (MAPIN)', SEBI framed the SEBI (Central Database of Market Participants) Regulations, 2003. The main features of this regulation are:

- a. Every investor, listed company, company intending to get its securities listed, intermediary and other entity shall make application for allotment of unique



identification numbers for itself and for its related persons in accordance with these regulations.

- b. Every application made by a specified intermediary or any other entity shall be in a specified form. Upon the receipt of an application for allotment of unique identification number under the regulation, the designated service provider shall allot to the applicant a unique identification number. In case of detection of any defect, the designated service provider shall give the applicant an opportunity to rectify the defect within a period of fifteen days from the date of such intimation or within such further period which the Board may allow on a request made in this behalf.

Where any defect in the application is intimated and the defect is not rectified by the applicant within the said 15 days or as approved by the Board, the designated service provider shall refer the application to the SEBI board for its decision thereon.

- c. Where it is found that the unique identification number was obtained by a person through fraud or misrepresentation or was allotted to him under a mistake, the Board may without prejudice to other action that it may take under law for the time being in force and after giving him an opportunity of making representations, revoke the unique identification number allotted to him or to the related persons. Upon revocation of the unique identification number of a person, the provisions of these regulations shall apply from the date of revocation, as if no unique identification number was allotted to him.
- d. Any person who issues any security or buys, sells or deals in any securities in contravention of these regulations shall be liable for (i) suspension or delisting of securities market, (ii) being debarred from accessing the securities market, (iii) being debarred from dealing in securities, (iv) being debarred from acting in any capacity in any security market related institution and (v) such other action as may be deemed appropriate by the Board in the facts and circumstances of the case

Source: SEBI Gazette Notification Dated October 15, 2003.

V. SEBI Signs MOU on Mutual Cooperation with Monetary Authority of Singapore

SEBI signed a Memorandum of Understanding (MOU) with the Monetary Authority of Singapore (MAS) on October 13, 2003. The MOU was signed by Mr. G N

Bajpai, Chairman, SEBI and Mr Koh Yong Guan, Managing Director, MAS, in Singapore. The MOU aims to strengthen communication channels and establish a framework for assistance and mutual cooperation between the two organizations. This marks the beginning of greater collaboration between India and Singapore to effectively regulate and develop securities and futures markets, in view of greater cross-border trade and cross-market linkages brought about by the globalisation of financial markets. As an active member of IOSCO, SEBI is committed to ensure fair and orderly development of the securities markets and co-operation with other global regulators.

Source: SEBI Press Release Dated October 14, 2003.

VI. Trading by FIIs and NRIs in Exchange Traded Derivative Contracts

Based on the recommendation of the Advisory Committee on Derivatives, SEBI had modified the Trading Member position limits in stock option and single stock futures contracts. Since the FII position limits are linked to Trading Member limits, the matter was referred to the High Level Co-ordination Committee (HLCC) and RBI was requested to issue directions effecting the necessary modification in the FII position limits as well. SEBI had also requested RBI to permit Non Resident Indians (NRI) to invest in SEBI approved exchange traded derivative contracts.

RBI vide its circular dated September 1, 2003 has specified that FIIs & NRIs may trade in all exchange traded derivative contracts approved by SEBI from time to time subject to the limits prescribed by SEBI. Accordingly the position limits for FIIs and NRIs stand as below:

Position Limits

The FII position limits in a derivative contract on a particular underlying stock i.e. stock option contracts and single stock futures contracts, specified in SEBI Circular SMD/DC/Cir-11/02 dated February 12, 2002 stand modified in the following manner :-

- For stocks in which the market wide position limit is less than or equal to Rs. 250 crore, the FII position limit in such stock shall be 20% of the market wide limit.
- For stocks in which the market wide position limit is greater than Rs. 250 crore, the FII position limit in such stock shall be Rs. 50 crore.

The FII position limits in Index based derivative contracts and the sub-account position limits shall remain unchanged. The modified FII position limits is w.e.f October 31, 2003.

The position limits for NRIs shall be the same as the client level position limits specified by SEBI. Therefore, the NRI position limits shall;

- For index based contracts, a disclosure requirement for any person or persons acting in concert who together own 15% or more of the open interest of all derivative contracts on a particular underlying index.
- For stock option and single stock futures contracts, the gross open position across all derivative contracts on a particular underlying stock of a NRI shall not exceed the higher of (a) 1% of the free float market capitalisation (in terms of number of shares) OR (b) 5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts).

This position limits would be applicable on the combined position in all derivative contracts on an underlying stock at an exchange.

Monitoring Of Position Limits

The Exchange shall monitor the FII position limits and the NRI position limits. The NRI would be required to notify the names of the Clearing Member/s through whom it would clear its derivative trades to the Exchange. The Exchange would then assign a unique client code to the NRI. The Exchange shall monitor the NRI position limits in the manner similar to that specified for FIIs and sub-account in SEBI SMD/DC/Cir-11/02 dated February 12, 2002.

Source: SEBI Circular Ref. No. SEBI/DNPD/Cir-17/2003/10/29 Dated October 29, 2003.

