CHAPTER-I
INTRODUCTION

The growth of any national economy depends on an increase in the savings and investments by the investor. The basic idea of the investment by the investor is to get better investment returns than from traditional savings. Mostly, the investment pattern in India follows traditional investments like gold, land, saving bank accounts etc. The development of the industries and their requirement of the capital gave birth to the financial system to raise money from the household savings. Financial market offers lucrative investment returns with investment risks to the investor than the traditional savings. Financial market provides different categories of financial instruments to attract the investor for investments like shares, debentures, bonds, treasury-bills etc. Investment in the market is always subject-matter of market risk associated with the financial instrument. The knowledge of the financial instrument helps an investor to understand the investment risk associated with it. According to the Indian Accounting Standards (IND AS) 32:

"A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity."¹

Every financial instrument carries different categories of financial risks as high-risk high return instruments i.e. shares and low risk low return i.e. bonds, fix deposits etc. Market governing laws are the essential ingredient of any financial market and proper implementation of laws makes financial market successful. It also protects shareholder from financial loss. To understand the position of shareholder in the financial market, it is fundamental to understand

the structure of Indian financial system in detail. The study explains the brief structure of the Indian financial system, review of literature and the research methodology adopted to explain the problems of shareholders and implementation of shareholder protection laws in Shimla. To understand the investment process in the market and pattern of participation of market intermediaries in the financial market, the brief detail of Indian financial system is as given below: -

1. **Indian Financial-Market**

The fast monetary growth and globalization of financial markets is perhaps one of the most significant developments at the worldwide stage. The past two decades have observed a process of fast changes in the global and domestic financial markets. The Indian financial market plays an innermost function in economic expansion through the saving investment process also known as capital formation. The most important role of the market is to transfer capital from lenders to borrowers in need of the capital for the operational purposes of the business. Financial market provides investment returns to the investor and the capital for the corporate. It is the platform where a variety of financial instruments are traded by the investors and corporate issuing bodies. Financial market facilitates to fix discovery price of the financial assets like debt and equity instruments. Equity instruments represent ownership in the instruments. Debt instruments are document that serves as a legally enforceable evidence of a debt to the owner and the promise of its timely repayment. It includes the banker's acceptance, bills of exchange, bonds, certificates of deposit, debentures, promissory notes etc.

National Stock Exchange, Bombay Stock Exchange and other regional stock exchanges offer trading facilities to all categories of investors to play a part in the securities market. All stock exchanges are involved

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in the buying and selling of financial products. They are recognized under Securities (Contracts) Regulations, 1996. Stock-trading and operational activities of the stock exchange come under bye-laws and rules of the every stock exchange with mandatory compliance requirements. Both stock exchanges gives a platform of internet based trading to the investors for buying and selling in financial instruments with the help of registered intermediaries. Intermediaries are the part of the stock market like depositories, depository participants, merchant banker, share-transfer agent, under writers etc. The Depository is an organization where the securities of the shareholders are held in electronic form at the request of the shareholder through the medium of a depository participant. Also, according to Section-2(e) of the Depositories Act, 1996:

"Depository means a company formed and registered under the companies Act, 1956 and which has been granted a certificate of registration under Section 12(1A) of the Securities and Exchange Board of India Act, 1992."3

Likewise, depository participant is the agent of the depository and is the interface between the depository and the investors. According to SEBI guidelines, financial institutions, banks, custodians, stockbrokers etc. can become depository participants. Indian financial market comprises of money market, capital market and debt market with different categories of financial products. Capital market is comprises of two categories of market i.e. primary market and secondary market. Financial market split into different sectors based on the maturity period of instruments, pattern of trade, claims categories and deals in financial outputs. These are the features of the dissimilar divisions of the financial market. These divisions are explained briefly as under:

3 Section-2(e) of the Depositories Act, 1996
1.1. Money-market

In the money market, most important members are commercial banks. Money market is the place where financial products of short-term nature like debt securities that pay-off in the short-term period typically less than one year are issued. It is to give simplicity to the liquidity needs of the investor and issuers of the financial instruments. A short-term maturity period of financial instruments simplifies into a maturity period up to one year and characteristic of speedy convertibility into money from financial instrument like bonds, T-bill etc. with a bare minimum transactional cost taken by intermediaries. According to Reserve Bank of India, it is:

"The center for dealings, mainly of short term character, in monetary assets, it meet short term requirements of borrowers and provides liquidity or cash to the lenders"²

Organized sector and unorganized sector i.e. private moneylenders are the two components of the Indian money market. The organized-sector is lead from the commercial banks and other participants like General Insurance Corporation, Life Insurance of India, Unit Trust of India, Reserve Bank of India, chit funds, mutual funds etc. Banks and primary lenders can function as a borrower and lenders in the money market. Non-banking financial institutions can operate as a lender not as a borrower. In India, money market participants are open to fix their interest rates related to the maturity of the financial instrument. Organized money market is governed by the Reserve Bank of India. Reserve Bank of India and its policy is the most important role-player in the money market. Money market is the subject matter of Reserve Bank of India regulations and governance.

Likewise, unorganized sector of the Indian money market plays a very significant role in providing short-term liquidity to the investors to meet their goals. The unorganized money market is on the increase.

hugely, regardless of quick development of the organized money market through a large set of connections of banking institutions that have increased their contact even to the remote regions. In the unorganized financial market, there is no apparent differentiation between short duration and long duration finance. The unorganized segment prolongs to make available funding for trade as well as personal expenditure. The unorganized sector includes majorly indigenous bankers and moneylenders. Non-indigenous bankers include Reserve Bank of India, commercial banks, development banks, mutual funds and cooperative banks. Commercial banks include public sector as well as private sector.

The major advantage of the above explained market is the availability of funds at low transaction cost and encouragement to the open market transactions. The major requirement of the short-term funds is by the commercial banks, Government and corporate. It denotes to borrowing and lending of capital by the banking sector, financial institutions and individual for short-term capital needs. The incapability of the investors to meet the formalities of the banking segment make them to take alternative option i.e. financial institutions that still stay outside in the regulatory framework of banking. The main purpose of the investment of the capital in the money market is the safety and fixed return of the capital with profit. The money market is free from the long-term market risks or default risk of the securities.

1.2. Capital market

The capital market is an essential division of the Indian financial system. The capital market is a market for long-term funds i.e. debt or equity for more than one year. It is the place where both funds like equity and debts issued by the issuers and traded between

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the investors. The Indian capital market is among the top biggest market in the world capital markets and provides different range and variety of financial products. Major investors in the markets are foreign institutional investors, individual investors, mutual funds and domestic institutional investors. The regulatory authority of the capital market is Securities and Exchange Board of India. It regulates the functioning of the market and its intermediaries.

It helps in regulating the whole activities of stock exchanges and take decisions on the registration of participants like stock brokers, sub-brokers, bankers to an issue, registrar to an issue, merchant bankers, portfolio managers, investment advisors, trustees of trust deeds etc. The capital market segment provides an efficient and transparent platform for trading of equity shares, debentures etc. In share trade, all shareholders deal through different intermediaries in primary and secondary market i.e. Merchant Bankers, Custodians, Registrar an issue, underwriters etc. Capital market segment started its operations in November 1994. It has two major parts namely new issue or primary market and secondary or stock market.

