CHAPTER – 14

CONCLUSION AND SUGGESTIONS

1. Conclusion

The capital market is a place where the suppliers and users of capital meet to share one another’s views, and where a balance is sought to be achieved among diverse market participants. The securities decouple individual acts of saving and investment over time, space and entities and thus allow savings to occur without concomitant investment. Moreover, yield-bearing securities makes present consumption more expensive relative to future consumption, inducing people to save. The composition of savings changes with less of it being held in the form of idle money or unproductive assets, primarily because more divisible and liquid assets are available.

The capital market acts as a brake on channeling savings to low-yielding enterprises and impels enterprises to focus on performance. It continuously monitors performance through movements of share prices in the market and the threats of takeover. This improves efficiency of resource utilisation and thereby significantly increases returns on investment. As a result, savers and investors are not constrained by their individual abilities, but facilitated by the economy’s capability to invest and save, which inevitably enhances savings and investment in the economy. Thus, the capital market converts a given stock of investible resources into a larger flow of goods and services and augments economic growth. In fact, the literature is full of theoretical and empirical studies that have established causal robust (statistically significant) two-way relation between the developments in the securities market and economic growth.

The Indian capital markets dates back to the 18th century when the securities of the East India Company were traded in Mumbai and Kolkata. However, the orderly growth of the capital market began with the setting up of The Stock Exchange, Bombay in July 1875 and Ahmedabad Stock Exchange in 1894. Eventually, 22 other Exchanges in various cities sprang up.

The Capital Market Liberalization of the Indian economy began in 1991. Since then, we have witnessed wide-ranging changes in both laws and regulations,
and a major positive transformation of the corporate sector and the corporate
governance landscape. Perhaps the single most important development in the
field of corporate governance and investor protection in India has been the
establishment of the Securities and Exchange Board of India in 1992 and its
gradual and growing empowerment since then. Established primarily to
regulate and monitor stock trading, it has played a crucial role in establishing
the basic minimum ground rules of corporate conduct in the country. Concerns
about corporate governance in India were, however, largely triggered by a
spate of crises in the early 1990’s—particularly the Harshad Mehta stock
market scam of 1992—followed by incidents of companies allotting
preferential shares to their promoters at deeply discounted prices, as well as
those of companies simply disappearing with investors’ money.\footnote{Omkar
Goswami, 2002, “Corporate Governance in India,” Taking Action Against
Corruption in Asia and the Pacific (Manila: Asian Development Bank), Chapter 9.}

Given the significance of capital market and the need for the economy to grow
at the projected over 8 per cent per annum, the managers of the Indian
economy have been assiduously promoting the capital market as an engine of
growth to provide an alternative yet efficient means of resource mobilization
and allocation. Further, the global financial environment is undergoing
unremitting transformation. Geographical boundaries have disappeared. The
days of insulated and isolated financial markets are history. The success of
any capital market largely depends on its ability to align itself with the global
order.

To realize national aspirations and keep pace with the changing times, the
capital markets in India have gone through various stages of liberalization,
bringing about fundamental and structural changes in the market design and
operation, resulting in broader investment choices, drastic reduction in
transaction costs, and efficiency, transparency and safety as also increased
integration with the global markets.

1.1 Regulatory Efficacy

The capital markets in India were underdeveloped, opaque, dominated by a
handful of players, and concentrated in a few cities. Manipulation and unfair
practices were perceived to be widespread and rampant, prompting an overseas
researcher to describe it as a “snake pit”. The transformation of the Indian
securities markets was initiated with the establishment of the Securities and Exchange Board of India (SEBI) in 1989, initially as an informal body and in 1992 as a statutory autonomous regulator with the twin objectives of protecting the interests of the investors and developing and regulating the securities markets over a period of time. SEBI has been empowered to investigate, examine, visit company premises, summon records and persons and enquire and impose penalties commensurate with misconduct. The first and foremost challenge for the fledgling regulator was to create a regulatory and supervisory framework for the market, a job that proved formidable, because vested interests resisted every new step.

However, with the designing and notification of 32 regulations/guidelines (amended many times over), during a decade and half of its existence, the apparatus steadily evolved and has come to grips with the situation. SEBI has instituted a consultative process of framing regulations. All reports / concept papers / policy proposals are posted on SEBI web site www.sebi.gov.in for comments from market participants and the public. The comments are compiled and considered before finalizing regulations. Even the draft regulations are put on the website before notification for legal pundits to comment if the law framed is in consonance with the spirit of initiatives. This has a profound impact not only in terms of receiving valuable input and building public opinion before framing regulations / guidelines but also in improving the quality, acceptability and implementibility. SEBI has formed a number of committees comprising of eminent experts and market practitioners to support it in the design of reforms for different aspects of the markets. The regulator posts all its orders, including those delivered on appeals against its orders, on its website. On request, it provides informal guidance on payments of nominal fees and issues no action letter so that the participants can seek clarity on any aspect and adopt appropriate business strategy in consonance with the applicable regulations.

SEBI has put timelines for performance of its various functions like registration and renewal on the web-site. These measures work as a self-disciplining mechanism within SEBI and provide full transparency to its functioning.
1.2 REVIEW OF POLICIES AND PROGRAMMES
SEBI initiated a number of policies and programmes during 2009-10 which are presented in this Section under major heads viz., primary securities market, secondary securities market, Take over and investor assistance and education.

1.2.1 Primary Securities Market
An efficient market is critical for resource mobilisation by corporate to meet their growth and expansion plans. Indian primary market witnesses renewed activity in terms of terms of resource mobilisation and number of issues during 2009-10, building it further from its relatively subdued pace in 2008-09. In view of the recovery witnessed in equity markets post global financial crisis, companies entered the primary market and investor’s response to public issues was encouraging in 2009-10 when compared to 2008-09. Equity capital was raised to the tune of Rs. 55,055 crore through 72 issues during 2009-10, higher than Rs. 14,720 crore mobilized through 46 issues during 2008-09. The ongoing reforms in the primary market further helped in maintaining the investors’ confidence. An analysis on number of issues made, amount mobilized, size and composition of issues and industry wise resource mobilized is presented in part Two of this report. Following were the major policy initiatives taken by SEBI relating to the primary market during 2009-10

In order to enable better price discovery and to maximize the amount which could be raised by an issuer, SEBI introduced the pure auction method in further public offerings by listed entities. In this method the QIB bidders are free to bid at any price above the floor price. The bidder who bids at the highest price is allotted the number of securities that he has bid for and then the bidder who has bid at the second highest price and so on until all the specified securities on offer are exhausted. Allowment is made on price priority basis and at differential prices. Allotment to retail individual investors, non-institutional investors and employees of the issuer is made proportionately at the floor price.

406 SEBI Annual Report 2009-10
1.2.1(b) Introduction of Concept of ‘Anchor Investors’ in Public offerings

In order to ensure certain minimum levels of subscription from qualified institutional buyers (QIBs) even in relatively bearish market, SEBI introduced the concept of ‘Anchor Investors’ in Public offering. Such investors are expected to offer stability to the issue by subscribing to the issue before the bid is open to other categories of the investors.

1.2.1 (c) Smoothening the Payment/Refund Process in Issues:

In its continuing endeavour to make the existing public issue process more efficient, SEBI had introduced application supported by blocked amount (ASBA) (ASBA Phase I) as a supplementary facility to retail individual investors for applying in public issues. In order to enable more investors to make use of the ASBA process in public issues, ASBA facility has now been extended to all investors other than qualified institutional buyers. This is expected to further improve the efficiency of the issue process. Additionally, to encourage ASBA, there was a need to have a uniform incentive Structure and level playing field between the respective intermediaries, i.e. syndicate members for non-ASBA and self certified syndicate banks (SCSBs) for ASBA. Therefore, SEBI directed merchant bankers to ensure the both ASBA and non-ASBA applications should be treated at par while paying commission to the concerned intermediaries for the work undertaken by them.

1.2.1 (d) Uniform Procedure for Dealing with Unclaimed Shares.

It was brought to the notice of SEBI that there is a large quantum of shares issued pursuant to the public issues, which remains unclaimed i.e. which could not be allotted to the rightful shareholder despite the best efforts of the registrar to an issue or the issuing company with such shares. In view of this, SEBI decided to provide a uniform procedure for dealing with unclaimed shares. Accordingly, a new Clause 5A has been inserted in the equity listing agreement, as per which, in respect of shares issued but remain unclaimed in the escrow account, the issuer follows the following procedure:

(a) The registrar to any issue sends at least three reminders at the address given in the application form as well as captured in depository’s database asking for the correct particulars and if no response is received, the unclaimed shares are credited to a
demat suspense account with one of the depository participants, opened by the issuer for this purpose.

(B) The issuer maintains details of shareholding of each individual allottee whose shares are credited to such suspense account.

(C) As and when the allottee approaches the issuer, the issuer credits the shares lying in the suspense account to demat account of the allottee to extent of the allottee’s entitlement after proper verification of identity of the allottee.

(D) The voting right on such shares remain frozen till rightful owner claims the shares. Further, any corporate benefits in terms of securities accruing on such shares viz. bonus shares, split etc., are also credited to such demat suspense account.

(E) The issuer discloses the details of such unclaimed shares in its Annual Report.

1.2.1 (d) Introduction of Uniform Margin Payment for all Categories of Investors in Public Issues.

Retail individual investors and non-institutional investors were required to pay entire application money upfront while applying in public issues while qualified institutional buyers (QIBs) could apply by paying only 10 percent of the application money as margin on their application. This resulted in a non-level playing field retail individual investors and non-institutional investors vis-a-vis the QIBs. It also resulted in an inflated demand in public issues since the lower margin enjoyed by QIBs led them to put in larger bids than they intended to acquire. In order to address these concerns, SEBI decided that with effect from May 1, 2010, the margin collected shall be uniform across all categories of investors.

1.2.2 Secondary Securities Market

Secondary market witnessed revival following sharp fall in the previous year in the wake of global financial crisis that had plunged global equity markets. Investors regained confidence and the Indian market rallied post announcement of general election results during May 2009. Following were
the major policy initiatives taken by SEBI relating to the secondary market during 2009-10.

1.2.2(a) Trading Hours on Stock Exchanges:
With a view to align Indian markets with those of the international markets to facilitate assimilation of any economic information that may flow in from other global markets, SEBI vide circular dated October 23, 2009, decided to permit the stock exchanges to set their trading hours (in the cash and derivatives segments) subject to the condition that the trading hours are between 9 am and 5 pm.

1.2.2 (b) Disclosure of Investor Complaints and Arbitration Details on Stock Exchange Website
Based on the feedback received from investors and their associations to bring in more transparency in the grievance redressal available in the stock exchanges, it was decided that details of complaints lodged by clients/investors against trading members and companies listed in the exchange, on their website. The aforesaid disclosure shall also include details pertaining to arbitration and penal action against the trading members.

1.2.2 (c) Transparency in Dealing between a Client and Stock Broker and Strengthening of know you client (KYC) Norms
SEBI received representation from several Investors Associations regarding the problems faced by the investors because of the complex registration documents that are signed by the investors for trading in the securities market. There were also sometimes complaints from investors against the stock brokers alleging misuse of their funds and securities, non receipt of electronic contract notes (ECNs), unauthorized trading in their accounts, etc. It was observed that a majority of the complaints were arising mainly due to certain authorizations taken by the stock brokers from the clients, e.g. running account authorization and authorization to the stock brokers to create email ID on behalf of the clients.

Therefore, with a view to instill greater transparency and discipline in the dealings between the clients and the stock brokers, SEBI, vide circular dated 3rd December 2009, issued the following guidelines:

\[\text{ibid}\]
(a) Unless specifically agreed to by a client, the settlement of funds/securities shall be done within 24 hours of the pay out. However, a client may specifically authorize the stock broker to maintain a running account. In such cases the authorization shall be renewed at least once a year and shall be dated. The client may revoke such authorization at any time. The stock broker shall compulsorily settle the running account on monthly/quarterly basis as desired by the clients and send them a statement of account to that effect.

(b) The stock broker shall not create email IDs for the clients desirous of receiving ECNs. The client desirous of receiving ECNs shall create/provide his own email ID to the stock broker.

(c) The stock broker shall disclose its policy and procedure with regard to applicable brokerage rate, refusal of order for penny stocks, setting up client’s exposure limits, deregistering a client, imposition of penalty/delayed payment charges, to avoid complaints from the investors etc.

