CHAPTER-VI
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CONCLUSIONS AND SUGGESTIONS

1. Conclusions

Financial market plays a significant role in the development of any economy like India. The growth of the financial market is dependent on the involvement of informed investor and good industrial output of the companies. Shareholder is an important element for the growth of a company. But they are facing many problems in the market. Therefore, capital investment by individuals has moved either to traditional instruments or to non-financial assets like land, gold etc. The low level of knowledge of financial instruments and market mechanism among individuals creates a major impact on the growth of the financial market. Financial knowledge plays an important role in channelizing individual’s capital into better financial instruments. It helps investor to achieve their objectives of the investment. For good investment returns, investor must be fully informed about the financial instruments and market mechanism. Financial market provides opportunity to the individual to achieve their investment goals.

Financial market means a place where financial instruments are traded by the participants. It facilitates platform to channelize money from the investors to the borrower and vice versa. It is observed from the study that investors in the market are of different categories like individual investors, foreign institutional investors, domestic institutional investors, mutual funds, high net worth investors etc. Also, financial market provides different categories of financial instruments to invest money by the investor like bonds, debentures, shares etc. In financial market, every corporate entity participate which are in need of capital and investor who want better returns. Indian financial market is majorly divided into two parts namely capital market and money market. In Indian money market, short
term financial instruments like bonds, treasury bill, commercial papers etc. are available for trade to the investor. It is the market, where body corporates and the Government fulfill their need of capital for short term. In the money market, financial instruments of high liquidity and short term maturity period are traded. Reserve bank of India is the main regulator of the money market. It is observed from the study that individual invest in the money market for their short term financial goals.

Indian capital market is divided into two parts namely primary market and secondary market. Primary market is the first meeting point of the investor and the company in need of capital for their business purposes. Primary market offers different categories of issues like IPOs, right issues etc. Likewise, secondary market provides trading platform for the existing securities to the investor who wants to invest in the existing securities. Secondary market provides trading into two segments namely equity market and debt market. It is observed that secondary market provides liquidity for shares issued in the primary market. In secondary market, stock exchanges provide trading platform for the securities. Every stock exchange has well equipped trading facility to provide safe and transparent trading to the investors. For the proper working of the market, many intermediaries are involved to facilitate speedy disposal of the trade. These intermediaries are: merchant banker, share transfer agent, custodian, stock broker, sub broker, depositories, depository participant, clearing members etc.

It is concluded that the history of the Indian capital market has started from the period of the British rule in India and American civil war. The impact of world wars and cotton market demand made the Indian capital market more vibrant and modernized. During the study, development and history of the Indian capital market has been divided into two major parts i.e. pre-independence and post-independence. It is to explain the development during the British
period and after the British period. It is observed that demand of the Indian companies, impact of world wars and lack of uniform code for trading gave opportunity to stock brokers to manipulate the market. Before the independence, different committee reports were published on the market reforms like Atlay Committee report, 1924, Sir Morison Enquiry Committee report 1937, Sir Thomas report, 1948 etc. Major points of reforms were suggested by the committee reports. They were related to the working of the stock broker and stock exchanges. Few points from the Atlay committee for the better market practices are as under:

1. The rules should provide for the consideration of complaints by the public.
2. The disciplinary rules of the Stock broker's Association should be strengthened and rigidly enforced.
3. The Board of stock broker should retire annually and should be called the Committee of Management.
4. The Arbitration Committee should be abolished
5. The secretary should be paid and should not be a member of the Stock Exchange.
6. The partnership rules should be rigidly enforced.
7. The public should be totally excluded from the Stock Exchange until such time as a new building and gallery is provided.
8. The hours of business should be extended.
9. An annual declaration by members as to the class of business they propose to undertake should be made.
10. The use and stamping of a uniform form of contract note should be enforced.
11. A minimum scale of commission should be fixed.
12. Companies should, as far as possible, use a common form of transfer.
13. Blank transfer should be abolished on the reduction of the stamp duty.
During post-independence, major initiatives were taken by the Indian Government like establishment of SEBI, establishment of credit rating agencies, enhancement of the role of merchant bankers, electronics transactions, well equipped stock exchanges, investor protection etc. In the year 1988, the Securities and Exchange Board of India (SEBI) was established and got its statutory powers with the enactment of the SEBI Act, 1992. SEBI was established for the proper functioning of the intermediaries like merchant banker, stock brokers, depositories, depository participants, share transfer agents, stock exchanges, listed companies etc. Main enactments for the primary market are SEBI (Disclosure and Investor Protection) Guidelines, 2000, SEBI (Merchant Bankers) Regulations, 1992, SEBI (Banker to the Issue) Regulations, 1994, SEBI (Registrar to an Issue) Regulations, 1993, SEBI (Underwriters) Regulations, 1993.

