Chapter - II

REVIEW OF LITERATURE
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In this chapter, an attempt is made by the researcher to review the past studies, articles and opinions of experts on capital market and its regulatory bodies.

Balasubramanian. S.\(^1\) in his thesis entitled "Investors in shares- A Study of their attributes, objectives and decision-making process" observed that earnings per share was the mostly used financial tool in selecting the scrips by 31.33 per cent of investors, followed by future prospects of the company as the next deciding factor by 26.3 per cent of investors. He also stated that 86 per cent of investors relied upon prospectus as the source of information. Information relating to the promoters of the company, business of the company, profitability and the dividend prospects were found to be the most important areas studied in the prospectus as opined on the investors. The study revealed that delayed allotment advice/refund order was the major grievance faced by 46 per cent of investors. It also stated that the investors had not referred their grievances to the stock exchanges or the companies concerned.

Somasundaram, V.K.\(^2\) in his dissertation on "Investor's preference to corporate securities" revealed that 90 per cent of investors are aware of the various investment avenues. It was observed in the study that 78 per cent of investors have the notion that the corporate securities have good prospects. The corporate image is found to be the major reason for 87 per cent of investors while choosing companies for investment. It was found that 69 per cent of investors did not bother about the management of the company so long as they get adequate return. The study also highlighted the various problems faced by the investors in the primary market and suggested an effective regulation by the SEBI.
Suja Nallammai, N\textsuperscript{3} in her thesis on the functioning of SEBI expressed that delay in settlement, lack of understanding about the market situation, default, bad deliveries were some of the problems faced by the investors. The study revealed that 100 per cent of the investors are aware of the existence of SEBI. It also pointed out that 46 per cent of investors have approached SEBI and 34 per cent have approached the stock exchange for their grievance redressal and 80 per cent were dissatisfied with the effectiveness of investor redressal by the SEBI. It suggested for a heavy penalty by SEBI, a strict vigilance on brokers by SEBI, and highlighted the need for giving more powers to SEBI.

Sangeetha Flora\textsuperscript{4} in her study on proportional allotment system (PAS) has advocated for retaining of the system with modifications. It was stated that the system has considerably reduced the processing time and multiple applications. An important finding of the study is that on a comparative basis, there are more number of successful allottees under the old system than under the PAS. It was observed that even though the old system was complex, it was beneficial to the middle class investors whereas in PAS, it benefits only the rich investors who apply for more number of shares but whose number is marginal comparatively. The suggested that a combination of the above two systems with their respective positive features would be an ideal system.

Radha, V\textsuperscript{5} in her thesis on “Investment Behaviour of Investors of Corporate Securities”, said that investors form the backbone of the corporate sector. Due to substantial growth in capital market in recent years, general public is being attracted more toward investments in corporate securities. They are also greatly influenced by the successful experience of the peer group in corporate investment. This in turn created greater demand for the shares and debentures in the market. Equity share was considered to be the most preferred corporate security and the entire sample had invested in equity shares. The
study found that most of the equity shareholders are found exposed to considerable unsystematic risk on account of inadequate diversification. Of the various primary objectives, capital appreciations is found to be the most significant objective among the sample investors which show clearly that they are interested in speculative activities. She also said that during the process of investment evaluation, various evaluation factors namely, industry factor, company factor, technical factor and security factor are found to be analysed by the investors in order to know about the potentiality of the investments.

Morarjil, A \(^6\) in his thesis on "Investor's problems in Coimbatore city" observed that 46 per cent of investors have understood "fairly" the company's balance sheet and profit and loss account, 36 per cent of them "a little" and the remaining 18 per cent have not understood them. He further stated that a majority of 60 per cent of investors depended on the tips and suggestions by their brokers for their investment decision. The study revealed that the problem of non-receipt of share certificate in time, printing of wrong name, non-refund of application money, non-receipt/delayed receipt of allotment advice, delays in share transfers, misleading advertisements and inadequate disclosure in prospectus as the major problems faced by investors in the primary market. Delayed delivery of shares and delayed payment by brokers, difficulty in selling odd lots were the important problems in the secondary market. It also stated that 96 per cent of sample respondents have knowledge about the SEBI and 72 per cent knows about the investor protection fund created by the Coimbatore Stock Exchange.

Srinivasan, R \(^7\) in his dissertation entitled "Investor protection" examined the adequacy of the various provisions contained in the Companies Act, 1956 Securities Contracts (Regulation) Act, 1956, and SEBI Act, 1992 on investors protection. He observed that in India, the problems of investors who are outside
the controlling group are manifold without effective remedy and he stressed the need for further stringent statutory protection measures for the protection of interest of the investors.

Abdullah M. in his thesis on "Recent trends in primary capital market in India" has studied the capital issues by the private sector companies. The report stated that until 1980, the equity capital raised was higher than the debt capital and later the trend reversed. But from 1990-91 onwards, the equity issues started flourishing immensely and that in 1996-97, 88 per cent of the total issues were equity issues. Until 1995-96, public issues had been the single most major type of fund mobilization, followed by rights offer. In 1996-97 and 1997-98 private placement took the top slot followed by public offer and rights issues.

Perumal R. in his dissertation on the functioning of stock brokers in Coimbatore stated that only after incorporation of the Coimbatore Stock Exchange, 70 per cent of sample investors have started trading in shares. It was stated that brokers had filed their returns to the SEBI and the stock exchanges within the prescribed time. 25 per cent of brokers reported about the menace of insider trading practices prevailing in the market. For protection of investor’s interest, the study suggested for trading by the investors only with registered brokers and stressed the need for tightening of the existing legislation and investor education on the stock market.

