

*Scrub of actual expenses.*  
*- breakup - 150 debit note*  
*line item tax invoice copy of bills supported.*

# INTER-CONNECTED STOCK EXCHANGE OF INDIA LTD.

**EASIER ACCESS, WIDER REACH**

## SECOND ANNUAL REPORT

### 1999 - 2000



**Registered Office:**

**Inter-Connected Stock Exchange of India Ltd.**  
International Infotech Park, Tower-7,  
5th Floor, Vashi, Navi Mumbai - 400 703.



**Tel:** (022) 781 2056(6 lines). **Fax:** 7812061.

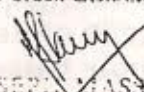


**Our Internet Web Site:**

Home Page: [http:// www.iseindia.com](http://www.iseindia.com)  
E-mail : [isesc@ bom3.vsnl.net.in](mailto:isesc@bom3.vsnl.net.in)

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FOR INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED.

  
**JOSEPH MASSEY**  
Managing Director.

# INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED

## NOTICE OF THE SECOND ANNUAL GENERAL MEETING OF THE EXCHANGE

NOTICE is hereby given that the Second Annual General Meeting of the Members of Inter-connected Stock Exchange of India Limited will be held on Saturday, September 23, 2000 at 2.30 p.m. at the Registered Office of the Exchange at International Infotech Park, Tower 7, 5<sup>th</sup> floor, Sector 30, Vashi, Navi Mumbai - 400 703 to transact the following business:

### **ORDINARY BUSINESS**

1. To receive, consider and adopt the Balance Sheet as on 31<sup>st</sup> March 2000, Profit & Loss Account for the period ended on that date and the Auditors' and Directors' Report thereon.
2. To approve the Nomination of Shri N.Ranga Prasad a Nominee of Hyderabad Stock Exchange Limited in place of Shri Jambu Kumar Jain a Nominee of Gauhati Stock Exchange Limited as a Director whose term of office shall be liable to retirement by rotation
3. To approve the Nomination of Shri Arvind Bhai B. Patel a Nominee of Saurashtra Kutch Stock Exchange Limited in place of Ms. Manisha P. Naik a Nominee of Vadodara Stock Exchange Limited as a Director whose term of office shall be liable to retirement by rotation
4. To approve the Nomination of Shri Mohan Malpani, a Nominee of Madhya Pradesh Stock Exchange in place of Shri Pankaj J. Shah, a Nominee of Bangalore Stock Exchange Limited as a Director whose term of office shall be liable to retirement by rotation.
5. To appoint the Auditors and to fix their remuneration.

BY ORDER OF THE BOARD

JOSEPH MASSEY  
MANAGING DIRECTOR

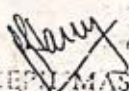
Place: Vashi, Navi Mumbai  
Date: August 12, 2000

### Note:

1. All the Members are requested to forward to the Company certified copies of the Board Resolutions authorising their representatives to attend the Meeting and to exercise such other rights along with duly attested signatures of such representatives.

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FOR INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED.

  
JOSEPH MASSEY  
Managing Director

# Inter-Connected Stock Exchange of India Limited

Balance sheet as at March 31, 2000.

	Schedule	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<b>Sources of funds</b>			
<b>Shareholder's funds</b>			
Share Capital (Company Limited by guarantee)		Nil	Nil
Admission fees/ Contribution towards Infrastructure development	1	112,473,000	105,100,000
Dealer Admission Fees	2	26,000,000	
Reserves & Surplus	3	3,674,069	1,120,222
		142,147,069	106,220,222
<b>Loan Funds</b>			
Unsecured Loans	4		500,000
<b>Total</b>		<b>142,147,069</b>	<b>106,720,222</b>
<b>Application of funds</b>			
<b>Fixed assets</b>			
Gross block	5	139,914,534	139,555,915
Less, Depreciation		19,325,996	2,513,558
Net block		120,588,538	137,042,357
Capital work in progress		29,904,145	1,681,125
		150,492,683	138,723,482
Investments	6	25,000,000	
<b>Current assets, loans and advances</b>			
<b>Current Assets</b>			
Cash and Bank Balances	7	186,817,346	25,537,096
Sundry Debtors	8	1,355,439	186,649
Loans and advances	9	10,752,829	3,595,955
		198,925,614	29,319,699
<b>less, Current liabilities and provisions</b>			
Current liabilities	10	262,832,107	27,834,290
Deferred Payment Liabilities	11	33,312,280	54,856,584
		296,144,387	82,690,874
<b>Net current assets</b>		<b>(97,218,773)</b>	<b>(53,371,176)</b>
Miscellaneous expenditure (to the extent not written off or adjusted)	12	8,011,592	10,682,123
Profit & Loss Account		55,861,567	10,685,793
<b>Total</b>		<b>142,147,069</b>	<b>106,720,222</b>
Significant accounting policies and notes forming part of the accounts	17		

as per our attached Report of even date

for C. C. Chokshi & Co.,

Chartered Accountants

for and on behalf of the Board

sd/-  
(P. R. Barpande)  
Partner

sd/-  
(S. R. Nayya)  
Chairman

sd/-  
(Joseph Massey)  
Managing Director

sd/-  
(V. Shankar)  
Joint Managing Director

Mumbai, dated August 12, 2000

Mumbai, dated August 12, 2000

**CERTIFIED TO BE TRUE COPY**  
OF THE BALANCE SHEET OF  
INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED.

**JOSEPH MASSEY**  
Managing Director.

## Inter-Connected Stock Exchange of India Limited

Profit and Loss Account for the year April 1, 1999 to March 31, 2000

	schedule	for the year ended March 31, 2000	for the period ended March 31, 1999
		Rupees	Rupees
<b>Income</b>	13	6,562,742	2,448,315
<b>Total</b>		<b>6,562,742</b>	<b>2,448,315</b>
<b>Expenditure</b>			
Employee Costs	14	7,400,685	1,940,249
Administration and Operational Expenses	15	23,116,532	8,417,933
Interest Paid	16	4,406,678	961,859
Depreciation: ( Previous year net of Rs. 709,552 transferred to deferred revenue expenditure )		16,814,621	1,814,067
<b>Total</b>		<b>51,738,516</b>	<b>13,134,108</b>
Loss for the year		(45,175,774)	(10,685,793)
Loss brought forward from previous period		(10,685,793)	
(Loss) carried to Balance sheet		<b>(55,861,567)</b>	<b>(10,685,793)</b>
Significant accounting policies and notes forming part of the accounts	17		

as per our attached Report of even date  
for C. C. Chokshi & Co.,  
Chartered Accountants

sd/-  
(P. R. Barpande)  
Partner

Mumbai, dated August 12, 2000


for and on behalf of the Board

sd/-  
(M. R. Mayya)  
Chairman

Mumbai, dated August 12, 2000

sd/-  
(Joseph Massey)      (V. Shankar)  
Managing Director      Joint Managing Director

**CERTIFIED TO BE TRUE COPY**  
OF INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED.

  
JOSEPH MASSEY  
Managing Director.

# Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<i>Schedule 1, Admission Fees/Contribution towards Infrastructure development from Members</i>		
Members Admission Fees	7,51,00,000	7,50,00,000
Contribution towards infrastructure development		
Balance as per last year	10,00,000	
Add: Contributions during the year	72,30,000	
Less: Repaid during the year	(4,35,000)	
<i>Refer note B-5.A:</i>		
<b>Total</b>	<b>112,473,000</b>	<b>105,100,000</b>

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<i>Schedule 2, Admission Fees from Dealers</i>		
Dealer Admission Fees		
- Received during the year	26,00,00,000	
<b>Total</b>	<b>26,00,00,000</b>	

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<i>Schedule 3 Reserves &amp; Surplus</i>		
<u>Other Reserves</u>		
<u>Settlement Guarantee Fund</u> (from initial contribution from traders and dealers and accretions by way of levy of charges on transactions during the year) (Including Rs. 20,67,335/- accretion arising by way of interest for the year on deposits, etc. made out of such funds in accordance with the bye-laws of the company)	3,632,795	1,120,000
<u>Investor Protection Fund</u> (from accretions by way of levy of charges and fines on transactions during the year)	17,453	27
<u>Investor Service Fund</u> (from accretions by way of levy of charges and appropriations from listing fees income during the year)	23,820	27
<b>Total</b>	<b>3,674,069</b>	<b>1,120,222</b>

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<i>Schedule 4, Unsecured Loans</i>		
From Others	Nil	500,000
<b>Total</b>	<b>Nil</b>	<b>500,000</b>

## Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<b>Schedule 6. Investments</b>		
Long Term Investments (unquoted, at cost)		
Investments in the Shares of Subsidiary Company - ISE Securities & Services Limited 2500000 Equity Shares of Rs. 10 - each fully paid		
<b>Total</b>	<b>25,000,000</b>	

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<b>Schedule 7. Cash and bank balances</b>		
Cash-on-hand [including security deposits, etc.]		
<b>Bank balances</b>		
<b>with scheduled Banks</b>		
- in Current Account [including Rs. 8,54,521 - (Previous year Rs. 14,04,555) in earmarked funds accounts]	1,667,212	1,667,212
- in Deposit Account * [including Rs. 25,861,015/- (Previous year Rs. 19,097,248) in earmarked funds accounts] [including interest accrued Rs. 19,38,772 - (Previous year Rs. 147,511)-]	185,149,376	21,627,521
<b>Total</b>	<b>186,817,340</b>	<b>25,537,094</b>
* Includes Fixed Deposit Receipt of Rs. 25,00,000/- (Previous year Rs. 25,00,000) over which a bank has given in respect of the guarantee given by a bank to a supplier.		

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<b>Schedule 8. Sundry Debtors</b>		
<i>(Unsecured)</i>		
Outstanding for a period exceeding six months	1,027,408	1,50,000
Other Debts	478,031	46,649
	<b>1,505,439</b>	<b>186,649</b>
Less: Provision	150,000	
<b>Total</b>	<b>1,355,439</b>	<b>186,649</b>
<b>Note:</b>		
Considered Good	1,355,439	186,649
Considered Doubtful	150,000	
	<b>1,505,439</b>	<b>186,649</b>

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<b>Schedule 9. Loans and Advances</b>		
<i>(unsecured)</i>		
Advances given to subsidiary company - ISE Securities & Services Limited	4,408,920	
Advances recoverable in cash or in kind, or for value to be received	5,706,123	4,592,214
Tax Deducted at Source	1,293,510	146,472
	11,408,553	4,738,656
Less: Provision	649,924	1,142,711
<b>Total</b>	<b>10,752,829</b>	<b>3,595,955</b>
Considered Good	10,752,829	3,595,955
Considered Doubtful	649,924	1,142,711
	<b>11,408,553</b>	
Due from Directors	Nil	
(Maximum amount outstanding at any time during the year Rs. 2,34,383 -)		

# Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

## Schedule 5. Fixed Assets

PARTICULARS OF ASSETS	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	as at 31.3.99	Additions	Deductions	Total as on 31.3.2000	upto 31.3.99	for the year	upto 31.3.2000	As at 31.3.2000	As at 31.3.1999
Leasehold Land	796,950			796,950	4,691	13,283	17,974	778,976	792,259
Leasehold Premises	32,565,962			32,565,962	644,878	633,715	1,228,593	31,287,369	31,921,084
Machinery & Electrical Equipments	3,740,772	58,413		3,799,187	61,338	180,462	241,866	3,557,387	3,679,434
Furniture & Fixtures	4,399,108	145,752		4,544,860	93,212	287,305	169,517	4,164,343	4,305,896
Vehicles	841,619			841,619	28,095	79,954	108,049	733,570	813,534
Office Equipments	1,275,888	39,333	772	1,314,440	55,914	67,416	123,271	1,191,178	1,219,974
Computers	95,935,616	164,976	49,085	96,051,507	1,625,430	15,552,486	17,175,792	78,875,715	94,310,186
Previous year	139,555,915	408,476	49,857	139,914,534	2,513,558	16,814,621	19,325,996	120,588,538	137,042,357
		139,594,315	38,600	139,555,915		2,514,610	2,513,558	137,042,357	

Capital Work in Progress in respect of installation of Computers and Office Equipment of Rs 2,99,04,145 ( Previous Year Rs. 16,81,125) (including advances )

Notes:

- 1) In respect of Leasehold Land and Leasehold Premises pending execution
- 2) Leasehold Premises represents cost of Office Premises including improvements in premises taken from CIXCO under lease for a period of 60 years in respect of which Lease Deed and agreement to lease is pending execution
- 3) The cost of Leasehold Land does not include Stamp duty aggregating Rs 31,41,596. In the opinion of the company, the amount being set up in International Finance Park is the same is exempt and steps are being taken to get the necessary approvals from the relevant authorities

# Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<b>Schedule 10, Current Liabilities</b>		
<b>Sundry Creditors*</b>		
Total Outstanding dues of Small Scale industrial undertakings	Nil	
Total Outstanding dues of creditors other than small scale industrial undertakings	3,037,381	5,461,524
<b>Deposits**</b>		
Contribution towards Base Minimum Capital Traders & Dealers	16,017,000	8,600,000
Contribution towards Settlement Stabilisation fund	11,209,000	10,200,000
<b>Contributions received in Advance ***</b>		
	232,577,726	3,572,766
<b>Total</b>	<b>262,832,107</b>	<b>27,834,290</b>
<p>* The above information as provided in respect of small scale industrial undertakings have been arrived at on the basis of information available with the company.</p> <p>** Refundable in accordance with the bye-laws of the company</p> <p>*** Advance contribution represents amounts received from the Traders/ dealer towards admission fees, annual fees, insurance premium, etc pending registration/ approval</p>		