NSE NEWS

I. Record Turnover

NSE recorded an all time high trading volume in the derivatives segment of Rs. 128,463 million on October 30, 2003. Index futures recorded a trading volume of Rs. 26,804 million; index options of Rs. 2,595 million, options on individual securities recorded a trading volume of Rs. 13,853 million and futures on individual securities of Rs. 85,212 million.

MARKET REVIEW

The summary statistics of different market segments of NSE for the month of October 2003 is presented in Table 1. All three segments in NSE, taken together reported a trading value of Rs. 4,893,639 million during the month. It registered an increase of 18.2% as compared to the previous month. The market capitalisation of the securities available for trading at the end of October 2003 stood at Rs. 21,064,187 million.

Table 1: Dimensions of Market of NSE

Market Segments	At the end of Oct. 03			Trading Value (Rs. in mn.)	
	No. of Members	No. of Securities/ Contracts	Market Capitalisation (Rs. mn.)	Sept. 03	Oct. 03
CM	860	776 ^a	9,267,479	1,033,455	1,155,953
WDM	76	2,262	11,796,708	1,251,987	1,434,039
F&O	578	4,657 ^b	-	1,851,509	2,303,647
Total	871^d	7,695	21,064,187	4,136,951	4,893,639

(a) Excludes suspended securities.

(b) 3 index futures, 3 CNX IT futures, 126 index options, 159 stock futures, 164 CNX IT options, 4,184 stock option and 18 interest rate futures contracts.

(c) includes notional turnover [(strike price + premium) × quantity] in index options and stock options.

(d) do not add up to total because of multiple membership.

Membership

The current membership strength of the Exchange is 871 and 89% of the same are corporate members. The composition of members at the end of the month is presented in Table 2. There are 14 registered professional clearing members at the end of October 2003.

Table 2: Distribution of Membership as on October 31, 2003

Constitution	CM Segment	WDM Segment	CM & WDM Segments	CM, WDM & F&O Segments	CM & F&O Segments	Total
Corporates	219	11	*24	41	477	772
Individuals	19	0	0	0	29	48
Firms	20	0	0	0	31	51
Total	258	11	24	41	537	871



Capital Market

Trading

The Capital Market (CM) segment of the Exchange reported a trading value of Rs. 1,155,953 million with about 36 million transactions during the current month. The trading volume in October 2003 witnessed a rise of 11.85% over the previous month. The average daily trading value for the month was Rs.50,259 million as compared to Rs.46,975 million during the preceding month. On an average, nearly 1.6 million trades were transacted daily and the average transaction size was Rs. 32,315. The demat trading value accounted nearly 100% of the total trading value. Figure 1 presents the daily movement in turnover in terms of value and quantity during the month. The business growth of CM segment is presented in Figure 2 and Annexure I. The details of daily trades are given in Annexure II.

Figure 1:

Trading Value & Quantity : November 2003

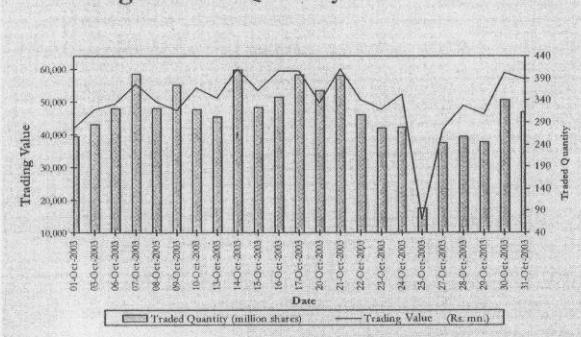
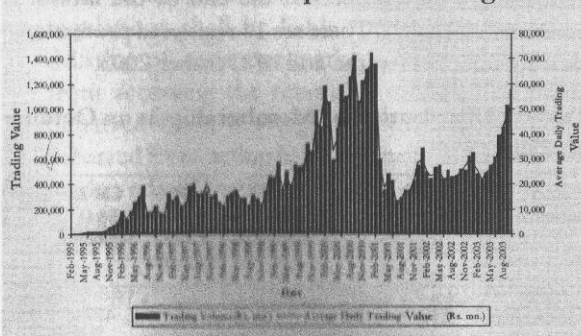


Figure 2:

Business Growth of Capital Market Segment



High Volume Securities

The '5' most traded securities during the month accounted for 33% of the total trading volume (Table 3). The shares of top '10' and '100' securities in

total trading volume during the month were 49% and 94% respectively. The details of top '10' securities in terms of turnover for the month of October 2003 are presented in Annexure III.

Table 3: Contribution of Top 'N' Securities

Top 'N' Securities	(In per cent)		
	2002-03	September 2003	October 2003
5	41	33	33
10	55	48	49
25	78	66	69
50	89	80	83
100	95	93	94

High Volume Members

The share of top 'N' trading members in total turnover is presented in Table 4. The share of top '5' and top '10' members in turnover was 12% and 18% respectively, while top '100' trading members accounted for 62% of total turnover during the current month.

