

Confidential
By Speed Post

CBI - KOLKATA - 4/3/2003
NSE - Reply - 7/4/2003

No- 650 / RCCAA2002 A0024
Central Bureau of Investigation
Government of India,
Office of the Supdt. of Police
234/4, A.J.C. Bose Road
2nd NISO Bldg., (14th & 15th Floor)
Nizam Palace Calcutta- 700 020.

Dated 04.03.2003.

Kolkata - 4/3/2003

To
The Executive Director,
National Stock Exchange of India Ltd.,
"Exchange Plaza", Bandra-Kurla Complex,
Bandra (E),
Mumbai- 400 051.

Sub: Investigation of Crime No. RC. 24 (A)/2002-CBI/ACB/KOL.

Sir,

In connection with the investigation of the above mentioned case, the documents along with clarifications on the following queries in r/o UTI Bank Ltd. and M/s Home Trade are inevitable from your end:-

1. With respect to trading of Govt. Securities whether the terms "Primary Market" and "Secondary Market" are defined? If so, give the extracts. What are the context in which these terms ("Primary Market" and "Secondary Market") are generally used?
2. What is Whole Sale Debt Market? Explain briefly the activities in the Whole Sale Debt Market.
3. Whether Secondary Market Transactions are defined? What are the Procedures / Rules and Regulations regarding the transactions of Government Securities / IDBI Bonds. in the Secondary Market? What is the role of each person involved in carrying out a deal?
4. Whether M/s. Home Trade Limited is registered with NSE as a member? If so, whether they were permitted to deal in Govt. Securities in Secondary Market?

What are the terms and conditions of the registration, if any? Enclose certified copy of the registration, if any.

5. Whether the registration/membership of M/s Home Trade Limited is cancelled? If so, when and for what reasons?

6. What are the transactions of M/s Home Trade with regard to Govt. Securities for the period from September 2001 to April 2002 with - a) Jute Corporation of India Contributory Provident Fund (JCICPF) and b) UTI Bank Ltd.

7. Whether UTI Bank Limited is registered with NSE as a member? If so, what are the roles of UTI Bank Merchant Banking Division as per the said registration? Whether they are allowed to act as facilitator or arranger or broker in dealing in Government Securities / IDBI Bonds in the Secondary Market? If not so, whether any separate registration/ license is required for the same and from whom? Please enclose the copy of the Registration Certificates, if any?

8. Whether the terms facilitator, arranger and broker come under the purview of NSE? Are there any differences among facilitator, arranger and broker? Whether these terms are really in use in the activities of Secondary Market? Please explain.

9. What is the responsibility of the facilitator, arranger or broker in relation to delivery of Government Securities/ IDBI Bonds transacted in the Secondary Market

10. Kindly see the copies of the documents enclosed- i) Offer/quotation dated 19.04.2002 by UTI Bank Ltd. ii) Deal Confirmation Letter dated 22.04.2002 by UTI Bank Ltd. and iii) Receipt dated 22.04.2002 by UTI Bank Ltd. (The cheque received by the Dy.Manager (MBD), UTI Bank Ltd. is bearing the A/c No. of Home Trade Ltd. whereas there is no mention of Home Trade Ltd. in the said letters). Whether this deal is a genuine one complying the existing Rules and Regulations of the Exchange? If not so, who - JCICPF or UTI Bank Ltd or M/s Home Trade Ltd.- is responsible for violations, if any

- 11) Explain the role of 'Contract Note' in the Secondary Market deal with reference to the Govt. Securities/ IDBI Bonds.
12. Has NSE received any specific complaint from Jute Corporation of India Ltd., Kolkata, regarding non-receipt of 12% IDBI 2007 Bonds from UTI Bank Ltd. or M/s Home Trade Ltd. against the investment of Rs. 82,51,130/- on 22.04.2002? If so, what actions have been taken by the NSE in this regard? Kindly enclose the original/certified copy of the investigation report, if any, in this regard by NSE.
13. Whether UTI Bank Ltd. (Merchant Banking Division)/ M/s. Home Trade Ltd. violated any Rules and Regulations, NSE, etc in the said deal. Please enclose certified copy of the Manual/ Rules/Guide Lines/ Circulars relevant in this case.
14. Any other relevant facts in this case.

You are requested to kindly arrange to produce the aforesaid clarifications / information along with the documents required at the earliest before Shri.M.C.George, Inspector of Police, CBI/ACB/Kolkata, to expedite the investigation.

The matter may be treated as Most Urgent.

Encl:- as above.

Yours faithfully,

[Handwritten Signature]
4.7.03

Superintendent of Police,
CBI:ACB: Kolkata.

135



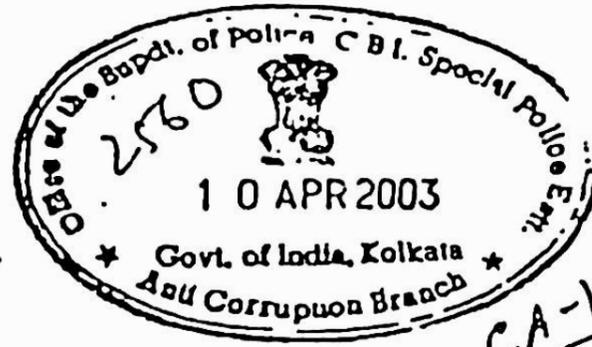
NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Regd. Office: 'EXCHANGE PLAZA', BANDRA - KURLA COMPLEX, BANDRA (E), MUMBAI - 400 051, INDIA

NSE/WDM/41165

April 7, 2003

The Superintendent of Police
CBI:ACB:Kolkata
Central Bureau of Investigation
Government of India
Office of the Supdt. of Police
234/4, A.J.C. Bose Road,
2nd MSO Bldg. (14th Floor)
Nizam Palace,
Calcutta - 700 020.