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<b>Schedule 11 Deferred Payment Liabilities</b>		
a) Due to CIDCO in respect of Leasehold Premises	18,879,668	21,941,228
b) Due to Suppliers towards Capital Goods	14,432,612	32,915,356
<b>Total</b>	<b>33,312,280</b>	<b>54,856,584</b>
<p>Note Payment to CIDCO is to be made in 36 monthly installments alongwith interest in accordance with the sanctioned terms of the leasehold premises and to other suppliers upto August 2001.</p>		

	as at March 31, 2000 Rupees	as at March 31, 1999 Rupees
<b>Schedule 12, Miscellaneous Expenditure</b> (To the extent not written off or adjusted)		
Preliminary expenses	21,618	28,824
Deferred Revenue Expenditure	7,989,974	10,653,299
<b>Total</b>	<b>8,011,592</b>	<b>10,682,123</b>

## Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	<i>for the year ended</i> March 31, 2000 Rupees	<i>for the period ended</i> March 31, 1999 Rupees
<i>Schedule 13, income</i>		
Admission Fees from Traders	155,000	55,000
Annual Subscription received		
- From Members	750,000	1,450,000
- From Traders	212,000	190,000
Interest on Bank Deposits, etc. 5,341,925 (TDS of Rs. 1148,138 previous year Rs. 146,472)		715,901
Less: Interest earned on Reserve Fund Deposits 2,067,335	3,274,590	
Listing Fees	71,200	
Transaction Charges	232,179	597
Excess Provision of Doubtful advance written back	492,807	
Miscellaneous Income	1,374,966	36,817
<b>Total</b>	<b>6,562,742</b>	<b>2,448,315</b>

	<i>for the year ended</i> March 31, 2000 Rupees	<i>for the period ended</i> March 31, 1999 Rupees
<i>Schedule 14, Employee Cost</i>		
Salaries (net of recovery Rs. 380540/-)	6,396,554	1,588,390
Contribution to Provident and other Funds	697,399	182,866
Contribution to Gratuity	61,022	21,344
Staff Welfare	245,710	147,649
<b>Total</b>	<b>7,400,685</b>	<b>1,940,249</b>

## Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

	<i>for the year ended</i> March 31, 2000 Rupees	<i>for the period ended</i> March 31, 1999 Rupees
<i>Schedule 15 Administration and Operational Expenses</i>		
Communication Expenses [net of recovery Rs. 3,275 -]	4,476,092	999,204
Printing & Stationery	769,364	298,862
Legal & Professional	786,001	723,144
Power, Fuel & Water Charges	1,329,619	319,401
Rates & Taxes [net of recovery Rs. 85,782 -]	760,969	424,508
Repairs & Maintenance - Other	2,182,763	178,908
Repairs & Maintenance - Leasehold Premise	6,024,153	170,452
Conveyance	174,256	89,166
Postage & Courier Expenses [net of recovery Rs. 99 -]	361,979	122,274
Security Expenses	347,736	104,913
Insurance [ net of recovery Rs. 763,206 - (Previous year Rs. 8233 -)]	1,354,176	223,350
Hiring Charges	27,158	64,130
Bank Charges	129,738	70,401
Publicity Expenses	1,993,492	68,641
Books, Newspapers and Periodicals	45,591	14,070
Rent [net of recovery Rs. 15,400 -]	63,500	251,747
Travelling Expenses [ net of recovery of Rs. 1,620 - (Previous year Rs. 44,386 -)]	1,975,423	133,740
Motor Car Expense [net of recovery Rs. 30,000 -]	125,091	32,782
Conference Expenses [net of recovery Rs. 11,404 -]	521,774	3,798
Miscellaneous Expenses	527,342	311,180
Provision for Doubtful Debts - Advance	150,000	1,142,731
Advances written off	348,684	
Preliminary Expenditure Written Off	7,206	7,206
Deferred Revenue Expenditure Written Off	2,663,325	2,663,325
<b>Total</b>	<b>23,116,532</b>	<b>8,417,933</b>
<i>Note</i>		
<i>Miscellaneous expenses includes training expenses, brokerage, loss on asset Rs. 39,035 [net of recovery Rs. 709,540 (previous year Rs. 37,539)]</i>		

	<i>for the year ended</i> March 31, 2000 Rupees	<i>for the period ended</i> March 31, 1999 Rupees
<i>Schedule 16, Interest</i>		
Interest on Loan including on bank overdraft	2,622,638	661,809
Interest on Others	2,384,640	300,050
<b>Total</b>	<b>4,406,678</b>	<b>961,859</b>

Inter-Connected Stock Exchange of India Limited  
Schedules - 17

4. Significant accounting policies

1. Fixed assets

Fixed Assets are valued at cost. They are stated at historical cost (including incidental expenses).

The improvements to leased premises have been capitalised along with leasehold premises.

2. Depreciation and amortization

(i) Depreciation is provided on Straight Line basis at the rates specified in Schedule XIV of the Companies Act, 1956.

(ii) Depreciation on assets acquired / purchases during the year is provided on pro-rata basis.

(iii) Leasehold land and premises including improvements are amortised over the period of the lease.

3. Foreign currency transactions

Transactions in foreign currency are recorded at the original rate of exchange in force at the time of occurrence of transactions. Exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are adjusted in the carrying amounts of respective fixed assets. Exchange differences arising on settlement of other transactions are recognised in the Profit and Loss account.

Monetary items (other than those related to the acquisition of fixed assets) denominated in foreign currency are restated using exchange rates prevailing at the date of the Balance Sheet, the resulting net exchange difference is recognised in the Profit & Loss Account.

4. Retirement benefits

Company's contribution to the provident fund to the employees is charged to revenue. The company's liability for gratuity is funded through Life Insurance Corporation of India (LIC). Contribution payable to the gratuity fund is charged to revenue on the basis of LIC's demand, which specifies the contribution to be made on the basis of actuarial valuation carried out by LIC.

Inter-Connected Stock Exchange of India Limited  
Schedules - 17

5. Miscellaneous Expenditure

a) Preliminary Expenditure

Preliminary expenses are being amortised over a period of five years from the year the company commences the operations.

b) Deferred revenue expenditure

Indirect expenses considered as pre-operational and pertaining to the project incurred before the commencement of operations are considered as deferred revenue expenditure to be amortised over a period of five years from the year the company commences its operations.

6. Revenue recognition

In appropriate circumstances, revenue (income) is recognised when no significant uncertainty or collectible exists.

The revenue in respect of a settlement is accounted on the funds pay-in date of a settlement.

The interest income on investments of the funds being accretions to the said funds, in accordance with the bye-laws of the Company, is credited to the funds.

7. Settlement Transactions

The transactions pertaining to the settlement, which are conducted in the fiduciary capacity, do not form part of the accounts of the exchange.

8. Contingent Liabilities

Contingent liabilities are disclosed by way of note to the balance sheet. Provision is made in the accounts for those liabilities which are likely to materialise after the year end till the finalisation of accounts and having material effect on the position stated in the balance sheet.

