Exam: SYBIM SEM 3

Subject: Fundamental of capital market

Exam date: 16/11/2017

QP code: 22849

Q 1 fill in blanks: (any 8)

1) Secondary
2) American depository receipt
3) Conductive
4) SEBI
5) 1988
6) 15
7) Straight through processing
8) Foreign currency exchangeable bond
9) 2002
10) Bearish

Q2 True or false (any 7)

1) True
2) True
3) True
4) True
5) True
6) False
7) True
8) True
9) False
10) True

Q 2 a) Primary 15

Secondary

(Instruments)

1 .Debt
2. Equity
3. Preference shares
4. Derivatives
5. Sweat equity
6. Share warrants
7. Hybrid instruments.

Q2 a) nonvoting shares 07

Non-voting stock is stock that provides the shareholder very little or no vote on corporate matters, such as election of the board of directors or mergers. This type of share is usually implemented for individuals who want to invest in the company's profitability and success at the expense of voting rights in the direction of the company. Preferred stock typically has non-voting qualities.

Share Warrants:

a warrant is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed price called exercise price until the expiry date.

Warrants and options are similar in that the two contractual financial instruments allow the holder special rights to buy securities. Both are discretionary and have expiration dates. The word warrant simply means to "endow with the right", which is only slightly different from the meaning of option.

Warrants are frequently attached to bonds or preferred stock as a sweetener, allowing the issuer to pay lower interest rates or dividends. They can be used to enhance the yield of the bond and make them more attractive to potential buyers. Warrants can also be used in equity deals. Frequently, these warrants are detachable and can be sold independently of the bond or stock.

In the case of warrants issued with preferred stocks, stockholders may need to detach and sell the warrant before they can receive dividend payments. Thus, it is sometimes beneficial to detach and sell a warrant as soon as possible so the investor can earn dividends.

Hybrid Instruments:

A single financial security that combines two or more different financial instruments. Hybrid securities, often referred to as "hybrids," generally combine both debt and equity characteristics. The most common type of hybrid security is a convertible bond that has features of an ordinary bond but is heavily influenced by the price movements of the stock into which it is convertible.

b) Capital Market reforms 15

1. Establishment of SEBI : The Securities & Exchange Board of India (SEBI) was established in 1988. It got a legal status in 1992. It was primarily set up to regulate the activities of the merchant banks, to work as a promoter of the stock exchange activities ,to control the operations of mutual funds & to act as a regulatory authority of new issue activities of companies. The main objective of SEBI is , "to protect the interest of investors in securities market for matters connected therewith or incidental thereto."

The main functions of SEBI are:-

¬ To regulate the business of the stock market & other securities market.

¬ To promote & regulate the self-regulatory organizations.

¬ To prohibit fraudulent & unfair trade practices in securities market.

¬ To promote awareness among investors & training of intermediaries about safety of Security market.

¬ To prohibit insider trading in shares market.

¬ To regulate huge acquisition of shares & takeover of companies.

2. Establishment of Creditors Rating Agencies : Mainly the credit rating agencies are Three. The Investment Information & Credit Rating Agency of India Limited (ICRA - 1991) The Credit Rating Information Services of India Limited (CRISIL - 1988) & Credit Analysis and Research Limited (CARE) were set up in order to assess the financial health of different financial institutions & agencies related to the stock market activities. It is a helpful for the investors also in evaluating the risk of their investments.

3. Increasing of Merchant Banking Activities: Many Indian & foreign commercial banks have set up their MBD (Merchant Banking Divisions) in the last few years. MBD provide financial services such asconsultancy services, underwriting facilities, issue organizing, etc. It has proved as a helping hand to factors related to the capital market.

4. Candid Performance of Indian Economy : In the last few years, Indian economy is growing at a good speed. Because of inflow of Foreign Institutional Investments (FII) heavily increased. The massive entry of FIIs in the Indian capital market has given better appreciation for the Indian investors in recent times. Similarly many new companies are emerging on the horizon of the Indian capital market to raise capital for their expansions.

