Block 3
SECONDARY MARKETS

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UNIT 6 TRADING AND SETTLEMENT

Objectives

After studying this Unit you should be able to:

- Understand the history of Trading in India
- Appreciate the process of Transformation of Trading System
- Explain the various steps in the Securities Trading process
- Analyse the role of different Institutions involved in the Securities Trading process

Structure

6.1 INTRODUCTION

Secondary market is a market in which existing securities including financial instruments such as stock, bonds, options, futures, etc., are traded. In India, secondary markets consist of recognized stock exchanges operating under bye-laws, rules and regulations that are duly approved by the Government of India, and the regulators such as; SEBI or RBI. The stock exchanges comprise of the organized markets segment. These securities that are traded may be issued by the Central or State Government, public sector institutions, companies, etc.

Alternatively, most bonds and structured products (customized contracts) trade in the over-the-counter (OTC) markets. Hence, all stock exchanges, and over-the-counter markets, serve as secondary markets which help in reducing the risk of investment and in maintaining liquidity in the financial system.

Secondary Market with reference to the segment of Capital Markets relates to trading of already-issued (outstanding) shares. After the shares are issued in the Primary Market, it is listed on a recognized stock exchange in case of equity shares. Bonds are traded on the Negotiated Dealing System of RBI in case of debt market securities. Secondary markets provide liquidity for investors. Secondary Markets usually follow either an auction-based system or dealer-based system. While the stock exchange is part of an Auction Market, Over-the-Counter (OTC) market is a dealer-based system.

For the general investor, the Secondary Market provides an efficient platform for trading of securities. The fair price of the security is "discovered" in the secondary markets - thus leading to either price appreciation or depreciation. Banks facilitate secondary market transactions by opening direct accounts to individuals and companies. Banks also extend credit against securities. Banks may also act as Clearing House Banks.

The Indian Secondary market can also be classified into two parts:

a) Secondary market for corporate and financial intermediaries on recognized stock exchanges such as; BSE, NSE, OTCEI, ISE and other regional exchanges. The participants in these markets are registered brokers - both individuals and institutions. They operate through a network of sub-brokers and sub-dealers and are connected through a network of electronic trading system.

b) Secondary market for Government Securities, PSU Bonds, corporate debt instruments. The Government Securities market is divided into short term money market instruments such as treasury bills, and long term Government bonds of maturity up to even 30 years. The main participants in the secondary debt markets are primary dealers, banks, mutual funds, and financial institutions. Since the September, 1994, trading in Government Securities were conducted through the Subsidiary General Ledger (SGL). Presently, Government Securities and PSU bonds are traded on the Wholesale Debt Market (WDM) segment of NSE, BSE and OTCEI.

As discussed in Block 1 of this course, Securities and Exchange Board of India (SEBI) supervises the activities of stock markets, regulates the functioning of stock exchanges and intermediaries and registers Foreign Institutional Investors (FII) trading in Indian scrips. Globalization has subjected India to the vagaries of international market prices. Growing inter-linkages between different markets has led to greater interdependence. The result has been emerging complexities in financial markets. This in turn had necessitated the introduction of more innovative and complex financial instruments to meet the changing needs of the market. It is in this context that the role of the secondary market comes into prominence.

6.2 THE HISTORY OF TRADING IN INDIA

We know that Bombay is an old established port in India. Cotton was the main produce which was being sent to various countries by ship. Since despatching a full ship was expensive and full of risk certain traders would join hands to do so and contribute capital/investment. Once money was received from International buyers, the profits were shared by the investors. This was the first initial phase of trading in India. Traders involved in such trades soon became rich because of the risk they took in the partnerships of profitable and promising businesses. Bombay traders were dealing in cotton. Similarly, Ahmedabad traders were dealing in cotton textiles, Calcutta traders were dealing in Jute and so on.

The Bombay Stock Exchange is the oldest exchange to be established in Asia. It traces its history to 1855, when four Gujarati and one Parsi stockbrokers would gather under banyan trees in front of Mumbai's Town Hall. The location of these meetings changed many times as the number of brokers constantly increased. The group eventually moved to Dalal Street in 1874 and in 1875 became an official organization known as "The Native Share & Stock Brokers Association". On 31st August 1957, the BSE became the first stock exchange to be recognized by the Indian Government under the Securities Contracts (Regulation) Act. In 1980, the exchange moved to the Phiroze Jeejeebhoy Towers at Dalal Street, Fort area.

The main objective behind establishing BSE was to firstly, make public capital available to the entrepreneurial class; secondly, to ensure high returns on investment; thirdly, to create, promote and develop a well-developed market for the purchase and sale of securities; and lastly, to develop and promote ethical trading practices in the securities market. The BSE set out with the sole idea of encouraging and fueling investment culture across the country.

6.3 TRANSFORMATION OF TRADING SYSTEM

Prior to 1994 when physical share securities existed, there were 21 Regional Stock Exchanges in India. They were physically located in various parts of the country. This was required as shares in India were physical and had to be given to the Stock Exchange physically after their sale or trade on the Stock Exchange. Since the Pay-in of Shares was time bound investors would sell it on their Regional Stock Exchange.

All Regional Stock Exchanges were using the Open Outcry method for share trading on the Trading Floor. The Trading floor saw an enormous number of traders physically coming together to trade on behalf of brokers, investors and speculators. It was a scene of utter chaos with people shouting, screaming, jostling and pushing each other. It was like a utter fish market with no transparency about transactions taking place. Once data was put into the trading system at the Back Office towards the evening, net settlement positions, trend, etc., could be calculated. Objections, Mismatch or Vanda were rampant. Overall, using sign language and notepads, traders could manage to trade with each other before the introduction of the online trading systems.

Pay-in of Securities to the Clearing and Settlement House was a herculean task especially for large Financial Institutional Investors or their Custodians.

Huge net positions meant large volumes of shares had to be withdrawn from the custodies, Transfer deeds were attached. The transfer deeds were then filled, signed by authorized signatories and share transfer stamps were pasted on the transfer deed. The Certificate Numbers and Distinctive Number Range of each certificate was then recorded as shares were distinct and not fungible. Checking and counting was done multiple times before packing these bulky but expensive papers. Bullet proof vehicles such as the ones used to fill cash in ATM machines today, were used to transport the securities to the Clearing and Settlement House. Security guards are accompanied by an officer and security guards having machine guns.

The physical movement of these packed securities to the Clearing and Settlement House was also challenging. The entire process is reverse at the time of Pay-out.

After securities are received by the custody department, they can not induct them into their custody without getting the securities transferred in the name of the Financial Institution. Electronic trading is much faster and less complicated than trading in the physical stock market. Online stock market trading involves the real time placement of buying and selling orders for stocks. The transaction is completed when the trading system is able to match bids and a confirmation is received. The open outcry system, prevalent a few years ago on regional stock exchanges, has been replaced by on-line screen-based electronic trading system. NSE and OTCEI had adopted screen-based trading right from inception. With almost all the exchanges going electronic, trading has shifted from the floor to the brokers' office where trades are executed through a computer terminal. The electronic trading system is superior to the open outcry system of the past. It ensures transparency, as it enables participants to see the full market during real time. It increases information efficiency by allowing faster incorporation of price sensitive information into prevailing prices and thereby helps in efficient price discovery. This also results in operational efficiency as there is a reduction in time, cost, risk of error, and fraud and elimination of a chain of brokers and jobbers, which result in low transaction costs. This system has enabled a large number of participants, in every part of the country to trade in full anonymity with one another simultaneously, thereby improving the depth and liquidity of the market. It has further led to the integration of different 'trading centres spread all over the country into a single trading platform. SEBI has permitted the setting up of trading terminals abroad as well as Internet trading. Now investors in any part of the world can route the order through the Internet for trading in Indian scrips. Internet trading is more cost effective than using trading terminals.

Three Stock exchanges were set up in the reforms era, viz., National Stock Exchange (NSE), the Over the Counter Exchange of India Limited (OTCEI), and Interconnected Stock Exchange of India Limited (ISE). All three are mandated for nationwide trading networks. The ISE has been promoted by 15 regional stock exchanges in the country and is based at Mumbai. The ISE provides a member-broker of any of these stock exchanges an access into the national market segment, which would be in addition to the local trading segment available at present.

The NSE, OTCEI, ISE, and majority of the regional stock exchanges have adopted the Screen Based Trading System (SBTS) to provide automated and modern facilities for trading in a transparent, fair and open manner with access to investors across the country.

The OTC Market

Over-the-counter (OTC) or Off-exchange Trading or Pink Sheet Trading is done directly between two parties, without the supervision of an exchange. It is contrasted with exchange trading, which occurs via exchanges. A stock exchange has the benefit of facilitating liquidity, providing transparency, and maintaining the current market price. In an OTC trade, the price is not necessarily publicly disclosed.

In general, the reason for which a stock is traded on over-the-counter is usually because the company is small, making it unable to meet exchange listing requirements. Also known as "unlisted stock", these securities are traded by broker-dealers who negotiate directly with one another over computer networks and by phone.

The OTC market is generally considered risky, with lenient reporting requirements and lower transparency associated with these securities. Many stocks that trade OTC have a lower share price and may be highly volatile.

6.4 NEAT & BOLT

When a market participant wants to trade (buy/sell) shares, he/she may do so as a client of a member/broker. After completion of the KYC norms, an individual/corporate/any other registered entity can access the electronic trading system provided by the Member - Broker of the exchange.

Trading in securities listed on the recognized stock exchanges was possible in an open outcry mode until mid-1990s. Brokers used to assemble in a trading ring for doing transactions in securities. After the stock market crash in 1992, a few nationalized banks and financial institutions established the National Stock Exchange of India Ltd (NSE) in 1994. This facilitated an electronic trading system referred to as "National Exchange for Automated Trading" or NEAT system. This is a fully automated screen based trading system. NSE facilitated trading in equity shares on November 3, 1994. Bombay Stock Exchange Ltd (BSE) switched over to a fully automated computerized mode of trading known as BSE On-Line Trading System or BOLT; which commenced its functioning on March 14, 1995.

Through the NEAT system of NSE and BOLT system of BSE, the member-brokers can enter orders for purchase or sale of securities listed on the exchange. These securities need to be in the approved segment of the respective stock exchanges.