Edwin Christopher studying on Investment pattern of individual investors of corporate securities market found that a majority of the sample respondents channelised their savings into deposit in banks, followed by investments. Higher return and liquidity are pointed out as the main reasons for investment. The study stressed the need for stringent legislative measures to protect the interest of the investors.
Sekar, V ¹¹ in his thesis entitled "A Study on Indian Capital market" revealed that the average quantum of market capitalization in India is only $14 million, the lowest compared to other countries of the world due to the fact that very small companies are allowed listing with the stock exchange in India. While analysing the determinants of investments, the study depicted that net profit, earnings per share, market value of the share, profitability ratios, nature of the product manufactured by the company and image of the company were the important factors as opined by the sample respondents. Another significant finding revealed that the retail investors of Tamil Nadu have become more cautious after they lost their savings with some of the unincorporated bodies, nidhis and non-banking finance companies. It also stated that 56.67 per cent of investors are satisfied with the investor protection offered by the SEBI. It was shocking to note that a high of 60.33 per cent of investors are not interested anymore to subscribe to any public issues while 39.67 per cent said that they would subscribe selectively based on liquidity and profitability of the scrips. The study suggested for more powers to SEBI and it recommended that the staff of SEBI should be recruited based on their knowledge and experience in the capital market. It also stressed the need for more staff and more branches of the SEBI which would expedite the process of investigations.

Palaniappan, N ¹² in his dissertation on "Investor's perception towards Interet Based Trading" stated that business newspaper is the most preferred source of information for stock market decision followed by advice from investments analysts and brokers as opined by the sample respondents. He also pointed out the financial websites do have some attention as 12.0 per cent of the sample investors refer these websites for information. It was interesting to note that 33.9 per cent of investors are influenced by the television channels dealing exclusively with stock market. The study stressed the need for industry analysis and technical analysis while making investment. It also stated that a majority of
investors would shift to internet based trading in the future. It made a significant revelation that the respondents who trade daily perceived that the speed of placing order through internet is relatively slow whereas occasional traders perceived the speed as faster.

Kampani Nimesh\textsuperscript{13} in an article on stock market has pointed out that the liberalisation process introduced in India in 1991 had a wide reaching impact on the capital markets. The establishment of SEBI, entry of FIIs, setting up of the NSE, entry of depositories, abolition of the badla system, introduction of futures and options trading, recognition of corporate governance norms are the highlights of the reform measures initiated in the Indian stock markets. According to the author, Indian markets have had their fair share of hiccups, mainly in the form of scams. These aberrations were precipitated by investors taking undue risks in excess of their own risk capacity, led on by greed and the lure of quick money. He stated that future developments will include availability of global platform for investments, greater integration of equity and debt markets, entry of sophisticated hedge mechanisms and synthetic products, emphasis on portfolio management and risk management tools, dominance of mutual funds, increased responsibility on the part of regulators and a greater role of technology in stock market operations. The author concluded with the comment that the technology, the platforms and the mechanisms will change but the psychological aspects of investors will not change; the cycle of fear, hope and greed will continue to lead investors into the capital market.

Padode, V.B\textsuperscript{14} while discussing about excessive premiums stated that instead of the minimal premiums the CCI used to allow, companies could charge premiums at rates they felt were right. On the other hand it did not mean the promoter could just close his eyes and charge anything; the onus was on the promoter to find a reasonable level for the premium. But this trust the
government has placed on the promoters and the merchant bankers seem to have been totally misplaced in many cases, where excessive premiums have been charged. He also expressed that the promoters, merchant bankers, and whosoever are concerned with public and right issues do not take note of the fact that the greed has never taken anybody very far, and would, in most cases, make them worse off, what they are doing now would be akin to killing the goose which lays the golden eggs. He felt that in this context bankers could play a very influential role by restraining promoters. On the other hand, inter merchant bank rivalries have seen them vying for the issue accounts. This means the merchant banks also could be in cahoots with the promoter and could be suppressing facts from the general investor. But this nexus has to be broken and the merchant banks have to keep in mind their responsibilities to the public. Finally, companies have to realize that once they come out with a very high premium, the next time they come out with an issue the investor would ignore them. He concluded by saying that Free pricing does not mean free fleecing.

The Editor, 15 Dalal street Journal discussing on investor protection observed that (i) Despite several laws to protect them, investors are a harassed lot. The number of complaints that regulatory bodies receive stands a testimony to this. (ii) Caution should be the watchword. However, if cheated, one must know investors’ rights and the procedure for obtaining justice. (iii) Investor protection is not adequate. Investors are not always educated and fail to understand the intricacies of the markets. Even the Securities and Exchange Board of India has not been very successful in protecting them. The amendments to the Companies Act, 1956, are a half hearted attempt at bettering their lot. He felt there is scope for improvement.

While analyzing the problems of New issue market, the authors 16 Bal Krishan and S.S. Narta, found that (i) New issue market suffers from functional
and institutional gaps particularly in terms of new instruments (ii) funds are diverted from the risk market to less risky debentures as well as deposits (iii) false advertisements about over subscription (iv) Delay in refunding the application money, issuing of allotment, letter posting of share certificates etc. (v) there is no fixed norms for getting the appraisals approved by the designated institutions (vi) manipulation and inflation in the cost of the project (vii) there is no seriousness to check the company performance after the issue (viii) lack of transparency and (ix) inefficiencies of the clearance were the black spots on the operations of the capital market.

