INVESTOR SAFETY
ROLE OF SEBI

5.1 INTRODUCTION

Investors are the backbone of the securities market. It is the investor education and awareness that holds the key to reviving and sustaining the interests of the investors in the securities market and to infuse confidence in them. Many of them do not possess adequate expertise or knowledge to take informed investment decisions. They are generally not aware of the complete risk profile of the companies they are investing their money in. The regulators, self-regulatory organizations, non-government organizations, and investor forms/associations need to educate them.
Realizing its importance, SEBI has launched an intensive investor education exercise aimed at protecting the interests of investors in securities market. It helps the investors in redressal of complaints regarding securities investments. It also disseminates through its website and presses briefings the policy developments and enforcement actions for the information of investing community. It has published a number of booklets on policy and market developments to educate the investors. The booklet titled "a quick reference guide for investors" contains helpful information for helping investors as to how they should deal with securities related complaints.

SEBI issued a series of advertisements / public notices in national as well as regional newspapers to educate and caution the investors about the risks associated with the securities investment.

With financial support from SEBI, some registered investor associations organized seminars for educating investors on various aspects of capital market.

Recently, the department of company affairs informed the general public about the agency they should approach for redressal of their grievances like the investor complaints relating to non-registration of transfer of shares, non-refund of share application money, non-receipt of dividends, non-receipt of duplicate shares, non-issue of share certificates, non-issue of debenture certificates, bonus shares, share certificates on conversion, after endorsement etc.

Some cushion to the interests of investors is provided by the investor protection funds set up by the stock exchanges. Exchanges maintain IPF to take care of investor claims, which may arise out of non-settlement of obligations by the trading
members. The IPF is used to settle claims of such investors whose trading member has been declared a defaulter. In order to promote investor education and to create greater investor awareness, stock exchanges have been allowed to utilize interest income earned on IPF for investor education, awareness and research.

If the securities market is to discharge its primary function of capital formation, the investors need to be lured back to the market. This can be done by a series of systematic measures, which could build their confidence in the systems and processes and protect their interests. These measures may include the following:

5.2 INITIATIVES

Several initiatives have been taken over the last few years to promote the skills of market participants, to educate and protect the investors, and to promote high quality research about the working of the securities market. Some of these initiatives are discussed in this chapter.

5.2.1 Initiatives in India

With a view to improve investor protection through better quality intermediation, SEBI set up a Committee for certification and testing of persons joining capital market intermediaries. The Committee was mandated to prescribe standards of knowledge necessary for different types of specialized functions in the securities industry at operational and supervisory levels. SEBI approved the recommendations of the Committee in September
1998. The committee recommended that an examination based certification system was ideal to meet the needs of the Indian capital markets. The test may be offered on a voluntary basis in the initial period and may be made a mandatory requirement after a period of two years from the date of the first test.

After the date on which test becomes mandatory, every person regardless of the qualifications he possesses should be required to pass the certification test within a period of 12 months from the date of employment with a capital market intermediary. Of the existing staff with the intermediary, two persons or 20%, whichever is higher, shall have to obtain the certificate within 12 months from the date on which the test becomes mandatory. The intermediary that violates the minimum number of certified employees norm should be deemed to be automatically de-registered from the date of the said violation. Initially there may be a single common test for all market intermediaries and specialized tests may be introduced for different participants at a later date, as required by the market conditions. The examination can be taken by anyone, irrespective of qualifications, age, employment or experience. The Committee also designed an exhaustive syllabus for the examination to test the understanding a candidate has of the securities market and his ability to provide sound advice to investors. Though the recommended testing and certification system is yet to be operationalised, it created awareness of and need for certification among the market participants.

The L. C. Gupta Committee set up by SEBI to develop appropriate regulatory framework for derivatives trading in India recommended that the broker-members, sales persons/dealers in
the derivatives market must pass a certification program, which is considered adequate by SEBI. The Parliamentary Standing Committee on Finance which examined derivatives bill also recommended that SEBI should in consultation with the stock exchanges endeavor to conduct the certification program on derivatives trading with a view to educate investors and market players. In pursuance to this recommendation, SEBI has mandated that trading members must have qualified approved users and sales persons who have passed an approved certification program.

The Association of Mutual Funds in India (AMFI) has launched a major initiative to build a cadre of trained professional distributors of mutual fund products and to facilitate the move towards the mutual fund industry employing trained and certified professionals in the interest of investors. Mutual funds voluntarily adopted the AMFI certification for agents and distributors for mutual fund schemes. With a view to improving professional standards, SEBI made it mandatory in September 2001 for all MFs to appoint agents/distributors who have obtained AMFI certification w.e.f November 1, 2001. The existing agents/distributors are expected to pass the certification program by March 31, 2003. In case of firms/companies, the requirement of certification may be made applicable to the persons engaged in sales and marketing.

The existing and new employees of MFs, particularly those who are involved in sales and marketing, shall be encouraged to pass the certification process by December 2002. The National Securities Depositories limited (NSDL) has also launched an initiative to accelerate the pace of professionalisation of the depository services. They have prescribed that all the branches of
the depository participants must have at least one person who has obtained the prescribed certification. In order to improve the level of knowledge of market participants, only persons who have passed the prescribed examination are authorized to use its trading system by NSE.

Fixed Income Money Market Dealers Association in India (FIMMDA) and NSE have launched an initiative to improve the skills in fixed income market and recommend market participants to obtain a prescribed certification. Other industry associations such as Association of Merchant Bankers in India, Association of Financial Planners, etc. is working towards a certification mechanism for their members.

An effective monitoring and surveillance mechanism is an important element contributing to the efficiency and integrity of stock exchanges. The automation process initiated at the BSE, NSE, OTCEI and other exchanges have made it possible to put such a monitoring mechanism in place. The reach of the capital market is also increasing significantly through the same process of automation. SEBI allowed expansion of the trading terminals of screen based trading systems of stock exchanges to cities having no stock exchange. Expansion to cities with stock exchanges has also been permitted, subject to an understanding with the local exchange allowing the installation of outside terminals within its jurisdiction. The participating exchange would keep its membership open to the brokers of the other local exchanges. It will ensure an adequate arrangement for resolving investor grievances and for timely settlement of arbitration cases arising out of trades executed on the extended terminals.¹

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5.2.2 International Initiatives

a. Principles of Securities Regulation

In February 2002, IOSCO released a new version of the objectives and principles of Securities Regulation, which supersedes the one released in September 1998. It aims to provide advice and a yardstick against which progress towards effective regulation can be measured. IOSCO members, including SEBI, through their endorsement to these principles, intend to use their best endeavors within their jurisdiction to ensure adherence to these principles. These principles are discussed below:

b. Regulator

1. The responsibilities of the regulator should be clear and objectively stated. This requires a clear definition of responsibilities, preferably set out by law; strong cooperation among responsible authorities through appropriate channels; and adequate legal protection of regulators and their staff acting in bonafide discharge of their functions and powers. Any division of responsibility should avoid gaps and inequities in regulation.

2. The regulator should be operationally independent and accountable in the exercise of its functions and powers. Independence is enhanced by a stable source of funding for the regulator. Accountability implies: a regulator that operates independently of sectoral interests; a system of public accountability of the regulator; and a system of permitting judicial review of decisions of the regulator.

3. The regulator should have adequate powers, proper resources and the capacity to perform its function and exercise its powers. The regulator should have powers of licensing, supervision,
inspection, investigation and enforcement and also access to adequate funding.

4 The regulator should adopt clear and consistent regulatory processes. The regulator should have a process for consultation with the public including the regulated, publicly disclose its policies, observe standards of procedural fairness and have regard to the cost of compliance with the regulations. It should also play an active role in the education of investors and other participants in the capital market.

5. The staff of the regulator should observe the highest professional standards, including appropriate standards of confidentiality. They should be given clear guidance on conduct relating to conflict of interest, appropriate use of information obtained in course of duty, observance of confidentiality and secrecy provisions, observance of procedural fairness, etc.

c. Self-Regulation

6. The regulatory regime should make appropriate use of self-regulatory organizations (SROs) that exercise some direct oversight responsibility for the respective areas of competence to the extent appropriate to the size and complexity of the markets. SROs should undertake those regulatory responsibilities which they incentive to perform efficiently.

7. SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities. The regulator must ensure that no conflict of interest arises because of SROs access to valuable information about market participants. The conflict may be acute when SRO is responsible both for supervision of its members and regulation of the market sector. Where powers of a SRO are inadequate to address a particular
misconduct or conflict of interest necessitates it, the regulator should take over the responsibility. SROs should also follow similar professional standards as expected of the regulator.

d. Enforcement of Securities Regulation

8. The regulator should have comprehensive inspection, investigation and surveillance powers. It should have power to require the provision of information, or to carry out inspections of business operations to ensure compliance with relevant standards.

9. The regulator should have comprehensive enforcement powers, including regulatory and investigative powers to obtain data/information, to impose administrative sanctions and/or seek orders from court, to initiate or refer matters for criminal prosecution, to suspend trading in securities, to enter into enforceable settlements etc. It is, however, not necessary that all aspects of enforcement of securities law be given to a single body.

10. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program. The powers of regulator should be sufficient to ensure its effectiveness in cases of cross border misconduct. The regulator should require market intermediaries have in place policies and procedures to prevent use of their business as a vehicle for money laundering.

e. Co-operation in Regulation

11. The regulator should have authority to share both public and non-public information with domestic and foreign counterparts. Domestic laws need to remove impediments to international cooperation.
12. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.

13. The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers. There should be arrangements which identify the circumstances under which assistance may be sought, identification of the types of information and assistance that can be provided, safeguards of confidentiality of information transmitted, and a description of permitted uses of information.

f. Issuers

14. There should be full, timely and accurate disclosure of financial results and other information which is material to investors' decisions. Disclosures should be clear, reasonably specific and timely.

15. Holders of securities in a company should be treated in a fair and equitable manner.

16. Accounting and auditing standards should be of a high and internationally acceptable quality.

g. Collective Investment Schemes

17. The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme. The criteria may include honesty and integrity of the operator, competence to carry out the functions and duties of a scheme operator, financial capacity, internal management procedures, etc.

18. The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.
19. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.

20. Regulation should ensure that there is a proper and disclosed basis for assets valuation and the pricing and the redemption of units in a collective investment scheme.

h. Market Intermediaries

21. Regulation should provide for minimum entry standards for market intermediaries. It should reduce the risk to investors of loss caused by negligent or illegal behavior or inadequate capital. The licensing process should require a comprehensive assessment of the applicant and the licensing authority should have power to withdraw or suspend the license. The regulator should ensure that the public has access to relevant information concerning the licensee.

22. There should be initial and on going capital and prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake. The regulations should provide for right to inspection, investigation, enforcement, discipline and revocation of license.

23. Market intermediaries should be required to comply with standards for internal organizations and operational conduct that aim to protect the interest of clients, ensure proper management risk, and under which management of the intermediary accepts primary responsibility of these matters.
24. There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.

i. Secondary Market

25. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight. The relevant factors for authorization could be operator competence, operator oversight, admission of products to trading, admission of participants to trading, provision of trading information, etc.

26. There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants. Approval of trading system should be re-examined or withdrawn by the regulator when considered necessary.

27. Regulation should promote transparency of trading.

28. Regulation should be designed to detect and deter manipulation and other unfair trading practices. The regulation should prohibit market manipulation, misleading conduct, insider trading and other fraudulent or deceptive conduct, which may distort price discovery system, distort prices and unfairly disadvantage investors. Direct surveillance, inspection, reporting, product design requirements, position limits, market halts, etc may address such conduct.

29. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.

30. Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to
ensure that they are fair, effective and efficient and that they reduce systemic risk.

5.2.3 Recommendations for Securities Settlement Systems

BIS-IOSCO made a set of 19 recommendations in November 2001 covering legal risk, pre-settlement risk, settlement risk, operational risk and other issues relating to securities settlement system. These are discussed below:

1. Legal risk
   1. Legal framework: Securities settlement systems should have a well-founded, clear and transparent legal basis in the relevant jurisdictions.