NSE follows an "order driven" form from the beginning whereas, BSE system, which was initially both "order" and "quote driven", is currently only "order driven". In an order driven system, the traders only put their orders for buying and selling of securities, whereas in quote driven system, the jobbers put buy as well as quotes in the same scrip with a price difference. The jobbers quotes used to get priority in execution over the orders put in by other market participants at the same price. The quote driven system has been removed by BSE from August 13, 2001. This was because of gradual decline of interest by market participants to provide a 2-way quote. The transformation into a pure order driven system also improved the order matching efficiency of the system. The system at BSE is now only order driven. The order driven system ensures faster processing, matching and execution of orders in a transparent manner.

The entire order and trade management system which forms the backbone of the exchange trading platform may be segregated into different systems and sub-systems as follows:

- Order Placement (also called Order Capture or Order Validation system)
- Order Matching and Trade Validation (executed orders based on price-time priority) or Order Execution.

In the next section of this unit, we shall trace the process flow involved in the entire Trade Management System in secondary market.

6.5 STEPS FROM ORDER PLACEMENT TO SETTLEMENT

In normal course, putting a trade through online trading platform in the Indian Stock Market involves the following steps:

- Investor/trader decides to trade.
- Places order with a broker to buy/sell the required quantity of respective securities.
- Best priced order matches based on price-time priority.
- Order execution is electronically communicated to the broker's terminal.
- Trade confirmation slip issued to the investor/trader by the broker.
- Within 24 hours of trade execution, contract note is issued to the investor/trader by the broker.
- Pay-in of funds and securities before T+1 day.
- Pay-out of funds and securities on T+1 day

Some of these steps are discussed in detail in this Unit.

6.6 ORDER PLACEMENT

When a user logs into the Trader Work Station (TWS) of the exchange and places an order through the buy/sell order entry screen, he inputs the following parameters:

- Regular Lot Order or Stop Loss Order
- Scrip Code and Scrip Name - both are available from a drop list box

- Quantity of shares to be bought/sold
- Price
- Disclosed Quantity
- Client Code for Client Order/Member OWN code for Proprietary Order
- Remarks

The process flow involved in the order placement system of trading in secondary markets is presented in the Figure 6.1.

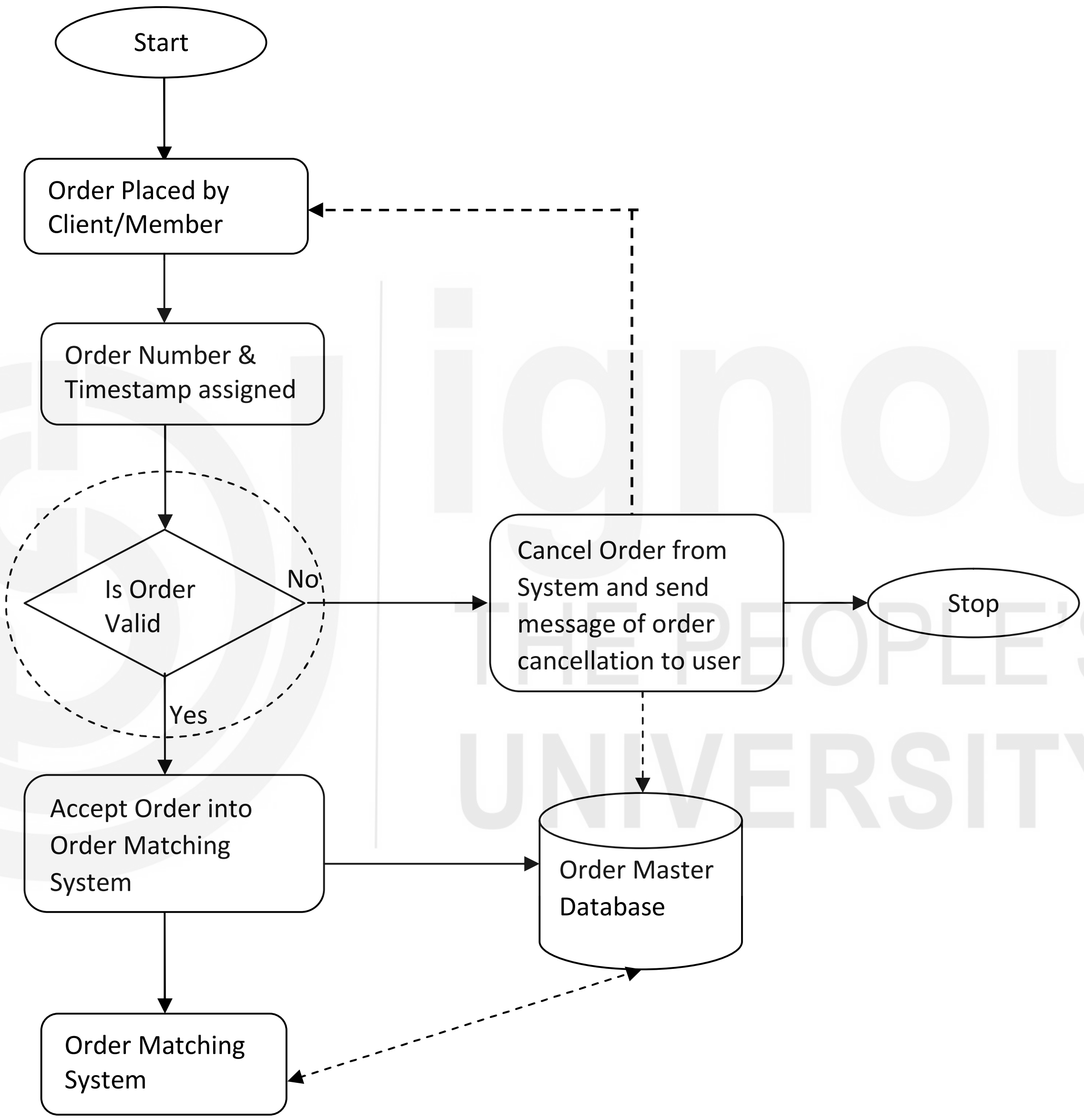

Figure 6.1: Order Placement System

The above parameters vary, depending on the software used. But most of the above parameters are mandatory to be entered into the TWS. Once the order is entered into the system, an order number is automatically generated. The order validation system verifies the parameters entered. If the data entered is accepted after validation, then the order is despatched to the order matching system.

A master database stores the details of the order entered into the system. This is the repository for all orders placed by the user. In case the order is rejected after validation/verification procedure is conducted, then a message alert is sent to the user's terminal stating that the order is rejected. The same is also notified to the central order master database.

Markets take "orders',' (which is intent to trade) as input and produce "trades" as output. The exchange is a market place, where trading in listed securities happens. For general investor, the secondary market provides an efficient platform for trading of his/her securities. For the management of the company, secondary equity markets serve as a monitoring and control conduit - by facilitating value-enhancing control activities, enabling implementation of incentive-based management contracts, and aggregating information (via price discovery) that guides management decisions. Trading in the equity segment takes place on all days of the week (except Saturdays and Sundays and holidays declared by the exchange in advance).

Depending on the type of trading activity that a trader undertakes in the market, he/she may be an investor/speculator, hedger or arbitrageur. Investors enter into a transaction for investment purposes. Speculators enter into a transaction by taking a view about the market from the available or prevailing information/news. Hedgers transact to protect against price fluctuations thereby minimizing the risk arising from such fluctuations. Arbitrageurs enter into a transaction in reaction to information flows that cause price differential between different markets. Arbitrageurs typically transact in multiple correlated assets which are traded in different markets.

The trading on exchange happens only by becoming a registered Trading Member of the exchange. There are three kinds of members who are generally registered by an exchange. ***Trading Members*** can place orders on the exchange. Trading Members provide only trading services for their customers. They cannot clear the trades of their clients or their own trades. They need to associate with a Professional Clearing Member in order to have their and their client trades cleared. ***Trading and Clearing Members*** (TCM) facilitate both trading and clearing services for their customers (and their own proprietary trades). ***Professional Clearing Members*** do not offer any trading services, but only provide clearing services for their customers who are typically other Trading Members. The exchange allows access to trading members and their sub-brokers. TCM have clearing and settlement obligations with the exchange. Sub-brokers appointed by the TCM need to have their settlement obligations cleared through the TCM. A TCM can have multiple sub-brokers. Every sub-broker can only trade through one TCM.

As shown in Figure 6.1, as and when the order is entered into the system, the order is numbered and the specific time of order submission is stamped along with the order. The order number and time stamp is unique for each order submitted. Then the order is checked for validation and verification parameters. If the order is valid, then the order is accepted. If the order is rejected, then the same is communicated to the user terminal. The message appears in the message box of the user terminal.

Accepted orders are then placed in the order queue based on price time priority. If the order does not find an immediate match, then the order is placed as a "passive" order and is stored in the order queue. The analysis of the price-time priority of order matching is explained in detail in the following sections of this unit.

6.7 ORDER EXECUTION

Having analyzed the process involved in order placement, let us discuss the process involved in the Order Execution. When any order enters the trading system, it is an active order. It tries to find a match on the other side of the books. If it finds a match; a trade is generated. If it does not find a match, the order becomes a passive order and goes and sits in the order book.

The Order Execution System involves the trading engine identifying the best buy quote with the best sell quote based on price time priority. All orders existing in the system can be modified till the time they do not get fully traded and it can be done only during market hours. At a branch level, once an order is modified, the branch order value limit gets adjusted automatically. Order modification authority is given according to the corporate hierarchy, as given below:

- A dealer can modify only the orders entered by him.
- A branch manager can modify his own orders or orders of any dealer under his branch.
- A corporate manager can modify his own orders or orders of all dealers and branch managers of the trading member firm.

The corporate manager/branch manger cannot modify order detail such that it exceeds the branch order value limit set for the day. A Trading Member who is suspended or deactivated by the exchange for any session cannot modify the orders entered by him. Any order modification resulting in price or quantity freeze shall not be allowed. For such modification request, the user will receive a message from the Order and Trade Management System. Orders which have not been fully or are partially traded (for the untraded part of partially traded orders only) can only be cancelled and that is done only during market hours.

