Chapter – 3

Review of Related Literature
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Review of the related literature is very essential for a new research topic. Study of related literature implies locating, reading and evaluating reports of research as well as report of casual observation and opinion that are related to the individual’s planned research project.

The search for literature should be conducted in systematic way to achieve optimum results. Otherwise the search may lead to wastage of labour and time and poor retrieval of relevant information. Study of related literature implies locating, reacting and evaluating reports of research as well as reports of casual observation and opinion that are related to individuals planned research project.

Uzma Abdi (2001) made a study under the title “regulatory framework of Mutual funds in India”. This
project work is devoted primarily to analyze the present framework of the rules and regulations, which exists for the protection of small investors in the Indian capital markets; and to point out loopholes in. further some concrete suggestion have been provided to present gross violation of code of conduct by various market participation’s, to check malpractice’s and fraudulent activities.

The author in this study tried its best to provide such measures and suggestions which may be helpful in restoring the confidence of small investors in the market, which is necessary to add depth and width to the capital market.

There are some suggestions regarding the study are as follows:

1. Active growth of MFs and their scheme should be strictly checked. Other wise tax collection would not meet the expected target.
2. Minimum and maximum limit for each mutual round and each scheme should be fixed to check adverse effect in the market.

3. There should be comprehensive legislation to control the operation of the MFs including UTI.

4. There should be regular disclosure of the portfolio of the MF scheme in order to provide clear picture of the investment made.

5. Mutual fund should not allowed to make deposits with their sponsoring bank or any other bank directly or indirectly towards fulfilling any of their commitments.

Rafai Ahmad (2000) made a study under the title on “organisation and working of SEBI in recent year.” Present study deals that how small investors, market intermediaries and other small sections of the society cannot be benefited by the liberalization of the economy.
Keeping this in mind the SEBI was born. After the enactment of SEBI Act 1992 there was a capital issues (control) Act, 1947 which suffered from the following deficiencies.

- There is a lack of clarity of objectives on tendency to burden the regulatory functions with many objectives

- The regulatory regimen instead of managing by objectives tended to control operational details

- The regulation while wearing the grab of generally applicable rate tended to be discretionary in their application.

- Regulatory functions were fragmented and carried out as they were by a multiplicity of government departments.

- The regulation was not dynamic, in the sense it did not allow for modification in keeping with the technological and market changes.
There are some suggestions regarding the study as follows:

The corporate sector, the financial sector and in particular the securities market are rapidly changing with the growth of the economy. This will lead to an ever-increasing role for the securities market. While SEBI has introduced reforms in securities market. There is a need of continuous effort towards its modernisation and improving its infrastructure and microstructure so that the market become safer, fair, efficient, competitive and attractive for the investors, issuers and intermediaries.

Aqueel–ur–Rehman (1999) made a study under the title. “The role of SEBI in reforms of Indian capital market”. The study discusses the causes and effects of different reformatory steps taken by the government to safeguard the interests of the small investors in particular. This study has concentrated only on the SEBI’s role in reforming the capital market. To access
the role of SEBI it is necessary to analyses the situation of capital market before its establishment.

Before the establishment of SEBI the government of India was governing the whole market. The recommendations given by different committees and enactment of several Acts to govern the capital market has also been discussed. Before the establishment of SEBI small investors in shares and stocks the OTCEI was set up in 1992.

The study also discusses about the biggest financial scam of the world, that took place in 1992, the govt. at once took immediate steps, creation of NSE and introduction of depository system are the measures which aims at liquidity transparency and accessibility to the investors as well as to the companies.

Introduction of some new concepts in capital market such as “buy – back of shares” “Rolling
settlement" and "Daily badla system" have been discussed.

M.D. Faiz Alam (2000) made a study under the title "Sebi and management of Indian capital market". The present study about the SEBI manages the Indian capital markets. The corporate sector, the financial sector and in particular the securities market are rapidly changing with growth of the economy. This will lead to an ever-increasing role for the securities market. There is a need for continuous effort towards its modernisation and improving its infrastructure and microstructure so that the market become safer, fair, efficient, competitive and attractive for the investors, issuers and intermediaries.

Various efforts made by SEBI are discussed in the study.

