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A weekly mailer encapsulating capital market news

(Feb 9- 16, 2015)

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FROM THE MANAGING DIRECTOR'S DESK

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Our heartiest complements to the Pantomath Research Team for making this project a reality.

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Cordially,
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BLACK MONEY IN MARKETS: SEBI TO SUSPEND SHELL COS

Watchdog Sebi has decided to suspend trading in listed companies that are found to be used by such manipulators. The regulator has identified three parameters for taking action against such companies and the trading would be suspended in the shares of the entities that satisfies more than one of the criteria.

(Source: The Economic Times, February 09, 2015)

BSE TO START ITS ON COMMODITY BOURSE THIS FISCAL

BSE plans to start its own commodity exchange by next fiscal year, BSE's CEO and MD Ashishkumar Chauhan has said. He said Sebi has already permitted BSE's foray into commodity trading through its own exchange. Since commodity trading in India is regulated by the Forward Markets Commission (FMC), BSE is now awaiting the Commission's nod. "We are hopeful about starting the exchange by the next fiscal after getting FMC clearance," Chauhan said while interacting with the reporters recently

(Source: February 10 2015: The Economic Times)

A DISORTED CREDIT MARKET

Nearly $2 trillion of Euro-area sovereign bonds with maturities of more than a year are trading at negative yield .It reflects a distorted credit market in the wake of European Central Bank's record stimulus of $1.2 trillion. Bond yields move inversely to the bond prices.

Thus negative yield means paying for the privilege of lending to a government. Five-year yields of sovereign bonds of Germany, Denmark, Austria, Netherlands and Switzerland are trading with negative readings. These five countries contribute nearly 8.8% to the world GDP. But investors are unruffled by negative bond yields. Finland was the first Euro zone nation to pay negative yield on a five-year debt sold in auction on Wednesday.

(Source: The Economic Times, February 10, 2015)

SEBI SENDS TOUGH MESSAGE TO SECONDARY MARKET MANIPULATORS

Detects GDR frauds, insider trading using P-notes, money laundering with the help of new surveillance system

Increasing interest in the equity market has led to higher level of market manipulation. However, Securities and Exchange Board of India (Sebi), the regulator, has been proactive. It has issued a number of interim and prohibiting orders in the last one year. A source said interim orders in secondary market manipulation cases have increased in 2014 significantly. "All these have become possible after improved surveillance system was introduced," said the source.

Sebi has set up Data Warehousing and Business Intelligence System (DWBIS) which comprise of data warehouse, data mining and business intelligence tools. The Sebi has set up the Statistical Analytics Group to scientifically supplement the investigation and surveillance functions. DWBIS is using the concepts of Geometric Brownian Motion. This is a mathematical approach for stock price modelling. DWBIS throws around 100 alerts daily to signal some unusual movements have happened in certain scrips and analysis include pre- and post-corporate announcement price and volumes traded in that share along with many other movements.

The regulator has already found hundreds of entities involved in money laundering, using some listed companies as a front.

More than 50 such companies are under investigation. About 400 prohibitory orders have already been issued. Even in two cases, global depository receipts frauds were detected, where either that fund raised abroad is siphoned off or used to buy assets which were later not shown in the balance sheet of the company concerned. These companies include Transgene Biotek and Cals Refineries.

In another case, misuse of P-notes was found, when an overseas investor shorted in a scrip in the F&O segment hours before the board of that company was meeting for deciding price for its offer for sale (OFS). He managed to get inside information that the OFS price would be significantly lower than the market price. When after announcement on the next day, the price fell and he booked profit in his short sale and invested in that OFS by way of P-notes through three foreign institutional investors to hide his identity as a cover to hide insider trading. However, alerts by the new surveillance system helped Sebi to crack insider trading.

In coming months, several cases of insider trading are expected to go up once the new regulations will become operative when surveillance alerts will be useful," said an official in the know.

Sebi had recently issued prohibitory orders in the cases of four companies covering over 400 parties for using exchange platform for laundering money. The regulator has asked exchanges also to look into this and the exchanges have also put some companies under watch.