It is concluded that the major objective of the SEBI is to protect the interest of the investors in the securities market and proper functioning of the market. Also, it is to prohibit fraudulent and unfair trade practices in the market like insider trading, circular trading, price rigging etc. SEBI is also regulating the acquisition of shares and takeover of companies. It is governed by SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997. SEBI also conduct inspection, inquiries and audits of stock exchanges, intermediaries and self-regulating organizations. It takes suitable remedial measures wherever necessary.

Further, SEBI has three different departments to regulate market function namely Market Intermediaries Registration and Supervision department (MIRSD), Market Regulation Department (MRD) and Derivatives and New Products Departments (DNPD). The major function of the Market Intermediaries Registration and Supervision department is registration, supervision, compliance monitoring and inspections of all market intermediaries in respect of
all segments of the markets. Market Regulation Department formulates new policies and supervising the functioning and operations (except relating to derivatives) of securities exchanges, their subsidiaries. It also supervises market institutions such as clearing and settlement organizations and depositories. Lastly, Derivatives and New Products Departments supervise trading at derivatives segments of stock exchanges, introduce new products to be traded, and consequent policy changes.

It is also concluded that SEBI issues guidelines to the companies for any new issue to the public. These guidelines are mentioned under SEBI (Disclosures and Investor Protection) Guidelines, 2000. SEBI also carry out vast research and publish information on the official website which is useful to all market players. After the establishment of the SEBI, Capital Issues (Control) Act, 1947 was repealed and the Office of Controller of Capital Issues was abolished. SEBI has removed control over price and premium of shares. Now, Indian companies are free to raise capital from securities markets after filing letter of offer or prospectus with SEBI.

In the process of major market reforms, creditors rating agencies were established to observe the credibility of the participating financial institutions and companies in the market. These credit rating agencies are: The Credit Rating Information Services of India Limited (CRISIL in 1988), the Investment Information and Credit Rating Agency of India Limited (ICRA in 1991) and Credit Analysis and Research Limited (CARE). It is observed that the main objective of the credit rating agency is to inform investor about the risk involved in the investment. They are governed by SEBI (Credit Rating Agencies) Regulations, 1999. It also elaborates the code of conduct for the credit rating agencies.

In the last few years, technological developments affected the market efficiency. It helped in the speedy disposal of the settlement of the trade. It is observed that every stock exchange shifted to the
online trading. It is to save money and time of the investor and companies. It also reduces possibility of the unfair trade practices in the market. It motivates the investor to participate in the market for the investment.

In the primary market reforms, SEBI introduced improved disclosure standards for the participants, prudential norms for the companies. It also simplified issue procedures for the companies and the investors. All companies who wish to raise capital from the market have to disclose all material facts and risk involved with the investment in their prospectus while making an issue to the public. For all companies, it is mandatory under Clause 49 of listing agreement to disclose cash flow statement for each financial year on their websites and to the SEBI. It is also mandatory to the listed companies to provide annual statement showing variations between financial projections and projected utilization of funds in the offer document to the stock exchanges where they are listed. It gives fair opportunity to the investor to analyze actual performance of the company. In the process of reform, Foreign Institutional Investors (FIIs) allowed to access to Indian capital markets on registration with SEBI. They are governed by SEBI (Foreign Institutional Investor) Regulations, 1995. Also, Foreign Direct Investment allowed in stock broking, asset management companies, merchant banking and other non-bank finance companies. To control the market exposure of the participants, margin system was introduced on the stock exchanges. It is concluded that SEBI is actively putting efforts in the growth of financial market.

To avoid unfair trade practices, SEBI under Chapter IX of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 furnished a code of advertisement for public issues to the public. It also furnished capital adequacy norms for brokers to operate in the market. It also made rules related to the client and broker agreements to maintain transparency in segregating accounts of broker and the
clients. Badla transactions have been replaced by the carry forward deals. In year 1998, compulsory dematerialization was introduced for institutional investor's operating in the stock market. It was also made mandatory for the retail investors in the year 1999.

