Capital Market Newsflash dated 20 April 2007 www.aralaw.com

TOPICS

» Parking of Funds in Short Term Deposits of Banks by Mutual Funds pending deployment

Vide its Circular SEBI/IMD/CIR No.1/ 91171/07 dated April 16, 2007, the Securities and Exchange Board of India ("SEBI") has issued guidelines for investment of funds of a scheme in short term deposits of scheduled commercial banks pending their deployment. The main features of the guidelines are as follows:

1. Short term deposits (i.e. parking of funds in deposit accounts for a period not exceeding 91 days) should be held in the name of the concerned scheme;
2. No mutual fund scheme shall park more than 15% of the net assets in Short term deposit(s) of all the scheduled commercial banks put together (which may be raised to 20% with prior approval of the Trustees);
3. Parking of funds with associate and sponsor scheduled commercial banks taken together should not exceed 20% of the total deployment in short term deposits;
4. Deposit with any scheduled commercial bank (including its subsidiaries) should not exceed 10% of the net assets;.
5. No funds of a scheme may be parked in short term deposit of a bank which has invested in that scheme;.
6. The Asset Management Company (□AMC□) cannot charge any investment management and advisory fees for parking of funds in short term deposits of scheduled commercial banks in case of liquid and debt oriented schemes;
7. All funds parked in short term deposit(s) should be disclosed in half yearly portfolio statements under a separate heading with specific details of name of the bank, amount of funds parked, percentage of NAV;
8. Trustees should certify in the bi-monthly compliance test report and half-yearly reports that the provision of the regulation pertaining to parking of funds in short term deposits pending deployment are being complied with at all points of time.

These guidelines will apply to all fresh investments by a mutual fund whether in a new scheme or an existing scheme. In case of an existing scheme where the scheme has already parked funds in short term deposits, the AMC should ensure conformity with the above conditions within a period of 3 months, from the date of the issue of the guidelines.

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» Sebi Launches Trading Platform For Corporate Bond Market

Vide its Circular SEBI/CBM/BOND/2/2007/13/04 dated April 13, 2007, the Securities and Exchange Board of India ("SEBI") has laid down a framework for the development of an exchange traded market for Corporate Bonds in a two-phased manner. The trading platforms would be used for executing all trades in listed debt securities issued by all institutions such as Banks, Public Sector Undertakings, Municipal Corporations, bodies corporate and companies. The main features of the framework are as follows:

Phase-I:

1. Trade matching platform to be order driven with essential features of Over The Counter (☐OTC☐) market;
2. The trade matching platform should be implemented by the Bombay Stock Exchange ("BSE") and National Stock Exchange ("NSE") with effect from July 01, 2007;
3. Orders executed through trading platforms of either BSE or NSE would not be required to be reported again on the reporting platforms;
4. All investors including banks desirous of using the trading platform of BSE or NSE would deal through stock brokers registered with SEBI for their transactions thereon. Respective regulators would issue necessary instructions to all entities regulated by them;
5. At his option, the participant would also be allowed to undertake OTC transactions. Such OTC transactions would continue to be reported on the reporting platforms;
6. The trading platforms would be available from 10.00 am to 5.30 pm on all trading days. BSE and NSE would need to ensure that the norms on trading hours, access rights to the trading systems etc. broadly follow the norms presently followed in the equity segment. BSE and NSE also to ensure that the norms are harmonious between the exchanges;
7. Entities trading in listed corporate debt securities may settle their trades bilaterally between them and may also use the services of the stock exchanges for clearing and settlement;
8. BSE and NSE to ensure that the shut period in corporate bonds is reduced and aligned to that applicable for Government Securities within a reasonable period of time;
9. lAll entities including Qualified Institutional Buyers (☐QIBs☐) would undertake trade in corporate bonds subject to a minimum value of Rs.1 lakh. The Exchanges may also have a limited segment for transactions in smaller market lots;
10. The Actual/Actual day count convention, presently followed for dated Government Securities, shall be mandatory for all new issues of corporate bonds. For existing bonds, the existing terms may be observed unless agreed to by issuers and holders.

Phase II:

1. BSE and NSE would move to an anonymous order matching system for trading of bonds within an appropriate period of time as indicated by them to SEBI;
2. The clearing and settlement facility would be provided by BSE and NSE with a multilateral netting facility for trades executed on the platform;
3. BSE and NSE would devise an appropriate system of margining for trades done on the platform;
4. BSE and NSE may either fully or partially engage the services of entities providing technical

support for trading in corporate bonds. Where such service provides are engaged, the concerned stock exchange would be responsible for the execution of trades and clearing and settlement thereon;

5. The conditions mentioned in points 3, 4, 5, 6, 8, 9 and 10 in Phase I above shall, as far as may be, apply to the anonymous order matching system.

Further, in order to facilitate development of a vibrant market in corporate debt instruments, SEBI has amended the listing agreement for debentures issued vide circular No. SEBI/CFD/DIL/CIR-39/2004/11/01 dated November 1, 2004 and further amended by circular No. SEBI/CFD/DIL/LA/1/2007/20/03 dated March 20, 2007.

BSE and NSE have been directed to make necessary amendments to the listing agreement, bye- laws, rules and regulations for the implementation of the said directions.

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