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**FINANCIAL INSTITUTION REFORM AND EXPANSION  
(FIRE) PROJECT**

**PROJECT #386-0531-3-30069  
CONTRACT #386-0531-C-00-5010-00**

**ANNUAL WORKPLAN  
11/15/94 - 4/30/96 (18 Months)**

**March 3, 1995**

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## TABLE OF CONTENTS

February 15, 1995

<b>SECTION I:</b>	<b>INTRODUCTION . . . . .</b>	<b>1</b>
<b>A.</b>	<b>Implementation Schedule . . . . .</b>	<b>1</b>
<b>B.</b>	<b>Changes in Program Assumptions. . . . .</b>	<b>2</b>
<b>SECTION II:</b>	<b>PROPOSED PROJECT ACTIVITIES AND INPUTS/OUTPUTS. . . . .</b>	<b>4</b>
<b>A.</b>	<b>Workplan Activities and Tasks . . . . .</b>	<b>4</b>
<b>B.</b>	<b>Summary of Planned Inputs. . . . .</b>	<b>5</b>
<b>C.</b>	<b>Summary of Planned Outputs. . . . .</b>	<b>5</b>
<b>D.</b>	<b>Activity and Approval Procedures to Implement the Program. . . . .</b>	<b>6</b>
<b>SECTION III:</b>	<b>TECHNICAL MODULE . . . . .</b>	<b>7</b>
<b>A.</b>	<b>Project Start-Up Activities. . . . .</b>	<b>7</b>
<b>B.</b>	<b>Securities Market Regulatory Environment . . . . .</b>	<b>7</b>
<b>C.</b>	<b>Securities Market Operating Environment . . . . .</b>	<b>14</b>
<b>D.</b>	<b>Scheduling of Deliverables. . . . .</b>	<b>19</b>
<b>SECTION IV:</b>	<b>SUPPORT MODULE - LOCAL. . . . .</b>	<b>21</b>
<b>A.</b>	<b>Project Office - Bombay . . . . .</b>	<b>21</b>
<b>B.</b>	<b>Cost Trends . . . . .</b>	<b>21</b>
<b>C.</b>	<b>Module Inputs/Outputs . . . . .</b>	<b>22</b>
<b>SECTION V:</b>	<b>SUPPORT MODULE - U.S. . . . .</b>	<b>24</b>
<b>A.</b>	<b>Inputs. . . . .</b>	<b>24</b>
<b>B.</b>	<b>Outputs. . . . .</b>	<b>24</b>
<b>SECTION VI:</b>	<b>EQUIPMENT TO BE PROCURED. . . . .</b>	<b>27</b>
<b>SECTION VII:</b>	<b>TECHNICAL REPORTS . . . . .</b>	<b>28</b>
<b>A.</b>	<b>Annual Workplans. . . . .</b>	<b>28</b>
<b>B.</b>	<b>Quarterly Reports . . . . .</b>	<b>28</b>
<b>C.</b>	<b>Semi-Annual Workplan Reviews/Reports. . . . .</b>	<b>28</b>
<b>D.</b>	<b>Other Technical Reports. . . . .</b>	<b>29</b>
<b>E.</b>	<b>Final Report . . . . .</b>	<b>30</b>
<b>F.</b>	<b>Labeling of Reports . . . . .</b>	<b>30</b>

**APPENDIX A: PRICE WATERHOUSE OVERALL PROJECT BUDGET**

**APPENDIX B: BREAK OUT BY MODULE**

- A. Total Project LOE**
- B. Technical Module Budget**
- C. Support Module-Local Budget**
- D. Support Module-U.S. Budget**

**APPENDIX C: PERT SCHEDULE OF PROJECT ACTIVITIES**

**APPENDIX D: SUMMARY OF PARTICIPANT TRAINING**

**APPENDIX E: SUMMARY OF IN-COUNTRY TRAINING**

## **SECTION I: INTRODUCTION**

The contract for the FIRE project was awarded on November 15, and signed by both parties in Washington D.C. on November 21, 1994. The contractor, Price Waterhouse (PW), mobilized in the following week and was present in Delhi by 7 December, 1994. After meetings with the USAID staff, Mr. Breen the Project Director travelled to Bombay to begin preparing the annual workplan. Consultations were held with SEBI, SHCIL, NSE, JTCEI, CRISIL, and the UTI-Institute of Capital Markets. Based on these meetings and further work carried out in Bombay during the beginning of February 1995, PW presented USAID with the Draft Annual Workplan dated February 15, 1995.

Based on the comments by USAID and the cooperating Indian institutions regarding the Draft Annual Workplan, PW is submitting the revised workplan. The response by the key executives of these institutions has been very positive and several provided information about specific training and consultancies needs and suggested timing. All of the institutions except for SEBI prepared written technical assistance requests which have been incorporated in to this workplan. Mr. Breen has reviewed the plan in detail with Mr. Bhave, SEBI Senior Executive Director, who agrees with the work envisioned with SEBI. Mr. Breen of PW and Walter Bollinger, Mission Director, and Ashok Jha of USAID met with the Mr. Mehta, the new Chairman of SEBI, to discuss FIRE and Mr. Mehta promised to review the proposed workplan and provide comments within the next two weeks. Mr. Mehta did, however, indicate that he would support the FIRE work with SEBI with appropriate SEBI resources.

### **A. Implementation Schedule**

The time schedule for project implementation was severely impacted by the events of December 1994 and January 1995 during which the FIRE project was for all intents and purposes suspended pending the outcome of a formal protest of USAID's contract award to PW. PW personnel, especially Mr. Breen, were detained in Washington to respond to the extensive information requirements posed by the formal process of adjudication of the protest. The preparation of the workplan itself, while not halted, was certainly impeded by these requirements and delay in its completion was experienced.

Also during January 1995, arrangements to hire the Securities Market Specialist and the Securities Operations Specialist as contemplated in the contract were halted due to the inability to make a longer term commitment due to the unresolved status of the award protest. One of the persons PW had approached has since accepted an offer with compensation higher than the project was authorized to pay. Another decided to remain at his present location due to changed circumstance and a significant increase in compensation offered by his present employer in order to retain him. The proper staff is crucial to the progress of the project which aims to implements

an ambitious schedule of consultancies, training seminars, and international training.

## **B. Changes in Program Assumptions**

In the past year since the RFP was released and the PW proposal written, several factors in the environment have changed significantly which will have a bearing on the implementation of the FIRE project, and especially several of the assumption made with respect to costs.