9. Dealers admission fees, which is one time admission fees towards transferable right to trade on exchange, is considered as capital contribution and classified accordingly. (refer note B-1i)

Inter-Connected Stock Exchange of India Limited  
Schedules - 17

*B* Notes on accounts.

1. Estimated amounts of contracts remaining to be executed and not provided for (net of advances) - Rs. 14,852,399 /-. (previous year Rs. 7,585,747/-)

2. Contingent liabilities

a. Claims against the company not acknowledge as debts Rs. NIL (previous year - Rs. 1,338,116/-)

b. Guarantee given by a Scheduled Bank on behalf of the company Rs. 66,17,500/- (previous year - Rs.6,617,500)

3. Managerial Remuneration.

	31 <sup>st</sup> March 2000 Rupees	31 <sup>st</sup> March 1999 Rupees
Salaries	1,500,617	1,473,278
Perquisites in Cash/Kind	Nil	Nil
Contribution to Provident & Other funds (including Gratuity)	186,655	109,889
	<u>1,687,272</u>	<u>1,583,167</u>

4. Payment to auditors

	31 <sup>st</sup> March 2000 Rupees	31 <sup>st</sup> March 1999 Rupees
As auditors	26,250	26,250
As advisor or in any capacity in respect of Taxation Matters	100,000	
Other services such as accounting matters, Financial Advice, etc.	100,000	317,645
In any other manner ( certification work, including certification of internal accounts for the year 31.3.99.)	27,300	26,250
As expenses	7,355	43,830
<i>Total</i>	<u>260,905</u>	<u>413,975</u>

## Inter-Connected Stock Exchange of India Limited Schedules - 17

- 5 A During the year in accordance with the resolution passed at the meeting of the Board of Directors the contribution for the infrastructure development per member was reduced from Rs.13,000,000 to Rs. 7,000,000 since cost of the project of the Company for the time being is also being met partly through the admission fees received from the induction of the dealers. Accordingly excess amount of Rs.4,350,000 has been repaid.  
The balance amount aggregating to Rs.16,200,000/-towards Infrastructure development from members is yet to be received which will be accounted in the year of receipt.
- B In accordance with the resolution passed at the Board meeting the company is entitled to recover an amount of Rs. Nil (Previous Year Rs. 8,847,818/-) towards interest for delayed/ non-payment of Contribution referred to in (a) above. However in view of the uncertainty towards recovery of such interest, the same has not been accounted for in the books of accounts. Subsequently, the Board has decided to forego the interest for the above delayed payments.
6. Shares and Fixed Deposits received from Traders and dealers in connection with the compliance of Base Minimum Capital contribution (Capital Adequacy Norms) in accordance with the Bye-Laws have been held as Securities and accordingly have not been accounted in the books.
7. Sundry Debtors include an amount of Rs.95,000/- (previous year Rs. 30,000/-) recoverable from Traders and dealers towards contribution to settlement guarantee funds for which steps are being taken to recover the said amount and earmark the same.
8. As per the bye laws of the Company and Securities and Exchange Board of India (SEBI) requirements, traders and dealers are required to maintain with the company a Base Minimum Capital (BMC) of Rs.200,000/- in the form of guarantee of the respective exchange of the trader, cash, bank fixed deposits or approved investments; with a minimum cash component of Rs. 100,000/-: However the minimum cash component of BMC amounting to Rs.7,100,000/- due from 71 SEBI registered dealers / traders is yet to be received as on March 31, 2000. Hitherto the Company used to monitor the compliance of the requirement prior to the traders activation for trading rather than as pre condition for registration. Accordingly the Company has already taken the steps to Comply with this requirement and have also ensured that such traders have not been permitted to trade. In the absence of receipt of Base Minimum Capital from the above traders and dealers the same have not been accounted and earmarked.

# Inter-Connected Stock Exchange of India Limited

## Schedules - 17

9. In the earlier year the Company had accounted for admission fees, annual fees and the Contribution towards Settlement Guarantee Fund for traders registered by the Company on the basis of the registration. However considering that the SEBI is the final authority for the registration of trader / dealer the Company has accounted such dues from the traders on the basis of date of approval of SEBI, being the conclusive point of entry of the trader into the exchange. However there is no material impact on the loss for the year consequent to such change in the accounting of such receivables.
10. During the year in order to control the recoverability of cost of insurance premium from traders / dealers, the Company has recovered the insurance premium on the basis of date activation of for trading and not on the basis of registration by SEBI which was hitherto followed. Consequent to this recovery on account of the insurance premium from traders is lower by Rs.856,800/- and loss is higher by the like amount.
11. During the year the Company has received an amount aggregating to Rs.26,000,000 as one time admission fees from the dealers towards the transferable right to trade on the exchange. The amount so collected is considered as capital contribution and classified in the Balance Sheet accordingly.
12. Balances with Bank Current Accounts and Deposit Accounts (refer schedule 7) includes an amount aggregating to Rs. 26,715,557/- (Previous year Rs. 20,502,243) [including interest accrued Rs. 150,411/- (Previous year Rs. 97,288/-)] which is earmarked against the funds received as per schedule 3 & 10 except an amount of Rs. 4,181,208/- (previous year Rs. 72,879/-) which has been transferred to earmarked accounts subsequently excluding Rs. 123/- (previous year Rs. 54/-) [Refer Note 13].
13. The details of the earmarked funds are shown in the following table :

### Details of Funds

(Cash Component including accretions)

<u>Balance of funds / contributions received</u>	As on 31-3- 2000	As on 31-3- 1999
Settlement Guarantee Fund (including accretions from levy of transactions and interest)	3,632,795	1,120,168
Settlement Stabilisation Contribution from Member Exchanges	11,200,000	10,200,000
Contributions towards Base Minimum Capital (cash component)	16,017,000	8,600,000
<b>Total</b>	<b>30,849,795</b>	<b>19,920,168</b>

## Inter-Connected Stock Exchange of India Limited

### Schedules - 17

The balances as on 31-3-2000 in the various fund accounts and contributions received are earmarked in accordance with the bye-laws of the Company as under :

<u>Earmarked</u>	As on 31-3- 2000	As on 31-3- 1999
In Fixed Deposit and Current Bank Accounts (Including interest accrued Rs.150,411. Previous year 97,288 )	26,668,710	20,592,243
Amount yet to transferred as on March 31, 2000 (transferred subsequently)	4,181,085	(582,075)*
* Net of Rs 72, 879/- short earmarked		

#### Non-Cash Component:

(not accounted in the books, refer note 6)

Bank Guarantees from traders and dealers	1,400,000	2,200,000
Fixed Deposits under lien**	4,93,423	2,000,000
Securities Pledged***	6,923,769	662,910
Undertakings given by Member Exchanges on behalf of Traders of those exchanges	13,400,000	Nil
<b>Total Non-Cash Component</b>	<b>42,679,192</b>	<b>4,862,910</b>