(d) The stock broker shall clearly distinguish between mandatory and non-mandatory clauses in the registration documents. Any authorization sought in non-mandatory part by the stock broker shall be a separate document and shall have specific consent of the client. The clauses in non-mandatory part shall not be in contravention of any of the clauses in the mandatory documents. All the documents in mandatory and non-mandatory part shall be printed in a minimum font size of 11 for easy readability for the investors.

(e) The client shall indicate in the KYC form the stock exchange as well as the market segment where it intends to trade so as to avoid complaints of unauthorized trading by the brokers in its account.

1.2.2 (d) Prior Approval for Re-commencement of Trading on the Stock Exchanges

With the completion of corporatisation and demutualization of stock exchanges, some of the stock exchanges on which there was no trading over the past several years, have generated renewed trading interest and are in the process of resuming trading for their revival. It was felt that the
regulatory changes introduced by SEBI in the interim may not have been complied by the exchanges.

In light of the above, SEBI vide circular dated October 7, 2009 has stipulated that the stock exchanges that have no trading for a period of six months of more shall resume trading only after ensuring that adequate and effective trading systems, clearing and settlement systems, monitoring and surveillance mechanisms, risk management systems are in place and have also complied with all other regulatory requirements stipulated by SEBI from time to time. Further, the stock exchanges shall resume trading only after obtaining prior approval from SEBI.

1.2.3 Take Overs

Interpretative Circular to Clarify the Applicability of Provisions of Regulations 11 (2)

To facilitate consolidation of holdings, SEBI had amended regulation 11 (2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (SAST Regulations) on October 30, 2008 so as to allow a creeping acquisition of up to five percent to persons holding 55 percent or more but less than 75 percent of the shares or voting rights in a company.

However, SEBI received representations from market participants/ listed companies seeking clarity on interpretation of the aforesaid provision, particularly regarding the applicable time-frame under the said provision. The same was, accordingly, clarified by SEBI, vide an interpretative circular dated August 6, 2009. The said circular, inter-alia, provided that an acquirer holding 55 percent to 75 percent of the shares or voting rights in a company may further acquire up to a maximum of five percent in such company, in one or more tranches, without any restriction on the time-frame within which the same can be acquired.

1.2.4 Investor Assistance and Education

1.2.4(a) Redressal of Investors Grievances

SEBI has in place a comprehensive mechanism to facilitate redressal of grievances against intermediaries registered by it and against companies whose securities are listed or proposed to be listed on stock Exchanges.
office of Investor Assistance and Education (OIAE) acts as the single window interface, interacting with investors seeking assistance of SEBL.

Investors can submit their grievances in any form i.e. plain paper, card, via e-mail etc, at the Head Office at Mumbai or at any of the Regional Office at Delhi, Chennai, Kolkata and Ahmedabad. Besides, grievances can also be filed in standardized forms that are available at all its offices. Investors also have the option to electronically file their grievances through the SEBI website (www.sebi.gov.in). All complaints received by SEBI (excluding those which refers/ pertain to investigation) are individually acknowledged with unique number, which facilitates tracking.

Dedicated investor helpline telephone numbers are available for investors seeking general guidance pertaining to securities markets and to provide assistance in filing grievances. Dedicated personnel manning the helpline also guide the investors in filing up the grievance submission forms as well as in determining the appropriate authority if their grievance is outside the purview of SEBI. The grievances lodged by investors are taken up with the respective listed companies and are continuously monitored. The company is required to respond in prescribed standard format in the form of Action Taken Report (ATR). Upon the receipt of ATR the status of grievances is updated. Where the response of the company is insufficient/inadequate, follow up action is initiated.

Grievances pertaining to brokers and depository participants are taken up with concerned stock exchange and depository for redressal and monitored through periodic report obtained from the stock exchanges and depositories. Grievances pertaining to other intermediaries are taken up with them directly for redressal.

During 2009-10, SEBI receive 32,335 grievances from investors and resolved 42,742 grievances as compared to 57,580 grievances receive and 75,989 grievances resolved in 2008-09. As on March 31, 2010 there were 1,60,593 grievances pending resolution as compared to 1,71,000 unresolved grievances as on March 31, 2009. These include 1,22,713 complaints where appropriate regulatory action have been initiated.

Types of investor’s grievances received and redressed, as on March 31, 2010, are given in the Table 1.4 and type-wise status of grievances awaiting redressal is provided in Table 1.5.
Table 1.4: Status of Investor Grievances Received and Redressed

<table>
<thead>
<tr>
<th>Year</th>
<th>Grievances Received Year-wise</th>
<th>Grievances Redressed Year-wise</th>
<th>Pending Grievances Cumulative Action Initiated*</th>
<th>Pending</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cumulative</td>
<td>Cumulative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>54,933</td>
<td>31,676</td>
<td>1,33,354</td>
<td>56,055</td>
</tr>
<tr>
<td>2008-09</td>
<td>57,580</td>
<td>75,989</td>
<td>1,21,887</td>
<td>49,113</td>
</tr>
<tr>
<td>2009-10</td>
<td>32,335</td>
<td>42,742</td>
<td>1,22,713</td>
<td>37,880</td>
</tr>
</tbody>
</table>

*Action has been initiated u/s 11B, 15C of prosecution launched.

Table 1.5: Type-wise Status of Grievances Awaiting Redressal.

<table>
<thead>
<tr>
<th>Type</th>
<th>Particulars</th>
<th>Pending as on March 31, 2008</th>
<th>Pending as on March 31, 2009</th>
<th>Pending As on March 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Complaint against listed companies</td>
<td>61,648</td>
<td>38,498</td>
<td>37,755</td>
</tr>
<tr>
<td></td>
<td>Non Receipt of Investment &amp; Returns thereon (CIS)</td>
<td>1,09,076</td>
<td>1,09,121</td>
<td>1,09,373</td>
</tr>
<tr>
<td></td>
<td>Mutual Funds, venture Capital Funds, Foreign Venture Capital Funds, Portfolio Managers, FIs, Custodians etc.</td>
<td>1,766</td>
<td>1,669</td>
<td>1,974</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15,119</td>
<td>18,602</td>
<td>9,879</td>
</tr>
<tr>
<td></td>
<td></td>
<td>264</td>
<td>258</td>
<td>293</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,512</td>
<td>2,828</td>
<td>1,317</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stock Exchanges, Clearing and Settlement Organisations, Depositories etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Derivative Exchanges and related organizations etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Corporate Governance, Restructuring, Substantial Acquisition and Takeovers, Buyback, Delisting, Compliance with Listing Conditions etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total no. of Grievance Awaiting Redressal</td>
<td>1,89,409</td>
<td>1,71,000</td>
<td>*1,60,593</td>
</tr>
</tbody>
</table>

*Includes 1, 22,713 grievances where action has been initiate u/s 11B, 15C or prosecution launched.
1.2.4(b) Regulatory Action against Companies and its Directors for Non-redressal of Investor Complaints

a) Top 100 companies in terms of number of unresolved grievances were identified and were vigorously followed up for resolving grievances. Adjudication proceeding under section 15C of SEBI Act were initiated against the following 13 companies which failed to redress investor complaints, after having been called upon by SEBI to redress the same.

b) Out of the above proceeding, in the following three case, the application proceeding are completed and penalty has been levied for non-redressal of investor grievances:

c) In addition to the above adjudication proceeding, notice has also been issued to the following 33 companies and its 150 directors under section 11(4)(b) of the SEBI Act, 1992 why they shall not be debarred from accessing securities market till they resolve investor grievances, for their failure to redress the investor grievances and respond to SEBI’s notices to redress complaints:

1.2.4(e) SCORES (SEBI Complaints Redress System)

SEBI is in the process of upgrading the investor grievance redressal mechanism. The upgraded mechanism would be a web-based. Centralized grievances redress system for SEBI. The software for the new system is being developed by the National Informatics Centre (NIC), Ministry of Information Technology, New Delhi.

The salient features of the new system are:

a) Centralised complaints tracking system for entire SEBI.

b) Grievance pertaining to any of the Regional Offices of SEBI can be lodged from anywhere.

c) All complaints and Action Taken Report to be in electronic mode

d) Action taken and the current status of the complaint can be accessible to the investor, online.

e) Facility for online updation of Action Taken Reports.
1.2.4(d) Issuance of No Objection Certificate

Companies raising capital through public issue of securities are required to deposit one percent of the issue amount with the designated stock exchange only after is released by the stock exchange only after SEBI issue a no Objection Certificate (NOC).

One of the criteria for issuance of NOC to the companies is the satisfactory redressal of all investor grievance received by SEBI against the company.

In 2009-10, 76 NOCs were issued to applicant companies. In 34 Cases, NOCs were not issue as the applications were incomplete or due to unsatisfactory record of grievance redressal on their part.

1.2.4(e) Investor Grievances against Suspended Companies

It was observed that several companies who fail to redress investor grievance and compiling with listing agreement with stock exchange and letters addressed to them are returned measures despite trading in their shares have been suspended by the stock exchanges. It was also observed that some of these companies were active in their business and filing their return with Registrar of Companies to avoid declaring them as vanishing companies and subsequent regulatory actions.

As recommended by a sub-committee constituted in this regard, following course of action are taken:

- BSE and NSE display on their respective websites the names of the companies suspended as on date and the name of directors with their DIN/PAN, compliance officers and promoters of such companies on the date of suspension.
- SEBI would insist on a declaration from the directors of the companies for public issues that they were not a director of any suspended companies.
- To begin with BSE and NSE shall identify the suspended companies which are active by filing return with Register of
Companies and issue notices to them for non-compliance and issue notices to them for non-compliance of investor grievances and non-compliance of listing agreement.

- BSE and NSE shall submit a report to SEBI in respect of each such suspended compliance Officers which fails to redress the compliance Officers fails to redress the complaints for appropriate regulatory actions by SEBI.

1.2.4(f) **Securities and Exchange Board of India (Investor Protection and Education Found) Regulations, 2009**

The Regulations governing the administration of the Investor Protection and Education Fund (IPEF) were notified on May 19, 2009. These Regulations inter alia provide for amount that can be credited to the fund, its utilization and also an Advisory Committee for recommending utilization of the fund. During the year 2009-10, the Advisory Committee met thrice and provided inputs and suggestions which are under various stages of implementation.

1.2.4(g) **Investor Awareness Division (IAD)**

A separate division namely, the Investor Awareness Division (IAD), was created to rejuvenate and to bring focused attention on the activities of the Board pertaining to investor education and awareness. IAD also handles work pertaining to financial literacy initiatives of the Board.

1.2.4(h) **Investor Assistance**

SEBI provides assistance/guidance to investors by replying to their queries received through the following modes:

a) Telephone (Investor Helping 91-22-26449188/26449199/40599188/40459199 at Head office and through board lines at the Regional Offices.

b) E-mail ([investorcomplaints@sebi.gov.in](mailto:investorcomplaints@sebi.gov.in))

c) Investor visiting SEBI Officers

d) Letters

e) Grievance from in the SEBI Website.
Assistance so rendered to investor was augmented by providing relies to the commonly sought queries by investors on the website as FAQs. Further, SEBI is in the process of launching a toll free helpline to answer the queries of investor.

1.2.4 (i) Investors’ Associations

Informed investment decisions by investors have been the key thrust of the investor protection initiatives of the Board. Towards educating investors and to spread awareness, SEBI continues its association with Investor’s Associations (IA) who play a role in this regard by conducting investor education workshops. Educative material developed by SEBI was distributed in these workshops. At the end of March 2010, there were 22 IAs that were recognized by SEBI.

The feedback/ suggestions from the IA are used as inputs for policy decisions of the Board. Some of the measures pursuant to the feedback and suggestions received from the IA include.

(i) Disclosure of Complaints details at Stock Exchanges and Depositories websites:

To ensure transparency in grievance redressal and to improve the general functioning of the market by providing investors the wherewithal to make informed choice, stock exchanges and depositories are disclosing in their website the details of complaints lodged by clients/investors against trading members, companies listed in the exchanges and depository participants. The aforesaid disclosure also includes details pertaining to arbitration and penal Action against the trading members and depository participants.

(ii) Client Registration Procedure:

With a view to instill greater transparency and discipline in the dealings between the clients and the stock brokers, SEBI has prescribed requirements related to dealings between a client registration procedure, minimum font size of the agreement, mandatory documents, periodic settlement of running accounts, display of all the documents executed by a client, client’s position, margin and other related information, statement of accounts on the web-site owned by broker etc.
(iii) Sending Clients Trade Details by Exchanges:
To pre-empt the unauthorized trading by some brokers in their client’s account, NSE, BSE and MCX-SX have started sending daily clients trade details directly to a few randomly selected clients for their verification and reporting of any unauthorized trade of discrepancies in trade.

