Knowledge Initiatives, Investor Confidence

Knowledge Initiatives

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

Quality Intermediation

It is a misnomer that securities market disintermediates by establishing a direct relationship between the investors in and issuers of securities. It requires services of a large variety of intermediaries like merchant bankers, brokers, etc. who bring issuers/investors together to effect a variety of transaction in securities. They may act agents to match the needs of users and suppliers of funds for a commission, help suppliers and users in creation and sale of securities for a fee or buy the securities issued by users and in turn, sell their own securities to suppliers to book profit. The disintermediation in the securities market is in fact an intermediation with a difference; it is a risk-less intermediation, where the ultimate risks are borne by the issuers/investors, and not the intermediaries. This, therefore, suggests the issuer/investor to be more careful while choosing the intermediary through whom he can deal in securities.

The intermediaries, of all shapes and sizes, who package and sell securities, compete with one another for the chance to handle investors/issuers' money. The competition degenerates in a depressed market environment as they scramble for survival. It becomes difficult for a lay investor/issuer to discriminate among them. He has no means to know if a particular intermediary really understands his needs. He is not sure if a particular intermediary can handle his money in his best interest. He can have comfort if the intermediary as well as its employees (i) follow a certain code of conduct and behave properly 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 employees in the regulations; capital adequacy and other norms have been specified; a system of monitoring and inspecting their operations has been instituted to enforce compliance; and disciplinary actions are being taken against them for violating any regulation. All the intermediaries in the market are mandated to have a compliance officer who reports independently to SEBI about any non-compliance observed by him. Thus a reasonably satisfactory arrangement is in place to ensure good conduct of the intermediaries.

The development of capability of the intermediaries for providing professional services has been left, by and large, to market forces. Since market may not always yield the desirable outcome, there is not adequate formal educational or training programme on securities markets especially in the area of operations. No academic course teaches how to maintain depository accounts, how to sell mutual fund products, how to issue contract notes or how to trade, clear and settle trades on a stock exchange. The securities market of this country certainly does not deserve such neglect from the educational system. In the absence of any formal qualification, which equips a person to operate in the securities market, the market employs chartered accountants, company secretaries, financial analysts, who are trained for some other work, but can also handle the work in the securities market if they are given adequate on-the-job training. They acquire expertise by doing the job and by attending short-term courses/seminars. They also continuously acquire newer and newer capabilities to meet the changing requirements of the securities market. In fact, the personnel working in the securities market have admirably acquired the skills required in the changing environment of 1990s. The market transformation can be sustained and further reforms can be facilitated if there are adequately trained personnel who are willing to continuously update their professional competence.

In developed markets and in some of the developing markets, this is ensured through a system of testing and certification of persons joining market intermediaries in the securities market. Most of the overseas securities markets have practices requiring personnel working with intermediaries to pass licensing examinations and even continuously update his capability. This sort of arrangement ensures that a person dealing with financial products has a minimum standard of knowledge about them, market and regulations so as to assist the customers in their dealings, and bars ill-equipped personnel from providing intermediation services in the securities market. This allows market participants and intermediaries to build their own tailored staff development strategies and improves career prospectus of certified professionals, while maintaining and enhancing the confidence of the investors in the market.

This fact (neglect by the educational system and need for certification) is being increasingly realised by the regulators and industry associations who are prescribing certifications in their respective areas. The markets are also rapidly adopting certification programme and would soon become a turf of certified professionals because of regulatory compulsions and/or initiatives of the industry.

Initiatives in India

With a view to improve investor protection through better quality intermediation, SEBI set up a Committee for certification and testing of persons joining capital market intermediaries. The Committee was mandated to prescribe standards of knowledge necessary for different types of specialised functions in the securities industry at operational and supervisory levels. SEBI approved the recommendations of the Committee in September 1998. The committee recommended that an examination based certification system was ideal to meet the needs of the Indian capital markets. The test may be offered on a voluntary basis in the initial period and may be made a mandatory requirement after a period of two years from the date of the first test. After the date on which test becomes mandatory, every person regardless of the qualifications he possesses should be required to pass the certification test within a period of 12 months from the date of employment with a capital market intermediary. Of the existing staff with the intermediary, two persons or 20%, whichever is higher, shall have to obtain the certificate within 12 months from the date on which the test becomes mandatory. The intermediary that violates the minimum number of certified employees norm should be deemed to be automatically de-registered from the date of the said violation. Initially there may be a single common test for all market intermediaries and specialised tests may be introduced for different participants at a later date, as required by the market conditions. The examination can be taken by anyone, irrespective of qualifications, age, employment or experience. The Committee also designed an exhaustive syllabus for the examination to test the understanding a candidate has of the securities market and his ability to provide sound advice to investors. Though the recommended testing and certification system is yet to be operationalised, it created awareness of and need for certification among the market participants.