1.2.1 Primary-market

It provides place and availability to purchase new securities and gives opportunity to the issuers to raise capital for the business investments or to reduce their corporate liabilities. Primary market provides platform where corporate generates additional funds to the companies. Market participants recognized only by the specialized institutional services that they provides to the lenders or borrowers of capital funds at the time of any particular market operations. They do not have any managerial set up in any fixed place. The most important task of the capital market is to provide growth to the investor's savings, good utilization of the financial funds and allocation of the same into investments. The issue of securities by companies can take place in any of the following methods:
(i) Initial public offer
(ii) Further issue of capital
(iii) Offer for sale
(iv) Tender method
(v) Rights issue
(vi) Bonus issue

1.2.2. Secondary-market

The secondary market is a market for stock buying or selling and settlement of securities already issued in the primary market by the issuer of the company. The investors holding securities in their account sell securities through registered brokers or sub-brokers of the stock exchange working on the behalf of the investor. Investors who are hoping to trade securities, they buy securities through registered stockbroker or sub-broker of the stock exchange. Stock exchanges are located at different locations all over the country to facilitate the trade. After 1995, screen-based and internet-based trading comes to cover more and more investors in the securities. The secondary market consists of 25 stock exchanges including national and regional stock exchanges in India. The secondary market facilitates a trading platform for the securities and provides liquidity to the preliminary or existing purchasers in the primary market. It provides opportunity to sell the securities to any attracted purchaser on any price, if the prices are commonly acknowledged by both the parties. In other words, liquidity ensures more buyers and sellers of the stock. It ultimately means that there is more demand and supply. It is easy in economics to state that the price is a factor of demand and supply is the relationship between liquidity and stock price.

A dynamic secondary market essentially supports the development of the primary market and capital formation. It is for the
reason that participants in the primary market are sure of a secondary market where they can make their investments into good returns⁶. As a part of the process of economic liberalization, the stock market has been assigned an important place in financing the Indian corporate sector. Besides enabling mobilizing resources for investment directly from the investors, it provides liquidity for the investors and helps in monitoring company management. The stock-market trading system in the country may be divided into two different categories of trading i.e. Cash or normal and derivative trading mechanism.

1.2.3 Cash or normal trading

The cash or normal trading has three segments for trading in securities and the description of the three trading segments i.e. the whole sale debt market, trading in Government securities and capital market is as under: -

1.2.3(a) The wholesale debt market

A debt instrument is a contractual agreement in which the issuer agrees to provide interest and reimburse the borrowed amount over a specified period. The India debt market can be classified into three different market segments i.e. The Government securities, public sector unit bond and corporate bond. Each market segment has its own distinct trading practices, approved procedures, institutional structure and regulatory framework. Few common features to all debt instruments are maturity, par value, coupon rate, call option and put option⁷.

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1.2.3 (b) Trading in Central Government securities segment

The trading in Government securities was started from January 2003 through an order-driven, national-wide, screen based trading system on the stock exchange. It was for the reason to promote wider participation of all classes of investors. The Central Government securities are managed by Reserve Bank of India.

1.2.3 (c) Capital market

Indian capital markets comprises of the primary and the secondary market. The primary markets are where the issuer releases new issues and bonds issues to the investors at a price. The secondary market is the place where existing securities are available to buy and sell from one investor or trader to another with the help of stock exchange and brokers.

1.2.4 Derivative trading mechanism

In June 2000, derivatives trading started in the Indian financial system on the National Stock Exchange and Bombay Stock Exchange only. The derivative market presently offers index futures and index options on three indices. It also provides stock options and stock futures on individual stocks and futures in interest rate products like notional 91-day Treasury Bills and notional 10-year bonds. Derivatives are tradable instruments, which derive its value from an underlying asset or assets such as commodities, equities, equity indices etc. There are varieties of derivative products like swap, forward, futures, options etc^.

Derivatives are the most significant component of the stock market. It is considered as a security whose price value is based upon or resulting from more than one or one fundamental resources in the

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market. High advantage is the basic feature of the derivatives. Derivatives are usually a financial asset to evade the risk, but it may be used for speculative reasons in the market. Derivatives having a number of fundamental instruments like Futures, Forward contracts, Options and Swaps. These are very regular types of derivatives existing in the market to trade.

2. **Magnitude of the research problem**

The Indian capital market has been facing drastic changes from the last few years. Since the establishment of Securities and Exchange Board of India in the year 1992, the Indian securities market has grown enormously in terms of trading volumes, new financial products and financial services. Due to the fast budding information-techniques, securities frauds and changes in the capital market, it is necessary to check the real position of the shareholder. Also, it is necessary in the capital market by the regulatory authorities to check proper implementation of shareholder protection laws. Securities laws comprise the provisions on issuer of securities, secondary market, asset management, products, market intermediaries and investor education. These are formulated to concentrate on irregularities of information between issuers and shareholder, clients and financial intermediaries. In addition, laws are to make certain the smooth functioning of initial public offer allotments, dividend allotment, voting right, information on merger and acquisition, demat-trading, clearing and settlement mechanisms. It will put a stop on market disturbance and promote shareholder confidence in the market.

Regulation of market intermediaries is to make certain that intermediaries such as brokers, depositories and depositories participants enter and exit the market without disruption, perform

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their business with their clients with due care and trade fairly in the market. The issuers of the securities are expected to make sure that the economic interests of the shareholder are protected. Likewise, two depositories provide the service of maintaining the records for the allotment and transfer of securities in an electronic format. The most important tool for the regulation of intermediaries is licensing requirements including prudential requirements and business code of conduct obligations. The changes have become more pronounced in the last couple of years with the advent of liberalization pertaining to the industrial policy, licensing policy, financial services industry, interest rates etc. The competition in the market has become very concentrated and genuine. It is affecting the industrial sector and financial services industry.

In the recent time, it is obvious from numerous sources that manipulation and illegal activities in the market is still going on apart from major regulatory checks. No doubt, capital market performance in terms of information processing, risk management and liquidity functions is improved. Nevertheless, in year 2011, total number of pending grievances against intermediaries was more than 7,000 and the total was more than one lakh waiting for redressal. In short, problems still exist in the capital market and gave birth to the idea of present study. Study is to make valuable suggestions based on the findings of the study.

3. Review of literature

There is an extremely limited selection of studies relating to problems in legal implementation and protection of shareholders in India. Hence, the study has broadened literature search to include international studies on protection of shareholders, market practices and need of implementation of laws, with an emphasis on those most applicable to the shareholders. Review of literature is divided into three major parts to understand the problems of shareholders in
detail with the help of national and international research papers, books and SEBI reports as under:

3.1 Lack of knowledge among shareholders

The major hurdle in the protection of shareholder from the financial market malpractices or fraud is the fact that the shareholder or investor is not fully aware about their rights and information related to the market. Many authors in their studies mentioned that the lack of knowledge of capital market, its functioning and their rights leaves shareholder in greater loss. Kamath, Sowmya (2011) guides to the investor how one should react to rumours related to the changes in the stock market. In addition, article cites a number of common market rumours and how to respond to them. Author gives advice to pay caution in case of rumours that a company could sell its stake or that an overseas firm might buy a stake in a domestic company. She focuses on the need of good judgement in the case of news related to the fraud or any maltreatment of company funds. She recommends investor should invest money in companies with good quality fundamentals.11 Patra, Bibhu Prasan Roul, Debesh Kuma (2009) attempt to concentrate on the problem of fairness and efficiency that often riddle the small investors of capital market. In addition, why and how the companies violate pricing of securities and relevant information related to the securities is not available to the small investors. It continuously troubles common person investing in the capital market. They write that on many occasion fairness is sacrificed just for market efficiency. Authors emphasis that in order to provide fair dealing with small investor in the capital market both fairness and efficiency should be given equal importance at all level.

i.e. allocation of securities, operational activities and pricing of securities\textsuperscript{12}.