\*\*In respect of some of the fixed deposits, though handed over, the procedure in respect of creation of lien is in progress

\*\*\* As confirmed the custodian bank - ABN AMRO Bank N.V

#### Investor Protection Fund

	As on 31-3- 2000	As on 31-3- 1999
Received as Levy on transactions, etc	17,453	27
Earmarked In Fixed and Current Bank Accounts	1,330	Nil
Amount yet to be transferred as on March 31, 2000	123	27

#### Investor Service Fund

	As on 31-3- 2000	As on 31-3- 1999
Received as Levy on transactions, etc	23,820	27
Earmarked In Fixed and Current Bank Accounts	29,497	Nil
Amount to be transferred as on March 31, 2000	(5,677)	27

# Inter-Connected Stock Exchange of India Limited

Schedules forming part of the accounts

*Schedule 17, Significant accounting policies and notes forming part of accounts*

## 14. Notes forming part of accounts

Balance sheet abstract and Company's general business profile

### I. Registration details

Registration no.

1 1 3 1 4 7

State code

1 1

Balance sheet date

3 1 0 3 0 0

### II. Capital raised during the year (amount in Rupees thousands)

Public issue

N I L

Rights issue

N I L

Bonus issue

N I L

Private placement

N I L

### III. Position of mobilisation and deployment of funds (amount in Rupees thousands)

Total liabilities

0 0 0 4 3 8 2 9 1

Total assets

4 3 8 2 9 1

Sources of funds

Paid-up capital (in Rupees)

N I L

Reserves and surplus

3 6 7 4

\* Contribution towards Infrastructure Development & Others

Rs. 1384.73

Secured loans

N I L

Unsecured loans

0 0 0 0 0 0 0 0 0

Application of funds

Net fixed assets

0 0 0 1 5 0 4 9 3

Investments

2 5 0 0 0

Net current assets

( 0 0 9 7 2 1 8 )

Miscellaneous expenditure

0 0 0 0 0 8 0 1 2

Accumulated losses

0 0 0 0 5 5 8 6 2

### IV. Performance of the Company (amount in Rupees thousands)

Turnover / other income

0 0 0 0 0 6 5 6 3

Total expenditure

0 0 0 0 5 1 7 3 9

+ (-) Profit / (loss) before tax

( 0 0 4 5 1 7 6 )

+ (-) Profit / (loss) after tax

( 0 0 4 5 1 7 6 )

Earnings per share (Rupees)

N A

Dividend %

N A

### V. Generic names of three principal products/ services of the Company (as per monetary terms)

Item code no. (ITC code)

N I L

Product description

N A

as per our attached Report of even date

for C. C. Chokshi & Co.,

for and on behalf of the Board

Chartered Accountants

sd-

(P. R. Barpande)

Partner

sd-

(M. R. Mayya)

Chairman

sd-

(Joseph Massey)

Managing Director

sd-

(V. Shankar)

Joint Managing Director

Mumbai, dated August 1, 2000

Mumbai, dated August 12, 2000

Page 15

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FOR INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED

JOSEPH MASSEY  
Managing Director.

Inter-Connected Stock Exchange of India Limited  
Schedules - 17

15. Figures of the previous year have been regrouped/reclassified to make them correspond with the current year's figures, wherever necessary.
16. The amounts in the balance sheet and profit and loss account are rounded off to the nearest rupee.
17. The previous years figures are for a period of 15 months and net of capitalisation of indirect expenditure and that for the current year are for a period of 12 months and hence not comparable.

Signatures to schedules 1 to 17

As per our attached Report of even date

For C. C. Chokshi & Co.,  
Chartered Accountants

sd/-  
(P. R. Barpande)  
Partner  
Mumbai, August 12, 2000

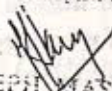
For and on behalf of the Board

sd/- : sd/-  
(M.R. Mayya) (Joseph Massey)  
Chairman Managing Director  
Mumbai, August 12, 2000

sd/-  
(V. Shankar)  
Joint Managing Director

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FOR INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED.

  
JOSEPH MASSEY  
Managing Director.

**C. C. Chokshi  
& Co.**

Chartered Accountants  
Mafatlal House  
Backbay Reclamation  
Mumbai - 400 020

Telephone: 91 (22) 285 4330  
283 7006  
Facsimile : 91 (22) 202 4499  
202 4337

E-mail : cchokshi@grasdm01.vsnl.net.in

Auditors' report

To,  
The members of  
Inter-connected stock exchange of India Limited

We have audited the attached Balance Sheet of Inter-Connected Stock Exchange Of India Limited as at March 31, 2000 and also the annexed Profit and loss account for the year ended on that date and report that :

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the said Order to the extent applicable.
2. Further to our comments in Annexure referred to in the paragraph 1 above, we report that :-
  - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;
  - (c) The Balance Sheet and profit and loss Account dealt with by this Report are in agreement with the books of account;
  - (d) In our opinion, the Profit and Loss account and Balance sheet complies with the Accounting Standards referred to in sub-section 3(C) of section 211 of the Companies Act, 1956;

**C. C. Chokshi  
& Co.**

Chartered Accountants  
Mafatalal House  
Backbay Reclamation  
Mumbai 400 020

Telephone: 91 (22) 285 4330  
283 7006  
Facsimile : 91 (22) 202 4499  
202 4337  
E-mail : cchokshi@grasbm01.vsnl.net.in

(c) In our opinion, and to the best of our information, and according to the explanations given to us, the accounts, read with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view:

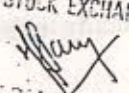
- i. in case of the Balance sheet, of the state of affairs of the Company as at March 31, 2000 and
- ii. in the case of the Profit and loss account, of the loss for the year ended on that date.

for C.C.Chokshi & Co.,  
Chartered Accountants

P. R. Barpande  
Partner

Mumbai, dated, August 12, 2000

CERTIFIED TO BE TRUE COPY  
FOR INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED.

  
JOSEPH MASSEY  
Managing Director.

Chartered Accountants  
Mafatalal House  
Backbay Reclamation  
Mumbai 400 020

Telephone: 91 (22) 285 4330

283 7006

Facsimile : 91 (22) 202 4499

202 4337

E-mail : cchokshi@gastrbml.vsnl.net.in

**Annexure to the Auditor's report**

*(referred to in paragraph 1 of our Report of even date)*

1. The nature of the Company's activities are such that requirements of items (iii), (iv), (v), (vi), (xii), (xiv), (xvi) of clause A and items (ii), (iii) and (iv) of clause B of paragraph 4 of the Order are not applicable to the Company.
2. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The fixed assets have been physically verified by the management during the year. We are informed that no material discrepancy has been noticed by the management on such verification.
3. The fixed assets have not been revalued during the year under review.
4. The Company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the Register maintained under section 301 of the Companies Act, 1956. We are informed that there are no companies under the same management as this Company within the meaning of section 370 (1B) of the Companies Act, 1956.
5. The Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the Register maintained under section 301 of the Companies Act, 1956. We are informed that there are no companies under the same management as this Company within the meaning of section 370 of the Companies Act, 1956.
6. The Company had given advances in the nature of loan which has been written off during the year being irrecoverable. There are no other loans outstanding at the year end.
7. In our opinion and according to the information and explanations given to us, there are internal control procedures with regards to purchase of machinery, equipment and other assets and in respect of sale of services which in our opinion needs to be strengthened to be commensurate with the size of the Company and nature of its business.