(iv) Disseminating Regulatory Orders and arbitration Awards by Exchanges:
To ensure transparency and to improve the general functioning of the market by providing investors the wherewithal to make informed choice, all stock exchanges were advised to post all their regulatory orders and arbitration awards issued against listed companies and clearing/trading members on their websites.

(v) Guidelines obtaining power of Attorney (POA):
To prevent unfair practice of insisting PAA from all clients and misuse of PoA from all clients and misuse of PoA obtained by some brokers and depository by some brokers and depository participants, SEBI has issued a set of guidelines to be followed by brokers and depository participants for obtaining PoA only if it is required by clients.

(vi) Waiver of arbitration fee:
BSE has waived the fees for arbitration proceedings for claims up to Rs. 10 lakh for clients as being following by NSE.

(vii) Investor Grievance Redressal Committees at Regional Centers:
NSE has set up Investor Grievance Redressal Committees at all its regional centers at par with BSE.

1.2.4 (j) Financial Literacy
(i) School Programs
SEBI initiated financial program for school students jointly with NISM in 2008-09 and positioned it as an important life skill at the school level targeting 8th and 9th standard students.
In 2009-10 this initiative was taken further in which 72 teachers from 36 schools were trained through 2 workshops. Study material in the form of kits was distributed. About 1600 such kits were distributed Participant teachers were given the training kits free of cost and were also presented
a certificate of participation. During the year, 18 schools have implemented the program in their schools and more schools are expected to implement in the coming years.

SEBI has also taken up with central Board of Secondary Education (CBSE) to introduce financial literacy in school syllabus as an essential life skill at school level.

(ii) Association with Non-Government Organisations (NGOs)
SEBI explored the possibility of associating with NGOs and other entities, having experience in the field of financial literacy. SEBI has partnered with Meljol, an NGO having experience in the field of promoting child rights and financial education in schools. The pilot program to cover 14,550 students in 281 schools through 196 trained teachers in Akola and Thane districts of Maharashtra, has commenced. This program covers schools in rural and tribal areas of Maharashtra, having high concentration of children from underprivileged communities.

(iii) SEBI is launching its financial literacy drive targeting the following groups

- School Children
- College students
- Middle Income Group
- Executives
- Housewives/ Housing Societies
- Retirement Planning
- Self Help Group (s)

The program aims at imparting understanding of financial concepts to the targeted groups. Under the guidance of the Advisory Committee for the IPEF, the material for the aforesaid target group is under preparation and the programs will be conducted by Resource Persons empanelled.

SEBI has been pursing to its objectives of investor protection, investor education, and market developments. During the year, it has initiated a series of policy initiatives in primary market to make the market investor friendly and to mitigate risks. Among the others, the measures include introduction of
the concept of anchor investor, introducing pure auction in the FPO process, extension of ASBA mechanism and strengthening of the regulatory framework governing public offerings. It would continue to work towards making the issue process transparent, investor friendly and to mitigate risks associated with the system.

As parts of its efforts to make the market more efficient, transparent cost effective and safe, the measures like in person verification of clients, regulation of credit rating agencies, introduction, standardizing the contracts size, revision of trading hours, etc have been initiated by SEBI. In its endeavour for development of corporate debt market, number of initiatives has been introduced and some more measures are in the offing in coming years. Investor assistance and investor education are the prime objectives of SEBI as a regulator. As part of the investor education initiatives, SEBI has launched many initiatives during the past one year through organizing seminars, workshops, investors meet etc. This would help in achieving in the country. It has introduced financial literacy programmes in schools curriculum in collaboration with NISM. In years to come, it proposes to launch many such programmes for investor education and financial literacy.

In the coming years, SEBI would continue its efforts, with a clear objective of investor protection through investor education and market development. The broad direction in which SEBI plans to move will be guided by twin beacons i.e., reduction of transaction costs and cutting down the time taken in completing the transactions.

1.3 Regulation of Securities Market:

1.3.1 Intermediaries : - As per the functions of SEBI as specified in Section 11 of the SEBI Act, 1992, SEBI has made good regulation on intermediaries. These regulations are as under:

(i) **Streamlining the Registration Process of intermediaries**

The entire procedure of registration and renewal has been streamlined and has been mad more transparent during 2009-10. The status report on registration/renewal of applications of intermediaries is put on SEBI website on a monthly basis giving a clear position whether the application is pending with SEBI or with the intermediary. If it is pending with SEBI, the date of receipt of letter from the intermediary...
is also mentioned against the status of application, clearly indicating that how long the application is pending with SEBI. If it is pending with intermediary, it is mentioned that information is awaited form the applicant. By and large, replies are being sent to the intermediaries within 30 days. It has also been mentioned on the website that in case their application has remained unattended, the application should not hesitate in writing to the concerned Division Chief (DC) of Executive Director (ED). Respective e-mail IDs of concerned DC and ED has also been given. While processing registration /renewal application where quasi-judicial actions have been initiated by SEBI against the applicant, SEBI has started seeking details of corrective measures taken by the applicant. All the applicants now inform in detail the steps taken by them to prevent such violations in the future. This step taken by SEBI will improve the compliance culture among the intermediaries.

(ii) Registered Intermediaries other then Stock Brokers and Sub-brokers.

During 2009-10 a mixed trend was observed in the number of intermediaries registered. During the year, the highest increase in absolute terms was observed in case of merchant bankers (27) and depository participant (DPs) of CDSL (27) followed by DPs of NSDI (13). A decline was witnessed in the number of registered of bankers to an issue and underwriters during 2009-10. However, the decline in registered exclusive underwriters was probably due to allowing other registered intermediaries like merchant bankers, stock brokered also to act underwriter. The details are provided in Table 3.1.

Some of the intermediaries’ applications for registration were in the process, the details of which are provided in Table3.1a.

(iii) Registration of Stock Brokers

During 2009-10, 312 new stock brokers were registered with SEIB in cash segment (table 3.2). There were 160 cases of cancellation / surrender of broker ship as compared to 140 in 2008-9. Applications in the process of registration are given in Table 3.2a. total number of registered
stock brokers as on March 31, 2010, increased to 8,804 from 8,652 in 2008-9 (Table 3.3).

The number of registered brokers was highest in National Stock Exchange Ltd. (NSE)(1,310) followed by Bombay Stock Exchange Ltd, (BSE) (1.003) , Inter –Connected Stock Exchange Ltd. (ISE) (943) and Calcutta Stock Exchange Ltd (098) The number of .

Table 3.1: Registered Intermediaries other Stock Brokers and Sub-Brokers.

<table>
<thead>
<tr>
<th>Type of Intermediary</th>
<th>Number as on March 31</th>
<th>Absolute Variation</th>
<th>Percentage Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2010</td>
<td>2</td>
</tr>
<tr>
<td>Registrar to an Issue and Share Transfer Agent</td>
<td>71</td>
<td>74</td>
<td>3</td>
</tr>
<tr>
<td>Bankers to an Issue</td>
<td>51</td>
<td>48</td>
<td>3</td>
</tr>
<tr>
<td>Debenture Trustee</td>
<td>30</td>
<td>30</td>
<td>0</td>
</tr>
<tr>
<td>Merchant Banker</td>
<td>137</td>
<td>164</td>
<td>27</td>
</tr>
<tr>
<td>Portfolio Manager</td>
<td>232</td>
<td>243</td>
<td>11</td>
</tr>
<tr>
<td>Underwriter</td>
<td>17</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>DPs- NSDL</td>
<td>256</td>
<td>269</td>
<td>13</td>
</tr>
<tr>
<td>DPs- CDSL</td>
<td>462</td>
<td>489</td>
<td>27</td>
</tr>
<tr>
<td>Credit Rating Agency</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 3.1a : Intermediaries other than Stock Brokers and Sub-Brokers in the Process of Registration

<table>
<thead>
<tr>
<th>Type of Intermediary</th>
<th>Pending as on March 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Merchant Banker</td>
<td>11</td>
</tr>
<tr>
<td>Bankers to an Issue</td>
<td>2</td>
</tr>
<tr>
<td>Depository Participants</td>
<td>29</td>
</tr>
<tr>
<td>Registrar to an Issue and Share Transfer Agents</td>
<td>1</td>
</tr>
<tr>
<td>Credit Rating Agency</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 3.2: Registered Stock Brokers

<table>
<thead>
<tr>
<th>Details</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered Stock Brokers as on March 31 of the Previous Year</td>
<td>8,517</td>
<td>8,652</td>
</tr>
<tr>
<td>Addition during the year</td>
<td>275</td>
<td>312</td>
</tr>
<tr>
<td>Reconciliation / Cancellation/ Surrender of Memberships</td>
<td>140</td>
<td>160</td>
</tr>
<tr>
<td>Registered Stock Brokers as on March 31</td>
<td>8,652</td>
<td>8,804</td>
</tr>
</tbody>
</table>
Table 3.2: Stock Broker and Sub-Broker Applications in the Process of Registration as on March 31, 2010

<table>
<thead>
<tr>
<th>Category of Application</th>
<th>Number of Applications under Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Registration – Brokers Cash Segment</td>
<td>58</td>
</tr>
<tr>
<td>Registration – Brokers Derivatives Segment</td>
<td>28</td>
</tr>
<tr>
<td>Registration- Brokers Currency Derivatives Segment</td>
<td>113</td>
</tr>
<tr>
<td>Sub-broker</td>
<td>3,358</td>
</tr>
</tbody>
</table>

1.3.3 SUPERVISION

Effective supervision through on –site and off-site inspections, enquiry against violations of rules and regulations, enforcement and prosecutions are essential features of effective enforcement of regulation. SEBI conducts inspections either directly or through organizations like stock exchanges, depositories etc. Inspections on a periodic basis were conducted to verify the compliance levels of intermediaries. Specific/limited purpose inspections were conducted on the basis of complaints, references, surveillance reports, specific concerns, etc. Stock exchanges and depositories were also directed by SEBI to carry out periodic/ specific purpose inspections of their members/ participants.

(i) Inspection of Market Intermediaries

SEBI has taken a number of steps during the year, to expedite inspection process and improve quality of inspection reports and follow up action. In the year 2009-10, actions were initiated on the basis of inspections carried out during the year as well as in case of inspections done in the earlier years. The findings of the inspections were communicated to the intermediaries and discussed with them wherever necessary, to ascertain their views and action was initiated in accordance with the seriousness of the violation. Further, intermediaries were also specifically advised about the areas where improvement / corrective steps were required. They are now required to report to SEBI about the corrective steps were required. They are now required to report to SEBI about the corrective steps taken by them and also place the
same before their board/ partners/ proprietor, as the case may be. These steps taken by SEBI will improve the level of compliance among the intermediaries.

(ii) Inspection of Stock Brokers/ Sub-brokers

During 2009-10, total number of inspections including stock brokers and sub-brokers were 36 as compared to 38 during last year. It includes 34 inspections of stock brokers and two inspections of sub-brokers (Table 3.16). In addition, SEBI also directed that the stock exchanges/ clearing corporations shall inspect all active members in various segments every year. Accordingly the inspection carried out by the stock exchanges for the year 2009-10 is as under.

Table 3.16 : Inspection of Stock Broker/ Sub-brokers

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspections Completed - Stock Brokers</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Inspections Completed - Sub-brokers</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38</strong></td>
<td><strong>36</strong></td>
</tr>
</tbody>
</table>

Table 3.16 a : Inspection by Stock Exchanges/ Clearing Corporation

<table>
<thead>
<tr>
<th>Exchange</th>
<th>Inspection Across Market Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSE</td>
<td>550</td>
</tr>
<tr>
<td>NSE</td>
<td>1,232</td>
</tr>
<tr>
<td>MCX-SX</td>
<td>52</td>
</tr>
</tbody>
</table>

Further. SEBI vide circular dated August 22, 2008, advised the stock exchanges to direct their stock brokers/ clearing members to carry out complete internal audit on a half yearly basis by independent auditors. The focus of the internal audit is to assess the efficacy of the internal controls and soundness of the risk monitoring system of the trading/ clearing member. Internal auditors are required to submit their audit reports to the entity. The entity would place the report before its Board of Directors/ Proprietors/ Partners and shall forward the same along with para- wise comments to the
respective stock exchange within three months of the end of the half year period.

