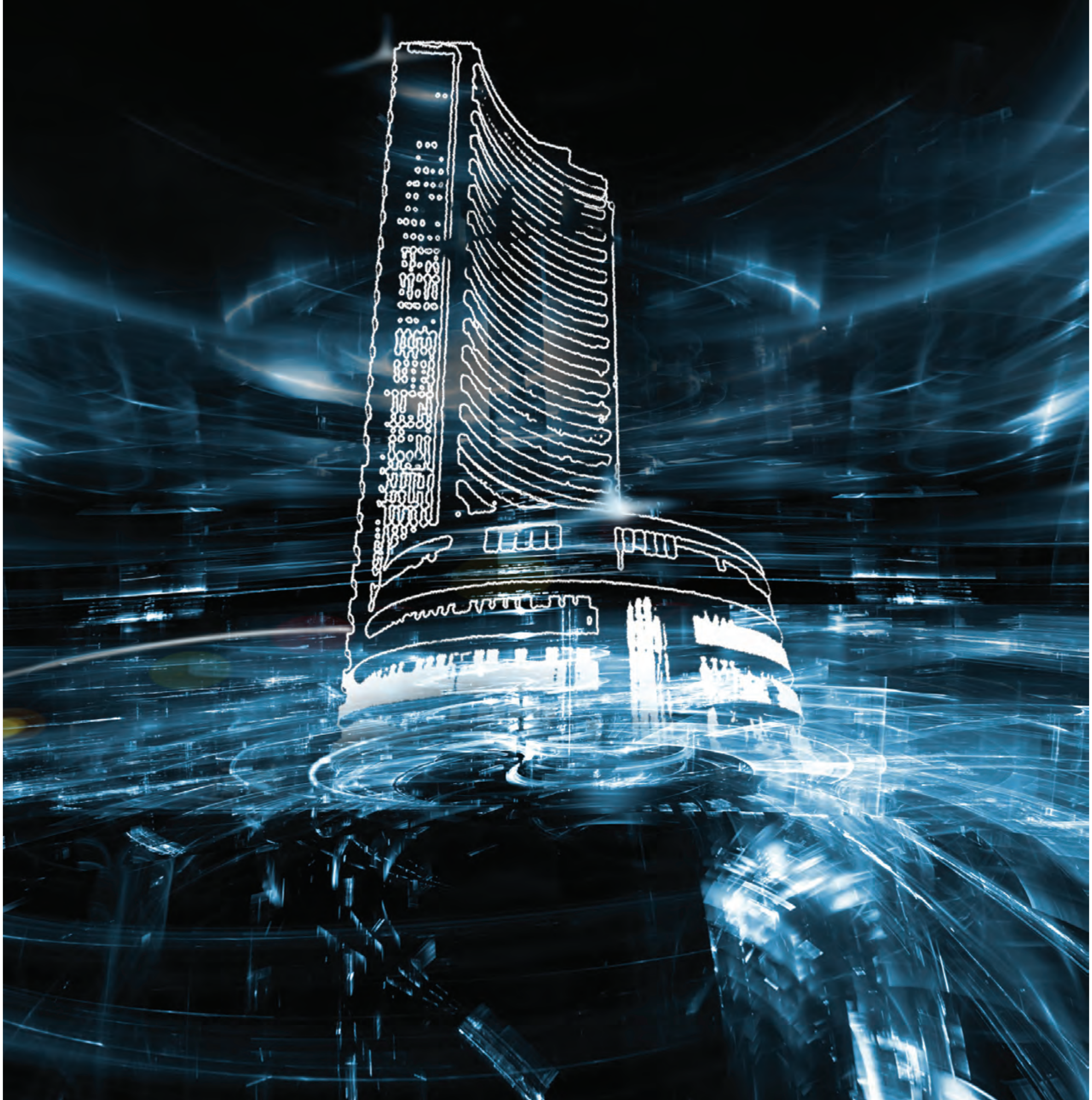
Annual Report 2013 - 2014

In a gentle way, you can shake the world.

- Mahatma Gandhi



TRADE AT SPEEDS OF 200 MICROSECONDS ONLY ON BSE, INDIA'S FASTEST EXCHANGE.