2. Pre-settlement risk
   2. Trade confirmation: Confirmation of trades between direct market participants should occur as soon as possible after trade execution, but no later than trade date (T+0). Where confirmation of trades by indirect market participants (such as institutional investors) is required, it should occur as soon as possible after trade execution, preferably on T+0, but no later than T+1.
   3. Settlement cycles: Rolling settlement should be adopted in all securities markets. Final settlement should occur no later than T+3. The benefits and costs of a settlement cycle shorter than T+3 should be evaluated.
   4. Central counterparts (CCPs): The benefits and costs of a CCP should be evaluated. Where such a mechanism is introduced, the CCP should rigorously control the risks it assumes.
   5. Securities lending: Securities lending and borrowing (or repurchase agreements and other economically equivalent transactions) should be encouraged as a method for expediting
the settlement of securities transactions. Barriers that inhibit the practice of lending securities for this purpose should be removed.

3. Settlement risk

6. Central securities depositories (CSDs): Securities should be immobilized or dematerialized and transferred by book entry in CSDs to the greatest extent possible.

7. Delivery versus payment (DvP): CSDs should eliminate principal risk by linking securities transfers to funds transfers in a way that achieves delivery versus payment.

8. Timing of settlement finality: Final settlement should occur no later than the end of the settlement day. Intra day or real-time finality should be provided where necessary to reduce risks.

9. CSD risk controls to address participants failures to settle: CSDs that extend intra day credit to participants, including CSDs that operate net settlement systems, should institute risk controls that, at a minimum, ensure timely settlement in the event that the participant with the largest payment obligation is unable to settle. The most reliable set of controls is a combination of collateral requirements and limits.

10. Cash settlement assets: Assets used to settle the ultimate payment obligations arising from securities transactions should carry little or no credit or liquidity risk. If central bank money is not used, steps must be taken to protect CSD members from potential losses and liquidity pressures arising from the failure of the cash settlement agent whose assets are used for that purpose.
4. Operational risk

11. Operational reliability: Sources of operational risk arising in the clearing and settlement process should be identified and minimized through the development of appropriate systems, controls and procedures. Systems should be reliable and secure, and have adequate, scalable capacity. Contingency plans and backup facilities should be established to allow for timely recovery of operations and completion of the settlement process.

5. Custody risk

12. Protection of customer's securities: Entities holding securities in custody should employ accounting practices and safekeeping procedures that fully protect customer's securities. It is essential that customer's securities be protected against the claims of a custodians creditors.

6. Other issues

13. Governance: Governance arrangements for CSDs and CCPs should be designed to fulfill public interest requirements and to promote the objectives of owners and users.

14. Access: CSDs and CCPs should have objective and publicly disclosed criteria for participation that permit fair and open access.

15. Efficiency: While maintaining safe and secure operations, securities settlement systems should be cost-effective in meeting the requirements of users.

16. Communication procedures and standards: Securities settlement systems should use or accommodate the relevant international communication procedures and standards in order to facilitate efficient settlement of cross-border transactions.
17. Transparency: CSDs and CCPs should provide market participants with sufficient information for them to identify and evaluate accurately the risks and costs associated with using the CSD or CCP services.

18. Regulation and oversight: Securities settlement systems should be subject to transparent and effective regulation and oversight. Central banks and securities regulators should cooperate with each other and with other relevant authorities.

19. Risks in cross-border links: CSDs that establish links to settle cross-border trades should design and operate such links to reduce effectively the risks associated with cross-border settlements.

5.2.4 World Federation of Exchanges Vision

At the end of General Assembly of World Federation of Exchanges held in 2001 at Madrid, the leaders in the securities market shared their vision about the future of the securities market. An overwhelming majority (74%) felt that despite globalization of the market place, national/domestic exchanges would still have a role to play. Majority (64%) that the potential impact of straight through processing (STP) on central counterparties, clearing and settlement firms, and depositories represents an opportunity for exchanges to expand business felt it. However, 59% of the members felt that STP will take longer to implement.

The majority of the members (84%) considered clearing, settlement and depository services to be part of their value chain. About 77% of members felt that in next two years exchanges will
put greater emphasis on developing e-business beyond using the Internet as a means of communication. About 67% of the member's felt to promote the work of exchanges, international policy organizations should concentrate on business standards and principles. About 84% of the members felt that market conditions in 2002 would lead to more involvement by regulators in the market and more regulation. These likely developments have profound lessons for Indian securities market.

5.2.5 Research Initiatives

Recent past has witnessed growing interest in the quality research into the working of securities market. The regulators, SROs, other market participants and academics are promoting and undertaking research. The initiatives by a few of them are presented below:

1. SEBI In order to deepen the understanding and knowledge about Indian capital market, and to assist in policy-making, SEBI has been promoting high quality research in capital market. It has set up an in-house research department, which brings out working papers on a regular basis. The papers released by SEBI in the recent past are presented in Table 5-1. In collaboration with NCAER, SEBI brought out a Survey of Indian Investors, which estimated investor population in India and their investment preferences. The results of the survey have been further updated. It has also tied up with reputed national and international academic and research institutions for conducting research studies/projects on various issues related to the capital market. It has tied up with NCAER and IIM, Ahmedabad for taking up research studies/projects on capital market. In association with
NCAER, it has launched two studies, namely Cost of Compliance by the Intermediaries in the Capital Market, and Convergence of Equity Prices on Indian Stock Exchanges.

Table 5-1 Working Papers Of SEBI

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Title Of Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Transaction cost For Equity Shares In India</td>
</tr>
<tr>
<td>2</td>
<td>Stock Market Volatility-A Comparative Study Of Selected Markets</td>
</tr>
<tr>
<td>3</td>
<td>Transaction Cost For Equity Shares In India ( Revised )</td>
</tr>
<tr>
<td>4</td>
<td>Dematerialization; A Salient Revolution In The ICM</td>
</tr>
<tr>
<td>5</td>
<td>Impact Of Takeover Regulations On Corporate Sector In India</td>
</tr>
<tr>
<td>6</td>
<td>Trade Execution Cost Of Equity Shares In India</td>
</tr>
</tbody>
</table>

Source: SEBI

2. NSE Research Initiative

In order to improve market efficiency further and to set international benchmarks in securities industry, NSE administers a scheme called the NSE Research Initiative. The initiative fosters research which can support and facilitate stock exchanges to design market microstructure, participants to frame their strategies in the market place, help regulators to frame regulations, policy makers to formulate policy and broaden the horizon of knowledge about the securities market. The initiative has received tremendous response from the academics as well as the market participants from within and outside the country. The studies completed/under progress under the initiative is presented in Table5-2.

3. Society for Capital Market Research and Development

The Society for Capital Market Research and Development is a leading research organization dedicated to studies on capital market from the public policy viewpoint. The studies conducted by
it so far have provided a wealth of original data on many aspects. In 1990, it conducted the first-ever all-India Household Investor Survey. It has been followed by four more surveys, the latest being in 2000. It has recently launched its 6th All-India Survey of Household Investors. Its recent studies include:

- How Good are Mutual Funds: The Household Investors
- Perceptions
- Indian Households Investment Preferences
- Returns on Indian Equity Shares
- India's Financial Markets & Institutions
- Indian Stock Market P/E Ratios
- The Roots of India’s Stock Market Crisis, 1995-97
- India’s Stock Market Reform & Regulation: Where to Go From Here
- Enhancing Capital Markets Role as Capital Raising Mechanism
- Short Selling and Its Regulation in India in International Perspective

**Table 5-2: Studies under the NSE Research Initiative**

1. Achieving an Individual Investor Friendly System using the Power of the Internet
2. Efficiency of the Market for Small Stocks
3. Econometric Estimation of Systematic Risk of S&P Nifty Constituents
5. Improved Techniques for Using Monte Carlo in VaR Estimation
8. Stock Returns and the Credit Channel of Monetary Policy Transmission
9. Changes in Liquidity following Exposure to Foreign Shareholders: The Effect of Foreign Listings, Inclusion in Country Funds and Issues of American Depositary Receipts by Indian Firms
10. Is the Spread between E/P Ratio and Interest Rate Informative for Future Movement of Indian Stock Market?
11. Empirical Investigation of Multi-factor Asset Pricing Models Using Artificial Neural Networks
12. Merger Announcements and Insider Trading Activity in India: An Empirical Investigation
13. Market Microstructure Effects of Transparency of Indian Banks
15. Institutional Investors and Corporate Governance in India
16. Empirical Investigation in Performance of Extreme Value Estimators of Volatility
17. Short Selling and its Regulation in India in International Perspective
18. Do Futures and Options Trading Increase Stock Market Volatility?
19. Futures Trading, Information and Spot Price Volatility of NSE-50 Index Futures Contract
20. The Impact of Introducing Stock Futures Trading on the Cash Market in India

22. The Experience with Tracking Error of Index Funds in India


24. Dividend Policy of Indian Corporate Firms: An Analysis of Trends and Determinants

25. Determinants of Liquidity and Trading Activity and Behavior of Liquidity in Indian Capital Market


5.3 Investor Awareness

SEBI has launched an intensive investor education exercise aimed at protecting the interests of investors in securities market. It helps the investors in redressal of complaints regarding securities investments. It also disseminates through its website and press briefings the policy developments and enforcement actions for the information of investing community.

During 2001-02, SEBI took the following steps for educating investors:

SEBI distributed the booklet titled A Quick Reference Guide for Investors to the investors. At the advice of SEBI, stock
Investor Safety- Role of SEBI

exchanges and corporate also distributed this booklet to shareholders/investors.

SEBI issued a series of advertisement/public notices in national as well as regional newspapers to educate and caution the investors about the risks associated with the collective investment schemes.

With financial support from SEBI, some of the SEBI registered investor associations organized seminars for educating investors on various aspects of capital market.

SEBI issued a brochure in question answer format explaining the fundamental issues relating to mutual funds.

Recently, the Department of Company Affairs (DCA) informed the general public about the agency they should approach for redressal of their grievances. The investor complaints relating to deposits in banking companies and non-banking financial companies are dealt with by RBI, the complaints relating to non-banking non-financial companies (listed) are dealt with by SEBI and the complaints in respect of non-banking non-financial companies (unlisted) are dealt with by DCA. In the case of deposits from non-banking non-financial companies, the depositors should approach the Company Law Board and if the orders passed by the Board are not honored then they should approach the concerned Registrar of Companies with a certified copy of the order.

Investor complaints of unlisted companies are dealt with by DCA. These complaints relate to non-registration of transfer of shares, non-refund of share application money, non-receipt of dividends, non-receipt of duplicate shares, non-issue of share
certificates, non-issue of debenture certificates, bonus shares, share certificates on conversion, after endorsement etc. The complaint is pursued with the company by DCA and in case of non-settlement of the complaint; the matter is referred to the Registrar of Companies for prosecution.²

**TABLE: 5-3 Investors Opinion on Preference of Listed Companies**

<table>
<thead>
<tr>
<th>SL. NO.</th>
<th>RESPONDANTS</th>
<th>YES</th>
<th>%</th>
<th>NO.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>INVESTORS</td>
<td>21</td>
<td>42</td>
<td>29</td>
<td>58</td>
</tr>
<tr>
<td></td>
<td>PROFESSIONALS</td>
<td>27</td>
<td>54</td>
<td>23</td>
<td>46</td>
</tr>
<tr>
<td></td>
<td>REGULAR</td>
<td>18</td>
<td>36</td>
<td>32</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>OCCATIONAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>TOTAL</td>
<td>66</td>
<td>44</td>
<td>84</td>
<td>56</td>
</tr>
</tbody>
</table>

Regarding the status of the companies whose share are traded in the stock markets are called listed companies. These Co.s are listed in any two stock exchanges are permitted to trade in other stock exchanges.

The investors opinion about these listed and non listed companies, the survey reveals that majority 56% of them are not at all particular about whether the company is listed or not and 44% are concerned about that the company is listed to buy that company shares.