### **1. Change in SEBI Chairmanship**

The most important change in the environment is the death of the Chairman of the SEBI, Mr. Nadkarni. The interim period while Mr. Mehta settles into his office and reviews the proposed workplan can be expected to slow implementation of the project, especially with respect to activities within SEBI itself. While there is reason to believe that several of the priorities of Mr. Nadkarni will carry over to the new administration, this cannot be assured until Mr. Mehta has had a chance to review the workplan in detail and establish his own priorities. However, as noted above, representatives of USAID and PW have met with Mr. Mehta and he indicated his desire to receive technical assistance provided under the FIRE project.

### **2. Legislation Regarding the Depository**

Another important change in the environment is the lack, to this date, of the legislative changes necessary to implement the depository. These changes were expected in the month of December 1994, but they did not gain approval in that parliament and have been put over to the new parliament.

### **3. Cost of Long-term Indian Personnel**

A third major variance from assumptions in the proposal the cost of experienced personnel in Bombay. This has been the subject of an analysis by the Bombay Consul General's office which has been received by USAID/New Delhi. In sum, financial sector salaries have been forced up to unprecedented levels by the arrival of a multitude of Foreign Investment Institutions (FIIs) and other multinationals. Existing institutions such as CRISIL, SHCIL and others report being forced to double salaries on several occasions in the past year in order to retain their experienced personnel. Salaries for the kind of persons the FIRE RFP and proposal expected to hire for its activities have now surpassed the limits imposed by the salary scale of the USAID for local personnel, even given the recent increase in USAID FSN salaries by 15-18 percent. Some adjustment in the qualifications of the people we hire will have to be made, and the project director is searching for personnel with fewer years of experience, but with good educational background in finance.

#### **4. *Cost of Office Space and Residential Space***

A fourth major variance from program assumptions is the skyrocketing cost of office space rental and rentals of appropriate living apartments. A recent analysis published in a U.S. Newspaper showed that per square foot costs of office and living space in Bombay was on average about three times the cost of similar space in New York City. PW is searching for opportunities to cost share office space with another, perhaps participating institution. These efforts will be pursued in the coming months, but it seems safe to say that the project will not be in permanent office quarters for several months. Meanwhile, PW/Bombay has set aside a single which it will be able to rent to the project, along with phone and fax services.

The cost of living quarters for the long-term expatriate Chief of Party will probably also be much higher than originally predicted by USAID in the RFP.

For office space in the meantime, PW/Bombay has set aside a single 10' x 10' which it will be able to rent to the project as well as provide the project with access to fax and phone facilities.

#### **5. *Duty Free Importation of Project Property***

The USAID Executive Office has informed PW that the importation of project equipment will not be granted exemption from import duties and tariffs as originally believed. Therefore, PW will have to purchase virtually all items in India including electronic office equipment and home appliances (refrigerator, air conditioners, stove, etc.) for the Chief of Party's residence. This will increase the costs above those originally envisioned. PW has made its best estimate of these increased costs, but given the recent development of this news, PW has not had time to fully research the cost impact. PW will keep USAID fully informed as this develops. In the case of the Chief of Party, PW intends to furnish his residence according to the guidelines established for USAID employees by the USAID Office of Management Services.

## **SECTION II: PROPOSED PROJECT ACTIVITIES AND INPUTS/OUTPUTS**

The overall budget project budget which follows the format called for by the USAID Regional Contracts Office is presented in Appendix A. Total project LOE and break outs of the overall budget by Technical Module Support Module-Local and Support Module-U.S. are presented in Appendix B.

### **A. Workplan Activities and Tasks**

The Workplan is organized according to the principal objectives which support the two key goals of the PW workplan:

- Improve the regulatory environment of the Indian capital markets, and
- Improve the operating efficiency of the Indian capital markets.

The specific objectives reflected in this workplan are:

- 1) Strengthen the capacity of SEBI, and enhance its regulatory capacity.
- 2) Support the development of a National Clearing and Depository System (NCDS).
- 3) Develop reforms providing greater transparency and efficiency to systems for trading debt and equity securities ( assist the National Stock Exchange, the OTCEI, and a derivatives exchange among other innovations).
- 4) Develop training institutions in India to serve as a permanent resource for the training and development of market intermediaries.
- 5) Implement a research and dissemination program to support policy development in the future.

The workplan outlines specific activities in the form of consultancies and training events both in the U.S. and in India under each of these goals. This first year plan shows most of the activities coming in the third and fourth quarters of the year. This is a reflection of the fact that the most of the first quarter of the year was impacted by the protest referred to above. Thus actual mobilization of the project, hiring of staff, setting up an office and ordering equipment with which to work, could only begin in February 1995. However, during these early months, the contractor is confident that the project will gain momentum in the planning and implementation of the specific activities to the originally planned levels.

## **B. Summary of Planned Inputs**

The various activities planned in this workplan will involve, in the first year, approximately 41 person months of expatriate consultancies in year one (66 person months over 18 months) and 34 person months of local consultants in year one (57 person months over 18 months). These consultants will be combined with a substantial training program which supports virtually every key objective in the FIRE program. Appendix C presents a PERT schedule of short-term consultancy activities.

By April 1995, participant training opportunities are planned which will provide 72 person weeks of training and internship opportunities in U.S. institutions of the capital markets. In addition, some 711 person weeks of training seminars, workshops and conferences are planned to be offered in at various locations within India to support the objectives of the key Indian capital markets institutions (SEBI, SHCIL, and NSE) during the same period. Detailed number of events and person training weeks for participant and local training are detailed in Appendices D and E respectively.

This years planning process will widen the scope of these training opportunities in the second and following years into the policy dialogue, research and dissemination objectives as these programs as elaborated during the first year.

## **C. Summary of Planned Outputs**

The activities of this first year will produce several concrete deliverables in both the Regulatory and Operational segments of the program.

- 1) **A training needs assessment to elaborate the long term training needs of the key institutions in the capital markets.**
- 2) **The implementation of a national broker certification program, supported by a certification and licensing process and appropriate training and examination infrastructure. Actual roll-out will occur in year two of the project.**
- 3) **The design of an Investor Information Center.**
- 4) **Adoption of rules relating to a central depository.**
- 5) **Basic conceptual framework and policy studies for consideration of derivatives as legitimate products to be offered in the Indian markets.**

- 6) Policy and operational reports to assist SEBI to implement an Self-Regulating Organization (SRO) strategy.
- 7) A report on SEBI regulatory development over the life of the project .
- 8) A report outlining an enforcement plan of action.
- 9) A report on the NCDS funds transfer design and course of action.
- 10) A report on the feasibility of the consolidated tape form of exchange reporting.
- 11) A report on an exchange automation strategy among the exchanges outside of Bombay.
- 12) A report outlining a research and dissemination strategy.
- 13) An estimated 72 person weeks of participant training and 711 person weeks of local training through month six of year two.
- 14) A report regarding training materials developed, and training materials provided.