For the protection of the investor from the bad deliveries in the trade, the Central Government of India has set up the Investors Education and Protection Fund (IEPF) in year 2001. The main objective of the Investors Education and Protection Fund is to protect the small investor from the unfair trade and major loss in case of bad deliveries. Under Section 11(B) of the SEBI Act 1992, it has power to serve show cause notice to the merchant banker for the mis statement related to the issues. SEBI also make sure that money should be refunded to the investors account in case of mis-statement by the merchant banker to the investor via prospectus. It concluded that SEBI is continuously protecting the interest of investor in the market.

The structural description of the Indian capital market includes the role, working and regulatory framework of the intermediaries involved in the working of the capital market. Indian capital market consists of financial instruments of the primary and the secondary market with different characteristics like shares, debentures, bonds etc. It is concluded from the study that there are different methods of floating new issues in the primary market. They are initial public offering, follow on public offer, offer of sale, private placement and rights issue. In initial public offering, a company makes a public issue for the first time to the public for subscription. Follow on public offer means when an existing listed company raises another public offer to further raise capital from the market.

In offer for sale process, shares are not issued to the public like initial public offering, but there are certain specialized agencies called intermediaries through which shares are distributed to the recognized stockbrokers and sub- brokers at a fixed price. These broking houses are known as issuing house for the offer for sale process. In the first
place, issuing company sold the securities to the issuing houses and then after issuing houses sold securities to the public i.e. final investors. In case of private placement, shares only transfer to the selected investors like big banks, mutual funds, insurance companies and pension funds etc. Under Section-81 of the Companies Act, 1986, rights issue is only available to the existing shareholders of the company through offer document also known as ‘letter of offer’.

It is concluded from the study that role of merchant bankers and the other intermediaries are most important in issue management. Merchant bankers perform the role of intermediary. They draft prospectus for the company for any public issue and work for its approval. They also decide basis for allotment to different categories of investors in consultation with the stock exchange. They also manage the refund of the application money to the applicant to whom shares has not been allotted. Every merchant banker needs certification for the working of merchant banking from the SEBI. The validity for the certification is for three years. Merchant bankers are governed by the SEBI (Merchant Bankers) Regulations, 1992.

Next intermediary is share transfer agent who on the behalf of the company maintains the record of holders of securities issued by companies. They also deal with all matters related to the transfer and the redemption of the securities. The working of the Share transfer agents working is guided by SEBI (Registrar to an Issue and Share Transfer Agents) Rules, 1993. They also need certificate from the SEBI to work in the market on the behalf of the company. For the success of any issue, underwriter as an intermediary plays a crucial role. They are governed by SEBI (Underwriter) Rules, 1993. They make an agreement with the company to subscribe the unsubscribed issue. They also market the issue for the subscription in the market. They are big financial institutions, merchant bankers, stock brokers, banks etc.
Another important intermediary is banker to an issue. Banker to an issue accepts the application and application money from the public on the behalf of the company. They also provide services of refunds in case of non-allotment of the issue to the applicant. Banker to an issue provides service of dividend payment or interest warrant. They are governed by the SEBI (Banker to an issue) Regulations, 1994. Debenture trustee is a SEBI registered intermediary who provides services to the debenture holders in the market. They also requires certificate from the SEBI. The validity of the certificate is for three years only. Then, they need to apply for the renewal of the same. It is observed from the study that all intermediaries play an important role in the management of any issue to the public.

For hassle free demat-trading, Depositories are formed under the Depositories Act, 1996. It gives service of holding securities in the electronic form. Depository participants are the agent of depository. They use book entry method to process securities transactions. Depository participant gives service of depository to the investor. To avail the service of depository, investor has to open one demat account with depository participant. As per SEBI guidelines, financial institutions, banks, custodians, stock broker etc are eligible to act as depository participant. To become a qualified Depository Participant, a SEBI registered depository participant shall fulfill the following conditions:

1. Depository participant shall have net worth of Rs. 50 crore or more;
2. Depository participant shall be either a clearing bank or clearing member of any of the clearing corporations;
3. Depository participant shall have appropriate arrangements for receipt and remittance of money with a designated Authorized Dealer (AD) Category - I bank

Section 2 (1e) of Depositories Act, 1996 defines the term ‘depository’:

'a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under sub-section (1A) of section 12 of the Securities and Exchange Board of India Act, 1992'

It is observed that the major objective of the depository is to provide speedy, accurate and transparent transferability of shares in trade from seller to the buyer. It is to curb irregularities in the Indian capital market and to protect the interest of the investors.