Regarding professional group of investors 42% prefer the listed companies and 58% are not particular of listed company. Regular investor's majority 54% is preferring listed companies and 46% are not particular. Where as occasional who are 64% not particular of listed companies and remaining 36% looks for listed companies.

5.3.1 Investor Protection Fund

Some cushion to the interests of investors is provided by the Investor Protection Funds (IPFs) set up by the stock exchanges. Exchanges maintain an IPF to take care of investor claims, which may arise out of non-settlement of obligations by the trading members. The IPF is used to settle claims of such investors whose trading member has been declared a defaulter. In order to promote investor education and to create greater investor awareness, stock exchanges have been allowed to utilize interest income earned on IPF for investor education, awareness and research.

The Companies Act, 1956 provides for an Investor Education and Protection Fund (IEPF) to protect the interests of small shareholder. The fund is utilized for conducting direct education programs, organizing seminars, and symposia, conducting specific projects for investor protection, including research activities and providing legal assistance to genuine investor litigants through investor grievances forums. The fund is managed by a committee comprising both government and non-government members. The money needed for the fund accrues from grants from the government and from the corporate sector by way of unclaimed dividends, share application money, matured deposits and unclaimed debentures.
IEF provides financial assistance to any organization/entity/person with a viable project proposal on investor's education and protection. In order to be eligible for the assistance, the entity should be registered under the Societies Registration Act or formed as Trusts or incorporated Companies; should be in existence for a minimum period of 2 years prior to its date of application for registration for assistance; should have a minimum of 20 members and a proven record of 2 years; and should have rules, regulations and or by-laws for its governance and management. It should not be a profit making entity. The limit for each entity for assistance would be subject to 5% of the budget of IEPF during that financial year and not exceeding 50% of the amount to be spent on the proposed program.

The Central Government has altered the constitution of the 13-member committee that was set up in December 2001 to administer the Investor Education and Protection Fund (IE&PF). The IE&PF, whose corpus size is reckoned to be around Rs 700 crore, comprises mainly dividends of companies that remain unclaimed and unpaid for a period of seven years from the date they became due for payment. This fund had been created and operationalised by the Center on October 1 last year.

Further, application money received by companies during IPOs, matured deposits and debentures that have remained unclaimed and unpaid for a period of seven years from the date they became due for payment also form part of this fund.

"As against the earlier practice of naming the officials of the regulatory bodies who will be administering the fund, the Central
Government has decided to alter the constitution. Some of the constituents will take their place in the committee by virtue of their designations, and not by the individual names," a DCA official said.

5.3.2 Disclosures

Any information that affects investors must be available to all investors in a timely fashion. One major source of information about a company is the disclosures made by the company. The Companies Act has laid down detailed guidelines for disclosures to be made by all companies. The Disclosure and Investor Protection Guidelines of SEBI, and the listing agreement have further supplemented these. Under the Companies Act, all companies have to prepare statutorily audited annual accounts. These are sent to all shareholders and lodged with the Registrar of Companies, after being approved by the Board. The listed companies are also required to submit the annual accounts to every stock exchange where they are listed. In addition, listed companies have to prepare abridged unaudited financial summaries for every quarter and submit a cash flow statement. The most substantive financial disclosures of companies are found in the annual reports, particularly the balance sheet and profit and loss account.

The companies do not provide fair disclosures of related party transactions and consolidated accounts of subsidiaries and associate companies. The disclosures on related party transactions as required under law fall quite behind the international practices prevailing in this regard. It is only very

recently that ICAI has issued accounting standards in the areas of consolidation of accounts, segment reporting, deferred taxes, related party transactions and earnings per share and their applicability to continuous disclosure requirements.

While the quantity and quality of financial disclosures is an important issue, how these disclosures are made is also important. Mostly companies have been making the disclosures through annual reports and quarterly reports. All other important announcements are made through the public media. It is, however, possible that such information reaches common investors later than it is made available to some others. To impart healthy practices in this regard, the companies are now required to make announcements regarding corporate actions, such as declaration of dividends and bonus, and financial results of the company, within 15 minutes from the close of Board meeting in which these decisions are taken. Companies should promote usage of information technology for dissemination of information. Some companies, however, may find it unaffordable to maintain web-sites. It would be better to have a common web-site for providing information on various companies at one place.

NSE has put in place, a system to ensure that proper, up-to-date and correct information is available to the investors to enable them to take informed decisions and to ensure that their interests are protected. NSE ensures that critical and price-sensitive information is available to all classes of investor at the same point of time. Such price-sensitive information as bonus announcements, mergers, new line of business, etc. received from the companies is disseminated to all the market participants through the network of NSE terminals all over India. The
exchange initiates action where such price-sensitive information is not provided to the exchange at the prescribed time. NSE conducts various seminars and programs for the investors all over the country with a view to educating them on their rights and obligations and precautions they should take while dealing in the securities market. NSE makes an audit trail available on request for all transactions executed on NSE to enable investors to counter-check the trade details, viz. price, time, etc., for the trades executed on his behalf by the broker. It has also prescribed and makes effort to ensure the implementation of various safeguards like time schedules for issuing contract notes, for receiving funds and securities purchased by investors, segregation of client funds and securities from those of members, etc.

5.3.3 Code of Corporate Disclosure

All listed companies and organizations associated with securities markets including the intermediaries, asset management companies, Trustees of MFs, SROs, stock exchanges, clearing house/corporations, public financial institutions, professional firms such as auditors, accountancy firms, law firms, analysts, consultants, etc. assisting or advising listed companies are required to abide by the Code of Corporate Disclosure Practices specified in SEBI (Insider Trading) Regulations. The code provides that to ensure timely and adequate disclosure of price sensitive information, the listed companies shall follow the following norms:

i. They shall disseminate price sensitive information to stock exchanges on a continuous and immediate basis. To improve public access, this may be supplemented by announcements in media.
ii. They shall designate a senior official to oversee corporate disclosure to stock exchanges, analysts, shareholders and media.

iii. They shall have clearly laid down procedures for responding to any queries or requests for verification of market rumors by exchanges and to decide whether a public announcement is necessary for verifying or denying rumors.

iv. They shall disclose shareholdings/ownership and changes in ownership in a timely and adequate manner.

v. They shall provide only public information to the analyst/research persons/large investors like institutions. Alternatively, the information given to the analyst should be simultaneously made public at the earliest. When a company organizes meetings with analysts, the company shall make a press release or post-relevant information on its website after every such meet. The company may also consider live web casting of analyst meets.

vi. Disclosure/dissemination of information may be done through various media so as to achieve maximum reach and quick dissemination. The company shall ensure that disclosure to stock exchanges is made promptly. Disclosures maybe made through the use of dedicated Internet website of the company.

vi. The disclosures made to stock exchanges may be disseminated by the exchanges to investors in a quick and efficient manner through the stock exchange network as well as through stock exchange websites. The exchanges may also publish information furnished by the companies under continuous disclosure requirements on their web sites.
5.3.4 EDIFAR
In association with National Informatics Centre (NIC), SEBI has set up an Electronic Data Information Filing and Retrieval (EDIFAR) System to facilitate an electronic filing of certain information by listed companies. This is an automated system for filing, retrieval and dissemination of time sensitive corporate information which are now being filed physically by the listed companies with the stock exchanges. The primary objective is to centralize the information and accelerate its dissemination and thereby enhance transparency and efficiency for the benefit of various classes of market participants like investors, regulatory organisation, research institutions, companies and stock exchanges. This is analogous to the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system of the US Securities Exchange Commission.

The system is being introduced in phases. In the first phase, the information that would be filed online are: (i) financial statements comprising of balance sheets, profit and loss account and full version of annual report, half yearly financial statements including cash flow statements and quarterly financial statements. (ii) corporate governance reports, (iii) shareholding pattern statement, (iv) statement of action taken against the company by an regulatory agencies and (v) such other statement, information or report as may be specified by SEBI from time to time in this regard.

These would be filed electronically by 200 companies included in the BSE Sensex, S&P CNX Nifty and BSE 200 indices. These filings would be in addition to the filings made by the companies with the stock exchange in compliance with the provisions of the listing agreement. Gradually the physical filing
would be discontinued and both the number of companies as well as disclosure statements would be expanded to cover all the actively traded companies for all the disclosure statements.

EDIFAR is available at http://sebiedifar.nic.in. Companies can access it to file the documents/statements electronically. Investors/public can query the database.

Major listed companies and industry chambers have welcomed the idea of EDIFAR, as it would enable immediate updating of information with all exchanges as soon as it is made public by companies through this central database. Besides they would eventually save the cost of compliance with a number of exchanges

5.3.5 Building Investor Confidence

If the securities market is to discharge its primary function of capital formation, the investors need to be lured back to market. This can be done by a series of systematic measures, which would build their confidence in the systems and processes and protect their interests fully. These measures may include the following:

5.4 Investor Protection

The Committee set up under the Chairmanship of Dr. N. L. Mitra submitted its study report on investor protection in April 2001 with the following recommendations:

a. There is a need for a specific Act for protecting investor's interest. The Act should codify, amend and consolidate laws and practice for the purpose of protecting investor's interest in corporate investments.

b. A judicial forum is needed for the redressal of investor's grievance for the purpose of remedying the same with the award of compensation. The consumer forum should be the redressal forum only for the purposes of compensating the investors.

c. The provisions relating to investor education and protection fund should be removed from the Companies Act, 1956 and included in the SEBI Act, 1992 and the fund should be administered by SEBI.

d. SEBI should be the only regulator for the entire capital market, both primary and secondary. It should have powers for investigation. It must also have powers to attach the public fund and all converted assets to prevent misappropriation. But it should not have powers to award compensation, which is the job of a justice delivery system. e. The regulator may require all IPOs to be insured on the principle of third party insurance with differential premium based on the risk study by the insurance companies.

f. SEBI should have the power and function of an on-and-off-the-field regulator. The report has listed a number of additional powers to be conferred on SEBI. However, it can not be an investigator, regulator and judge at the same time.

g. The SEBI Act, 1992 should be amended to provide for statutory standing committees on investors protection, market operation and standard setting.

h. The Securities Contract (Regulations) Act, 1956 should be amended to provide for corporatisation and principles of good governance for stock exchanges.
TABLE: 5-4 Effectiveness of Investor Problem Solving Mechanism

<table>
<thead>
<tr>
<th>SL. NO</th>
<th>OPINIONS</th>
<th>INVESTORS</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>PROFESSIONAL</td>
<td>REGULAR</td>
<td>OCCATIONAL</td>
<td>TOTAL</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>NO.</td>
<td>%</td>
<td>NO.</td>
<td>%</td>
<td>NO.</td>
</tr>
<tr>
<td>1</td>
<td>Very well</td>
<td>5</td>
<td>10</td>
<td>5</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Well</td>
<td>20</td>
<td>40</td>
<td>24</td>
<td>36</td>
<td>21</td>
</tr>
<tr>
<td>3</td>
<td>Average</td>
<td>14</td>
<td>28</td>
<td>16</td>
<td>30</td>
<td>17</td>
</tr>
<tr>
<td>4</td>
<td>Not much</td>
<td>11</td>
<td>22</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>No idea</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>5</td>
</tr>
</tbody>
</table>

About the effectiveness of the investor problem solving mechanism introduced by SEBI after observing the problems faced by them, the investors' opinion on them is 44% of total investors claims the effectiveness is well, 32% say its average, 14% in the opinion of it is not much effective and only 9% are claiming it is very well.

5.4.1 Investors' Associations

With a view to part a greater degree of awareness among the investors leading to a healthier, transparent and efficient, securities market in India, the SEBI has been registering Investors' Associations. The following Investors' Associations were registered with SEBI as on March 31, 2002.
(1) All Body Corporate Shareholders' Forum, Hyderabad.
(2) Consumer Education's and Research Society, Ahmedabad.
(3) Ghatkopar Investors' Welfare Association, Mumbai.
(4) Investors Grievances Forum, Mumbai.
(5) Jagrut Grajak Mandal, Patan (Gujarat).
(6) Kovai Investors Association, Coimbatore.
(7) Midas Touch Investors Association, Kanpur.
(8) Tamil Nadu Investors Association, Chennai.

