Primary Dealers' Association of India

1st Annual Report
1997-98

Primary Dealers' Association of India

BOARD OF DIRECTORS*

Shri S.K. Mukerji
Chairman, PDAI
Managing Director, DFHI

Shri R. Venkatesan
Managing Director,
STCI

Shri K.A. Chaukar
Managing Director,
I - Sec

Shri N. Gopalakrishnan
Managing Director,
SBI Gilts

Shri S.A. Shanbhag
Managing Director,
GSTC

Shri Y.P. Narang
Managing Director,
PNB Gilts

Auditors

M/s. M.P. Chitale & Co.
Chartered Accountants

Legal Advisers

M/s. Dave Girish & Co.
Advocates

Registered Office

C/o. Discount & Finance House of India Ltd.
306/307, Varma Chambers
Homji Street, Fort
Mumbai 400 001

Dr. Y.V. Reddy, Deputy Governor, Reserve Bank of India, lighting the lamp to mark the inauguration of Primary Dealers' Association of India on March 23, 1998.

Shri S.K. Mukerji, Chairman, Primary Dealers' Association of India addressing the audience at the inaugural function.

DIRECTORS' REPORT

Your Directors have great pleasure in presenting herewith the first Annual Report of the Primary Dealers' Association of India together with the Income and Expenditure Account for the period ended March 31, 1998 and the Balance Sheet as at that date.

1. Background

As you are aware, in March 1995, Reserve Bank of India (RBI), announced detailed guidelines for enlistment of Primary Dealers (PDs) in Government Securities Market. On February 29, 1996, Discount And Finance House of India Limited (DFHI) and Securities Trading Corporation of India Ltd.(STCI) were accredited as PDs and as on June 1, 1996, the four other institutions viz. ICICI Securities and Finance Co. Ltd., SBI Gilts Limited, Gilt Securities Trading Corporation Ltd. and PNB Gilts Ltd. were given accredition by RBI.

In the guidelines issued for Primary Dealers in Government Securities Market, RBI had, inter alia, stipulated that authorised Primary Dealers would, in due course, form a Self Regulatory Organisation (SRO) which would evolve a code of conduct and a system for securities transactions. Accordingly, the six Primary Dealers organised themselves into a body called "Primary Dealers' Association of India" which was incorporated as a Company under Section 25 of the Companies Act, 1956 on December 22, 1997. The Company commenced its operations with its registered office at 306/307, Varma Chambers, Homji Street, Fort, Mumbai - 400 001.

The Managing Directors of all the six Companies which are PDs are the first Directors of the Association. The first meeting of the Board of Directors of the Association was held on February 6, 1998. Shri S.K. Mukerji, Managing Director, DFHI was unanimously elected Chairman of the Board of Directors of the Association.

The formal inauguration of the Primary Dealers' Association of India was done by Dr.Y.V. Reddy, Deputy Governor, RBI on Monday, March 23, 1998 at 10.00 a.m. in Mumbai, in the presence of senior executives from the banking and the financial community.

2. Entrance Fee/Annual Subscription

At the first meeting of the Board of Directors held on February 6, 1998, the amount of subscription payable by each member of the Company was fixed at Rs.1 lakh, which comprised Rs.50,000 as entrance fee towards the corpus of the Association and Rs.50,000 as annual membership fee for the year 1997-98.

3. The financial results

The Income and Expenditure Account shows a surplus of Rs.34,151.10 which has been carried to the Balance Sheet under Reserves and Surplus.

4. Role played by the Association

During the year under review, the Association initiated several steps towards fulfilment of its objectives. In particular, it continued to have regular dialogue with RBI on several matters which were considered vital for development of the secondary market in Government securities. For example, even before its formal incorporation, it took up with the Government through RBI the matter relating to withdrawal of TDS on Government securities and abolition of the voucher system, which was prevalent in the Gilts market and which was acting as a major impediment in the development of the secondary market. Ultimately, the voucher concept in Gilts trading in India came to an end with effect from June 1, 1997 when the Government exempted interest payable on any security of Central or State Government from the provisions of Section 193 of the Income-tax Act.