Lancelot Joseph\textsuperscript{17} stated that the M.S.Shoes issue much debated and talked in the capital market has had its toll on the secondary market. And, in the ensuing months, many more public issue promoters could be making a beeline to their underwriters asking them to cough up their committed amounts as the primary slips into the doldrums. This M.S.Shoes debacle is a classic example of the anomalies within the primary market which will force market intermediaries to take their job more seriously and not treat it as mere fee-earning exercise. It is high time the Securities and Exchange Board of India, the regulatory authority wakes up and takes steps to improve the situation.

Discussing on boom in the primary market, Financial Express\textsuperscript{18} has described the following, (i) There is a burst of projects, industrial and financial, seeking capital from the markets, unhindered by capital issues control. Companies which preferred to keep a low profile are entering the capital market with dignity and confidence. Many offer their shares at par and a few at a premium. They collected subscription with an ease which could have not been dreamt of in the pre-liberalization era. But already there are signs of disquiet in the primary market. (ii) The primary market is undergoing a transition. All sort of companies are coming out with public issues; at least 25 percent are very high –
risk issues. The general impression is that SEBI has so far done a satisfactory job as a market regulator. (iii) SEBI is concerned only with ascertaining the company files in a prospectus. It does not ascertain the company's worthwhile venture. SEBI has other problems too.

Dr. Mukesh Srivatsava in an article on 'Insider Trading has pointed out that Insider trading is a malpractice pervading the stock markets all over the world. Following are his observations (i) It is like a great betrayal enacted by some unscrupulous stock market functionaries in connivance with corporate executives. He had attempted to present brief measures taken to tackle this menace all over the world. (ii) In the US the Securities Exchange Commission is empowered to impose heavy penalties for such wrong doing; it can debar the persons guilty of indulgence in insider trading. (iii) In Britain, there is a separate legislation to deal exclusively with crimes relating to insider trading; there also other Acts such as the Companies Act, the Financial Dealing Security Act and Prevention of Fraud (Investments) Act can also be invoked upon to punish the guilty. In Britain insider trading in government securities is also a punishable offence. (iv) In Germany, cases of insider trading are dealt on the basis of European Economic Commission's guidelines. It has also set up a Central Market Supervision body for surveillance over such activities. (v) The Japanese Parliament had passed a legislation to make such dealings a criminal offence and impose strict penalty on persons fund guilty of indulgence in such activities. (vi) In India, the SEBI endeavours seriously to put a cap on this practice. It had come out with a draft resolution on insider trading in December 1991. But, the impact of this measure had not been a desired one, according to the author. Close nexus between stock brokers, directors, auditors, financial institutions and mutual funds leads to price rigging in the Indian markets as identified by the author. Constitution of permanent Surveillance Committee in major stock exchanges, setting up of tribunals by the SEBI for punishing the guilty, creation of
funds in stock exchanges for compensating the losers of money of insider trading, insertion of disqualification clause in relevant statutes to disqualify those indulging in such practices are the measures suggested by the author to tackle insider trading.

Kensource Information Services\textsuperscript{20} of Business Today reported veterans of the bourse averted that rigging prices prior to issues is a time honoured practice in the country's capital markets. Many listed companies planning to float equity issues finance large scale purchases of their own shares in order to present a healthy price-trend in their prospectuses. They also made the following comments. To be sure, these purchases are never made by promoters directly – or even through any company that they own. But unscrupulous businessmen can easily robe in brokers to buy stock in their companies, sure that their identity will be camouflaged. And, unfortunately, the surveillance system in the market is unable to the task of monitoring these moves.

Aparna Viswanathan\textsuperscript{21} writing about insider trading observed: the menace of insider trading has already been evident in the context of public issues where the market price of the shares of an issuer sharply rises before the issue opens and collapses after the issue closes; it is equally troubling in the context of tender offers. Despite the fact that stringent prohibitions and penalties against insider trading are imperative for investor confidence in the securities markets, the SEBI (Insider Trading) Regulations 1992, do not constitute an adequate regulatory framework. The SEBI regulations omit promoters and shareholders from the enumerated list of persons designated or deemed to be an “insider”. Instead of relying on an enumerated and thus restrictive list, the definition of “insider” should be revised so as to include within its ambit any person who obtains inside information about an issue based on his relationship with the issuer. The central problem of regulating insider trading is that it is difficult to prove that a securities
transaction took place on the basis of material, non-public information. In sum, the SEBI (Insider Trading) Regulations, 1992 display fundamental regulatory shortcomings. As such these must be examined by the expert committee along with the SEBI takeover regulations and revised so as to adequately prevent the trading in securities on the basis of material, non-public information – an imperative for earning investor confidence in the take over process.