The Registered Investors Associations are eligible for reimbursement of a specified sum from SEBI to meet their one time capital expenditure towards setting up of computer terminals and installation of database on companies and Internet connectivity. They are also entitled to reimbursement of expenditure for organizing seminars for investor's education on capital market and expenditure on publication and circulation of material on investor education.

5.4.2 Investor Education Program

In order to educate the investors to understand the basics of mutual funds and their operations, the SEBI prepared a brochure in question-answer format explaining the fundamental issues pertaining to mutual funds. The mutual funds have been advised to circulate copies of the brochure among their distributors and agents (including brokers, banks, post offices) and the investors. They have also been advised to publish the same as small booklets also been circulated to investor associations and various other self-regulatory and professional bodies.
5.5 Investor Grievances

The consumer forum provides an expeditious remedy to a consumer who has suffered loss on account of deficiency in goods/services purchased by him. A similar arrangement is called for redressal of investor grievances, given the rate of disposal of our judicial system. The investor forum as well as other authorities should have power to dispose off the cases summarily and to award compensation to the investor. It is not enough if the culprit is punished. The culprit needs to be punished in an exemplary manner, while investor should have means to recover his loss caused by the culprit.

The depositors are protected up to Rs. 1 lakh in the event of liquidation/bankruptcy of a bank. This protects innocent depositors and thereby contributes to the stability of the financial system. A similar mechanism may be developed to compensate an investor up to Rs. 5 lakh if he suffers a loss on account of the failure of the system or mischief by any market participant. A organization called Securities Investor Protection Corporation (SIPC) operates in the USA to provide similar protection to investors.

Department of Company Affairs, SEBI, Stock Exchanges, Depositories, Investor Associations and a number of NGOs are organizing investor education/awareness programs. What is missing is co-ordination. The regulator may take initiative and co-ordinate the efforts of these agencies so that investors all over the country benefit from such programs.

SEBI, established under the SEBI Act of 1992, is supposed to regulate the business in stock exchanges and any other securities market. To carry out this noble duty a board of
members of SEBI has been constituted. SEBI is supposed to carry out this regulation by way of registering and regulating the working of stock brokers, share transfer agents, bankers, trustees, registrars, underwriters, portfolio managers and other such intermediaries in the security market. But the moot point, to what extent the SEBI has actually succeeded in stopping the fraud committed with gullible investors. I myself am a sufferer of such fraud companies, which had supported their issues (IPO) with fancy advertisements, but after collecting the money, there is no trace of the companies. Thereafter a fine morning we come across a news item which states that the company in has declared itself insolvent. I agree, the shareholder has to keep in mind such risks, but than anybody can come and fleece the innocent public and sped away with the money.5

5.5.1 Central Information Depository

An investor normally deals in securities through an intermediary, whose acts of omission and commission can cause loss to him. In order for the investor to choose the right intermediary through whom he may transact business, it may be useful to help him in taking informed decision by making details of intermediaries available to him. The details may include the form of organization, management, capital adequacy, liabilities, defaults and penal actions taken by the regulator and self-regulatory organizations against the intermediary in the past and other relevant information. Similarly the details about the issuer should be available to investors/public. If possible, the issuers/intermediaries may be rated and their ratings are disseminated. One way to do so would be to display the details of

5. A paper tiger and that too toothless! : by: Raghav Business Line Feb-21-01
SEBI registered intermediaries and listed companies on an easily accessible user friendly central web site. This would enable the investor to make informed decisions not only about his investments but also about the intermediaries through whom he should transact.

5.5.2 Quality Intermediation

Quality intermediation requires personnel providing intermediation services to follow a certain code of conduct and possess requisite skills and knowledge to service different constituents in the market. Whereas the former is achieved by regulation, the latter is generally acquired through a system of testing and certification. The testing and certification ensures that a person dealing with financial products has a minimum standard of knowledge about them, market and the regulations so as to assist the customers in their dealings and thereby builds a cadre of professionals whom the investor can trust. Such testing and certification needs to be made mandatory for employees working with intermediaries.

5.5.3 Listing Agreement

The issuer wishing to have trading privileges for its securities on a stock exchange satisfies the listing requirement and also agrees to comply with the norms on a continuous basis. The exchanges conduct a periodic review to ensure compliance relating to announcement of book closure/record date/results, submission of shareholding pattern/annual reports, various disclosures, redressal of investor grievances etc. The exchanges also ensure certain important timely disclosures by listed companies and disseminate to market. Listing agreement is being increasingly used as a means to improve corporate governance in
listed companies. However, since many exchanges depend on listing income for their survival, they at times do not like to offend the listed companies and become lenient in enforcing listing agreement. It would be better, if listing function is withdrawn from exchanges and assigned to an independent third agency, which would consider and grant all requests for listing. All compliance's under the listing agreement is enforced by the agency ruthlessly in the interest of investors.

### 5.5.4 Plea Bargaining

The SEC lets off the offenders who simply pay up without admitting to an offence. This prevents every case being locked up in a court. Given the number of cases pending in the Indian courts and intangible nature of securities market offences, SEBI requires similar facilities if the offenders are to be punished on priority. This would help to bring all the co-accused to book or solve difficult cases if one accused provides lead by agreeing to plea bargain in exchange of a lenient sentence.

#### TABLE: 5-5 Level of Transaction Costs

<table>
<thead>
<tr>
<th>SL NO</th>
<th>OPINION</th>
<th>INVESTORS PROFESSIONAL</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>NO.</td>
<td>%</td>
</tr>
<tr>
<td>1</td>
<td>High</td>
<td>21</td>
<td>42</td>
</tr>
<tr>
<td>2</td>
<td>Moderate</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>3</td>
<td>Low</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>4</td>
<td>Negligible</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>No idea</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>
Regarding the transaction costs which includes brokerage and service, handling costs the investors opinions are analyzed and the results are in total 39% of investors are in opinion of that transaction costs are high, 35% assume they are moderate and 16% in the opinion of low, 9% say it negligible.

The sub groups of investors professional and occasional are also in the same pattern i.e. majority in high cost followed by moderate and low but regular investors are in opinion of 44% in moderate, 34% in high followed by 12% in low, 10% in negligible category.

Where as the broker community says that transaction costs are reasonable. When the transaction is in high amount the costs comes down, if it is low number of share usually the cost per share will be more.

5.6 SEBI Guidelines

SEBI has issued guidelines from time to time, which run into volumes and have been published as handouts separately. Such guidelines are issued separately for New Issues market, stock market, Mutual Funds, Merchant banks, Registrars and transfer agents, Underwriters, Brokers, sub-brokers, portfolio Managers, etc. Thus the SEBI guidelines encompass all the intermediaries in the Capital Market, and a code of conduct is also laid down for each category separately. The guidelines and the code of conduct are to be observed under the ken of SEBI and lapses are subject to penal points. In fact all the intermediaries have to seek first the license and registration for operating in the capital
market. The criteria and eligibility requirements for each category are separately set out by the SEBI. During 1994 even FIs and foreign Brokers firms were licensed by SEBI to operate in Indian capital market. In view of the voluminous material involved in these regulations of SEBI, a brief outline is attempted in respect of major reforms involved.

5.6.1 Guidelines to Investors

*Deal with a registered member of the stock exchange. If you are dealing with a sub-broker, make sure that all bills and contracts are made in the name of a registered broker.

*Insist that all your deals be done in the trading ring.

*Give specific orders to buy or to sell with in the fixed price limits and/or time periods with in which orders have to be executed.

*Insist on contract notes to be passed on to you on the dates, when the orders are executed.

*Make sure that your deal is registered with the stock exchange in a souda Block Book. In the case of a dispute, this will help trace the details of the deal easily.

*Collect a settlement table from the stock exchange mentioning the pay-in and payout days. Each stock exchange has its own trading periods, which are called settlements. All transactions done with in this period are settled at the end of it. All payments for shares bought and there deliveries take place on the pay-in day. An awareness of pay-in and payout days is useful when a broker tries to make excuses.

*Keep separate records of dealings in specified shares (Group A) and non-specified shares (Group B). The settlement for each is on different days.

*Execute periodic settlements of dues and delivery of shares to avoid accumulation of transactions.
*Insist on delivery. If the company returns your papers & shares with objections, contact your broker immediately.
*Ensure that shares bought are transferred in your name before the company's book closure date. This is necessary to make sure that you receive benefits like dividend, interest and bonus shares.
*All companies have a book closure date on which the list of shareholders in the company is finalized.
*Complain if the broker does not deliver the shares bought in your name. Proceed to contact another broker with the bill/contract given to you by the earlier broker, and the Exchange authorities in the later will purchase the shares on your behalf. In such an event, the first broker will have to pay the difference in price.
*Do not sell shares that are not transferred in your name after the book closure, as these are not valid in the market.
*Do not sell/deal in shares where any one of the holders has passed away. In cases where the holder has died, a succession certificate is necessary. In case where one of the joint shareholders passes away, the surviving holder should send the shares along with the death certificate of the company. Only after the name of the deceased has been deleted from the shares, can they be transferred?
*Do not expect the money for shares to come immediately. It will take at least a fortnight or a month from the date of transaction.
*Unless you have a special arrangement with the broker, do not expect the adjustment of the purchases and sales against one another. One pays first and receives later.
*Do not take delays or harassment lying down. You have to complaint to the Grievance Cell of the stock exchange or the Securities and Exchange Board of India (SEBI) in case of delay or harassment.
<table>
<thead>
<tr>
<th>Complaints</th>
<th>Legislation Provided</th>
<th>Relief Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Delay in refund of excess application money of allotment letters</td>
<td>Section 73 of the companies Act as amended by Amendment Act of 1988.</td>
<td>Payment of interest for the delayed period beyond 30 days from the closure of subscription list at the rate of 15%.</td>
</tr>
<tr>
<td>2. Delay in transfer of shares.</td>
<td>Section 111 of the companies Act.</td>
<td>A time limit of two months provided in the Act for effecting transfer. As per the Listing Agreement, the time limit is only one month from the lodgment of shares.</td>
</tr>
<tr>
<td>3. Refusal to transfer shares.</td>
<td>Section 22(A) of sc(R) Act. This section lists the reasons for which transfer of shares can be refused.</td>
<td>Transfer can be refused only for specific and valid reasons given in the act and not otherwise.</td>
</tr>
<tr>
<td>4. Problem of odd lots.</td>
<td>Listing Agreement provides for issue of certificates in marketable lots and avoidance of odd lots.</td>
<td>Need for consolidation of odd lots and ensuring the issue of shares only in marketable lots through conversion of debentures or rights issue, provision of odd lots trading session and listing out broken willing to trade in odd lots.</td>
</tr>
<tr>
<td>5. Takeover bids</td>
<td>New clauses of 40(A) and 40(B) of listing Agreement SEBI Rules on takeover Bids.</td>
<td>Purchases or acquisition of shares beyond 5% to be notified to the stock exchange. Acquisition beyond 10% puts an obligation on the transferor and transferee and intermediary to notify the stock exchange and the public and offer to the other shareholders of the company to buy at their price or the highest market price during the preceding six months.</td>
</tr>
<tr>
<td>6. Insider trading, rigging and other malpractices</td>
<td>SEBI(Insider Trading) Regulation 1992.</td>
<td>The investors have to guard themselves regarding the price and their investment.</td>
</tr>
<tr>
<td>7. Delay and non-payment of interest/ fixed deposits by companies</td>
<td>Section 58(A) of the companies Act.</td>
<td>Complain to the Company Law Board.</td>
</tr>
</tbody>
</table>
5.6.2 SEBI Guidelines- for Capital Market

*SEBI guidelines were issued after the repeal of the CIC Act whereby the CCI guidelines became out of date. New guidelines by SEBI were issued starting from the month of June 1992. Some CCI guidelines were still retained, as in the case of those for premium fixation.

*Guidelines for new issues made by new companies: They have to be issued at par. Free pricing is permitted only if the existing company promotes the new company with not less than 50% of equity.