Different types of Order Execution

Following are the different types of order execution in an exchange:

1) ***Market Order***: Market order is one that will be executed immediately at whatever the current price where the security is traded. This is the simplest of all orders. If you want to buy, say, 100 shares of INFOSYS at the best available price immediately, then you can place a "Market Order" by simply specifying the quantity without indicating the price of purchase. The system automatically recognises that you are placing a market order, and matches the quantity of purchase (100 shares) with the best available sell quotes in the order book. The entire lot of 100 shares is matched at the best sell quotes and the order is executed. It should be

noted that this is a risky strategy since the market may be sometimes so volatile that the actual price at which the order is matched may be at extreme points. Hence, you need to be careful when you are placing market order.

2) ***Limit Order:*** This is a conditional order in which the lowest or highest price, at which you want to sell or buy shares respectively, is specified. A sell limit order will be executed at the specified price or higher; a buy limit order will be executed at the specified price or lower. e.g., "Buy 100 shares of TISCO at Rs. 100". The order will be executed at Rs. 100 or lower. A Sell Limit Order may be "Sell 100 shares of TISCO at Rs. 110; the order will be executed at 110 or higher.

   Sell Limit Orders will always be above the market & buy limit orders will always be below the current market price. If a sell limit was below the current market price (or if a buy order is above), they would be immediately executed. In case of high volatility, the trader needs to take care while feeding limit orders, with limits close to the market price.

3) ***Stop Loss Order***: In these type orders a price is specified with a trigger price. If the price is traded at trigger price, the order becomes a market order. Suppose I buy (long) 100 shares of TISCO at 100 & I want to limit my losses to Rs. 5 per share. I can enter an order to "sell 100 shares of TISCO at 95 on a stop with trigger price at 96. Once TISCO trades at 96 or lower, the system will sell on my behalf 100 shares of TISCO at the market. If TISCO does not trade at 96 or lower, the order will not be executed and stay in abeyance mode. In case of non execution, order stand in the "Stop Loss Order Book". A buy stop order can be used to protect a short position.

   When a trader has an existing open short position, the risk for the trader is a sudden increase in the price of the security. Hence, in order to minimize losses, he can place a stop-loss buy order. In this case, the limit price is placed above the current market price and the trigger price is specified just below the limit price. When the market price increases, the trader's existing short position begins making losses. In such eventuality, when the trigger price is breached, the stop loss buy order is activated and a corresponding buy order is initiated.

   When a trader has an existing open long position, the risk for the trader is a sudden decrease in the share price. Hence, in order to minimize losses, he can place a stop-loss sell order. In this case, the limit price is placed below the current market price and the trigger price is specified just above the limit price. When the market price decreases, the trader's existing long position begins making losses. In such eventuality, when the trigger price is breached, the stop loss sell order is activated and a corresponding sell limit order is initiated.

   The advantage of a stop order is that, any sudden adverse movement in the market can limit losses to a great extent. The disadvantage is that the stop-loss order could be activated by a short-term fluctuation in the price. The solution is to choose a stop-loss percentage that factors day-to-day fluctuation while preventing as much downside risk as possible. Also, when the trigger price is breached, the stop-loss order is released into the system. The actual traded price of the stop loss order may be different from the limit price specified. This is especially possible in a dynamic market where prices can change rapidly.

Placing stop-loss orders do not cost anything for the client. The brokerage is charged only once the stop-loss trigger price has been breached and order executed. Hence, it functions like an Insurance policy. Second, but most important, a stop-loss allows decision making to be free from any emotional influences. People tend to believe that the market may bounce back from an adverse movement. This causes the trader to procrastinate and delay the action to cut losses. Stop loss orders ensure discipline in trading.

In extremely volatile situations, it may be observed sometimes that stop loss orders are triggered but not executed. In order to avoid this possibility, precaution needs to be taken to maintain adequate gap between the trigger price and the limit price specified in the stop loss order. This ensures that the high volatility in the market will not lead to bypass of the stop loss buy/sell price after breach of the trigger price.

4) ***Market if Touched (MIT)***: MIT becomes a market order if a designated price is reached. MIT to buy becomes market order if market falls to a given price while stop order to buy becomes a market order if the market rises to given price. (MIT to sell becomes a market order if market rises to specified price).

5) ***Day Order***: This order stays in the system for a day, if not executed it expires at the end of the trading session of that day.

6) ***Good Till Cancelled (GTC)***: This type of order remains in the system till it is executed or cancelled. It remains open until either the order is cancelled from the system, it is executed or for a period of 6 months, whichever is earlier.

7) ***Fill or Kill/Immediate or Cancel (IOC***): This is an order to buy or sell a security immediately. If the order is not executed at once, it is treated as withdrawn or expired. This type of an order is often used by a party wishing to take out a large bid/offer but, in case of a failure, it does not wish to be viewed as a possible large counter party in the market.

6.8 CLEARING AND SETTLEMENT

Clearing is a mechanism which helps determine the obligations of the trading members. Whereas Settlement involves taking and giving delivery of funds and securities thereby discharging obligations of the trades placed on the exchange terminal by the trading members.

Every exchange has a designated clearing house which operates to complete the clearing and settlement processes of the exchange. The Clearing House helps determine the obligations i.e. what the parties to the transaction would receive and what they would pay to the other parties.

Every Clearing House has two clearing members - a Trading Member and a Custodian. Once the obligations are passed on from the trading member to the custodian, the custodian confirms them. This confirmation request is sent to the custodian through the clearing house through real time and end of day trade file. Once a confirmation is received the clearing process commences. Clearing involves consolidation of transactions and calculates the settlement requirements. This phenomenon is termed as 'Multi-lateral Netting'. The advantage of using this to determine the obligations is that it reduces transaction costs and improves operating efficiency. The clearing member determines the obligations of the pay-in and pay-out of funds and securities. The details of which are forwarded to the trading members so that they can settle their obligations by T+1. The time period for trading and settlement are specified by the exchange. At the end of the trading period and settlement period the net obligations are computed.

The clearing house determines the obligations after it receives the confirmation of trades from the exchange. It then transfers the details of the transaction in electronic form to the clearing members. The trades carried out during a particular period specified for trade are settled together. Multilateral netting serves to determine the net obligations of the clearing members. The clearing house assigns delivery between the members of funds and securities to ensure completion of transaction. A settlement process is said to be complete upon declaration and release of pay-out of funds and securities.

Suppose a trader 'A' buys 100 shares of Company ABC and sells 50 shares of the same company on the same day then his net obligations would involve 50 shares of company ABC.

Settlement involves the actual settlement of obligations towards the transaction and eventually pay-in and pay-out of funds and securities. Paying in of funds or securities means delivery of the securities or funds by the members who wish to part with them. While paying out means giving delivery of funds or securities to members who wish to receive them in exchange for their payments

6.9 SETTLEMENT PROCEDURE

The Figure 6.2 depicts the step-wise flow of funds and securities which allows for the settlement of funds.

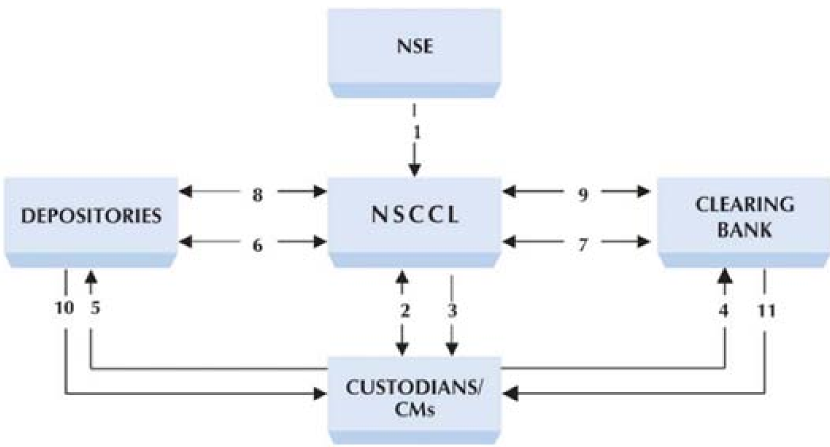

Figure 6.2: Settlement procedure

Steps in Settlement Process:

1) The first step involves downloading of the trade information (real time and end of day trade files) from the exchange to the clearing corporation.
2) The clearing house then intimates the clearing member about the trade details who confirm the same. The clearing house performs multi lateral netting to determine the obligations.
3) The clearing members download the trade details and pay-in advice.
4) The clearing member gives instructions to clearing banks to make funds available by pay-in time.
5) They also give instructions to the depositories to make securities available by pay-in time.
6) Pay-in of securities - The clearing house advises depository to debit pool account of custodians/CMs and credit its account. This is carried out by the Depository.
7) Pay-in of funds - The Clearing house advises Clearing Banks to debit account of custodians/CMs and credit its account. This is carried out by the clearing bank.
8) Pay-out of securities - The clearing house advises depository to credit pool account of custodians/CMs and debit its account. This is carried out by the depository.
9) Pay-out of funds - The clearing house advises Clearing Banks to credit account of custodians/CMs and debit its account. This is carried out by the clearing bank.
10) The Depository informs custodians/CMs through depository participants.
11) The Clearing Banks inform custodians/CMs.

A clearing member has to deliver securities on the pay-in day as per the instructions of the clearing house. In case he/she is not able to deliver then the clearing house identifies those deliveries and carries out a buy-in action process for those securities through the trading system. The clearing member gets a valuation for the security and is debited of the amount for which the securities were not delivered. If he gets a higher valuation he can make good of the difference. All shortages not bought in are deemed to be closed out at the highest price between the first day of trade and before squaring off or closing price on the auction day plus 20%, whichever is higher.

This amount is credited to the receiving member's account on the auction pay-out day.

Auctions may be carried out by the Exchange on behalf of trading members for settlement. The main reasons for Auction are; Shortages, Bad Deliveries and Objections. There are three types of participants in the auction market:

- Initiator: Initiates the auction process.
- Competitor: Enters on the same side as of the initiator.
- Solicitor: Enters on the opposite side as of the initiator.