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

The Association of Mutual Funds in India (AMFI) has launched a major initiative to build a cadre of trained professional distributors of mutual fund products and to facilitate the move towards the mutual fund industry employing trained and certified professionals in the interest of investors. Mutual funds voluntarily adopted the AMFI certification for agents and distributors for mutual fund schemes. With a view to improving professional standards, SEBI made it mandatory in September 2001 for all MFs to appoint agents/ distributors who have obtained AMFI certification w.e.f November 1, 2001. The existing agents/distributors are expected to pass the certification programme by March 31, 2003. In case of firms/companies, the requirement of certification may be made applicable to the persons engaged in sales and marketing. The existing and new employees of MFs, particularly those who are involved in sales and marketing, shall be encouraged to pass the certification process by December 2002. The National Securities Depositories limited (NSDL) has also launched an initiative to accelerate the pace of professionalisation of the depository services. They have prescribed that all the branches of the depository participants must have at least one person who has obtained the prescribed certification. In order to improve the level of knowledge of market participants, only persons who have passed the prescribed examination are authorised to use its trading system by NSE. Fixed Income Money Market Dealers Association in India (FIMMDA) and NSE have launched an initiative to improve the skills in fixed income market and recommend market participants to obtain a prescribed certification. Other industry associations such as Association of Merchant Bankers in India, Association of Financial Planners, etc. are working towards a certification mechanism for their members.

Certification in Financial Markets

A testing and certification mechanism that has become extremely popular and is sought after by the candidates as well as employers is a unique on-line testing and certification programme called National Stock Exchange's Certification in Financial Markets (NCFM). It offers all the certifications mandated by SEBI, IRDA, NSDL, AMFI, FIMMDA and NSE. It is an on-line fully automated nation-wide testing and certification system where the entire process from generation of question paper, invigilation, testing, assessing, scores reporting and certifying is fully automated - there is absolutely no scope for human intervention. It allows tremendous flexibility in terms of testing centres, dates and timing and provides easy accessibility and convenience to candidates as he can be tested at any time and from any location. It tests practical knowledge and skills, that are required to operate in financial markets, in a very secure and unbiased manner, and certifies personnel who have a proper understanding of the market and business and skills to service different constituents of the market.

NCFM offers a comprehensive range of modules covering many different areas in finance (Table 8-1). Some of these modules enjoy regulatory and /or industry patronage, as discussed earlier. A total of about 50,000 candidates have taken test of different modules of NCFM.

Table 8-1: Modules of NCFM

Sl. No.	Name of Modules	Primary Inspiration
1	Derivative Core Module	Regulatory Requirement
2	Securities Market (Basic) Module	SRO's Prescription
3	Depository Operations Module	Industry (NSDL) Initiative
4	Surveillance in Stock Exchanges Module	Regulatory Persuasion
5	Mutual Funds (Advisors) Module	Industry (AMFI) Initiative and Regulatory Requirment
6	Mutual Funds (Basic) Module	Industry (AMFI) Initiative
7	Capital Market (Dealers) Module	SRO's Requirement
8	Life Insurance Agents Module	Regulatory Requirement
9	General Insurance Agents Module	Regulatory Requirement
10	Debt Market (Basic) Module	Industry (NSE & FIMMDA) Initiative

The confidence of the investors can be maintained and enhanced by making provision for professional intermediation services through a system of certification. Industry/ SROs/Regulators have made a modest beginning, but not adequate given the dimensions of the market. NCFM should offer a certification for each category of intermediary/ activity. SEBI regulations, which lay down various requirements for registration as an intermediary, should specify certification as a mandatory requirement for operational level employees. This sort of requirement has been mandated by the IRDA in the regulations for life insurance agents and general insurance agents. While this requirement should apply at the entry point for all new employees joining the intermediaries and all intermediaries joining the market, regulation may allow a period of five years for the existing intermediaries and employees to qualify the certification. These people should also be required to update their skills and expertise by seeking certification at intervals of five years. There should be an arrangement to maintain a database of certified professionals and enforce a code of conduct for them so as to enable prospective employers access the database to meet their personnel requirements. This would enhance the knowledge and skill of the intermediaries (including regulators and SROs), who can, in turn, educate and guide the investors in securities and issuers of securities.