*New issues made by private Limited Companies and Closely held companies can be made by free pricing, for listing purposes if such companies have had three years of track record of consistent profitability out of last 5 years. Not less than 20% of equity is to be offered to the public, in such cases.

*Public issues by existing listed companies can be made through free pricing if they are further issues and if they are disclosed in the prospectus. The NAV and the market price have to be considered for the last 3 years. The companies with foreign holding wishing to enhance the limit up to 51% will have to get the prices approved in the general body meeting by a special resolution under sec. 81(A) of the Companies Act, and subject of RBI approval.

*Listing of shares on the OTC: If the new issues are made through OTC, normal guidelines will apply if the sponsor is not taking any share. If the sponsor takes the shares, subsequent offer to the public may be made at such a price, as the sponsor may deem fit. The promoters should retain 25% quota with a lock in period of 5 years, the sponsor should act as market maker for a period of at
least 3 years and also find another market maker for compulsory
market making.

*Underwriting is optional if the issue is made to the public and
should not include reserved or preferential quota or employees’
quota. If the subscription is not up to 90% of the total issue from
the public including contribution of underwriters, the public should
be refunded of their subscription with in 120 days from the date of
opening the issue.

*Composite Issues: Issues to the public by existing company can
be priced differently as compared to the rights issues to the
shareholders.

*F.C.D. & P.C.D.: The issues of F.C.D.s with a conversion period
of more than 36 months will not be permissible unless conversion
is optional. In case F.C.D.s are convertible after 18 months,
credit ratings is compulsory; the D.R.R. has to be created in such
issues with a maturity of more than 18 months.

*New Financial Instruments: The terms and conditions of the new
instruments such as Deep Discount Bonds, debentures with
warrants and secured premium notes etc. should be disclosed
clearly so that the investor can assess the risk and return
scenario of the instrument.

*Reservation In issues: The unreserved portion offered to public
should not be less than the minimum required for listing purposes.
Preferential allotment can be made to promoters, Companies,
shareholders of those companies, NRIs, Employees and
Association Companies of the same group. The allotment shall be
subject to a lock in periods of three years, if it is made on firm
basis, out side public issue.

*Deployment of Issue Proceeds: Where the total proceeds exceed
Rs.250 crores, the company will voluntarily disclose the
arrangements made to utilize proceeds. When the total issue proceeds exceed Rs.500 crores, there is need for making compulsory disclosure and for the financial institutions to monitor the deployment of funds, to the stock exchanges.

*Minimum interval between two issues: 12 months should elapse between the public or rights issue and Bonus issue. The promoters should bring in their share of the capital before the public issue.

*Employees' Stock Option Scheme: The reservation for employees should not be more than 10% at present and this quota is non-transferable for 3 years and subject to a maximum allotment of 200 shares per employee, and the lock in was removed recently.

*Lock in period: The lock in period for promoters' quota is 5 years and the lock in period for preferential allotment for associates and friends is 3 years.

*Bonus Shares: Bonus issues are to be made out of free reserves, the share premium collected in cash, Development Rebate Reserves and Investment Allowance Reserve. Residual reserves after the bonus issue should be at least 40% of the increased paid-up capital. 30% of the average profits before tax for the previous 3 years should yield a rate of dividend of 10% on the expanded capital base. Reserves out of revaluation should not be used for bonus payment. Bonus issues cannot be made in lieu dividends and if there are partly paid up shares, no bonus issue is permitted. Expanded paid-up capital after bonus issue should not exceed authorized share capital. When a company has P.C.D. or F.C.D., Pending Conversion, no bonus issue can be made unless this right is kept open to the holders of F.C.D. and P.C.D. falling due for conversion with in 12 months.
Debenture Issues: All debentures which have a life of more than 18 months should have a D.R.R. created by company out of profits. D.R.R. Should be created only

5.6.3 SEBI Guidelines on Book Building
*SEBI issued guidelines regarding book building for issues exceeding Rs. 100 crores. These guidelines came into effect from 1 November 1995. Book building will be viewed as an alternative mode of pricing that portion of the issue, which is reserved for institutional and corporate investors. Issuers thus have the option of either reserving securities for firm allotment or issue them on the basis of book building. These sections will be identified as 'Placement Portions' and that portion that is available for the public will be called as 'Net Offer' to public in the offer document. *SEBI has made it mandatory that issues, which avail of the book-building option, have to be underwritten to the extent of the net offer to the public. Further, the placement portion of the issue can be listed before the closure of the public issue if the underwriter pays in advance for the net offer to public.

5.6.4 Legislative Protection to Investors
*The Companies Act and the Listing Agreement of the stock Exchanges provide certain safeguards to investors. The normal complaints against companies and the protection available are listed below:

Reforms in the New Issues Market
✔ Free entry and free pricing of new issues in the capital market subject to observance of some guidelines.
✔ Minimum public offer of 25% of paid up capital later reduced to 20% to be eligible for listing on stock exchange out of which half is reserved for investors applying for Rs.10,000 and less.
Minimum subscription by promoters and Directors at 25% for issues less than Rs.100 crores and 20% for paid up capital of more than Rs.100 crores.

Preferential allotment to OCBs and FFIs is subject, later reduced to 20% to a ceiling of 30% and a lock in periods of 5 years which was removed in 1996.

FFIs and foreign security firms are allowed to operate both in the new issue market and stock market but through Indian brokers.

Reservation of quotas under public subscription can be had up to 20% for FIs and Mutual Funds, 24% for FFIs and OCBs, which were withdrawn in 1996, and 10% for employees.

Stock Invest was introduced as a mode of making payments replacing cash and cheque for applying for shares and debentures. This will save loss of interest for investors from the time of applications to the time of allotment.

Private placement of non-transferable shares of promoters and directors was prohibited as also the sales of shares under discount to institutions and mutual funds etc.

Minimum number of shares to be applied for was raised to 500 from 100 shares earlier, so as to reduce the workload of the companies with large number of applications for smaller lots, although this would hit the small investors with a few hundreds, for investment. This minimum was lowered to 200 shares in 1996 as against 500 shares earlier.

Allotment on a proportional basis was introduced in the event of over subscription so as to reduce the evil of multiple applications. The companies can retain no amount of over subscription. The SEBI representative will be present at the time allotment to prevent any malpractice by companies. In the
event of under subscription of less than 90% of the public issue, the full application amount have to be returned with in 120 days from the opening date of subscription.

**5.7 Changes in the Regulatory Framework**

A. Amendment to the Companies Act, 1956
i. Companies (Amendment) Act.
   The buy-back of less than ten per cent of the total paid up equity capital and free reserves of the company is allowed.
   No offer of buy-back shall be made within a period of 365 days reckoned from the date of the preceding offer of buy-back, if any.
   Prohibition on fresh issue of same kind of securities bought-back reduced from 24 months to 6 months.
ii. The Companies (Amendment) Bill, 2001[bill No.80 of 2001] was introduced in Lok Sabha on 30th August, 2001 further to amend the Companies Act, 1956 to make a provision for setting up of a national Company Law Tribunal (NCLT).
iii. Companies (Second Amendment) Bill, 2001 was introduced in the Parliament with the main object of facilitating formation of cooperative business as companies and to convert existing business into companies.

B. Companies Act - Rules /Amendments Rules
i. Investor Education and Protection Fund Rules (Awareness and Protection of Investors) Rules, 2001 was notified vide GSR No.750 (E), dated 1ST October 2001 issued by DCA.
   ✓ The Central Government shall establish a Fund under section 205-C of the Companies Act, 1956 to be called the 'Investor Education and Protection Fund'. The unclaimed amount in
respect of dividend, application money, matured deposits; dividends, etc. shall be credited to the Fund.

✓ The Central Government shall appoint a Committee under section 205C(4) of the Companies Act to administer the Fund.

✓ The Committee shall consist of ten members, excluding the Chairperson who is Secretary, to the DCA. The members shall be nominated by RBI, the SEBI and/or from any other Ministry or DCA dealing with investor protection activities and experts from the field of investors’ education and protection. The non-official members shall hold office for a period of two years. The Official members shall hold office for a period of two years or until they occupy their position whichever is earlier.

✓ The Committee shall recommend the following activities relating to investors’ education, awareness and protection:

(a) Education Programs through Media
(b) Organizing Seminars and Symposia;
(c) Proposals for registration of Voluntary Associations or Institutions or other Organizations engaged in Investor Education and Protection activities.
(d) Proposals for projects for Investors’ Education and Protection including research activities and proposals for financing such projects;
(e) Coordinating with institutions engaged in Investor Education, awareness, and protection activities.

✓ The Committee shall have suo motu powers to call upon any company to pay the amount due to the Fund.

✓ The Committee shall furnish its activity report for every six-month’s period to the Central Government.

✓ The Committee may register from time to time various Associations or institutions or organizations, engaged in
activities relating to investor awareness, education and protection and proposing for Investors programs; organizing seminar, symposia and undertake projects for Investor Protection including research activities.

C. Amendment to Securities Contracts (Regulation) Rules, 1957
Securities Contracts (Regulation) Rules, 1957 were amended by Securities Contracts (Regulation)(Amendment) Rules, 2001 which were notified on 7 Th June, 2001:
✓ At least 10 per cent of each class or kind of securities issued by a company was offered to the public for subscription through advertisement in newspapers for a period not less than two days and that applications received in pursuance of such offer were allotted subject to the following conditions.
✓ Minimum 20 lakh securities (excluding reservations, firm allotment and promoters contribution) was offered to the public.
✓ The size of the offer to the public i.e. the offer price multiplied by the number of securities offered to the public was minimum Rs.100 crore;
✓ A recognized stock exchange may relax any of the conditions with the previous approval of the SEBI in respect of a Government company and subject to such instructions as that Board may issue in this behalf from time to time.

SEBI Regulations and Amendment to SEBI Regulations
The following new regulations were notified:
1. SEBI (Procedure for Board Meetings) Regulations, 2001 These Regulations were notified on 12 Th June 2001, which provides for procedures for conducting the meeting of the SEBI Board.
2. **SEBI (Employees Service) Regulations, 2001**

The Service Regulations regulating the service conditions of employees of SEBI were notified 6th September 2001.

3. **SEBI (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 2001**

   a. 'Self-clearing member' means a member of a clearing corporation or clearing house of the derivatives exchange or derivatives segment of a stock exchange who may clear and settle transactions on its own account or on account of its clients only, and shall not clear or settle transactions in securities for any other trading member.

   b. An applicant who desires to act as a self clearing member, in addition to complying with the requirements of sub-regulation (1) of regulation 16C, shall have a minimum net worth of Rs. 100 lakh and shall deposit at least a sum of Rs. 50 lakh or higher amount with the clearing corporation or clearing house of the derivatives exchange or derivatives segment in the form specified from time to time.

4. **SEBI (Stockbrokers and Sub-Brokers) (Second Amendment) Regulations, 2001**

   a. Any financial liability of a broker, which is due, and payable to the Board under the stockbrokers Regulations will be a factor to be taken into consideration for registration in derivative segment.

   b. If brokers are carrying out transactions in securities without reporting them to the stock exchange, those transactions shall be taken into account for the purpose of turnover and the fees shall be computed at the rate of one hundredth of one percent of the turnover;

   c. The trade put through on other stock exchanges shall be included in the turnover of that exchange. If market for that
security does not exist on the exchange of which he is a member and the fees shall be computed at the rate of one hundredth of one percent of the turnover;
d. It was clarified that the broker-members are required to pay a sum of Rs. 5, 000/- for every block of five financial years from the 6th financial year after initial registration.

5. SEBI (Investment Advice by Intermediaries) (Amendment) Regulations, 2001 - Notified on 29th May, 2001

Every intermediary shall appoint compliance officer who shall be responsible for monitoring the compliance of the Act, Rules and Regulations, Notifications, Guidelines, Instructions, etc. issued by the Board or the Central Government and for redressal of investors’ grievances. The Compliance officer shall immediately and independently report to the Board any non-compliance observed by him.