Under the Depository Act, 1996, two depositories namely National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CDSL) providing depository services in the electronic form for securities traded in equity and debt markets. Every depository participant must be registered with at least one depository to provide services of the depository to their clients. According to the Section-3 of the Depository Act, 1996, every depository is required to obtain a certificate of commencement of business from the Securities and Exchange Board of India. In the depository system, the ownership and transfer of securities from one investor to another investor goes through electronic book entries. It is facilitated with the help of the ‘demat request slip’ or through the direct instruction system on the internet. It is concluded that demat trading provides protection to the shareholder from mismanagement and fraud.

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For the investment in the market, investor needs one stock broker who on the behalf of the investor trade in the market. They holds license to trade on the behalf of investor. In Indian capital market, Stock brokers are governed by SEBI Act, 1992, Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India (Stock brokers and Sub brokers) Rules and Regulations, 1992. Also, stock exchange governs stock broker under their rules, regulations and bye-laws of which he is a member. They are registered with SEBI and holding membership of stock exchanges. Likewise, sub-brokers are also registered with SEBI and holds license to work on the behalf of the broker. Chapter-III of the SEBI (Stock Broker and Sub Brokers) Regulations, 1992, contains regulations from 11 to 16 dealing with registration of sub-broker with the stock exchange. As per SEBI (Stock Broker and Sub Brokers) Regulations, 1992, every stock broker or sub broker has to follow code of conduct prescribed by the SEBI and the concerned stock exchange.

In case of non-compliance with standard of code of conduct, their membership and registration may be cancelled after proper investigation by the SEBI. It is mandatory for stock broker to cooperate in redressing grievances of the client in respect of all transactions routed through it and in removing objections for bad delivery of shares, rectification of bad delivery etc. The client and the stock broker shall refer any claims or disputes to arbitration as per the rules, byelaws and regulations of the stock exchanges where the trade is executed. They must follow circulars/notices issued thereunder as may be in force from time to time. The stock broker shall ensure faster settlement of any arbitration proceedings arising out of the transactions entered into between him vis-à-vis the client and he shall be liable to implement the arbitration awards made in such proceedings.

Further, stock broker shall also provide details of his compliance officer to the client in their agreement form and details of
stock exchange registration. A stockbroker shall issue a contract note to his clients, investors for trades i.e. purchase, or sale of securities executed with complete pertinent details as required by the investor related to the executed orders. A contract note shall be issued to a client within 24 hours of the execution of the contract duly signed by the Trading Member or his Authorized Signatory or in electronic mode to the investor\(^4\)\(^3\)\(^7\). It is observed that many legislative provisions were made to regulate the functioning of the stock brokers and sub brokers.

Stock exchange provides trading platform for the investor to buy and sell the securities. Every stock exchange must be recognized under the Securities Contracts (Regulation) Act, 1956. It provides liquidity and marketability to existing securities by making ready market for buying and selling of securities. The major objective of the stock exchange is to provide safety to the investor from unfair trade practices like manipulation in price, bad deliveries etc. It also provides opportunity to the investor to select best fitted investment option in one place. Every stock exchange has separate byelaws and rules for the proper functioning in the market. The major stock exchanges are: National Stock exchange and Bombay Stock exchange. There are also other regional stock exchanges. These are: Ahmedabad Stock Exchange Ltd., Bangalore Stock Exchange Ltd., Bhubaneswar Stock Exchange Ltd., Calcutta Stock Exchange Ltd., Cochin Stock Exchange Ltd., Delhi Stock Exchange Ltd., U.P. Stock Exchange Limited, United Stock Exchange of India Limited, Pune Stock Exchange Ltd, Madras Stock Exchange Ltd. etc. These stock exchanges provide trading in equity and debt instruments. Maximum share trading takes place on NSE and BSE. Commodity trading is also started on the MCX. Rolling settlement has been implemented by the stock exchanges to settle the trade. It is a process of settling trade on stock exchange. Under rolling settlement, T+2 settlement cycle has been introduced.

It is concluded that the main objective of the rolling settlement is to avoid bad deliveries and speedy disposal of net obligation of trade. In April 1996, the National Securities Clearing Corporation Ltd. (NSCCL) commenced operations in settlement and risk management. The clearing corporation is accountable for after trade activities such as the risk management and the clearing and settlement of trades executed on a stock exchange. NSCCL carries out clearing and settlement functions as per the settlement cycle.