5. Rising Electronic Transactions : Due to Technology Up gradation. The online transaction with more paper work is reduced. Now paperless transactions are increasing at a rapidly. It saves money, time & energy of investors. Thus it has made investing safer & hassle free encouraging more people to join the capital market.

6. Growing Mutual Fund Industry : It has helped to the capital market to grow. Public sector banks, financial institutions, foreign banks & joint mutual funds between the Indian & foreign firms have launched many new Mutual funds. A big diversification in terms of maturity, schemes etc. has taken place in mutual funds in India. It has given a wide option for the common investors to enter the capital market.

7. Growing Stock Exchanges: The No. of various Stock Exchanges in India are increasing. Initially the BSE was the main exchange, but now after the setting up of the NSE &the OTCEI, stock exchanges have spread across the country. Recently a new Inter-connected Stock Exchange of India has joined the existing stock exchanges.

8. Investor's Protection: SEBI (Security Exchange Board of India) was Established Central Govt of India for the purpose of Investors Education & Protection Fund (IEPF) in 2001. It works in educating & guiding investors. It tries to protect the interest of the small investors from frauds & malpractices in the capital market.

9. Growth of Derivative Transactions : Since June 2000, The NSE(National Stock Exchange) has introduced the derivatives trading in the equities. In November 2001 it also introduced the future & options transactions. These innovative products have given variety for the investment leading to the increase of the capital market.

10. Insurance Sector Reforms : This sector has also witnessed tremendous reforms in last few years. The Insurance Regulatory & Development Authority (IRDA) was set up in 2000. The main purpose of IRDA Regulating the Insurance companies in India(i.e Public & Private Sectors). As many insurance companies invest their money in the capital market, it has expanded Rapidly.

11. Commodity Trading : Along with the trading of ordinary securities, the trading in commodities is also recently encouraged. The MCX (Multi Commodity Exchange) is set up. The volume of such transactions is growing at a splendid rate.

Q 3 A) **DIRECT MARKET ACCESS (DMA):**

Direct Market Access (DMA) is a facility which allows brokers to offer clients direct access to the exchange trading system through the broker's infrastructure without manual intervention by the broker. Some of the advantages offered by DMA are direct control of clients over orders, faster execution of client orders, reduced risk of errors associated with manual order entry, greater transparency, increased liquidity, lower impact costs for large orders, better audit trails and better use of hedging and arbitrage opportunities through the use of decision support tools / algorithms for trading. While ensuring conformity with the provisions of the Securities Contract (Regulations) Act, 1956, Stock Exchanges may facilitate Direct Market Access for investors subject to the following conditions:

1. Application for Direct Market Access (DMA) facility

Brokers interested to offer DMA facility shall apply to the respective stock exchanges giving details of the software and systems proposed to be used, which shall be duly certified by a Security Auditor as reliable. The stock exchange should grant approval or reject the application as the case may be, and communicate its
decision to the member within 30 calendar days of the date of completed application submitted to the exchange. The stock exchange, before giving permission to brokers to offer DMA facility shall ensure the fulfilment of the conditions specified in this circular.

2. Operational specifications

All DMA orders shall be routed to the exchange trading system through the broker's trading system. The broker's server routing DMA orders to the exchange trading system shall be located in India. The broker should ensure sound audit trail for all DMA orders and trades, and be able to provide identification of actual user-id for all such orders and trades. The audit trail data should available for at least 5 years. Exchanges should be able to identify and distinguish DMA orders and trades from other orders and trades. Exchanges shall maintain statistical data on DMA trades and provide information on the same to SEBI on a need basis. The DMA system shall have sufficient security features including password protection for the user ID, automatic expiry of passwords at the end of a reasonable duration, and re-initialization of access on entering fresh passwords. Brokers should follow the similar logic/priorities used by the Exchange to treat DMA client orders. Brokers should maintain all activities/ alerts log with audit trail facility. The DMA Server should have internally generated unique numbering for all such client order/trades. A systems audit of the DMA systems and software shall be periodically carried out by the broker as may be specified by the exchange and certificate in this regard shall be submitted to the exchange. The exchanges and brokers should provide for adequate systems and procedures to handle the DMA trades.

