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An update on international competitiveness  
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## 1 Summary

This international competitiveness update contains:

- The Securities Market Report Card (SMRC) for:
  - Equity trading; and
  - Public equity issuance.
- An update on policy recommendations for the equity trading and about public equity issuance market.
- A review of discussion papers put forward by SEBI for this public equity issuance market area.

## 2 SMRC for Equity trading

Table 1 presents a comparison of trading Indian equity in onshore and offshore exchanges. For onshore exchanges, it presents the average daily traded volumes, average trade size, and turnover ratio for all listed firms (across NSE and BSE). They are also reported for firms in all size deciles (by market cap) from largest (D1) to smallest (D10). For offshore exchanges, it presents the average traded volume for equity index derivatives. Key observations:

1. The liquidity in the onshore exchanges is concentrated in the first 10% of firms (around 360 firms). These capture 90% of the total traded volumes.
2. The traded volumes on equity index derivatives in the offshore exchanges show that offshore investors continue to be interested in Indian assets.

## SMRC FOR EQUITY TRADING

**Table 1** The report card for equity trading

	Total Market Cap <sup>1</sup> (USD Billion)			Avg. Daily Volume <sup>2</sup> (USD Billion)			Avg. Trade Size <sup>3</sup> (USD)			Turnover Ratio <sup>4</sup>		
	Q3-14	Q4-14	Q1-15	Q3-14	Q4-14	Q1-15	Q3-14	Q4-14	Q1-15	Q3-14	Q4-14	Q1-15
<u>Onshore</u>												
All firms	1516	1527	1600	3.24	3.06	3.53	320	315	329	0.0017	0.0015	0.0016
D1	1402	1409	1480	2.78	2.61	3.1	382	378	386	0.0017	0.0015	0.0016
D2	75	77	80	0.36	0.34	0.31	183	188	189	0.0028	0.0026	0.0023
D3	22	23	23	0.1	0.09	0.07	149	136	125	0.0023	0.0021	0.0017
D4	9	9	9	0.03	0.03	0.03	118	104	97	0.0016	0.0015	0.0015
D5	4	4	4	0.01	0.01	0.01	90	80	84	0.0011	0.001	0.0011
D6	2.01	2.01	1.98	0.004	0.003	0.003	78	71	73	0.0009	0.0008	0.0006
D7	1.05	1.06	1.05	0.005	0.002	0.001	150	61	59	0.0006	0.0005	0.0005
D8	0.58	0.58	0.54	0.0005	0.0005	0.0006	41	45	40	0.0004	0.0004	0.0004
D9	0.3	0.3	0.28	0.0004	0.0002	0.0002	40	36	49	0.0008	0.0002	0.0002
D10	0.12	0.12	0.11	0.0001	0.0001	0.0001	29	48	32	0.0001	0.0002	0.0002
<u>Offshore</u>												
Index derivatives				0.85	0.95	0.37						

Notes:

Q1 denotes January-March, Q2 denotes April-June, Q3 denotes July-September and Q4 denotes October-December.

Example: Q2-13 denotes April-June, 2013; Q1-14 denotes January-March, 2014.

D1 denotes first decile, D2 denotes second decile, and D10 denotes tenth decile of firms based on market capitalisation. There are approximately 360 firms in each decile.

<sup>1</sup> Total market capitalisation on the first day of the quarter for NSE/BSE listed firms.

<sup>2</sup> Traded volumes are daily averages of volumes summed across firms at BSE and NSE.

<sup>3</sup> Average trade size is calculated as the ratio between total traded volume on BSE and NSE to total number of transactions for all stocks.

<sup>4</sup> For a firm  $i$ , Turnover Ratio is computed as:  $TR_{it} = \frac{volume}{mcap}$ , where volume is the sum of traded volume at BSE and NSE and mcap is the market capitalisation for firm  $i$  at time  $t$ . For a given quarter, median TR is computed for each  $i$  and subsequently the median TRs are weighted by market cap across all firms.