In 2006, two-major initial public offering frauds took place i.e. The initial public offerings of Yes bank and Infrastructure Development Finance Corporation. Investors like Roopal ben Panchal filed manifold applications and used benami demat accounts to obtain enormous quantities of shares from the quota reserved by the company for the small investors. After allotment of shares, these fabricated shareholders transferred their holdings to their undisclosed financers. Most of these shares were sold immediately after the allotment by the process of initial public offering. As the two initial public offerings under review by the regulators were listed at a premium, the manipulators realized quick and sizable profits from selling. Unavoidably, the group of legitimate investors suffered and lost their opportunity to get allotments of the shares. It will considerably reduce the interest of small investors because of the manipulation in the market by some manipulators. The initial public offerings fraud is another instance, which proves the point that in the capital market intermediaries are constantly challenging the regulator and gaining profit by unethical trading practices\textsuperscript{13}.

**Parekh, Sandeep (2005)** writes that the disclosure by the companies in the securities markets is based on the presumption that securities correspond to a bundle of rights that are not visible to a potential buyer of securities. He adds that the buyer must know the nature of the bundle of rights before investing capital in the securities market. Disclosure by the companies decreases the opportunity of unlawful activity by the companies or any intermediaries\textsuperscript{14}.

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\textsuperscript{13} Ibid
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Smith, D.D. Rae (1968) focuses on how to provide good protection to shareholders of companies in Great Britain. Compulsory acquisitions of the shares of small minorities of disobedient shareholders have an impact on the general body of shareholders of share option and other schemes planned to give benefits to directors and employees. He suggests that adequate and reliable information is a significant way of protection for a shareholder in a company. Yong Cheng (2012) writes in his paper that with the speedy expansion of China economy, many listed companies appear in the financial market and the volume of securities market is increasing considerably: Their influences on economic development tend to be more prominent. Inevitably, there are some flaws in the securities market. One of grave problems is the issue of controlling shareholders taking advantages over minority shareholders' equities. Most of them are common people. Minority shareholders have poor capability and specialty techniques. Therefore, minority shareholders are easily deceived by controlling shareholders and suffered loss.

The major problem of shareholder protection is because generally they do not know the reason of the market fall. Kripalani, Manjeet (2008) in his article reports that how Indian shares fell down 12% in the two trading days ended on January 22, 2008. It was the effect of foreigners that they withdrew some $1.5 billion from the Mumbai stock exchange. On January 21, the stock index sank 1,408 points or 7.4%. On January 22, barely a minute or two after the market opened, stocks suddenly fell down another 11% and encouraged a one hour trading halt. Finance Minister P. Chidambaram had to make a national television appearance for keeping patience.

3.2 Lack of Resources

In the second part of the review of literature, it is evident that the lack of resources related to the market frauds, market regulator initiatives and current market practises related to the shareholder or the investor also plays an important role in the loss of capital. J. Singh, B. Singh, Jaspal Singh (2005) Individual investors are on the completely detrimental situation as investors are not only widely spread and not available in an organised form. They have inadequate authority, no easily reached resources and comparatively a lesser amount of knowledge about the company of which shares they are holding. The author writes that investors have many grievances related to both primary and secondary markets like misleading advertisement, delay in dispatch of allotment or refund orders, delay in transfer of securities, price rigging, misleading disclosure in the prospectus, insider trading, lack of transparency in the transaction, low level of liquidity etc\(^\text{18}\).

3.3 Problems in the implementation of shareholder protection laws

Implementation of shareholder protection laws is depending on different factors affecting the financial market in different ways. Many research scholars from the national and international regions define different factors i.e. implementation of laws, the role of the regulatory bodies, issues of corporate governance, the approach of the company’s management towards individual shareholders, current market trends, malpractices in the market etc. affecting the implementation of the shareholder protection laws in a proper manner. The study has summarised different implementation factors and problems from national and international level affecting the implementation of the shareholder protection laws. It also summarised the issue of corporate

governance and its importance in the implementation of shareholder protection laws.

In addition, it included research papers emphasising on the role of the regulator, its importance and different problems in implementation of shareholder protection. **Sandeep Parekh (2013)** in his paper writes criticisms targeting at the observation that the Securities and Exchange Board of India is a successful supervisory body. It also targeted on the comparison between the Securities and Exchange Commission and Securities and Exchange Board of India. The fundamental purpose of the Securities and Exchange Board of India is to protect the interests of investors in the market, promote the development and to regulate the securities market. Author gives numerical data that this misperception is a result of the newspaper reports highlighting the overruling of SEBI’s administrative findings by the appellate body. He quotes statistics showing that about 70% of SEBI’s rulings are never appealed and the appellate authority supports 80% of the SEBI’s rulings of those appealed. Paper criticises the perception that the Securities and Exchange Board of India brings few individuals to book to provide as a discouragement to other wrongdoers.19

**Arunabh Choudhary and Saksham Chaturvedi (2013)** write in his paper about the liberalization of the participation routes for securing minimum public shareholding by the Securities and Exchange Board of India. They emphasised that the beginning of more participating routes was to enhance the liquidity of the stock. In addition, it is to make the securities less inclined to price manipulation. One of these participating routes permits companies to enhance the public shareholding by right issue, bonus issue to public shareholders with promoters or promoter group20. **Nayak, Mahesh (2013)** updates that India-based firm Sahara India Parivar has a

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number of ways to build money with the help of fixed deposit schemes regardless of the freezing of its possessions and bank accounts by market regulator i.e. Securities and Exchange Board of India. SEBI ordered to freeze the company's recently established firms' assets, bank accounts and demat accounts. In spite of different orders by the SEBI, the firm's investment policies has not affected but it has expanded a number of fixed-deposit schemes to collect money.

Sabarinathan, G. (2010) in his paper talks about the role and efficiency of the SEBI as a regulator. SEBI has come up with a number of initiatives aimed at regulating and developing the Indian securities market. SEBI as a regulator develops market safety and efficiency. Initiatives by the regulator for market improvement have made. It is to create an impact on every portion of the Indian securities market. The answerability that SEBI's inventiveness has taken part in bringing about this conversion of the market has not been researched carefully up to now. Author categorizes few most important intervention of SEBI relating to each of these aspects of the market. In addition, he examines the economic consequences of the regulator interference in the market.

Vanjeko, Rajarajen (2008) writes in his paper that SEBI has started major capital market reforms. During the last decade, the outlook of the Indian capital market has been changed. Author quotes that capital market reforms had their impact on every participant in the capital market. He focuses on one such participant, i.e. individual investor and two important areas of reforms i.e. the dematerialization of the shares and initial public offerings by the companies introduced in the capital market. The paper focuses on unused available information related to these topics. He adds that the people at the centre of policymaking can make essential changes. They can provide

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new policy directives with this kind of information based on the view of individual investors about the capital market reforms. It will assist to keep hold on the active individual investors but also to create a centre of attention to new investors of the capital market. In addition, the author provides a quantity of suggestions to get a better equity market in the country. The above discussed research papers showed that on one hand market regulator is strengthening the confidence of the shareholder or the investor but at the same time also facing major challenges to govern the market properly.