Research Initiatives

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

SEBI

In order to deepen the understanding and knowledge about Indian capital market, and to assist in policy-making, SEBI has been promoting high quality research in capital market. It has set up an in-house research department, which brings out working papers on a regular basis. The papers released by SEBI in the recent past are presented in Table 8-2. In collaboration with NCAER, SEBI brought out a 'Survey of Indian Investors', which estimated investor population in India and their investment preferences. The results of the survey have been further updated. It has also tied up with reputed national and international academic and research institutions for conducting research studies/projects on various issues related to the capital market. It has tied up with NCAER and IIM, Ahmedabad for taking up research studies/projects on capital market. In association with NCAER, it has launched two studies, namely Cost of Compliance by the Intermediaries in the Capital Market, and Convergence of Equity Prices on Indian Stock Exchanges.

Table 8-2: Working Papers of SEBI

Sl. No.	Title of Study
1	Transaction Cost for Equity Shares in India
2	Stock Market Volatility-A Comparative Study of Selected Markets
3	Transaction Cost for Equity Shares in India (Revised)
4	Dematerialisation: A Silent Revolution in the Indian Capital Market
5	Impact of Takeover Regulations on Corporate Sector in India - A Critical Appraisal
6	Trade Execution Cost of Equity Shares in India

NSE Research Initiative

In order to improve market efficiency further and to set international benchmarks in securities industry, NSE administers a scheme called the NSE Research Initiative. The initiative fosters research which can support and facilitate stock exchanges to design market microstructure, participants to frame their strategies in the market place, help regulators to frame regulations, policy makers to formulate policy and broaden the horizon of knowledge about the securities market. The initiative has received tremendous response from the academics as well as the market participants from within and outside the country. The studies completed/under progress under the initiative are presented in Table 8-3.

Society for Capital Market Research and Development

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

- How Good are Mutual Funds: The Household Investors' Perceptions
- Indian Households' Investment Preferences
- Returns on Indian Equity Shares

- India's Financial Markets & Institutions
- Indian Stock Market P/E Ratios
- The Roots of India's Stock Market Crisis, 1995-97
- India's Stock Market Reform & Regulation: Where to Go From Here
- Enhancing Capital Markets Role as Capital Raising Mechanism
- Short Selling and Its Regulation in India in International Perspective

Table 8-3: Studies under the NSE Research Initiative

Sl. No	Title of Study
1	Achieving an Individual Investor Friendly System using the Power of the Internet
2	Efficiency of the Market for Small Stocks
3	Econometric Estimation of Systematic Risk of S&P Nifty Constituents
4	Stock Market Development and its Impact on the Financing Pattern of the Indian Corporate Sector
5	Improved Techniques for Using Monte Carlo in VaR Estimation
6	Determinants of Financial Performance of Indian Corporate Sector in the Post-Liberalisation Era: An Exploratory Study
7	Should Pension Funds Invest in Equities? An analysis of Risk-Return Trade-off and Asset Allocation Decisions
8	Stock Returns and the Credit Channel of Monetary Policy Transmission
9	Changes in Liquidity following Exposure to Foreign Shareholders: The Effect of Foreign Listings, Inclusion in Country Funds and Issues of American Depositary Receipts by Indian Firms
10	Is the Spread between E/P Ratio and Interest Rate Informative for Future Movement of Indian Stock Market?
11	Empirical Investigation of Multi-factor Asset Pricing Models Using Artificial Neural Networks
12	Merger Announcements and Insider Trading Activity in India: An Empirical Investigation
13	Market Microstructure Effects of Transparency of Indian Banks
14	Equity Market Interlinkages: Transmission of Volatility – A case of US and India
15	Institutional Investors and Corporate Governance in India
16	Empirical Investigation in Performance of Extreme Value Estimators of Volatility
17	Short Selling and its Regulation in India in International Perspective
18	Do Futures and Options Trading Increase Stock Market Volatility?
19	Futures Trading, Information and Spot Price Volatility of NSE-50 Index Futures Contract
20	The Impact of Introducing Stock Futures Trading on the Cash Market in India
21	Study of Common Stochastic Trend and Co-integration in the Emerging Markets - A Case Study of India, Singapore and Taiwan
22	The Experience with Tracking Error of Index Funds in India
23	Idiosyncratic Factors in Pricing Sovereign Bonds: An Analsis of the Government of India Bond Market
24	Dividend Policy of Indian Corporate Firms: An Analysis of Trends and Determinants
25	Determinants of Liquidity and Trading Activity and Behaviour of Liquidity in Indian Capital Market
26	Measuring Volumes in the Indian Financial Markets - Some Terminological and Conceptual Issues.