(**Source: Business Standard February 11, 2015**)

INVESTORS IN LIMBO AS REGIONAL EXCHANGE SHUT DOWN

Stock exchanges unable to ensure a networth of Rs 100 cr and a daily turnover of Rs 1,000 cr are de-recognised by Sebi

With regional stock exchanges pulling down shutters, investors with exposure to companies listed exclusively on such exchanges are in a fix. These firms, which have been moved to the dissemination board (DB) of the National Stock Exchange (NSE) or the BSE, have seen very little or no trading activity since being moved to DB resulting in a lack of exit for investors in such companies. Currently, 274 companies make up the dissemination boards of both the BSE and the NSE. Companies in the DB are treated as unlisted companies.

"Trading in these companies is unlikely to pick up as there is very little interest among investors. Besides, exchanges are only supposed to provide a platform for dissemination of bids and offers for securities of these companies," said a BSE official.

DB is a national exchange-arranged platform for companies of regional stock exchanges, which have been de-recognised or are on their way to voluntarily seeking de-recognition. Stock exchanges unable to ensure a net worth of Rs 100 crore and a daily turnover of Rs 1,000 crore are de-recognised by the Securities and Exchange Board of India (Sebi) for being unfit to conduct trading activities. "The exclusively listed companies, which fail to obtain listing on any other stock exchange, will cease to be a listed company and will be moved to the dissemination board by the exiting stock exchange. Therefore, in the interest of investors of exclusively listed companies, a mechanism of dissemination board will be set up by exchanges having nationwide trading terminals," states the

Sebi master circular for stock exchanges. Buyers and sellers in securities of such companies can place orders through the DB, but such trades are settled outside the purview of the exchanges. Under Sebi regulations, exchanges are not accountable for the trades conducted on the DB. While the offers are placed through brokers of the exchange, it is essentially an off-the-exchange transaction and does not come under the exchange surveillance mechanism. As these companies are not recognised as being listed on the BSE or the NSE, their trades are not settled through the exchanges' clearing corporations. According to analysts, such low levels of accountability in companies with already weak trading activity makes this platform very unattractive to investors. A lack of awareness about the DB among investors is another reason for low participation among investors.

Information on these companies is uploaded as and when such information is made available to the exchanges.

According to estimates, there are about 10 million retail investors with exposure to companies in the regional stock exchanges with a total investment size of about Rs 2 lakh crore.

Investor associations are concerned that the number of companies being added to the DB might go higher as more and more stock exchanges close down operations. Recently, the Guwahati and Bhubaneswar stock exchanges were de-recognised by Sebi. Madras Stock Exchange, Bangalore Stock exchange, Kochi Stock exchange, Vadodara Stock Exchange, Hyderabad Stock Exchange and Inter-connected Stock Exchange are some of the regional stock exchanges that have shut shop.

(Source: Business Standard, February 10, 2015)

BROKERAGES EXPECT GOVT. TO REVIVE INVESTMENT CYCLE

Reform focus, simpler tax regime among other Budget expectations

Kick-starting the investment cycle, focusing on reforms and simplifying the tax regime are some of the key Budget expectations of broking houses. The 2015 Budget, to be presented on February 28, will be the Narendra Modi government's first full-year Budget. It comes at a time when the stock markets are hovering around their record levels.

"The macro backdrop to the Budget is very favourable," says Goldman Sachs in its Budget preview, Making Hay While the Sun Shines. "Unlike recent years, both inflation and the current account deficit are no longer major concerns. Further, the sharp fall in global commodity prices, especially oil, is providing a big helping hand to the government's finances. In addition, capital inflows and the RBI (Reserve Bank of India) beginning a rate-cutting cycle have led to a lowering of borrowing costs for the government."

The US-based investment bank says a credible fiscal consolidation path, shift from subsidies to capital spending and specifics on the government's structural reform agenda are the broad major points that investors should watch for in the Budget.

Global crude oil prices are down by nearly 50 per cent from the June 2014 highs, and this is expected to help the government rein in the fiscal deficit and push ahead with growth.

HSBC Global Research says: "We estimate about half of the fall in oil prices has been allowed to transmit to lower retail prices and the remaining will manifest itself as higher tax revenue. We expect the government to use this bounty to increase capital spending in the coming financial year, which is a positive for growth."

