PRIMARY DEALERS' ASSOCIATION OF INDIA

2nd Annual Report
1998-99

PRIMARY DEALERS' ASSOCIATION OF INDIA

BOARD OF DIRECTORS

Shri M. R. RAMESH
Chairman, PDAI
Managing Director, DFHI

Shri R. V. JOSHI
Managing Director,
STCI

Shri DEVDATT SHAH
Managing Director,
1-Sec

Shri R. C. ROYAPPA
Managing Director,
SBI Gilts

Shri S. A. SHANBHAG
Managing Director,
GSTC

Shri ARUN KAUL
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, Dy. Governor, RBI being welcomed by Shri. N. Gopalakrishnan. Also in the picture, (from L to R) Arun Kaul, M. R. Ramesh & S. A. Shanbhag.

Dr. Y. V. Reddy, Dy. Governor, RBI addressing the Seminar organised by PDAI at Chennai.

DIRECTORS' REPORT

Your Directors have great pleasure in presenting herewith the second Annual Report of the Primary Dealers' Association of India together with the Income and Expenditure Account for the period ended March 31, 1999 and the Balance Sheet as at that date.

1. Background

As you are aware, in the wake of the guidelines issued by RBI for Primary Dealers in Government Securities Market stipulating that authorised Primary Dealers would be forming a Self Regulatory Organisation (SRO) which would evolve a code of conduct and a system for securities transactions, the "Primary Dealers' Association of India" (PDAI) was established as a Company under Section 25 of the Companies Act, 1956 on December 22, 1997. The PDAI at the time of formation had six members and with Reserve Bank of India granting authorisation for more number of entities, currently the association has a strength of 10 members.

2.Operating Environment

The institution of Primary Dealers (PDs) was created by RBI with the following objectives:

1) To strengthen the infrastructure in Government securities market.
2) To ensure development of underwriting and market making capabilities for Government securities.
3) To improve secondary market trading, leading to enhanced liquidity and wider investor base and price discovery.
4) To function as a conduit for conducting open market operations.

The available data would go to indicate that the performance of PDs by and large has been in line with the above stated objectives.

Major policy measures were announced by RBI in the financial year 1998-99, which focussed on structural measures to strengthen the financial system and improved functioning of the various segments of the financial market in the backdrop of the recommendations of Narasimhan Committee II. Some of these, relevant to the functioning of PDs were :-

a) Introduction of notified amounts in the auction of Treasury Bills,
b) Uniform Price auction for 91 day Treasury Bills,
c) Sanctions for FIIs to invest in Treasury Bills,
d) Re-introduction of 182-day Treasury Bills.

Also steps have been initiated to make the call money market a pure inter-bank market.

While the money market was characterised by more than comfortable liquidity in the first half of the year 1998-99, the volatility in forex market during August 1998 compelled RBI to initiate certain steps like increase in CRR and Repo rate, to bring back stability in the market. As a sequel to the above measures, call rates shot up but settled down immediately thereafter in the band of 8% to 10%. Consequent on the reduction in repo rate from 8% to 6% and Bank Rate from 9% to 8% announced by RBI in March 99, the call rates could settle down in the band between 6% to 8%.

The Government securities market saw Government of India raising an amount of Rs.83,752.82 crores in addition to State Governments mobilising an aggregate amount of Rs.12,118.22 crore from the market. Despite the large-scale borrowings by the Central and State Governments, the medium and long-term interest rates during the course of the year remained fairly stable.

The latest monetary policy document of RBI has put greater emphasis on the institution of primary dealers for enhancing the depth and liquidity of Government securities market and RBI expects that Primary Dealers should play a larger catalytic role in developing both the primary and secondary markets.

3. Entrance Fee/Annual Subscription

At the meeting of the Board of Directors held on March 24 , 1999, the amount of subscription payable by each member of the Company was revised from Rs.1 lakh to Rs.1.5 lakh, which comprised Rs.75,000 as entrance fee towards the corpus of the Association and Rs.75,000 as annual membership fee.

4. The financial results

The Income and Expenditure Account shows a surplus of Rs.2,08,550.45 compared to Rs.34,151.10 in the last financial year. This has been carried to the Balance Sheet under Reserves and Surplus.

5. 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 this regard, RBI, in consultation with PDs, has decided :-

a) To obtain minimum bidding commitment from each PD for the auctions of Treasury Bills so that together they absorb 100 per cent of the notified amount.

b) To offer an enhanced underwriting option to PDs for the entire notified amount in the auction of dated Government securities.

c) In order to promote the retail market segment, the Reserve Bank also has taken steps to revamp the system of liquidity support to PDs, at the same time increasing the number of primary dealers.

d) It has announced a calendar for issue of Treasury Bills for the entire year so that PDs can plan their operations well in advance.

All the above development augurs well for the Primary Dealers to play a meaningful role in the furtherence of Government securities market.

As a part of our efforts for the development of the Government securities market and creating greater awareness among investors, a half-day seminar was organised at Chennai on April 17, 1999. In addition, the Association co-sponsored a seminar organised by Invest India, on 17th, 22nd, 23rd September 1998 on Future of India's Debt Market.