3. Client Authorization and Broker – Client agreement

Exchanges shall specify from time to time the categories of investors to whom the DMA facility can be extended. Initially, the permission is restricted to institutional clients. Brokers shall specifically authorize clients for providing DMA facility after fulfilling Know Your Client requirements and carrying out due diligence regarding clients' credit worthiness, risk taking ability, track record of compliance and financial soundness. Brokers shall ensure that only those clients who are deemed fit and proper for this facility are allowed access to the DMA facility. Brokers shall maintain proper records of such due diligence. Individual users at the client end shall also be authorized by the broker based on minimum criteria. The records of user details, user-id and such authorization shall be maintained by the broker. Details of all user-ids activated for DMA shall be provided by the broker to the exchange. The broker shall enter into a specific agreement with the clients for whom they permit DMA facility. This agreement will include the following safeguards:

a) The client shall use the DMA facility only to execute his own trades and shall not use it for transactions on behalf of any other person / entity.
b) Electronic/Automated Risk management at the broker's level before release of order to the Exchange system. The client shall agree to be bound by the various limits that the broker shall impose for usage of the DMA facility.
c) Right to withdraw DMA facility if the limits set up are breached or for any other such concerns
d) Withdrawal of DMA facility on account of any misuse or on instructions from SEBI/Exchange.

Exchanges shall prepare a model agreement for this purpose. The broker's agreement with clients should not have any clause that is less stringent/contrary to the conditions stipulated in the model agreement

4. Risk Management

The broker shall ensure that trading limits/ exposure limits/ position limits are set for all DMA clients based on risk assessment, credit quality and available margins of the client. The broker system shall have appropriate authority levels to ensure that the limits can be set up only by persons authorized by the risk / compliance manager. The broker shall ensure that all DMA orders are routed through electronic/automated risk management systems of the broker to carry out appropriate validations of all risk parameters including Quantity Limits, Price Range Checks, Order Value, and Credit Checks before the orders are released to the Exchange. All DMA orders shall be subjected to the following limits:

a) Order quantity / order value limit in terms of price and quantity specified for the client.
b) All the position limits which are specified in the derivatives segment as applicable.
c) Net position that can be outstanding so as to fully cover the risk emanating from the trades with the available margins of the specific client.
d) Appropriate limits for securities which are subject to FII limits as specified by RBI. The broker may provide for additional risk management parameters as they may consider appropriate.

5. Broker to be liable for DMA trades

The broker shall be fully responsible and liable for all orders emanating through their DMA systems. It shall be the responsibility of the broker to ensure that only clients who fulfill the eligibility criteria are permitted to use the DMA facility

6. Cross Trades

Brokers using DMA facility for routing client orders shall not be allowed to cross trades of their clients with each other. All orders must be offered to the market for matching.

7. Other legal provisions

In addition to the requirements mentioned above, all existing obligations of the broker as per current regulations and circulars will continue without change. Exchanges may also like to specify additional safeguards / conditions as they may deem fit for allowing DMA facilities to their brokers.

b**) BOOK CLOSURE AND RECORD DATE:**

Book closure is the periodic closure of the Register of Members and Transfer Books of the company, to take a record of the shareholders to determine their entitlement to dividends or to bonus or right shares or any other rights pertaining to shares. Record date is the date on which the records of a company are closed for the purpose of determining the stock holders to whom dividends, proxies rights etc. are to be sent.

In accordance with Section 91 of the Companies Act, 2013 a company may close the register of members for a maximum of 45 days in a year and for not more than 30 days at any one time. Book closure is necessary for the purpose of paying dividend, making rights issue or bonus issue. The listed company is required to give notice of book closure in a news paper at least 7 days before the commencement of the book closure. The members whose names appear in the register of members on the last date of book closure are entitled to receive the benefits of dividend, right shares or bonus shares as the case may be.