(iii) Inspection of Other Intermediaries

During 2009-10, regular inspections were completed for 18 depository participants, nine registrars to an issue and share transfer agents, four debenture trustees and two merchant bankers (Table 3.17)

Table 3.17 : Inspection of other Market Intermediaries

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registrar to Issue and Share Transfer Agent</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Bankers to an Issue</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Debenture Trustee</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Merchant Banker</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Underwriter</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depository Participant</td>
<td>26*</td>
<td>18</td>
</tr>
<tr>
<td>Credit Rating Agency</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>33</td>
</tr>
</tbody>
</table>

(iv) Inspection of Stock Exchanges

During inspection of stock exchanges, a review of the market operations, organizational structure and administrative control of the stock exchange is made to ascertain whether.

1.3.4 SURVEILLANCE

(i) Mechanism of Market Surveillance

An effective surveillance mechanism is one of the prime requirements for well functioning securities market. The stock exchanges are the first-level regulators and are charged with the primary responsibility of safe-guarding the integrity of the market and ensuring that the market is performing in accordance with the stipulated norms and practices. The Integrated Surveillance Department of SEBI is in charge of overall market surveillance monitoring market movements and detecting potential breach of Regulations, analyzing the trading in securities and initiation of appropriate action wherever
warranted. To enhance the efficacy of the surveillance function, SEBI has put in place a comprehensive Integrated Market Surveillance System (IMSS) which generates alerts arising out of unusual market movements. SEBI also keeps a continuous vigil on the activities of the stock exchanges to promote an effective surveillance mechanism and Integrated Surveillance Department also carries out inspection of Surveillance department of major stock exchanges.

(ii) Surveillance Actions

During the year 2009-10, NSE initiated preliminary examination and investigation in a total 257 cases and BSE initiated examination and investigation in 1,331 cases.

Further, as surveillance measure, during the year, NSE shifted 644 scrips to Trade-for-Trade segment and BSE shifted 2,198 scrips to Trade-for-Trade segment. NSE imposed a price band (two percent, five percent and 10 percent) in 1,542 instances and BSE in 3,214 instances. Further, NSE and BSE verified 73 and 59 rumors respectively (Table 3.18)

Table 3.18: Number of Surveillance Actions during 2009-10

<table>
<thead>
<tr>
<th>Nature of Action</th>
<th>NSE</th>
<th>BSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scrips Shifted to Trade for Trade Segment</td>
<td>644 (190)</td>
<td>2,198 (1,078)</td>
</tr>
<tr>
<td>No. of instances in which Price Bands were Imposed (2 percent, 5 percent and 10 Percent)</td>
<td>1,542 (942)</td>
<td>3,214 (2,047)</td>
</tr>
<tr>
<td>Preliminary Investigations Taken up</td>
<td>257 (165)</td>
<td>1,331 (961)</td>
</tr>
<tr>
<td>Rumours verification</td>
<td>73 (118)</td>
<td>59 (134)</td>
</tr>
</tbody>
</table>

(iv) Surveillance Measures

(a) During the year, various surveillance measures were discussed with exchanges and exchanges were advised on issues such as criteria for inclusion / exclusion of scrips in F&O segment, shifting of scrips to Trade to Trade segment.

(b) As a surveillance measure, SEBI made an SMS alert mandatory for all depository accounts operated through power of Attorney (POA) except
in case of accounts held by non-individuals, Non-residential Indians and foreign nationals.

c) SEBI advised exchanges to issue circulars on facility of BTST (Buy Today Sell Tomorrow) advising members not to encourage investors by issuing advertisements highlighting such facility.

d) In order to protect the interest of investors, exchanges were advised to send letters/emails daily to investors on random basis indicating their stock market transactions.

e) SEBI issued a caution to investors on investment advice offered by websites, advertisements, SMS, emails, astrology etc. and investors were advised to take well informed investment decisions.

(v) Implementation of Wadhwa Committee Report

SEBI had investigated certain irregularities in the transactions in the share issued through 21 IPOs (Initial Public Offerings) during the period from 2003 to 2005, before their listing on the stock exchange. SEBI upon completion of investigations directed certain persons, not to buy, sell or deal in the securities market, including in IPOs, directly or indirectly, till further directions and initiated proceedings against these persons in accordance with SEBI Act and Regulations to disgorge illegal gains and take appropriate action including penalties. Proceedings against such persons are at various stages. A committee was set up by SEBI under the Chairmanship of Justice K.P. Wadhwa, former judge of the Supreme Court of India (Wadhwa Committee), to advise/recommend the procedure of identification of persons who have been deprived in these 21 IPOs and the manner in which reallocation of shares to such persons should take place. The Wadhwa committee submitted its report giving recommendations on the said issues and also recommended appointment of an administrator for overseeing and managing reallocation work. In pursuance, SEBI appointed Shri Vijay Ranjan, Retd. Chief Commissioner (Income Tax) as the Administrator to undertake the task of disbursement of the recovered amounts to the identified persons. In pursuance of the recommendations of the committee, the disbursement of the recovered amounts to the identified persons. In pursuance of the recommendations of the committee, the disbursement of reallocation amount to identified persons is under progress.
1.3.5 Enforcement

(i) Orders

Interim order against Mr. Dipak Patel (Portfolio Manager of M/s. Passport India Investment (Mauritius) Limited) and connected entities

SEBI found that a client named Mr. Kanaiyalal Baldevbhai Patel was prima facie trading ahead of orders placed by M/s. Passport India Investment (Mauritius) Limited, a sub-account of M/s. Passport Capital LLC. It was prima facie observed that Mr. Dipak Patel, Portfolio Manager of M/s. Passport India Investment (Mauritius) Limited was passing on trade related information to the client, which appeared to be in violation of provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations 2003. This activity continued from January 2007 till January 2009. In view of the above, SEBI passed an interim order dated May 28 2009 with following directions:

Mr. Dipak Patel, Portfolio Manager of M/s. Passport India Investment (Mauritius) Ltd. not to buy, sell or deal in any securities, directly or indirectly till further directions in this regard. Mr. Dipak Patel not to be associated with any FII or sub-account or any registered entity of SEBI till further orders. Mr. Kaniyalal Baldev Patel, Mr. Anandkumar Baldevbhai Patel, M/s. Bhoomi Industries were directed not to buy, sell or deal in any securities, directly or indirectly till further directions in this regard. They were directed to deposit profiles amounting to Rs. 1,12,68,660 with the National Stock Exchange of India Ltd. (NSE) within 15 days from the date of issue of the order. M/s Passport Capital LLC and its sub-account M/s. Passport India Investment (Mauritius) Ltd. to conduct an internal enquiry into the above matter and initiate appropriate actions against their employee.

Interim Order in the matter of M/s. GHCL Ltd.

A Complaint was received by SEBI wherein it was alleged that M/s GHCL Ltd. were reporting false shareholding details of the promoters in their quarterly filling with the Stock exchanges. The said filing is required under clause 35 of the Listing Agreement with each NSE and BSE.

On examination SEBI found that M/s GHCL had filed false shareholding of the promoters repeatedly over the four quarters of 2008, thereby misleading the investors about commitment of the promoters towards the company.
In view of above SEBI passed an ad-interim order dated April 20, 2009 directing M/s GHCL Ltd. its promoter entities, Chairman, Managing Director and the Company Secretary of M/s. GHCL Ltd. not to buy, sell or deal in the securities market until further orders. Further SEBI directed M/s. GHCL Ltd. to reconcile and file the correct shareholding details with the stock exchanges.

**Interim Order in case of entities connected to Mr. Ketan Parekh**


SEBI observed that at least five of the connected clients appear to be related to Mr. Shirish Maniar, who was implicated by CBI along with Mr. Ketan Parekh in the M/s. Madhavpura Mercantile Co-operative Bank case. Mr. Ketan Parekh along with the companies belonging to him is already debarred by SEBI from dealing in securities market.

In view of the above, SEBI vide interim order dated June 4, 2009, restrained 26 persons/entities from accessing the securities market and further prohibited them from buying, selling or dealing in securities market, directly or indirectly, till further orders.

**Interim Order in case of M/s. RTS Power Corporation Limited**

SEBI received complaints from the broker wherein it was mentioned that the brokers suspected that trading carried out in the scrip of M/s. RTS Power Corporation Limited (RTS) was fraudulent in nature. Upon investigation, SFBI found out that Mr. Konde, Mr. Jadhav, Mr. Waje, Ms. Hetal Patel and
Mr. Rajesh Patel Prima facie colluded to misuse the stock exchange mechanism to profitably exit from their positions in the scrip RTS on February 11, 2009. They had orchestrated a plan to default in the pay in obligation of the buy clients who provided an exit to the seller, thereby defrauding the stock brokers.

In view of the above, SEBI passed an interim order dated June 5, 2009 prohibiting Mr. Mukesh G Konde, Mr. Ashok Narayan Waje, Mr. Nitesh Ashok Jadhav, Ms. Hetal Patel, Mr. Rajesh Patel, Mr. Chetan Shah, M/s. Om Associates and M/s. Bhavani Trading Company from buying, selling or dealing in securities market, directly or indirectly, till further orders and directing BSE to withhold the payout of February 11, 2009 of Ms. Hetal Patel and Mr. Chetan Shah in a separate escrow account, till further orders.

**Order in the matter of M/s. KLG Capital Services Ltd.**

Investigation was conducted in the scrip of M/s. KLG Capital Services Ltd. wherein it was observed that Mr. Hemant R. Patel, Mr. Praveen Mohnot and Mr. N. Ravichandran, who are executives of M/s SKIL Infrastructure Limited (SKIL), and their relatives, namely, Ms. Priyanka Singhvi, daughter of Mr. Praveen Mahnot, and Ms. Anita Ravichandran, wife of Mr. N. HN. Ravichandran, communicated unpublished price sensitive information (UPSI) and / or dealt in the shares of M/s. KLG during February 22-27, 2008 while in Possession of UPSI. Therefore these entities violated various provisions of SEBI Act, 1992 and the SEBI (Prohibition of Insider Trading) Regulations ,1992.

Subsequent to hearing granted to the entities in the matter, an order was issued with the following directions:

- Mr. Hemant Patel and Mr. Praveen Mohnot were restrained from buying, selling or dealing in the securities market in any manner whatsoever or accessing the securities market, directly or indirectly and holding position or Director in the Board of Director of any listed company for a period of five years.
- Mr. N. Ravichandran was restrained from buying, selling or dealing in the securities market in any manner whatsoever or accessing the securities market, directly or indirectly and holding
position of Director in the Board of Directors of any listed company for a period of two years.

- Mrs. Priyanka Singhvi and Mrs. Anita Ravichandran were restrained from buying, selling or dealing in the securities market in any manner whatsoever, or accessing the securities market, directly or indirectly for a period of five years.

- Further, these entities were ordered to disgorge an amount of Rs. 5.5 crore.

**Order in the matter of public issue of M/s. Pyramid Saimira Theatre Ltd.**

An investigation into the allotment of 4,22,200 shares reserved for the employees (employee category) by M/s. Pyramid Saimira Theatre Ltd. (PSTL) in its initial public offer in December 2006 revealed that PSTL allotted 98.5 percent to shares under the employee category to seven persons who were not its employees. In collusion with PSTL, these seven persons donned the cloak of employee on the eve of the public issue for four to six months, applied for shares in the employee category and received the allotment, sold the shares soon after listing and made an unlawful gain of Rs. 2,31,94,612. But for the artifice employed by PSTL and the seven persons, there would have been a shortfall in subscription in the employee category, which would have gone to other categories having over subscription. This artifice employed by PSTL is prohibited under regulation 3(b) and (c) of the PFUTP Regulations.

SEBI passed an order dated June 25, 2009, restraining five entities from dealing in securities in any manner whatsoever or accessing the securities market, directly or indirectly, for a period of three years. Further, these entities were ordered to disgorge an amount of Rs. 1.2 crore.

**(ii) Cease and desist against Dr. Nalamothu Venkata Krishna**

SEBI had noticed an online offer made by Dr. Nalamothu Venkata Krishna in his blog “Stock market guide in” soliciting unpublished price sensitive insider information like those relating to stake sale, mergers, acquisitions or any significant news or events from the people who have access to insider information and promised to reward the person who parted with such insider information by sharing profits with them. Such a solicitations of insider information was observed to be in violation of SEBI (prohibition of Insider
Trading) Regulations 1992, SEBI passed a cease and desist order dated November 18, 2009 directing Dr. Krishna to cease and desist from issuing or continuing to issue online offer soliciting unpublished price sensitive information, communicating directly or indirectly any inside information received and recommending or counseling trading in scrips for which inside information is received. Investors are also cautioned not to avail of the online offers made by Dr. Krishna in this regard, or any similar proposals contained in advertisements, in print or electronic media.