✓ A Company, authorized by a resolution passed by the Board of Directors at its meeting, to buy back its securities under first proviso to clause (b) of sub-section (2) of section 77A of the Companies Act, 1956 may buy back its securities subject to the following conditions:

✓ Before making a public announcement under sub regulation (1) of regulation 8, a public notice shall be given in at least one English national daily, one Hindi national daily and a regional language daily, all with wide circulation at the place where the registered office of the company is situated;

The existing CIS has been given two years' time to comply with the requirement of regulation 71 in respect of provisional registration such as getting existing schemes rated, audited, appraised and appointment of trustees.

8. SEBI (Insider Trading) (Amendment) Regulations, 2002 – Notified on 29th February, 2002 The said regulations have been renamed as SEBI (Prohibition of Insider Trading) Regulations, 1992 and the following amendments are made:

Temporary insider's i.e. that by virtue of professional or business relationship can assess insider information have also been defined as insider.

✓ "Connected person" has been defined to include any person who is a connected person six months prior to an act of insider trading."

✓ Subscription in primary issue has also been covered in addition to dealing in securities based on insider information.

✓ A model Code of Conduct for prevention of insider trading for listed companies and for other entities such as Merchant Bankers, Law firms, analysts who give advice to the listed companies in respect of trading of securities has also been specified.

9. SEBI (Mutual Funds) Regulations, 1996

i. Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2002: Notified on 23rd July 2001 the following amendments have been made:

a) "Each director of the asset Management Company shall file the details of his transactions of dealing in securities with the trustees
on a quarterly basis in accordance with guidelines issued by the Board”.
b) The dividend warrant shall be dispatched to the unitholders within 30 days.
c) Half-yearly unaudited financial results shall be published before the expiry of one-month from close of each half year.


✓ Exemption shall not be applicable if a Government company acquires shares or voting rights or control of a listed Public Sector Undertaking through the competitive bidding process of the Central Government for the purpose of disinvestment."

11 SEBI (Disclosure and Investor Protection) Guidelines, 2000 DIP Amendments

i. DIP Guidelines were amended by a Circular dated 17.7.2001

✓ Foreign Venture Capital Investor, State Industrial Development Corporation was included in the definition of Qualified Institutional Buyers (QIBs).

✓ Pre-issue capital of an unlisted company held by VCF and FVCI shall not be subject to lock in as per provisions in SEBI (DIP) Guidelines, 2000, however the same shall blocked in as per provisions of the SEBI (Venture Capital Funds) Regulation, 1996 and SEBI (Foreign Venture Capital Investors) Regulations, 2000 and any amendments thereto

✓ The net offer to public should be atleast 10 per cent or 25 per cent, as the case may be, of the post-issue capital in case of public issue by an unlisted company. The same for public issue by a listed company should be 10 per cent or 25 per cent of the issue size. Eligible infrastructure companies relax these requirements in respect of public issues.
ii. Promoters contribute – 20% of project cost and to be locked in for 3 years.

v. There shall be no partly-paid up shares at the time of filing of offer document.

vii. Equity held by promoters to be listed only along with IPO.

Unlisted company making public issue of Debt Securities Convertible into Equity (DSCE)

✓ Public issue during the currency of DSCE permitted subject to compliance with guidelines in respect of IPO.

✓ Price band of 20 per cent can be mentioned in offer document. Specific coupon rate/price band can be determined by issuer/lead merger at a later date before filing the document with RoC.

✓ Mentioning of names of the merchant bankers on the cover page of offer document is allowed only for those merchant bankers who are responsible for due diligence exercise as per inter-se allocation of responsibilities.

5.7.1 Assessment and Prospects

The SEBI has been taking measures to modernize the securities market to enhance its fairness, transparency and efficiency. The SEBI had also stepped up its efforts to protect the integrity of the market through various risk containment measures, surveillance system and enforcement actions. Besides, the developments in the securities market immediately following the Union Budget announcement for the year 2000-2002, have highlighted several concerns about market design and effectiveness for speedy detection and deterrent action in the case of market frauds. In contrast to the rapid pace of change in the equity market, the debt market both for government debt and
Investor Safety- Role of SEBI

corporate debt have seen less changes and as a result have suffered from weakness of market design. Growth of this segment will enhance the competitiveness of the entire securities market. Keeping all these aspects and new developments in view, the SEBI has laid down its objectives and initiatives in the short and medium term as follows:

✓ Investor Education
  Implementation of real time information sharing system
  Introducing electronic filing system - EDIFAR
  Enhancing of continuous disclosure standards

✓ Strengthening Primary Market
  Implementation of Malegam Committee recommendations
  Disclosure in offer documents
  Issue of sweat equity guidelines
  Revisiting IPO Guidelines

✓ Strengthening Secondary Market
  Enhancing liquidity
  Call auction markets
  Surveillance
  Insider trading
  Margin trading
  Market making
  Risk containment
  Investigation and Enforcement

✓ Strengthening Derivative Segment
  Surveillance
  Introduction of new products
  Physical settlements
  Enlarging base of companies and intermediaries
  Efficiency of derivative market

✓ Review Market Infrastructure
  Demutualisation, Corporatisation, consolidation etc.
  Processing corporate action through depositories like dividend Interest Payment etc.

Setting up of Centralized Listing Authority
✓ Review of Depositories Services
- Fees
- Grievances redressal
- Perspectives

Debt Market Development
- Issues in private placements
- Operationalise secondary market-retail
- Supervision and surveillance

✓ Improving Quality of Intermediaries
- Training
- Certification
- Redefining role and responsibilities
- Corporate Governance
- Revisiting code of ethics

✓ Review of Regulations
- Definition of various terms
- Portfolio Management
- Merchant Bankers
- FII
- Review the following regulations
- Brokers
- Fraudulent and Unfair Practices relating to Securities Markets
- Takeovers

✓ Strengthening Regulatory Transparency
- Putting reasoned orders on the website
- Consolidation of case laws
- Advance Ruling
- Streamlining Enquiry / Adjudication proceedings for speed and quality

✓ Strengthening of Corporate Governance
- Evaluation of Form
- Measurement and rating on content
- Monitoring and Compliance

✓ Revisiting HR Policies
- Building Organizational Infrastructure
- Review of organisational design
- SEBI House
Residential quarters  Securities market training institute
Upgrading and Enhancing I.T Infrastructure
Enhancing depth
Increasing usage
Re-engineering of Systems and Processes
✓ New Areas
Introduction of Hedge Funds, Pension funds management
Transition to T+1 settlement

Fraudulent and unfair trade practices
The SEBI made vigorous efforts to unearth cases of fraudulent and unfair trade practices. During 2001-02, the SEBI undertook 84 cases regarding manipulations and price rigging and completed 9 cases of manipulation and price rigging during 2001-02

5.7.2 Investor Education and The Training Of Intermediaries

a. Investors' Education
The SEBI has been continuously focusing on investors' education and awareness relating to functioning of the capital market. During 2001-02, SEBI took following steps for educating the investors
✓ Various corporates on a request made by the SEBI distributed the booklet titled "A Quick Reference Guide for Investors" to their shareholders.
✓ The SEBI issued a series of advertisements /public notices in national as well as regional newspapers to educate and caution the investors regarding collective investment schemes.
✓ Some of the Investors’ Associations registered with SEBI organized seminars for educating investors on various topics of capital market with the financial support extended by the SEBI.
✓ The SEBI issued, a brochure in question-answer format explaining the fundamental issues relating to mutual funds to educate the investors.

B. Prohibition of Insider Trading
During 2001-02 16 cases were taken up for enquiries and investigations in connection with insider trading. Total numbers of 5 cases relating to insider trading were completed during 2001-02.

C. Substantial Acquisition of Shares And Take-Overs
During the year, 130 cases were referred for adjudication under section 15 of SEBI Act, 1992 for alleged violation of the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and a total of Rs. 76,09,000 /- were received towards monetary penalties.

5.8 INSPECTION AND INQUIRIES

Inspection and Enquiries – Stock Brokers and Sub Brokers
Section 11(2) of Securities and Exchange Board of India Act, 1992 provides that SEBI shall register and regulate the working of stock brokers and sub brokers. In fulfillment of the above, SEBI carries out inspections of the books and records of stock brokers to verify whether:
✓ Books of accounts, records and other documents are being maintained in the manner specified by the Securities Contracts (Regulation) Rules, 1957 and SEBI (stockbrokers and Sub Brokers) Regulations, 1992.
The broker under is complying with the provisions of the SEBI Act, the Securities Contracts (Regulation) Act and the provisions made.

Adequate steps for redressal of grievances of the investors is being taken and the conditions of registration as a stockbroker are complied with. Comparative statement of action taken against brokers and sub brokers during the year 2000-01 and 2001-02 is given below table.

**Table: 5.6 Inspection of Brokers and Sub-brokers**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2000-01</th>
<th>2001-02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspections - Brokers</td>
<td>99</td>
<td>10</td>
</tr>
<tr>
<td>Inspections - Sub Brokers</td>
<td>16</td>
<td>Nil</td>
</tr>
<tr>
<td>Enquiries ordered - Brokers</td>
<td>217</td>
<td>24</td>
</tr>
<tr>
<td>Enquiries ordered - Sub Brokers</td>
<td>1</td>
<td>Nil</td>
</tr>
<tr>
<td>Warned</td>
<td>41</td>
<td>39</td>
</tr>
<tr>
<td>Suspended</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>Registration cancelled</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Entitlement Of Underwriting cancelled</td>
<td>2</td>
<td>Nil</td>
</tr>
<tr>
<td>No Action</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Adjudication</td>
<td>2</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Source: SEBI

**1. Inspections of Mutual Funds**

Inspections of 32 active mutual funds (including those schemes of UTI which come under the purview of SEBI) was ordered during the year to be carried out by independent chartered accountancy firms. Necessary action was taken on the findings of inspections carried out. Mutual funds were advised to take corrective action, wherever necessary.

**2. Disciplinary action taken**

Monitoring of mutual funds was further strengthened during the year to ensure that the mutual funds comply with the SEBI regulations and guidelines issued from time to time and the interests of investors are protected. Periodical reports received
from the mutual funds and inspection reports were examined and clarifications were sought from them wherever necessary. SEBI took disciplinary action against a number of mutual funds in the year 2001-02, the details of which are given in the following table:

Table: 5.7 Action taken by SEBI during 2001-02

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Description</th>
<th>No. of Mutual Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Adjudication Ordered</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Financial Penalty Imposed</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Warning/Deficiency Letters issued</td>
<td>48</td>
</tr>
<tr>
<td>4</td>
<td>Payment of Interest</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: SEBI

3. Warning / Deficiency Letters

Considering the magnitude and seriousness, 48 warning/deficiency letters were issued to 20 mutual funds on the basis of monitoring through various periodical reports and deficiencies pointed out in the inspection reports. The main reasons for which warning/deficiency letters were issued to mutual funds were:

(i) Deviation from advertisement code and guidelines.
(ii) Delay in submission of periodical reports.
(iii) Non-exercise of due diligence in filing draft offer documents and font size being smaller than that prescribed.
(iv) Delays in publication of NAVs and wrong publishing of NAVs.
(v) Discrepancies in recording of investment decisions.
(vi) Inadvertent short selling.
(vii) Failure to install systems and compliance mechanism in place.
(viii) Unsatisfactory standard of investor services.
(ix) Delay in filing details of transactions by trustees.
(x) Discrepancies in calculation of investment management fees.
(xi) Systemic deficiencies for delays in remitting the repurchase/redemption proceeds.
(xii) Delay in transfer of consideration in case of inter-scheme transfers.

(xiii) Brokerage/ commission wrongly reported in the published unaudited results compared to the figure published in the annual report.

(xiv) Marginally exceeding the investment limits for a short period.

4. Payment of Interest

SEBI has made it mandatory that the mutual funds must pay interest @ 15 per cent for the delays in dispatch of repurchase/redemption proceeds to the unit holders. The mutual funds are required to report these cases of delays to SEBI on quarterly basis. During the year 2001-02, 14 mutual funds reported to have paid Rs 2.57 lakh as interest to 399 investors for the delay in dispatch of redemption/ repurchase proceeds. It may be mentioned here that during the previous year 2000-01, 22 mutual funds paid interest of Rs 8.37 lakh to 6,722 unitholders as against a total amount of Rs 17.24 lakh paid to 14,686 investors during 1999-2000. Due to strict action taken by SEBI and making it mandatory to pay interest for the delays in dispatch of redemption/ repurchase proceeds, the number of such cases of delays have declined considerably.