### 3 Status of implementation of policy recommendations for equity trading

**Table 2** Policy recommendations for the equity trading market

Proposals	Implementing agency	Implementation status
<b><u>Short term actions</u></b>		
<ul style="list-style-type: none"> <li>• Make entry criteria for foreign participants the same as for FATF compliance.</li> </ul>	SEBI	
<ul style="list-style-type: none"> <li>• Eliminate regulatory uncertainty about the Mauritius/Singapore treaties. It deters non-resident users from using onshore financial services.</li> </ul>	DEA	
<ul style="list-style-type: none"> <li>• Replicate the Mauritius/Singapore treaties for all FATF countries.</li> </ul>	DEA	
<ul style="list-style-type: none"> <li>• Clarify guidelines for availing tax benefits under the proposed GAAR.</li> </ul>	DEA, CBDT	GAAR implementation deferred to 2017.
<ul style="list-style-type: none"> <li>• Remove STT. If STT is to remain: apply a uniform STT rate on equity transactions and remove STT on sale of units of MFs. Remove stamp duty from non-delivery transactions. Enact the Indian Stamp (Amendment Bill, 2014 (to harmonise stamp duty rates across states).</li> </ul>	DEA, CBDT	
<ul style="list-style-type: none"> <li>• Equalise tax rules for similar transactions, regardless of whether they are done on-exchange or off-exchange.</li> </ul>	DEA, CBDT	
<ul style="list-style-type: none"> <li>• Increase participation limits by pension funds.</li> </ul>	PFRDA/MoLE	In progress.
<b><u>Medium term actions</u></b>		
<ul style="list-style-type: none"> <li>• Equalise access rules to trading (position limits), clearing (collateral and margins) and settlement across all participants to enable level playing field.</li> </ul>	SEBI, RBI	
<ul style="list-style-type: none"> <li>• SEBI should consider investing part of its investor protection fund in equity shares of proxy advisory firms.</li> </ul>	SEBI	
<b><u>Long term goals</u></b>		
<ul style="list-style-type: none"> <li>• Move to residence-based taxation regime over the longer term.</li> </ul>	DEA, CBDT	

## 4 SMRC for Equity finance

Table 3 measures the performance of public market for equity issuance based on:- (a) Number of issues, (b) Size of issue, (c) Cost of issue as a percentage of issue size and (d) Time taken to issue in days. These are measured for all the primary issuance mechanisms:- Initial Public Offer (IPO), Follow-on Public Offer (FPO), Qualified Institutional Placement (QIP), Institutional Placement Program (IPP), Offer For Sale (OFS) and rights issue. They are separately reported for private companies and public sector companies. Key observations:

- Decline in IPOs in 2010–2014 compared to 2006–2009.
- Cost of IPOs remained similar across the two periods.
- IPO costs are for non-PSUs compared to PSUs. For smaller issue sizes ( $\leq$  USD 20mn), these are around 8% of the issue size. For larger issue sizes ( $>$  USD 20mn), these are 6 – 7%.
- FPO costs are similar IPO costs. As a result, listed firms use the QIP and rights issue mechanism more than the FPO mechanism for follow on issuance.
- Eligible firms use the OFS mechanism.  
The median issue size under the OFS is smaller than that under other mechanisms.
- For IPOs and FPOs, the total time to issue has increased in 2010 – 2014 compared to 2006 – 2009. 60 – 70% of the total time taken is for getting regulatory sanctions to proceed with the IPO.

**Table 3** The report card for equity issuance, 2006–2014

Issue Type	Issue Details				Issue Costs		Time to Issue			
	No. of Issues		Issue Amount (USD Million)		Cost (Percentage)		Regulatory (days)		Total Time (days)	
	P1 <sup>1</sup>	P2 <sup>2</sup>	P1	P2	P1	P2	P1	P2	P1	P2
<b>IPO</b>										
non-PSU I <sup>3</sup>	115	47	9.9	11.8	8.5	8.0	108	145	178	216
non-PSU II <sup>4</sup>	107	62	45.7	48.8	6.8	6.7	83	116	119	193
PSU	7	7	377.8	102.8	2.2	3.1	49	42	146	62
<b>FPO</b>										
non-PSU I	13	2	5.8	7.6	9.1	8.8	94	161	163	198
non-PSU II	11	1	60.1	741.6	6.0	3.5	45	-	98	-
PSU	3	9	127.6	976.5	2.8	0.7	21	30	58	44
<b>QIPs</b>										
non-PSU	114	104	62.4	51.0	2.2	2.4	NA	NA	NA	NA
PSU	4	2	206.0	873.2	0.8	0.7	NA	NA	NA	NA
<b>Rights Issues</b>										
non-PSU	118	82	9.5	14.1	2.2	1.7	NA	NA	NA	NA
PSU	1	3	3,857.7	166.4	0.3	0.2	NA	NA	NA	NA
<b>IPPs<sup>5</sup></b>										
non-PSU	NA	13	NA	55.3	NA	2.9	NA	NA	NA	NA
PSU	NA	2	NA	36.4	NA	1.6	NA	NA	NA	NA
<b>Offers for Sale<sup>6</sup></b>										
non-PSU	NA	108	NA	2.7	NA	NA	NA	NA	NA	NA
PSU	NA	14	NA	75.8	NA	NA	NA	NA	NA	NA

Source: Prime Database. Data available till September, 2014.

Issue size, cost, and time taken are median values over the defined periods. **NA** stands for Not Applicable, while - stands for missing data.

Only issues listed on the main board are included. Issues on the SME platform are not included.