Goldman Sachs says, "We expect the finance minister to announce a fiscal deficit target of 3.6 per cent of GDP for FY16, in line with the medium-term fiscal consolidation path. This is largely due to reduction in subsidies, as a result of lower commodity prices."

On taxation, broking houses want the government to provide a clear road map for the goods and services tax (GST), incentives for the manufacturing and infrastructure sectors, and improvement in tax administration.

Nitin Jain, president and head of global asset management and capital markets at Edelweiss, says the market will look at a few key moves. "India needs to simplify its tax regime and encourage a larger set of people to pay taxes. The market is expecting a clear map of tax reforms and some concrete moves on implementation of GST. A big area would be the infrastructure sops for the private sector."

Economists expect the government to increase capital spends. "We expect capital spending to rise from an estimated 1.7 per cent of GDP in FY15 to two per cent of GDP in FY16. The space for greater spending would come from the reduction in subsidies and higher revenues," Goldman Sachs says.

EYE ON THE BUDGET

- Fiscal deficit target of 3.6% of GDP for FY16
- Boost to the investment cycle
- Road map for GST
- Incentives for manufacturing and infrastructure sectors
- Improvements in tax administration

(Source: Business Standard, February 8, 2015)

INDEPENDENT DIRECTORS LOOKING FOR ADVICE GIVE BIG 4 NEW BIZ

Firms think the scope of training such directors will rise with the tightening of regulations

As new regulations make it tougher to serve as an independent director, many professionals who hold such positions or are expected to be inducted into company boards are rushing to experts for advice and training. So much is the demand for the advisers that the Big Four consultancies - PricewaterhouseCoopers, Ernst & Young, KPMG and Deloitte - are looking to start a new revenue model around it.

PwC is considering creating a vertical that would advise and train independent directors on matters ranging from day-today responsibilities to problem resolutions. "We see that the scope of advising and training the independent director is set to increase from hereon due to the change of regulations and increase in their accountability, " said Deepak Kapoor, chairman, PwC India. "While, right now, the advice that independent directors seek from us is more informal, going ahead this is set to change as the demands would become more comprehensive where more specialists would have to give their time."

The new Companies Act increases the responsibility of independent directors -for instance, they will also be held accountable for any fraud at the company or if it defaults on bank loans. Add to that the new accounting standards that India is planning to adopt under the international financial reporting standards (IFRS). In fact, companies are also becoming choosier and are inducting independent directors often after conducting extensive background checks. Until now, independent directors were mainly professionals who were friends and family of the promoters.

"That has to change. Earlier, being an independent director was kind of a part-time job; now, it is a full-time job, " said a person who sits on the boards of a few companies as an independent director. This person said he will step down from a couple of companies, including the unit of a media conglomerate, as he isn't "comfortable "with the business model.

The new regulations limit the number of companies an independent director can serve to five. An independent director now cannot have stock options in the company where he sits on the board. He also cannot be anyway related to the company or its promoters. As risk of staying on board increases and the number of people eligible to serve as independent directors reduces, the remuneration of directors, too, is set to jump this year. These people can spare such remuneration on advisers, say industry trackers.

"Often, independent directors would ask for our advice over drinks in a party. But if I have to put my five people on the job, and who would take ten days to finish the job, I would expect some kind of return for the firm," said a senior partner with one of the Big Four.

In the past few months, most of the Big Four consultancies have been conducting workshops and short-term courses involving independent directors.

"It's a two-way street. We have seen requests from companies to conduct due diligence on independent directors, sometimes who are already on board," said Anuj Bugga, managing director at FTI Consulting, a NYSE listed corporate advisory firm.

- ***(Source: The Economic Times, February 13, 2015).***

MISSED CREDIT CARD PAYMENT DATE? YOU MAY HAVE TO PAY LESS INTEREST

Central bank wants lenders to revisit charges to ensure reasonableness

Banks will lower the interest charge on credit card outstanding of customers who often have to fork out hefty amounts for failing to pay up on time.

Indicating this in a report released on Wednesday, the Reserve Bank of India (RBI) said interest rates charged on credit card overdue were inordinately high and out of alignment with other products with similar risk profiles. "There should be reasonableness of such charges. Banks to revisit the charges levied to ensure reasonableness, fairness and transparency in pricing. IBA to issue detailed operational guidelines to banks in this regard, "said RBI, in the Annual Report on Banking Ombudsman 2013-14.