Puneet Jain\textsuperscript{22} writing about insider trading observed the following: the investors need to be cautioned against rushing into purchases when big corporate events are announced. Example the mega merger of Hindustan Lever Ltd (HLL), and Brooke Bond Lipton India Ltd (BBLIL), took everybody in a tizzy over the prospects of the merged entity. While, the merged company may become one of the top companies of the country in terms of sales turnover, profits, etc, it may not be cause enough for small investors to buy the stock immediately. This is because there is strong circumstantial evidence to suggest that the information regarding the impending merger had leaked well before the announcement and the market may have already counted the news. Thus investors entering the scrip now may face the unpleasant situation of the price falling because of selling by those who had bought the shares earlier on "inside information". Thus a significant selling pressure is expected to emerge in the two scrips in the next week on account of selling by those who are booking their profits. While regulatory authorities like SEBI and stock exchanges should investigate the allegations of such insider trading, investors need to watch the trend before they commit their funds. There are many instances where scrip prices were discounted heavily before official announcements were made with regard to corporate mergers, takeovers and bonus issues. As a result, the scrip price would hit its peak on the day of the announcement, or just before that, and the share price would start falling when it should be actually rising. This happens most frequently in the case of bonus announcements.
Naresh Kumar in a write-up on Merchant Bankers, pointed out the following: there are many grey areas about the role and responsibility of merchant bankers, and the Association of Merchant Banker of India should be looking into misdemeanours by lead managers. He stated that the Finance Ministry's view that SEBI's decision to suspend SBI Caps was taken in haste. SEBI has suspended registration of SBI Capital Markets Limited (SBI Caps) as category I merchant banker for three months. The suspension, with effect from April 1, 1996 followed lapses in exercising due diligence while lead managing the controversial public issue of fully convertible debentures of MS Shoes Limited. In the MS Shoes fiasco, the company for its public – cum – right issues in February '95 gave incorrect information in the advertisement campaign, about the exact status of its share price. The advertisement failed to clarify that the shares were quoting at ex-rights and not cum-rights. Another serious violation of the SEBI guidelines was that at the time of making the public issue, as per the prospectus, the company was allowed to get the right issues amount even after the stipulated one month. There were charges of misleading investors by giving false information in the prospectus price – rigging and insider trading by the MS Shoes. SEBI ordered MS Shoes to refund the public issue amount collected and initiated action against the company as well as SBI Caps Ltd. SEBI had issued a show cause notice to SBI Caps on October 18, 1995, for lack of due diligence. As a lead manager, SBI Caps should have cleared all the advertisement before these were released for airing. He suggested that in the wider interest of the development of capital market as well as the profession of merchant banking on healthy lines the Sebi's order is a step in the right direction. The SBI Caps, instead of exercising due diligence, showed negligence by allowing the company to go ahead with misleading advertisements. The company and the lead managers are apparently guilty of cheating the investing public. There should be a check on the lead managers who merely skim off handsome fees without
taking any responsibility for the full and correct disclosure of all relevant facts in the offer documents and advertisements.

Rajiv Handa writing about the fate of small investors expressed the following: Four years and numerous committees later, little has changed for the small investors. SEBI has the vision, but doesn’t seem to have found a way out of the systemic mess. The innumerable letters that business newspapers receive everyday, a majority relate to non-transfer of shares and misplaced share certificates. There can be any number of reasons for delays in share transfers. But the most important is probably the loss of share certificates. Of course, if scrips are lost somewhere between the investors end and the company, the latter can hardly be made responsible. But there are equal chances that mail could be misplaced at the company / registrars end, for which the company has to be held responsible. Few, if any, companies or their registrars extend investors even the basic courtesy of acknowledging receipt of scrips lodged for transfer. And where one relies, as most investors do, on the postal authorities, the sheer volume of mail can ensure misplacement. It happened to him a few years ago, when a registered letter meant for SKF bearings, was delivered at the offices of Hoechst India. Fortunately, both companies had offices in the same building so the error was detected and corrected soon. In ordinary circumstances, the transfer process should take about three months. But in practice, this stretched anywhere from months to a year. The simplest solution could have been to make issuance of an acknowledgement mandatory on the part of the corporates. Where the document lodged for transfer has no material defect other than a minor difference in signature of the transferor, the company shall intimate the transferor. Where the transferor does not reply within 15 days from the date of receipt of the letter, the shares shall be transferred, provided the company does not suspect fraud / forgery.
Naresh Kumar\textsuperscript{25} expressing his opinion of fake/forged share certificates stated that the incidence of circulation of fake and forged share certificates in the capital market is on the rise. This is a big problem for the investing public in general and regulatory authorities in particular. It has been extra certificates more than the number ordered are usually printed, to take care of spoilages, mutilations and destruction during the course of printing. It is easy for persons in the press or those connected with the printer to manipulate, duplicate or forge certificates. Some company employees also try to remove blank forms, when these are not kept under lock and key. For the unscrupulous, forging share certificates is obviously more paying than forging Rs.500 notes.

Pattabiraman\textsuperscript{26} while discussing investor protection made the following observations: (i) In order to help to investors to realize their money immediately, MSE is ushering in an exclusive spot market through MANTRRA which will settle on T + 1 daily through an exchange sponsored clearing house. Thus, through the MANTRRA spot market facility, MSE will be the first exchange in the country to offer delivery driven spot market with a rolling settlement model. (ii) On investor protection, safety can be ensured only when investors are completely educated on their rights. Investors could also be forewarned about bad deliveries, duplication of share certificate, fraudulent transfers, etc. (iii) In respect of disputes, the Stock exchange has got an arbitration mechanism wherein, the affected party can apply to the Arbitration Committee. The Committee consists of 10 members out of which, four are from elected brokers and the balance six are nominated by the Securities & Exchange Board of India, who are persons of eminence. (iv) Whenever investors complain to the Stock exchange about their grievances with the companies, the same is taken up with the concerned companies. The Exchange will also send reminders to the companies. The exchange has got a separate Investors Guidance Cell to redress grievances. To make this system more effective, companies who are having large number of
shareholders, could also have similar cells, the task of which would be to communicate periodically to both the Exchange and SEBI, the number of complaints received, sorted out as well as pending.