Table 4: Share of the Top 'N' Trading Members

Top 'N' Members	(In per cent)		
	2002-03	September 2003	October 2003
5	10	12	12
10	16	17	18
25	29	30	31
50	42	43	44
100	59	61	62

Advance/Decline Ratio

The month's advance/decline ratio representing the market climate is presented in Annexure IV. On average 321 securities advanced and 344 securities declined in the month. The largest advances took place on October 25, 2003, where 527 stocks surged in value. The advance decline ratio was 0.93 as compared to 0.84 in the previous month.

City-wise Turnover

During the month, Mumbai contributed 44.14% to the total turnover of the exchange while the contributions from Delhi and Kolkata were 16.31% and 13.24% respectively. The city-wise contribution to the turnover is presented in Annexure V.

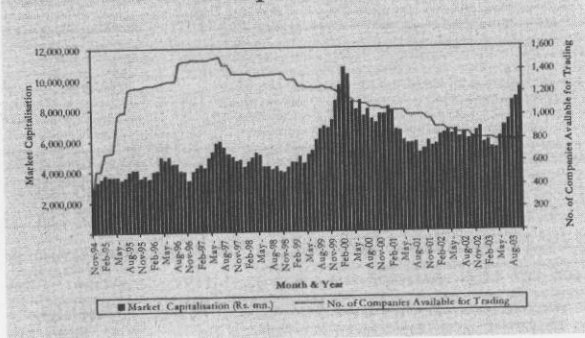
Market Capitalisation

At the end of the month, 776 companies, 750 listed and 26 permitted were available for trading in the CM segment of the Exchange. The list of securities admitted for trading on the CM segment and the list of securities suspended from trading during the month are presented in Annexure VI (a) and VI (b) respectively.

The market capitalization of securities available for trading in the CM segment reported a growth of 7.3% from Rs. 8,634,805 million in September 2003 to Rs. 9,267,479 million in October 2003. The S&P CNX Nifty and CNX Junior Nifty securities accounted for 56.61% and 11.13% of total market capitalisation respectively. The growth of market capitalisation as well as number of companies available for trading in CM segment is presented in Figure 3.

Figure 3:

Growth of Market Capitalisation on CM Segment



Debentures

During the month 1,638 trades involving 1.61 million debentures for Rs. 140.53 million were transacted in the CM segment of the Exchange as against 1,507 trades involving 8.33 million debentures for Rs. 389.09 million in the preceding month. The details of trades in debentures traded in the CM Segment are presented in Table 5.

Table 5: Debenture Traded in the CM Segment

Year	No. of Trades	Traded Quantity (mn.)	Trading Value (Rs. mn.)
1995-96	17,227	4.5	392.2
1997-98	52,278	16.1	1,075.5
1998-99	47,158	10.4	857.1
1999-00	28,240	13.6	1,036.7
2000-01	4,152	0.2	119.5
2001-02	9,266	5.4	588.1
2002-03	2,439	0.41	683.9
Apr-Oct 03	6,784	29.38	1182.8

Indices

S&P CNX Nifty

The market benchmark index S&P CNX Nifty closed at 1555.90 on October 31, 2003, registering an increase of 138.80 points (9.79%) during the month as compared to 1417.10 on September 30, 2003. It recorded a high of 1574.10 on October 17, 2003 and a low of 1407.95 on October 01, 2003. The market capitalisation of S&P CNX Nifty securities increased from Rs. 4,777,235 million as on September 30, 2003 to Rs. 5,247,050 million as on October 31, 2003, registering a rise of Rs 469,820 million (9.83%). The daily movement of S&P CNX Nifty is presented in Annexure VII and in Figure 4. The distribution of industry-wise weight age for S&P CNX Nifty is presented in Table 6.

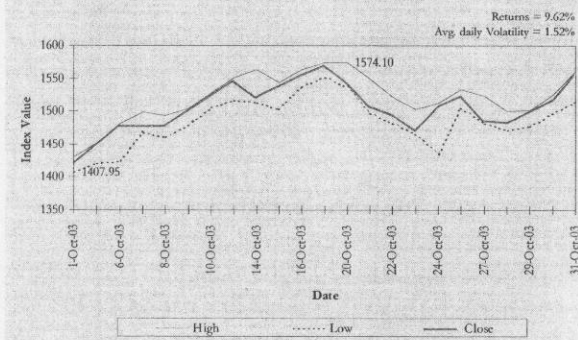
Table 6: S&P CNX Nifty Industry-wise Weightage as on October 31, 2003

Sl. No.	Industry	Weightages (%)	Returns (%)
1	Aluminium	3.62	17.87
2	Automobiles - 2 & 3 Wheelers	3.11	15.40
3	Automobiles - 4 Wheelers	3.04	27.25
4	Banks	10.39	13.72
5	Cement and Cement Products	2.93	17.99
6	Cigarettes	4.09	8.22
7	Computers - Software	15.47	9.11
8	Diversified	9.67	2.78
9	Electrical Equipment	2.68	18.39
10	Finance - Housing	2.43	4.27
11	Food & Food Processing	0.53	(5.41)
12	Gas	2.62	10.14
13	Hotels	0.30	34.08
14	Media & Entertainment	1.08	11.10
15	Personal Care	0.71	1.50
16	Petrochemicals	13.84	9.56
17	Pharmaceuticals	8.33	9.70
18	Power	2.15	27.01
19	Refineries	4.09	(7.86)
20	Shipping	0.64	11.27
21	Steel and Steel Products	6.04	28.29
22	Tea and Coffee	0.28	7.82
23	Telecommunication - Services	1.96	(6.54)
	Total	100.00	9.79