For the proper implementation of the shareholder protection laws, more emphasis is given on shareholder empowerment. Sharfman, Bernard S. (2012) argues in his paper against the argument that the shareholder empowerment to be an inefficient decision making at public companies. Besides, the major problem with shareholder empowerment is the imbalance between authority and their accountability towards shareholders. He also adds that laws of corporate governance that favours a centralized authority, the board of directors and executive management are ideally suited only to facilitate decision-making at public companies. In addition to the conclusion, he states that for such an authority model of corporate law, there is still a need for accountability toward the shareholders.

In addition to the above discussion, many other functional problems exist to slow down the proper protection of the shareholder in the financial market. Misra, Madhav (2011) in his paper discusses and assesses the Indian legal system to look upon the prosecution of persons involved in insider-trading. The major outcome is that Indian laws have relevant legal provisions to take care of insider-trading in India. However, it is not sufficient to restrain insider-trading in the market. The criminal remedies are not implemented because of the lengthy formalities and civil penalties are not sufficient to curb the

problem in deterrent manner. The procedure of the civil proceedings is full of lacunas. The paper makes relevant recommendations to the law making body i.e. Securities and Exchange Board of India based on highlighted shortcomings\(^\text{25}\). **Rajan, Shruti Shroff, Rishabh (2008)** focuses on the application of insider-trading regulations in the Indian securities market by the Securities and Exchange Board of India proposed amendments to the Insider Trading Regulations, 1992. It was in the light of a consultative paper released on March 4, 2008 and in order to make stronger current insider trading norms.

Further, he writes that Section-2(e) of the Insider Trading Regulations, 1992 gives a twofold test to determine a qualified insider by defining ‘insider’ as any person who is connected or deemed to be connected with the company. He has right to enter in the price sensitive information by virtue of the connection in the company. One of the proposed changes is to make sure harmonization between the periodic disclosure requirements of the acquisition and the requirements under SEBI regulations of 1997 applicable to company officers, directors and shareholders\(^\text{26}\).

**Mehra, Puja (2009)** offers information on the Companies Act, 1956 and the related policy discrepancies in India. The policy for independent directors prescribed under the Companies Act, 1956 and by the Securities and Exchange Board of India under Clause-49 of the listing agreement is stated to be weak in operation. The Clause-49 is limited to a small number of disqualifications and there are no qualification norms for the independent directors ready to appoint in any company management. The independent directors repeatedly tend to be insiders and their code of conduct is not stipulated in the Companies Act, 1956\(^\text{27}\).


Verma, Virendra (2009) focuses in his article on the occurrence of the three Indian investors named as Pratibha Rani, Varun Nagpal, and Janak Mathuradas, whose stock investments were defrauded. It provides the names of the offending firms with their offences on the investors as well as the amount that were deprived. Moreover, it explains how the offending firms have committed their offences against the market as well against the individual investors.

Parekh, Sandeep (2006) in his paper highlights on the market frauds in the Indian primary market. Various names with the same few addresses were used by the market operators of the fraud to take the most of a retail quota allotted for initial public offering shares. The market regulator based on initial information asked the stock exchanges to complete some investigation in the initial public offering allotments. The stock exchanges proposed their initial findings on the initial public offering of Yes Bank Ltd. These findings intimated that at large scale off-market transactions took place immediately after the date of allocation of shares and earlier to the listing on the exchanges. It shows that fully equipped market with regulator and laws is facing problems of malfunctioning and losing confidence of the investor.

The market regulator implemented many innovative initiatives to maintain the transparency in the financial market. Thacker, Shardul (2004) writes about the introduction of a margin trading and securities borrowing. Securities and Exchange Board of India has offered lending scheme in stock markets from February 1, 2004. Under the lending rules, investors will pay a 50% margin of the share value, while brokers will finance the balance of the trade by the investor. Eligible brokers by the SEBI can use their own fund or borrow from banks, non-banking financial companies and other qualified institutions registered with the Reserve Bank of India to

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finance the investor to invest in the stock market. To watch on speculative trading in the market, SEBI has proposed the eligibility of corporate brokers and qualified institutions with a minimum net worth\textsuperscript{30} of Rs. 30 million be permitted to service margin trading\textsuperscript{31}.

**Thacker, Shardul (2004)** writes that on April 8, 2004 the Securities and Exchange Board of India has approved few amendments to the SEBI (Disclosure and Investor Protection Guidelines), 2000 as a part of its effort to make sure superior fairness in the financial market. Any preferential allotment made under the corporate debt-restructuring framework specified by the Reserve Bank of India will remain locked-in for one year from the date of preferential allotment. In case of partly paid up shares, the lock-in will commence from the date of allotment of the shares and maintain for one year from the date shares turn out to be completely paid-up\textsuperscript{32}. He also writes that the Securities and Exchange Board of India has proposed draft on SEBI Regulations, 2004 to revoke the delisting guidelines dated February 17, 2003. The main provisions of the proposed regulations are only those securities that already listed for three years qualify for delisting from the stock exchange. The submission for delisting of the securities from the stock exchange must be made within a year of the passing of a special resolution of shareholders in general meeting. Securities of a company are deemed to be delisted from the stock exchange, resulting to withdrawal or non-renewal of recognition by stock exchanges where those securities are listed\textsuperscript{33}.

Major fraud in the market shows the weak implementation of laws or loopholes in the regulatory system of the financial market. **Dasgupta, Saibal (2002)** writes description about the stockbroker Harshad Mehta of India in his paper. The stockbroker was the key

\textsuperscript{30} Section 2(v) of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009


person in a 1992 US$1.3 billion securities fraud in the country. He has left an unexplained mystery of 2.7 million missing shares in Indian companies and cases of conspiracy, forgery, cheating and misappropriation of funds after his death. Only one case was filed against Harshad Mehta and proved important at the time of his death. He mixed up his position as stockbroker in the supposed misuse of funds belongs to car manufacturer Maruti Udyog. Singh, Jaspal (1998) writes about the reasons for the 1992 irregularities in securities and banking transactions in the Indian financial system. He covers different issues like dimensions of the bank scam, the modus operandi of the fraud and aims on several Government agency investigations.

For the protection of shareholders, it is mandatory by the Securities and Exchange Board of India for financial advisers to keep a record of all written and oral investment advice provided to the clients. The report states that financial advisers repeatedly exit blameless when losses take place because of wrong investment recommendation as neither the advisers nor their clients keep a record of the advice. SEBI is making it mandatory for advisers to obtain the appropriate certification from SEBI. Major focuses on a proposal related to corporate governance issues made by the Securities and Exchange Board of India. The proposal includes corporate governance guidelines for listed companies. It is to make functions of the companies transparent, to provide power for minority shareholders and a concept of governance rating. It also discusses a number of other proposals made by the Securities and Exchange Board of India. Another important measure taken by the Securities and Exchange Board of India.


Board of India is to improve the role of shareholders in companies’ decision-making\textsuperscript{38}.

One of the major guidelines of the Securities and Exchange Board of India is to make it obligatory to reserve 15\% of the offer for retail investors. It must be with holdings upto Rs. 2 lakhs in the company\textsuperscript{39}. In an attempt to protect shareholders, Securities and Exchange Board of India have banned foreign institutional investors, which include ABN AmroBank, Allianz Global Investors and Citigroup Pension Plan, after failing to comply with the disclosure related rules\textsuperscript{40}. Securities and Exchange Board of India has recently disqualified seven listed companies and their promoters from accessing the capital market. After investigations by the regulator, it was concluded that the disclosures made in the offer documents of the companies were false or unfinished and unrevealed to the public. It is concluded that the funds were routed through a variety of middle companies for different purposes other than those disclosed in the offer documents by the promoters\textsuperscript{41}.