**D. Activity and Approval Procedures to Implement the Program**

The workplan outlines a complex and wide ranging set of activities covering virtually every aspect of the capital markets of India. At the outset these activities are presented in general form, with details as to the specific timing, a detailed scope of work, and the specific allocation of budget resources by expense category remain to be worked out as each activity comes up for implementation.

This program is based therefore on the premise that each activity in this workplan will be documented in a sub-project format with a memorandum from the Chief of Party to the USAID Project Officer. This memorandum would contain a brief scope of work, the resumes of the consultants proposed, and a brief budget detailing expenses according to the contract's expense categories. This "task order" will be signed by the institution sponsoring the activity and the PW Chief of Party and be presented to USAID in New Delhi for approval. The management process of the project will track these sub-projects in substantive and financial terms until completion. The sub-projects in the technical module will add up to the total funds allocated to the technical module.

The special conditions outlined on page F-10 of the USAID-PW contract are also incorporated into this workplan.

### **SECTION III: TECHNICAL MODULE**

The Technical Module will comprise the activities carried out under the contract for short-term consultancies (local and expatriate) and the direct costs of training activities. The estimated budget for the Technical Module is presented in Appendix D. Specific activities envisioned under the Technical Module are detailed below.

#### **A. Project Start-Up Activities**

##### **1. Conduct Comprehensive Human Resource Skills and Training Needs Assessment and Design Project-Wide Training Program**

A comprehensive human resource skills and training needs assessment for SEBI and other key institutions in the Indian Capital Markets. The assessment will be the basis for designing and integrated training plan for securities regulators, market intermediaries, and securities training institutions.

##### *a. Inputs*

Two expatriate consultants, 3 person/months - Howard Schuman, and Julio Alcaine - 1 local consultant, 2 person/months, Timing first. quarter.

##### *b. Outputs*

Training needs assessment report including results of needs survey, and conclusions and recommendations for development of a long term training plan.

#### **B. Securities Market Regulatory Environment**

The goal of this component is to assist in the building of strong regulatory organizations to enhance transparency and investor confidence in the market. This will be accomplished through targeted intensive training and technical assistance programs as well as systems development designed to develop SEBI and implement a self-regulatory mechanism. At the end of the project, it is expected that (a) SEBI's organizational and regulatory capacity will be significantly improved through operation of integrated systems and development of standards and (b) a self-regulatory organization will be operational.

##### **1. Create and Implement Organizational Development Strategy for SEBI**

This activity creates a formal organization development study of SEBI and its current and future

regulatory capacity. With its current staff of 130 people, SEBI is unable to adequately perform the regulatory functions that the dynamic growth of the Indian capital markets in recent years requires. In the coming years, SEBI will have to grow in both the number of personnel employed and in the areas of expertise required to provide adequate regulation. Facing the prospect of this impending rapid growth of the organization, SEBI needs a clear plan to guide its organization development, including a plan which will set forth a clear regulatory development strategy, allocate responsibilities in accordance with this strategy and develop an information and document flow that enables the regulators to act efficiently.

Once a regulatory strategy is devised and agreed upon, operating procedures must be developed for each division of SEBI. These will be developed jointly with the staff who will operate the divisions, so that the staff understands and agrees with (and will therefore use) the procedures. The procedures will be designed based on the organizational and systems plan.

*a. Inputs*

Two expatriate consultants, one regulatory specialist, and one regulatory organization specialist, (4 person/months). These will be assisted by one Indian consultant specialist in Information Technology, (2 person/months), and one Indian consultant organization specialist (2 person/months).

*b. Outputs*

A report evaluating SEBI's existing organization and automation status, and a design of an organizational development strategy that integrates systems with market requirements, provides for efficient use of personnel and creates a modern regulatory organization. Once a regulatory strategy is devised and agreed upon, this plan will provide the basis for the design of operating procedures for each division of SEBI.

One Organizational Development Workshop, one week in duration, for 20 members of the SEBI staff.

**2. *Enhance SEBI Regulatory Capacity: Provide Technical Assistance to Develop Regulations***

SEBI has made significant progress in formulating rules and codes to develop norms for market participants and to regulate primary and secondary markets. This activity will determine areas in which international expertise would be useful to further develop the regulatory structure through research and development of new rules which will further the goals of fairness, and full disclosure to the markets.

The specific priority areas for rule development that have been discussed with SEBI are:

- 1) Information disclosure-continuing;
- 2) Mutual funds;
- 3) Depository regulations; and
- 4) Regulatory issues of derivatives products.

*a. Inputs*

Expatriate experts with U.S. SEC and Derivatives regulatory experience (6 person/months) will review rules, and recommend new areas for rule making, assist SEBI staff to prepare a program of priorities for future rule making, and advise on a standardized rule making process, including the research phase, drafting, consultation, and final approval. Proposed rules will be compared to existing rules in other jurisdictions in order to provide an international benchmark.

*b. Outputs*

Reports recommending a framework for new rule making for SEBI, along with suggestions for the text of such rules, international comparisons, and analysis of reasons for the priority of the proposed rules. The derivatives experts from the CBOE will also provide advice to SEBI on the substance of rules required to regulate a prospective Derivatives Exchange.

**Local Seminars:** Small group training sessions for members of SEBI staff.

**International Training:** Two persons training at the NYIF for one week followed by a three week internship at the CBOE for a total of eight person weeks.

**3. *Design and Implement Surveillance, Inspection and Enforcement Plan***

With the publication of the new Ordinance in January, 1995, SEBI has received a grant of significant powers to enforce and sanction market behavior by the institutions and individuals in the market. This activity will assist SEBI to design an enforcement plan that provides for monitoring market participants, directly and through SROs, and should strategize about the types of enforcement actions that will be undertaken and the penalties sought. The plan should include methodology for manual and automated surveillance and tracking of market activity, inspections of broker-dealers and other market intermediaries in both debt and equity markets and investigation and prosecution. In developing a plan the available remedies must be surveyed.

Policy changes may be advocated as part of the plan.

*a. Inputs*

Expatriate regulatory enforcement experts (3 person/months), and local Indian systems experts (3 person/mo.)

*b. Outputs*

A report outlining the options facing SEBI in implementing a strong, credible and effective enforcement program that utilizes the most modern techniques, and applies information technology to its best advantage in monitoring the operations of markets.

**4. *Design and Implement an Investor Information Center***

This activity will assist SEBI to promote the flow of information necessary to establish conditions for improved transparency in the capital markets. The center will have as its mission to promulgation of information such as prospectus', quarterly and annual reports, and information about material events reported by the Issuer. This kind of information is needed for the process of regulatory management itself, but is often not available to the public, or able to be retrieved readily by the public or the business press. This center will be available to the public, as is the similar facility of the U.S. SEC. The storage and retrieval of information will be an especial challenge for this project, and points to the likely use of imaging technology for this purpose.