The trading members participate in the Exchange initiated auctions by entering orders serving as a solicitor. For example, the trading members enter sell orders as solicitors in case of a buy-in auction. When the auction starts, the competitor period for that auction also starts during which competitor order entries are allowed.

A Competitor order is an order which competes against the initiator's order. Once this competitor period ends, the solicitor period commence during which solicitor order entries are allowed. Solicitor orders are exactly opposite to the initiator order i.e., if the initiator order is a buy order, then all the sell orders for that auction are solicitor orders and vice versa. Order matching takes place after the solicitor period. A trade price is computed for the initiated auction by the systems in place. This completes the auction process. The time period for competitors and solicitors is specified by the exchange.

6.10 CLEARING CORPORATION

The Clearing Corporation or the clearing house carries out the clearing and settlement of the trades. It clears trades through a defined settlement cycle and maintains the same procedure for clearing all trades. It sums up the trades over the trading period, nets the positions to compute the liabilities of members and ensures movement of funds and securities to meet respective liabilities. Clearing houses conceptualize 'novation' (where the clearing corporation acts as seller to the buyer and buyer to the seller) by eliminating obligations of other counterparties with its own obligation thus minimizing counterparty risk ensuring completion of transaction. Every Stock exchange has a designated clearing house. It empanels clearing banks to provide services to the trading members and with depositories for settlement of trades.

Every member is required to maintain a clearing account with the designated clearing bank for clearing operations which includes settlement of funds and other obligations like payment of margin or any other penalties. Only clearing members can access their clearing account to make or receive payments as assigned by the clearing house depending on his obligations. The bank then carries out debit or credit operations with respect to the instructions received from the Clearing Corporation.

The Clearing Banks are required to provide the following services as a single window to all Clearing Members of Clearing Corporation and also to the Clearing Corporation:

- Branch network in cities that cover bulk of the trading cum clearing members.
- High level automation including Electronic Funds Transfer (EFT) facilities.
- Facilities like, (a) dedicated branch facilities, (b) software to interface with the Clearing Corporation, (c) access to accounts information on a real time basis.
- Value-added services to members such as free-of-cost Funds Transfer across centers, etc.

- Providing working capital funds.
- Stock lending facilities.
- Services as Professional Clearing Members.
- Services as Depository Participants.
- Other Capital Market related facilities.
- All other banking facilities like issuing bank guarantees/credit facilities etc.

Role of the Clearing House

Pay-in of Funds and Securities: This requires members to bring in their funds/securities to the clearing corporation. The Clearing Members (CMs) make the securities available in designated accounts with the two depositories (CM pool account in the case of NSDL and designated settlement accounts in the case of CDSL). The depositories move the securities available in the pool accounts to the pool account of the clearing corporation. Likewise CMs with funds obligations make funds available in the designated accounts with clearing banks. The clearing corporation sends electronic instructions to the clearing banks to debit designated CMs' accounts to the extent of payment obligations. The banks process these instructions, debit accounts of CMs and credit accounts of the clearing corporation. This constitutes pay-in of funds and of securities.

Pay-out of Funds and Securities: After processing for shortages of funds/securities and arranging for movement of funds from surplus banks to deficit banks through RBI clearing, the clearing corporation sends electronic instructions to the depositories/clearing banks to release pay-out of securities/funds. The depositories and clearing banks debit accounts of the Clearing Corporation and credit accounts of CMs. This constitutes pay-out of funds and securities.

6.11 DEPOSITORIES

NSDL or National Securities Depository Limited was established in 1996 as per the recommendations of the Pherwani Committee to maintain the shares held by investors in dematerialised form. As of June 30th 2023, it manages assets of over Rs. 348.59 lakhs crore. It is presently one of the largest depository institutions in the world, managing more than 3.31 crore investor accounts through the various Depository Participants (DPs) across India.

CDSL or Central Depository Services (India) Limited was established in 1999 and is the second depository institution in India. Similar to NSDL, CDSL is a Market Infrastructure Institution (MII) and acts as the intermediary between exchanges, clearinghouses, DPs, issuers, and investors. It facilitates the safe storage of securities held by investors in dematerialised form and enables the smooth processing of securities purchases and sales. As of June 30th 2023, CDSL manages over 8.8 crore investor accounts and offers its services through 588 DPs. The securities held in CDSL's custody value exceeds INR 4.52 crore.

There are many differences between CDSL and NSDL, including promoter status, founding date, the scope of operation, and investor accounts. However, what makes them similar is what they do. Both serve as depository institutions maintaining investors' stocks, bonds, ETFs, mutual fund units, etc. Also, both institutions are registered and approved by the Indian Government. Moreover, both institutions are regulated by the Securities and Exchange Board of India. Additionally, all Indian brokers can transact with any of these institutions.

In terms of services to investors, there is no key difference between having a Demat account with a DP registered either with NSDL or CDSL. Both are regulated by SEBI and provide similar trading and investing services.

In India, investors usually do not choose the depository institution. The depository participants oversee the account opening process. Generally, the DP looks at the charges and service quality of NSDL and CDSL before opening investor accounts. Brokers can access NSDL and CDSL to transfer shares, bonds, ETFs, etc., to the Demat account from the trading account.

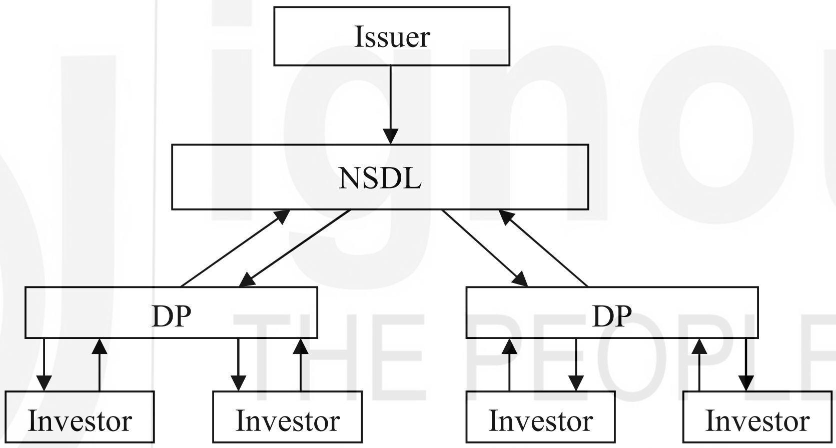

Figure 6.3: Flow of Securities transfer in Demat System

Services provided by Depository

- Dematerialisation (usually known as demat) is converting physical certificates of Securities to electronic form
- Rematerialisation, known as remat, is reverse of demat, i.e. getting physical certificates from the electronic securities
- Transfer of securities, change of beneficial ownership
- Settlement of trades done on exchange connected to the Depository
- Pledging and Unpledging of Securities for loan against shares
- Corporate action benefits directly transfer to the Demat and Bank account of customer

6.12 SUMMARY

Secondary market is a market in which existing securities and financial instruments such as; stock, bonds, options, and futures are bought and sold. Secondary market comprises of equity markets and the debt markets.

After the Financial Instruments are issued in the Primary Market, it is listed on a recognized stock exchange for providing liquidity and price discovery.

Products of secondary market include equity shares, preference shares, Security receipts, government securities, debentures, bonds, commercial papers, Units of Mutual Funds and treasury bills. This market attracts a varied group of participants like investors, speculators, hedgers, arbitragers and jobbers. Some of them come to market to mitigate risk while some come to take chance on the market movement and make money. Further, the secondary markets provide liquidity for investors. The fair price of the security is discovered in the secondary markets - thus leading to either price appreciation or depreciation.

This market provides an automated online trading platform, where different types of orders can be placed and executed on order matching basis. For example, the online trading platform on NSE is called NEAT and on BSE is called BOLT. The Exchanges have placed efficient infrastructure to monitor the settlement process. The regulators like SEBI intervene to amend guidelines in the interest of the investors. Clearing and settlement is said to be one of the most important segment of a transaction without which a trade ceases to exist.

Clearing mechanism involves a unified contribution of clearing house, clearing members, custodians and depositories. Settlement Mechanism involves confirmation of trades by the custodian which is then followed by the settlement of funds and securities. Auctions are conducted by the exchange if the obligations are not delivered within the stipulated time. Auction processes are carried out by initiators, solicitors and competitors as participants.

6.13 SELF-ASSESSMENT QUESTIONS

1. When did initial trading start in India and why?
2. Is it safe to trade in the OTC market?
3. What is OTC trading?
4. What issues were being faced by the economy in India during the regime of physical securities?
5. Why are the suggestions of the Pherwani committee very significant for the changes brought about in the Indian financial market?
6. Why does India have two Depositories? What do these Depositories do?
7. Which stock exchange first introduced an online screen-based trading system in India?
8. What is the trading and settlement process in online trading?

6.14 FURTHER READINGS

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UNIT 7 MARKET SURVEILLANCE AND RISK MANAGEMENT

Objectives

After studying this Unit, you should be able to:

- Understand the Scope and Significance of Market Surveillance
- Evaluate the Risk Management Framework of a Stock Exchange;
- Explain the coordination between SEBI and Stock Exchanges towards Risk Management
- Discuss the additional Surveillance Measures and Graded Surveillance Measures.

Structure

7.1 INTRODUCTION

Risk Management is an essential function of stock exchange as trading in stocks exposes a participants to two types of risk. These are Capital Risk and Counterparty Default Risk. Market Risk refers to the risk that an investor or participant in market takes and bears when he invest in market. The risk arises because of the fact that the stock prices may fall, and this exposes the participant to market fluctuations. This risk may arise from two factors, and is thus classified as Systematic Risk and Unsystematic Risk. Systematic Risk is market wide and is macroeconomic in nature. Thus this risk can not be diversified and has to be borne by participants. Unsystematic risk is unique to the security in which investment is made. As these risks are unique these can be diversified by investing in a portfolio of securities. Counterparty risk is the risk that arises due to the fact that the counterparty in the market settlement process fails to honour the commitments they enter into. For example: Let us say an investor makes an order to purchase 100 shares of ABC Limited at a rate of Rs. 1,000 a share. The obligation of the investor becomes Rs. 1,00,000. According to the T+1 rolling settlement system, this payment has to be made on 'T+1 day. But now if investor can not make the payment, it will expose the seller of scrips to a risk, called Counterparty Risk.