In the nineties, many protective laws were made to protect the investor from the market frauds. The article discusses issues connected to insider-trading in securities in India. Insider-trading in the stock market is not a criminal act in India and it is different from the United States. The Indian Government and Securities and Exchange Board of India had introduced revised insider-trading rules and regulations related to the consent settlement in the year 1992\textsuperscript{42}.

For the protection of shareholders, the major problem in India is corporate fraud. One article states that although the country allegedly has one of the most severe anti-fraud laws in the world but

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enforcement of laws is the most important concern. Many firms are guilty of finding ways of over passing the law by finding loopholes in the system. These loopholes are not illegal but they are harmful for the Indian growth and economy. In spite of many regulators whose function is to regulate such loopholes, like the Reserve Bank of India, SEBI and Insurance Regulatory and Development Authority but there is no a single regulatory body exists in the market to address the problem. Due to the lack of single regulator, no real cooperation occurs between the various agencies to address market fraud. Another article writes that the Securities and Exchange Board of India will necessitate companies to reveal loans made against their shares in a new rule that follows the Satyam scandal. Under the new rule, regulator makes it mandatory for controlling shareholders to inform the concerned stock exchange when they pledge shares as collateral for any loans. It comes after Ramalinga Raju, chairperson of satyam company, was forced to own up to a $1 billion fraud after being hit with margin calls from lenders that had taken his family's 8% stake as collateral. Review of literature reveals that apart from major initiatives by the regulator, the Indian financial market is full of malpractices.

Another step for the protection of shareholders is an initiative of the Competition Commission of India in asking the Securities and Exchange Board of India to make amendments in regulations related to corporate governance in companies. This move indicates to create compliance auditing mandatory for listed companies on any stock exchange in India. The newsletter also emphasised on the requirement of associations to set up a code of conduct for themselves.

Another article writes about the public accounting scandal of Satyam Computer Services in India. The immediate consequences of

the Satyam case have seen an unmarked movement by the Securities and Exchange Board of India to drive through stricter market regulations. It includes peer reviews of large company account audits and public disclosure of shares that company management pledge to raise money against shares. The major problem for Indian companies is that the Satyam scandal could be an introduction for further corporate dishonesty to emerge in future. Author adds that the shocker among Indian business world is that Satyam founder and former business head Mr. Ramalinga Raju confessed so explicitly to blowing up the company’s quarterly earnings and revenue flows.\(^{46}\)

To strengthen the protective system of the market, the working group of officials from the Securities and Exchange Board of India and five of the country’s largest stock exchanges have been drafting a code of ethics for executive of the company. It intends to prevent stock exchange executives from circulating market-sensitive information in the market. SEBI’s main problem is about stock-exchange executives as a source of inside information of the company. It also highlights the importance of the ethics code for internal mechanism\(^{47}\).

In Indian financial system, initial public offering by the company is the first interface with the investor. Rai, Rakesh (2010) talks about the market frauds related to initial public offerings that became apparent between year 2003 and 2005 in the Indian capital market. His paper highlights that there is an illegality in the demat accounts used by financiers and market operators to obtain company shares that are intended for retails investors only. The Securities and Exchange Board of India banned those market operators and financiers from participating in the stock market\(^{48}\). It shows that the process of initial public offering is also full of loopholes and subject

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matter of fraud in terms of pricing of the securities and allotment of the securities.

Further, review of literature focuses on the effect of good corporate governance and the protection of shareholders in the market. Jhunjhunwala, Shital (2011) talks about an overview of the rights of shareholders, which is one of the most important components of the parties involved in corporate governance. Further, he adds that the protection of the rights and interest of the shareholders is the centre of corporate governance. In addition, shareholders are categorized as preferred shares and equity shares. The important rights of a shareholder also include the right to information, ownership and the right to participate in major business activities. Sanan, Neeti Yadav, Sangeeta (2011) writes in the paper that corporate governance reforms presuppose important significance for developing economies like India. They add that corporate governance is important for economies which are touching towards a more translucent and answerable system of economic governance. Regulators enforcement remains insufficient to restrain the problem of good corporate governance though they have initiated grave efforts towards renew the corporate governance process through complete corporate governance laws and regulations. Study discloses that earlier studies point to that disclosure practices of Indian companies do not go further than the mandatory requirements of regulations, thus creating a burning requirement for corporate governance reforms related to companies.

Further, the study indicates that in spite of impressive corporate governance reforms, there is only a reasonable level of financial disclosures by the Indian firms. The paper emphasizes on

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the major requirement for enhanced enforcement of legal and regulatory structures. It is to enhance financial reporting quality.\textsuperscript{50}

Few available studies of the foreign researchers have also been summarized. \textbf{Wack, David (2006)} writes in his paper that Russian law provides strong legal protection for minority shareholders but individual shareholders will not benefit if these provisions are without a ‘hands-on’ policy with respect to their direct investments in Russia. Further, he adds that minority shareholders have to chase their available rights. He focuses upon the conformity of it with the provisions of Russian law. Also, illustrates and examines law points, which assesses the level of shareholder protection under Russian law. He describes areas where mistreatment has revealed the need for improvement and protection of shareholders\textsuperscript{51}.

Likewise, \textbf{Berkman, Henk Cole, Rebel A. Fu, Lawrence J. (2011)} highlights the regulatory changes implemented by the China Securities Regulatory Commission for the benefit of minority shareholders in China in the year 2000. They are improving transparency in party transactions. They narrate that all related-party transactions are detrimental except those related to fund transfers, donations, and guarantees to sample companies\textsuperscript{52}. The above summarised papers mentioned that shareholder related problems and lack of proper implementation of shareholder protection laws are also persists in the international level. Likewise, good corporate governance is a major problem for the regulators to implement.

\textbf{Keiper, William (2010)} highlights the importance of how communications between management and shareholders are serving to enhance company governance and its performance. Author


highlights the role of discussion between non-executive directors and shareholders of the company. It is a way for independent board members to perform as effective and informed representatives of the shareholders. Author adds that every member of the management could be more efficient by listening face-to-face to the viewpoint of shareholders at least on particular issues.

Schwarz, Andrej (2009) in his detailed research paper explains a verdict by the Supreme Court of Slovakia to improve the interpretation of corporate governance rules to save the minority shareholders from harm in a company. Further, the company will charge with penalties if they misuse the shareholder's rights, particularly the voting rights. In addition, a cooperative control by a majority of the member cannot expel any of its minority shareholders for not attending a general meeting.

Jackson, Peter (2003) focuses on the corporate social responsibility (CSR) importance and movement in Canada. He also highlights the problem with the shareholder primacy approach and managerial concerns of corporations in implementing corporate social responsibility. Padilla, Alexandre (2002), elaborates regulations and theory related to regulations against insider-trading in securities. Author shows analysis of the consequences of interventionism on the controlled relationship between shareholders, insider and resulted that as soon as this control relationship is weakened, insiders are able to engage in breaches of contracts. Leinweber, David J. (2001) elaborates the stock market manipulations from the market frauds of the 1600s to the high technology frauds of the 21st century. He focuses on the implications of stock market manipulations on the investors and the long history of market manipulations. Also, explains

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the model of a market manipulator in the 21st century and the role of
the internet in market manipulation57.