During the study, major emphasis was given in the explanation of the working of the stock exchange and process of stock trading. Numerical data of the stock exchanges, intermediaries like stock brokers, sub-brokers, initial public offerings, investigations, market capitalization etc. are explained to understand the market. Major Acts governing the market and responsible for the normal functioning of the intermediaries are: SEBI Act, 1992, Depository Act 1996, Companies Act, 1956. The SEBI Act, 1992 is for the protection of the investors and to promote the securities market. It is to regulate the dealings of the issuers and to check the working activities of the stock exchanges. It is to regulate the working of all intermediaries in the securities market. Under Section-11A of the SEBI Act, 1992 SEBI may issue orders to prohibit any company from issuing the prospectus or any offer document in the interest of the investor. It may also regulate advertisement by the company for collecting money from the public with issuing any prospectus. Under Section-11C of the SEBI Act, 1992, it has power to issue directions for the investigation in case of violation of any norms by any company or market intermediary. It may appoint adjudicating officer under Section 15 (l) and 15 (j) of the SEBI Act, 1992 for the purpose of investigating any violation or imposing penalty for the same against the defaulter. It is concluded that SEBI Act, 1992 provides protection to the interest of the investors in the market.
It is observed that the main purpose of the Securities Contract (Regulation) Act, 1956 is to prevent undesirable transactions in securities market. Under the Securities Contract (Regulation) Act, 1956 Central Government and SEBI have regulatory control over the stock exchanges. It also provides acknowledgement and recognition to the stock exchanges. According to the Section-21 of the Securities Contract (Regulation) Act, 1956, for listing of securities on any stock exchanges, company has to comply with the provisions of the Securities Contract (Regulation) Act, 1956 and concerned stock exchange. For the protection of the shareholder from frauds and mismanagement, the Companies Act, 1956 provides remedies to the members of the company. Under Section 235 to 237 of the Companies Act, 1956, Central Government and company law board is empowered to investigate into the affairs of the company. Under Section 397 and 398 of the Companies Act, 1956, protection is provided to the member of the company against the fraud and mismanagement. But member of the company can complain against the mismanagement of the company in the public interest. It is concluded from the study that Indian Companies Act, 1956 provides protection to the members of the company by giving them opportunity to complaint against the company.

Further, it is observed from the study that different relevant provisions under regulations, rules, circulars and guidelines are also protecting the interest of a shareholder. Under Disclosure of Investor Protection Guidelines, 2000, all given guidelines shall be applicable to all public issues by listed and unlisted companies, offers for sale and rights issues by listed companies whose equity share capital is listed. It also provides eligibility norms for issuing securities and pricing of securities by the companies. It also provides guidelines for the promoter's contribution and lock-in requirements. Along with these guidelines, it also provides pre-issue obligations on the lead managers like the lead merchant banker shall exercise due diligence, he should furnish all necessary documents before issue advertisement etc.
Clause 49 of the listing agreement provides that every company must provide full information related to the newly appointed director in the company, his area of expertise etc. It also provides that a company must provide information related to the shareholding of non-executive director in accordance with the Clause 49 (IV) (E) (v) of the listing agreement. It is also mentioned that quarterly results and presentations made by the company to analysts shall be put on the website of the company and shall be sent to the relevant stock exchange. Under Clause 35 of the listing agreement, companies should file shareholding pattern on the quarterly basis to the concerned stock exchange. These guidelines have been issued by the Securities and Exchange Board of India under Section 11 of the Securities and Exchange Board of India Act, 1992. Listing means the formal entrance of a security on the trading platform of a stock exchange. Listing of securities on the domestic stock exchanges is administered from the provisions in the Companies Act, 1956, the Securities Contracts (Regulation) Act, 1956, The Securities Contracts (Regulation) Rules, 1957, the circulars and guidelines issued by Central Government and the Securities and Exchange Board of India.

It is concluded that listing agreements allows only good companies to be listed on any stock exchange. Also, it provides opportunity to the investor to invest in good companies.

Regulation 4 of SEBI (Prohibition of insider trading) Regulations, 1992, stipulates that any insider who deals in securities in contravention of the provisions of regulation 3 or 3A shall be guilty of insider trading. Also, Regulation 3A of the Insider Trading Regulations provides that:

“No company shall deal in the securities of another company or associate of that other company while in possession of any unpublished price sensitive information.”
Regulation 2(e) of the Insider Trading Regulations defines an ‘insider’ in case of insider trading as under:

(i) is or was connected with the company or is deemed to have been connected with the company and is reasonably expected to have access to unpublished price sensitive information in respect of securities of 11[a] company, or

(ii) has received or has had access to such unpublished price sensitive information.

It is concluded that SEBI keep a strict check on the working of a member of a company who holds price sensitive information related to the company. It is to avoid insider trading in the shares of the company by the person who is related to the company.