Figure 4:

Movement of S&P CNX Nifty: October 2003



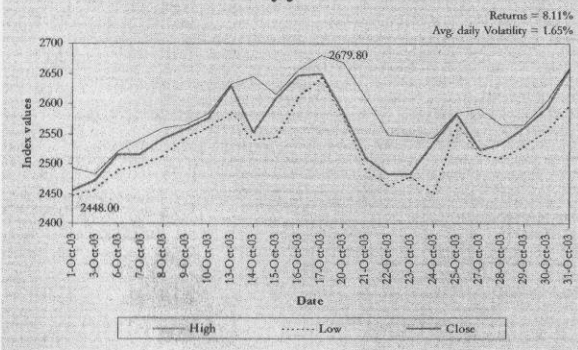
During the month 725 trades involving 0.11 million Nifty BeES, the Exchange Traded Fund (ETF), valued at Rs. 16.30 million were transacted.

CNX Nifty Junior

The CNX Nifty Junior Index closed at 2656.15 on October 31, 2003 registering a rise of 199.56 points (8.12%) as compared to 2456.95 on September 30, 2003. During the month, the CNX Nifty Junior reported a high of 2679.80 on October 17, 2003 and a low of 2448.00 as on October 01, 2003. The market capitalisation of CNX Nifty Junior index increased to Rs. 1,031,434 million on October 31, 2003 from Rs. 954,029 million on September 30, 2003, i.e., an increase of Rs. 77,400 million (8.11%). The daily movement of CNX Nifty Junior is presented in Annexure VII and in Figure 5.

Figure 5:

Movement of CNX Nifty Junior Index: October 2003



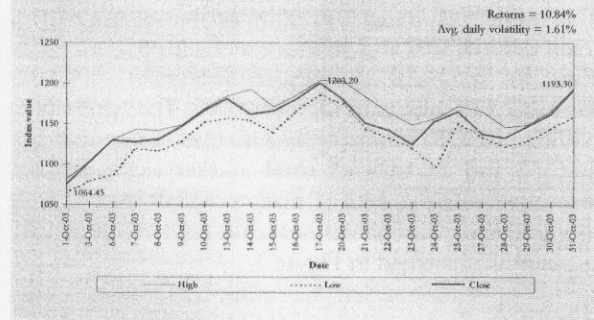
S&P CNX Defty

The S&P CNX Defty, the dollar representative of S&P CNX Nifty, closed at 1190.40 on October 31, 2003 registering an increase of 119 points over its previous month's close of 1071.40. During the month under

review, Defty reached a high of 1203.20 on October 17, 2003 and touched the low of 1064.45 on October 01, 2003. The daily movement of Defty is presented in Annexure VII and in Figure 6.

Figure 6:

Movement of S&P CNX Defty: October 2003



The details of individual securities in S&P CNX Nifty and CNX Nifty Junior are presented in Annexure VIII and IX respectively.

Other Indices

An analysis of the monthly, quarterly, half yearly and yearly performance of the indices as of end-October 2003 (Table 7) reveals that the indices over all had a good performance. Investment made of any tenure in any of the indices yielded positive returns. The investments made in S&P CNX Nifty securities a month back gave a return of 9.79% whereas that of one year period gave returns to the tune of 63.54%. The best performer overall was S&P CNX Bank Index giving returns of 122.53% in the longer period of one year and CNX Nifty Junior was 98.26% in 6 month period

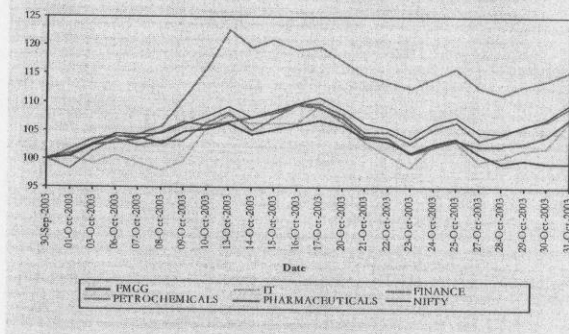
Table 7: Performance of Various Indices as at end October 2003

(In percent)

Indices	1 month	3 months	6 months	1 year
S&P CNX Nifty	9.79	31.21	66.58	63.54
S&P CNX 500	7.00	29.81	74.74	76.07
S&P CNX Defty	11.11	33.62	74.23	74.74
CNX Nifty junior	8.11	32.00*	98.26	111.59
CNX Midcap 200	8.93	29.12	86.54	100.39
CNX IT	7.13	35.64	63.43	18.14
S&P CNX Bank	13.09	25.00	75.59	122.53

A comparison of the five different sectoral indices viz., S&P CNX Petrochemicals Index, S&P CNX Finance Index, S&P CNX FMCG Index, S&P CNX Pharmaceuticals Index and S&P CNX IT Index, with that of S&P CNX Nifty Index during the month of October 2003 is presented in Figure 7. The CNX Finance index was the best performer of the month, out performing the Nifty with considerable margin. Other indices were as compared to Nifty bad performers. S&P CNX Petrochemicals mirrored the image of Nifty throughout the month.