BSE
EXPERIENCE THE NEW

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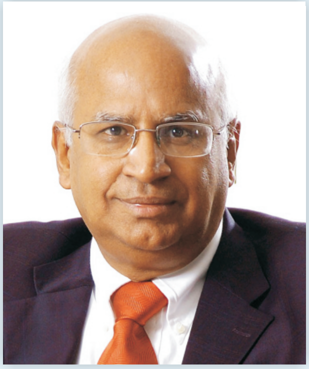
BOARD OF DIRECTORS

(As on 23rd June 2014)



Mr. S. Ramadorai
Chairman

Mr. Ashishkumar Chauhan
Managing Director & CEO

Mr. Sudhakar Rao

Dr. Sanjiv Misra

Mr. S. H. Kapadia

Mr. Keki Mistry

Mr. Andreas Preuss

Mr. Thomas Bendixen
(Ceased as Alternate Director w.e.f. 20.06.2014)

BOARD OF DIRECTORS
Chairman (Public Interest Director)
Mr. S. Ramadorai
Managing Director & CEO
Mr. Ashishkumar Chauhan
Public Interest Directors
Dr. Sanjiv Misra
Mr. Sudhakar Rao
Mr. S. H. Kapadia
Shareholder Directors
Mr. Keki Mistry
Mr. Andreas Preuss
Mr. Thomas Bendixen (Ceased as Alternate Director to Mr. Andreas Preuss w.e.f. 20.06.2014)
Company Secretary
Ms. Neena Jindal

EXECUTIVE MANAGEMENT COMMITTEE	
Mr. Ashishkumar Chauhan	MD & CEO
Mr. V. Balasubramaniam	Chief Business Officer
Mr. Nehal Vora	Chief Regulatory Officer
Mr. Nayan Mehta	Chief Financial Officer
Mr. Kersi Tavadia	Chief Information Officer

STATUTORY AUDITORS

Deloitte Haskins & Sells LLP
Chartered Accountants

REGISTRAR & TRANSFER AGENT

Karvy Computershare Private Limited
Plot No. 17- 24, Vithalrao Nagar,
Madhapur, Hyderabad – 500 081.
E-Mail:einward.ris@karvy.com
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Fax: +91-040-23420814

REGISTERED OFFICE

Floor 25, P.J. Towers,
Dalal Street,
Mumbai – 400 001

NINTH ANNUAL GENERAL MEETING	
Day :	Friday
Date :	1st August, 2014
Time :	11.00 a.m.
Venue:	Sir Dinshaw Petit International Convention Hall, 1st Floor, P. J. Towers, Dalal Street, Mumbai – 400 001

Directors' Report

The Directors take great pleasure in presenting the Ninth Annual Report of BSE Limited along with the audited financial statements for the year ended 31st March, 2014.

1 The Economic Environment

1.1 Global Outlook

Global activity strengthened during the second half of 2013 and is expected to improve further in 2014 and 2015. The impulse has come mainly from advanced economies, although their recoveries remain uneven.

The emerging economies are adjusting to a more difficult external financial environment in which international investors are more sensitive to policy weakness and vulnerabilities, given prospects for better growth and monetary policy normalization in some advanced economies. As a result, financial conditions in emerging market economies have tightened further, while in advanced economies they have broadly been stable. In advanced economies, major concerns include downside risks from low inflation and the possibility of protracted low growth, especially in the Euro area and Japan. While output gaps generally remain large, the monetary policy stance should stay accommodative, given continued fiscal consolidation. In emerging market economies, vulnerabilities appear mostly localized. Nevertheless, a still-greater general slowdown in these economies remains a risk, because capital inflows could slow or reverse. Emerging markets and developing economies must therefore be prepared to weather market turmoil and reduce external vulnerabilities.

As per the World Economic Outlook, April 2014, published by the International Monetary Fund, global growth is projected to strengthen from 3% in 2013 to 3.6% in 2014 and 3.9% in 2015. Developed economies accounted for much of the pickup, whereas growth in emerging markets increased only modestly. Overall, however, emerging market and developing economies continue to contribute more than two-thirds of global growth, and their growth is projected to increase from 4.7% in 2013 to 4.9% in 2014 and 5.3% in 2015. As a result, on the one hand growth in these developing markets will be aided by stronger external demand from developed economies, while on the other hand tighter financial conditions could dampen domestic demand growth in these developing economies.