In February 1997, the Association addressed a representation to the Chairman, Central Board of Direct Taxes (CBDT), New Delhi requesting him to issue a suitable notification clarifying that the interest income of the PDs on their holding of Government securities did not attract the provisions of Interest Tax Act, 1974. The Association has been vigorously pursuing this issue with RBI and the Government of India so that this matter is resolved at the earliest.

Similarly, in June 1997 your Association addressed a communication to the Deputy Governor of RBI requesting him to take up with the Government of India the question of exempting PDs from the requirement of withholding tax on call money transactions through a notification under Section 194 (3) (iii) of Income-tax Act. This matter is also being actively pursued with RBI/Government by the Association.

There are several other issues on which continuous dialogue was carried out by the Association with RBI. Of these issues, a few important ones may briefly be stated as under:

(a) Introduction of an appropriate scheme for payment of underwriting fee to PDs (in replacement of payment of commission) introduced from May 21, 1997.

(b) Liquidity support to PDs – inclusion of all categories of GOI papers/Treasury Bills for computing amount of liquidity support and providing the facility by way of overdraft on the lines of the refinance granted to commercial banks.

(c) Opening of a second current account with RBI.

(d) Operational matters in relation to SGL account in the context of DVP system.

(e) Intra-day overdraft facility.

(f) Procedural changes in auction system of Treasury Bills - allotment to non-competitive bidders outside the notified amount, introduction of 28/182 day Treasury Bills, etc.

(g) Repo deals in Government securities - Desirability of having Master agreements.

(h) According preferential access to PDs to RBI's open market operations and issuance of auction calendars for all GOI floatations.

(i) Removal of duration restrictions on Ready - Forward transactions.

(j) Operations in current account with DAD, RBI-issuance of cheques in favour of corporate entities permitted by RBI to route their call/notice money transactions through PDs but did not have current account with RBI.

(k) Permission to PDs for selling Government dated securities on 'when issued basis'.

(l) Permission to PDs to sell Government securities purchased on the same day and for short-selling.

5. Future Plans

With a view to updating the knowledge and skills of Dealing Room staff of PDs and other market players, the Association proposes to hold Workshops/Seminars/Training Programmes during the financial year 1998-99.

There are still some operational as well as policy issues which remain unresolved and inhibit the growth of Gilts market. Your Association as a Self-Regulatory Organisation and a representative body of dealers in Government Securities Market would strive to play an active role in getting the impediments removed. In the immediate context, the Association on its own and through its members would do its utmost to provide support to the massive market borrowing programme of the Government of India. Task forces/sub-committees have been/are being formed to address certain aspects like promotion of Gilts as a viable alternative investment option, code of ethics and conduct for market participants so as to achieve highest professional standards, screen based trading leading to more transparent and real time settlement of money market/securities transactions, etc.

In this context, RBI guidelines relating to Satellite Dealers (SDs) envisage that SDs should also be part of the SRO. Because of some legal impediments, we could not induct the SDs as Associate

Members. Efforts are on to involve them in the activities of the Association within the framework of existing legal provisions.

6. Directors

Article 43 A of the Company's Articles of Association named the following representatives of PDs as the first Directors of the Company :

1. Shri S.K. Mukerji
2. Shri R. Venkatesan
3. Shri K.A. Chaukar
4. Shri N. Gopalakrishnan
5. Shri S.A. Shanbhag
6. Shri Y.P. Narang.

In terms of the provisions of Section 256 of the Companies Act, 1956, all of them retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

7. Statutory Information

(a) Auditors

M/s. M.P. Chitale & Co., Chartered Accountants were appointed as the first Auditors of the Company to hold office from the date of incorporation till the conclusion of the first Annual General Meeting of the Company and they are eligible for re-appointment. The auditors have forwarded their certificate to the Company stating that their re-apppointment, if made, will be within the limit specified in Section 224 (1B) of the Companies Act 1956. The Board recommends to the members re-appointment of the Auditors and fixation of their remuneration.