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uditors' Report

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## INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED

DIRECTORS' REPORT

The Board of Directors of the Exchange is pleased to present its Second Annual Report for the period April 1, 1999 to March 31, 2000, which is the second Financial Year, together with the Auditors' Report and the Accounts for this period.

During the period under reference, the capital market has witnessed tremendous changes, which will have significant long term impact on the functioning of various institutions and intermediaries associated with this market.

Primary Market :

Resource mobilisation has witnessed an uptrend after a long time and there has been a revival of interest on the part of investors in the primary market for IPO's and also for Mutual Funds. This uptrend is largely due to improvement in the secondary market conditions. The IPO's subscribed during the year displayed the preference of investors, as most of the interest was in issues of Information Technology, Communication and Entertainment (ICE) and Pharmaceutical companies, as these companies are doing exceedingly well in the secondary market. This has been a very encouraging development after a long spell of dull market.

During 1999-2000, the total funds mobilized by Indian corporates through domestic offerings totaled Rs. 7816.75 crores as against Rs. 5586.46 crores raised in 1998-99. The Public Issue component in 1999-2000 was Rs. 6256.51 crores, as against Rs. 5018.90 crores for the previous year. The share of Rights Issue in the total funds collected during the year was Rs. 1560.24 crores as against Rs. 567.56 crores during 1998-99. The number of companies that raised funds during the year under review, likewise, increased from 58 in 1998-99 to 93 in 1999-2000. Mutual Funds too showed a smart rise by mobilizing Rs. 61241.23 crores during 1999-2000, which after considering the repurchase value of Rs. 42271.35 crores, yielded a net inflow of Rs. 18969.88 crores. The similar figures for the previous year were Rs. 22710.73 crores of funds mobilization, Rs. 23660.40 crores of repurchase and net inflow of Rs. 949 crores.

Secondary Market

The secondary market witnessed unprecedented buoyancy, after a long spell of depressed market conditions and the momentum in the market was so pronounced that the BSE Sensex crossed the 5000 level on February 11, 2000. The buoyancy was mainly on account of the ICE and pharmaceutical stocks. The Union Budget of 2000-01 maintained the momentum of the reforms process and favorable policies for the capital market were continued, as was the case in the previous Budget, inspite of marginally higher rate of taxation. The market, therefore, improved after some initial fall. The Sensex at the end of the review period was higher by 1261.32 points (5001.28 in March 31<sup>st</sup>, 2000 as against 3739.96 on 31<sup>st</sup> March 1999).

With the setting up of NSE terminals across the country and expansion of BSE's BOLT system in a large number of cities, the smaller Regional Stock Exchanges (RSEs) have seen substantial erosion in their market share. Over 95% of all-India turnover is now accounted for by NSE, BSE, Calcutta and Delhi Stock Exchanges. All other Exchanges put together account for about 5% of total turnover, and in fact, the share of the smaller Exchanges is on the decline, as revealed by the following statistics:

**C. C. Chokshi  
& Co.**

Chartered Accountants Telephone: 91 (22) 285 4330  
Mafatlal House 283 7006  
Backbay Reclamation Facsimile: 91 (22) 202 4499  
Mumbai 400 020 202 4337  
E-mail: cchokshi@iasbns01.vsnl.net.in

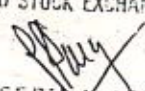
8. According to the information and explanations given to us, there are no transactions of purchase of goods and materials and sale of services, made in pursuance of contracts or arrangements entered in the Register maintained under section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000/- or more in respect of each party.
9. The Company has not accepted any deposits from the public.
10. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
11. According to the records of the company, Provident Fund and Employee State Insurance dues have been generally regularly deposited during the year with the appropriate authorities.
12. According to the information and explanations given to us, no undisputed amounts payable in respect of income-tax, wealth-tax, sales-tax, customs duty and excise duty as at March 31, 2000 were outstanding for a period exceeding six months from the date they became payable.
13. According to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account other than those payable under contractual obligations or in accordance with generally accepted business practice.
14. The Company is not a sick industrial company within the meaning of Clause (c) of section 3 (i) of the Sick Industrial Companies (Special Provisions) Act, 1985.

for C.C.Chokshi & Co.,  
Chartered Accountants

P. R. Barpande  
Partner

Mumbai, dated August 12, 2000

**CERTIFIED TO BE TRUE COPY**  
FOR INTER-CONNECTED STOCK EXCHANGE OF INDIA LIMITED.

  
JOSEPH MASSEY  
Managing Director,

## Directors' Report

Stock Exchange	1999-00		1998-1999		1997-1998	
	Rs. Crores	Percentage to total	Rs. Crores	Percentage to total	Rs. Crores	Percentage to total
NSE	8,39,052	40.59	4,14,383	40.49	3,69,934	40.71
BSE	6,85,028	33.14	3,11,999	30.49	2,07,383	22.82
Calcutta	3,57,166	17.28	1,71,780	16.79	1,78,778	19.67
Delhi	93,289	4.51	51,759	5.06	67,840	7.47
ISE	45,255	2.20	36,132	3.53	45,226	4.93
<b>Exchanges*</b>						
Ahmedabad	37,566	1.82	29,734	2.91	30,771	3.39
Pune	6,087	0.29	7,453	0.73	8,624	0.95
OTCEI	3,588	0.17	142	0.01	125	0.01
All-India	20,67,031	100.00	10,23,382	100.00	9,08,681	100.00

• 15 Stock Exchanges that have promoted ISE.

On the other hand, the combined financial strength and infrastructure facilities available at these Exchanges are on par with those available at the bigger Exchanges. Given below Following are the key financial statistics of 14 RSEs (promoters of ISE, except Madras Stock Exchange, for which statistics are not available) for 1997-98:

(Rs. '000)	
Reserves & Surplus	9,97,048
Networth	14,00,888
Fixed Assets	13,29,758
Investments	2,24,052
Listing Fees	1,19,903
Total Income	2,79,785
Total Expenditure (Excl. Depreciation)	1,71,611

A major cause for the decline in the market share of smaller Exchanges is the fragmentation of market leading to lower liquidity and thinner volumes on individual Exchanges. The shift of business from local Exchanges to BSE and NSE has further accentuated this problem. Consolidation of the market place, therefore, became a necessity for improving liquidity at the smaller Exchanges spread across the country. This was the objective behind the establishment of ISE, which was operationalized on February 26, 1999. Initially, four Exchanges participated in trading and gradually this number grew to eleven by March 31, 2000. Guahati and Jaipur Stock Exchanges are in complete readiness to participate in ISE, while Madras and Ludhiana Stock Exchanges have still not decided to activate their membership.