**M/s. Pyramid Saimira Theatre Ltd. (PSTL)**

SEBI had conducted investigations into the alleged irregularities in the allotment of employee quota shares in the Initial public Offer (IPO) of M/s. Pyramid Saimira Theatre Ltd. (PSTL) The investigations prima facie revealed that Mr. Sanjay Jhabak and Mr. Dheeraj Jain cornered the employee quota shares of PSTL in collusion with the company and some other persons in the IPO and made unjust profit of Rs. 53,69,028 and Rs. 54,75,079 by selling the shares immediately on listing. The above persons preferred consent proceeding and paid Rs. 80,53,542 and Rs. 82,12,619 respectively as consent terms.

**(iii) IPO irregularities :**

SEBI conducted investigations into the dealings in various IPOs during the period 2003-05 and found that certain entities (key operators) acted in concert with financiers and through medium of thousands of fictitious/benami demat account cornered shares meant for retail investors. Thereafter, key operators transferred shares to financiers on or before the day of listing, who ultimately sold them in the market after listing and made huge ill-gotten gains.

Some of the entities applied for consent and consent order was passed in respect of Mr. Gautam N Jhaveri and Mr. Javeri Gautambhai for Rs. 2.7 crore, Mr. Manoj Sekseria for Rs. 2.2 crore Mr. Jitendra Lalwani for Rs.9.6 crore, Mr. Sheelu Lalwani for Rs. 5.2 crore, Mr. Dharmesh K Katakia for Rs. One crore, Mr. Dharmesh Bhupendra M for Rs. 1.1 crore.

**1.3.6 INVESTIGATION**

Timely completion of Investigation cases and effective, proportionate and dissuasive action in case of violation of established securities laws is important for protection of investors’ interest, ensuring fair, transparent and
orderly functioning of the market. It is also vital for improving the confidence in the integrity of the securities market. Importance of effective and credible use of investigation has also been underscored by IOSCO in its “Principles for the Enforcement of Securities Regulation”.

Keeping the above objectives and principles of Securities Regulations in view, SEBI initiated investigation to examine alleged or suspected violations of laws and obligations relating to securities market. The possible violations may include price manipulation, creation of artificial market, insider trading, capital issue related irregularities, takeover related violations, manipulation of financial results, non-compliance of disclosure requirements and any other misconduct in the securities markets.

1.3.6.a). Trends in Investigation Cases

Since 1992-93, SEBI has undertaken 1,359 investigation cases. In 1,264 cases investigations have been completed. Apart from enforcement action, an important attendant benefits resulting from such investigations is contribution to the policy changes with a view to further strengthen the regulatory and enforcement environment. During 2009-10, 71 new cases were taken up for investigation and 74 cases were completed (Table 3.19 and Chart 3.3)

Recent experience and trends in the type of investigation cases undertaken by SEBI indicate that technology and newer methods are being used by violators of securities laws to conduct their business in the market. In the cases that are referred to Investigation Department, significant increase in the number of cases with alleged front running has been observed over the last two years. 13 cases of front running were referred to Investigation Department in the years 2008-09 and 2009-10. As front running involves leakage of information from sources such as the institutional client desk or brokers traders handling such institutional orders, a proper investigation orders, a proper investigation into these cases should help to put in place or strengthen the existing system and procedures, so that the possibility of such institutions becoming sources for leakage of trading information is reduced, in the future.
i. Nature of Investigation Cases Taken Up

During the year 2009-10, about 62 percent of the cases taken up for investigation pertain to market manipulation and price rigging, as against about 68 percent of such cases in the previous year. Other cases pertain to insider trading, takeover violations, irregularities in capital issues, and other
irregularities. Since, several investigation cases involve multiple allegations of violations, strict classification under specific category becomes difficult. Such cases are classified on the basis of main charge violations.

ii. Nature of Investigation Cases Completed

During 2009-10 about 62 percent of the cases completed pertain to market manipulation and price rigging as compared to 75 percent in the previous year. Other cases in which investigation was completed pertain to capital issue related manipulation, insider trading, takeovers etc.

The details of investigation cases taken up and completed are provided in Table 3.20, Chart 3.4 and Chart 3.5\textsuperscript{408}.

Table 3.20: Nature of Investigation Taken up and Completed

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Investigation Taken up</th>
<th>Investigation Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008-09</td>
<td>2009-10</td>
</tr>
<tr>
<td>Market Manipulation and Price Rigging</td>
<td>52</td>
<td>44</td>
</tr>
<tr>
<td>Capital “Issue” related Manipulation</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Insider Trading</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Takeovers</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76</td>
<td>71</td>
</tr>
</tbody>
</table>

Chart 3.4

\begin{center}

\textbf{Investigations Taken up 2009-10}

\end{center}

\textsuperscript{408} SEBI Annual Report 2009-10 (www.sebi.gov.in)
1.3.6(b) Regulatory Action

After completion of investigation, further penal action is initiated as per the recommendations made in the investigation reports and as approved by the investigation reports and as approved by the competent authority. Action is decided based on the principles of objectivity, consistency, materiality and quality of evidence available, after thorough analysis and appreciation of facts. The action include issuing warning letters, initiating enquiry proceedings for registered intermediaries, initiating adjudication proceedings for levy of monetary penalties, passing directions under Section 11 of SEBI Act and initiating prosecution and referring matter to other regulatory agencies. As a matter of policy, SEBI has continued to lay greater emphasis on issuance of prohibitive directions under Section 11 of the SEBI Act, 1992. These directions have the strong and salutary effect of deterrence as well as an effective tool to deal with emergent situations requiring a timely and faster response. Thus as against 230 such directions during 2008-09, SEBI issued 691 such directions during 2009-10.
A detail break up of all regulatory actions is given in Table 3.21 and Chart 3.6.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Number of Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008-09**</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Suspension</td>
<td>46</td>
</tr>
<tr>
<td>Warning issued</td>
<td>179</td>
</tr>
<tr>
<td>Prohibitive directions issued under Section 11 of SEBI Act*</td>
<td>230</td>
</tr>
<tr>
<td>Deficiency Observations issued</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>461***</td>
</tr>
</tbody>
</table>

Table 3.21: Type of Regulatory Actions Taken

*Against intermediaries and non intermediaries

**All regulatory actions including investigation cases

***other than consent orders

#Regulatory actions following investigations only

1.3.7 ENFORCEMENT OF REGULATIONS

Effective enforcement in the form of effective follow ups and disciplinary actions makes a regulatory system effective.

1.3.7 (a) Enquiry and Adjudication

During 2009-10, 908 orders were passed/reports submitted; of which, 119 pertained to enquiries and 799 pertained to adjudications. Hearings were conducted for 955 cases, and 1,017 show-cause notices were issued to different entities (Table 3.22)

Table 3.22: Enquiry and Adjudication during 2009-10

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Enquiry</th>
<th>Adjudication</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Orders Passed/Report Submitted</td>
<td>119</td>
<td>799</td>
<td>908</td>
</tr>
<tr>
<td>Hearing conducted</td>
<td>955</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Show Cause Notices Issued</td>
<td>1,017</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

There are five enforcement mechanisms that SEBI uses in case of any violation(s) pertaining to the laws regulating the securities market. Age-wise analysis of enforcement actions details viz. actions u/s 11, 11B and 11D of SEBI Act, Enquiry proceedings, Adjudication proceedings, Prosecution
proceedings and Summary Proceedings as on March 31, 2010 are provided in Tables 3.23a to table 3.23e.

a. Section 11/11B Proceedings
Under Section 11/11B of SEBI Act, 1992, SEBI may issue directions or prohibitive orders such as debarment from assessing the securities market or not to deal in securities.
In the year 2009-10, 493 cases under section 11/11B has been disposed by SEBI. In the same financial year, 376 fresh cases under the captioned provisions of law were initiated by SEBI.

b. Enquiry Proceedings
SEBI may suspend or cancel the certificate of registration of an intermediary through Enquiry regulations on the recommendation of the Enquiry Officer/Designated Authority appointed for that purpose. It may also issue warning to an intermediary if it considers that the violations committed by the intermediary does not warrant suspension or cancellation of registration.
In the financial year 2009-10, 125 cases were disposed after the due completion of the enquiry proceedings. 23 fresh cases were initiated during the same period where enquiry proceedings are being followed.

c. Adjudication proceedings
Under Chapter VIA of the SEBI Act, 1992, SEBI may appoint an Adjudicating officer for conducting inquiry and imposing monetary penalties.
In the financial year 2009-10, there was a disposal of 764 cases under adjudication proceedings. 644 fresh cases were initiated for adjudication in the same year.

d. Prosecution
Section 24 of the SEBI Act, 1992 empowers SEBI to launch prosecution against any person for contravention of any provision of the SEBI Act, 1992 or any rules or regulations made there under before a court of criminal jurisdiction. In the year 2009-10, 22 prosecution cases filed by SEBI were disposed by courts and 30 fresh cases were initiated.

1.3.7(b) Market Intermediaries
Enquiry proceedings were initiated against 18 stock brokers in 2009-10 as against 17 stock brokers in the previous year. Adjudication proceedings were initiated against 130 stock brokers in 2009-10 as against 106 stock brokers in
2008-09, 19 warnings were issued to stock brokers and 98 consent orders were passed. As regards registrars to an issue and share transfer agents, enquiry proceedings were initiated against one entity and adjudication proceedings were initiated against another. Further, warning/deficiency/advisory letters were issued to three other entities.

In respect of depository participants, adjudication proceeding were initiated against four entities and warning/deficiency/advisory letters were issued to 10 entities.

Warning/deficiency/advisory letter was issued to one credit rating agency and three merchant bankers and adjudication proceedings were initiated against one debenture trustee and one merchant banker each.

1.3.7 (c) Regulatory Actions against Mutual Funds : Warning and Deficiency Letters:

During 2009-10, 17 warning letters were issued to 15 mutual funds considering the directed Society General, registered FII, not to issue, subscribe or otherwise transact in any new ODIs or P-Notes in India till such time it provides a true and correct reporting of its ODI and P Notes transactions to SEBI furthermore, given the aforesaid prima facie violations, societe Generale was also required to show cause as to why appropriate proceedings including cancellation of its certificate Investor should not be initiated.

1.3.7 (d) Regulatory Actions against Stock Brokers and Sub-brokers

a) Illegal trading outside stock exchanges:

Based on a complaint regarding alleged illegal trading being carried out by a sub broker Shri Bhadresh Sanghvi (Trade Name Arihant Investment), SEBI advised the Exchanges BSE and NSE to carry out an inspection. Their inspection revealed that the sub-broker was involved in illegal trading. In order to prevent further harm to the investors and the securities market, SEBI restrained vide order dated December 21, 2009, the sub-broker from buying, selling or dealing in the securities market in any manner whatsoever or accessing the securities market, directly or indirectly, either for himself or for his
clients till further instructions. SEI also ordered inspection of the books and records of the sub-broker.

b) **SEBI order in the matter of M/s Pinnacle Share Registry Private Limited**

SEBI had conducted an inspection of the share transfer records of M/s Parsoli Corporation Ltd and its Registrar and Share Transfer agent viz. M/s Pinnacle Shares Registry Private Limited based on complaints received from investors on alleged fraudulent transfer and dematerialization of shares from their accounts. SEBI had passed an interim order dated February 20, 2009 under Sections 11(1), 11(4) and 11 B of the SEBI Act, 1992 prohibiting M/s Pinnacle Shares Registry Private Limited from entering into any fresh agreements with client companies in its operations as registrar to an issue and share transfer agent till further orders.

Subsequently, SEBI passed an order dated October 14, 2009 under Regulation 28(2) of the SEBI (Intermediaries) Regulations, 2008 cancelling the certificate of Registration granted by SEBI to M/s Pinnacle Shares Registry Private Limited (PSRPL) as Registrar to an Issue and a Share Transfer Agent, with effect from February 28, 2010.

c) **SEBI order in the matter of M/s Sterling Holiday Resorts (India) Limited**

SEBI passed an order dated November 10, 2009 under Section 11 B of the SEBI Act, 1992 read with Section 19 of the Depositories Act, 1996, against M/s Sterling Holiday Resorts (India) Limited for failing to dematerialize 2,99,800 shares of M/s Gujarat Industrial Investment Corporation Limited. M/s Sterling Holiday Resorts (India) Limited was directed to dematerialize the 2,99,800 shares of the company standing in the name of M/s Gujarat Industrial Investment Corporation Limited, immediately, but not later than fifteen days from the date of receipt of the order.
1.3.8 PROSECUTION

I Trends in Prosecution

(i) Number of Prosecutions Launched

30 prosecution cases launched during 2009-10 as compared to 29 in 2008-09 (Table 3.26) Till 2009-10, region-wise, the high number of prosecutions were launched in Head Office/Western Region (595) followed by the Northern Region (345) (Table 3.27)

(ii) Higher Court Proceedings

During 2009-10, 66 applications/petitions were filed in the Higher Courts and Supreme Court. During the period 26 case were disposed and a total of 92 cases are pending.