Data Dissemination

Maintenance of a user friendly database is essential for research and dissemination of information. NSE compiles, maintains and disseminates high quality data to aid market participants, researchers and policy-makers in formulating market strategy, doing research and analysis and making policies. NSE has been maintaining historical database on every trade, which takes place at the exchange and every order, which is placed on its trading system. This data is disseminated through monthly CD releases. Besides, NSE's web-site is a storehouse of information.

The following information is available on CDs:

- Summary information about each security for each trading day like high price, low price, closing price and last traded price, turnover (value and volume), and number of trades.
- Database of stock market indices computed by IISL. Both end of day and intra day information is available for Nifty, Nifty Junior and Defty.
- Snapshots of limit order book of NSE at different points during a day.
- Database of every trade, which takes place at NSE, including the price of the trade and the number of shares transacted.
- Database of circulars issued during the month. Every development in the market in terms of market design is documented in these circulars.

NSENEWS

NSENEWS, a monthly publication of NSE, is the most referred publication of the securities market professionals. It brings out articles in order to educate the market participants and also investors in securities about latest developments in industry. These articles analyse market developments, familiarise the professionals with the working of the market and innovations, and provide theoretical and empirical inputs for policy initiatives.

Investor Awareness

Investors are the backbone of the securities market. It is the investor education and awareness that holds the key to reviving and sustaining the interests of the investors in the securities market and to infuse confidence in them. Many of them do not possess adequate expertise/ knowledge to take informed investment decisions. They are generally not aware of the complete risk-profile of the companies they are investing their money in. The regulators, self regulatory organisations (SROs), non-government organisations (NGOs), and investor fora/associations need to educate them.

Realising its importance, SEBI has launched an intensive investor education exercise aimed at protecting the interests of investors in securities market. It helps the investors in redressal of complaints regarding securities investments. It also disseminates through its website and press briefings the policy developments and enforcement actions for the information of investing community. It has published a number of booklets on policy and market developments for education the investors. The booklet titled "A Quick Reference Guide for Investors" contains helpful information for helping general investors as to how they should deal with securities-related complaints.

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

SEBI distributed the booklet titled "A Quick Reference Guide for Investors" to the investors. At the advice of SEBI, stock exchanges and corporates also distributed this booklet to shareholders/investors.

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

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

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

Recently, the Department of Company Affairs (DCA) informed the general public about the agency they should approach for redressal of their grievances. The investor complaints relating to deposits in banking companies and non-banking financial companies are dealt with by RBI, the complaints relating to non-banking non-financial companies (listed) are dealt with by SEBI and the complaints in respect of non-banking non-financial companies (unlisted) are dealt with by DCA. In the case of deposits from non-banking non-financial companies, the depositors should approach the Company Law Board and if the orders passed by the Board are not honoured then they should approach the concerned Registrar of Companies with a certified copy of the order. Investor complaints of unlisted companies are dealt with by DCA. These complaints relate to non-registration of transfer of shares, non-refund of share application money, non-receipt of dividends, non-receipt of duplicate shares, non-issue of share certificates, non-issue of debenture certificates, bonus shares, share certificates on conversion, after endorsement etc. The complaint is pursued with the company by DCA and in case of non-settlement of the complaint; the matter is referred to the Registrar of Companies for prosecution.

Investors' Associations

SEBI registers and supports investor associations engaged in education of investors and redressal of investor complaints. At the end of March 2002, the following Investors Associations were registered with SEBI:

1. All body Corporate Shareholders' Forum, Hyderabad
2. Consumer Education and Research Society, Ahmedabad
3. Ghatkopar Investors' Welfare Association, Mumbai
4. Investors' Grievances Forum, Mumbai
5. Jagrut Grahak Mandal, Patan (Gujarat)
6. Kovai Investors' Association, Coimbatore
7. Midas Touch Investors' Association, Kanpur
8. Tamil Nadu Investors' Association, Chennai
9. The Gujarat Investors' and Shareholders' Association, Ahmedabad

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

Investor Protection Fund

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

The Companies Act, 1956 provides for an Investor Education and Protection Fund (IEPF) to protect the interests of small shareholder. The fund is utilised for conducting direct education programmes, organising seminars, and symposia, conducting specific projects for investor protection, including research activities and providing legal assistance to genuine investor litigants through investor grievances forums. The fund is managed by a committee comprising both government and non-government members. The money needed for the fund accrues from grants from the government and from the corporate sector by way of unclaimed dividends, share application money, matured deposits and unclaimed debentures.