A sound and healthy exchange mechanism aims at containing the counterparty risk so that the investors can concentrate upon the capital risk aspects of their investments. To contain such risks in equity market NSE incorporated a wholly owned subsidiary National Securities Clearing Corporation (NSCCL) in August 1995. The aim was to:

- Bring confidence in market
- Promote and maintain short settlement cycle
- Provide counter party risk guarantee
- Manage and operate risk containment system

NSCCL commenced clearing operations in April, 1996 and operates on pro active basis to contain the risks in the market. The various measures to ensure the stability of markets include:

- Measure capital adequacy requirements of Members,
- Monitoring of Member performance and track record,
- Stringent margin requirements,
- Position limits based on capital,
- Online monitoring of Member positions and automatic disablement from trading when limits are breached

Further the surveillance mechanisms have been developed to curb excessive volatility, detect and prevent price manipulation and follow a system of price bands.

7.2 MARKET SURVEILLANCE

Capital market can function well if effective surveillance is carried out. Forming an integral part in regulatory process, effective surveillance can achieve investor protection, market integrity, and capital market development.

The undertaking of market surveillance forms the primary responsibility of the stock exchange. Given the size, complexities and level of technical sophistication of the markets, the tasks of information gathering, collation and analysis of data/information are divided among the exchanges, depositories and the SEBI. Information relating to price and volume movements in the market, broker positions, risk management, settlement process and compliance pertaining to listing agreement are monitored by the exchanges on a real time basis as part of their self regulatory function. However, regulatory oversight, exercised by SEBI, extends over the stock exchanges through reporting and inspections. In exceptional circumstances, SEBI initiates special investigations on the basis of reports received from the stock exchanges or specific complaints received from stakeholders as regards market manipulation and insider trading.

In order to ensure investor protection and to safeguard the integrity of the markets, it is imperative to have in place an effective market surveillance mechanism Market Surveillance plays a key role in ensuring safety and integrity of the markets. Market Surveillance Division was first set up in the SEBI in July 1995, with a view to keep a proactive oversight on the surveillance activities of the stock exchanges.

Currently SEBI has the following Departments for the purpose of Market Surveillance:

Integrated Surveillance Department (ISD): The Integrated Surveillance Department is responsible for market surveillance of all segments of Securities market

Market Regulation Department (MRD): The Market Regulation Department (MRD) is responsible for formulation of policy and supervision of functioning and operations of Market Infrastructure Institutions (MIIs) such as, Stock Exchanges, Depositories and Clearing Corporations as well as Vault Managers.

Investigations Department: The Investigations Department is responsible for:

- Conducting examination/investigations related to all segments of securities market including commodity derivative markets as well as all type of violation related to securities market.
- Providing referrals to the Enforcement Department.
- Assisting the concerned department(s)/offices in quasi-judicial proceeding.
- Maintenance of database and other related works and Enforcement Departments.

The above Departments support each other, use Information Technology and global standards to ensure stringent market surveillance leading to overall good risk management.

Scope of Market Surveillance:

Following is the scope of SEBI's market surveillance:

- policy formulation for introduction of surveillance systems and risk containment measures at the stock exchanges to bring integrity, safety and stability in the Indian securities markets;
- overseeing the surveillance activities of the stock exchanges including the monitoring of market movements by them;
- inspection of the surveillance cells of the stock exchanges;
- initiating investigations; and
- preparation of reports and studies on market movements, which SEBI circulates, periodically to the Ministry of Finance in the Government of India and to securities markets regulators from other countries.

Importance of Market Surveillance

The development and regulation of capital markets has become a critical issue in the recent past, as an emerging middle class in many developing countries creates growing demand for property ownership, small-scale investment, and savings for retirement. Capital markets offer individuals and small and medium-scale enterprises a broader menu of financial services and tailored financial instruments like Government Debt, Housing Finance, and other securities. A competitive, diversified financial sector, in turn, broadens access and increases stability. Effective surveillance is the *sine qua non* for a well functioning capital market. As an integral part in the regulatory process, effective surveillance can achieve investor protection, market integrity and capital market development. According to IOSCO, the International Organization of Securities Commissions, ***"the goal of surveillance is to spot adverse situations in the markets and to pursue appropriate preventive actions to avoid disruption to the markets."***

The primary responsibility of market surveillance has been entrusted to the stock exchanges. However, SEBI keeps a proactive oversight on market movements and trends and in exceptional circumstances analyses the same. When appropriate, on the basis of reports received from the stock exchanges or specific complaints or sometimes suo-moto also (on exception basis only), preliminary enquiries are conducted to determine whether the trading raises suspicion of market manipulation and/or insider dealing. In case an analysis of the trading information for the stock exchanges leads to a suspicion of market abuse, then, client details and records are obtained from the stock brokers. If further analysis of these records suggests the possibility of occurrence of market manipulation or insider dealing or other misconduct, investigations are initiated.

Table 7.1: Nature of Investigations Completed by SEBI

Year	Market manipulation and price rigging	Issue related manipulation	Insider trading	Takeovers	Miscellaneous	Total
2010-11	51	2	15	4	10	**82**
2011-12	37	4	21	2	10	**74**
2012-13	41	52	14	2	10	**119**
2013-14	73	12	13	6	16	**120**
2014-15	86	3	15	3	15	**122**
2015-16	60	20	20	2	21	**123**
2016-17	118	5	15	4	13	**155**
2017-18	120	9	6	0	10	**145**
2018-19	60	1	19	3	27	**110**
2019-20	39	1	57	1	72	**170**
2020-21 $	30	1	24	1	12	**68**

$as on December 31, 2021

Source: www.sebi.gov.in

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

1. Risk containment measures in the form of elaborate margining system and linking of intra-day trading limits and exposure limits to capital adequacy;
2. Daily price bands to curb abnormal price behaviour and volatility;
3. Reporting by stock exchanges through periodic and event driven reports;
4. Establishment of independent surveillance cells in stock exchanges;
5. Inspection of intermediaries;
6. Suspension of trading in scrips to prevent market manipulation;
7. Formation of Inter Exchange Market Surveillance Group for prompt, interactive and effective decision making on surveillance issues and co-ordination between stock exchanges;
8. Suspension of trading in scrips to prevent market manipulation;
9. Implementation of On-line automated surveillance system (Stock Watch System) at stock exchanges.

7.3 SURVEILLANCE SYSTEM

Real-time trading activities are monitored through Automated Surveillance system. The movements of price and trading volume for each security with the parameters based on preset values are compared through the Alert System. The alert system generates an alert in case of unusual change in terms of price and/or trading volume for any security so that online securities monitoring team will be able to promptly investigate for the reason of that unusual change notice any security with unusual changes in its trading pattern. The main objectives of the system are:

- ***To detect potential abnormal activity:*** Surveillance System detects on real time basis potential abnormal activity by comparing with historical data. Abnormal activity may be pertaining to abnormality in respect of price, volume, etc.
- **Capture real time data on surveillance system:** Instantaneous updation of price and quantity data is provided.
- **To generate alerts in case of aberrations:** Surveillance system generates alerts across live data based on predefined parameters.

Online Real Time Alerts

These alerts are based on the trade related information during the trading hours. The objective of these alerts is to identify any abnormality as soon at it happens. These alerts include intra-day price movement related and abnormal trade quantity or value related alerts.

Online Non-real Time Alerts

These alerts are based on the trade related information at the end of the day and the available historical information. The objective of these alerts is to analyze the price, volume and value variations over a period.

Surveillance Function:

Surveillance function is divided into following three categories:

i) ***Online Surveillance***: For effective surveillance of the securities market a system with a common framework across all the stock exchanges was started. The objectives of this system, termed as the Stock Watch System, are to give suitable indicators for the detection of potential illegal or improper activity to protect investor confidence and the integrity of the securities market and its players. The Stock Watch System has standardized information available with all the stock exchanges.

ii) ***Off-line Surveillance***: It is carried out through defining price bands or daily price range within which the price of a security is allowed to move i.e., go up or down, during the day. Price bands of 20% are applicable on all securities (including debentures, warrants, preference shares, etc), other than specifically identified securities. No price bands are applicable on securities on which derivative products are available or securities included in indices on which derivative products are available. In order to prevent members from entering orders at erroneous prices in such securities, the Exchange has fixed operating range of 20% for such securities.

    At NSE, 5% and 10% daily price bands are applied to specified securities which are identified on objective criteria. The circuit filters are reduced in case of illiquid securities or as a price containment measure. The price bands for the securities in the Limited Physical Market are the same as those applicable for the securities in the Normal Market. For the Auction Market the price band of 20% are applicable.

    The index-based market-wide circuit breaker system applies at 3 stages of the index movement, either way viz., at 10%, 15% and 20%. These circuit breakers when triggered bring about a coordinated trading halt in all equity and equity derivative markets nationwide to provide for a cooling-off period giving buyers and sellers time to assimilate information.

iii) ***Rumour Verification***: Leading financial dailies are scrutinized for any price sensitive information pertaining to the companies listed with the Exchange. In case, such news is not intimated to the Exchange and there was impact on the price (of the threshold percentage in price), letters are sent to the companies seeking clarification The reply received from the companies is broadcast to the members, updated on the website and a press release is issued to the effect.

7.4 SURVEILLANCE AND RISK MANAGEMENT

A market can be considered fair if all participants face the same conditions of trading and no entity is in a position to trade on information that is not publicly available. A market can be considered efficient if no single entity or group of entities can influence the price discovery based on available information and/or demand and supply.

To achieve the above objectives, surveillance department of stock exchange monitors securities trading activity on the Exchange. All the securities traded in the Exchange come under the surveillance. Significant changes in two key market parameters - volatility and liquidity - alert the Surveillance Department to potential market abuse. Effectiveness of surveillance function depends on its ability to promptly and accurately identify suspicious trading.

SEBI has, from time to time, put in place various risk containment measures to address the risks involved in the cash and derivatives market. These measures have successfully and efficaciously addressed the market risks. The comprehensive risk management framework has been finalised after a due consultative process with the public.