In 2012, a wide gap existed between the growth rate of the developed economies at 1.4% and that of emerging economies at 5%. However, it is expected to narrow marginally by 2015, as the growth rates of developed and emerging markets are estimated to increase to 2.3% and 5.3% respectively. Amongst developed economies, growth is expected to be strongest in the United States at about 2.75%. In the Euro zone, growth is projected to be positive but is expected to vary across countries in the region: stronger in the core areas, but weaker in countries with high debt (both private and public) and financial fragmentation, both of which could weigh on domestic demand.

For India, real GDP growth is projected to strengthen from 4.4% in 2013 to 5.4% in 2014 and 6.4% in 2015, assuming that the Government's efforts to revive investment growth succeed and export growth strengthens further after the recent Rupee depreciation.

1.2 India Outlook

The Global Risks 2014 report has mapped 31 global risks. Of highest concern are ten risks that include fiscal crisis, structurally high unemployment or underemployment, income disparity, governance failure, food crisis, and political and social instability. The challenges that India faces are common to all emerging economies. 2012 and 2013 were years of turbulence. Only a handful of countries were able to keep their head above the waters, and amongst them was India. This is exemplified by India's economy which grew to be the 11th largest in the world in FY 2013-14.

(L to R) Shri Nehal Vora, Chief Regulatory Officer, BSE Ltd., Shri Ashishkumar Chauhan, MD & CEO, BSE Ltd., Shri U K Sinha, Chairman, SEBI, Shri R Gandhi, Executive Director, RBI, Shri Sudhakar Rao, Director, BSE Ltd., Shri Balasubramaniam V, Chief Business Officer, BSE Ltd., standing at the lighting of the lamp ceremony during the Launch of Interest Rate Derivatives (BSE-IRF) on 28th January, 2014.

For FY 2014-15, the government expects GDP growth of around 5.0% while; the Reserve Bank of India expects growth to increase to between 5.0% and 6.0% in fiscal year 2014-15. According to Reuters, India is expected to grow at 5.4% in fiscal year 2014-15, hampered in part by the weak investment cycle gripping the country and uncertainty around the general elections this year. However, real growth has been falling and according to the IMF, which recently revised down its GDP forecast for India, the growth outlook doesn't seem very encouraging.

The inflation rate in India stood at 8.31% in March of 2014. Inflation Rate in India averaged 9.71% from 2012 until 2014, reaching an all time high of 11.16% in November of 2013 and a record low of 7.55% in January of 2012. The meteoric rise of food prices has been the single largest factor for the price rise in India, which is likely to ease, owing to better agricultural output. The inflation as measured by Consumer Price Index ("CPI") was 6.726% in February, 2014, a sharp decline from 12.06% in February 2013. The expected CPI Inflation for 2014-15 has been revised downwards to 8.0% from 8.5% in the previous round of the survey.

With the announcement on QE Tapering by Federal Reserve Chief, Ben Bernanke on May 17, 2013 there was uproar in markets worldwide. The Indian Market was the worst hit given its high dependence on FII investments. During the period between June, 2013 and August, 2013 the Indian benchmark SENSEX fell by 2,000 points and the Rupee depreciated by 27%, the largest currency fall witnessed by any of the top economies, during that period. The RBI implemented measures to arrest the fall of the Indian Rupee and stabilize it, these included restrictions on gold imports, swaps to Oil Marketing companies, liberalization of deposit schemes to attract funds from NRIs, boosting exports, relaxing FDI norms, etc. These measures resulted in reducing the current account deficit and stabilization of the Indian Rupee. Hence, when the actual tapering process commenced in December 2013, there was only a minimal adverse effect on India and its currency vis-à-vis the other Emerging Economy currencies owing to the policies undertaken by the Government, RBI and SEBI earlier in the year.

Visit of Prof Charles Wheelan from Dartmouth University on 9th December 2013.

Shri Ashishkumar Chauhan, MD & CEO, BSE Ltd. and Shri Kersi Tavadia , Chief Information Officer, BSE Ltd. interacting with Shri Ratan N. Tata, Former Chairman, Tata Sons during his visit to BSE Ltd.