*a. Inputs*

Two Information Technology Consultants familiar with the special needs of this kind of facility for a total of two months, supplemented with two Indian consultants for 6 months each (total 12 months) to carry through the project to completion, train local staff, develop operating procedures.

*b. Outputs*

A functioning Investor Information Center able to fill investor needs for company information for listed companies, and other relevant information.

**5. *Assist in Design and Implementation of Licensing, Testing and Certification Program***

**a. *Evaluate Appropriate Methodology for Introducing Licensing Program***

Testing, certification and licensing of market professionals can take many forms. While the RFP calls for a NASD model to be followed, the project should review alternatives for tailoring a system appropriate to the Indian environment.

**i. Inputs**

Expatriate consultants Howard Schuman and two experts from the New York Institute of Finance (NYIF) - total of 3 person/months. Training resources to design seminars and conferences.

**ii. Outputs**

Report outline alternative approaches including the use of an international certified financial analyst (CFA) exam as a basic requirement for licensing; a "localized" version of the exam and a special exam created by SEBI and/or local associations of market professionals with consultant assistance. Recommendations will be made as to the most suitable approach for the Indian market, and a schedule for the development of the program up to the point of full implementation. The system recommended would include a list of professional standards for brokers, testing materials and a recommended structured training program to train participants in acceptable market practices.

**Local Training: Workshop for SEBI and brokerage community representatives.**

**b. *Develop an Examination System and Administer Test***

This activity will develop the examination system based on the professional standards for brokers agreed in task 1 above.

**i. Inputs**

Expatriate experts Schuman and two NYIF advisors, (2 person/months each, for a total of 6 person/months) will consult with SEBI staff members, broker-dealers, stock exchanges, underwriters and investment advisors with a view to developing the examination system in detail including the establishment of professional competency examination board to administer the examinations and certify the results. Resources to organize conferences in various centers of the

country to prepare the industry for the new program.

ii. Outputs

The following outputs for the examination system are projected.

- 1) Booklets and materials for the public describing background to the tests, legal basis, responsible government entity who developed the tests, purpose of the test, etc.
- 2) Test schedule.
- 3) Application procedure/form.
- 4) Test fees/method of payment.
- 5) Registration procedure.
- 6) Description of test content.
- 7) Syllabus to prepare for test, sample questions.
- 8) Scoring system.
- 9) Reporting results.

In addition, recommendations regarding final licensing authority, certificates, continuing education requirements and test modification will be included in the examination design.

**Local Training:** A series of one day conferences in the 10 most important markets of the country to build support among and educate the brokers and other participants in the industry on the system, and what will be required of them. We estimate each conference will attract an average of approximately 50 participants.

**International Training:** Two people at the NYIF course on testing/certification and then an internship at the NASD.

c. *Design and Implement Core Curriculum and Training Program for Broker Candidates Preparing for the Examination*

This activity recommends a core curriculum and a suggested round of training programs to

prepare candidates to take the competency examination. The program will include the international standards followed in training such as that presented at the N.Y. Institute of Finance.

i. Inputs

Two Expatriate advisors from the NYIF, plus H. Schuman - 2 person/months each (total 6 person/months); Three Indian training consultants: 4 person/months each (total 12 person/months).

ii. Outputs

A report recommending a curriculum which will include regulatory compliance, product knowledge, trading practices, client relations, ethics and other materials specific to the Indian capital market. A series of modules will be developed, tested in a pilot program, revised as necessary and offered on a regular basis.

A local board of recognized brokers will be identified who can act as advisors in developing the curriculum and implementing the training. SEBI will also have representation on the board.

Local Training: Pilot training sessions will be offered to test various modules of the recommended curriculum with actual broker industry participants.

**7. *Develop Self-Regulatory Organizations***

*a. Initiate Discussion and Deliver Seminars Regarding Appropriate Model*

While initial efforts have been made to develop associations that could become self-regulatory organizations in India, significant effort will be required to convert these associations into properly functioning self-regulatory organizations for all major capital market participants. Prior to developing an SRO structure (whether through exchanges, an NASD equivalent or a merchant banker's association), a framework must be established that provides for oversight of the SRO by SEBI, including approval of SRO rule and rule changes by SEBI, cooperative enforcement plans and review of the SRO disciplinary process.

i. Inputs

Expatriate consultant with self regulatory experience (such as NASD or U.S. stock exchange) 1.5 person/months, and Indian consultant, 1 person/month. They will meet with existing associations, exchanges and SEBI to discuss alternatives and identify constraints; review advantages and

disadvantages of various structures; outline needed infrastructure; and deliver seminars regarding the SRO

ii. Outputs

A report making recommendations on issues involved in establishing consensus on functioning of a SRO in the Indian context, the role of SEBI in supervising these SRO's, and on setting course of action to implement an SRO program with an appropriate institution.

**Local Training:** Workshop/seminar for representatives of the brokerage community/regulators will be offered during this time for the purposes of initiating industry discussion of the concepts and procedures of an SRO.

b. *Provide Technical Assistance to Develop Organizational Structure and Train Executives; Evaluate Pilot and Promote Replication*

Once a plan is developed, we propose that a pilot association be selected to receive technical assistance in designing an organizational and membership structure, preparing bylaws and rules, and developing surveillance and enforcement techniques. Following implementation, the pilot will be evaluated and a determination made whether replication is appropriate.

i. Inputs

Expatriate consultants, 2 for 2 person/month. each (total 4 person/months), plus two Indian consultants, 4 person/months each (total 8 person/months). Resources to plan and design training sessions.

ii. Outputs

Report containing design of the SRO structure, by-laws, and rules, as well as a structure for enforcement of the rules. Report containing evaluation of the pilot to be prepared after a suitable time.

**Local Training:** Training for the pilot association's employees in the operations of SRO's.

**C. Securities Market Operating Environment**

The objective of this activity is to provide assistance that will enhance the operational environment sufficiently to produce a modern, efficient and transparent securities market. The operational component will be linked with and support development of the regulatory structure

throughout the life of the project. Upon completion of the project, the depository and clearing system should be operational, a structure for a national market system and a derivatives exchange should be in place.

- 1. *Provide Technical Assistance to National Clearing and Depository System***
  - a. *Develop Program for Completion of System; Establish Awareness and Consensus***

This activity will evaluate remaining obstacles and development needs to the central securities depository (i.e. NCDS) both in terms of organizational development and systems, and will make a final check of existing exchange clearance and settlement practices and detail design of specific payments system rules and procedures will be decided upon. Final design of the international tender document will be made. Assumed is that the legislation authorizing book entry transaction is passed in sufficient time to allow SHCIL to proceed, and that financing for the hardware-software package has been arranged. In addition, some public education activities should begin at this time including the preparation of an advertising program to develop consensus and support for the new process.