During the year, PDAI was entrusted with the responsibility of setting up of Screen

Based Trading System. It formed a Committee to look into the various aspects of this project, taking into consideration the fact that such a project was being undertaken for the first time in India.The Committee obtained responses from major money and securities market players. Based on the feedback wherein most of the players in the market had favoured the introduction of screen based trading, PDAI called for written offers from various vendors containing details of technical, commercial and contractual aspects along with a time schedule for delivery and implementation of the application system. The proposal submitted by the vendors has been scrutinised by the Board of Directors and the Association has submitted a detailed report to RBI in the matter. Further communication from RBI on this is awaited.

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) Intra-day overdraft facility.

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

6. Future Plans

Your Association as a Self-Regulatory Organisation and a representative body of dealers in the Government securities market would strive to play an active role in the development of Gilt-edged securities market. There are still certain operational as well as policy issues which remain unresolved and inhibit the growth of Gilts market, and it will be the endeavour of the Association to have that sorted out.

As knowledge and skills are considered as major aspect for development of the market, the Association, to equip the market players adequately in this regard, proposes to hold more Workshops/Seminars/Training Programmes during the financial year 1999-2000.

RBI guidelines relating to Satellite Dealers (SDs) envisage that SDs should also be a part of the SRO. Because of some impediments, the Association could not induct the SDs as Associate Members. Efforts are on to involve them in the activities of the Association within the framework of the existing provisions. With the increased number of PDs now operating and with the community of Satellite Dealers, it will be the objective of PDAI to explore all possible avenues for expanding the retail market for Government securities.

7. Directors

Out of the first 6 Directors of the Association Shri S.K. Mukerji, Chairman relinquished his office on August 16, 1998 following reversion to his parent organistion and Shri N. Gopalakrishnan was appointed Chairman of the Association in his place. The casual vacancy caused by resignation of Shri Mukerji was filled in by Shri M.R.Ramesh. Shri Gopalakrishnan relinquished the office of Chairman on 3rd July, 1999 as a sequel to reversion to his parent organisation. The casual vacancy caused by resignation of Shri Gopalkrishnan as Director was filled in by Shri R.C.Royappa. Shri K.N.Gangurde who was appointed in the casual vacancy caused by the resignation of Shri R.Venkatesan also resigned on June 29, 1999. Shri Y.P.Narang and Shri K.A.Chaukar, both resigned from the Board on 14th November, 1998. The Board of Directors of the Association has placed on record its deep sense of appreciation for the guidance, support and strength provided by the said Directors to the Association.

Shri M.R. Ramesh was appointed as the Chairman by the Board of Directors of Association at its meeting held on 29th June, 1999 following relinquishment of office by Shri N.Gopalakrishnan. Sarvashri Arun Kaul, Devdatt Shah and R.V.Joshi were appointed in the casual vacancies on 14th November 1998, 23rd January 1999 and 29th June, 1999 respectively.

In terms of Articles 43 (B) (b) of the Articles of Association, Sarvashri S.A. Shanbhag and Shri Arun Kaul will retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

8. 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 Association and they are eligible for re-appointment. The Auditors have forwarded their certificate to the Company stating that their re-appointment, 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.

9. Acknowledgment

Your Directors take this opportunity to express their grateful thanks to the concerned officials of Reserve Bank of India for their unstinted support, guidance and co-operation to the Association and to all Primary Dealers. The Directors wish to place on record their appreciation for the efforts of the officials of the member organisations who worked hard to enable the Association to conduct successfully the seminars and other activities.

For and on behalf of the Board of Directors

(M.R.RAMESH)
CHAIRMAN

Mumbai
August 24, 1999.

REPORT OF THE AUDITORS TO THE MEMBERS OF PRIMARY DEALERS' ASSOCIATION OF INDIA FOR THE YEAR ENDED 31ST MARCH, 1999

We have audited the attached Balance Sheet of Primary Dealers' Association of India (the Organisation) as at 31st March, 1999 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 Organasation 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, 1999.

   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 (Auditor's Report) Order, 1988 does not apply to the Organisation since it is a company licensed to operate under Sec 25 of the Companies Act, 1956.

For M.P. Chitale & Co.
Chartered Accountants

Mumbai
August 24th, 1999.

Sanjay D Panse
Partner

PRIMARY DEALERS' ASSOCIATION OF INDIA
BALANCE SHEET AS AT 31^{ST} MARCH, 1999

Particulars	Schedule No.		As At 31.03.1999		As At 31.03.1998
			Rs.		Rs.
SOURCES OF FUNDS					
Corpus Contribution			**300,000.00**		300,000.00
Reserves and Surplus	A		**242,701.55**		34,151.10
TOTAL			**542,701.55**		334,151.10
APPLICATION OF FUNDS					
CURRENT ASSETS, LOANS & ADVANCES					
Bank Balance	B	**596,201.55**		346,736.10	
LESS : CURRENT LIABILITIES & PROVISIONS					
Current Liabilities	C	**53,500.00**		12,585.00	
Net Current Assets (B-C)			**542,701.55**		334,151.10
TOTAL			**542,701.55**		334,151.10
Notes on Accounts	D				

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

Sanjay D. Panse
Partner

Mumbai
August 24, 1999.