Table 3.26 Prosecution Launched

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of cases in which prosecution has been launched</th>
<th>No. of persons/entities against whom prosecution has been launched</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto and Including 1995-96</td>
<td>9</td>
<td>67</td>
</tr>
<tr>
<td>1996-97</td>
<td>6</td>
<td>46</td>
</tr>
<tr>
<td>1997-98</td>
<td>8</td>
<td>63</td>
</tr>
<tr>
<td>1998-99</td>
<td>11</td>
<td>92</td>
</tr>
<tr>
<td>1999-2000</td>
<td>25</td>
<td>154</td>
</tr>
<tr>
<td>2000-2001</td>
<td>28</td>
<td>128</td>
</tr>
<tr>
<td>2001-2002</td>
<td>95</td>
<td>512</td>
</tr>
<tr>
<td>2002-2003</td>
<td>229</td>
<td>864</td>
</tr>
<tr>
<td>2003-2004</td>
<td>480</td>
<td>2406</td>
</tr>
<tr>
<td>2004-2005</td>
<td>86</td>
<td>432</td>
</tr>
<tr>
<td>2005-2006</td>
<td>30</td>
<td>101</td>
</tr>
<tr>
<td>2006-2007</td>
<td>23</td>
<td>152</td>
</tr>
<tr>
<td>2007-2008</td>
<td>40</td>
<td>185</td>
</tr>
<tr>
<td>2008-2009</td>
<td>29</td>
<td>114</td>
</tr>
<tr>
<td>2009-2010</td>
<td>30</td>
<td>109</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,129</strong></td>
<td><strong>5,425</strong></td>
</tr>
</tbody>
</table>

Region Number of Cases Percentage of total

1 2 3

Head Office/ Western Region 595 52.70
Northern 345 30.56
Southern Region 97 8.59
Eastern Region 92 8.15

**Total** 1,129 100.00
(iii) Important Court Pronouncements in Prosecution Matters.

A. SEBI vs. M/s Endowment Forest (I) Ltd. And other (CC No. 54 of 2009)

SEBI launched prosecution against Endowment Forest (I) Ltd. And its directors alleging violation of Section 12 (IB) of SEBI Act read with Regulations. 5(1), 68(1), 73(1) and 74, of the SEBI (Collective Investment Scheme) Regulation, 1999, for failure of the entity to obtain registration for its various CIS schemes or in the alternative to wind up the schemes and repay an amount of more than Rs. 10.7 lakh collected from the investors.

The Court of Additional Sessions Judge, Delhi held that that the accused company neither got registered its CIL nor wound investors as per the provision of CIS Regulations and became punishable u/s 24 of SEBI Act. The Court convicted Mrs. Savita Kansal (accused no.7) for the aforesaid offence rigorous imprisonment for six months and with a fine of Rs. 50,000/- each, in default of payment of which the accused shall undergo simple imprisonment for two months each. During the pendency of the trial Mr. Virendra Kumar Kansal (accused no. 2, Mr. J C. Kansal (accused no. 3) and Mr Jagdish Chander (accused no. 6) had expired and Mr. B K Bhat (accused no. 5, Mr. Prabhakar Pillathu (accused no. 8) and Mr. G M Bhat (accused no.9) were declared proclaimed offenders.

b. SEBI vs. M/s. JBR Forestry Ltd. and other (CC No. 1194 of 2003).

SEBI launched prosecution against M/s JBR Forestry Ltd. and its directors alleging violation of Section 12 (IB) of SEBI Act read with Regulation 5( ), 68(1), 73 (1) and 74, of the SEBI (Collective Investment Scheme) Regulation, 1999, for failure of the entity to obtain registration for its various CLS schemes or in the alternative to wind up the schemes and repay an amount of more than Rs. 1.1 lakh collected from the investors.

Ms. Renu Sharma (accused no. 2) Mr. Pradeep Kumar (accused no. 3) and Mr. Manoj Kumar (accused No. 4) pleaded guilty before the Court of Additional Sessions Judge, Delhi. After hearing the arguments on sentence the Court sentenced the accused nos. 2, 3 and 4 to a pay fine of Rs. 10,000/- each, in default of which the accused were sentenced of accused that if any
investor approaches SEBI the assurance given to the investors. The Ms. Ravinder Kaur (accused no. 5) was declared as proclaimed offender.

C. SEBI vs. M/s Rimjhim Agro Forest Ltd. and others (CC No. 56 of 2009)

SEBI launched prosecution against M/s. Rimjhim Agro Forest Ltd. and its directors alleging violation of section 12 (1B) of SEBI Act read with regulations 5(1), 68(1), 73(1) and 74, of the SEBI (Collective Investment Scheme) Regulation, 1999, for failure of the entity to obtain registration for its various CLS schemes or in the alternative to wind up the schemes and repay an amount of more than Rs. 1.1 lakh collected from the investors.

The Court of Additional Sessions Judge held that the accused company neither got registered its CIS nor wound up the same and not even repaid the money to its investors as per the provisions of CIS Regulation and became punishable of CIS Regulations and became punishable u/s 24 of SEBI Act. The Court convicted and sentenced the Mr. P.S. Choudhry (accused No. 2) Mr. D.S. Thakur (accused no. 3) Mr. S.S. Thakur (accused No.5) and Mr. Roop lal (accused no. 6) with rigorous imprisonment for one year each and also with a fine of Rs. 1,00,000/- each. In default of payment of fine the accused shall undergo simple imprisonment for six months each. The Court has further ordered that out of the amount of fine realized a sum of Rs. 20,000/- be paid to SEBI after expiry of period of revision/appeal, towards the expenses incurred by it. During the pendency of the trial the Mr. K C Kaundal (accused no. 7) were declared proclaimed offenders.

d. SEBI vs. M/s. Ankur Forest and Project Devolpment India Ltd. and others (CC No. 33 of 2009)

SEBI launched prosecution against M/s. Ankur Forest and Project Development India Ltd. and its directors alleging violation of Section 12 (1B) of SEBI Act read with Regulations 5(1), 68(1), 73(1) and 74 of the SEBI (Collective investment Scheme) Regulation, 1999, for failure of the entity to obtain registration for its various CLS schemes or in the alternative to wind up the schemes and repay the money collected from the investors.

The Court of Additional Sessions Judge, Delhi held that the accused company neither got registered its CIS nor wound up wound up the same and not even repaid the money to its investors as per the provisions of CIS
Regulation and became punishable of CIS Regulations and became punishable u/s 24 of SEBI Act. The Court convicted Mr. Tasneem Saini (accused no.2), Mr. Rajbit Singh (accused no.3), Mr. Jagit Saini (accused no. 4) and Mr. Mohan Lal Saini (accused no. 6) and sentenced them with rigorous imprisonment for one year each and with a fine of Rs. 5,00,000/-. In case of default of payment of fine the accused shall undergo simple imprisonment for six months. The Court has further ordered that out of the amount of fine realized, a sum of Rs. 20,000 be paid to SEBI after expiry of period of revision/ appeal, towards the expenses incurred by it. Mr. Heman Sharma (accused no. 5) was declared as proclaimed offender.

e. SEBI vs. M/s Startak Plantation and Forest Ltd. and others (CC NO. 34 of 2009).

SEBI launched prosecution against M/s. Startek Plantation and Forest Ltd. and its directors alleging violation of Section 12 (1B) of SEBI Act read with Regulations 5(1), 68(1), 73(1) and 74 of the SEBI (Collective investment Scheme) Regulation, 1999, for failure of the entity to obtain registration for its various CLS schemes or in the alternative to wind up the schemes and repay the money collected from the investors.

The Court of Additional Sessions Judge, Delhi held that the accused company neither got registered its CIS nor wound up wound up the same and not even repaid the money to its investors as per the provisions of CIS Regulation and became punishable of CIS Regulations and became punishable u/s 24 of SEBI Act. The Court convicted the Mr. V.K. Sharma (accused no. 2) for the offence and sentenced to undergo rigorous imprisonment for one year and with a fine of 5,00,000/-. In default of payment of fine the accused shall undergo simple imprisonment for six months. The Court has further ordered that out of the amount of fine realized a sum of Rs. 20,000/- be paid to SEBI after expiry of period of revision, appeal, towards the expenses incurred by it. Mr. M.K. Siddiqui (accused no. 3) had expired during pendency of the case.

f. Mr. Vishnu Prakash Bajpai vs SEBI (Crl. M. C. 1182/2009).

SEBI had launched prosecution against M/s N.R. Plantations (India) Ltd. and its directors for an offence u/s 24 (1) of SEBI Act read with the CIS Regulation. Mr. Vishnu Prakash Bajpai was arrayed as an accused in the complaint alleging that he was a person in charge and responsible for the
affairs of the company during commission of the offence. The captioned application was filed by Mr. Vishnu Prakash Bajpai in the affairs of the company during commission of the offence. The captioned application was filed by Mr. Vishnu Prakash Bajpai in the High Court of Delhi, seeking quashing of the complaint against him stating that he was not a director or a person in charge of the affairs of the company, from 32 and the statement in lieu of prospect in support of his contentions. SEBI relied on the letters written by the company showing the petitioner as a director.

The Hon’ble High Court has held that the jurisdiction to quash a complaint cannot be exercised when the pleadings in the complaint prima facie reveal commission of an offence and the complaint is not frivolous or fictitious. The Court further held that even if it is proved that the petitioner was be liable if it is proved that he was in charge of the affairs of the company. The Court has also observed that the violations of CIS Regulations pleaded in the documents relied on the petitioner does not prove that he was neither a directory no was responsible for the affairs of the company for the entire period during which the offence continued. Accordingly, the petition was dismissed.

g. M/s Rhodanthe Agro Limited vs SEBI Criminal Revision Case 842/2005

SEBI has filed a criminal complaint against M/s Rhodanthe Agro Limited and others alleging violation of 12(1B) of SEBI Act, 1992 and Regulation 5(1) read with Regulation 68(1), 68(2) 73 and 74 of the SEBI (Collective Investment Schemes) Regulations, 1999 before the XIII Metropolitan Magistrate, Saidapet, Chennai. The application filed by the accused, seeking discharge on the ground of limitation, was dismissed by the Magistrate, vide order dated March 18, 2005 holding that the amount mobilised from the investors are not yet refunded and the offence is continuing one.

The aforesaid order of the Magistrate was challenged in the present Criminal Revision Application before the Hon’ble High Court of Madras. The Hon’ble High Curt vide order dated September 18, 2009, dismissed the application, observing, interalia, that “the revision petitioners have to repay the collected amount from the investors, but, still they have not repaid the same, so it is continuing offence. If the obligation continues and it is to
discharge, the default constitutes a continuing offence”. The court has also held that the non compliance of Regulations 73 and 74 fro winding up the company is continuing in nature and as such the offences is also continuing in nature. Further, Section 24 of the SEBI Act is amended with effect from October 29, 2002 and the offence under section 24 became punishable with imprisonment for a term which may extend to ten years or with fine which may extend to twenty five crore rupees or with both. Hence the complaint is not barred by limitation.

II. Nature of Prosecution

Table 3.28 represents the nature of prosecutions launched under various sections of different Acts. Prosecutions are launched by SEBI under the SEBI Act, 1992, Companies Act, 1956, Depositories Act, 1996, SC(R) Act, 1956 and the Indian Penal Code. As on March 31, 2010, 1, 129 cases were launched under the SEBI Act, 1992.