Shell, G. Richard (2001) in his detailed research gives advice
on the legal aspects of using insider information in stock trading in
the United States of America. Before convicting anyone for insider
trading, the Securities and Exchange Commission and the
Department of Justice must be able to prove a number of specific
factors like a security must be purchased or sold by the trader.
Second, the action must have been encouraged by the possession of
important non-public data. Thirdly, the insider has known the profit
with which he is dealing. Finally, insiders have to breach a fiduciary
duty towards their company when they trade based on the information
or pass on confidential data to the other traders58.

Young, S. David (1985) writes in his paper that the stock
market break down of year 1929 was the consequence of
manipulation of the market by corporate insiders to the some extent.
In the early 1930s, laws were passed prohibiting insider trades in the
market. Market regulators have since argued that to allow such
activity not only undermines capital formation but just another form
of stealing.59

Leggett, Karby (2000) reports on problems experienced by
small shareholders of Chinese companies. Also, the reasons for the
problems among shareholders in Chinese companies which includes
improper disclosure, price manipulation, Government interference and
corruption. It also explains how the Chinese Government controls
nearly every company that is traded, which leads to disagreement
between what Government shareholders wish for and the interests of

57 Leinweber, David J. "Three Hundred Years Of Stock Market Manipulations." Journal Of Investing 10.2
58 Shell, G. Richard. "When Is It Legal To Trade On Inside Information?" MIT Sloan Management Review 43.1
59 Young, S. David. "Insider Trading: Why The Concern?" Journal Of Accounting, Auditing & Finance 8.3
minority shareholders. Ford Jr., Edward M. (1955) writes on legal issues relating to the rights of minority shareholders in a corporation to force dissolution. He also comments on challenges in working out effective measures to protect minority holders in the event of disagreement. Further, he submits his views on the inclusion of optional provisions in the articles or certificate of incorporation. It is evident from the international review of literature that the problem of implementation, lack of knowledge, lack of resources, good corporate governance, the market loopholes etc. also exists in the other financial markets.

During review of literature and data collection, selected best-fitted books and different survey reports available on the topic of the shareholder protection laws and the functioning of Indian financial system are also reported. Relevant books under the heading of review of literature added to present a clear understanding of the functioning of the Indian financial system and the problems persists with the implementation of the shareholder protection laws in India. Tadashi Endo (1998) mentions all intermediaries and their working mechanism in Indian capital market with compliance procedure. In addition, the powers of SEBI to monitor and control the market activities. Indian Household Investors Survey – 2004 (Revised), concluded that the Indian retail investor is facing problems related to demat charges and other market operations including corporate governance. K.S. Chalapati Rao & K.V.K. Ranganathan mention in his paper that the investment objective of retail investor is based on only three factors i.e. (1) volatility (2) corporate governance and (3) price manipulation. Bharati V. Pathak, (2006) elaborates financial regulations in detail according to their applicability and capital market types. Also, its governing agencies and investor protection programmes by the SEBI. A.K. Sharma, G.S. Batra (2001) mentions


the structure of Indian financial market and policy reforms with regulations. He also adds buyback of shares and relaxation to public issues by infrastructure companies.

**Prashant Joshi (2011)** mentioned in his book about the reforms in Indian capital market, empirical study of volatility in Indian stock market and gives emphasis on investor protection. **Saloni Gupta (2010)** elaborates major reforms in detail which are related to primary market and the secondary market. She also mentioned working of the Indian stock market. **LM Bhole (1995)** has mentioned the role of the Reserve Bank of India and explained call, money market. It also explains the drawbacks of Indian stock markets related to the working. **Sumit Agrawal & Robin Joseph Baby (2011)** has commented on the working and structure of Securities & Exchange Board of India. It also explained market related Acts, Regulations in details with case laws.

**SEBI Annual Report 2010-11** has shown data related to compliant filed by the investors against intermediaries, companies and other agencies. It also narrates number of problems solved and pending for redressal. During the year 2009-10, SEBI received 32,335 grievances from investors and resolved 42,742 grievances as compared to 57,580 grievances received and 75,989 grievances resolved in the year 2008-09. As on March 31, 2010 there were 1, 60,593 grievances pending for resolution as compared to 1, 71,000 unresolved grievances as on March 31, 2009. These include 1, 22,713 grievances where appropriate enforcement actions have been initiated.

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Table 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Grievances Received</th>
<th>Grievances Redressed</th>
<th>Pending Grievances at the end of period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>During the Period</td>
<td>Cumulative</td>
<td>During the Period</td>
</tr>
<tr>
<td>2007-2008</td>
<td>54933</td>
<td>2616980</td>
<td>31676</td>
</tr>
<tr>
<td>2008-2009</td>
<td>57580</td>
<td>2674560</td>
<td>75989</td>
</tr>
<tr>
<td>2009-2010</td>
<td>32335</td>
<td>2706895</td>
<td>42742</td>
</tr>
<tr>
<td>2010-2011</td>
<td>39617</td>
<td>2746512</td>
<td>38064</td>
</tr>
</tbody>
</table>

Source: http://www.sebi.gov.in

Handbook of statistics on Indian securities market 2012, published by the SEBI gives data on investigations by SEBI in one decade. In year 2011-12, total number of cases taken up for investigation by the SEBI was 154 and the number of cases completed by the SEBI was 74 only. Recently in April 12-December 12, total number of cases taken up for investigation was 103 and the cases completed by SEBI were 68. Table-1.2 shows the number of cases taken by SEBI for investigation and cases completed by SEBI in last one decade. It shows total cases taken up for the investigation by SEBI was 1474 and the number of cases completed was 1184. In conclusion, investigation is pending in 290 cases."
Table 1.2

Investigations by SEBI

<table>
<thead>
<tr>
<th>Year</th>
<th>Cases Taken up for Investigation</th>
<th>Cases Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>68</td>
<td>46</td>
</tr>
<tr>
<td>2001-02</td>
<td>111</td>
<td>29</td>
</tr>
<tr>
<td>2002-03</td>
<td>125</td>
<td>106</td>
</tr>
<tr>
<td>2003-04</td>
<td>121</td>
<td>152</td>
</tr>
<tr>
<td>2004-05</td>
<td>130</td>
<td>179</td>
</tr>
<tr>
<td>2005-06</td>
<td>159</td>
<td>81</td>
</tr>
<tr>
<td>2006-07</td>
<td>120</td>
<td>102</td>
</tr>
<tr>
<td>2007-08</td>
<td>25</td>
<td>169</td>
</tr>
<tr>
<td>2008-09</td>
<td>76</td>
<td>83</td>
</tr>
<tr>
<td>2009-10</td>
<td>71</td>
<td>74</td>
</tr>
<tr>
<td>2010-11</td>
<td>104</td>
<td>82</td>
</tr>
<tr>
<td>2011-12</td>
<td>154</td>
<td>74</td>
</tr>
<tr>
<td>Apr 11-Dec 11</td>
<td>107</td>
<td>14</td>
</tr>
<tr>
<td>Apr 12-Dec 12</td>
<td>103</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Handbook of statistics on Indian securities market 2012

Chart 1.1

- Cases Taken Up For Investigation
- Cases Completed
Comparison between Table-1.1 and 1.2 reveals that the number of grievances received by the SEBI is high and investigations are more in numbers. Table-1.3 explains the nature of investigations taken by SEBI in last one decade. Mainly, SEBI is focusing on market manipulation and price rigging of the shares. It also investigates in the primary market issues related to the IPO frauds, causes related to price sensitive information and issues in a takeover by the companies.