Kishore Chaukar quoted that the primary market is not dead. It is alive but no kicking. There is still some hope that it can convalesce and become healthy and vibrant once again. He suggested for a liquidity injection incentives for equity investments through modifications to taxation on capital gains/dividends as also to taxation on investments in equity issues to improve attractiveness of IPOs and consequently primary market activity.

Patil while discussing capital market expressed that the following (i) the equities market has been currently passing through a difficult phase due to lack of adequate and active investment interest on the part of, especially, of domestic institutional investors; (ii) the recent behaviour of the market in a way reflects the absence of a pluralism of investor views. The markets are currently dominated by speculators as the domestic institutions which used to exert a sobering influence on the market behaviour lack adequate money power; (iii) the absence of individual and other non-institutional investors in sufficient strength in both the secondary and the primary markets has partly given undue sway to the speculators. To lend sobriety to the capital markets there is need to bring the individual and other non-institutional investors to the market in sufficient strength; (iv) he opined that average market players are baffled to see that the returns by way of appreciation on equity prices are not available in the same measure as in the past. That is why frequently attempts are made to rig up market prices. The emergence and growing dominance of NSE's fully transparent trading system with predetermined and punctual trading and settlement cycles have also considerably blunted the efforts of a section of the market intermediaries to manipulate market prices at the cost of investors as in the past; (v) with its
weekly trading settlement cycles, tight online monitoring and surveillance of prices and members market exposures, strong margining system and settlement guarantee by its clearing corporation, the NSE has brought about major qualitative changes in Indian capital markets.

R.H. Patil, in a survey observed that the Indian capital market reforms were being implemented in right spirit, yet the unfinished tasks were more. Based on SEBI’s reform initiative in several areas / spheres relating to both the primary and secondary markets, competitive pressure was building up among stock exchanges in the country to introduce investor friendly reforms in their operations. According to the survey, it was observed that the equities market had been passing through a difficult phase due to lack of adequate and active investment interest on the part, especially of domestic institutional investors. It was also observed that small investors had almost deserted the capital market as reflected by the absence of pluralism of investors due to lack of adequate money power. The only entities that have effective purchasing power are the FIIIs, the operations of which are often sporadic. Their business decisions are mainly governed by global strategies in which the Indian capital market continues to be a marginal player. The survey observed that the over-dominance of speculators in the capital market was expected to come down due to structural changes relating to the institutional and policy framework. Due to these changes, the dominance of the equity segment of the capital market as also the return to equity holders through capital appreciation was expected to decline steeply. It was also observed that the significant regulatory and institutional changes affecting the capital market were expected to gradually shift investors' interests away from the equity markets to debt markets. This is due to the fact that the high rates of return enjoyed / earned by common investors in equities may not be availed, given the entry (permission) of FIIIs in the debt market. Moreover, the Indian debt market lacks depth and liquidity as it does not have resources and
mature dealers in debt instruments. All brokerage firms were too small to make their presence felt in the bond market, besides being involved in several other activities and their financial resources was too thinly spread. Finally, the survey observed that the stock exchange index goes up and down solely because of the market activity of FIIs. It found out that FIIs and foreign brokers were indulging in speculation, thereby harming the capital market. Hence, it concluded that only FIIs have the real money power and influences the behaviour of the stock price index.

Mike McNamme\textsuperscript{30} while discussing on internet trading frauds in the USA made the following observations: Bigger risk to internet investors may be fraud and stock manipulation. And people who would hang up a on a cold-caller are being lured into the same old frauds via the Internet. The SEC has cracked down on offerings of bogus securities and other frauds. The 139 members of its Cyberforce sometime lurk in investment chat rooms, watching out for “pump and dump” schemes – where a promoter talks up a stock’s prices, then sells the shares. SEC officials say they have the authority to nail scamsters – but they’re stretched thin reviewing up to 300 E-mail complaints a day. State regulators get some 250 complaints weekly on the North American Securities Administrative Association’s Cyber Fraud line (cyberfraud@nasaa.org). Better them coordinated efforts such as a centralized Internet fraud screen would help. Ultimately, making the Web safe for investors depends on making investors savvy about the Web. But day trading and Internet fraud are just new twists on ancient schemes that have always played on the urge to get rich quick. The marshals will need to patrol the Web for a long time.

Wagle\textsuperscript{31} while discussing dematerialisation, the expressed the following the dematerialized form of shareholding and the depository mode of trade (scripless trade) are existing for over 15 years in foreign countries. In India, the
first depository commenced operation a year back and is relatively new. He also stated that the investing community, particularly small investors, has shied away from holding their savings in equity because of two reasons. First, bad delivery, i.e. refusal by the company to take on record a share transfer after verification of documents. A bad delivery usually results from a share transfer form being defective on certificates being counterfeit, fake or stolen. Second, the absence of investors protection against the misdeeds of sub-brokers, brokers, companies, their Share Transfer Agents (STAs) and employees. The objective of introducing the dematerialized form of shareholding and the depository mode of trade is to mitigate trade risks and the consequent losses. He said that depository participants act on an account holders written instructions to give effect to his change of address, change of signature; again relying upon matching the signature. Here, too, the system is susceptible to misuse. Depository and depository participants should involve the broker and sub-broker network to verify the genuineness of a sale and the seller – investor. In the absence of a legislative fiat, not only the holding of shares in demat form but also trading in scripless mode should be made optional. SEBI should issue guidelines laying down security features to make a share certificate counterfeit-proof. These should be enforced on companies by suitable amendments to the model listing agreement.