5. Redressal Mechanism

There will be occasions when you have a grievance against the company in which you are a security holder. It may be that, if you have opted for shares in physical mode, you have not received the share certificates on allotment or on transfer; it may be that you did not receive the dividend / interest warrant or refund order, etc. while you would first approach the concerned company, stock-exchange, broker, Mutual Fund, or Depository Participant etc. as the case may be, you may not be satisfied with their
response. You would like to know whom you should turn to get your grievance redressed.

Given below are types of grievances for which you could approach SEBI.

**Table: 5.8 Types of Grievances and Approach**

<table>
<thead>
<tr>
<th>Nature of grievance</th>
<th>Can be taken up with</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type-I: issue related i.e. non-receipt of refund order/allotment advice, cancelled stock invests.</td>
<td>Investor Grievances and Guidance Division (IGG), SEBI</td>
</tr>
<tr>
<td>Type-II: Non-receipt of dividend.</td>
<td>IGG Division, SEBI</td>
</tr>
<tr>
<td>Type-III: Shares related i.e. non-receipt of share certificates.</td>
<td>IGG Division, SEBI</td>
</tr>
<tr>
<td>Type-IV: Debenture related i.e. non-receipt of deb. Certificates non-receipt of interest warrants.</td>
<td>IGG Division, SEBI</td>
</tr>
<tr>
<td>Type-V: Non-receipt of letter of offer for rights and interest on delayed payment of refund orders.</td>
<td>IGG Division, SEBI</td>
</tr>
<tr>
<td>Type-VI: Complaints related to collective investment schemes.</td>
<td>IGG Division, SEBI</td>
</tr>
<tr>
<td>Complaints related to Mutual Funds</td>
<td>Mutual Funds Dept., SEBI</td>
</tr>
<tr>
<td>Complaints related to fresh issue of capital e.g. public issue documents</td>
<td>Primary Market Division, SEBI</td>
</tr>
<tr>
<td>Complaints related to Buyback of shares</td>
<td>Primary Market Division, SEBI</td>
</tr>
<tr>
<td>Complaints pertaining to Takeovers</td>
<td>Takeover Division, SEBI</td>
</tr>
<tr>
<td>Complaints against Stock Exchanges, Stock Brokers, Sub-Brokers</td>
<td>Secondary Market Division, SEBI</td>
</tr>
<tr>
<td>Complaints related to dematerialization or Depository Participant</td>
<td>Depositories and Custodian Cell, SEBI</td>
</tr>
</tbody>
</table>

Source: SEBI – Annual Report 2002
However the following types of grievances could be taken up with other authorities/agencies as given below:

**Table: 5.9 Grievances taken up with other agencies**

| With the Stock Exchange:      | *Complaints related to securities traded/listed with the exchanges  
| At the Investor Information Center of all the recognized Stock Exchanges | *Regarding the trades effected in the exchange against the companies  
|                             | *Complaints regarding the trades effected in the exchange against the members of the exchange  

| With the Department Of Company Affairs/ concerned Registrar of Companies (ROC) | *Complaints against unlisted companies  
|                                                                           | *Complaints regarding non-receipt of annual report, AGM Notice  
|                                                                           | *Fixed deposit in manufacturing companies  

| With the concerned company/ROC | Forfeiture of shares  
| With the Reserve Bank Of India | Fixed deposits in banks and NBFCs  

Source: SEBI – Annual Report 2002

Moreover two other avenues always available to the investors to seek redressal of their complaints are Complaints with Consumers' Disputes Redressal for Suits in the Court of Law.
Table: 5.10 Details of Grievances Redressal

<table>
<thead>
<tr>
<th>Financial Year (End March)</th>
<th>Grievances Received (Cumulative)</th>
<th>Grievances Resolved (Cumulative)</th>
<th>Redressal Rate (Per Cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>18,794</td>
<td>4,061</td>
<td>21.61</td>
</tr>
<tr>
<td>1992-93</td>
<td>1,29,111</td>
<td>27,007</td>
<td>20.92</td>
</tr>
<tr>
<td>1993-94</td>
<td>7,13,773</td>
<td>3,66,524</td>
<td>51.35</td>
</tr>
<tr>
<td>1994-95</td>
<td>12,29,853</td>
<td>7,18,366</td>
<td>58.41</td>
</tr>
<tr>
<td>1995-96</td>
<td>16,06,331</td>
<td>10,34,018</td>
<td>64.37</td>
</tr>
<tr>
<td>1996-97</td>
<td>18,23,725</td>
<td>14,65,883</td>
<td>80.38</td>
</tr>
<tr>
<td>1997-98</td>
<td>23,35,232</td>
<td>21,42,438</td>
<td>91.74</td>
</tr>
<tr>
<td>1998-99</td>
<td>24,34,364</td>
<td>22,69,865</td>
<td>93.24</td>
</tr>
<tr>
<td>1999-2000</td>
<td>25,32,969</td>
<td>24,16,218</td>
<td>95.39</td>
</tr>
<tr>
<td>2000-01</td>
<td>26,29,882</td>
<td>25,01,801</td>
<td>95.13</td>
</tr>
<tr>
<td>2001-02</td>
<td>27,11,482</td>
<td>25,72,129</td>
<td>94.86</td>
</tr>
</tbody>
</table>

Source: SEBI – Annual Report 2002

In order to ascertain correct status of redressal of grievances, SEBI has been conducting an exercise of sending reply paid post cards to investors requesting them to reply as to whether their complaints have been resolved by the companies or not. During the year 2001-02, the SEBI sent reply paid post cards to 49,506 investors whose grievances were received upto December 31, 2000 and were pending with SEBI as on July 31, 2001. The SEBI received postcards back from 31131 investors of which 3360 replied that the complaints were resolved, 27,247 replied that the complaints were not resolved and 524 postcards returned undelivered.

5.8.1 Investigation, Enforcement and Surveillance

1. Market Surveillance

Market Surveillance plays a key role in ensuring stability and integrity of the markets. The Market Surveillance Division of SEBI
keeps a proactive oversight on the surveillance activities of the stock exchanges.

SEBI's market surveillance essentially focuses on:

- Policy formulation for introduction of surveillance systems at the stock exchanges to bring integrity and stability in the Indian securities markets;
- Overseeing the surveillance activities of the stock exchanges including the monitoring of market movements by them;
- Inspection of such surveillance functioning of the stock exchanges;
- Preparation of reports and studies on market movements

The primary responsibility of market surveillance has been entrusted to the stock exchanges. The SEBI keeps an oversight on market monitoring by exchanges and in exceptional circumstance it analyses the same. When appropriate, on the basis of reports received from the stock exchanges or specific complaints, preliminary enquiries are conducted to determine whether the trading raises suspicion of market manipulation and/or insider dealing. At times, on exception basis only, cases are taken up suo-moto also. In case an analysis of the trading information leads to a suspicion of market abuse, like occurrence of market manipulation or insider dealing or other misconduct, investigations are initiated.

The Market Surveillance systems are developed and consolidated on a continuous basis. Some of the surveillance systems that have been put in place are briefly given below:

- Reporting by stock exchanges through periodic and event driven reports;
- Establishment of independent surveillance cells in stock exchanges;
✓ Inspection of surveillance functioning of stock exchanges;
✓ Imposition of trading restrictions including suspension of trading in scrips by exchanges to prevent market manipulation;
✓ Formation of Inter-Exchange Market Surveillance Group for interactive and effective decision making on surveillance issues and co-ordination between stock exchanges;
✓ Implementation of On-line automated surveillance system (Stock Watch System) at stock exchanges.
✓ Development of database on violations, contravention and cases of non-compliance by members and companies for internal use in surveillance and monitoring.
✓ Designation of senior official for co-ordination and information sharing with other exchanges over surveillance related issues.
✓ Development of an enforcement manual and improvement in the process and documentation of surveillance and investigation activity.

**Mechanism for a Fair and Transparent Securities Market**

In order to make the securities markets fair and transparent and for enhanced investor protection, the SEBI had taken further initiatives as given below:

**Strengthening of insider trading regulations**

While insider-trading regulations were framed in 1992, it was felt that there was no framework for prevention of insider trading. A group was set up under the Chairmanship of Shri Kumar Mangalam Birla, member, SEBI, to suggest measures to be taken for strengthening of the regulations as well as requirements of procedures, code of conduct and reporting for entities in the capital market. The Insider Trading (Amendment) Regulations were notified on February 20, 2002. The following changes have been
made through these amendment regulations for enhancing market transparency and for strengthening the insider trading regulations:

1. Strengthening existing provisions several existing provisions were amended to strengthen the regulations.

2. Incorporation of disclosure requirements by insiders such as directors and large shareholders. A new regulation has been included providing for initial and continual disclosure of shareholding by directors or officers and substantial shareholders (holding more than 5 per cent shares/voting rights) of listed companies.

3. Creation of preventive framework consisting of code of conduct for listed companies and other entities associated with securities markets. To create a preventive framework to curb insider trading, all listed companies and other entities associated with securities market are now required to adopt a code of conduct on the lines of the model code specified in the regulations.

4. Creation of a code of corporate disclosure practices for listed companies. Listed companies are now required to adopt a code for corporate disclosure to improve transparency in the market and fairness in the dissemination of information by corporate to the market. It is necessary to have a proper method for dissemination of price sensitive and other important information relating to companies and market to the public so that they can make informed investment decisions. The stock exchanges have been advised to display such information on their terminals in the quickest possible manner.

a. Dealing with market rumors

Market rumors can do considerable damage to the normal functioning and behavior of the securities market. It is, therefore, essential to have quick verification of such rumors from the
Investor Safety- Role of SEBI

corporate as well as from other entities whenever necessary. Exchanges routinely scan newspapers to verify unconfirmed news reports and disseminate information to the market.

b. Co-ordination and sharing of information

Information sharing between exchanges is crucial in light of multiple listings and memberships, and also in the context of derivatives trading. After discussion on this issue with exchanges, it was decided that exchanges would designate a senior level official handling surveillance function to co-ordinate with other exchanges on surveillance matters.