**Table 1.3**

Nature of Investigations Taken up by SEBI

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market manipulation and price rigging</td>
<td>47</td>
<td>86</td>
<td>95</td>
<td>96</td>
<td>110</td>
<td>137</td>
<td>95</td>
<td>12</td>
<td>52</td>
<td>44</td>
<td>56</td>
<td>73</td>
<td>59</td>
</tr>
<tr>
<td>Issue related manipulation</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>35</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Insider trading</td>
<td>6</td>
<td>16</td>
<td>13</td>
<td>14</td>
<td>7</td>
<td>6</td>
<td>18</td>
<td>7</td>
<td>14</td>
<td>10</td>
<td>28</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>Takeovers</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>9</td>
<td>7</td>
<td>6</td>
<td>7</td>
<td>10</td>
<td>15</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>13</td>
<td>10</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>68</td>
<td>111</td>
<td>125</td>
<td>121</td>
<td>130</td>
<td>165</td>
<td>120</td>
<td>26</td>
<td>76</td>
<td>71</td>
<td>104</td>
<td>117</td>
<td>107</td>
</tr>
</tbody>
</table>

**Source:** Handbook of statistics on Indian securities market 2012

**Chart 1.2**
Table-1.4 and chart 1.3 explains the data of the nature of investigations completed by the SEBI in the last one decade. It shows that the major number of cases registered with the SEBI is related to the market manipulation and price rigging. The number of miscellaneous cases is less in numbers in comparison with other problems.

**Table 1.4**

<table>
<thead>
<tr>
<th>Nature of Investigations Completed by SEBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>------------------------------------------</td>
</tr>
<tr>
<td>1 Market manipulation and price rigging</td>
</tr>
<tr>
<td>2 Issue related manipulation</td>
</tr>
<tr>
<td>3 Insider trading</td>
</tr>
<tr>
<td>4 Takeovers</td>
</tr>
<tr>
<td>5 Miscellaneous</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

**Source:** Handbook of statistics on Indian securities market 2012

**Chart 1.3**

- Market Manipulation And Price Rigging
- Issues Related To Manipulation
- Insider Trading
- Takeovers
- Miscellaneous
- Total
The major actions taken by SEBI are cancellation of registration and suspension of the defaulter for the market operations. In addition, SEBI issued a warning letter to the defaulters and prohibitive directions related to the market practices. Table 1.5 and chart 1.4 gives data on the action taken by SEBI from 2000-2012.

**Table 1.5**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancellation</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Suspension</td>
<td>1</td>
<td>1</td>
<td>11</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>-</td>
<td>5</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Warning issued/ Warning letter issued</td>
<td>4</td>
<td>8</td>
<td>42</td>
<td>43</td>
<td>42</td>
<td>36</td>
<td>52</td>
<td>44</td>
<td>46</td>
<td>48</td>
<td>36</td>
<td>16</td>
</tr>
<tr>
<td>Prohibited directions issued under Section 11B of SEBI Act</td>
<td>21</td>
<td>96</td>
<td>140</td>
<td>106</td>
<td>134</td>
<td>632</td>
<td>345</td>
<td>537</td>
<td>230</td>
<td>691</td>
<td>268</td>
<td>487</td>
</tr>
<tr>
<td>Issues refunded/ option given/other</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>156</td>
<td>63</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>143</td>
<td>257</td>
<td>174</td>
<td>232</td>
<td>741</td>
<td>424</td>
<td>629</td>
<td>461</td>
<td>932</td>
<td>389</td>
<td>1,486</td>
</tr>
</tbody>
</table>

**Source:** Handbook of statistics on Indian securities market 2012

**Chart 1.4**

The chart shows the number of actions taken by SEBI from 2000 to 2012. The actions include cancellation, suspension, warning issued/letter issued, prohibiting directions issued under Section 11B of SEBI Act, and issues refunded/option given/other.
A survey of the literature shows that only a few studies have attempted particularly to explore the problems of shareholders and level of education related to the shareholder protection laws in the hilly areas and the role of regulators. However, many studies on current market practices, role of the regulators and the position of the individual shareholder have been found. The study has summarised all available studies to understand the importance and the need of the research.

4. Statement of research problem

The main purpose of the present research study is to identify, analyze and evaluate the problems of shareholders i.e. lack of source of information, lack of knowledge, lack of implementation of laws related to the protection of shareholder in Shimla. The primary inspiration behind the survey is to scrutinize the problems of implementation of shareholder protection laws and knowledge level of shareholder. It is expected that the results of the survey will be largely descriptive and therefore able to be broken down into quantitative data i.e. Tables, Charts, and Graphs.

5. Scope of the study

The focal point of the present study is to examine the problems of the shareholder and non-compliance by intermediaries of legal formalities on different levels of trading process in both primary and secondary market. The universe of the present study is confined to Shimla. The scope of the present study is restricted only for the period of 2012-2013.

The area of the study is to diagnose the problems of existing shareholder in Shimla, implementation of shareholder protection laws, suggest ways and means to eliminate their complaints. Furthermore,
an effort has been made to cover more and more shareholders and intermediaries during the period of the study.

6. **Objective of the study**

The main objective of the present study is to significantly examine, evaluate problems of the shareholders in Shimla and implementation of laws related to the protection of shareholders. It is to identify the level of information about shareholder protection related laws in selected research area. It is studied with the help of following sub-objective spelt out as under: -

(i) To identify, assess the level of knowledge and understanding level of shareholders in trading process of primary and secondary market.

(ii) To identify that primary and secondary market trading is transparent, vibrant, efficient to provide avenue for deployment of savings and to mobilize savings for investments needed for economic growth.

(iii) To create legal awareness of various securities laws and new policy reforms pertaining to the shareholders protection.

(iv) To analyze the data collected from selected sample and design survey tool for conducting evaluation study.

(v) To recommend the necessary plan of action towards strengthening the legal consciousness level of shareholder protection laws under different Acts.

7. **List of the research-questions**

The research problem generates the following three broad research questions. These broad research questions have been divided into sub questions: -
7.1. Whether shareholder have sufficient knowledge:

7.1.1. about the rights available to the shareholders i.e. Right to inspect the register of members, directors, charges, debenture holders, get copy etc.

7.1.2. about disclosure of shareholding pattern of the company

7.1.3. about maintenance of minimum public shareholding by the company.

7.1.4. about manipulation in the markets i.e. Insider Trading, Price-Rigging, Circular Trading etc.

7.1.5. about legislative provisions related to share holder’s protection.

7.1.6. about SEBI centralized web based complaints redress system (SCORES)

7.2. Whether shareholder has adequate resources to avail information about shareholder protection laws:

7.2.1. Availability of SEBI and Ministry of Company Affairs websites.

7.2.2. SEBI bulletin for capital market information.

7.3. Whether the intermediaries make mandatory compliance with the laws related to shareholder protection:

7.3.1. Related to general meetings of the company

7.3.2. Related to the rights issue, substantial acquisition, buyback and delisting of shares.

7.3.3. In case of buyback of shares the letter of offer is mailed to all shareholders as on the record date according to SEBI (Buy-back of securities) (Amendment) Regulation, 2012.

7.3.4 Related to the dividend or interest issued by the company
7.3.5. Related to prospectus of new issue, right issue like private placement or promoters quota

7.3.6. In case of the appointment of a new director or reappointment of a director, the shareholder must be provided with the information with details.