**i. Inputs**

Expatriate consultants Bloch, Ruckrich and Breen (total of 6 person/months) will perform this stage, supplemented by a 2 person/months consultancy by an expert in security numbering systems. These will be supplemented by the work of 3 Indian expert Information Technology and Telecommunications, consultants (total 6 person/mons.) to assist SHCIL with final details of the design, and to assist SHCIL in the process of operating an interim system for the large institutions in the market in the period before the final system becomes operational. Consultants will train SHCIL staff to be the trainers who in turn will form some 10 road shows to travel to all market locations to train both staff members, and potential users in the operation of the system.

**ii. Outputs**

A final reviewed and polished version of the RFP will be issued, including a specific design of a funds transfer model, linkages with participants in the NCDS. An all-India Security I.D. numbering system will be recommended. SHCIL will be able to begin to operate a book entry system on a limited basis for large institutions temporarily, in the period before the final system becomes operational. SHCIL personnel will offer a series of open enrollment one day conferences for potential users, and members of the public, sponsored by SHCIL and other leading capital markets institutions. In addition, an informative video tape and accompanying brochure will be

produced by NCDS for distribution to exchanges, brokers, NCDS branch offices, professional organizations and banks. The tape would cover such topics as the NCDS charter, how it works, value to the financial sector and how interested participants can obtain further information, and should be suitable for mass media presentation.

Local Training: Seminar for SHCIL staff members.

*b. Implement Development and Training Program*

Once the depository design is finalized, and the RFP is published, systems and industry experts will be required to assist SHCIL to review the in-coming proposals, and provide advice on the selection of the successful vendor, and conduct training of SHCIL personnel on the operation of the NCDS system in anticipation of the installation of the system.

*i. Inputs*

Expatriate consultants (Bloch, Ruckrich, Yoksh and Breen for 3 person/mo. each. for a total of 9 person/months) to assist in the evaluation of vendor proposals, and as trainers for the SHCIL staff in the operations of the NCDS. Consultants will also advise SHCIL on the substantive content of a video to be used for public relations to gather support for the depository, and to support public conferences around the country to develop support for the depository. (the cost of the tape production to be for the account of SHCIL). The expatriate consultants will be supplemented by four Indian consultants, each for three months, a total of 12 person/months

*ii. Outputs*

Final selection of a vendor of hardware/software for an NCDS system. A trained workforce for SHCIL, ready for start-up by the time that the hardware and software are installed. A better informed investor community that understands and supports the NCDS.

International Training: Three persons at a one week depository course at NYIF followed by a three week internship at an operating depository in the U.S.

Local Training:

- 1) Seminar on role of the global custodian;
- 2) Workshop on foreign exchange transactions, proxy voting process;
- 3) Seminar on risk management techniques; and

4) Human resource issues and programs of a depository.

**2. Develop Exchanges, NSE and OTCEI; Integrate National Market System for Debt and Equity Securities: Provide Technical Assistance to Develop Exchanges, NSE and OTCEI**

The first year's workplan concentrates on certain assistance to the existing institutions of the National Stock Exchange, and the Over the Counter Exchange of India as leaders in developing transparent markets and creating debt markets. Assistance would focus on staff training, technical help with regulatory programs, market operations, electronic systems and market oversight.

*a. Inputs*

**Consultancy:** Two person month expatriate consultancy in a feasibility of a consolidated tape. Three person months of expatriate assistance to implement the consolidated tape, supplemented by three Indian consultants for three months each (a total of 9 person/months). The timing of this consultancy will be around the beginning of year two.

*b. Outputs*

**Consultancy:** A Report on the feasibility and conditions for success of a consolidated tape for reporting of the best priced transaction regardless of the exchange where it occurred. Action to implement this project would begin in the first half of year two with completion slated for around the middle of year two.

**International Training:**

- 1) Two NSE candidates will be sent to the NYIF for a course in derivatives followed by a three week internship in the Chicago Board Options Exchange to learn business of running a derivatives exchange in year one. Two more candidates will be sent in the first six months of year two.
- 2) Three candidates, one each from OTCEI, NSE, and SEBI will be sent to the NYIF for a one week course, supplemented by three week internships with the NASDAQ to learn in depth management of the SRO function.

**Local Training:** Six in-country training events have been programmed for the National Stock Exchange (NSE) as follows:

- 1) NSE staff training in the settlement process, clearing house arrangements

- 2) Issues and constraints in development of the Debt Market in India.
- 3) "Stockwatch"-Market Surveillance Program.

In-country training events will be organized for the OTCEI beginning in the second year of the FIRE project. While these specific topics remain to be agreed on with the OTCEI management, we do expect there to be seminars in new developments in screen-based technology for members of the OTCEI, as well as seminars in "stockwatch". Every effort will be made to include OTCEI staff members into the courses being arranged for the NSE.

### **3. *Initiate Derivatives Exchange***

India's financial sector is sufficiently sophisticated to require hedging tools. These activities will address issues in opening a derivatives exchange. This project will be sponsored by the NSE which is the most actively interested in such an exchange.

#### **a. *Inputs***

The project will provide a total 4 person months of two experts from the Chicago Board of Options (CBOE) and the Chicago Mercantile Exchange (CME) to perform a feasibility study, and advise on the regulatory structure of such products. Experts would also provide training in the design of appropriate financial instruments, and in the design and conduct of training courses to be offered. Two Indian consultants will be required for a total of 4 person months.

#### **b. *Outputs***

A study of the feasibility of a derivatives exchange in India today including: (a) exploring the obstacles and implementation risks in a feasibility study, (b) determining the appropriate time for beginning such a market and the instruments that should be introduced, (c) designing a system, including clearing facilities and (d) developing an organizational and regulatory structure for the exchange.

Training events on the following subjects:

- 1) Options and Futures: organization and rules for an exchange;
- 2) Options and Futures: orientation for members and investors; and
- 3) Options and Futures: Clearing and Settlement Issues and Structures.

#### **4. *Strengthen Local Human Resource Institutions***

An important goal of the FIRE project is to institutionalize a professional training capacity in India which can provide the industry with well-trained technical faculty and courses to train the future professionals for the market. During the first year, we will concentrate on improving the capacity of the UTI - Institute of Capital Markets. The first year task will be to link the UTI and the NYIF together in a goal to develop one new course of international quality at the UTI Institute, followed by development of a second course in the first six months of the second year.

##### *a. Inputs*

Four person months of consultancy by NYIF professors, transfer of materials and training aids.

Four person months of consultancy by NYIF professors in upgrading the existing curriculum of the UTI Institute.

##### *b. Outputs*

International Training: Two persons at the NYIF, with further training/ internship.