The process of consolidation attempted by ISE is different from the normal route of merger followed by some of the Exchanges abroad, considering the sensitivity of any merger decision. Therefore, ISE has gone in for *inter-connectivity* of Regional Stock Exchanges by creating a separate national-level Exchange. Within a year of its inception, ISE now occupies the thirteenth position among the 25 recognized Stock Exchanges in India.

As at the end of July 2000, ISE has received 382 applications from Traders (i.e. members of the Participating Stock Exchanges), out of whom 230 have been registered with SEBI and 32 are awaiting registration at SEBI. The balance applications are pending at ISE for want of the required information. The Regional Stock Exchanges participating in ISE have in all about 4,500 members, out of whom 2,500 are active. These members are eligible to be registered as Traders on ISE. The distribution of members from various Exchanges is given below:

Stock Exchange	Applications Received
Bangalore	37
Bhubaneswar	12
Cochin	62
Coimbatore	57
Gauhati	16
Hyderabad	27
Madhya Pradesh (Indore)	16
Jaipur	12
Uttar Pradesh (Kanpur)	46
Mangalore	18
Magarh (Patna)	16
Saurashtra Kutch (Rajkot)	27
Vadodara	36
<b>Total</b>	<b>382</b>
<b>Registered Brokers</b>	<b>230</b>

Besides Traders, with a view to meeting the growing demand for stock broking services at competitive rates across the country, ISE has gone in for Dealers in those cities where the Participating Exchanges are not located. After a country-wide marketing drive, ISE has been able to enlist over 500 Dealers, spread over 60 cities, who are currently undergoing registration formalities. As of end-July 2000, around 200 Dealers have been registered by SEBI and another 50 applications are awaiting SEBI registration. The distribution of the Dealers is as follows:

Distribution of Dealers	Applications received
Western Region	236
Northern Region	103
Southern Region	41
Eastern Region	102
Central Region	20
<b>Total</b>	<b>502</b>
<b>Registered Brokers</b>	<b>200</b>

Financial Highlights

Financial Highlights for the year under review, together with a comparison for the previous period (January 22, 1998 to March 31, 1999) are given below:

(Rs. in lakhs)

	1999-2000	1998-1999
Total Income	86.07	24.48
Employee Costs	74.01	19.40
Administration and Operational Expenses	234.97	84.18
Interest	44.06	9.62
Depreciation	168.14	18.14
Total Expenditure	521.19	131.34
Excess of Expenditure over Income (carried forward)	435.12	106.86

Funding of the Project

The Exchange has received Rs. 1124.73 Lakhs as admission fees and contributions towards infrastructure development from the Member Exchanges upto March 31, 2000. The above amount has been expended towards the capital expenditure of the Project and related implementation expenses. The total expenditure made in the project upto March 31, 2000 is Rs. 1698.18 lakhs. Outstanding receivables from the Exchanges towards the project contribution, as on March 31, 2000, stood at Rs. 32 lakhs, with the present level of contribution per Exchange of Rs. 70 lakhs.

Office Infrastructure

The Exchange was, during the initial stages, functioning from a rented premises at Andheri, Mumbai. From March 20, 1998, the Exchange moved into its own premises, which is also its Registered Office. The office area measuring 10,200 sq. ft. has been acquired from CIDCO and is situated very conveniently at the Vashi Railway Station Complex. The address of the Registered Office is International Infotech Park, Tower No. 7, 5<sup>th</sup> floor, Sector 30, Vashi-400703, Maharashtra.

All Exchange operations are being currently carried out from this office and also from the four Regional Administrative Offices established at Calcutta, Chennai, Delhi and Nagpur. The Registered Office of ISE was inaugurated by Shri Manohar Joshi, former Chief Minister of Maharashtra and present Union Industries Minister, on June 14, 1998.

Performance and prospects of ISE

The year 1999-2000 was undoubtedly a fruitful year for ISE, as many developmental activities were initiated, which have long term benefits. While the Exchange went through an extremely harrowing first half, as the turnover on ISE was not commensurate with the infrastructure setup, however, the situation improved in the second half, mainly on account of the induction of Dealers. The long term prospects of the Exchange are much better now, thanks to the sagacity and determination shown by the Directors and the employees. There was a slowdown in the financial support provided by the Participating Exchanges. The Dealers inducted now represent a pool of participants, who are determined to strengthen ISE by giving undivided focus.

## Directors' Report

During the year under review, ISE notched up a turnover of Rs. 545 crores, with the result that it now occupies the 13<sup>th</sup> position in the overall ranking among the 25 Stock Exchanges in India, based on turnover. This is a remarkable achievement, though a significant improvement in the trading volume is still necessary to achieve financial stability. The consolidated turnover of ISE and ISS is more than Rs. 27 crores a day and it is expected to go up to Rs. 250 crores by the end of this financial year. In addition to the ISE and NSE segments, business opportunities that will be opened up through the introduction of Badla, ALBM, Derivatives, Internet Trading, IPO Distribution, etc. will quite considerably boost the attractiveness of ISE to the Traders and Dealers.

### Trading on ISE

ISE has made considerable progress since the last year in enrolment of Traders and Dealers, with the result that the number of registered participants has gone up from just 86 as on March 31, 1999 to over 450 as on July 31, 2000. The daily turnover on ISE though has progressed marginally, from less than Rs. 25 lakhs during the initial stages to more than Rs. 1.5 crores with over 15 scrips traded regularly. About 50 participants log into the system daily. While the activity level is much lower than that required to sustain a national-level institution, we are confident that the turnovers will improve once Traders and Dealers are registered in larger numbers for ISE and NSE. This dual business opportunity is also expected to boost turnover on ISE due to arbitrage between the NSE and ISE segments. Some of the registered intermediaries are unable to trade because of the delay in networking Wipro Infotech, which has been entrusted the networking assignment, has been requested to expedite the project implementation, so that the full potential of ISE and ISS can be realized at the earliest. The number of Traders and Dealers participating in the ISE and NSE segments is expected to go up to about 500 by March 2001 and the turnover in the ISE and NSE segments is likewise expected to go up to Rs. 250 crores by then.

ISE is the most cost-effective trading system in the country today with a transaction charge of only Rs. 6/= per Re. 1 lakh of turnover. This level of cost-effectiveness is possible because of the model of consolidation employed and technology deployed, which ensure that existing infrastructure are optimally utilized.