<sup>1</sup> P1 denotes 2006 - 2009.

<sup>2</sup> P2 denotes 2010 - 2014.

<sup>3</sup> non-PSU I are issuances by non-PSU firms where issue amount < USD 20 million.

<sup>4</sup> non-PSU II are issuance by non-PSU firms where issue amount > USD 20 million.

<sup>5</sup> Data available from January, 2013 to September, 2014.

<sup>6</sup> Data available from January, 2012 to September, 2014.

## 5 Status of implementation of policy recommendations for equity issuance

**Table 4** Policy recommendations for the equity issuance market

Proposals	Implementing agency	Implementation status
<b>Short term actions</b>		
<ul style="list-style-type: none"> <li>• Make the two year dispensation for direct listing permanent.</li> </ul>	DEA, RBI	
<ul style="list-style-type: none"> <li>• Allow foreign firms to list in Indian markets directly in addition to through the IDR route.</li> </ul>		
<ul style="list-style-type: none"> <li>• Implement the recommendations of the Sahoo committee report on BhDRs.</li> </ul>	DEA, RBI	
<ul style="list-style-type: none"> <li>• Amend IDR rules to reduce limitations on two-way fungibility that appear to be constraining IDR issuance.</li> </ul>	DEA, RBI	
<ul style="list-style-type: none"> <li>• Clarify rules for domestic institutional investment in IDRs.</li> </ul>	IRDA, PFRDA, RBI	
<ul style="list-style-type: none"> <li>• Clarify guidelines for taxation of IDRs.</li> </ul>	CBDT, DEA	
<ul style="list-style-type: none"> <li>• Align rules for foreign entry and participation through the portfolio route with FATF requirements.</li> </ul>	SEBI, DEA	In progress.
<ul style="list-style-type: none"> <li>• Allow greater foreign portfolio investment in firms listed on the SME platform and ITP.</li> </ul>	SEBI, DEA	
<ul style="list-style-type: none"> <li>• Enable easier exit to FDI in rules on M&amp;A.</li> </ul>	SEBI, DEA	Proposal to merge the FPI and FDI scheme.
<ul style="list-style-type: none"> <li>• Review the flexibility for issuers and investors in post listing actions such as secondary issuance, M&amp;A and de-listing.</li> </ul>	SEBI	Revised de-listing regulations from March, 2015. Process continues to be onerous.
<ul style="list-style-type: none"> <li>• Permit seamless access to all segments of equity markets (primary, secondary and tertiary) to insurance firms and mutual funds.</li> </ul>	SEBI, IRDA	
<ul style="list-style-type: none"> <li>• Equalise position limits, margin and cross margining rules for foreign participants and domestic participants in all equity segments.</li> </ul>	SEBI	
<ul style="list-style-type: none"> <li>• Eliminate documentation requirement in the exchange traded currency derivatives.</li> </ul>	RBI	
<ul style="list-style-type: none"> <li>• Allow access to all foreign participants that meet the FATF CDD requirements.</li> </ul>	SEBI	
<ul style="list-style-type: none"> <li>• Rationalise KYC and compliance requirements for non-resident participants in line with CDD requirements under FATF.</li> </ul>	SEBI	In progress.
<ul style="list-style-type: none"> <li>• Clarify taxation rules for foreign investors under the proposed GAAR.</li> </ul>	DEA, CBDT	GAAR implementation deferred to 2017.