Under SEBI (Depositories and Participants) Regulations, 1996, it is mandatory for an issuer to resolve the problem of beneficial owners within the thirty days of its receiving. It is also mandatory to inform the same to the depository or the status of the complaint. Every depository participant will provide statement of account to the beneficial owner as per the agreement. It is the responsibility of the depository participant to maintain record of holdings in the electronic form. Also, provide settlement of trades by delivering or receiving underlying securities from or in beneficiary owner accounts. Depository participant also provide the service of the dematerialization of the securities in the physical form. They are the registered agent of the depository and authorized to provide depository services to the client.

Regulation 9A of the SEBI (Merchant Bankers) Regulations, 1992, stipulates that merchant banker shall resolve the grievance of the investors within one month from the date of receiving. Merchant banker shall ensure that full disclosure has been made to the investor related to the issue. It will ensure that copies of the offer document
have been received to the investors. It will also help the company in case of buy back of the shares. It will also ensure that no discrimination has been made by him among its clients. Regulation 2(cb) of the SEBI (Merchant Bankers) Regulations, 1992, merchant banker means:

‘any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management’

For the protection of the shareholder from the default risk, margin trading has been started by the SEBI. SEBI is issuing eligibility conditions and procedural details for allowing the margin trading facility from time to time. The facility of margin trading is only available for Group 1 securities and those securities which are offered in the initial public offers. It should also meet the conditions for inclusion in the derivatives segment of the stock exchanges. No stock broker is allowed to take loan from any other source for providing margin facility to the client. It must utilize own available resource to provide margin facility. It may take loan only from any scheduled bank or Non-Banking Financial Company.

It is observed that there are different types of investors participate in the capital market. These types are: individual investors, joint stock companies and institutional investors. It is further observed that individual investor is divided into real investor, speculative investor and individuals affiliated with the issuing company. The speculative investor is of two kinds namely bull and bear investor. They invest only according to the moving trend of the market. Institutional investors are of three kinds namely Private
in institutional investors, Public financial institutions, Foreign institutional investors.

Since 1992, Indian capital market is facing serious market frauds like Harshad Mehta fraud, Ketan parekh fraud, Satyam fraud etc. Indian securities market was seriously hit by the Harshad Mehta fraud in year 1992. He applied manipulative market techniques like ready forward deal and bank receipt to channelize money from banks to the market for unfair profits. Another fraud was committed by the Ketan Parekh to rig the stock price to the unrealistic figures. He defrauded many banks to route money into the market. He mainly targeted small growing companies to make unrealistic profits and these companies were also known as K-10 companies.

In another case, Telgi was indulged in printing fake stamp papers and he was selling it to big insurance companies like LIC etc. He arranged fake printing machine to print stamp papers. Satyam Computers was well known company in the field of information technology. Mr. Raju, managing director, defrauded million of investor by fabricating book of accounts with unreal figures. Few other market frauds like Vaswani IPO fraud, Yes Bank IPO fraud, Dinesh Dalmia fraud defrauded the investors. After the frauds, many preventive measure were taken by the SEBI like BADLA transaction were banned, know your customer (KYC) was made mandatory. For the identification of client, PAN was made compulsory. Rolling settlement was introduced and settlement period was reduced to T+2. For the protection of investors, demat trading was made mandatory. Margin limits for the stock brokers had been increased. It is observed that SEBI has taken many preventive measures to avoid chances of frauds in future.

It is concluded from the study that many preventive actions were taken by the regulator in year 2012-13 to maintain fair market conditions by imposing penalties on defaulters. In year 2012-13, total seven committees were formed by the SEBI on different market related
issues. These committees are: Technical advisory committee, Depository system review committee, High Level Committee for reviewing the SEBI (Prohibition of Insider Trading) Regulations, 1992, Risk management review committee, SEBI Committee on Disclosures and Accounting Standards (SCODA), Corporate Bonds and Securitization Advisory Committee (CoBoSAC), Committee on Clearing Corporations.

Further, during the year 2012-13 recommendations were given by many committees like Report of the group on reduction of demat charges, Review Committee on SEBI (Underwriters) Rules and Regulations, 1993 etc. These recommendations were related to the market like demat charges, disclosure by intermediaries, there should be no separate code of conduct for underwriters etc. In the year 2012-13, SEBI has published in its annual report a list of defaulters companies. It has also published investigation, redressal reports with facts and figures. It shows SEBI initiatives to curb the problem of market manipulation and unfair trade practices.