Local Training: One new one to two week course in derivatives to be offered at the end of the first year of the project, and one new one to two week course in securitization to be offered at the end of the first half of the second year of the project.

Upgraded UTI-ICM curriculum offerings in the following areas:

- 1) Regulation of the capital markets;
- 2) Management of mutual funds; and
- 3) Debt Market - portfolio and trading strategies.

#### **D. Scheduling of Deliverables**

##### *1. Short-term Consultancies*

Appendix C provides a PERT schedule for project task implementation. It is projected that the short-term consultancy deliverables for each activity will occur in the last month of activity denoted in the PERT schedule in Appendix C.

**2. Training Events**

Appendix D and Appendix E summarize timing and quantity of the proposed participant and in-country and participant training activities respectively.

#### **SECTION IV: SUPPORT MODULE - LOCAL**

The Support Module-Local consists of the project office in Bombay, the long-term Indian staff and the expatriate Chief of Party.

##### **A. Project Office - Bombay**

The key instrument of implementation of the large number of diverse project activities listed in the Technical Module will be the personnel resident in the Bombay office. This office will house the Resource Coordinator (Chief of Party) as well as a staff of securities market experts, trainers, and clerical assistance. Seven people in all will staff this office, and all but one will be Indian nationals. The budget for this module is contained in Appendix B.

Plans for the project office to be open by mid-March seem optimistic because of the lack of space and the fact that the key staff members we will hire will be required to give two to three months notice to their present employers. As to office space, we are exploring some cost sharing options with appropriate institutions such as the local PW office, which is itself short of space, and possibly with the National Stock Exchange. SHCIL reports that it does not have sufficient space for its people, and therefore cannot accommodate the project office on its premises. We have arranged a temporary loan of a single 10' x 10' office, with telephone service and the part time services of a secretary, from PW/Bombay.

##### **B. Cost Trends**

The budgeting for a project office in Bombay was done in the light of real estate prices in the summer of 1994 when the RFP was issued. Since that time there has been a great tightening of the supply of office and appropriate living space. The arrival of a large number of foreign financial institutions and other companies to engage in the capital markets of India in the aftermath of the liberalization has put great pressure on local resources of all kinds. This include not only office space, but living space, salaries, and even hotels which are booked to over 100% capacity despite increases of 15-20% in the rates they charge.

The consequences of these inflationary pressures on the FIRE project are many. The cost of rented space for both office and living accommodations will most likely be higher than projected, but also is in such short supply that it will take more time to establish and office than previously projected. The terms and conditions of rental in Bombay may also require that a significant portion of a three or four year rent be paid up front to the landlord.

### **C. Module Inputs/Outputs**

The following are the inputs and outputs for the Support Module - Local.

#### **1. Inputs**

There will be 52.5 person years of LOE of technical/managerial personnel in the first year workplan for the Bombay-based long-term staff, rising to a total LOE of 94.5 person years for the period including the first six months of year to.

#### **2. Outputs**

The Bombay office personnel will organize the delivery of the key outputs of the Technical Module, including:

- 1) **Initiation, scoping and negotiation of over 400-500 person-weeks of in-country training per year, including arranging all logistics of the training events.**
- 2) **Selection and processing of some 11 candidates for international training in the U.S., including the definition of the training objectives, the selection of the training source, and the organization of internship opportunities.**
- 3) **The definition, organization and negotiation of all subactivities involving some 66 person months of expatriate consultancy, and 81 person months of Indian consultants.**
- 4) **Supervise and support the 147 person months of consultants on short-term assignments.**
- 5) **Management of and tracking of the progress of each of the many subactivities, consultancies, and seminars, and reporting on them to the USAID.**
- 6) **Evaluation of the status and accomplishments of each subactivity during the course of its implementation, and at the end thereof.**
- 7) **Preparation of monthly, quarterly, and annual reports, and the annual workplan for each year. Monitoring the progress of each workplan, and proposing revisions where necessary to the USAID.**
- 8) **Maintaining effective relations with the head and key staff of the main institutions of the capital markets in India, to assist them in developing their plans and programs for reform and expansion.**

- 9) Providing advice and counsel to the heads and staff members of the key institutions of the capital markets in India as they desire.

## **SECTION V: SUPPORT MODULE - U.S.**

The Support Module - U.S. will provide the Support Module - Local and Support - Module Technical components with the resources needed to staff and carry out the project. The budget is presented in Appendix B.

### **A. Inputs**

#### **1. Price Waterhouse**

For PW, the inputs during the will be 7.5 person-months of Breen's time and seven months of Wolf's time to oversee all technical and project administration facets of the project during the first 18 months. Since November 1994, Breen has been the Acting Chief of Party and in December he traveled to India to meet with the Indian institutional counterparts discussed above to gather required input for the design of the first year workplan. Breen and Wolf are now both in India establishing the Bombay project office, making arrangements to hire the local Indian staff, establishing billing, legal, resource coordination and other issues with PW/India, and coordinating the other logistical arrangements necessary to prepare for the Chief of Party's arrival in March.

In addition to Breen and Wolf, one month of Williams' time is provided to set up the project financial reporting and billing systems. An intern will have 5.5 months to carry out all logistical activities such as contracting with consultants, setting up the project archives, coordinating the travel of expatriate consultants out of the U.S., assisting the Resource Coordinator in the logistics of his relocation to Bombay, setting up and managing the PW/US billing mechanism with PW/India, etc. Rimpel's time of 0.75 months is provided for PW partner review of all deliverables.

#### **2. Development Associates**

For Development Associates (DA), there will be 5.5 months of Alcaine's time as the U.S. based Training Coordinator and six months of Taylor's time as the U.S. based Program/Financial Analyst. They will handle all Handbook 10 issues concerning participant training in the U.S. as well as provide support for the in-country training responsibilities of DA, support DA's long-term Bombay-based staff, review DA deliverables before submission to PW, and handle all billing interaction with PW. Alcaine will travel to India to assist in carrying out the training needs assessment.