Figure 7:
Performance of the Select Indices: October 2003



Overseas Indices

A correlation analysis for the major overseas stock market indices was carried out for the month of October 2003. Table 8 presents the returns and the volatility of these indices and Table 9 presents the respective correlation.

Table 8: Returns and Volatility of Select Indices during October 2003

(In percent)

Indices	Monthly Returns	Volatility of Returns*
DJIA	5.67	0.72
HANG SENG	8.55	1.36
FTSE 100	4.80	0.82
NIKKEI	3.33	1.72
NASDAQ Composite	8.13	1.22
S&P CNX NIFTY	9.79	1.52

* Volatility is the standard deviation of daily returns for October 2003.

Table 9: Correlation between Select Indices during October 2003

Indices	DJIA	HANG SENG	FTSE 100	NIKKEI	NASDAQ Composite	S&P CNX Nifty
DJIA	1	0.40	0.67	0.36	0.89	0.04
HANG SENG		1	0.59	0.60	0.51	0.24
FTSE 100			1	0.39	0.63	0.31
NIKKEI				1	0.45	0.71
NASDAQ Composite					1	-0.02
S&P CNX NIFTY						1

Settlement

During October 2003, in terms of quantity of securities traded, 22.3% of securities were settled by net delivery and in terms of value, the net delivery worked out to 19.7% of turnover. However, these deliveries include only the net deliveries made by the trading members to the clearing corporations. The gross deliveries made by all clients would be much higher. The segment witnessed substantial reduction in the share of short and bad deliveries. Short deliveries averaged around 0.49% during the month. The percentage of unrectified bad delivery to delivery has also been negligible because of full demat settlements. The details of settlement of trades on NSE are presented in Annexure X.

The corpus of the **Settlement Guarantee Fund** of the Capital Market Segment at the end of October 2003 was Rs. 19.60 billion.

Futures & Options (F&O) Market

Trading

The total trading value in the F&O segment amounted to Rs. 2,303,647 million in the month of October 2003 as against Rs. 1,851,509 million in September 2003. The segment witnessed a rise of 24.43% in the current month over the previous month's trading volume. The average daily trading value during the month was Rs. 100,159 million.



Index futures recorded a total trading value of Rs. 564,351 million and the near month index futures contract recorded the highest trading value of Rs. 508,629 million during the month. The movement of Nifty as compared to Nifty futures in the month of October 2003 is presented in Figure 8.

The stock futures recorded a total trading value of Rs. 1,463,772 million during October 2003. The near month contract expiring on October 30, 2003 recorded the highest trading value of Rs. 1,296,346 million. The stock futures are most popular among various derivative products, accounting for 64% of total turnover in the segment.

Interest rate futures were not traded for any contract in the month of October 2003.

The index options recorded a total notional trading value of Rs. 45,742 million during the month with the near month option contract recording the highest notional trading value of Rs. 24,738 million for call options and Rs. 16,941 million for put options.

The total trading value of stock options during the month was Rs. 229,782 million. The option expiring on October 30, 2003 recorded the highest notional trading value of Rs. 168,456 million for call options and Rs. 41,916 million for put options.

The trade details of the F&O segment for the month are presented in Table 10. It is evident that near month contracts are more popular than not-so-near month contracts; futures are more popular than options; contracts on securities are more popular than those on indices; and call options are more popular than put options. The business growth of F&O market segment is presented in Annexure XI and Figure 9 respectively. Figure 10a shows the derivatives sub-segment business growth for the period April 2001-October 2003. The distribution of F&O volume is presented in Figure 10b.

The F&O Segment provides a nation-wide market. Mumbai accounted for 41% of total turnover during October 2003. The city-wise distribution of turnover is presented in Table 11a.

