Chapter Nine

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

The secondary and primary data analyses have been done in chapters seven and eight. The findings derived from the analyses are presented in this chapter. This chapter marks the end of the research work. The findings of this research are critical to the functioning of SEBI. The globalization initiative has an impact on SEBI’s policies if it has to perform and measure up to international standards. The Indian capital market has become a world market; it has opened its doors to both national and international investors. As a market driven economy, companies are raising capital from within the country and also internationally.

9.1 Summary of Findings

(a) Findings on the Performance of the Selected Companies

The analysis of the second data revealed that during the scam periods, three companies – Reliance Energy, HDFC Bank and Rrasim Industries were the most affected. On average the market returns outperformed these companies’ returns. The rest of the other 15 companies clearly outperformed the market returns, (see Table 7.1). However, the volatility of the Sensex and the Nifty indices continues to be a great source of risk to investors in the Indian Capital Market.

In the Indian Capital Market, there are companies which are untouchable no matter how severe the crisis may be. Such companies are high standard deviation and high beta companies. They generate the highest profit, which are very attractive to investors. This meant that the scam crises or world financial crises could not affect such companies in a severe magnitude. The research, found out that such companies are financially deep rooted and can withstand any type of crisis (see Table 7.1). They may incur losses at crisis periods, but will eventually survive. They have very good systems of risk management practices and practice good Corporate Governance. These are carefully reinforced, according to SEBI’s rules and regulations, brought in, in the form of radical Capital Market reforms. Such reforms
had created a conducive market environment in the Indian Capital Market. As a result, the systematic risks are greatly reduced. The only risks the companies have to fight against are the elements of unsystematic risks. The Indian Capital Market is now a future potential world market, attracting investors from all over the world. The smooth running of the Indian Capital Market was attributed to SEBI the Regulator and Reformer of the Market. SEBI has developed and implemented a total of 77 reforms and guidelines. There are 13 major reforms in the Primary Market, 21 in the Secondary and 43 Securities Regulations and Guides for the smooth running of the Indian Capital Market (see Tables 4.2, 4.3 and 4.4).

On Corporate Governance, the recommendations of the Birla committee have been implemented by SEBI through the Listing Agreement. Clause 49 of the Listing Agreement contains the requirements as regards Corporate Governance. Clause 49 enjoins on all listed companies to carefully implement and comply with its requirements in relation to Corporate Governance. The rule by SEBI of the independent director has played a critical role in the Corporate Governance rule. Hence, the boards every company, included non-executive directors of sufficient calibre and number for their views to carry significant weight in the board’s decisions. The boards have a formal schedule of matters specifically reserved to them for decisions to ensure that the direction and control of the company was firmly in its hands. There was an agreed procedure for directors in the furtherance of their duties to take independent professional advice, if necessary, at the company’s expense. All directors have access to the advice and services of the Company Secretary, who was responsible to the board for ensuring that board procedures were followed and that applicable rules and regulations as required by SEBI were complied with. Any question of the removal of the Company Secretary should be a matter for the board as a whole. Non-executive directors brought independent judgment to bear on issues of strategy, performance, resources, including key appointments and standards of conduct. The majority were independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment, apart from their fees and shareholding. Their fees reflected the time which they commit to the company.

The Risk Management Framework had six components. The first was risk Identification, the second - assessment and classification, the third - solutions sought for the management of the
risk, the fourth - assessing quick response and implementation of the solutions, the fifth phase - monitoring of the risk management progress and the sixth - learning from the experience that such problem never occur again. The whole process was well communicated during the entire process of risk management.

SEBI worked in collaboration with the Reserve Bank of India (RBI) to help speed up the movement of funds in the Indian Securities Market. The RBI has already pushed forward the real time gross settlement (RTGS) in the banking system. This was a system which when implemented vigorously will lead to the introduction of T+1 (trading day plus one day) settlement system, in the Indian Securities Market. Cross margining between cash and derivatives markets can be used to optimize the use of capital and better risk management. Cross-margining meant the adjustment of margins of members/clients across the exchanges and segments like cash and derivatives. This concept was under the consideration of SEBI. It was consulting various exchanges and market participants for implementing this innovative risk management system in the Indian Capital Market. A clearing corporation was entrusted with the responsibility of carrying out the clearing and settlement function of trades. It bears the counterparty risk in the trade to provide innovation and settlement guarantee. There was a general clearing corporation, thereby eliminating the chances of duplication. It was therefore not necessary that each Stock Exchange should have its own exclusive clearing corporation. It was therefore better for all the Stock Exchanges to use the services of one clearing corporation or a few clearing corporations as shared depository services. The electronic contract note was advised by SEBI. SEBI advised the Stock Exchanges to prescribe a standard format for the electronic contract note in its bye-laws, rules and regulations. These were aspects of risk management.