### **B. Outputs**

Outputs from the Support-Module - U.S. will include:

- 1) **Backstop the Bombay project office on all project management issues.**
- 2) **Financial control of the project, including the preparation of financial status reports.**
- 3) **Design the first year work plan in collaboration with collaborating Indian institutions (SEBI, SHCIL, NSE, UTI, etc.).**
- 4) **Locate office space for the project office, arrange for the space to be furnished, install phones, purchase electronic office equipment, and initiate the other logistical requirements to get the Bombay project office up and running.**
- 5) **Hire Local Indian Staff (Security Markets Specialist, Security Markets Operations Specialist, Administrator/Accountant, Training Coordinator, and Two Secretaries).**
- 6) **Source the short-term expatriate consultant talent necessary to implement the consultancy tasks outlined in this plan.**
- 7) **Provide technical advisory services to the Bombay-based Resource Coordinator.**
- 8) **Keep the Bombay-based project staff up to date on current trends and issues in capital markets developments that relate to the work being carried out in Bombay. Lessons learned and techniques developed by the work PW carries out in other regions of the world will be reviewed for applicability to the Indian market.**
- 9) **Make recommendations on the design of work projects for short-term consultancies and training assignments.**
- 10) **Contribute to the design of in-country and participant training materials.**
- 11) **Design a participant training program to meet project needs. Arrange internships/study tours.**
- 12) **Interface with the Advisory Board and the USAID Project Officer on defining project activities, inputs and outputs.**
- 13) **Provide quality control review of all deliverables submitted to USAID and Indian capital markets institutions.**
- 14) **Oversee the legal relationship with all subcontractors.**

- 15) Support the Resource Coordinator in his relocation to Bombay.

**SECTION VI: EQUIPMENT TO BE PROCURED**

PW requests USAID approval to make the following acquisitions for the FIRE project in year one. All items are to be purchased in India.

Item	Units	Unit Price in Rs.	Unit Price in US\$(2)	Estimated Cost in US\$
Desktop Computers (486s)	5			
Laptop Computers (486s)	2			
Computer Software(2)	7			
Laser Printers	2			
Photocopy Machine	1			
Fax Machine	1			
Telephones	7			
Office Refurbishment	1		\$38,000	

- (1) Exchange rate of US\$1.00=Rs.31.25 as stated in the RFP.
- (2) Wordprocessing, spreadsheet, graphics, DBMS, and e-mail application packages.

Project equipment procured for the residence of the Chief of Party will conform to the standards and items for expatriate housing determined by the USAID Management Services Offices.

## **SECTION VII: TECHNICAL REPORTS**

This section describes the reports that PW will provide to the USAID/India mission as well as two copies to PPC/CDIE/DI where required as stipulated in Subsection F.3 of the Contract entitled "Reports."

### **A. Annual Workplans**

PW will prepare annual workplans for USAID approval which contain the information detailed in subsection F.6 of the contract entitled "Contract Requirement for Annual Workplans." Annual workplans are to be submitted for a period of 18 months to allow for the planning ahead for a significant future portion of the project as well as allowing "rollover" of one workplan into the following.

This first annual workplan is being submitted on February 15, 1995 in draft form for USAID review. The submission was delayed because of the protest filed by a competitor who contended that the contract award should not have been granted to PW by USAID. Work on the project was suspended to a large extent for approximately one month (late December 1994 through late January 1995) because of the time requirements placed on the Acting Chief of Party, Mr. Richard Breen, in responding to the protest and the U.S. government's requests for information.

Draft workplans will be submitted to USAID no later than 60 days prior to the start of the year to which the workplan applies. Therefore, annual workplans will be submitted by PW to USAID by August 31 of each year for the remainder of the project.

### **B. Quarterly Reports**

Within 30 days after the end of the preceding quarter, PW will provide USAID with quarterly status reports on project expenditures using the format given in the contract. PW will include information on actual expenditures and estimates of accrued expenditures.

Due to the delay in project start-up mentioned above, the quarterly report to be issued May 31, 1995 will cover the first six months of the project.

Future reports covering subsequent quarterly periods will be issued each August 31, November 30, February 28 and May 31 until project termination in 1998.

### **C. Semi-Annual Workplan Reviews/Reports**

After each six-month formal project review conducted by the PW's Chief of Party and the USAID

Project Officer, the PW Chief of Party will submit a written report which details the status of the project inputs, outputs and activities as they relate to the project objectives. The Chief of Party will also provide action recommendations to correct implementation problems and constraints.

**D. Other Technical Reports**

PW will also submit to USAID the following technical reports called for in the contract.

**1. Annual Reports**

PW will provide an annual report as called for in subsection C.13.(4) entitled "Reports" that summarizes FIRE progress, including input and output, and estimate progress, including input and output, for the subsequent year. These reports will be used as the basis for preparing the annual workplans.

**2. Quarterly Reports**

As specified in subsection C.13.(4) entitled "Reports," the Chief of Party will provide USAID with quarterly progress reports which also summarize the input and output status for all contractor activities and estimate the required input for the next quarter.

Pursuant to subsection B.7.(a) of the contract entitled "Personnel Appointments," PW will provide upon USAID request a quarterly report of all the individuals employed under the contract during the preceding quarter by name, title, position classification, salary, duration of employment, location of employment, and supervisor.

**3. Monthly Reports**

To meet the requirement to provide a monthly status report called for in subsection B.8 of the contract entitled "Monthly Budget Status Report," PW will design the backup for the monthly invoice for services rendered to meet the requirements of this report. The first report will be issued with the first invoice. PW will provide any additional explanatory information related to the data provided in the report upon request by USAID.

**4. Trip Reports**

Individual trip reports will be prepared for each site visit. These reports will briefly describe the purpose of the trip, findings, conclusions, recommend actions and list the persons contacted.

**E. Final Report**

PW will prepare a final report for the project which will be in a USAID-approved format and provide information requested by USAID, in accordance with AIDAR 752.026 entitled "Reports." At a minimum, this report will include a review of the project strategies, inputs, and outputs, and resultant impacts. This report will be submitted within 60 days of completion of work.

**6. Other Reports**

PW will generate other specialized reports as requested by USAID to analyze FIRE progress.

**F. Labeling of Reports**

As required by Section D of the contract entitled "Packaging and Marking," the cover page of all reports prepared by PW will include the project name and the project number and contract number found on the cover page of the contract.

**APPENDIX A**  
**PRICE WATERHOUSE OVERALL PROJECT BUDGET**

To be inserted

## **APPENDIX B**

### **BREAK OUT BY MODULE**

- A. Total Project LOE**
- B. Technical Module Budget**
- C. Support Module-Local Budget**
- D. Support Module-U.S. Budget**

To be inserted

34

**APPENDIX C**  
**PERT SCHEDULE OF PROJECT ACTIVITIES**

**FINANCIAL INSTITUTIONS REFORM AND EXPANSION PROJECT (FIRE)  
ANNUAL WORKPLAN (11/15/94 - 4/30/96)  
CONTRACT NO. 386-0531-C-00-5010-00**