Rajiv Nagpal\textsuperscript{32} discussing on the state of the capital market commented the following. In the given the current bearish trend during 2000, anybody has hardly any time to look into the fate of scrips which went into rolling settlement. To brush up the memory of investors who are currently busy counting either their losses or profits, around 150 companies has joined the rolling settlement bandwagon from first week of May. A large number of these scrips are from companies which have changed their name recently to show that they have moved into software. Surely, the times are important for small investors to be
careful and avoid getting to trap with the operators of such scrips are going to lay. The majority of these scrips already have low liquidity which was one reason why the operators in the stock were able to do an easy upward manipulation even before the announcement of the list by SEBI.

Hemendra Kothari\textsuperscript{33} expressing his opinion stock market revival pointed out that globalization of the market has made Indian stocks more vulnerable to external events as a result of which a slowdown in global markets is having ripple effects in India too. He also stated that transparency and strong regulatory controls should continue. SEBI should be given greater freedom to create confidence amongst investors.

Anand Rathi\textsuperscript{34} while taking about measures for reviving the stock market stressed the following. There is a need for long term funds in the market coming from FIIs and domestic institutional investor. He stated that Foreign Institutional Investors (FIIs) have become major participants in the Indian stock markets. However, FIIs perforce have a global investment perspective, extending much beyond Indian markets. They have necessarily to evaluate any country in relative terms when they allocate funds. Hence, at times FII investment patterns do tend to cause excessive volatility in stock markets. The Government should consider the following measures: (i) Existing institutional participants such as LIC and GIC should be permitted to increase the limit up to which their investible funds can be deployed in the stock markets. In many of the developed countries, this level is more than double of what is prevalent in India. (ii) at present, Provident Funds are not permitted to deploy fund in the equity markets. This is sharply at variance with other countries, where pension funds are among the largest investors in the stock markets. There is a strong case for Provident Funds to be permitted to invest a specified portion of their corpus in equities, either directly or through mutual funds. This measure will also enable investors to get
better returns on their savings. He also suggested for abolition dividend tax and 20% to 30% disinvestments by the PSUS’s equity. He expressed that this will increase the supply of equity and enable proper price discovery in the market.

Mayya\textsuperscript{35} former President of Bombay Stock Exchange, in an analysis observed: Stock markets of the country are in the doldrums today. Small investors have virtually deserted the markets. Companies are disenchanted with the primary market and there is growing illiquidity in the secondary market. Shares are no longer an attractive instrument for investment. The amount of capital raised through public issues in 2000-01 was just about Rs.6,600 crores as against about Rs.13,300 crores in 1994-95. Even out of Rs.6,600 crores, debt instruments accounted for 63 percent with equities constituting just 37 per cent of the capital, while in 1994-95, 100 percent of the amount raised way by way of equities. The volume of business in stock markets has shrunk to abysmally low levels after abolition of all the deferral products, namely, Modified Carry Forward System (MCFS), Automated Lending and Borrowing Mechanism (ALBM) and Borrowing and Lending Securities Scheme (BLESS) with effect from July 2, 2001 and switch-over to rolling settlements in respect of 414 scrips which account for over 90 percent of the market capitalization, coupled with introduction of uniform settlement for all the remaining securities across all the stock exchanges in the country. From over Rs.15,000 crores recorded on most of the days in the first quarter of 2001, the daily turnover in the first half of July 2001 has been less than Rs.2,000 crores, a fall of nearly 90 percent. The decline in turnover in the regional stock exchanges has been sharper, threatening their very existence. Analysing the reasons for the chaotic conditions in the primary market he stated that the issuers, with the help of merchant bankers, merrily made public offers at fancy prices. Studies made in this behalf have clearly indicated that post-listing prices of most issues were at heavy discounts to the offer prices even after years. Inspite of norms for premium fixation based on the Malegam Committee’s
recommendations effective from May 1, 1996. post-listing prices in most cases have ruled below prices. The book-building process permitted by the Securities and Exchange Board of India for all issues has also failed to act as a good price discovery mechanism in several cases. The reduction in the percentage of public offer for being eligible for listing from 60 percent of the issued capital of a company to 25 percent and to 10 percent if the public offer is Rs.100 crores or more and reservation of a meagre 25 percent for small individual investors in respect of book-built issues have virtually driven the small investor out of the primary market. The manipulative operations of a few vested interests are aided by illegal withdrawal of funds from the banking system and the failure of timely detection of these operations by the authorities concerned. He suggested for stock futures, now in operation in quite a few developed markets, be introduced.