CA-1
B
1/14

Dear Sir,

Reg: Investigation of Crime No. RC.24(A)/2002-CBI/ACB/KOL

This is with reference to your letter ref. No. 650/ RCCAA2002 A 0024 dated March 4, 2003. In this respect we give hereunder the point wise reply:

1. The terms primary and secondary market are not defined in the Bye-laws/Trading Regulations of the Exchange. The context in which the terms primary and secondary market are used are given hereunder:

Primary Market

Primary market is a market, which provides opportunity to issuers of securities, Government as well as Non-Government, to raise capital through issuance of securities.

Secondary Market

Secondary market is a place where securities allowed for trading by the Exchange can be sold and / or bought.

2. The Wholesale Debt Market (WDM) is a segment of the Exchange that provides a screen based trading system to trading members to trade / report deals in Government and Non Government Debt Securities allowed for trading on the Exchange. In the WDM segment, there are 2 entities namely trading members and registered participants.

A Trading Member is an entity who is admitted as a trading member on the NSE and registered with SEBI to act as a broker and is entitled to place orders and / or report deals on the trading system of the Exchange.

A Registered Participant is an entity registered with the Exchange voluntarily and is a buyer or a seller in a trade i.e. a registered constituent. The participant may execute a trade through a trading member on the WDM segment of the Exchange. In other words, a participant cannot put deals directly on the NSE system.

3. Please refer to reply in Point No. 1. Further, the issuance of and dealings in Government Securities are as per regulations prescribed by the RBI. The trading members/ registered participants on the WDM segment of the Exchange are governed by

136



the Rules/Byelaws of the Exchange and the Trading Regulations/ Circulars of the WDM segment, issued from time to time.

4. M/s. Home Trade Ltd. was a SEBI registered trading member of the Exchange with registration number INB230624638, dated November 10, 2000.

Trading member vide letter dated June 26, 2001 stated that they are not interested in participating in the Wholesale Debt Market (WDM) segment, and as such did not comply with certain formalities for becoming eligible for trading on the WDM segment. Therefore, the trading member was not enabled in that name to trade in WDM segment for carrying out trading activity on the screen based trading system of the WDM segment of the Exchange. Accordingly, the trading member was not authorised to trade on the WDM segment.

5. The trading member was expelled by the Exchange on October 01, 2002 pursuant to the disciplinary action initiated against the trading member for, inter alia, misrepresenting to investors as the trading member enabled to transact on the Wholesale Debt Market segment of the Exchange and issuing fictitious contract notes and defrauding investors.

6. No transactions have been executed on the Exchange by the trading member M/s Home Trade during the period September 2001 to April 2002 with a) Jute Corporation of India Contributory Provident Fund and b) UTI Bank Ltd., as M/s Home Trade was never enabled on the WDM segment of the Exchange in that name.

7, 8 & 9. UTI Bank Limited was never a registered trading member on the Exchange. Hence, the Exchange is unable to offer any comments in respect of their activities. The Exchange only recognizes a SEBI Registered Trading Member (broker) for dealings on the Exchange. The Trading Member on WDM segment is governed by the Rules/Byelaws of the Exchange and the Trading Regulations/ Circulars of the WDM segment. However, UTI Bank is a registered participant on the Exchange and is required to furnish post settlement details in respect of the trades in which they are participants. The terms facilitator / arranger are not mentioned in the Rules, Byelaws and Regulations of the Exchange.

10. It is observed from the records available with the Exchange that the transactions referred to in the UTI offer / quotation dated April 19, 2002 (Transactions in 12% IDBI 2007, 15% APSIB 2005 / 6, 14% IDBI 2005), deal confirmation dated April 22, 2002 (Transaction in 12.00% IDBI 2007 for settlement on 23-Apr-2002 for Rs. 82,51,130/-) annexed to your letter, were neither executed nor reported on the trading system of the WDM segment of the Exchange.

11. Every Trading Member shall issue a contract note to its Constituents for trades executed as specified in the annexure with all relevant details as required therein to be filled in, and issued in such manner and within such time as prescribed by the Exchange. A copy of Circular No. 35 dated June 01, 1998 is enclosed.

12. The Exchange is not in receipt of any complaint from Jute Corporation of India Ltd. regarding non-receipt of the 12% IDBI 2007 Bonds.

13. Since UTI Bank is not a TM of the Exchange, the Exchange does not have any regulatory jurisdiction over UTI Bank as per the Rules, Bye laws and Regulations of the Exchange.

14. Nil.

Thanking you,

Yours faithfully,



S. Sivakumar
Manager
Wholesale Debt Market

Encl: 1) Rules and Bye-laws of NSE
2) Trading Regulations of WDM
3) Copy of Circular No. 35 dated June 01, 1998