IEF provides financial assistance to any organisation/entity/person with a viable project proposal on investors' education and protection. In order to be eligible for the assistance, the entity should be registered under the Societies Registration Act or formed as Trusts or incorporated Companies; should be in existence for a minimum period of 2 years prior to its date of application for registration for assistance; should have a minimum of 20 members and a proven record of 2 years; and should have rules, regulations and or by-laws for its governance and management. It should not be a profit making enity. The limit for each entity for assistance would be subject to 5% of the budget of IEPF during that financial year and not exceeding 50% of the amount to be spent on the proposed programme/activity.

Disclosures

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

The companies do not provide fair disclosures of related party transactions and consolidated accounts of subsidiaries and associate companies. The disclosures on related party transactions as required under law fall quite behind the international practices prevailing in this regard. It is only very recently that ICAI has issued accounting standards in the areas of consolidation of accounts, segment reporting, deferred taxes, related party transactions and earning per share and their applicability to continuous disclosure requirements.

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

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

Code of Corporate Disclosure

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

i. They shall disseminate price sensitive information to stock exchanges on a continuous and immediate basis. To improve public access, this may be supplemented by announcements in media.

ii. They shall designate a senior official (such as compliance officer) to oversee corporate disclosure to stock exchanges, analysts, shareholders and media.

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

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

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

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

vi. The disclosures made to stock exchanges may be disseminated by the exchanges to investors in a quick and efficient manner through the stock exchange network as well as through stock exchange websites. The exchanges may also publish information furnished by the companies under continuous disclosure requirements on their web sites.

EDIFAR

In association with National Informatics Centre (NIC), SEBI has set up an Electronic Data Information Filing and Retrieval (EDIFAR) System to facilitate an electronic filing of certain information by listed companies. This is an automated system for filing, retrieval and dissemination of time sensitive corporate information which are now being filed physically by the listed companies with the stock exchanges. The primary objective is to centralize the information and accelerate its dissemination and thereby enhance transparency and efficiency for the benefit of various classes of market participants like investors, regulatory organisation, research institutions, companies and stock exchanges. This is analogous to the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system of the US Securities Exchange Commission.

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

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

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

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

Building Investor Confidence

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

Investor Protection

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

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

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

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

d. SEBI should be the only regulator for the entire capital market, both primary and secondary. It should have powers for investigation. It must also have powers to attach the public fund and all converted assets to prevent misappropriation. But it should not have powers to award compensation, which is the job of a justice delivery system.

e. The regulator may require all IPOs to be insured on the principle of third party insurance with differential premium based on the risk study by the insurance companies.

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

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

h. The Securities Contract (Regulations) Act, 1956 should be amended to provide for corporatisation and principles of good governance for stock exchanges.

Regulatory Gap/Overlap

The responsibility for supervision and development of the secuirties market is shared by Department of Economic Affairs (DEA), Department of Company Affairs (DCA), Reserve Bank of India (RBI) and SEBI. In view of involvement of a number of agiencies, there is scope for confusion among the regulators and the regulated, regulatory gaps and overlaps, and duplicate and inconsistent regulations. For example, no regulator was explicitly assigned the responsibility of regulating collective investment scheme till it caused concern when it was assigned to SEBI. Investor interest would probably be better served if there is only one regulator for the securities market, with clearly defined regulatory jurisdiction and accountability.

Investor Grievances

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

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

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

Central Information Depository

An investor normally deals in securities through an intermediary, whose acts of omission and commission can cause loss to him. In order for the investor to choose the right intermediary through whom he may transact business, it may be useful to help him in taking informed decision by making details of intermediaries available to him. The details may include the form of organization, management, capital adequacy, liabilities, defaults and penal actions taken by the regulator and self regulatory organizations against the intermediary in the past and other relevant information. Similarly the details about the issuer should be available to investors/public. If possible, the issuers/intermediaries may be rated and their ratings are disseminated. One way to do so would be to display the details of SEBI registered intermediaries and listed companies on an easily accessible user friendly central web site. This would enable the investor to make informed decisions not only about his investments but also the the intermediaries through whom he should transact.

Quality Intermediation

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

Listing Agreement

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

Plea Bargaining

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