The handling of investors’ complaints was a priority to SEBI. Investors’ complaints were carefully classified as: Type I, Type II, Type III, Type IV and Type V. This information was carefully analysed in Tables 7.4 and 7.5. Grievances from investors, received by the Securities and Exchange Board of India are always processed on time. Table 7.4 shows that a total of 4447 type I, 3589 type II, 8403 type III, 2553 type IV and 2953 type V complaints were received during the period July 16, 2005 to May 15, 2006. This gave an overall total of 21945 complaints received and 18228 were processed in that period. Table 7.5 shows the
percentages of grievances received and processed during the two year period. The overall processing percentage has shown in Table 7.4. It shows that 100.99% of type I, 82.56% of type II, 68.07% type III, 89.35% of type IV and 93.90% type V were all processed during the period July 16, 2005 to May 15, 2006. Figures 7.45 to 7.50 present the figures shown in Table 7.5, complaints received and processed, during the two years period ending May 15, 2006. The overall processing percentage was 83.06%. This was an excellent representation of the amount of work that SEBI does in order to protect the interest of all investors, holding investments in the capital market environment.

(b) The Primary Data Analysis Revealed the Following Findings:

(1) The primary data analysis indicated that the partnership firm was not very popular in the Indian Capital Market. The Indian business formation, if small, is preferably the Hindu Family style of business, with the family head in control and taking all the decisions. The research revealed that the sole proprietorship was very popular with 71.57%, followed by the Limited company with 25.49%, (see Table 8.1).

(2) The Indian Capital Market environment was male dominated, indicating that the males are risk takers, while their female counterparts are risk averse. The research revealed that amongst brokers, 77.36% are male and only 22.64% female, (see Tables 8.2 and 8.3). Amongst the employees also, the male constitute 88.89% and the female only constitute 11.11%, (see Table 8.4). Amongst investors, 78.97% are male and 21.03% are female, (see Table 8.7).

(3) The research revealed that 81.36% of the Capital Market transactions are carried out by the Brokerage Houses and 87.70% of their clients are retailers (see Tables 8.5 and 8.6).

(4) The number of individual investors in the Indian Capital Market is increasing, 67.02%; while the number of institutional investors is decreasing, 66% (see Tables 8.8 and 8.9). This is an indication that the present financial crisis is hitting hard on companies than on individuals.

(5) The Indian Capital Market has a hardworking Regulator striving to keep the Market as stable as possible. This was very clear as indicated by the views of the brokers.
90.20% of the brokers assess the margin control safe-guard, put in place by the Indian Capital Market as good (see Table 8.10). The research also revealed that the margin control safe-guard put in place by SEBI maintained financial safety and discipline in the Indian Capital Market, (see Table 8.11). The brokers expressed the view that though the margin control safe-guard was good, it was a necessary evil, since it blocked a certain percentage of their capital. 43.14% of the brokers stated that more than 25% of their capital was blocked, 29.41% of them had about 25% of their capital blocked and 21.57% of the brokers had less than 25% of their capital blocked as security for the margin control safe-guard (see Table 8.13). The research reveals that the margin system of trading has not caused any major business disruption. 50% of the responses indicated that trading is averagely disrupted, while 39.22% indicated that there was no disruption at all, (see Table 8.14).

(6) 76.47% of respondents indicated that they did not have any problems with SEBI.

Only 15.69% of the respondents indicated that they had problems. It is a clear indication that SEBI was very efficient in its dealings with the Market dealers (see Table 8.15).

(7) The research revealed that even though SEBI was doing its best in regulating the Indian Capital Market, there were still some shortcomings amongst which the respondents identified as lack of an appropriate warning system and the high margin system of trading in the Indian Capital Market, (see Table 8.12).

(8) The research revealed that brokers had no significant problems, specifically requiring the assistance of SEBI (see Table 8.17). This was a clear indication that SEBI reforms were keeping the Indian Capital Market in a smooth running gear.

(9) The majority of respondents believed that SEBI was slow to react to their problems. This fact was revealed in Table 8.19 and Fig. 8.19. 14.71% of the respondents said that SEBI was very slow to react to their problems. 28.43% thought that SEBI was slow to react and 18.63% revealed that they received immediate reaction to their problems.