TASKS	1995											1996			
	Qtr II			Qtr III			Qtr IV			Qtr V		Qtr VI			
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Conduct Training Needs Assessment and Design Training Program			■	■											
Create and Implement Organizational Development Strategy for SEBI				■	■	■									
Research and Develop New SEBI Regulations						■	■	■	■						
Surveillance, Inspections and Enforcement Plan								■	■	■					
Design Investor Information Center					■	■	■	■	■	■	■	■	■	■	■
Evaluate Appropriate Licensing Program Methodology				■	■	■									
Develop an Examination System & Administer Test						■	■	■	■						
Design Curriculum for Examination Preparation									■	■	■	■	■	■	■
Initiate Discussion/Deliver Seminars on SROs									■	■					
Develop Org. /Train Execs./Evaluate/Promote Replication of Pilot SRO												■	■	■	■
Develop Program/Establish Awareness of NCDS		■	■	■	■	■									
NCDS Development and Training Program								■	■	■	■	■	■	■	■
Develop NSE and OTCEI Systems for Debt and Equity											■	■	■	■	■
Initiate Derivatives Exchange									■	■	■	■	■	■	■
Develop Training Institution Capacity						■	■	■	■	■	■	■	■	■	■

of 16

**APPENDIX D**  
**SUMMARY OF PARTICIPANT TRAINING**

**FIRE U.S. BASED TRAINING  
ANNUAL WORKPLAN  
11/15/94 - 4/30/96 (18 Months)**

<b>No. of Persons</b>	<b>Home Organization</b>	<b>U.S. Organization</b>	<b>Program Length</b>	<b>Total Training</b>	<b>Timing</b>	<b>Course/Internship</b>
2	NSE	CBOE	6 wk	12 wk	May 1995	NYIF Derivatives; CBOE derivatives internship
2	SEBI	NASD	4 wk	8 wk	2 in September 1995	NYIF Testing/Certification course; NASD internship
3	OTCEI, NSE, SEBI	NASDAQ	4 wk	12 wk	3 in March 1996	NYIF SRO enforcement course; OTC technology internship
3	SHCIL	CHX/MSTC	4 wk	12 wk	3 in January 1996	NYIF depository course; Modern depository management internship
3	SEBI	CBOE	4 wk	12 wk	3 in October 1995	NYIF derivatives regulation course; CBOE mgmt. of options market internship
2	NSE	CBOE/CFTC	4 wk	8 wk	2 in April 1996	NYIF derivatives course; CBOE/CFTC derivative internship
2	SEBI	SEC	4 wk	8 wk	2 in April 1996	SEC Intl Regulation course; SEC internship
<b>Total Weeks of Participant Training</b>				<b>72 wk</b>		

43

**APPENDIX E**  
**SUMMARY OF IN-COUNTRY TRAINING**

**FINANCIAL INSTITUTIONS REFORM AND EXPANSION - INDIA  
ANNUAL WORK PLAN - NOVEMBER 15, 1994- APRIL 30, 1996**

**IN-COUNTRY TRAINING AND WORKSHOPS**

<b>ACTIVITIES/TASKS</b>	<b>1st. Quarter</b>	<b>2nd. Quarter</b>	<b>1/5-31/7/95 3rd. Quarter</b>	<b>1/8-31/10/95 4th Quarter</b>	<b>1/11/95-30/4/96 5&amp;6 Quarters</b>
<b>2.1 STRENGTHEN SEBI REGULATORY STRUCTURE</b>					
Organizational Development Workshop				1 event, 1 week 20 persons (100)	
Seminar on enforcement techniques			1 event, 1 week 20 persons (100)		
Regulatory enhancement- small group sessions					2 events, 3 days 20 persons (120)
Broker Certification Workshop				1 event, 3 days 40 persons (120)	
Nation-wide Broker Certification Conferences:					10 events, 1 days Avg. 50 persons (500)
Certification Curriculum Modules Pilots:					6 events, 5 days 25 persons (750)
<b>3.1 NATIONAL CLEARING AND DEPOSITORY SYSTEM</b>					
Seminar role global custodians; management level employees of SHCIL.			1 events/ 3day ea 15 people each(45)		
Train the trainers for regional conferences				1 event, 5 days 30 persons (150)	

2/9

## IN-COUNTRY TRAINING AND WORKSHOPS (11/15/94 - 4/30/96)

ACTIVITIES/TASKS	1st. Quarter	2nd. Quarter	1/5-31/7/95 3rd. Quarter	1/8-31/10/95 4th Quarter	1/11/95-30/4/96 5&6 Quarters
Workshop: foreign exchange transactions, proxy voting processes, Fund requirements.				1 events, 5 day 20 pers ea. (100)	
Regulatory issues of depositories: Rules of depository, participant funds.				1 Seminars, 3 days ea 30 pers ea. (90)	
Seminars in Risk Management techniques participant funds, positive affirmation.					1 events, 3 days 20 pers (60)
H.R. issues of Depository: organization, and training programs.					1 events 5 days 20 pers ea (100)
<b>3.2 Develop Exchanges, NSE etc.</b>					
Workshop SRO-develop awareness among Industry Associations				1 event, 3 days 50 persons (150)	
Workshop -Pkt Association training					1 event, 5 days 20 persons (100)
Conferences: Re. Screen trading systems for members, staff and investor public.			1 event, 2 days 40 persons(80)	1 event, 2 days 40 persons (80)	1 event, 2 days 40 persons (80)
NSE: Staff training in settlement process, clearing house arrangements, dispute settlement arrangements, insider compliance.			1 events, 3 days 20 pers ea (60)	1 events 3 days 20 pers ea(60)	1 event, 3 days 20 pers ea (60)
Debt Markets issues for development in India					1 events 3 days 30 persons (90)
Market surveillance programs "stockwatch"					1 event, 5 days 20 pers ea (100)
Options and futures issues: organization and rules for the exchange (i.e. NSE.)			1 event, 5 days 20 persons. (100)		

## IN-COUNTRY TRAINING AND WORKSHOPS (11/15/94 - 4/30/96)

ACTIVITIES/TASKS	1st. Quarter	2nd. Quarter	1/5-31/7/95 3rd. Quarter	1/8-31/10/95 4th Quarter	1/11/95-30/4/96 5&6 Quarters
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Orientation for members and investors of Options and Futures products.

1 event, 1 days  
50 pers ea (50)

1 event, 1 days  
50 pers ea (50)

Options and Futures - Clearing and settlement structures and issues.

1 event, 3 days  
20 pers ea (60)

### 4.0 Linkages between Indian Research and Training Groups to develop training capacity of Indian institutions

Task 4.2: Strengthen Local Human Resource Institutions:

4.2.1 Develop new curriculum at local training institution of int'l quality, by linking NYIF and UTI - Institute of Capital Markets

One New Course in Derivatives - with NYIF assistance:

1 event, 1 weeks  
20 persons (100)

One New Course in Securitization - with NYIF assistance at UTI or other

1 event, 1 week  
20 persons, (100)

Upgrade UTI curriculum in following areas:

Regulation of capital markets

Management of Mutual Funds

Debt Market - Portfolio and trading strategies