Q 3 a) 1.Continuous market for securities **15**

2. Evaluation of securities
3. Mobilizes savings
4. Healthy speculation
5. Mobility of funds
6. Stock exchange Protect investors
7. Stock exchange helps Capital formation
8. Liquidity in Stock Exchange
9. Economic barometer
10. Control on companies
11. Attracts foreign capital
12. Monetary and fiscal policies
13. Safety of Capital and Fair Dealing
14. Proper Canalization of Capital
15. Regulation of Company management
16. Barometer of Business Progress

Q4

a) **PROCEDURE WHERE REGISTRATION IS NOT GRANTED**: **08**

SEBI may reject the application, if it does not satisfy the conditions specified in regulation. It gives a reasonable opportunity of being heard to the applicant. The decision should be communicated to the applicant by SEBI within 30 days of such decision, stating therein the grounds on which the application has been rejected.
The Collective Investment Management Company should not:
(i) undertake any activity other than that of managing the scheme;
(ii) act as a trustee of any scheme;
(iii) launch any scheme for the purpose of investing in securities;

(iv) invest in any schemes floated by it.
However, it has been provided that a CIMC may invest in its own scheme, if it makes a disclosure of its intention to invest in the offer document of the scheme, and does not charge any fees on its investment in that scheme.

b) **Unit certificates and transfer of units** **07**

The Collective Investment Management Company should issue to the applicant whose application has been accepted, unit certificates as soon as possible but not later than six weeks from the date of closure of the subscription list. However, if the units are issued through a depository, a receipt in lieu of unit certificate will be issued as per provisions of SEBI (Depositories and Participants) Regulations, 1996 and bye-laws of the depository.

TRANSFER OF UNITS:

A unit certificate issued under the scheme should be freely transferable. The CIMC on production of instrument of transfer together with relevant unit certificates, register the transfer and return the unit certificate to the transferee within thirty days from the date of such production. However, if the units are held in a depository such units shall be transferable in accordance with the provisions of the SEBI (Depositories and Participants) Regulations, 1996 and bye-laws of the depository.

The subscription amount received should be kept in a separate bank account in the name of the scheme and utilized for –

(1)(a) adjustment against allotment of units only after the trustee has received a statement from the registrars to the issue and share transfer agent regarding minimum subscription amount, as stated in the offer document, having been received from the public, or

(b) for refund of money in case minimum subscription amount, as stated in the offer document, has not been received or in case of over-subscription.

(2) The minimum subscription amount as specified in the offer document couldn’t be less than the minimum amount, as specified by the appraising agency, needed for completion of the project for which the scheme is being launched.

(3) The moneys credited to the account of the scheme should be utilized for the purposes of the scheme and as specified in the offer document.

(4) Any unutilized amount lying in the account of the scheme should be invested in the manner as disclosed in the offer document.

OR

Q4 a) 08

ELIGIBILITY CRITERIA:

The persons registered with SEBI as Debenture Trustee under SEBI (Debenture Trustee) Regulations, 1993 are only eligible to be appointed as trustees of collective investment schemes. However, no person is eligible to be appointed as trustee, if he is directly or indirectly associated with the persons who have control over the CIMC. The CIMC shall furnish to SEBI particulars in respect of trustees appointed in the prescribed form. No person should be appointed as trustee of a scheme, if he has been found guilty of an offence under the securities laws or SEBI

or any authority to which SEBI has delegated its power has passed against such person, an order under the Act for violation of any provision of the Act or of regulations made hereunder. The trustee and the Collective Investment Management Company should enter into an agreement for managing the schemes' property. The agreement for managing the scheme property should contain clauses as specified and such other clauses as are necessary for the purpose of fulfilling the objectives of the scheme.