(10) The mixture of fastness and delays in reaction indicated that SEBI carried out proper investigations before reacting to problems. As a result, SEBI was seen as an effective Regulator of the Indian Capital Market (Table 8.20 and Fig. 8.20). 54.90% of the
respondents thought that SEBI was an effective Market Regulator, while 16.67% thought the opposite and 28.43% abstained.

(11) The research revealed that the presence of SEBI in the Indian Capital Market had made the Indian Capital Market a much improved place for securities’ trading. 48.04% of the respondents indicated that there had been much improvement and 34.31% indicated that there was average improvement in the dealings in the Indian Capital Market (see Table 8.27). There was a total of 82.35% of satisfaction on SEBI’s handling of the dealings in the Indian Capital Market.

(12) Rating the effectiveness of SEBI’s response to complaints, the research reveals that SEBI’s is effective. 54.90% (see Table 8.20) of the respondents said that SEBI was effectively responding to complaints. The research, on the adequacy of SEBI’s Rules and Regulations in helping the investors to sort out their investment difficulties, revealed that 16.67% of the respondents held the view that SEBI’s rules and regulations were very adequate. 40.06% of them held the view that the rules and regulations were fairly adequate (see Table 8.33). On the type of solutions offered by SEBI to the research reveals that 30.39% of the respondents indicated that SEBI offered complete solutions, (see Table 8.20).

(13) The research revealed that a total of 52.94% of respondents appreciated the services of SEBI as good and necessary for the smooth running of the Indian Capital Market. 36.27% of respondents indicated that SEBI services were good, while 16.67% of them indicated that SEBI services were very good, (see Table 8.31).

(14) The respondents held the view that the Government of India should give SEBI more powers, both judicial and administrative. 46.08% of respondents advocated for more powers, (Table 8. 35 and Fig. 8.35), to render SEBI more powerful and more effective.

(15) The research revealed that 10% of Investors had invested in the Indian Capital Market for more than 10 years, 48.57% had been investors for 2 years and 27.14% had been investors for 3 to 4 years, (see Table 8.36).
(16) Most investors preferred to invest in Equity Shares. 53.33% of investors preferred to invest in Equity Shares. The second most preferred product was the Mutual Funds, with 17.50% and the third was Life Insurance, with 14.17%, (see Table 8.37).

(17) The majority of investors (92.86%, (see Table 8.39)) had heard about SEBI, but did they know the position of SEBI in the Indian Capital Market? Table 8.40 reveals that 78.57% of the Investors knew that SEBI was the Regulator of the Indian Capital Market.

(18) Most investors (82.86%) stated that in their opinion, it was necessary to maintain SEBI in the Indian Capital Market as the Regulator. This fact was revealed in Table 8.41 and Fig. 8.41. It was an indication that SEBI was doing its best to protect the investors and also regulating the Indian Capital Market as required.

(19) 80% of the investors had no reasons to get in contact with SEBI. This was a clear indication that the presence of SEBI had greatly reduced the problems of the Indian Capital Market (see Table 8.43).

(20) After the redress of grievances by SEBI, 72.86% of the investors felt satisfied, amongst whom 10% are highly satisfied (Table 8.49 and Fig. 8.49). This was a very remarkable level of satisfaction which was indicative of SEBI’s level of efficiency and effectiveness in helping to protect the interest of the investors and properly regulating the Capital Market.

9.2 Summary of Findings by Objectives

Objective one - To study and evaluate, the functions (the provision of a safe investment environment and the development of the Securities Market), of the Securities and Exchange Board of India (SEBI) in the Indian Capital Market

The research revealed that SEBI had formulated and implemented very sound reforms which were keeping the Indian Capital Market running smoothly and sustainably. Wonderful reforms had been brought in by SEBI, bringing the Indian Capital Market up to International Standards. Examples of the reforms are the screen based trading, the settlement system T+2, margin based trading, strict control of brokers and education of investors on Capital Market
dealing awareness. There are 77 major reforms, 13 in the Primary Market, 21 in the Secondary market and 43 Securities Regulations and Guides (see Tables 4.2, 4.3 and 4.4).

The research found out that with the help of the various reforms, investors were protected, but not fully, because of the lack of the doctrine of restitution in SEBI’s system of investor protection. It is expected that after a scam, the investors who have suffered losses should be given back their investment by using the disgorgement funds. This is not done by SEBI.