For Primary Dealers' Association of India

M. R. Ramesh
Chairman
[Managing Director,
Discount & Finance
House of India Ltd.]

Arun Kaul
Director
[Managing Director,
PNB Gilts Ltd.]

R. V. Joshi
Director
[Managing Director,
Security Trading
Corporation of India Ltd.]

R. C. Royappa
Director
[Managing Director,
SBI Gilts Ltd.]

Mumbai,
August 24, 1999.

PRIMARY DEALERS' ASSOCIATION OF INDIA
INCOME & EXPENDITURE ACCOUNT FOR THE PERIOD ENDED 31ST MARCH, 1999

Particulars		As At 31.03.1999 Rs.	As At 31.03.1998 Rs.
INCOME			
Membership Fees		**300,000.00**	300,000.00
Contribution towards Promotion Advertisement		**205,530.00**	-
Contribution towards Sponsorship Program		**150,000.00**	-
TOTAL	**(I)**	**655,530.00**	300,000.00
EXPENDITURE			
Inaugural Function Expenses		-	183,838.50
Printing & Stationery Expenses		**39,209.55**	5,236.40
Promotion Advertisement		**205,530.00**	-
Sponsorship Expenses		**150,000.00**	-
Bank Charges		**10.00**	140.00
Preliminary Expenses written off		-	69,134.00
Meeting Expenses		**6,230.00**	-
Professional Charges		**35,000.00**	-
Payment to Auditors			
- Audit Fees		**7,500.00**	5,000.00
- Tax Matters		**3,500.00**	2,500.00
TOTAL	**(II)**	**446,979.55**	265,848.90
Balance being Surplus /(Deficit) for the year	**(I-II)**	**208,550.45**	34,151.10

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

Sanjay D. Panse
Partner

Mumbai,
August 24, 1999.

For Primary Dealers' Association of India

M. R. Ramesh
Chairman
[Managing Director, Discount & Finance House of India Ltd.]

Arun Kaul
Director
[Managing Director, PNB Gilts Ltd.]

R. V. Joshi
Director
[Managing Director, Security Trading Corporation of India Ltd.]

R. C. Royappa
Director
[Managing Director, SBI Gilts Ltd.]

Mumbai,
August 24, 1999.

PRIMARY DEALERS' ASSOCIATION OF INDIA
SCHEDULE FORMING PART OF BALANCE SHEET AS AT 31ST MARCH, 1999

Particulars	As At 31.03.1999 Rs.	As At 31.03.1998 Rs.
SCHEDULE A		
RESERVES & SURPLUS		
Opening Balance	**34,151.10**	Nil
Add		
Excess of Income over Expenditure as per Income & Expenditure Account	**208,550.45**	34,151.10
TOTAL	**242,701.55**	34,151.10
SCHEDULE B		
BANK BALANCES		
Balance with Scheduled Bank In Current Account	**596,201.55**	346,736.10
TOTAL	**596,201.55**	346,736.10
SCHEDULE C		
CURRENT LIABILITIES		
Creditors For Expenses		
Inaugural Function Expenses	-	5,085.00
Payable to Auditors	**18,500.00**	7,500.00
Professional Charges	**35,000.00**	-
TOTAL	**53,500.00**	12,585.00

PRIMARY DEALERS' ASSOCIATION OF INDIA
SCHEDULE D
NOTES ON 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 have been written off fully in the first year itself.
   c) Membership Fees is considered as Income.
   d) Entrance Fees received from the members as contribution towards the corpus of the Association

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 they are 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 been regrouped wherever required.

As per our report of even date attached.

For M.P. Chitale & Co.
Chartered Accountants

Sanjay D. Panse
Partner

Mumbai
August 24 th, 1999.

For and on behalf of the Board of Directors
For Primary Dealers' Association of India

M. R. Ramesh
Chairman
[Managing Director,
Discount & Finance
House of India Ltd.]

Arun Kaul
Director
[Managing Director,
PNB Gilts Ltd.]
House of India Ltd.]

R. V. Joshi
Director
[Managing Director,
Security Trading Corp. of
India Ltd.]

R. C. Royappa
Director
[Managing Director,
SBI Gilts. Ltd.]

Mumbai
August 24 th, 1999.

PRIMARY DEALERS' ASSOCIATION OF INDIA

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

a) **Registration Detatils**

Registration No.	11-112605	State Code	11
Balance Sheet Date	31-03-1999		

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	2.43	Investments	NIL
Secured Loans	NIL	Net Current Assets *	5.43
Unsecured Loans	NIL	Misc. Expenditure	NIL
		Accumulated Losses	NIL

* Net of Current Liabilities & Provisions.

d) **Performance of the Company (Rs. in Lacs)**

Turnover - Income	6.55
Total Expenditure	4.47
Profit Before Tax	2.08
Profit After Tax	NIL
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.	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

A Cross Section of the audience listening to Dr.Y. V. Reddy's address at the Seminar.