Mehta, D.R.36 the former chairman of the Securities and Exchange Board of India while discussing Financial Reporting made the following observations. In India the corporate culture and compliance level often do not inspire adequate confidence and comfort. However, to be fair, it must be added, that there are many promoters and companies in the country that conform to the best accounting practices. On the other hand, some deviant companies resort to siphoning and tunneling of funds, under-reporting of income, perhaps for evading taxes, non-disclosure of non-performing assets and similar other practices. But the financial reporting does not always capture these aspects. The result is that shareholders, creditors, capital market and revenue authorities do not get correct information about their actual financial status and solvency. Recently with the cases of Enron, Worldcom and Xerox, the issue of code of conduct for auditors and companies, possible auditor-management nexus, transparency and correctness of financial reporting are under an intense debate in various fora. Unfortunately, promoters, companies or their trade bodies in India are not addressing themselves to these issues. The other major problem in India is that
of the multiplicity of regulatory agencies and insufficiency of their powers. Often regulatory bodies are created but they are not invested with adequate powers. For example during the rise and fall of the stock market from October 1999 to March 2000 there were several investigations started by SEBI. The moot point is whether SEBI is handicapped in taking action against guilty corporates or their promoters. Particularly after the Securities Appellate Tribunal held that SEBI cannot even debar them from accessing the capital market. There is a need for unification of corporate laws, empowerment of these bodies, better coordination and clarity about their roles. The inter-connection between companies and their auditors also needs to be de-coupled by taking away the power of the companies to appoint and fix remuneration for them. For this a suitable mechanism may have to be evolved.

Dalal Gautam\(^{37}\) discussing Financial Reporting, commented: The financial reporting standards need constant review to keep pace with the fast changing economy. In India, financial reporting is in a stage of transition where many changes are being introduced to catch up with the drive for international standards. The aim is to enable companies to list on any stock exchange globally using financial statements prepared using International Accounting Standards (IAS). There is a considerable evidence globally that the risk premium factored in by investors is higher by up to 30% for companies which are perceived to not provide transparent financial statements. Ultimately it affects the ability of companies to raise capital. Financial reporting standards in India, compatible with internationally accepted norms, is one of the essential prerequisites for attracting foreign investment and for globalization of the economy. The primary responsibility for the preparation of financial statements, which give a “true and fair” view of a company’s performance, is of the board of directors. The auditor’s responsibility is to form an opinion as to whether the financial statements give a true and fair view.
The Economic Times, a leading business daily, conducted a survey entitled ‘ET World Stock Markets’ Survey’ in November 2002. The finding were: US stays as the Numero UNO nation with the largest market capitalization in the year 2001, followed by Japan and the UK. According to the list of top ranked countries in terms of market capitalization, India is 25th on the list for the year 2001, which is a fall from the 20th spot it occupied in 1996. During this period, India’s market capitalization has actually come down from $122 bn to $110 bn, a drop of 10%. Emerging markets are top equity churners. Churn or velocity of trading is usually the value of the shares traded divided by the total market capitalisation. South Korea leads the list with 380% of its market cap being traded for the year 2001. Pakistan comes second with 227% of market cap being traded in 2001. India is at the sixth spot; it traded approximately 191% of market cap in 2001. The Indian market is ahead of other developed area such as UK and Germany but is behind Korea, Pakistan, US, Taiwan, Netherlands and China. Pakistan emerges as the best performing market with the Karachi 100 share index returning 90% in 2002. Russia follows delivering 39% and the Czech Republic gave 34%. Hungary, Sri Lanka, Thailand and South Africa also come in the list of top 10 in terms of return. On the other hand, Argentina is the worst performing market with the Marvel index losing 52%. Its neighbor Brazil has not done much better with its Bovespa stock index losing 50%. This fall is attributed to the sharp devaluation in the currency of both countries. India is 16th in the list of returns with the BSE 30 index returning a negative 2.7% in 2002. Over the five year period of 1996 – 2001, more than half of the leading 25 markets ranked in terms of turn over witnessed a rise of more than 100% in the value of their turn over. US holds the top spot with its turn over from $7121 bn 1996 to $29040 bn in 2001. It is followed by the UK, Japan, Germany and France. Some of the other gainers on the turnover charts are Finland with a rise of 699%; Italy with a rise of 439% and Korea with a gain of 297%. There are just two countries which actually witnessed a fall in turn over during the last five
years. They are Switzerland with a fall of 23% and Brazil with a fall of 42%. In the turnover chart India is in the fifteenth position. Its turnover in 2001 is $249 bn as against $96 bn in 1996. India follows the US in the number of listed companies. US leads with 6355 listed companies as at the end of 2001. India closely follows with 5795 listed companies. However, when it comes to average company size, India is in the 85th place with an average company size of just $19m was behind the US which has an average size of $2173 m (in terms of market capitalization). Romania takes the lead in adding the maximum number of companies during 1996 – 2002. It has added 5123 companies during the period. This is due to the privatization process initiated in that country.

Nandan Nilekani discussing Financial Reporting made the following comments (i) until 18-24 months ago, financial reporting in India was characterized by an acute absence of certain basic accounting pronouncement including the areas of consolidation of majority owned subsidiaries, accounting for income taxes, accounting for joint ventures as well as impairment of assets. In addition, certain international standards that focused on disclosure issues were not mandated in India by the accounting and regulatory bodies, until recently. These included standards relating to segment reporting, earnings per share, related party transaction and discontinued operations. He also stated that the Kumar Mangalam Birla Committee Report on Corporate Governance issued in late 2000 stressed the need for accounting standards in the areas of consolidation, segment reporting, deferred tax accounting and related party transaction. This was adopted by SEBI, which made it mandatory for listed companies to follow accounting standards issued by the Institute of Chartered Accountants of India in these areas. The regulatory structure needs to be updated to ensure the quality of the implementation and then enforcement of accounting and auditing standards. He also stated that corporate crime, especially relating to the area of financial reporting can be tackled by improving
the system of internal controls, periodic rotation of accounting personnel, establishing and ensuring periodic affirmation of a corporate code of conduct and increased vigilance by audit committees.