The rising fiscal and current account imbalances had been among the greatest macroeconomic worries for India during the first half of FY13-14. A turnaround in macroeconomic fundamentals, particularly the sharp narrowing in the current account deficit (CAD), aided by policy actions helped the rupee to appreciate from the record low touched in August 2013. India's CAD is likely to be below 2% in 2013-14 from a record high of 4.8% in 2012-13. The forecast for CAD in 2014-15 is also now signicantly lower at 2.4% of GDP.

The Fiscal deficit for FY 2013-14 has come down to 4.6% as compared to the fiscal deficit for FY 2012-13 at 4.9 %. The Fiscal deficit is projected to be further reduced to 4.1% of GDP in FY 2014-15. Current account deficit for 2013-14 is estimated to be $45 billion down from last fiscal year's $88 billion.

The Indian Rupee appreciated 3.15% in the March 2014 quarter, its best quarter since the September quarter of 2012, when the currency gained nearly 5%. The rupee strengthened due to surge in currency inflows on account of aggressive buying by foreign investors in both the Indian Equity and Debt Markets. Resultantly, the Indian stock markets scaled a new record high during the quarter ended 31st March 2014.

2 The Capital Markets

2.1 Overview

The S&P BSE SENSEX ended FY 2013-2014 at 22,386.27 as compared to 18,835.77 in FY 2012-2013, an increase of 18.85% on a y-o-y basis.

In FY 2013-14, FII's invested ₹ 79,709 Crore, approximately USD 13,441.40 million in Indian equities and negative investment of ₹ 28,060 Crore, approximately USD 4,565.90 million in the Indian Debt Market.

In FY 2012-13, despite difficult global conditions, FII's invested a net of ₹ 1,40,033 Crore, approximately USD 25,832.60 million in the Indian equities market and ₹ 28,334 Crore, approximately USD 5,214.40 million in Indian Debt Market.

BSE is currently considered the 3rd largest Index Option exchange in the world, 4th largest Currency Futures exchange in the world, 5th largest Currency Options exchange in the world, 8th largest exchange in the world by number of trades and 13th in the world by Market Capitalisation (Source: WFE).

Shri Ashishkumar Chauhan, MD & CEO, BSE Ltd., presenting a memento to His Excellency the Right Hon'ble David Johnston, Governor General of Canada, during his visit to BSE on 28th February, 2014.

2.2 Primary Market

During the financial year 2013-14, only 2 companies came to the market through the IPO process in the Main Board. The average deal size in 2012-2013 was larger and the amount raised through Main Board IPOs in 2013-14 was only ₹ 1,189.37 crores as against ₹ 6,253.25 crores in 2012-13. Further, there were 2 Follow-on Public Offers ("FPO") in FY13-14 whereas there were no FPOs in 2012-13. The amount raised through FPOs in FY13-14 was ₹ 7,455.96 crores. In addition to the 2 IPOs on the Main Board, another 36 companies raised ₹ 316.03 crores through the SME IPO process in 2013-14. The total amount mobilized through Privately Placed Debt Securities at BSE in FY13-14 was ₹ 135,341 crores.

Though Main Board primary market for equity issuances witnessed very less activity, there were many public issuances of debt securities. During FY 2013-14, there were 35 public issues of bonds where ₹ 42,700 crores was mobilised as against ₹ 16,983 crores from public issues in the FY 2012-13. Further out of these 35 public issues, 20 issues were exclusively listed on BSE (57%). BSE platform was used to collect ₹ 41,860 crores and the average bids garnered through BSE's iBBS platform for these debt public issuances was 89%.

The total number of companies listed on BSE as on March 31, 2014 was 5,336 compared to 5211 on March 31, 2013. BSE remains the largest exchange in the world in terms of number of listed companies.

During FY 2013-14 there were 76 Offer for Sale ("OFS") issues, of which BSE was appointed as the Designated Stock Exchange in 68 issues (89%). Out of the 68 OFS issues, 47 issues were conducted only on BSE platform. In FY 2013-14, the total amount raised through OFS issues was ₹ 7,015 crores.

2.3 Secondary Market

While equity turnover continued to stagnate in 2013-14, other areas of trading reflected significant improvement during the year. The average daily value of equity turnover on BSE in FY 2013-14 was ₹ 2,078 crore, a reduction of about 5.33% y-o-y from ₹ 2,195 crore in FY 2012-13.