(b) Particulars of Employees

The statement containing the particulars of employees pursuant to section 217(2A) of the Companies Act 1956 read with the rules framed thereunder is not being annexed to the Report as no employee has so far been appointed.

8. Acknowledgment

Your Directors take this opportunity to express their grateful thanks to the officials concerned of Reserve Bank of India for their unstinted support, guidance and co-operation to the Association and to all Primary Dealers. A few officials of the PDs worked hard to enable the Association to complete the formalities regarding formation of the Company, comply with statutory requirements and make the inaugural function a grand success. Some of them have also been actively participating in the activities of the Association. The Directors take this opportunity to place on record the valuable services rendered by the officials and extend to them their grateful thanks.

For and on behalf of the Board of Directors

(S.K. MUKERJI)
Chairman

Mumbai
July 8, 1998.

REPORT OF THE AUDITORS TO THE MEMBERS OF PRIMARY DEALERS' ASSOCIATION OF INDIA FOR THE YEAR ENDED 31ST MARCH, 1998

We have audited the attached Balance Sheet of Primary Dealers' Association of India (the Organisation) as at 31st March, 1998 together with the Income and Expenditure Account for the year ended on that date and report that :

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

2. In our opinion proper books of accounts as required by law have been kept by the Organisation so far as appears from our examination of these books.

3. The said Balance Sheet and Income & Expenditure Account are in agreement with the books of account.

4. In our opinion and to best of our knowledge and belief and according to the information and explanations given to us, the said accounts read together with the notes thereon (Ref. Schedule D) give the information as required by the Companies Act, 1956, in the manner so required and give a true and fair view.
   (a) In the case of the Balance Sheet of the state of affairs of the Organisation as at 31st March, 1998.
   (b) In the case of the Income and Expenditure Account of the surplus for the period ended on that date.

In our opinion and to best of our information and according to the explanations given to us, the Manufacturing and Other Companies (Auditors' Report) Order, 1988 does not apply to the Organisation since it is a company licensed to operate under Section 25 of the Companies Act, 1956.

For **M.P. CHITALE & CO.**
Chartered Accountants

SANJAY D. PANSE
Partner

Mumbai
Dated : June 11, 1998

BALANCE SHEET AS AT MARCH 31, 1998

	Schedule Number		As at 31st March, 1998 (Amount in Rs.)
SOURCES OF FUNDS :			
Corpus Contribution			300,000.10
Reserve and Surplus	A		34,151.10
TOTAL			**334,151.10**
APPLICATION OF FUNDS :			
Current Assets, Loans & Advances			
Bank Balance	B	346,736.10	—
Less : **Current Liabilities & Provisions**			
Current Liabilities	C	12,585.00	—
Net Current Assets			334,151.10
TOTAL			**334,151.10**
Notes to Accounts	D		

As per our report of even date attached

For **M.P. Chitale & Co.**
Chartered Accountants

(Sanjay Panse)
Partner

Mumbai
June 11, 1998

On behalf of the Board of Directors

(S.K. Mukerji)
Chairman

(R. Venkatesan)
Director

(N. Gopalakrishnan)
Director

(S.A. Shanbhag)
Director

Mumbai
June 11, 1998

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED MARCH 31, 1998

	Schedule Number		As at 31st March, 1998 (Amount in Rs.)
INCOME :			
Membership Fees			300,000.10
TOTAL			**300,000.00**
EXPENDITURE :			
Inaugural Function Expenses			183,838.50
Printing & Stationery Expenses			5,236.40
Bank Charges			140.00
Payment to Auditors :			
Audit Fees		5,000.00	—
Tax Matters		2,500.00	7,500.00
Preliminary Expenses Written-off			69,134.00
TOTAL			**265,848.90**
Excess of Income over Expenditure			**34,151.10**
Surplus carried to Balance Sheet			**34,151.10**
Notes to Accounts	D		