Table 3.28: Nature of Prosecutions Launched as on March 31, 2010

<table>
<thead>
<tr>
<th>Nature of Prosecution Launched</th>
<th>Number of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Securities and Exchange Board of India Act, 1992 (SEBI Act)</td>
<td></td>
</tr>
<tr>
<td>SEBI Act &amp; Securities Contracts (Regulation) Act, 1956 (SCRA)</td>
<td>934</td>
</tr>
<tr>
<td>SEBI Act, SCRA &amp; Companies Act</td>
<td>91</td>
</tr>
<tr>
<td>SEBI Act &amp; Companies Act</td>
<td>1</td>
</tr>
<tr>
<td>SEBI Act &amp; Indian Penal Code</td>
<td>1</td>
</tr>
<tr>
<td>Companies Act, 1956</td>
<td>70</td>
</tr>
<tr>
<td>Securities Contracts (Regulation) Act, 1956</td>
<td>5</td>
</tr>
<tr>
<td>Depositories Act, 1996</td>
<td>14</td>
</tr>
<tr>
<td>Indian Penal Code</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>1,129</td>
</tr>
</tbody>
</table>

1.3.9 Establishment of National Institute of Securities Markets (NISM).

The NISM launched a number of activities in securities market as follows

a. Certification of associated persons in the Securities Markets
b. Financial Literacy and Investor Education
c. Corporate Governance
d. Executive Education etc
SEBI has issued various regulations in respect of each of the intermediaries such as stock brokers and sub brokers, share transfer agents and registrars to an issue, bankers to an issue, debenture trustees, merchant bankers, underwriters, portfolio managers, depositories, participants, custodian of securities, foreign institutional investors, credit rating agencies, venture capital funds, collective investment schemes including mutual funds, etc. to regulate and ensure fair play by these intermediaries. SEBI has also issued regulations to prohibit insider trading and to regulate substantial acquisition of shares and take over of companies. All these rules and regulations, circulars and guidelines serve the objective of affording necessary protection to the investors.

Over and above this, various penalties and adjudications which could be imposed on persons including the various intermediaries who are held to have contravened provisions of the enactment and committed defaults. The Act thus provides sufficient deterrents to those who may indulge in defaults and illegalities and in malpractices on the market to the detriment of the investors. Therefore, since its establishment in 1992 to 2010 SEBI has initiated effective steps to protect the interest of investors and shareholders.

The Primary Market, which at one time was flooded with a number of issues floated by dubious promoters, depriving gullible investors of their life time has since been transformed. The changes in this area have been epoch making and include detailing of complete promoters, comprehensive disclosures, the existence of tangible assets and a track record of profit as also reporting end uses of funds to the Company Board as a part of corporate governance etc. Sometime back when the story of Google's IPO was being boasted around the world in various sections of media as one of the greatest innovations of recent times raising risk capital, The Financial Times, London, carried the following observation:

"The world's biggest Democracy can show Google how to conduct an online IPO.

......in India you cannot apply on the web but investors can access one of the world's largest financial networks with 7000 terminals scattered around 350 cities. And very step of the book building process is public......[T]he Indian
system is a refreshing example of a transparent IPO market but it is also a rare one, especially in the insider-friendly Asian market."

All the IPOs since the reforms started have been a success and barring a few exceptions are trading at a premium over the issue price. The regulatory framework has been modified to provide options to Indian firms for raising resources either domestically, or globally, or through both. This helps in price discovery and reducing the cost of funds. A number of Indian firms have raised money through American Depository Receipts (ADR), Global Depository Receipts (GDR) and External Commercial Borrowing (ECB). Two way fungibility has been permitted to enhance liquidity. During 2005-2006, a sum of Rs. 273 billion, as against Rs. 232.71 billion in 2003-2004, and the amount raised was next only Hong Kong and way ahead of Japan, Korea and Singapore through primary market. In fact, the corporate sector and government (centre and states) together raised a total of Rs. 3.75 trillion from the securities market during 2005. Thankfully, so far, no major mishap has been noticed in the recent times\textsuperscript{409}.

If a Rip Van Winkle woke up from a prolonged deep slumber of a couple of years, he would be amazed to see the quality of secondary market of India. The defeating noise of an outcry trading system has been replaced with a silence of a summer through the Electronic Consolidated Anonymous Limit Order Book, with price time priority matching being accessed through more than 10,000 terminals spread in over 400 cities and towns across the Indian subcontinent, something perhaps without a parallel in the world. The cost of transacting is the lowest, as compared to the most developed markets. The Indian Settlement system conforms to the CPSS- IOSCO\textsuperscript{410} recommendations, which even the most developed markets of the world have been proposing to implement by end of 2006. The institution of central counter party (CCP), which provides full novation and guarantees settlement, has eliminated counter party risk entirely. Over 99 percent of the dematerialisation of market capitalisation and Straight - Through Processing (STP), mandatory for all

\textsuperscript{409} Developments of Capital Market In India At London School Of Economics On 2nd October, 2006
\textsuperscript{410} Committee on payment and Settlement International Organisation of Securities Commissions principles and G30 committee (January 2003, under the chairmanship of Sir Andrew Large
institutional trades, have enabled Indian Settlement system to function seamlessly, not withstanding the size and spread.

On a T+2 cycles, all scrips are electronically cleared fully through a central party (CCP) on a rolling settlement. The CCP of the exchange, which operates a tight risk management system and maintains short (T+2) and consistent settlement cycle, is now financially potent to meet the obligation for 4-5 consecutive settlements even if all trading members default in their obligations. The dynamic risk management system comprises capital adequacy norms, trading and exposure limits, index based market wide circuit breakers, margin (mark to market) requirements. The encashability of the underlying of the margins, comprising cash, bank guarantee and securities is evaluated periodically. The real time monitoring of broker positions and margins and automatic disablement of terminals with Value added Risk margining, built on much higher sigma deviation than the best of the markets in the world, has reduced the operational risk to the lowest ebb. In an unfortunate very sharp (over 25 percent in two days) fall of the market in May 2004 the strength of the risk management of the system got tested to the hilt. There was not a single broker failure or default and on the third day (after the two consecutive days of fall) the market functioned as if nothing unusual had happened. Even the CCP was not required to fund any broker-dealer's obligations.

The three legged corporate compliance stool — disclosure, accounting standards and board room practices — has lifted Indian to the global pedestal in corporate governance. In a study titled "what works in Securities Laws?" Professor Rafael La Porta, Florencio Lopez - de- Silenses and Andrei Shleifer have commented: "India scores 100% as far as disclosure standards are concerned". The Indian accounting standards and are 'principle based'. One of the most sophisticated Pension Fund Managers, CalPERS gave a score of 3 (maximum that could be awarded) via permissible equity market analysis while voting for India as an investment destination. CLSA-CG watch, in its September 2004 report, says: "In terms of consolidation, segmental reporting, deferred tax accounting and related party transactions, the gap between Indian and US GAAP is minimal."
On corporate governance it might be worthwhile to recall what the Economic Intelligence Unit 2003 study said: The Asian Experience incorporates-"Top of the country class, as might be expected is Singapore followed by Hong Kong and somewhat surprisingly, India where overall disclosure standards have improved dramatically, accounting differences between local and US standards have been minimised and the number of companies with a majority of independent directors has risen significantly." CLSA- Emerging Markets Study on Corporate Governance gives India a score of 6.2, which is next only to 7.5 for Singapore and 6.7 for Hong Kong. None of the Indian companies listed on the NYSE or NASDAQ to the public knowledge has sought the benefit of transition time for the implementation of SOX requirements. What could possibly be more comforting is the CLSA- Emerging Market Study comment: "The Securities and Exchange Board of India (SEBI) continues to raise the bar for good corporate governance."

It is not very appropriate to compare the Indian Securities market with those of Singapore and Hong Kong, Singapore and Hong Kong are city states and have much smaller spectrum to watch: listed companies, broker dealers, investors and even number of transactions. The Indian securities market is next only to US market in terms of size. Even though by all criteria of economic research, the size of market is determined by the market capitalization and trades in dollar terms, in actual operations, the market participants and the regulators have to grapple with the number of listed securities, market participants and the volume of transactions and that is where India stands out. The NSE and NASDAQ books are quote-driven. In the matter of single-Index- Futures, Indian leads the world, followed by EURONEXT which is just about half of its size. Even in Index futures, NSE volumes are next only to the Chicago Mercantile Exchange and Eurex. No other market in the world, including Japan, compares with the volume of transactions of Indian markets. The ratio of the (turn over/ market capitalization) 100) was 101% and compares very well with Japan & Taiwan were ratio is 137.20% and 147.30 % respectively. The impact cost went below down to 0.08% in 2005-06 reflecting substantial improvement in liquidity.
The focus of development and the quality of regulation have not just centered on primary and secondary markets, they have also been directed at quality of intermediation and enforcement. The mutual fund industry of India which has gone through a host of reforms via the regulatory interventions today has some outstanding features like benchmarking Mutual Fund schemes, valuation norms, uniform cut off time, comprehensive risk management etc. An independent study organized by the Asian Development Bank Cadgon report testifies to this.

The investors and issuers can take comfort and undertake transactions with confidence if the intermediaries as well as their employees (i) follow a code of conduct and deal with probity and (ii) are capable of providing professional services. All the intermediaries in the securities market are now registered and regulated by SEBI. A code of conduct has been prescribed for each intermediary as well as for their employee, in addition to applicability of fit and proper person regulatory standards. Further, capital adequacy and other norms have been specified and a system of monitoring and inspecting their operations has been instituted to enforce compliance. Disciplinary action is taken against them for violating any ground rules. All the intermediaries in the market are mandated to have a compliance officer, who reports directly and independently to SEBI non-compliance observed by him.

The economic survey 2003-2004 by the Government of India had the following to say: "The securities markets have made enormous progress in recent years. India's equity market is now being increasingly recognised as a success story on the world scale." These reforms have boosted the confidence of investors (domestic and international) in Indian securities market. There are four parameters to ascertain the level of investor confidence: - (a) investments by FIIs, (b) growth of mutual funds industry, (c) subscriptions to the IPOs and (d) the increase in the number of accounts with the depositories. During the last financial figures the mutual funds mobilized net resources of about Rs. 520 Billion, equivalent to about one forth of incremental bank deposits. Mutual funds' assets increased from Rs. 1.1 Billion at the end of March 2003 to Rs. 300 billion at the end of August 2006. Indian companies raised about Rs. 38 billion through euro issues. The year gone by witnessed a net FII (Portfolio moneys) inflow of US $ 14 billion.
The benchmark indices, namely the SENSEX and S&P CNX NIFTY, generated astounding returns of 83 percent and 81 percent respectively, during 2003-2004. The market capitalization grew from Rs. 7 trillion at the end of March 2003 to Rs. 14 trillion at the end of March 2004 to Rs. 28 trillion as on June 2006, indicating that the equity market is bigger than the banking system. The Primary issue in the last year added at least Rs. 2 trillion market capitalisations. The trading in cash segment of exchanges increased from Rs. 932062 crore in 2002-2003 to Rs. 2385632 crore in 2005-2006. The trading in derivatives increased from Rs. 442332 crore to Rs. 4840362 crore during the same period. The turnover in government securities increased from Rs.1941621 crore to Rs. 2639897 crore. The number of demat accounts with the Depository Participants has increased considerably during the last three years from 3.5 million to 8.5 million & is increasing at the rate of over 100000 per month.

The efficacy of the market where entry and exit are possible at will and the liquidity has spread from being skewed to just about 100 to more than 500 securities, is a matter of substantial comfort. Over 2500 securities (equity) are traded for more than 100 days in a year. The overseas investors are no more glued to researches and assessments on index stocks and have been observing keenly and investing in the mid cap segment.

*The changes in the market have been really fast paced and it has been possible with the co-operations of all the market participants, other regulators and Government of India.*

The agenda, includes making the corporate debt market vibrant: cash and future, operationalization of Indian Deposit Receipts (IDRs), and corporatisation and demutualisation of remaining stock exchanges (has already begun with Stock exchange Mumbai) where the ownership, management and trading rights resides with three different sets of people in order to avoid conflict of interest. The settlement cycle has to migrate to T+1. New products are to be extended to cover entirety of market participants. National training and skill delivery institute has to be commissioned quickly to build a cadre of professionals to man the specialized functions in the capital market. There is a
need to spread equity cult and build institutions like pension funds to enlarge the size of the market and balance volatility.

The regulation of listed companies, a job performed in a fragmented manner by SEBI and Ministry of Company Affairs, needs to be consolidated to eliminate regulatory arbitrage, shooting out from the kinks of regulatory jointing by unscrupulous operators, and blurring of regulatory accountability.

Further, regulation is an evolutionary process and has to be refined on an ongoing basis. Thus SEBI would and should continue to travel on the learning curve with a view to reorient and reconfigure ground rules (regulations), its investigating abilities and investor’s protection measures.