Banks have traditionally de fended the stiff rate on the grounds that credit cards are unsecured products with high delinquency levels, even though consumer associations have in the past described such charges as usurious. Banks have been charging as high as 36% on credit card overdue as against the 1010.5% prevailing base rate -the floor rate charged by banks on loans. The average monthly credit card spend has gone up 28.5% from RS. 12,035 crore a month in FY14 to.RS 15,470 crore a month (April-October 2014). At present, there are two crore credit card users in India. .In 2013-14, of the total complaints received by the banking Ombudsman, nearly 24% was on account of credit cards, debit cards and ATM cards. The total number of complaints received by Ombudsmen rose to 76,573, up 8.5%.

Out of total 18,474 card-related complaints, 10,714 related to ATM debit cards. Broadly, the reasons for these card-related complaints are issue of unsolicited cards, sale of unsolicited insurance policies and recovery of premium, charging of annual fees in spite of being offered 'free' cards, authorisation of loans over phone, wrong billing, settlement offers conveyed telephonically, non-settlement of insurance claims after the demise of the card holder, exorbitant charges, wrong debits to account, non dispensation short dispensation of cash from ATM, skimming of cards, fraudulent withdrawals using debit credit cards and the like.

Banks and Indian Banks Association (IBA), a bank lobby, will soon formulate a policy on zero liability of customer in electronic banking transactions, where the bank is unable to establish customer level negligence, said the RBI report. As per the proposed policy, the onus of proving customer level negligence would be on

the bank and when such negligence is not established beyond doubt, the benefit of such doubt may be given to the customer. IBA and banks should strive to put in place policies, systems and processes to secure electronic banking systems, protect customer's interest to bring it `at par' with traditional delivery channels.

(Source: The Economic Times, February 10, 2015)

BSE SME TWEAKS ELIGIBILITY NORMS

Move aimed at attracting better quality firms

The BSE exchange has tightened the eligibility criteria for listing of small and medium enterprises (SMEs), to enhance the quality of new issuers. BSE and the National Stock Exchange (NSE), the two major bourses, have separate trading platforms for listing of SMEs.

Under the new BSE guidelines, companies will be required to have a minimum net worth of Rs 3 crore, compared to an earlier one of Rs 1 crore. The post issue paid-up capital, as well as the net tangible assets of the company, should amount to Rs 3 crore. The new norms take effect from April; they will not apply to the existing listed companies.

"The eligibility criteria has been revised by the exchange as a routine process to make the platform more vibrant and entrepreneur-friendly, so that wealth can be created for all. stakeholders in the long run and give visibility to the companies," said a BSE spokesperson, in response to an email query. Exchange (NSE), the two major bourses, have separate trading platforms for listing of SMEs.

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"The net worth and paid-up capital threshold was kept low to popularise the segment. Now that a critical mass has been achieved, the exchange is looking to strengthen the qualitative aspects of SME listing. A higher limit will deter non-serious players from accessing the market and bring in better promoters," said Alok Churiwala, vice-chairman, BSE Brokers Forum. He said the concerns raised recently by the market regulator, Securities and Exchange Board of India, on listed companies evading taxes and laundering unaccounted money, might have also prompted the revision. Companies unable to generate profits in two of the three financial years prior to the listing are required to ensure a net worth of Rs 5 crore, up from Rs 3 crore earlier.

The listing norms for Emerge, the SME trading platform of NSE, haven't been changed. "Regarding our norms, we framed them keeping in mind the exchange-level best practices. We are always open to guidance from the regulator and feedback from the market (but) as of now, we are not considering modifications," said an NSE spokesperson via an email response. Emerge prescribes that a company also have a record of three years and positive cash accrual from operations for at least two financial years prior to making a listing application. At present, 83 companies are listed on the BSE SME platform. NSE Emerge has six companies listed.

Merchant bankers said the tightening of the norms could lead to fewer listings but better-quality names on the platform. "It is a matter of BSE realising that there should be some decent entry barriers for listing on this platform. There should be a certain reasonable size and quality of companies coming in for the listing," said Dara J Kalyaniwala, vice-president, investment banking, Prabhudas Lilladher.

(Source: Business Standard February 12, 2015)