**Objective two** - To study the degree of riskiness present in the Indian Capital Market.

The research brought out the risks involved in selected companies listed on the Capital Market, since 1992 using the standard deviation and the beta co-efficient. The study revealed that 15 of the companies with high standard deviation and high betas survived the harsh conditions of the Indian Capital market. Only three of the companies studied had low standard deviation and low betas, they were: Reliance Energy, Hindalcos Industries and HDFC, (Tables 7.1 and 7.4). The study quantified total risk into systematic and unsystematic components (see Table 7.3).

**Objective three** - To study the performance of selected companies listed on the Indian Capital Market between the period 1992 and 2006

The research revealed that 15 out the 18 companies’ returns outperformed the market returns in good times and also stood firm during periods of adversity. It revealed that the 3 companies which did not outperform the market returns were: Reliance Energy, HDFC Bank and Grasim Industries, but they still survived the harsh conditions of the Indian Capital market, (Table 7.1).

**Objective four** - To study the implementation of the Corporate Governance principles by the selected companies as required by SEBI.

Examining the annual reports of the 18 companies it was evident that they closely followed the Corporate Governance principles as per SEBI requirements. The companies carefully observed the disclosure requirements of the implementation of the Corporate Governance principles. The revised Clause 49 of the SEBI Corporate Governance rules is applicable to listed companies, in accordance with the following schedule of implementation:
(ii) All entities seeking listing for the first time, at the time of listing,
(ii) All listed entities having a paid up share capital of Rs 3 crores and above or net
value of Rs 25 crores or more at any time in the history of the company.

However, for other listed entities, which are not companies, but body corporates (e.g. private
and public sector banks, financial institutions, insurance companies, etc.) incorporated under
other statutes, the revised clause will apply to the extent that it does not violate their
respective statutes, and guidelines or directives issued by the relevant regulatory authorities.
The revised clause is not applicable to the Mutual Fund Schemes. A careful analysis of the
annual reports of the selected companies revealed that they critically followed the good
corporate governance practices as laid down by SEBI and other regulatory authorities.

Objective five - To study brokers and investors’ perception about SEBI and its performance
in the Indian Capital Market

The research revealed the views of the brokers, sub-brokers and investors showing that they
were satisfied by the intervention of SEBI in the Capital Market. They are satisfied with the
long term stability and sustainability of the Capital Market, in spite of the disruptions by the
scams in the past.

9.3 Hypothesis Testing

The hypothesis stated that “The Securities Market of India is not providing a secured
investment environment for investors” was tested by using the help of the Variance (or
Standard Deviation) of returns and Beta coefficient.

The Variance of returns is a measure of risk. The trend must show an increasing situation to
satisfy investors that the riskiness in the Capital Market is being properly managed. The trend
when decreasing is a bad sign. It indicates the presence of risk that is not being properly
managed. The Beta coefficient was calculated for each company over the period and the
trend was used to determine whether the risk in the Capital Market was increasing or
decreasing. An increasing trend shows that with the help of SEBI, risk is being properly
managed. It is an indication that the Market Regulator’s efforts to make the Capital Market a
safe place for investors are being successful. A decreasing trend indicates the presence of risk and a warning to investors. The Test reveals that most of the companies have high standard deviation and high betas. Hence, investors should invest in high standard deviation and high beta companies. The situation indicates that SEBI is handling the Capital Market as expected in order to protect the investors.

9.4 Conclusion

The Capital Market Regulator, SEBI has carefully developed good stability mechanisms to keep the Market functioning with stability and sustainability. There are difficulties, but the Capital Market Regulator devises careful working strategies to overcome them. Such strategies come in the form of rules, regulations and innovative market reforms. SEBI has been granted powers by the Law Courts and the Government of India which helps its machinery to function as expected. SEBI is very much engaged in the education of investors and the careful training of all Capital Market participants. This is the source of stability and sustainability in the Indian Capital Market. The situation of the Indian Capital Market is evidence of the fact that investors’ interest is well protected. They should have confidence in the market and invest without fear of abnormal or excess losses.