As per SEBI directive, the Stock Exchanges should put in place the necessary systems to ensure the operationalisation of the comprehensive risk management framework and that they have tested the software and removed any glitches in its operation to avoid any problems in the live environment. Further, the Stock Exchanges are advised to strengthen their monitoring and surveillance systems and take such timely actions as and when necessary.

7.5 REPORTING BY STOCK EXCHANGES

The SEBI has put in place a system of reporting by the stock exchanges on surveillance related matters. With a view to bring emphasis on oversight and exception reporting, it was decided to modify the reporting requirements on the lines as below:

1. The daily report in the existing format has been done away with and it has been prescribed that daily report will be sent only on exceptional basis if there has been happening/event/trading pattern which have a bearing on the safety/integrity of the market.
2. The settlement report includes details about overall safety level at the exchange, member deactivations, scrip suspension, instances of rumor verifications and working of stock watch system.
3. The monthly report gives details about analysis/investigations taken up by the exchanges following the reference from SEBI or otherwise, outcome of the same and actions taken by the exchange against members/issuers.

Indefinite Suspension of Scrips

Earlier, the exchanges had to seek prior approval from SEBI for suspending scrips for more than three days. As all the information required for taking such decisions is available with the exchanges, it was decided that the decision for suspension of trading of scrips including for more than 3 days should be taken at the Exchange level itself.

Surveillance Staff Strength at Exchanges

To improve the functioning of the Surveillance Cells of Stock Exchanges, it has been decided that Exchanges will take steps to assess manpower requirements and deploy adequate staff for surveillance and monitoring. Exchanges are also required to provide appropriate training and certification to surveillance staff and facilitate process of certification.

7.6 DEVELOPMENT OF THE STOCK EXCHANGES AS SELF REGULATORY ORGANISATIONS

SEBI has been trying to strengthen the role of exchanges as effective self-regulatory organisations. Setting up of independent surveillance cells directly reporting to the exchange Executive Directors was a step in this direction. Development of exchange level surveillance capabilities like stock watch system, directing exchanges to augment their surveillance staff strength and devising a training and certification module for the exchange surveillance staff are further initiatives taken by SEBI in this direction. Self-regulatory steps taken by exchanges under the oversight of SEBI have improved market safety and integrity.

In line with their self-regulatory role, the primary responsibility of market surveillance and monitoring, detection of abnormal trading patterns, analysis and initiation of investigations has been entrusted to exchanges. Exchanges are required to make reference to SEBI, in appropriate cases, for further investigations by the SEBI. In the year 1999-2000, in 12 cases, further investigations were taken up by the SEBI on reference from exchanges. Major exchanges conducted suo-moto investigations in more than 100 other cases. As part of its oversight of surveillance activity, SEBI also takes up cases for investigations, but this is done on exceptional basis only. In the year, in 24 cases, exchanges were asked by the SEBI to conduct investigations/ send details to the SEBI. In some of these cases, exchanges had already initiated investigations on their own.

Table 7.2:Investigations by SEBI

Year	Cases Taken up for Investigation	Cases Completed
2010-11	104	82
2011-12	154	74
2012-13	155	119
2013-14	108	120
2014-15	70	122
2015-16	133	123

2016-17	245	155
2017-18	117	145
2018-19	194	110
2019-20	161	170
2020-21 (Till December 2021)	50	68

Source: www.sebi.gov.in

Inter exchange market surveillance group

There are 23 stock exchanges having different trading and settlement cycles and at the same time scrips have multiple listing on these stock exchanges. For effective and meaningful co-ordination between these stock exchanges for healthy functioning of the market, an Inter Exchange Market Surveillance Group was set up by the SEBI. The group meets at regular intervals.

The Group discussed market trends, various risk containment measures that needed to be revised and new measures to be implemented. In these meetings, the Group reviewed the prevailing market conditions and several measures, such as increase in the cash component of margin and additional capital to 30 per cent, imposition of special/ad-hoc margins in scrips with low floating stock and specific measures such as exposure reduction, etc., were initiated to enhance the safety and integrity of the market.

It also discussed issues relating to dissemination of price sensitive information to the public, dealing with market rumours and co-ordination between stock exchanges. The Group was reconstituted with representatives from the Stock Exchange, Mumbai, NSElL, Delhi, Calcutta, Ahmedabad, Ludhiana and Bangalore stock exchanges. The further initiatives taken by the SEBI during the year are given in the following paragraphs.

Development and implementation of stock watch system – an on-line automated surveillance system

As trading in the Indian securities markets has become on-line, a sophisticated on-line surveillance system was called for to have effective market surveillance in line with international standards. Development of the Stock Watch System at the exchange level was initiated by the SEBI with this objective. All major exchanges have put in place the basic structure of the stock watch system. The system is fully functional in NSE. In BSE, the system was formally inaugurated in July 1999, and is operational. However, BSE and some other exchanges are now in the process of prioritisation and benchmarking of the alerts generated by the system. Further refinements of the stock watch system will be taken up after the basic system becomes fully functional in all major stock exchanges.

Regulatory role in the context of market volatility

Excessive volatility in the securities markets is a cause of concern for regulators, corporates and investors. When prices swing at extreme levels, they can have a number of adverse consequences:

1. such volatility increases trading risks and requires market intermediaries to charge more for their liquidity services, thereby reducing the liquidity of the market as a whole.
2. if such volatility persists, securities firms are less able to use their available capital efficiently because of the need to reserve a larger percentage of cash-equivalent investments in order to reassure lenders and regulators.
3. greater volatility can reduce investor confidence in investing in stocks.

As a result of these effects, increased price volatility could in the long run, impact the securities markets adversely. The regulators across the world remain concerned about excessive price volatility.

At SEBI, the Integrated Surveillance department (ISD) is responsible for market surveillance of all segments of Securities market.

7.7 AN INDEX BASED MARKET-WIDE CIRCUIT BREAKER SYSTEM

The Exchanges have implemented index-based market-wide circuit breakers with effect from July 02, 2001 based on SEBI Circular No. SMDRPD/ Policy/Cir-37/2001 dated June 28, 2001. SEBI vide its Circular no. CIR/MRD/DP/ 25 /2013 dated September 03, 2013 has partially modified the earlier circular. The revised guidelines are as below.

The index-based market-wide circuit breaker system applies at 3 stages of the index movement, either way viz. at 10%, 15% and 20%. These circuit breakers when triggered bring about a coordinated trading halt in all equity and equity derivative markets nationwide. The market-wide circuit breakers are triggered by movement of either the BSE Sensex or the Nifty 50, whichever is breached earlier. In this regard the Exchange has issued a circular no 85/2013 (Download No-24709) dated October 11, 2013.

The market shall re-open, after index based market-wide circuit filter breach, with a pre-open call auction session. The extent of duration of the market halt and pre-open session is as given below:

Table 7.3: Market Halt Duration and Pre-open session.

Trigger Limit	Trigger Time	Market Halt Duration	Pre-Open Call Auction Session Post Market Halt
10%	Before 1:00 pm.	45 Minutes	15 Minutes
	At or after 1:00 pm upto 2.30 pm	15 Minutes	15 Minutes
	At or after 2.30 pm	No halt	Not applicable

15%	Before 1 pm	1 hour 45 minutes	15 Minutes
	At or after 1:00 pm before 2:00 pm	45 Minutes	15 Minutes
	On or after 2:00 pm	Remainder of the day	Not applicable
20%	Any time during market hours	Remainder of the day	Not applicable

Source: www.sebi.gov.in

Exchange shall compute the Index circuit breaker limits for 10%, 15% and 20% levels on a daily basis based on the previous day's closing level of the index rounded off to the nearest tick size.

7.8 MECHANISMS FOR RISK CONTAINMENT

An essential tool for ensuring the safety of market is the risk containment system. To ensure safety of the market, all the stock exchanges have an elaborate margining system including mark-to-market margins and daily margins and exposure and intra-day trading limits.

Review of Margining System

Different margins were prescribed by the SEBI in consultation with the stock exchanges at different points of time keeping in view the requirements and exigencies of the prevailing situations. Though, largely the existing margining system had worked well, it was felt that there was lack of uniformity in the implementation of various margins by the exchanges. The SEBI has constituted a group to review, rationalize and streamline the margining system. As per the recommendations of the group the following changes were made in the margining system to bring uniformity in implementation of mark-to-market margin across stock exchanges and remove undue burden on investors who sell for delivery.

A. Mark-to-market margin

The mark to-market margin is calculated by marking each transaction in scrip to the closing price of the scrip at the end of trading. It has now been directed/clarified that

1. Transactions for sale for delivery would be exempt from payment of this margin after delivery is given to the clearing house/clearing corporation.
2. The margin shall be calculated separately for two trading cycles (the current trading cycle and the closed trading cycle whose settlement is yet to take place) and credit for mark to market of the closed trading cycle may not be given against mark to market losses of the current trading cycle.

These provisions would bring uniformity in implementation of mark to market margin across stock exchanges and remove undue burden on investors who sell for delivery.

B. Concentration margin, margin on net exposure and 90 day special margin

Based on the overall assessment of risk it was decided to do away with these three types of margins.

C. Base capital and additional capital

The base capital and additional capital is accepted in cash/FDR/Bank Guarantee/Securities in prescribed proportion. It was decided that for the securities component, while accepting shares, only those scrips would be accepted which are part of BSE Sensex/S&P CNX Nifty/BSE 100/ CNX Nifty Junior/BSE 200/ CNX Midcap 200. Further, the scrips which are in compulsory dematerialised trading for all investors are to be accepted in dematerialised form only. This would improve the quality of the securities component held by the stock exchanges as capital and also guarantee the requisite level of liquidity for these deposits.

It was also decided to increase the frequency of valuation of securities deposited as capital. The valuation would be done at haircut of 15 per cent when it is done more frequently i.e. atleast once a week as compared to haircut of 30 per cent if the valuation is done once a month.

It was also decided to allow the excess additional capital, i.e. the unused capital after meeting the requirements of exposure, lying with the exchanges in the form of cash/bank guarantee/FDR to be utilised for meeting margin requirements.