OBLIGATIONS OF COLLECTIVE INVESTMENT MANAGEMENT COMPANY:

Every Collective Investment Management Company should:

(i) be responsible for managing the funds or properties of the scheme on behalf of the unit holders and take all reasonable steps and exercise due diligence to ensure that the scheme is managed in accordance with the provisions of these regulations, the offer document and the trust deed;

(ii) exercise due diligence and care in managing assets and funds of the scheme and also responsible for the acts of commissions and omissions by its employees or the persons whose services have been availed by it;

(iii) remain liable to the unit holders for its acts of commission or omissions, notwithstanding anything contrary contained in any contract or agreement and be incompetent to enter into any transaction with or through its associates, or their relatives relating to the scheme. However, in case the CIMC enters into any transactions relating to the scheme with any of its associates, a report to that effect should immediately be sent to the trustee and to SEBI;

(iv) appoint registrar and share transfer agents and should also abide by their respective Code of Conducts as specified in the Third Schedule;

(v) give receipts for all monies received and report of the receipts and payments to SEBI, on monthly basis;

(vi) hold a meeting of Board of Directors to consider the affairs of scheme, at least twice in every three months and also ensures that its officers or employees do not make improper use of their position or information to gain, directly or indirectly, an advantage for themselves or for any other person or to cause detriment to the scheme;

(vii) obtain adequate insurance against the properties of the schemes and comply with such guidelines, directives, circulars and instructions as may be issued by SEBI from time to time on the subject of Collective Investment Scheme i.e. as the

end of March, June, September and December.
Q 5 Short notes

a) **ADR & GDR**
An American Depository Receipt ("ADR") is a dollar denominated form of equity ownership in the form of depository receipts in a non-US company. It represents the foreign shares of the company held on deposit by a custodian bank in the company's home country and carries the corporate and economic rights of the foreign shares. GDRs have access usually to Euro market and US market. The US portion of GDRs to be listed on US exchanges to comply with SEC requirements and the European portion are to be complied with EU directive. Listing of GDR may take place in international stock exchanges such as London Stock Exchange, New York Stock Exchange, American Stock Exchange, NASDAQ, Luxemburg Stock Exchange etc.
Difference between American Depository Receipts (ADR) and Global Depository Receipts (GDR)

- ADR are US $ denominated and traded in US.
- GDRs are traded in various places such as New York Stock Exchange, London Stock Exchange, etc.

SPONSORED ADR/GDR ISSUE
An Indian company can also sponsor an issue of ADR / GDR. Under this mechanism, the company offers its resident shareholders a choice to submit their shares back to the company so that on the basis of such shares, ADRs / GDRs can be issued abroad. The proceeds of the ADR / GDR issue are remitted back to India and distributed among the resident investors who had offered their Rupee denominated shares for conversion. These proceeds can be kept in Resident Foreign Currency (Domestic) accounts in India by the resident shareholders who have tendered such shares for conversion into ADRs / GDRs.

b) **TERMINATION OF TRUSTEESHIP:**
The trusteeship of a trustee should come to an end –
(a) If the trustee ceases to be trustee under SEBI (Debentures Trustees) Regulations, 1993; or
(b) if the trustee is in the course of being wound up; or
(c) if unit holders holding at least three-fourths of the nominal value of the unit capital of the scheme pass a resolution for removing the trustee and SEBI approves such resolution; or
(d) if in the interest of the unit holders, SEBI, for reasons to be recorded in writing decides to remove the trustee for any violation of the Act or these regulations committed by them or the trustee should be afforded reasonable opportunity of being heard before action is taken under this clause;
(e) if the trustee serves on the Collective Investment Management Company, a notice of not less than three months expressing intention of not to continue as trustee.
In such cases, another trustee should be appointed by the CIMC on the termination of the trusteeship. The appointment of the new trustee should be completed within three months from the date of termination of the previous trusteeship. If CIMC in unable to appoint trustee in requisite time period of three months, then SEBI can
appoint any person as a trustee from its empanelled list. The new trustee appointed should stand substituted as trustee in all the documents, to which the trustee so removed was a party. A trust deed in the prescribed form as specified in these regulation shall be executed by the CIMC in favour of the trustee so appointed and from the date of such appointment trustees shall be subject to all the rights and duties as specified in these regulations. The trustees so removed