Equity derivatives trading, however, reached an average daily volume of over 11,79,463 contracts per day in 2013-14 – breaking through a significant threshold, and has been attracting increased attention from international participants. This represented a 12.35% increase y-o-y from the average of 10,49,773 contracts per day traded in FY 2012-13, the first full year for BSE's re-launch of derivatives trading.

In the Mutual Fund space, FY 2013-14 brought about a refreshing change. The Average Assets Under Management (AUM) for the quarter January-March 2014 stood at ₹ 9,05,120 crores, an increase of 10.83% over the previous year's corresponding figure of ₹ 8,16,557 crores. And most encouragingly, the BSE's Mutual Fund platform called BSE StAR MF continued to gain acceptance with turnover reaching ₹ 5,596 Crores in FY 2013-14, an increase of 35.45% from FY 2012-13 turnover of ₹ 4,131 Crores.

With new features and continuous innovation to meet customer needs, the model of investment and redemption of mutual fund units through an exchange-provided infrastructure appears to be gaining acceptance from the market.

2.4 Secondary Market Policy Developments

1. Foreign Portfolio Investors (FPI):-

SEBI issued the SEBI (Foreign Portfolio Investors) Regulations, 2014 on January 7, 2014 followed by a commencement circular dated March 28, 2014, to replace the current FII Regulations.

As per the new Regulations, the foreign investors would be divided into 3 categories as listed below:-

(a) "Category I foreign portfolio investor" which shall include Government and Government related investors such as central banks, Governmental agencies, sovereign wealth funds and international or multilateral organizations or agencies;

(b) "Category II foreign portfolio investor" which shall include:

(i) appropriately regulated broad based funds such as mutual funds, investment trusts, insurance/reinsurance companies;

Shri S Ramadorai, Chairman, BSE Ltd. interacting with Shri Sachin Pilot, Hon'ble Minister of Corporate Affairs, Government of India during Youth Parliament 2013 held at BSE on 23rd September, 2013.

(ii) appropriately regulated persons such as banks, asset management companies, investment managers/ advisors, portfolio managers;

(iii) broad based funds that are not appropriately regulated but whose investment manager is appropriately regulated:

Provided that the investment manager of such broad based fund is itself registered as Category II foreign portfolio investor:

Provided further that the investment manager undertakes that it shall be responsible and liable for all acts of commission and omission of all its underlying broad based funds and other deeds and things done by such broad based funds under these regulations.

(iv) University Funds and Pension Funds; and

(v) University related endowments already registered with the Board as foreign institutional investors or sub-accounts.

Explanation 1-

For the purposes of this clause, an applicant seeking registration as a foreign portfolio investor shall be considered to be "appropriately regulated" if it is regulated or supervised by the securities market regulator or the banking regulator of the concerned foreign jurisdiction, in the same capacity in which it proposes to make investments in India.

Explanation 2-

A) For the purposes of this clause, "broad based fund" shall mean a fund, established or incorporated outside India, which has at least twenty investors, with no investor holding more than forty-nine per cent of the shares or units of the fund.

Provided that if the broad based fund has an institutional investor who holds more than forty nine per cent of the shares or units in the fund, then such institutional investor must itself be a broad based fund.

Dignitaries discussing at IGIDR Round Table held at BSE on 17th January 2014.

Shri S Raman, Whole Time Member, SEBI, Shri Ashishkumar Chauhan, MD & CEO, BSE Ltd. along with other dignitaries standing at the lighting of the lamp ceremony during Launch of BSE StAR Mutual Fund Distributors Platform on 6th March, 2014.

B) For the purpose of clause A of this Explanation, for ascertaining the number of investors in a fund, direct investors as well as underlying investors shall be considered.

C) For the purpose of clause B of this Explanation, only investors of entities which have been set up for the sole purpose of pooling funds and making investments, shall be considered for the purpose of determining underlying investors.

(c) "Category III foreign portfolio investor" which shall include all others not eligible under Category I and II foreign portfolio investors such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts, individuals and family offices.

The new FPI Regulations will come into force with effect from June 1, 2014.