Table 10: Trade Details of F&O Market for October 31, 2003

Product	Contract expiring on	No. of Contracts Traded	Trading Value (Rs. mn.)*	Open Interest (No. of contracts as at end of month)		
Index Futures	30-Oct-2003	1,683,355	508,629	10,835**		
	27-Nov-2003	181,831	55,347	26,711		
	24-Dec-2003	1,211	371	241		
	29-Jan-2004	10	3	8		
Stock Futures	30-Oct-2003	3,064,615	1,296,346	32,534**		
	27-Nov-2003	404,712	167,315	124,544		
	24-Dec-2003	236	111	89		
	29-Jan-2004	0	0	0		
Interest Rate Future	30-Oct-2003	0	0	0		
	27-Nov-2003	0	0	0		
	24-Dec-2003	0	0	0		
	29-Jan-2004	0	0	0		
	25-Mar-2004	0	0	0		
	24-Jun-2004	0	0	0		
Index Options	Call	30-Oct-2003	80,651	24,738	14,058**	
		27-Nov-2003	9,133	2,873	4,407	
		24-Dec-2003	10	3	3	
		29-Jan-2004	0	0	0	
	Put	30-Oct-2003	56,464	16,941	12,024**	
		27-Nov-2003	3,866	1,188	2,102	
		24-Dec-2003	0	0	0	
		29-Jan-2004	0	0	0	
	Stock Options	Call	30-Oct-2003	369,268	168,456	47,343**
			27-Nov-2003	36,429	17,121	18,264
24-Dec-2003			9	3	5	
29-Jan-2004			0	0	0	
Put		30-Oct-2003	92,226	41,916	18,206**	
		27-Nov-2003	5,179	2,286	3,296	
		24-Dec-2003	0*	0	0	
		29-Jan-2004	0	0	0	

* Notional trading volume [(Strike Price + Premium) × Quantity] in case of index options and stock options.

** As on expiry day.

Table 11a: City-wise Distribution of Turnover in F&O Segment

Sl. No.	Location	Share in Turnover (%)		
		2002-03	Sept. 03	Oct. 03
1	Mumbai	41.20	40.19	40.97
2	Delhi/Ghaziabad	20.31	22.28	21.74
3	Kolkata/Howrah	15.16	13.73	13.30
4	Chandigarh/Mohali/Panchkula	2.00	2.60	2.94
5	Chennai	2.24	2.20	2.29
6	Ahmedabad	2.11	2.53	2.28
7	Jaipur	1.89	2.15	1.72
8	Bangalore	1.19	1.15	1.32
9	Others	13.90	13.17	13.44
Total		100.00	100.00	100.00

Member Trading Pattern

An analysis of the members trading across the derivatives products in the month of October 2003 indicates that the majority of members have a monthly traded value of more than Rs. 100 million with 207 members contributing more than Rs. 5,000 million. Table 11b shows the turnover wise member breakup.

Table 11b: Member Trading Pattern in the Derivatives Segment

Month	No. of Members	
	Sept. 03	Oct. 03
Upto Rs. 100 mn.	29	25
Rs. 100 mn. Up to Rs. 500 mn.	76	70
Rs. 500 mn. Up to Rs. 2,500 mn.	154	146
Rs. 2,500 mn. Up to Rs. 5,000 mn.	83	78
More than Rs. 5,000 mn.	174	207

Settlement

All derivative contracts are currently cash settled. During October 2003, such cash settlement amounted to Rs. 13,616.15 million. The details of settlement are presented in Annexure XII. The settlement of futures and of options involved Rs. 12021.6 million and Rs. 1,594.6 million respectively.

The **Settlement Guarantee Fund** of the F&O Segment had a balance of Rs. 33,586 million at the end of October 2003.

Figure 8:

Movement of Nifty vs. Nifty Futures: October 2003

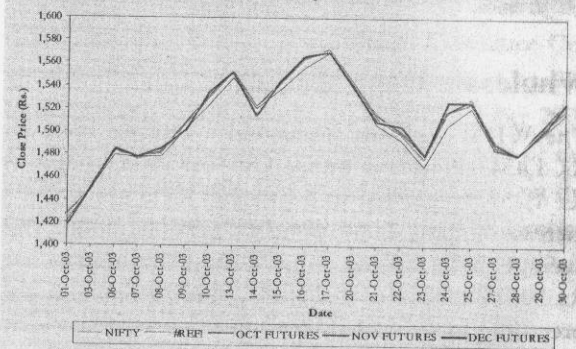


Figure 9:

Business Growth of F&O Segment

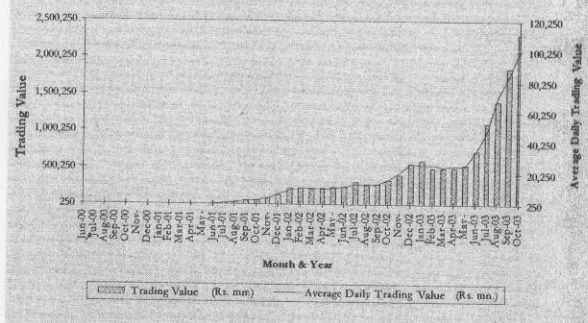


Figure 10a:

Derivatives Sub-Segment Business Growth (Dec 01- Oct-03)

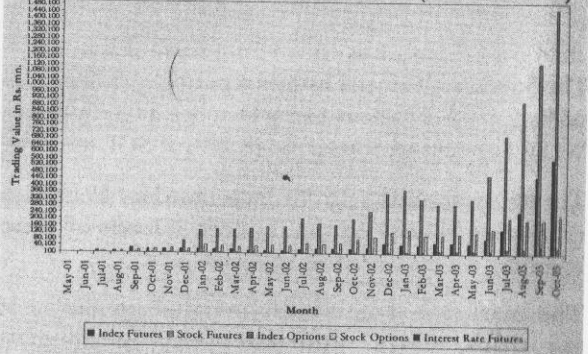
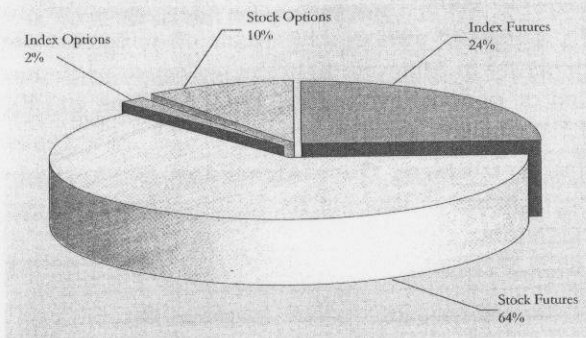