Amaduddin Ahmad (2003) made a study under the title "role of SEBI in portfolio management". The
present study deals with the introduction of portfolio management which entitled risk, return and diversification and detail the dimension of two major element of any investment that investor must be mindful of risk and return. It also deals with concept of diversification, which is generally used as a risk reducing technique and also covers the portfolio, which is relevant to Indian capital market. The study also analyses the important of “standard deviation” for the measurement of risks that is maximization of return and minimization of risk. The role of SEBI in portfolio management is also given.

While selecting securities in the portfolio careful analysis of the track record of the company, group may be under taken guidelines of SEBI in portfolio to safeguard the investor. Moreover, SEBI has encouraged investors education. It has issued various educational advertisements for the protection of investors inspite of the remarkable achievement the
role and functioning of SEBI as stock market regulator has remained questionable for the portfolio investment and open to criticism on various issues, and suggestion for the issue are given.

Rashid Ali Khan (2003) made study under the title “non-performing assets of Indian banks and implications of securitization act 2002”. The study basically focus on how Indian banks has witnessed serious problem of mounting NPAs. The responsibility was concerned not only to the banks management but also to the authority regulating working of banks and to policy makers at national level.

To over come this problem have been prescribed and implemented by RBI now securitisation act is a revolutionary step taken by the Indian government in the direction of managing NPA’s.

Asma Chaudhary (2005) “Investment parameters and small investors – special reference to interest
rates”. The study deals that the interest rate changes in some specific options and respective change in investment flows to these options. Reasons in the mind of small investors while deciding the investment portfolio are also a topic of study.

For the small investors belonging to the business class interest rates are important but with their higher risk taking capability vis-à-vis the impact is lower.

The conclusion from this study is that interest rates in the present scenario do not very much affect the spirit of investors. It is just that a large chunk of small investors invests keeping in mind the tax implications, risk attached and liquidity of those investment options.

T Mallikarjunappa, (2004) write an article under the title “Regulation of securities market: an evaluation of the SEBI” he states that securities market plays an important role in ensuring the development of
transparent and efficient economy. The changes that took place in securities markets in different parts of the world, including India, have called for more vigilant and intelligent regulator.

After enacting of SEBI Act 1992, it has been doing work by issuing rules and regulations. SEBI has issued a number of regulations that are intended to develop a healthy market. The paper addresses the SEBI regulation relating to stock brokers in India. The paper has analyzed the regulatory issues like time limit for processing of applications, investment advice just and equitable opportunity for the brokers at the time of enquiry, simplifications that lead to conflict of interest between brokers and investors.

R.N Agarwal, (2002) write an article under the title financial integration and capital markets in development countries: a study of growth volatility and efficiency in the Indian capital market. He states that the experience of developing countries suggest that
financial integration helps in the growth of capital markets but it may adversely affect the volatility of share prices and stock market efficiency if capital market reforms are not appropriate. Hence the objective of the present study is to examine for India the impact of financial integration on its capital market in terms of growth volatility and market efficiency. The results show that the primary Indian capital market has grown significantly since the beginning of the capital market reforms in 1992 -93. The secondary capital market is also found to have grown in terms of its size and liquidity. Volatility in stick prices is found to have declined annually.

Suchismita Bose, (2003) write an articles under the title “Asia corporate governance association: clarification on revised clause 49”. Sec states that the -SEBI, the main securities market regulator issued a clarification on clause 49 the section of the listing agreement relating to corporate governance. Meetings
of a listed companies could be increased from three to for months.

Sitting fees paid to non-executive directors would not require the previous approval of share holders. Certification of internal controls systems by CEO's and CFO's would cover financial reporting only. Previous versions of clause 49 did not make clear what the certification was intended to cover.

Prabhas K. Rath, (2005) write an article under the title, “disclosure based regulation: protect investors by informing them”. In the given article, the author pointed out that information asymmetry leads to market failure. Mandatory disclosure, therefore has been a common approach to regulating social and economic problems. External observers give 100% score to India as for as disclosures standards for securities market are concerning the obligation, cost, format and understanding of disclosures while discussing the extent disclosures standards in Indian
securities market. This paper endeavors to provide a perspective on these issue.