8. **Hypothesis of the research study**

Study has propounded three different hypothesis based on the review of literature as under:

- **H₀**: Shareholder has sufficient knowledge about the shareholder protection laws.
- **H₁**: Shareholder has insufficient knowledge about the shareholder protection laws.
- **H₀**: Shareholder has adequate resources to avail information about shareholder protection laws.
- **H₁**: Shareholder has inadequate resources to avail information about shareholder protection laws.
- **H₀**: Intermediaries are in compliance with the mandatory provisions of shareholder protection laws.
- **H₁**: Intermediaries are in non-compliance with the mandatory provisions of shareholder protection laws.

9. **Research methodology**

Taking into account the research universe and the sample nature of the research work, the advent methods for the collection of available data from the secondary and primary sources are used. The universe of the study is the population of shareholder based in Shimla.
9.1. **Sampling size and Sample design of the research study**

The shareholder is the basic unit of analysis in the study. Total 300 shareholders are selected based on judgment sampling from Shimla. It is only to give equal representation of the shareholder population in Shimla. These estimates will illuminate shareholder’s problems and benefit to understand the implementation of laws in Shimla. The selected shareholders surveyed for their problems related to lack of knowledge and resources of information. The population of the research study is normally distributed with mean and variance ($\sigma^2$).

9.2. **Data collection and analysis of collected data**

The successful use of the data collected depends largely upon the manner in which it is arranged, displayed and summarized. The technique of data collection, procedure of data collection and the analysis of collected data have been discussed as under:

The research data is collected from primary as well as secondary sources of the information. The primary data have been collected from different shareholders and intermediaries with the help of different research techniques.

9.2.1 **Secondary Data collection of information**

To study the historical background of capital market, its nature, share trading system, its role in the development of liquidity of funds, existing share trading in primary, secondary market and applicable securities laws, the secondary data have been used. Extra caution is used in selecting secondary data and not only on its face value. It was collected majorly focused on the suitability, reliability and adequacy of the secondary data. The secondary data collected from the following sources by using appropriate techniques i.e. research card method, books, journals, research reports, magazines, articles from
newspapers, SEBI annual reports, Websites of Ministry of Finance, Securities and Exchange Board of India, EBSCO etc.

9.2.2 Primary data collection of information

Primary data collected with the purpose of study of the problems of shareholders and the data pertaining to the code of conduct being followed by the intermediaries. The primary data for the study has been collected with the help of personal interview, questionnaire and observation techniques.

9.2.2 (a) Questionnaire

The questionnaire has been developed in view of the objective of the present study. The primary data for the study is collected through questionnaire from 300 shareholders from broking companies, commercial, public sector bank, private companies, businesspersons, insurance companies and public. Rigorous checks have been employed for ensuring genuineness and reliability of the collected data.

Along with questionnaire, observational method used to understand the problems of the shareholders and implementation of laws in Shimla. The detailed information about questionnaire has been appended in the last of the study as Annexure I.

9.2.2 (b) Observation Technique

While collecting the information related to the implementation of shareholder protection laws and problems of shareholders, which could not be obtained through questionnaire and personal interviews, the same is obtained by means of observation. Sometimes, the respondent does not reveal and answer various questions honestly. Therefore, it was observed from a close angle, which helps to study the
problems more extensively. Keeping in view the nature of the study, the data collected is analyzed and interpreted with the help of following methods i.e. mathematical methods and statistical methods.

9.2.2 (c) Pilot survey of the research problem

Pilot survey is conducted for the pre-testing of the questionnaire. For the shareholder, questionnaire has been edited in the light of the result of the pilot survey. It was completed before the final survey initiated. The detailed report of the pilot survey has been annexed at the last of the study in Annexure II. The statistical test has been applied to test the reliability of the questionnaire. The copy of the report is also annexed with the Annexure II.

10. Tools and techniques of data analysis

The main objectives of classifying data are to condense the mass of data in such a way that salient features can be easily noticed and to facilitate comparisons between attributes of variables. It is to prepare data, which can be presented in tabular form and to highlight the significant features of the collected data at a glance. Keeping in view the nature of the study, the data collected have been analyzed and interpreted with the help of following methods:

10.1 Tabulation: Data from primary sources have been analyzed with the formation of tables of different aspects of the problem in different categories. The study represents the collected data by using graphs and descriptive table.

10.2 Statistical methods: Statistical methods provide an indispensable tool for collecting, organizing, analyzing and interpreting data expressed in the numerical terms. The statistical method used in the study is Linear Regression.
10.3.1 Linear Regression

Regression analysis is a mathematical measure of the average relationship between two or more variables in terms of the original units of data. In other words, regression is based on the relationship or association between two (or more) variables. The known variable (or variables) are called the independent variables whereas the variable (or variables) which study is trying to predict are called the dependent variable.

The study has taken Availability of Information (AOI), Individuals Knowledge (IKNW) and Implementation of Shareholder (ISPL) as dependent variables. Whereas Lack Of Resources (Question 1 and Question 2), Lack Of Knowledge (Question 3 to Question 9) and Lack Of Implementation(Question 10 to Question 29) as Independent variables.

11. Limitation of the research study in data collection

There are limitations need to be acknowledged and addressed regarding the research study:

(i) The study has been conducted with the help of primary data collected mainly based on non-probability sampling technique. Therefore, the result may be affected because of uniformity of the sample.

(ii) The risk of poor and perverted responses of some of the respondents may not be excluded.

(iii) The time and cost factor restricted the research to cover all the aspect of capital market and implementation of shareholder protection laws.

(iv) The concerned shareholders have denied providing the required primary data due to fear. Hence, the concerned
data has been collected from the personal efforts. Hence, the reliability of the data cannot be ignored.

(v) Non-cooperative behavior of stockbrokers and shareholders restricted the study to conclude the research report in proper manner.

12. **Scheme of chapterisation**

The scheme of chapters is as follows:

**CHAPTER I:** Introduction: explores the research background, review of literature and research questions, hypothesis, objectives and scope of the study. It covers sampling technique used and significance of the study. In addition, statistical tools used to analyse the data and limitations of the study.

**CHAPTER II:** History of Capital Market in India: it covers development of capital market in pre-independent and post-independent period. It focuses on report of major committees on the capital market and recent reforms in the market.

**CHAPTER III:** Organizational Structure of Indian Capital Market and Shareholder Protection Laws: it covers structure of primary and secondary markets. Chapter covers major participants and regulators of the market. It also includes description of capital instruments and functioning of the intermediaries. Lastly, it covers rules and regulations related to the intermediaries. It also covers laws, rules, regulations and circulars related to the shareholder protection.

**CHAPTER IV:** Securities Frauds and Role of Judiciary in India: it covers major scams related to the capital market in India. Chapter also covers major judicial verdict on shareholder protection laws. Further, it covers SEBI initiatives to curb the problem of mal-practices in the market and committee reports for the protection of the shareholder. It is to create fairness in the market and confidence of the investor in the market.
CHAPTER V: A Study of Implementation of Shareholder Protection Laws in Shimla: the sample profile of the in-depth interviews and results of the analysis of questionnaire collected are discussed in the chapter.

CHAPTER VI: Conclusions and Suggestions: to consolidate the answer of the research questions and objectives. This chapter synthesises the overall findings, which follows the suggestions for shareholder and regulators.

Bibliography

Annexure I: Questionnaire

Annexure II: Pilot survey report

Annexure III: Trading and trend statistic of stock exchanges

Annexure IV: Exchange-wise brokers registered with SEBI in Cash Segment

Annexure V: Securities and Exchange Board of India Act, 1992