shall from such date be discharged from complying with the obligations under the trust deed but shall remain liable for any action taken by them before such removal. The person appointed by SEBI should apply to the Court for an order directing the CIMC to wind up the scheme

c) **STOCK EXCHANGES**

There are 15 stock exchanges at present in India. All of them are regulated in terms of Securities Contract (Regulation) Act, 1956 and SEBI Act, 1992 and the rules and regulations made thereunder. Some of the exchanges started of as voluntary non-profit associations such as Bombay Stock Exchange (BSE) and Indore Stock Exchange. The Stock Exchanges at Chennai, Jaipur, Hyderabad and Pune were incorporated as companies limited by guarantee. The other stock exchanges are companies limited by shares and incorporated under the Companies Act, 1956 or earlier acts. The stock exchanges are managed by Board of Directors or Council of Management consisting of elected brokers and representatives of Government and Public appointed by SEBI. The Boards of stock exchanges are empowered to make and enforce rules, bye-laws and regulations with jurisdiction over all its members. The Acts, Rules and Regulations governing the stock exchanges have been separately discussed in a lesson in Part B of this study material. Membership of stock exchanges is generally given to persons financially sound and with adequate experience/ training in stock market. Their enrolment as member is regulated and controlled by SEBI to whom they have to pay an annual charge. A member of the stock exchange is called 'broker' who can transact on behalf of his clients as well as on his own behalf. A non-member can deal in securities only through members. A broker can also take the assistance of sub-broker whom he can appoint under the procedure of registration.

d) SHORT SELLING:

Short selling is the sale of a security that is not owned by the seller, or that the seller has borrowed. Short selling is motivated by the belief that a security's price will decline, enabling it to be bought back at a lower price to make a profit. Short selling may be prompted by speculation, or by the desire to hedge the downside risk of a long position in the same security or a related one. Since the risk of loss on a short sale is theoretically infinite, short selling should only be used by experienced traders who are familiar with its risks.

What is 'Short Selling'

Short selling is the sale of a security that is not owned by the seller, or that the seller has borrowed. Short selling is motivated by the belief that a security's price will decline, enabling it to be bought back at a lower price to make a profit. Short selling may be prompted by speculation, or by the desire to hedge the downside risk of a long position in the same security or a related one. Since the risk of loss on a short sale is theoretically infinite, short selling should only be used by experienced traders who are familiar with its risks.

Consider the following short-selling example. A trader believes that stock SS which is trading at $50 will decline in price, and therefore borrows 100 shares and sells them. The trader is now "short" 100 shares of SS since he has sold something that he did not own in the first place. The short sale was only made possible by borrowing the shares, which the owner mademand back at some point.

e) Two Way Fungibility:

Two-way fungibility means investors can freely convert ADRs (American Depository Receipts) /GDRs (Global Depository Receipts) into underlying domestic shares and vice versa. Previously only one-way fungibility was allowed. The ADRs/GDRs could be converted into local shares but could not be converted back into ADRs/GDRs. This effectively meant that once a conversion was done the number of ADRs/GDRs would decrease and could only be replenished by fresh issue of ADRs/GDRs. In effect, this would lead to lower liquidity in the ADR/GDR markets.
The benefits of two-way fungibility would be two fold:

- Better liquidity in the ADR/GDR market.
- Reduction of price differential between the domestic and ADR/GDR markets

The primary reason for low-liquidity in the Indian ADRs/GDRs is due to the fact that the companies have had very small ADR/GDR issue sizes. For example Wipro listed on the NYSE with 2.3 m shares, which accounts for less than 2% of its equity capital. The small number of shares leads to lower volumes. Ideally, by allowing two-way fungibility, the trading volumes would improve. However, the fungibility is limited to local shares that arise due to ADR/GDR conversions. This implies that a share issued in the domestic market cannot be converted into ADR/GDR (unless it arises due to a previous ADR/GDR conversion).
Given that most Indian ADRs have historically traded at a premium to the underlying local stocks, converting into domestic shares would not have made sense. Thus, the current impact may be negligible. The impact could be more on the GDR market, which has a longer history and has seen conversions into local stocks in the past. There might be a few takers who would like to re-convert for various reasons. Forex fluctuations could be one of the reasons to convert back to GDR.