STATUS OF IMPLEMENTATION OF POLICY RECOMMENDATIONS FOR EQUITY  
ISSUANCE

**Table 5** Policy recommendations for the equity issuance market

Proposals	Implementing agency	Implementation status
<b><u>Medium term actions</u></b>		
<ul style="list-style-type: none"> <li>● Permit domestic financial institutions greater exposure to equity markets.</li> </ul>	<p><b>IRDA, PFRDA, RBI, SEBI, DEA</b></p>	<p>In progress at PFRDA and IRDA.</p>
<ul style="list-style-type: none"> <li>● Create a time-bound program for reducing cost and time taken for issuance by fixing market microstructure and regulatory framework.               <ol style="list-style-type: none"> <li>1. Separate responsibilities of different intermediaries in the IPO process; empower SEBI to hold each agency responsible in its role.</li> <li>2. Reduce the size of the disclosure without reducing its quality. Define “material” and “control” for the purpose of disclosures.</li> <li>3. Reduce the issuance process from the current T+13 to T+2 days, using the exchange platform for IPO as has been done for the OFS mechanism.</li> <li>4. On the SME platform, either lower the lot size to allow all investors or reduce the compulsory market making obligation.</li> <li>5. Permit issuance to take place despite SEBI’s adverse comments, except for the general conditions for rejection defined by SEBI. Any adverse comments by SEBI should be disclosed in the offer document and prospectus.</li> <li>6. Set the maximum time that SEBI can take for vetting of the IPO proposal after which issuance can proceed automatically.</li> </ol> </li> </ul>	<p><b>SEBI</b></p>	<p>For 3. e-IPO process proposed to reduce time to T+6.</p>
<ul style="list-style-type: none"> <li>● Make “market development” for issuers and investors a stated objective of the regulator in addition to “protecting retail investors”. Reporting on the achievement of this objective should become a part of the regulator’s annual report.</li> </ul>	<p><b>SEBI</b></p>	
<ul style="list-style-type: none"> <li>● Ensure regulatory coordination in areas regulated by multiple regulators.</li> </ul>	<p><b>SEBI, RBI, IRDA, PFRDA, MCA</b></p>	
<ul style="list-style-type: none"> <li>● Remove the uncertainty around Singapore and Mauritius treaties; sign similar treaties with other FATF countries.</li> </ul>	<p><b>DEA</b></p>	
<b><u>Long term goals</u></b>		
<ul style="list-style-type: none"> <li>● Follow ? compliant procedures for regulation making.</li> </ul>	<p><b>SEBI, RBI</b></p>	<p>In progress at SEBI.</p>
<ul style="list-style-type: none"> <li>● Move to residence based taxation.</li> </ul>	<p><b>DEA, CBDT</b></p>	

## 6 Policy update

### 6.1 SEBI proposals on equity issuance

SEBI has several discussion papers between January 2014 and June 2015 proposing regulatory changes to the public equity issuance market as follows:

#### 1 [Annual information memorandum](#)

**Discussion paper date:** February 18, 2014.

**Proposal:** SEBI proposes to mandate annual information disclosure by listed companies. These disclosures are proposed to be similar to the disclosures made in the offer documents in an IPO. The annual information memorandum will be in addition to the annual report and other continuing disclosures already required by the Listing Agreement.

**Status:** The proposals in this discussion paper have been incorporated in the draft SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2014. Not notified as yet.

#### 2 [Listing Obligations and Disclosure Requirements Regulations, 2014](#)

**Discussion paper date:** May 05, 2014.

**Proposal:** These regulations envisage continuing disclosure requirements over and above those contained in Clause 36 of the Equity Listing Agreement. The proposed regulations introduce substantial increases to the existing disclosure requirements.

**Status:** New regulation not issued as yet.

#### 3 [Review of Delisting Regulations](#)

**Discussion paper date:** May 09, 2014.

**Proposal:** The discussion paper proposes to reduce the time taken for delisting and for providing exemptions from the process on a case to case basis. Introduces additional conditions for success of a delisting offer, over and above the requirement to reach 90% of shares by the promoter/acquirer.

**Status:** SEBI (Delisting of Equity Shares) Regulations, 2009 amended with effect from 25th March, 2015. SEBI (Substantial Acquisition of Shares and Takeovers) Regulation, 2011 and SEBI (Buyback of Shares) Regulation, 2013 also amended from this date to change the delisting process.

#### 4 [Review of clause 36 of Equity Listing Agreement](#)

**Discussion paper date:** August 19, 2014.

**Proposal:** The discussion paper seeks to review the continuous disclosure regime for listed companies in India and provide appropriate regulatory framework to assist listed entities to understand and comply with their disclosure obligations.

**Status:** New regulation not issued as yet.

#### 5 [Issue of partly paid shares and warrants](#)

**Discussion paper date:** December 02, 2014.

**Proposal:** Proposed modifications to ICDR, 2009, following a MoF directive, to allow foreign investment in Indian companies through partly paid up shares and warrants.

**Status:** Amendment to [SEBI \(Issue of Capital and Disclosure Requirements\), Regulations 2009](#) made on March 24, 2015.

## 6 Revisiting the capital raising process

**Discussion paper date:** January 08, 2015.

**Proposal:** The proposal has two parts:

1. Proposals with regards to reducing the issue time from T+13 to T+5-6 using the e-IPO mechanism, and
2. Widening the availability of the fast-track FPO mechanism by easing eligibility requirements.

**Status:** New regulation not issued as yet.

## 7 Alternate capital raising platform

**Discussion paper date:** March 30, 2015.

**Proposal:** Proposal to create an alternate capital raising platform for new age/technology companies. Some requirements under ICDR, 2009 proposed to be eased and the definition of Qualified Institutional Buyers (QIBs) widened for this platform.

**Status:** New regulation not issued as yet.

## 8 Offer for Sale

**Discussion paper date:** April 06, 2015.

**Proposal:** Proposal to modify the OFS process notice period and introduce trading halts to reduce possibility of market manipulation and/or excessive price volatility in the pre-OFS period.

**Status:** New regulation not issued as yet.