SEBI provides mechanism to resolve the investor grievances like filing of complaint with SCORE and arbitration. Facility of the arbitration is provided by the stock exchange to the investor. It is mandatory for the arbitral tribunal to make award within three months from the filing of reference. After filing complaint by the investor related to any intermediary or listed company, SEBI act as a mediator to resolve the problem. For the quick filing of complaints, SEBI has introduced online filing through SCORE. On filing of the complaint, it automatically generates reference number. Complainant can check the status of the grievance online. An email acknowledging the complaint with complaint registration number will also be sent to the complainant’s email id entered in the complaint registration form. It shows that SEBI is very much concern about the protection of investors in the market.
SEBI has power to take complaints only related to activities that are covered under SEBI Act, 1992, Securities Contract Regulation Act, 1956, Depositories Act, 1996. It also has power to investigate under Section-55A of the Companies Act, 1956. Complaint against all intermediaries and the listed company is handled by the SEBI. With the help of separate department, SEBI keeps a close watch on the market irregularities. In case of violation in trading process, SEBI as a regulating body take necessary actions. It has no power to handle complaints mentioned as under:

1. Complaints against unlisted, delisted, wound up, liquidated or sick companies.

2. Complaints that are sub-judice (relating to cases which are under consideration by court of law, quasi-judicial proceedings etc.)

3. Complaints falling under the purview of other regulatory bodies viz. Reserve Bank of India, Insurance Regulatory and Development Authority, The Pension Fund Regulatory and Development Authority, Competition Commission of India, Forward Markets Commission, etc.,

4. Complaints under the purview of other ministries viz., Ministry of Corporate Affairs, etc.

It is concluded by the geographical data provided by the Government of Himachal Pradesh that Shimla is a hilly area with remote connectivity. In the comparative analysis of the literacy data of year 2001 and 2011, it is concluded that the level of literacy rate in Shimla is improved. It ranked on the sixth place among other districts. It is observed that the description of the Shimla helped to understand the geographical understanding of the scope of the study.

Further, it is concluded that the data analysis does not support the null hypothesis. The summary of the result is mentioned as under:
(a) There is a correlation between the dependent variable (Lack of resources) and the Independent variables.

(b) There is a correlation between the dependent variable (Lack of knowledge) and the Independent variables.

(c) There is a correlation between the dependent variable (Lack of implementation of shareholder protection laws) and the Independent variables.

From the survey and data analysis, it is concluded that the information level of the shareholder in Shimla is not good and there is lack of resources related to the functioning and developments of the capital market. It is observed that shareholders in Shimla are not receiving proper information of market related to SEBI initiatives, investor grievances mechanism, risk management, mandatory compliance by the companies etc. They are also not aware about their rights available under different legislative provisions such as rights to inspect register of member, directors, charges etc. During the survey, it is found that many shareholders were not known about the manipulative market practices like price rigging, insider trading, circular trading etc. Therefore, they are not aware about the laws which are available to them for protections. There are various factors like long distance, connectivity with other places, geographical position and climate also playing major role in different problems. It is observed that many shareholders from Shimla are not known about SEBI centralized web based complaints redressal system. Many of them are not fully aware of the information available on the SEBI or Ministry of Company Affair websites. It is concluded that they have either limited access or knowledge to the electronic sources of information.

On the other hand, it is observed that investment decisions by the investor are made on the basis of the hearsay information and not on any fundamental analysis of the company. It is also observed that there is no office of regulator in the Shimla. Collected data of the
respondents was also categorized on the basis of education level, income, age and gender. It is observed that maximum number of the respondents is from the middle age group and below the income of 5 lakhs per year. Maximum respondents are graduates and post graduates in Shimla.

It is also concluded that shareholder is also facing problem of implementation of shareholders protection rights in Shimla. Many of the respondents are not receiving information of general meeting, declaration of dividend, appointment of any new director etc. within the stipulate time. It may be because of poor connectivity or the delay by the company. It is also observed that stock brokers or sub broker are not providing margin statement to the shareholders on the daily basis. Therefore, from the study it is revealed that the financial knowledge level of shareholders in Shimla is low and the implementation of shareholder protection laws by the intermediaries is not proper.