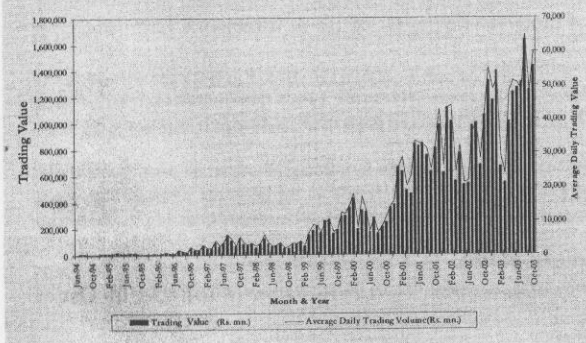
Figure 10b:
Distribution of F&O Trading Value: October 2003



Wholesale Debt Market

The WDM segment witnessed a trading value of Rs. 1,434,039 million during October 2003, as against Rs. 1,251,987 million in September 2003, recording an increase of about 14.54% over the previous month. The average daily trading value during the month was Rs. 59,752 million as against Rs. 48,153 million in the preceding month. Daily trading value ranged widely between Rs. 107,282 million on October 09, 2003 and Rs. 22,922 million on October 27, 2003. The business growth of WDM segment since inception is presented in Figure 11 and Annexure XIII.

Figure 11:
Business Growth of WDM Segment



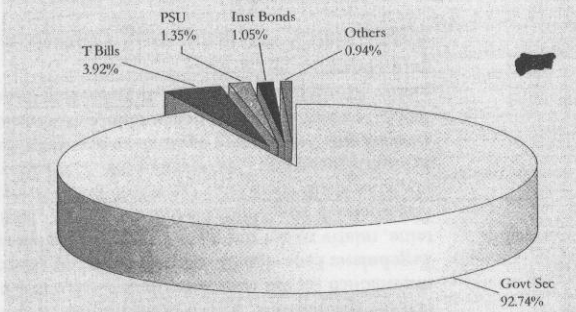
The Subsidiary General Ledger reported a trading value of Rs. 2,838,071 million during October 2003. Trades on WDM Segment accounted for 48.84% of SGL turnover.

The ten most active securities accounted for 59.58% of the trading volume on the segment. Details of these securities are presented in Annexure XIV.

The market is dominated by dated government securities, which reported a trading value of

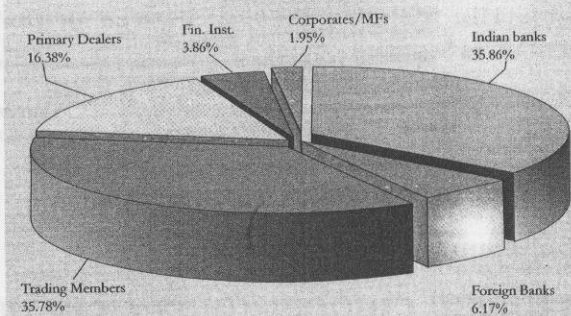
Rs. 1,329,933 million contributing 92.74% of total trading volume during October 2003. Treasury Bills accounted for Rs. 56,188 million or 3.92% of the total trading value. Institutional bonds, bonds issued by banks and other securities accounted for Rs. 47,917 million or 3.34% of total trading value. Distribution of trading volume of securities traded during the month on WDM is presented in Figure 12.

Figure 12:
Security-wise Distribution of WDM Trades October 2003



The domestic banks still continue to be the market leaders with about 35.86% of share in the total turnover in spite of a decrease of 3.1% over last month where it contributed 37.01% in the trading volume. The share of primary dealers in turnover increased to 16.38% in October as compared to 15.32% in the previous month. The share of foreign banks decreased to 6.17% in October from 6.21% in September 2003. Distribution of turnover for various categories of participants is presented in Figure 13.

Figure 13:
Participant-wise Distribution of WDM Trades October 2003



The share of top 'N' securities/trading members/participants in turnover in WDM segment is presented in Table 12. The share of top '10' and '100' securities in the month of October 2003 are 59.58% and 98.24% respectively.