D. Incremental Carry Forward Margin

The system of incremental carry forward margin was implemented in 1998 to control excessive built up of carry forward positions. The system was modified and it was provided that instead of a flat rate of 10 per cent for every additional 1 per cent increase in carry forward positions the incidence of this margin would be low at low levels of carry forward position in a scrip and high at higher levels. For carry forward positions exceeding 3 per cent a graded structure of rate of margin varying from 5 per cent to 30 per cent was prescribed.

E. Payment of Margin by Clients

Collection of margins by brokers from their clients was made mandatory. However, exemption from this has been granted when the margin liability on the client is less than Rs.1 lac.

7.9 CONTAINING VOLATILITY

The system of volatility margin was introduced in June, 1998 to curb excessive volatility in the markets. However, it was felt that this margin addressed volatility over a short period of one week only. Therefore, with a view to address volatility over short term as well as longer period of six weeks, it was decided that the margin would be levied on the basis of volatility computed on a rolling basis over a period of preceding six weeks. For volatility {defined as (6 week high – 6 week low)/ 6 week low} more than 40 per cent graded margin rates from 5 per cent to 20 per cent were prescribed. This system was further modified and the threshold volatility was increased from 40 per cent to 60 per cent and the margin rates were increased from 5 per cent to 30 per cent.

Uniform Scrip Specific Price Bands

To contain abnormal price variations, the SEBI has introduced the system of scrip specific daily price bands. In January, 2000, it was decided in principle to allow a further variation of 4 per cent in the scrip prices beyond the existing limit of 8 per cent after a cooling off period of 30 minutes. This is expected to provide additional exit route to investors.

In order to enhance the safety of the markets, it was decided to increase the cash component of additional capital and margins deposited by brokers with exchanges to 30 per cent of the total deposits.

Margining of Institutional Trades

Institutional trades form a large part of the trading volumes on major exchanges. These trades are at present not subjected to margin; it has been decided to examine the issue of margining these trades.

7.10 RISK MANAGEMENT OF PRICES

NSE may suo moto cancel the orders in the absence of any immediate confirmation from the members that these orders are genuine or for any other reason as it may deem fit. The Exchange views entries of non-genuine orders with utmost seriousness as this has market–wide repercussions. As an additional measure of safety, Daily price bands are applicable on securities as below:

1. Daily price bands of 2% (either way)
2. Daily price bands of 5% (either way)
3. Daily price bands of 10% (either way)
4. No price bands are applicable on scrips on which derivative products are available.
5. Price bands of 20% (either way) on all remaining scrips (including debentures, preference shares, etc).
6. Scrips on which no derivative products are available but which are part of Index Derivatives, are also subjected to price bands.

Additional Surveillance Measure (ASM)

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, have been introducing various enhanced pre-emptive surveillance measures such as reduction in price band, periodic call auction and transfer of securities to

Trade for Trade segment from time to time.

In continuation to various surveillance measures already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with the aforesaid measures there shall be Additional Surveillance Measures (ASM) on securities with surveillance concerns based on objective parameters viz. Price/Volume variation, Volatility, etc.

The shortlisting of securities for placing in ASM is based on an objective criterion as jointly decided by SEBI and Exchanges covering the following parameters:

- High Low Variation
- Client Concentration
- Close to Close Price Variation
- Market Capitalization
- Volume Variation
- Delivery Percentage
- No. of Unique PANs
- PE

Graded Surveillance Measure (GSM)

Securities and Exchange Board of India (SEBI) and Exchanges in order to enhance market integrity and safeguard interest of investors, have been introducing various enhanced pre-emptive surveillance measures such as reduction in price band, periodic call auction and transfer of securities to Trade for Trade segment from time to time.

The main objective of these measures is to;

- Alert and advice investors to be extra cautious while dealing in these securities, and
- Advice market participants to carry out necessary due diligence while dealing in these securities.

In continuation to various surveillance measures already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with the aforesaid measures there shall be additional Graded Surveillance Measures (GSM) on securities with price not commensurate with financial health and fundamentals like Earnings, Book value, Fixed assets, Net-worth, P/E multiple, Market Capitalisation etc.

The list of such securities identified under GSM shall be informed to the market participants from time to time and shall be available on the exchange's website.

1. All market participants dealing in identified securities have to be extra cautious and diligent as, Exchanges and SEBI may at an appropriate time subject to satisfaction of certain criteria lay additional restrictions such as;

- Placing/continuing securities in Trade for Trade category;
- Requirement of depositing additional amount as Surveillance Deposit, which shall be retained for an extended period;
- Once in a week trading;
- Freezing of price on upper side of trading in securities, as may be required; and
- Any other surveillance measure as deemed fit in the interest of maintaining the market integrity.

2. All the aforesaid actions shall be triggered based on certain criteria and shall be made effective with a very short notice.
3. The above surveillance actions are without prejudice to the right of Exchanges and SEBI to take any other surveillance measures, in any manner, on a case to case basis or holistically depending upon the situation and circumstances as may be warranted.
4. The members trading in the identified securities either on their own account or on behalf of clients shall be kept under close scrutiny by the exchange and any misconduct shall be viewed seriously

A well-regulated market fosters investors' confidence in its fairness and integrity by ensuring true and fair price discovery, prompt detection of market manipulations and safety of the markets through risk containment measures and effective enforcement. With a view to achieve these objectives, the various checkpoints implemented by SEBI are commendable.

7.11 SUMMARY

Capital market can function well if effective surveillance is carried out. Effective surveillance can achieve investor protection, market integrity and capital market development.

Exchange risk management is the essence of building confidence among market participants. Thousands of Crores of Rupees of turnover everyday on the equity markets exchanges implies outstanding amounts to be calculated and settled. In this perspective, it is imperative for the exchanges to manage risk for the extent of the settlement period. The National Stock Exchange of India Limited, the largest equity markets exchange in India has been benchmarked for analysing the best industry practices pursued for risk management and surveillance.

Real-time trading activities are monitored through Automated Surveillance system. The movements of price and trading volume for each security with the parameters based on pre-set values are compared through the Alert System. The alert system generates an alert in case of unusual change in terms of price and/or trading volume for any security so that online securities monitoring team will be able to notice any security with unusual changes in its trading pattern and promptly investigate unusual changes in price and volume.

SEBI has, from time to time, put in place various risk containment measures to address the risks involved in the cash and derivatives market. These measures have successfully and efficaciously addressed the market risks. The comprehensive risk management framework has been finalised after a due consultative process with the public. Also the SEBI had put in place a system of reporting by the stock exchanges on surveillance related matters. Mechanisms for a fair and transparent securities market were also discussed in this Unit.

7.12 SELF-ASSESSMENT QUESTIONS

1. What is the significance of Market Surveillance?
2. What are the various Margining System that are used? Can they be used in a combination?
3. How is the volatility of each and every listed Financial Product controlled by the Stock Exchange?
4. What are Market wide Circuit Filters? Recall instances when they were implemented in India.
5. How is ASM different from GSM?

7.13 FURTHER READINGS

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Weblinks

1. https://www.nseindia.com/regulations/exchange-market-surveillance-actions
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UNIT 8 INVESTORS GRIEVANCES AND DISPUTE RESOLUTION

Objectives

After studying this Unit you should be able to:

- Understand the Role of SEBI in Investor Protection
- Appreciate the Scope and Significance of Investor Education and Protection Fund (IEPF)
- Explain the various Investor Education Initiatives and their impact
- Analyse the reasons for Grievances and their resolution mechanism

Structure

8.1 INTRODUCTION

The securities markets scams from the beginning of the 1990's had resulted in a lack of confidence among the investing public. For an investor to have faith in the system and processes that have been instituted by the Government and the regulator, SEBI, it was necessary to develop a grievances redressal forum, which would cater to the investing public in general, and the retail investor in particular.

The onset of companies which lured investors, by promising high returns and subsequently, "vanish" without a trace, had taken its toll on the gullible investor. In the 1990s, one of the often used methods was the "teak plantation" scheme floated by a few companies. Such unscrupulous companies announced to the investing public that teak was an excellent investment. They reasoned that due to the fast rate of growth in teak prices in twenty years, the investors could expect astronomically high returns. Another instance of companies trying to misinform the public was through "Nidhi" and "Chit-Fund" companies that promised to double the investments in 3 years, which was a huge return of more than 20% per annum.

The free pricing of primary issues in 1990s resulted in price rigging by promoters of "vanishing" companies. Such fly-by-night operators posed a huge problem for the investing public. Apart from such activities, other grey market activities, such as quoting the prices at a premium, before listing of the shares or mutual fund units on the exchange was common. There were also many instances of insider trading, leading to price manipulation. The scams like the Satyam resulted in thousands of retail investors losing their hard earned money.

All the above situations put the Investors into difficulty and the Investors need a mechanism to redress their grievances. Also there is a need to educate the Common Investor about the securities market so that they are not cheated easily.

Both SEBI and the Exchanges have instituted mechanisms for both education and protection of the Investors. Let us now discuss these mechanisms.

8.2 ROLE OF SEBI IN INVESTOR PROTECTION

SEBI has been established with the purpose of protecting investor's interest in securities markets and to create a global benchmark in India, as one of the best securities markets of the world, and SEBI, as one of the most respected regulators in the world. SEBI has given more focus on investor education, so that retail investors are in a position to understand the risk factor associated with certain scrips or schemes.

SEBI is required to protect the interest of investors and enforce redressal of grievances forwarded by investors in listed companies. In light of the above provisions, the IEPF also discusses the proposition regarding payment of compensation to investors for the purpose of investor protection.

The Investor Education and Protection Fund has evolved along the lines of the "Fair Fund" established under the Sarbanes Oxley Act, 2002 of United States which is used for compensating the investors out of the penalties received. Investors in equity markets invest in risk capital with no assured return or compensation for non fulfillment of every expectation. This is provided explicitly in the statutes of legislation. However, compensation in respect of fraud or misrepresentations or misstatements by companies or intermediaries may be considered as serious malpractices, against which, investors require protection.

8.3 INVESTOR EDUCATION AND PROTECTION FUND

Investor Education and Protection Fund (IEPF) has been established under Section 205C of the Companies Act, 1956 by way of Companies (Amendment) Act, 1999, for promotion of investors' awareness and protection of the interests of investors. It was also provided in the Amendment Act that no claims shall lie against the Fund or the Company in respect of individual amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payments and no payment shall be made in respect of any such claims.