Several systematic changes have taken place during the short history of modern capital markets. The setting up of the Securities and Exchange Board (SEBI) in 1992 is a landmark development. It got its act together, obtained the requisite powers and became effective in early 2000. It has made the markets attractive to foreign institutional investors. Investors who hold shares in limited companies and mutual fund units are about 20-30 million.

The setting up of the National Stock Exchange in 1984, the introduction of online trading in 1995, the establishment of the depository in 1996, trade guarantee funds and derivatives trading in 2000, have made the market safer. The introduction of the Fraudulent Trade Practices Act, Prevention of Insider Trading Act, Takeover code and Corporate Governance Norms, are major developments in the capital market over the last few years that history shows us that retail investors are yet to play a substantial role in the market as long term investors. Retail participation in India is very limited considering the overall savings of households. Capital markets will change completely if they grow beyond the cities and stock exchange centers reach the Indian villages.

Both SEBI and retail participants should be active in spreading market wisdom and empowering investors in planning their finances and understanding the markets.

It has been a long journey for the Indian capital market. Now the capital market is organized, fairly integrated, mature, more global and modernized. The Indian equity market is one of the best in the world in terms of technology. Advances in computer and communications technology, coming together on Internet are shattering geographic boundaries and enlarging the
investor class. Internet trading has become a global phenomenon. The Indian stock markets are now getting integrated with global markets.

Road Ahead

However, I would not like to hand out the impression that in the Indian capital markets everything is hunky dory and needs no improvement, polishing or refurbishing. In fact, dynamics of the global environment dictate that those charged with the responsibility of bringing about changes must always seek out new learning’s by experience, criticism and judgments. The market depth needs to be supplemented with further product diversification—mortgage and asset backed securities, warrants, and disinvestment in the public sector. The debt market of India, though large and next only to Japan, in Asia lacks vibrancy and does not provide adequate options for meeting medium to long term funds, required for green field projects, in particular. Infrastructure funding (essential for continued high economic growth) has become an issue in the absence of a vibrant debt market. There is no market for below investment grade paper or what is called junk bonds.

2. SUGGESTIONS

In view of the study above the following suggestions are recommended to effectively protect the interest of investor and shareholders:

- SEBI should do more to gain the confidence and faith of common person by introducing strict regulations i.e. regulation to cancel the illegally allotted securities, regulation to winding up of companies of intermediaries etc.
- SEBI should be empowered to attach and auction the assets and properties of companies who has violated its regulations and did not attention to them.
- There are huge amount of unclaimed shares and dividends pending in companies, therefore, SEBI should initiate actions to hand over them to rightful owners or take in the custody of investor education fund or may credit it to IEPF and utilised for compensating the investors.
Like in USA SEC has established the office of Administrative Judge, SEBI should establish such type of office in it.

Like Investor advocate in USA, in SEBI also the investor advocate office should be established, who can contest the case of investor in large.

As the Supreme Court and High Court held that the SEBI has power to give regulations retrospective effect, the SEBI specifically made clear by any law that it can give to any regulation retrospective effect.

SEBI should consult to public before making any rules, regulations and should present the economic implications of the proposed regulations or rules.

There should be nomination facilities in securities

SEBI should provide the priority rights of clearing corporation/clearing house in case of winding up or insolvency of a clearing member.

SEBI should make listing agreement in standard format in electronic form

The Powers given to Central Government e.g. grant recognition of stock exchanges etc., so all powers given in SCRA should be transferred to SEBI specifically.

SEBI should mandate recognised stock exchanges to transfer clearing and settlement functions to a recognised clearing corporation within three months

The power to grant immunity by Central Government should be repealed

SEBI should establish the Compensation fund, in case the right of investor or his money has been lost by any fraudulent manner by any intermediaries or other persons.

The large volume of dividend is pending with company or in other system due to unavailability of proper address of the claimant; the SEBI should devise a system which can send the information to investors via SMS, email etc.
• The securities exchange should be listed, so that investors can get fair dealings in stock exchanges

• The open offer document of company while issuing IPO contains the disclaimer clause of the SEBI also which states as “it is to be distinctly understood that submission of the RHP to SEBI should not in any way be deemed or construed that it has been cleared or approved by SEBI.” If this type of disclaimer published by SEBI, it will not gain the confidence of investors. So SEBI should delete these lines and make sure that RHP filed with it is cleared by SEBI.

• There are bulk messages for stock tips are coming on phone, emails etc. So SEBI should put check on it.

• The investors are overcharged by PMS provider, the SEBI should regulate the uniform system of charges obtained by PMS provider

• SEBI should set up the arbitration on complaints and penalty or award amount should be paid to the aggrieved investors;

• Now a days foreign funds are coming to India in via mean and they have invested for short term, so SEBI should put check on these investments and make sure that foreign funds should be invested for long term

• The redressal of grievances of investor should be on top priority and should be handled in effective manner, there should not be casual approach for complaints

• As per the the Economic Times dated 20.10.2010, there are large number of complaints pending with fund houses. According to AMFI records, 39 mutual fund houses have more than 4.5 lakh complaints against them. UTI Mutual fund, with over one crore folios, tops the list with 99,347 such issues. The countries oldest house has received more than 30,900 complaints relating to non- receipt of dividend and another 16700 marking non receipt of statements of accounts. Birla sun life MF has more than 24.66 lakh investor folio, had over 95,000 complaints during 2009 and 2010. ICICI Mutual fund has been hit by over 57,600 grievances while Reliance Mutual had about 10,200. Of the 7,600 complaints lodged against HDFC Mutual Fund, over 5600 are
pertaining to discrepancies in statement of accounts. This complaint issue is very burning and pointed out on the working of SEBI on investors’ complaints. Therefore, SEBI should immediately direct these concerns to solve the complaints or impose ban for certain period of their working.

- There should be strict regulations on working of The Mutual fund industries.
- The existing fee structure encourages mutual funds to maximize their assets rather than focus on delivering superior returns. So SEBI should revise the fee structure for mutual fund, so that investor can get good returns;
- As per the Economic Times news dated 16.05.2011Cookson Plc, the parent of metallurgical chemicals maker Foeseco India, has shown a novel way to scores of global companies to escape minimum holding needs for listing on Indian Stock Exchanges. The Cookson has last year transferred 11.48% of Foseco India stake to Karibu Holdings UK, bringing its stake down to 75% to comply with Indian listing norms that is enforced gradually, it said in one of its result finding. It held 86.5% before the transfer. It was introduced so that float can be maintained and the scope for price manipulation can be minimized. Therefore, SEBI immediately made some regulations to check this type of mischief.
- In IPO, there is cap for retail investor to Rs. 1 lakh, however, the rate of inflation has more than doubled to 12% in the last five years. So SEBI should enhance it to at least Rs. 3lakh
- In financial sector, there are many regulators e.g. IRDA, PFRDA etc. The investors are very confused that in which forum they should take file complaint or take guidance. So SEBI should be the only regulator of financial market ;
- The promoter of companies allot warrants to themselves and select in predetermined price, but don’t exercise warrants within stipulated days if the prevailing stock prices are lower than the decided price, if the prices are higher they exercise warrants otherwise don’t. So SEBI
should stop these types of unhealthy environment in the securities market.

- There should be protection from prosecution to the Chairman after retirement from the office of Board, so the Chairman can take bold decision in the interest of investors.
- Each stock brokers have its own brokerage standards, So SEBI should introduce uniform brokerage charge system;
- As SEBI has established the investor education and protection fund, but it is not working on ground. Therefore, SEBI should initiate effective steps to educate people, so that they can invest monies in securities market without fear;
- The technicalities of investing market should be simplified, so that common person can understand the process of investing as investor or shareholder;
- There should be more fund in investor education fund, so that more education seminars can be organized to achieve its object;
- The Govt should give more powers to SEBI to adjudicate the matter related to securities market and can impose higher and more stringent penalties on defaulting corporate houses;
- There should be control over delivery system on stock brokers, so that there is no delays in delivery system, particularly in secondary market;
- SEBI should initiate steps and encourage retail investors and shareholder to file complaint before it against defaulting companies or other related persons;
- There should be more efficient complaint disposal system. The mutual fund houses should be directed to dispose off complaints within 7 days otherwise per day penalty should be imposed on them.
- Still investors are going to courts to redress their complaints; the SEBI should formulate a mechanism which enables investors to redress their complaints in effective manner without approaching to courts.
- The SEBI’s agenda should includes making the corporate debt market vibrant : cash and future, operationalization of Indian Deposit Receipts (IDRs), and corporatisation and demutualization of remaining stock
exchanges (has already begun with Stock Exchange Mumbai) where the ownership, management and trading rights resides with three different sets of people in order to avoid conflict of interest.

- The settlement cycle has to migrate to T+1.
- New products are to be introduced to meet the needs of all kinds of market participants. MAPIN (unique identification) has to be extended to cover entirety of market participants. National training and skill delivery institute has to be commissioned quickly to build a cadre of professionals to man the specialized functions in the capital market.
- In the open offer of the IPOs the pricing are like Rs 130 to 140, these bid price are very confusing to the retail investors, as they bid on the minimum price on Rs. 130, therefore, they didn’t get the share as their bid was at lower price. So, the bidding price should be same.
- There is a need to spread equity cult and build institutions like pension funds to enlarge the size of the market and balance volatility.
- The regulation of listed companies, a job performed in a fragmented manner by SEBI and Ministry of Company Affairs, needs to be consolidated to eliminate regulatory arbitrage, shooting out from the kinks of regulatory jointing by unscrupulous operators, and blurring of regulatory accountability. Further, regulation is an evolutionary process and has to be refined on an ongoing basis.
- The agreement to be executed between client and stock brokers are not in uniform, the member client agreement BSE is different and there are number of onerous clauses for the members. The clause of “Brokerage, Commission and Fees” does not disclose any schedule of brokerage, fees and commission, while it is required as per SEBI’s directions. But these directions of SEBI have been flouted by stock broker and stock exchanges. So, SEBI should prescribe uniform standard form of member client agreement
- The member client agreement contains that stock broker shall not be liable or responsible for non execution of the orders of the client due to any link / system failure at the client / stock broker/ exchange end. However, the Delhi High Court held that brokers are liable for any
technical glitches. This clause from agreement should be deleted and make the stock broker liable for any technical fault at the end of broker and exchanges.

- SEBI should make duty of the stock broker to explain the brokerage, commission and fees to clients

- **As per questionnaire prepared by me (APPENDIX I of Chapter 14)** and take report from various investors and request to fill the same. In the column that have you face any difficulties to deal with securities market. Most of them replied in negative but while oral discussion they told that on certain occasion they were not received their money back. So as per discussion, investors don’t know their rights. So SEBI should spread awareness among investors regarding rights and responsibilities of investors and shareholder.

- While replying my questionnaire, each investor told that they have not attended any seminar conducted by SEBI on any single occasion. During the research, I have contacted various investors and shareholder, whether they have attended any seminar, but every investor gives their answer in negative. The SEBI should conduct the seminar and invite participation of maximum investors. So that they can understand the technicalities of securities market.

- There are various telephonic advises provided by fund manager to investors. These fund managers doesn’t have any exposure of securities market. So SEBI should fix some qualifications for advisors and make them responsible for any wrong advise unless these are given on any good grounds. The identity of these fund managers should be disclosed.

- There are many stock brokers registered with SEBI, but investors are not aware about them. Therefore, SEBI should publish their name and addresses at the SEBI website, so that investors can access them.

- The SEBI should be empowered to even conduct the investigations in criminal prosecution of cases and they should be empowered to give punishment. So necessary changes should be made in SEBI Act, and give the status as equivalent to criminal courts.

- At the time of winding up to companies, the investors and shareholders
investments have been lost. Therefore, SEBI should made regulations to protect the investors right at the time of winding up of companies.

Thus, SEBI would and should continue to travel on the learning curve with a view to reorient and reconfigure ground rules (regulations), its investigating abilities and investor protection measures.

If above suggestion will have consideration by the SEBI, it may help to protect the interest of INVESTORS AND SHAREHOLDER in securities market. Nonetheless, India will do well as it is fully convinced that capital markets allow people to do more with their savings and ideas and talents than would otherwise be possible. In the process, it would also facilitate increasingly larger number of citizens participating in the capital market in some form or other and share the opportunity of profiting from economic gains. Let me conclude with a recent opinion expressed by Mr. Steeve Vickers, President International Risk 'Finance ASIA' published in Finance Asia.com on Sept, 29th 2005, "The stock market has been transformed from proverbial den of thieves to one of the most transparent automated and well regulated in the world- with record foreign institutional investment inflows a testimony to this".

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