Infosys has always traded at a premium on the NASDAQ compared to the price at the local exchanges. However, once the ADR was converted to domestic shares it was not allowed to reconvert. Now with the two-way fungibility being allowed, players will be able take positions according to their convenience. This would probably help in removing the price differential between the local and the ADR/GDR markets.

Q.5.a. **Manner and form of depository receipts.** **08**

Rule 5 deals with the manner and form of issue of depository receipts.

(1) The depository receipts can be issued by way of public offering or private placement or in any other manner prevalent abroad and may be listed or traded in an overseas listing or trading platform.

(2) The depository receipts may be issued against issue of new shares or may be sponsored against shares held by shareholders of the company in accordance with such conditions as the Central Government or Reserve Bank of India may prescribe or specify from time to time.

(3) The underlying shares shall be allotted in the name of the overseas depository bank and against such shares, the depository receipts shall be issued by the overseas depository bank abroad.

Voting rights

Rule 6 provides the provsions for voting rights of depository receipts holder.

(1) A holder of depository receipts may become a member of the company and shall be entitled to vote as such only on conversion of the depository receipts into underlying shares after following the procedure provided in the Scheme and the provisions of this Act.

(2) Until the conversion of depository receipts, the overseas depository shall be entitled to vote on behalf of the holders of depository receipts in accordance with the provisions of the agreement entered into between the depository, holders of depository receipts and the company in this regard.

Proceeds of Issue

Rule 7 provides that the proceeds of issues of depository receipts shall either be remitted to a bank account in India or deposited in an Indian bank operating abroad or any foreign bank (which is a Scheduled Bank under the Reserve Bank of India Act, 1934) having operations in India with an agreement that the foreign bank having operations in India shall take responsibility for furnishing all the information which may be required and in the event of a sponsored issue of Depository Receipts, the proceeds of the sale shall be credited to the respective bank account of the shareholders.

b) Depository: 07

A depository institution provides financial services to personal and business customers. Deposits in the institution include securities such as stocks or bonds. The institution holds the securities in electronic form also known as book-entry form, or in dematerialized or paper format such as a physical certificate.

OBLIGATIONS OF COLLECTIVE INVESTMENT MANAGEMENT COMPANY:
Every Collective Investment Management Company should:
(i) be responsible for managing the funds or properties of the scheme on behalf of the unit holders and take all reasonable steps and exercise due diligence to ensure that the scheme is managed in accordance with the provisions of these regulations, the offer document and the trust deed;
(ii) exercise due diligence and care in managing assets and funds of the scheme and also responsible for the acts of commissions and omissions by its employees or the persons whose services have been availed by it;
(iii) remain liable to the unit holders for its acts of commission or omissions, notwithstanding anything contrary contained in any contract or agreement and be incompetent to enter into any transaction with or through its associates, or their relatives relating to the scheme. However, in case the CIMC enters into any
transactions relating to the scheme with any of its associates, a report to that effect should immediately be sent to the trustee and to SEBI;

(iv) appoint registrar and share transfer agents and should also abide by their respective Code of Conducts as specified in the Third Schedule;
(v) give receipts for all monies received and report of the receipts and payments to SEBI, on monthly basis;
(vi) hold a meeting of Board of Directors to consider the affairs of scheme, at least twice in every three months and also ensures that its officers or employees do not make improper use of their position or information to gain, directly or indirectly, an advantage for themselves or for any other person or to cause detriment to the scheme;
(vii) obtain adequate insurance against the properties of the schemes and comply with such guidelines, directives, circulars and instructions as may be issued by SEBI from time to time on the subject of Collective Investment Scheme i.e. as the end of March, June, September and December.