S. Balaji Iyer and R. Kumar Bhaskhar, (2002) write an article under the title. “Investor’s psychology: a study of Investor behavior in the Indian capital market”. The author in the article “Investor’s psychology” states that stock markets would over displays tremendous uncertainty, volatility and unpredictability. Rooted as in the valuation of stock may be in their own fundamental strength, their value in the ultimate analysis is determined by market participants. This study intends to provide an insight into the working of an investors mind.

The study identifies the whole gamut of investors psychology and the resultant behavior in stock market in general with particular reference to India.
Coondoo Dipankor and Suchismita Bose, (2003) write an article under the title. “A study of the Indian bond market”. The author in this paper attempt to understand the nature and extent of imperfection of the Indian market for corporate bonds. Ameliorating the problem of information asymmetry, low liquidity and the consequent distortion from the corporate debt segment, and help it to grow to maturity.

Commercial banks equity market and the corporate debt market are the three principal sourced of finance for business investment. The last two serve the long-term investment requirement well. To judge the extent of inefficiency in the market the author examines data channeled through the NSE and BSE.

Benjon J. Durham, (2003) write an article under the title. “Monetary policy and stock price returns.” In the article the author suggest that previous studies in monetary policy are correlated with both short and long run stock performance. The author in this study
however establishes that the relationship is weak or next to non-existent. This result in turn has important implications for the investors, portfolio managers and the central bank policy makers.

Numerous empirical studies found that stock returns are significantly greater during expansive monetary periods than during restrictive periods. Thus if market participants adopt trading strategies in accordance with the changes in the monetary policy. They can book profits. The author in this study evaluated the robustness of this relationship.

Roshni Jayakar, (2002) write an article under the title, “will the new authority make a big difference”. Under the leadership of G.N. Bajpai, SEBI seems to take up more dynamic role to mold itself into a dynamic market regulator. After Bajpai took over the reins of SEBI it was successful in introducing T + 3-settlement system and an online system for companies to file time sensitive piece of information.
Though SEBI often lacks of adequate powers as an excuse for not curbing the scammers, the basic question arises is weather SEBI is effectively using its existing powers. However it needs to be provided with additional powers to that can enhance its ability to clean and make the market efficient.

V.K Varma, (2003) write an article under the title. “Insider trading should be a civil offence”. The author in this article discusses about the insider trading, which is difficult to prove. Regulators, therefore seek extraordinary powers to compensate for the weakness of evidence, however, regulators have already used their powers judiciously and have always tended to pursue specific high profile cases for extraneous reasons.

Therefore, insider trading should be a civil offence than criminal offence and the right to initiate proceeding for this a duty for both regulators and investors. Sending the insider to jail or stopping him
from trading does nothing to recompenses the suffering investor.

S.K. Barua, (2001) write an article under the title “Regulatory implication of monopolies in the securities industry”. The author in the title describes that since the mid 1990’s investor’s and regulators have benefited from a high degree of competition in the Indian securities industry. Even more than all the policy changes that have taken place, it is technology and competition that have transformed the Indian capital markets in the last 7 – 8 years.

This paper shows that there is considerable evidence that critical elements of the Indian security industry are becoming significantly less competitive than in the past. Reduced competition would remove the single most important driver of capital markets modernisation in this country and would create several serious regulatory problems.
This paper argues that rather than applying the traditional solution of “regulated monopolies” regulators need to adopt strong measures to stimulate competition. The regulator must also ruthlessly discard those element of the regulatory refine that are anti-competitive in nature.

E.P.W. Dacosta, (2003) write an article under the title “Sebi need early scam detection system”. In this article the author pointed out that the joint parliament committee (JPC) investigating last year’s stock market scam has criticized the securities and exchange board of India for its failure to monitor and regulate the part folio investment system and has called for a system capable of early detection of scams.

The JPC also criticized SEBI for lack of action in case of mismatch between movement in the primary and the secondary markets and the rise in private placements. SEBI was also criticized for the absence of a regulatory framework for the private placements and
negligence in checking whether bull operators obtained bank funding to finance their market operations. The house committee said SEBI must ensure a proper segregation of cash and derivatives sectors incase of stick lending schemes.
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