Table 12: Share of top 'N' Securities/trading members/participants in Turnover in WDM segment

(In percent)

Top 'N'	Securities		Trading Members		Participants	
	Sept. 03	Oct. 03	Sept. 03	Oct. 03	Sept. 03	Oct. 03
5	37.61	37.96	29.55	30.03	15.99	17.94
10	57.09	59.58	52.27	51.57	26.07	27.19
25	82.81	84.88	88.46	87.46	44.47	45.30
50	92.67	93.81	100.00	100.00	58.99	59.36
100	97.41	98.24	--	--	63.88	64.24

During the month, 46 securities with a total outstanding debt of Rs. 298,050 million were added for trading. Total market capitalisation of securities available on WDM segment stood at Rs. 11,796,708 million on October 31, 2003. The market capitalisation of various securities on WDM segment as on October 31, 2003 is presented in Table 13.

Table 13: Market Capitalisation of WDM Segment as on October 31, 2003

Security Type	Market Capitalisation (Rs. mn.)	Share in Total (%)
Govt. Securities	9,562,953	81.06
PSU Bonds	445,440	3.78
State Loans	770,372	6.53
MF Units	102,250	0.87
Fin. Institutions	219,361	1.86
Treasury Bills	407,028	3.45
Corporate Bonds	178,302	1.51
Others*	111,003	0.94
Total	11,796,708	100.00

*Others include securitised debt and bonds of local bodies.

The FIMMDA NSE MIBID/MIBOR is based on rates polled by NSE from a representative panel of 29 banks/institutions/primary dealers. The overnight rates are disseminated daily to the market at 0950 (IST) and the 14 day, 1 month and 3 month rates at 1145 (IST). The daily FIMMDA NSE MIBID/MIBOR rates for October 2003 presented in Annexure XV.

Investor Grievances

Despite all precautionary measures taken by NSE and investors, certain grievances and issues do arise in the day-to-day functioning. The Investor Grievance Cell handles these complaints lodged by investors against trading members/companies. As at end October 2003 19 cases were received against trading members of the exchange and 53 cases against companies listed on the exchange. The status of receipt and disposal of investor grievances by the Exchange for October 2003 is presented in Annexure XVI.

Arbitration

Arbitration is an alternative dispute resolution mechanism provided by the Exchange for resolving disputes between the trading members and between a trading member and his client in respect of trades done on the Exchange. The status of arbitration matters with the Exchange till October 2003 presented in Annexure XVII.

System and Telecom

NSE Network

The expansion of NSE network in different cities and number of VSATs since November 1994 is presented in Figure 14. The list of towns and cities having NSE VSAT terminals is presented in Annexure XVIII. As at end-October 2003, NSE had 2,784 VSATs in 354 cities across the country. To supplement the current VSAT network as well as to eliminate the downtime, NSE also provides TBTN (Leased Lines) links to trading members. As of October 31, 2003, 993 such lines have been commissioned. Distribution of VSATs across the cities is presented in Table 14.

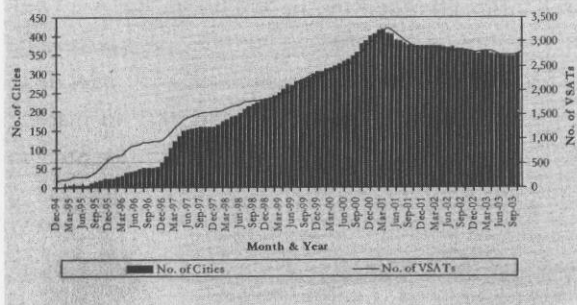


Table 14: Distribution of VSATs across cities as at end October 2003

No. of VSATs in a City	No. of Cities	No. of VSATs in the Cities
1	149	149
2	71	142
3	25	75
4-10	75	460
11-20	17	239
21-50	9	243
51-100	5	328
>100	3	1,148
Total	354	2,784

Figure 14:

Growth of VSATs and Cities



NSE's Certification in Financial Markets (NCFM)

NCFM is a fully automated, on-line, nation-wide testing and certification system. It tests practical knowledge and skill required to operate in financial market in a secure and unbiased manner to ensure that the persons entering the field have minimum understanding of the market, products and regulations. The number of candidates taking NCFM tests has increased manifold in the recent past. Module - wise and centre - wise break up of the number of candidates, who have taken the NCFM test by October, 2003 is presented in Table 15.

Table 15: Module-wise and Centre-wise Distribution of Candidates Tested

Test Centre	Derivatives Core Module	Capital Market Modules	NSDL- Depository Operations Module	AMFI- Mutual Fund Modules	Insurance Modules	FIMM- DA-NSE Debt Market (Basic) Module	Other	Association of Financial Planners	Total
Mumbai	6,512	7,306	4,047	7,969	7,932	756	438	329	33,381
Delhi	4,668	5,799	3,000	4,049	3,397	253	734	202	21,293
Kolkata	2,657	3,366	1,198	2,444	3,119	151	285	78	12,585
Chennai	1,650	2,372	1,852	2,650	2,358	152	680	83	11,274
Hyderabad	878	1,390	1,039	1,291	1,208	83	9	54	4,704
Ahmedabad	970	985	1,013	1,171	1,291	61	4	23	5,279
Pune	268	333	372	551	569	13	0	0	2,106
Others	1,903	2,385	1,830	4,970	253	38	0	0	11,105
Total	19,506	23,936	14,351	25,095	20,127	1,507	2,150	769	107,441