Preface

I do hereby submit my thesis entitled “Insider Trading in Company Securities: A Comprehensive Study with Special Reference to Indian Practices” to the University of Calcutta for Ph.D. degree in Commerce. This thesis has been prepared under the supervision of my teacher Dr. Gautam Mitra, Reader in Business Administration, the University of Burdwan and Guest Lecturer (Ex.), Department of Commerce, the University of Calcutta.

The stock market worldwide has grown in size as well as depth over the last one decade. Indian capital markets have also grown exponentially in the last few years. The growth has been in every sphere, in the amount of capital raised through primary issuances, in exchange traded turnovers, market capitalisation, in mutual fund assets and quantum of foreign institutional investment. The size of India’s equity market is more or less equal to its GDP and the situation is almost similar to other G-7 countries. Transaction costs have come down considerably and the same is less than the average transaction cost prevailing in developed markets. State-of-the art market infrastructure combined with increasing profitability and competitiveness of Indian companies has attracted significant foreign portfolio investment. Market capitalisation in the world stock markets have increased from $32.02 trillion in 2003 to $64.53 trillion in 2007. During the same period market capitalisation of India has also increased from $.28 trillion in 2003 to $1.82 trillion in 2007(S&P Global Stock Market Factbook, 2008). On the basis of the comparison to its peers, India has emerged as one of the fastest growing capital markets in the world. In consonance with growth problems in the Indian stock market have also been rising in the recent years. Price rigging, lack of transparency in published company accounts, excessive speculation, administrative lapses, faulty primary market, cornering and wash sale have been found to be undermining the overall sentiment of the common investors. Besides all such evils, insider trading has been found to be the most crucial problem in the
Indian capital market. Present thesis; in its entirety have focused on this specific problem of the Indian capital market.

Out of 103 countries that have securities market, 87 countries have introduced insider trading regulations. Today 100% of developed countries and 80% of emerging countries have insider trading regulations. Percentage of prosecution in insider trading cases among developed countries is 82% whereas the same is 25% in case of emerging markets.

In India, during the period 1991-92 to 2007-08 SEBI has received 29,61,986 grievances form investors, of which a total of 27,72,577 grievances were redressed by the regulator, indicating a redressal rate of 93.60%. In 2006-07 twelve companies and their 54 directors were debarred from accessing the capital market for a period of five years. In the most recent (2009) case of Satyam Computer Services Ltd., B Ramalinga Raju, Promoter & Chairman of Satyam Computer Services Ltd. and his brother Rama Raju, Managing Director of the company were arrested. Among bunches of charges that were brought against Raju and his peers, viz., lacuna in corporate governance practices, accounting manipulation, illegal related party transactions etc., insider trading is the most severe charge that has been brought against Raju. During the last eight years B. Raju realised Rs. 2530.87 crores (March 2001-January 2009; ref; exhibit no. 3.6 of chapter 3) by transferring or selling of shares of the company knowing fully well about the company’s confidential financial information and its nexus with two other sister concerns Maytas Properties and Maytas Infrastructure Co. Ltd.

The phenomenon of insider trading continues to generate widespread attention, quite apart from the unfailing academic interest in this topic. It has been difficult to provide a definitive or conclusive discussion of insider trading. The law of insider trading continues to be tested in the courts and the marketplace. Over a long period of time insider trading has been a consistent problem for the securities market regulators of the world. The country that had endeavoured first to tackle insider trading was the United States of America in 1934. However, laws
and regulations vary from country to country. In the countries like United States, Canada, South Korea regulations have been found to be most rigorous whereas laws of Spain, India, Portugal and Philippines have been found to be generally lax (ref. exhibit 7.2 of chapter 7).

In India, the Sachar Committee (1979), Patel Committee (1987) and Abid Hussein Committee (1989) form time to time had reviewed Indian securities market and found insider trading activities as a great offence. Each committee felt the necessity of independent insider trading regulations. After enactment of the Securities and Exchange Board of India (SEBI) Act, 1992 in India, SEBI had promulgated SEBI (Insider Trading) Regulations, 1992. Insider trading regulations in India has been revised five times so far. In 2002, this regulation has been thoroughly revised and a new chapter has been incorporated especially for disclosure purpose. The amended regulation is more or less comprehensive in nature, particularly disclosure of information, enhancing penal measures, defining of insider and price sensitive information. During 1996-97 to 2007-08P (p-indicates provisional) SEBI has undertaken 103 insider trading cases and completed 94 cases.

At the outset, I wish to express my gratitude to my teacher Dr. Gautam Mitra, for guiding and encouraging me as my research mentor for the completion of my work. I am indebted to him as he had made me feel welcome and advised me throughout the years. His constant source of inspiration and encouragement made me intellectually productive.

I would like to thank all my teachers, fellow colleagues and research fellows in the Department of Commerce, Department of Library and Information Science, Department of Business Management and Department of Economics, University of Calcutta.

I acknowledge the immense help that I have received from the Librarians and other officials of the Central Library of the University of Calcutta, National Library and Commercial Library. Librarians of the Indian Institute of Management
Calcutta, Indian Statistical Institute, Kolkata and Bengal Chamber of Commerce
deserve equal appreciation for their ample assistance.

I also put on record the help that I have taken from the works of many
celebrated authors and suggestions form distinguished scholars in the filed of my
study.

Lastly, I express my gratitude to my parents and my wife Debjani for
bearing with me and inspiring me as they have contributed a lot despite my failure
to spend coveted hours in association with them.

Kolkata

Asishkumar Sana

Dated