The evidence in the corporate management environment indicates that the Securities and Exchange Board of India (SEBI) can make Rules and Regulations on good Corporate Governance for companies, but it is very difficult to force them to implement such Rules and Regulations. Some directors deliberately abuse Corporate Governance Rules and Regulations, while others inadvertently Act on the spur of the moment and take unnecessary risks, motivated by high interest benefits. It is only discovered that there exist an abuse of Corporate Governance in any corporate body, when risk taking goes wrong. This means that corporate bodies abuse Corporate Governance Rules and Regulations more often, because of the advantage of very high benefits. This is typically a practice that prevails in the banking environment. It is a bad practice, but very difficult to stamp out. Abuse of Corporate Governance Rules and Regulations by corporations is difficult to detect, since it is always done off the company’s records. SEBI cannot be held responsible for the bad Corporate Governance practices initiated by directors of companies. SEBI is an advisory body charged
with the formulation of good Corporate Governance Rules and Regulations, which should be implemented and followed by all corporations. A number of significant first-generation Capital Market reforms have been implemented in the India Capital Market. For instance, spot prices for index (e.g. Sensex) stocks are usually "market" determined, the volumes in the derivative markets have grown beyond those in the spot markets, and the market mechanisms (e.g. the speed of settlement and dematerialisation) are comparable to international best practices. This has made the NSE and BSE to attain a relatively high degree of sophistication. However, the BSE is not yet corporatised and the NSE could do with more competition. The Capital Markets include spot and derivatives securities associated with traded and privately-held equity, debt and exchange rates. The Indian Debt and Currency markets are lagging behind the equity markets. This is primarily, because their spot prices are less market-determined.

Foreign Institutional Investors’ (FII) investments in the India Capital Market are small compared to their global portfolios and the markets could be adversely affected by shifting FII preferences based on inter-country risk-return comparisons. Consequently, a concerted effort is needed to widen the base of the equity market. However, this is being done by SEBI. The fact that its reforms and modernizations are moving the Indian Capital Market into a stable and sustainable situation is of great importance. Such a move will go a long way to attract more Foreign Institutional Investors. In addition, globalization, technology and good innovation have rapidly changed the Indian Capital Market, making it an attractive investment destination to world investors.

This research has carefully, though not extensively examined the performance of SEBI in its attempt to control the Indian Capital Market. Findings revealed that the Indian Capital Market was functioning very smoothly, than ever before. The scams are greatly reduced and the Indian Capital Market was functioning at its optimum point. Its stability has come as a result of the important reforms brought in by SEBI. They have proved to be remarkable and keep the market sustainable now and in the future. This was exemplary, meaning that the Indian Capital Market should provide a benchmark for the world’s financial markets in the future.
9.5 Recommendations

The difficulty of enforcing good Corporate Governance rules and regulations may mean that the Regulator should implement the following recommendations:

(1) The Securities and Exchange Board of India (SEBI) should make the rating of Corporate Governance practices of listed companies mandatory. This will help in checking the lawlessness and indiscipline within the corporations.

(2) In order to further check on the good Corporate Governance practices in the corporate environment, SEBI should place an independent team of good Corporate Governance maintenance officers in each listed company. Their duty was to re-enforce good Corporate Governance practices for the interest of the stakeholders. They should be paid by SEBI with the help of a special “Good Corporate Governance Contribution” from all listed companies for the purpose.

(3) Good Corporate Governance should be made legally enforceable. Corporate accountability is of paramount importance, because companies raise capital from the public. When an investor invests money in a company, he/she has the right to expect the management to Act as a trustee and ensure the safety of the capital invested and a fair return. That is why directors are said to offer fiduciary services; they owe the investors a duty of reasonable care and skill in their management function.

(4) The Auditors of banks, to ensure the presence of good Corporate Governance should themselves prepare the books of accounts from the books of original entry to the balance sheet and cash flow statement. It should be a spot practice.

(5) Any violation of good Corporate Governance rules should be followed by very heavy sanctions as would be determined by Regulator.

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(9) The Auditors of banks, to ensure the presence of good Corporate Governance should themselves prepare the books of accounts from the books of original entry to the balance sheet and cash flow statement. It should be a spot practice.

(10) Any violation of good Corporate Governance Rules and Regulations should be followed by very heavy sanctions as would be determined by Regulator.

(11) SEBI’s decisions on all matters concerning the Indian Capital Market should be final. This means that no court should be allowed to overrule such decisions. SEBI should therefore make sure that all cases are properly investigated before passing judgment.

9.6 Suggestion for Further Research
This study has been limited to the evaluation of SEBI’s attempts to carry out its functions in order to protect the investors and properly regulate the Indian Capital Market. Proper regulation of the Capital Market is a risk management strategy designed by SEBI to protect the interest of the investors. It is also necessary that subsequent research should focus on the following areas:

1. The attitude of investors towards the work of Depositories and Depository Participants.
2. A comparative study of good Corporate Governance practices of the Private and Public sectors.
3. The Role of Securitisation in the Indian Capital Market
4. The Role of SEBI in the management of Micro-financial Institutions