2.5 Simplification of registration requirements for Stock Brokers :-

SEBI vide its Circular dated September 30, 2013 communicated the amendments to the SEBI Broker and Sub-Broker Regulations dated September 27, 2013 to simplify the registration requirements for members in the new multi-segment stock exchange – clearing corporation regime.

The salient features of the new guidelines are as follows:-

a. If a new entity intends to register as a stock broker or clearing member in any segment(s) of a stock exchange or a clearing corporation, then the entity shall apply to SEBI through the respective stock exchange or clearing corporation in the manner prescribed in the Broker Regulations. The entity shall be issued a certificate with a unique registration number for each stock exchange or clearing corporation, as the case may be, irrespective of number of segments.

Shri Ashishkumar Chauhan, MD &CEO, BSE Ltd. sitting along with Senior IPS Officers during their visit to BSE on 29th October 2013.

b. If an entity is already registered with SEBI in any segment of the stock exchange, then for operating in any other segment of that stock exchange or for operating in the clearing corporation promoted by that stock exchange, the entity need not apply to SEBI. The entity can directly apply to the concerned stock exchange or clearing corporation as per the procedure prescribed in the Broker Regulations for approval.

c. Similarly, if any entity is already registered with SEBI in any segment of the clearing corporation, then for operating in any other segment of the clearing corporation or for operating in the stock exchange which has promoted that clearing corporation, the entity shall follow the procedure as prescribed in Clause b above.

d. Fees shall be applicable for all the stock brokers, self clearing members and clearing members as per Schedule V of the Broker Regulations. As per current practice, the entity shall continue to be liable to pay fees for each additional segment approved by the stock exchange or clearing corporation, as per the Schedule to the Brokers Regulations. For stock brokers coming under Schedule III, fees shall continue to be applicable as per that Schedule till such time as the Schedule V becomes applicable to them.

   The stock exchange or clearing corporation shall grant approval for any additional segment to the stock broker, self-clearing member or clearing member, as the case may be, after exercising due diligence and on being satisfied about the compliance of all relevant eligibility requirements, and shall also ensure:

   a. The applicant, its directors, proprietor, partners and associates satisfy the Fit and Proper Criteria as defined in the SEBI (Intermediaries) Regulations, 2008 and whether any past actions taken / initiated against them by SEBI / stock exchange(s) or other regulators.

   b. The stock exchange or clearing corporation shall satisfy itself that the applicant has taken corrective steps to rectify the deficiencies or irregularities observed in the past. They may also seek details whether the Board of the applicant is satisfied about the steps taken. They may also carry out inspection, wherever considered appropriate.

   c. Recover all pending fees / dues payable to SEBI and/ or stock exchange.

2.6 Investor Grievance Redressal Mechanism:-

SEBI vide Circular Number CIR/MRD/ICC/30/2013 dated September 26, 2013 empowered IGRC member to decide the claim value of investor on the basis of the complaint and the Exchange has been directed to set aside the amount so decided, from the deposits of the trading member. It was further directed that during the pendency of the cases in arbitration as well as judicial proceedings, as a matter of interim reliefs, the Exchange shall release payments to the investors from its Investors Protection Fund (IPF) as per the different stages involved in the proceedings:

Where the claim value is decided in favour of the investor, the amounts as given below will be released to the investor from IPF, where the member decides to challenge the decision at each stage.

Investor Grievance Redressal Committee - This is about 50% of admissible claim value or ₹ 75,000/- whichever less is paid

Arbitration - positive difference of, 50% of the amount mentioned in the arbitration award or ₹ 1.5 lakh, whichever is less and the amount already released to the investor as above.

Appellate arbitration - positive difference of 75% of the amount determined in the appellate arbitration award or ₹ 2 lakh, whichever is less and the amount already released to the investor

In case the complaint is decided in favour of the investor after conclusion of the proceedings, total amount released to the investor through the facility of monetary relief from IPF not exceed ₹ 5 lakh in one financial year.

When the amounts are released to the investor from the blocked funds of the member, then the amounts already released through IPF shall be returned to IPF.

Shri Ashishkumar Chauhan, MD & CEO, BSE Ltd., presenting a memento to Shri Ratan N. Tata, Former Chairman, Tata Sons during Asia Business Responsibility Summit 2014 – Awards Event held at BSE on 8th January, 2014.