2. Suggestions

In India, individual investments to a greater extent has been shifted either to risk-free, fixed-return, low-yielding instruments or to non-financial assets. The lower level of understanding of financial concepts and products has created a straight effect on the financial markets. Financial literacy plays an important role in the protection of shareholder rights. Shareholder education is important to attain shareholder protection. Even in markets where the equity culture has developed, shareholder understanding of risk is generally poor. Mostly, shareholders are using advice-based services. In addition, it has to be agreed that individuals have some responsibility themselves to understand the investment purpose before investing money. It means the buyer must be aware about their investment action. Apart from the financial education, the study has suggested different measures to curb the problems of shareholder in Shimla:
1. Shimla is the capital of Himachal Pradesh and far away from the SEBI head office located in Mumbai. SEBI should establish one office in Shimla. Likewise, Ministry of Company Affairs should also establish one office in Shimla.

2. Shareholder mostly trade on major stock exchanges i.e. National Stock Exchange and Bombay Stock Exchange. Stock exchanges should open one office in Shimla.

3. The Government of Himachal Pradesh should introduce a financial literacy programme among the students of schools, degree colleges and universities in collaboration with SEBI. In year 2010, Central Board of Secondary Education has started course on Financial Markets Management (FMM) in collaboration with National Stock Exchange. State Universities should also start short duration courses on the financial literacy and on the protection of the shareholders in stock trading. Financial literacy camp should be organized on regular basis to educate the people about their shareholder rights.

4. Strict provisions must be made in case of non-compliance of the provisions by the intermediaries or company members like attachment of the property of the director or promoter in case of fraud and mismanagement of assets. Also, under Section-203 of the Companies Act, 1956, power of tribunal to restrain company member from company management up to 5 year must be raised up to 10 years.

5. Every company must comply with the provisions of the general meeting, buy back, takeover and delisting of shares within the stipulated time. In case of non-compliance, heavy penalty should be imposed on the company to reward the shareholder.
6. In case of delayed payment of dividend or interest by the company, the market interest rate must be given with the dividend to the shareholder.

7. New companies should furnish all information like information about the director and information about their residential address, stake in the company etc. In case of non-compliance with Clause 49 of listing agreements, the regulator must expel directors, promoters from accessing capital market or being associated with the listed companies.

8. For the success of the any new issue or financial instruments like shares, bonds, fixed deposits etc. the role of rating is very important for the investor to check the reliability of the new issue or instrument. Strict laws must be made to monitor and regulate the rating agencies in India. Under the SEBI (Credit Rating Agencies) Regulations, 1999, provisions of heavy monetary penalty must be included.

9. Fundamental analysis is done for long-term and mid-term investment, which is also called as delivery based investment or trading. The main important aim behind fundamental analysis is to study and understand the company in which shareholder is planning to invest money. The shareholder should invest in the shares after reading the fundamental analysis of the company and annual reports of the company.

10. For the protection of the shareholder, regulator should evaluate all the present regulations related to the intermediaries and issuers. For a hilly area like Shimla, special compliance provisions should be made.
11. There is an urgent need to have a comprehensive legislation for the protection of shareholders. The protection of the interests of shareholder requires consolidation of all the shareholder protection laws relating to capital market into one Act and there should be one regulator. The role of the regulator and jurisdiction must be mentioned with their clear defined accountability. In addition, the suggestions must be invited from the shareholders while making shareholder protection laws.

12. To curb the problem of excessive delays in receiving the securities after transfer by the companies, provisions of heavy penalty on intermediaries must be included. In case non-receipt of the securities, proper investigation must be instituted within 30 days by the regulator.

13. Strict provisions should be made in case on non-delivery of the annual reports by the company to the investors. Under Companies (Amendment) Act, 2000, penalty up to 5000/- is given for the company or the officer who is in default under Section-219 of the Companies Act, 1956. In case of non-compliance, it must be increased up to 10,000/-.

14. Compliance provisions for the brokers and sub brokers under Regulation 26 of the SEBI (Stock-Brokers and Sub-Brokers) Regulations, 1992 should be reviewed related to the margins statements to the shareholder.

15. A demat account is mandatory for trading in stocks and Exchange Traded Funds. There could be some restriction on number of demat accounts. Only one demat account should be allowed to a single investor. It will help in checking actual holdings of a single investor.
16. Shareholder is suggested to check the contract note every time when he buys the securities. The contract note contains details of the purchase or sell made by the intermediary. It is also suggested to check the quantities and the shares are properly mentioned. The different heads of charges need to checked are: securities transaction tax (STT), stamp duty, exchange levy, service tax, education cess etc. In short, if the above minor changes are introduced and precautions are taken by market regulator and intermediaries, it is possible to make the mobility of more and more surplus in the capital market and safeguard to the shareholder.