Greater responsibility and accountability of the surveillance cells of the stock exchanges The SEBI has initiated several steps in order to bring about greater responsibility and accountability in discharging the surveillance functions by stock exchanges.

c. Reporting by stock exchanges

The periodic reports comprise of weekly reports which include details about overall trading statistics, member deactivations, scrip suspension, instances of rumor verifications, working of stock watch system and reporting on exception basis, any happenings, trends, events, specifications/decisions which have bearing on safety and integrity of market. The monthly report gives details about analysis/investigations taken up by the exchanges following investor complaints forwarded by SEBI or otherwise, outcome of the same and actions taken by the exchange against members/issuers, and reporting on exception basis, any happenings, trends, events, specific actions/decisions which have bearing on safety and integrity of market.

d. Documentation

Surveillance cells of stock exchanges have been advised to devise an internal system of documentation of their surveillance
activities, identification of scrips for further analysis, taking up cases for investigation, as well as investigation reports, and follow-up actions.

e. Development of the stock exchanges as Self-Regulatory Organizations

The securities market has a layered structure for its regulation. Under the Securities Contract Regulation Act (SCR) Act, 1956, the stock exchanges are the hands-on operating and regulating agencies for this market. They also regulate the brokers. Stock exchanges organize, monitor and regulate trading in securities and other related affairs. For performing all these operations, Stock Exchanges exercise various controls and powers, conferred in them by the SCRA and their Bye Laws and Rules, including the following:

a. Monitor market-trading activity including price and volume movements, trading data and broker positions.
b. Putting restrictions on trading in the cases of specific scrips as warranted by circumstances such as
   i. Putting trading on spot basis
   ii. Imposing higher margins
   iii. Suspension of trading
   iv. De-listing of scrips, etc.
c. Analysis and investigation into abnormal trading activity
d. Taking action against members including
   i. Imposing fines / penalties
   ii. De-activation of terminals
   iii. Suspension of trading
   iv. Expulsion from exchange
Thus, the exchanges are the first level regulators and the primary responsibility of monitoring and surveillance of market activity lies with them. Over the years, the SEBI has taken a number of steps to strengthen the role of exchanges as effective self-regulatory organizations. Setting up of independent surveillance cells directly reporting to the exchange executive directors, development of exchange level surveillance capabilities like stock watch system, provision of staff exclusively for surveillance function, development of examination/investigation skills at exchanges through training programs etc. are further initiatives taken by the SEBI in this direction. On the basis of surveillance and examination conducted by them, exchanges take up investigations. Enforcement actions such as levy of fines/penalties/suspension of trading etc. are initiated by exchanges on the basis of such investigations.

f. Stock Watch System - an On-line Automated Surveillance System

The SEBI had asked the exchanges to develop and implement an online market monitoring and surveillance system on the basis of basic parameters specified by SEBI. Major exchanges have implemented the real time alert generation systems at a basic level. Some other constraints/limitations faced by exchanges in implementation of the system are as follows:

- Limitation of hardware to handle increasing volumes
- Software bugs
- Benchmarking of parameters for the alerts to be thrown up by the system
- Introduction of trading in new segments/markets
5.8.2 Investigations by Exchanges

Based on their on-line and off-line surveillance activity, exchanges conduct investigation into trading activity in scrips. SEBI has endeavored to improve the quality of investigations conducted by exchanges through the inspections of exchange surveillance functioning and through informal feedback to exchanges. The SEBI has also advised exchanges to take up more investigations related to merger/takeover announcements and place more emphasis on identifying insider trading cases by examining trading activity around the time of major announcements by corporate.

1. Investigations

Investigations are carried out with a view to gather evidence of alleged violations of securities market such as price rigging, creation of artificial market, insider trading, public issue related irregularities and other misconduct, as well as to find out persons/entities behind these irregularities and violations. Pursuant to completion of investigation, various actions like administrative directions and penal actions under the SEBI Act, 1992 and the various SEBI rules and regulations were undertaken. These actions include monetary penalties, warning, suspension of activities, cancellation of registration, refund of issue proceeds, prohibition of dealing in securities and access to the capital market etc.

2. Investigation proceedings

Investigations were taken up in several cases alleging market manipulations and price rigging, issue related manipulations, insider trading and non-compliance of regulations
of mutual funds and take-over of companies. The details of these are given blow table

Table: 5.11 Investigations by SEBI

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Cases taken up for investigation</th>
<th>Cases completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>1993-94</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>1994-95</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>1995-96</td>
<td>60</td>
<td>18</td>
</tr>
<tr>
<td>1996-97</td>
<td>122</td>
<td>55</td>
</tr>
<tr>
<td>1997-98</td>
<td>53</td>
<td>46</td>
</tr>
<tr>
<td>1998-99</td>
<td>55</td>
<td>60</td>
</tr>
<tr>
<td>1999-00</td>
<td>56</td>
<td>57</td>
</tr>
<tr>
<td>2000-01</td>
<td>68</td>
<td>46</td>
</tr>
<tr>
<td>2001-02</td>
<td>111</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>632</strong></td>
<td><strong>310</strong></td>
</tr>
</tbody>
</table>

Source: SEBI – Annual Report 2002

In April 2001, SEBI completed a preliminary investigation into sudden market falls in early March 2001 and submitted a preliminary investigation report to the Government of India on April 15, 2001. In May 2001, a Joint Parliamentary Committee (JPC) was set up to look into developments in the stock market and other related matters. The SEBI followed up the preliminary investigation by conducting detailed investigations of several entities in the subsequent months. As part of these investigations, SEBI submitted three interim reports to the Hon'ble JPC in August 2001, December 2001 and February 2002. These reports covered investigation into activities of 120 entities. In addition to these investigations, SEBI also gathered voluminous data and information from various intermediaries/ entities which was furnished to the Hon'ble JPC. Not all of this work is reflected in the statistics above.
On completion of investigations, SEBI Regulations provide procedure of enquiry proceeding in respect of intermediaries for their prima facie violations of the SEBI Act and its Regulations. Pursuant to investigations; enquiry proceedings were initiated against 153 intermediaries. Show cause notices have also been issued in this year to 62 non-intermediaries, pursuant to the completion of the investigation, asking them to show-cause as to why suitable directions including directions prohibiting them from dealing in securities and accessing the capital market, for an appropriate period, should not be issued, for creation of artificial market, price manipulations, insider trading, non-compliance of takeover codes etc. These non-intermediaries include individuals, firms as well as corporate. In addition to the above, show cause notices have also been issued for initiating prosecution proceedings against the intermediaries and the non-intermediaries for mis-statement in prospectus, market manipulations, delay in transfer of shares, substantial acquisition without following procedure of open offer in violation of takeover code, etc.

3. Enquiry and adjudication proceedings

On completion of investigations, enquiry proceedings were initiated in respect of 153 intermediaries i.e. stock brokers, merchant bankers, registrars to an issue and share transfer agents, bankers to an issue, etc. under the provisions of the relevant SEBI Regulations. The break up of these 153 intermediaries is given in Table 2.50. In 2001-02 enquiry proceedings were completed against 114 intermediaries. During 2001-02, adjudication proceedings were initiated in 68 cases and out of these, adjudication proceedings were completed in 29 cases.
Chart 5.1 Investigations by SEBI
4. Action taken

On completion of the investigation and after following the procedure of enquiry proceedings in respect of intermediaries, i.e., stock brokers and sub-brokers, merchant bankers, registrars to an issue and share transfer agents and bankers to an issue, orders were passed for cancellation of registration in 1 case, suspension in 8 cases, warning issued in 36 cases and there were no refund of issue proceeds. Apart from action against the intermediaries, prohibitive directions were issued under section 11B of the SEBI Act against 19 intermediaries and 79 non-intermediaries, i.e., individuals, firms, companies, etc. for their involvement in creation of artificial market, price manipulations, irregularities in public issue process, etc.

5. Summary of representative investigation cases

111 cases were taken up for investigation. These cases pertained to allegations of market manipulations and price rigging, issues related manipulations, insider trading, non-compliance with Takeover Regulations, mis-statement in the prospectus, etc. Out of these 111 cases, investigations were taken up in 86 cases of alleged market manipulation and price rigging, 1 case of issue related manipulations, 16 fresh cases of alleged insider trading, etc. Such investigations coupled with effective market surveillance under the oversight of SEBI have resulted in significant reduction in cases of market manipulation and price rigging. During 2001-02, investigations in 11 cases of market manipulation and price rigging, 6 case of insider trading, 1 case of takeover code violations was completed. The investigations into market manipulation cases have brought out that certain persons
created artificial market and manipulated the prices of certain scrips.

6. Prosecutions

SEBI initiated prosecution proceedings in 109 cases in 2001-02 bringing the total prosecution proceedings initiated so far to 192 in the last six years. Out of these, 51-prosecution proceedings were initiated under the powers delegated to SEBI under the Companies Act. Likewise, 9 Prosecution proceedings were initiated for violations of the SEBI (Substantial Acquisitions of Shares and Take-over) Regulations, 1997. Similarly, 12 prosecution proceedings were initiated for violations of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities market) Regulations, 1995, 2 for violations of the SEBI (Insider Trading) Regulations, 1992 and other 13 were initiated for non-cooperation during the investigation proceedings. In addition to this there were 99 prosecution proceedings against unregistered entities including CIS and 4 prosecution proceedings were initiated for non-payment of penalty amount imposed by the Adjudicating Officer. The details of the above prosecution cases filed in the Court of Law till the end of 2001-02 are given in table 5.12.

Prosecution proceedings were initiated in 20 cases in the financial year 2000-2001, which involved 98 persons. This increased to 109 cases in the year 2001-02 cases involving 604 persons. The aggregate number of persons against whom prosecution proceedings had been initiated by SEBI till the end of 2000-2001 was 555. This number increased to 604 solely for the year 2001-02 thereby bringing the total to 1159 persons.
Table: 5.12 Number of Persons Prosecuted

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Under powers delegated under the Companies Act</td>
<td>27</td>
<td>14</td>
<td>22</td>
<td>34</td>
<td>33</td>
<td>29</td>
<td>17</td>
<td>0</td>
</tr>
<tr>
<td>Delay in refund of excess application money, delay transfer of shares and non-payment of dividend</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mis-statement in offer document and fraudulent inducement</td>
<td>0</td>
<td>17</td>
<td>20</td>
<td>23</td>
<td>5</td>
<td>13</td>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td>Under powers given by the SEBI Act Violation of SEBI Substantial Acquisition of Shares and Take-over Regulations</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>4</td>
<td>52</td>
<td>31</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Violation of SEBI Prohibition of Fraudulent and Unfair Trade Practices elating to the securities market) Regulations</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>38</td>
<td>30</td>
<td>0</td>
</tr>
<tr>
<td>Violation of SEBI (insider Trading) Regulations, 1992</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Violation of SEBI (Portfolio Managers) Rules, 1993</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unregistered entities (incl. CIS)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>0</td>
<td>563</td>
</tr>
<tr>
<td>Others : non-cooperation during investigation proceedings</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>11</td>
<td>0</td>
<td>59</td>
<td>0</td>
</tr>
<tr>
<td>Non Payment of Penalty amount imposed by the Adjudicating Officer</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>31</td>
<td>52</td>
<td>81</td>
<td>145</td>
<td>121</td>
<td>98</td>
<td>604</td>
</tr>
</tbody>
</table>

Source: SEBI – Annual Report 2002
5.9 CONCLUSIONS

Investors are backbone of Securities market. It is the investor education and awareness that holds key to revive the interests of investors in the market. SEBI has launched an intensive investor education exercise aimed at protecting interests of investors. It has published a booklet titled 'Quick Reference Guide for Investors' giving helpful information and how to deal with complaints related to securities, and also it issues a series of advertisements and public notices in this regard.

There are several initiatives have been taken to educate, protect the investors by SEBI, it has set up L.C.Gupta committee, and AMFI,NSDL,FIMMDA has been launched. Recently the regulators,SROs and other market participants are promoting research. In collaboration with NCAER, SEBI brought out a survey of Indian investors to estimate investor population and behavior, NSE also initiated a research institute, and The Society for Capital Market Research and Development is dedicated to research purpose.

To improve the investor's safety SEBI launched a intensive investor awareness programs through regulators, SROs, NGOs and investor associations. Investor protection funds are started in all exchanges to protect small investors. Code of Corporate Disclosure introduced by SEBI and all market players are required to abide to this code specified in SEBI (insider trading) regulations. In addition with National Informatics Center, SEBI has setup EDIFAR system to facilitate an electronic filing of information by listed companies to centralize the information.
To achieve the primary function of capital formation, a series of systematic measures are taken – a committee was setup under the Chairmanship of Dr. N.L. Mitra, submitted recommendations to increase protection of investors. SEBI was registering investor associations to improve investor awareness. It also publishes literature in this regard.

A investor grievance redressal system was introduced to register complaints and dispose off them with compensation where it is appropriate.

Apart with the policies introduced, SEBI has frequently issuing different guidelines from time to time, separately for primary and secondary markets, M.F.s, M.B.s, registrars, transfer agents, underwriters, brokers, portfolio managers, investors etc., A code of conduct is also laid down for each category separately.

In the process of bringing investor protection and safety SEBI is conducting inspections, inquiries and investigations regularly. In the process it warned, suspended and some registrations are cancelled., an grievance redressal mechanism laid down to guide how to approach for complaints. it was effective with receiving 18,794 grievances in 1991 with redressal rate of 21.6% to cumulated grievances of 27,11,482 in 2002 with redressal of 25,72,129 grievances are resolved at a rate of 94.86%.

And SEBI asked the exchanges to develop and implement a stock watch system and surveillance system for ensuring stability and integrity of ICM.