As per our report of even date attached

For **M.P. Chitale & Co.**
Chartered Accountants

(Sanjay Panse)
Partner

Mumbai
June 11, 1998

On behalf of the Board of Directors

(S.K. Mukerji)
Chairman

(R. Venkatesan)
Director

(N. Gopalakrishnan)
Director

(S.A. Shanbhag)
Director

Mumbai
June 11, 1998

SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 1998

	As at 31st March, 1998 (Amount in Rs.)
SCHEDULE : 'A'	
RESERVE & SURPLUS	
General Reserve :	
Excess of Income over Expenditure during the year	**34,151.10**
SCHEDULE : 'B'	
CASH & BANK BALANCES	
Balance with Scheduled Bank :	**346,736.10**
SCHEDULE : 'C'	
CURRENT LIABILITIES	
Creditors for Expenses	
Inaugural Function	5,085.00
Payment to Auditors	7,500.00
TOTAL	**12,585.00**

SCHEDULE : 'D'

NOTES TO ACCOUNTS

1. Primary Dealers' Association of India is a Company limited by Guarantee registered under Section 25 of the Companies Act, 1956.
2. Significant Accounting Policies
   (a) The accounts of the Company are maintained on historical cost convention.
   (b) Preliminary expenses are being written off fully in the first year.
   (c) Membership Fee is considered as Income.
   (d) Entrance Fee received from the Members is appropriated towards the corpus of the Company.
3. There was no expenditure or income or remittance in foreign currency during the year.
4. Information pursuant to para 4C and sub-clause a,b,c and e of para 4D of Part II of Schedule VI of the Companies Act, 1956 has not been given as it is not applicable to the Company.
5. No provision for taxation has been made in the accounts in view of the exemption being sought by the Company under Section 11 read with Section 2(15) of the "Income-tax Act, 1961."
6. Previous year's figures have not been given as this is the first financial year of the Company.

As per our Report of even date attached
For **M.P. Chitale & Co.**
Chartered Accountants

(Sanjay Panse)
Partner

Mumbai,
June 11, 1998

On behalf of the Board of Directors
For **Primary Dealers' Association of India**

(S.K. Mukerji)
Chairman

(R. Venkatesan)
Director

(N. Gopalakrishnan)
Director

(S.A. Shanbhag)
Director

Mumbai,
June 11, 1998

PDAI

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

a) Registration Details

Registration No.	11-112605	State Code	11
Balance Sheet Date	31-3-1998		

b) Capital raised during the year (Rs. in lacs)

Public Issue	NIL	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	NIL

c) Position of Mobilisation and Deployment of Funds (Rs. in lacs)

TOTAL LIABILITIES		TOTAL ASSETS	
Success of Funds :		**Application of Funds :**	
Corpus Contribution	3.00	Net Fixed Assets	NIL
Reserves & Surplus	0.34	Investments	NIL
Secured Loans	NIL	Net Current Assets*	3.34
Unsecured Loans	NIL	Misc. Expenditure	NIL
		Accumulated Losses	NIL

* Net of Current Liabilities & Provisions.

d) Performance of the Company (Rs. in lacs)

Turnover – Income	3.00
Total Expenditure	2.66
Profit Before Tax	0.34
Profit After Tax	0.34
Earnings per Share in Rs.	NIL
Dividend Rate %	NIL

e) Generic Names of Three Principal Products/Services of Company
(as per Monetary Terms)

Item Code No. (ITC Code)	NIL
Service Description	Not Applicable
Item Code No. (ITC Code)	NIL
Service Description	Not Applicable
Item Code No. (ITC Code)	NIL
Service Description	Not Applicable

Dr. Y.V. Reddy, Chief Guest, addressing at the inaugural function.

A view of the audience at the inaugural function.

Shri N. Gopalakrishnan, Director of PDAI welcoming the guests at the inaugural function.

Shri K.A. Chaukar, Director of PDAI, extending vote of thanks at the inaugural function.