### Clearing & Settlement

ISE has established a sound decentralized system for clearing and settlement through the Clearing Houses at the 13 Regional Stock Exchanges and 4 Regional Administrative Offices (Chennai, Calcutta, Delhi and Nagpur). This setup will take care of all the support requirements of Traders and Dealers for the ISE and NSE segments. Depository Participants like Stock Holding Corporation of India Ltd. (SHCIL), HDFC Bank, ABN Amro Bank, etc. provide settlement support for demat segment, while the Regional Clearing Houses in support with Elbee Couriers take care of the physical segment. As regards funds settlement, a national-level funds transfer system has been established using the services of Vysya Bank, HDFC Bank, ANZ Grindlays Bank and ABN Amro Bank. The operations on ISE are fully covered by an Insurance Policy procured from New India Assurance, which addresses various risks in the system.

ISE has also set up a delivery mechanism wherein total delivery-in and delivery-out obligations are netted off at the level of the Regional Clearing Houses and only the residuals need to be moved from one centre to another. Traders and Dealers deliver their securities at the respective Regional Clearing Houses on the deliver-in day, which are then transferred to the respective destinations electronically or physically with the help of Elbee Couriers. Over 98% of the total delivery in ISE takes place in demat form.

For managing fund transfer requirements of ISE, Vysya Bank has established an Extension Counter or a branch within the premises of the Participating Exchanges or close to them. Each Extension

## *Directors' Report*

Counsell / branch of Vysya Bank has two terminals: one terminal is connected to the banking system, while the second one is connected to the RCH Server installed at that Exchange.

ISE uses a VSAT line with the National Securities Depository Limited for facilitating settlement operations in the demat segment of ISE.

### Base Minimum Capital

Traders and Dealers of ISE are required to maintain a Base Minimum Capital (BMC) of Rs.2lakhs. The cash component of BMC has to be Rs. 1 lakh, while the remaining can be in the form of fixed deposits, specified securities and bank guarantees. The total BMC collected from Traders and Dealers stood at Rs.4.01 crores as on 31.03.2000, against Rs.1.54 crores, which was the level as on 31.03.1999.

### Settlement Guarantee Fund

As part of its risk management system, ISE has set up a Settlement Guarantee Fund (SGF) for guaranteeing the settlements arising out of trades done in the market. The only trades not covered by the SGF are those that are adjudged fictitious by the Defaults Committee, block trades and bad delivery claims. The entire Base Minimum Capital (BMC) collected from Traders forms part of the SGF.

The corpus of the SGF as on 31.03.2000 is over Rs. 5.42 crores. Every Trader or Dealer is required to pay a cash contribution of Rs.5,000 towards the SGF at the time of registration, which is in addition to the cash component of BMC (Rs. 1 lakh). This corpus is further protected by the comprehensive Insurance Policy taken from New India Assurance against market defaults. Till date, ISE has not had the need to utilise the SGF.

### Investor Protection Fund

ISE has a separate corpus for protecting the interests of investors as required by its Regulations, as well as those framed by SEBI in this regard. This fund has been created out of an initial contribution made by ISE, supplemented by a portion of the transaction charges collected from the Traders and Dealers. Claims from investors are met out of this fund, after due verification of the claims, as provided for under the Rules and Bye-laws of the Exchange.

### Risk Management & Surveillance System

ISE's Risk Management & Surveillance (RMS) system is totally system-driven. This system helps the Exchange to monitor the positions of Traders and Dealers on a real-time basis to prevent them from taking larger than acceptable risks at any point in time.

### Insurance for ISE's Operations

ISE's insurance cover with New India Assurance Company Ltd. covers operational risks of ISE, those arising in the offices of the Traders and Dealers, as well as for the Settlement Guarantee Fund. The insurance cover is for Rs.15 crores, which is inclusive of Rs. 2 crores of SGF cover. The SGF cover provides protection against the risk of default by any individual Trader or Dealer of an amount beyond the specified excess. Therefore, ISE is very well protected. A similar cover is under consideration for the NSE segment offered by ISE's subsidiary.

Technology at ISE

A. Computer System

ISE's Central Trading Computer is a Tandem S70000 mainframe, which is fault-tolerant. The Central Trader Computer, which is installed at the Registered Office at Vashi, is connected to the Gateway Server (GWS) systems installed at each of the Participating Exchanges. Dual Compaq Proliant 1600 servers are used as the GWSs at the Participating Exchanges. The Tandem computer is sized to process 100,000 trades over a 5-hour trading window.

Trader Workstations (TWSs) of Traders belonging to a Participating Exchange are connected to the GWS systems through a Local Area Network (LAN). The GWSs at each Exchange are sized to handle about 100 Traders. As far as the connectivity of Dealers is concerned, they are directly connected to the Central Trading Computer through leased lines at all the major cities and through VSATs at remote centers.

For trading, The Electronic Securities Architecture (TESA) software, developed by Indigo Technologies, Chennai is used. SSI Ltd., which is one of the largest computer training establishments in the country, has recently acquired Indigo Technologies. The real-time Risk Management & Surveillance software has also been developed by Indigo Technologies. For Clearing & Settlement, the software developed by Ritechoice Technologies, an associate of SSI Ltd., is used. The C&S system allows for decentralized settlement operations, by having Regional Clearing House (RCH) servers located at each of the Participating Exchange centers and at the major metros connected to the Central Clearing House (CCH) server at Vashi.

B. Communication System

For connectivity of the Participating Exchange with the Vashi office, ISE uses two types of VSAT communication channels: (i) the Single Carrier Per Channel (SCPC) / Permanently Assigned Multiple Access (PAMA) link for interactive traffic and (ii) Time Division Multiple Access (TDMA) channel for downloading of broadcasts. The SCPC/PAMA links are used for interactive traffic, such as order routing and confirmations, etc. because they are fast and efficient, resulting in excellent response time. On the other hand, the TDMA channel is used for dissemination of market data, fast traded price, ticker data, index messages, etc. because it is reliable for high volume data transfer. These two communication channels also work as backups for each other. Motorola routers have been used at the Vashi, as well as at the Participating Exchange locations. Further, a mesh network through Integrated Services Digital Network (ISDN) and analog links serve as a backup to take care of satellite and satellite equipment failures. The same link with higher bandwidth of about 64 kbps is being used for permitting registered Traders from the Participating Exchange centers to trade on NSE. The entire project for connectivity of the Participating Exchanges with ISE through VSATs and ISDN/analog lines has been implemented by HCL Comnet, who are also responsible for ongoing support.

For connecting Traders and Dealers situated at locations other than the Participating Exchange centers, ISE has gone in a 64 kbps leased line link to each intermediary's office, which is backed up by an ISDN line. Network hubs, which concentrate a large number of local leased lines and ISDN lines, have been set up at South Mumbai, Delhi and Calcutta. The network hubs are connected by high-speed lines to ISE, Vashi. By concentrating leased and ISDN lines through the network hubs, the recurring charges payable by the Traders and Dealers will be brought down significantly. The leased line project to link up 600 sites spread across 60+ cities is being implemented by Wipro Infotech. In addition, ISE is also using the services of WiproNet at some other locations like Chennai, Pune and Ahmedabad, as an interim solution for providing

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