Dalal Street Journal⁴⁰ a leading financial magazine in an article analyzed the impact of the advertisement for public issues and found the following : Advertisement agencies are more accountable for their action. It expressed that companies should be made more accountable to the people by stating all the facts in the prospectus and there should be no misleading statement either in the prospectus or in the advertisement. It said that after seeing a particular advertisement it is the investor who has to decide for himself. If an investor does not want to take risk, then he should not invest in fixed income securities.

Explaining about the competitive battle between the two bourses NSE and the BSE, the Editor Business India⁴¹ reported the following (i) the younger NSE, seen as more progressive, techsavvy, and less bureaucratic ; has over the last five years has beaten the BSE, viewed as brokers preserve, reactive, but at the same time reorienting frantically to play catch-up. There is subtle a difference between the two protagonists, for while 125 years old BSE is planning to overtake NSE in volumes and turnover (it is already ahead in actual deliveries) by the end of the year, NSE is adopting an outward looking strategy, benchmarking itself against global standards. Debate on demutualisation of exchanges is getting more and more frenzied. The clarion call for exchanges to transform into public limited companies, where ownership is specifically divorced from trading rights, is gaining currency. A stock exchange, if it has to stay relevant, needs to innovate consistently in the contemporary arena. As such continuous product and segment innovation is critical. The jagged edge of technology and lowering the cost of transaction are two of the most visible facets of this ever-evolving and fluid scenario. In the battle of the bourses, the general
perception is that the younger NSE has demolished BSE. And if turnover is the single most important determinant, the verdict is that, NSE has blitzed BSE. Turnover on NSE has doubled from Rs.414,383 crore in 1998-99 to Rs.839.052 crore in 1999-2000. Brokers reckon that badla is a time tested indigenous system which need to be nurtured. But futures will rewrite the face of Indian markets and will overtake the volumes of equities on an 18-24 month horizon.

Naresh Kumar 42 discussing on the need for scripless trading expressed the following (i) the present system of issue and transfer of securities in India involves a lot of time, effort and money. Legal battles have been fought right upto the Supreme Court on transfer in the books of companies. With rapid increase in the number of listed companies to over 7,500 and average daily trading volume on stock exchanges to Rs.500 crore, the paper work is becoming more and more tedious due to problems of late / bad delivery and odd lots. Company managements, stock brokers and investors are fed up with the exiting system of issue and transfer of securities, which give rise to problem of take share certificate, non-receipt of share certificate in time and loss of dividend warrants and communication about right / bonus issues, so much so that foreign investor are shying away from the Indian stock market due to wastage of time and colossal paper work. All these problems can be eliminated by introducing scripless trading in India on the pattern of advanced countries. In advanced countries, all the paper work has been eliminated by immobilizing securities by creating Depository Trust Company (DTC) where transfers take place only through book entries. The DTC of the New York has not only eliminated the need for physical transfer of securities, but also streamlined the massive growth in the daily share transaction. The DTC holds all shared of the listed companies in its own name and effects transfer just by book entries. Investors have to place order with their brokers and the broking community carries out the instruction with highest professional standards. The Chicago Board Options Exchange and
the International Stock Exchange of London have been providing efficient services to their investors through electronic trading. The investors will enjoy following advantages due to demat: (i) Speedier settlement greater liquidity and reduction in delay in registration and (ii) Prompt receipt of dividend and right / bonus issues

Pattabiraman\textsuperscript{43} in his paper on the steps taken by the Madras stock exchange to redress investors grievances and the protection given to them stated the following. Investor protection can be analyzed from different angles. The madras stock exchange operates on screen based trading system with static-of-the art technology connected to wide areas through and christened as “mantra” which stands for Madras automated networked trading. Dedicated leased telephone line, the system operates in four segment of trading facilities, viz; normal market, spot market, block market and odd/small lot market. This helps investors in observing greater transparency and executing their order in the best possible manner. More regulation and improvement in system are done to make the transactions transparent. In order to help investors realize their money immediately the MSE has ushered in an exclusive clearing house. On investor, protection safety is ensured by education investors on their rights as also forewarning them about bad deliveries, duplication of share certificates, fraudulent transfers etc. In respect of disputes, the stock exchange has established an arbitration mechanism, wherein the affected party can consult the arbitration committee. The listing agreement has been amended that the companies coming out with public issues have to deposit with stock exchange an amount equivalent to 1% of the value of securities offered for subscription. In order to ensure compliance by the issuing companies regarding whether the are any investor grievance, the concerned companies are advised to redress the grievance. The MSE has established a separate investors guidance cell to redress grievance and companies who are having a large number of
shareholders are advised to have similar cells. Also whenever companies consider declaration of dividends, issue of right share or bonus share, the same must be communicated to the stock exchange, which in turn informs the members and the press, so that the news got properly disseminated. This enables the investors to ascertain the same and helps them in their decision-making process.
FOOT NOTES


41 Editor, “Battle between Bourses”, Business India, October 7-21, 1995, pp.51-60.

42 Naresh Kumar, “Need for scripless trading in India”, Chartered Secretary, September 1995, pp.814