The following amounts that remained unpaid and unclaimed for a period of seven years from the date they became due for payment are credited to the Fund:

i) Amounts in the unpaid dividend accounts of the companies;

ii) The application moneys received by companies for allotment of any securities and due for refund;

iii) Matured deposits with companies;

iv) Matured debentures with companies;

v) The interest accrued on the amounts referred to in clauses (i) to (iv) above;

vi) Grants and donations given to the fund by the Central Government, State Governments, companies or any other institutions for the purposes of the Fund; and

vii) The interest or other income received out of the investments made from the Fund

IEPF has undertaken a proactive approach to achieve its mandate of promoting investor education, awareness and protection. The Authority has taken a 360 degree approach to sensitize stakeholders to include household investors, housewives, professionals, etc., across the country in rural and urban areas through direct investor awareness programmes, media campaign and engaging with other stakeholders with the common goal.

IEPF Committee:

The Central Government shall, by notification in the Official Gazette periodically, specify an Authority or Committee, with such members as the Central Government may appoint, to administer the Fund, and maintain separate accounts and other relevant records in relation to the Fund in such form as may be prescribed in consultation with the Comptroller and Auditor-General of India.

Functions of the IEPF Committee:

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

a) Education Programmes through Media;

b) Organizing Seminars and Symposia;

c) Proposals for registration of Voluntary Associations or Institution or other Organizations engaged in Investor Education and Protection activities;

d) Proposals for projects for Investors' Education and Protection including research activities and proposals for financing such projects;

e) Coordinating with institutions engaged in Investor Education, Awareness and Protection activities;

f) Proposals for setting up of institutional arrangements or infrastructure for taking up programmes, projects, and action plans keeping in view the objectives and expenditure relating thereto, including research and training activities.

The Committee has *suo moto* powers to call upon any company to pay the amount due to the Fund.

In the urban and semi-urban areas, the Authority organizes investor awareness programmes in association with the Institute of charted Accountants of India, Institute of Cost Accountants of India and Institute of Company Secretaries of India, through their chapters or through the resource persons engaged for the purpose. The programmes conducted by these institutes lay focus on various subjects viz. importance of investing, Primary and Secondary Capital Markets, dos & don’ts of investing in the Capital Market, various types of investment option available like Mutual Funds, Debentures, Equity, Company Fixed Deposit, Pension Funds, Investment Policies, etc. Emphasis is also laid on rights of bank account holder and investor grievance redressal through the Ministry of Corporate Affairs, SEBI, Stock Exchanges and the RBI. During the programmes investors are also made aware of various dubious schemes floated in the market.

In the rural areas the programmes are organised in collaboration with CSC e-governance Services Private Limited through the Common Service Centre, (CSCs) located in villages. The CSC e-governance has more than 2,00,000 CSCs registered with them catering to the rural areas of the country which are functioning as delivery points of Government and Public Services. These programmes focus on basics of investing, capital markets, savings, house hold budget, etc. A film with the title बचतनामा (BACHATNAAMA) about the benefits of saving and to sensitize about various investor frauds is shown during the investor awareness programmes by CSCs.

Investor Awareness Programme:

To reach out to citizens from all walks of life and create awareness about savings and investments, Investor Awareness Programs (IAPs) are organized through various partners.

Through this project rural, semi-urban, and urban citizens are able to know about various concepts of savings and investments. The project enables them to know about various polices and schemes which are available in the market.

Thus project is conceived to educate the prospective rural investor so that he or she understands the benefit of saving, investment and capital formation or accumulation.

Investor Education Materials, Handbooks, Comics, Jingles, Related Links, in multiple Indian Languages, are made available on the website. The same are explained and distributed through partners in Investment Awareness Programs (IAPs).

The awareness programs will be implemented through different partner institution under the overall supervision of Investor Education and Protection Fund Authority, Ministry of Corporate Affairs (MCA), Govt. of India.

8.4 INVESTOR PROTECTION AND EDUCATION FUND

SEBI has created a fund called the "Investor Protection and Education Fund" (IPEF) for the purpose of protection of investors and promotion of investor education and awareness, by way of issuing the Securities and Exchange Board of India (Investor Protection and Education Fund) Regulations, 2009.

Amounts to be credited to the Fund

The following amounts shall be credited to the Fund:

a) Contribution as may be made by the Board to the Fund;

b) Grants and donations given to the Fund by the Central Government, State Government or any other entity approved by the Board for this purpose;

c) Proceeds in accordance with the sub-clause (ii) of clause (e) of sub-regulation (10) of regulation 17 and sub-regulation (3) of regulation 21 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;

d) Security deposits, if any, held by stock exchanges in respect of public issues and rights issues, in the event of de-recognition of such stock exchanges;

e) Amounts in the Investor Protection Fund and Investor Services Fund of a stock exchange, in the event of de-recognition of such stock exchange;

f) Amounts forfeited for non-fulfillment of obligations specified in regulation 15B of the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998;

g) Monies transferred in accordance with sub-regulation (9) of regulation 45 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;

h) Amounts disgorged under section 11B of the Act or section 12A of the Securities Contracts (Regulation) Act, 1956 or section 19 of the Depositories Act, 1996;

i) Interest or other income received out of any investments made from the Fund; and

j) Such other amount as the Board may specify in the interest of investors.

Utilisation of the Fund.

The Fund shall be utilised for the purpose of protection of investors and promotion of investor education and awareness in accordance with these regulations.

The Fund may be used for the following purposes, namely:

a) Educational activities including seminars, training, research and publications, aimed at investors;

b) Awareness programmes including through media - print, electronic, aimed at investors;

c) Funding investor education and awareness activities of Investors' Associations recognized by the Board;

d) Aiding investors' associations recognized by the Board to undertake legal proceedings in the interest of investors in securities that are listed or proposed to be listed;

e) Refund of the security deposits which are held by stock exchanges and transferred to the Fund consequent on de-recognition of the stock exchange as mentioned in clause (d) of regulation 4, in case the concerned companies apply to the Board and fulfill the conditions for release of the deposit;

f) Expenses on travel of members of the Committee, who are not officials of the Board, and special invitees to the meetings of the Committee, in connection with the work of the Committee;

g) Salary, allowances and other expenses of office of Ombudsman; and

h) Such other purposes as may be specified by the Board.

Advisory Committee for the Fund

Constitution of the Committee: The SEBI shall constitute an advisory committee for recommending investor education and protection activities that may be undertaken directly by the Board or through any other agency, for utilisation of the Fund for the purposes referred to in regulation 5.

The Committee shall consist of the following members, namely:

a) The Executive Director of the Board in charge of Office of Investor Assistance and Education who shall be the convener of the Committee;

b) Two other officials of the Board;

c) Five other members who have expertise about the securities market and experience in matters of investor grievance redressal or investor education.

The term of office of members shall be two years, which may be extended for a further period of two years. Any vacancy arising out of resignation, retirement or death of a member or for any other reason shall be filled by the Board for the remaining period of the term of such member. The Board may dissolve and reconstitute the Committee if, at any time, the Board is of the opinion that the Committee is unable to discharge the functions and duties imposed on it by or under these regulations.

Functions of the Committee: The Committee shall consider investor education and protection activities keeping in view the purposes mentioned and submit its recommendations thereon to the Board.

8.5 NEW PROVISIONS RELATING TO INVESTOR PROTECTION FUND AND INVESTOR SERVICES FUND

The SEBI maintains an Investors' Protection Fund to protect the interests of the clients of the Trading Members of the Exchange, who may have been declared defaulters or who may have been expelled, under the provisions of the Rules, Bye-laws and Regulations of the Exchange. The Investors Protection Fund may provide compensation against a genuine and bonafide claim made by any client.

SEBI has also created Investor Education Reading Material in multiple Indian Languages on various topics like Primary and Secondary markets, Mutual Funds, Corporate Restructuring, etc. These are popularized through Resource person, Visit to SEBI initiative for students, Securities Market Trainers (SMARTs) Workshops, Investor Association (IAs) Workshops, Commodities Derivatives Trainers (CoTs) Workshops and Regional Seminars.

Earlier in 2004, SEBI had mandated that stock exchanges should keep a dedicated fund, known as 'Investor Protection Fund (IPF)' to compensate investors in case of defaults or expulsions of trading members.

Previously, in 1992, SEBI had advised stock exchanges to establish the ISF, aimed at bolstering investor education, awareness programs, and training initiatives to improve securities market literacy and enhance participation in the securities market.

In a bid to strengthen investor protection and promote investor education, the Securities and Exchange Board of India (SEBI) on May 30, 2023 released guidelines for the ***Investor Protection Fund (IPF)*** and the ***Investor Services Fund (ISF)***. The provisions of the circular will come into effect on June 29, 2023. These modifications aim to further strengthen the protection of investors' rights and streamline the utilisation of these funds.

Based on the feedback received from various market participants, discussions with Stock Exchanges, Depositories and deliberations in Secondary Market Advisory Committee (SMAC), SEBI has decided to modify certain provisions of the existing guidelines for IPF and ISF.

The comprehensive guidelines for IPF and ISF are as under:

1. Investor Protection Fund:

Constitution and Management of the IPF

i. All Stock Exchanges and Depositories shall establish an IPF. The IPF of the stock exchange and depositories shall be administered through separate trusts created for the purpose.

ii. The IPF Trust of stock exchange and depository shall consist of five trustees as under:

   a) Three Public Interest Directors (PIDs);

   b) One representative from the investor associations recognized by SEBI; and

   c) Chief Regulatory Officer or Compliance Officer.

iii. The maximum tenure of a trustee (excluding the Chief Regulatory Officer or Compliance Officer, whose trusteeship would be co-terminus with their service) shall be five years or as specified by SEBI.

iv. The stock exchange and depository shall provide the secretariat for their IPF Trusts.

v. The stock exchange and depository shall ensure that the funds in the IPF are well segregated and that their IPF is immune from any liabilities of the stock exchange and depository respectively. Further, supervision of utilization of IPF and interest or income from IPF will rest with the IPF Trust.

Contribution to IPF of Stock Exchange

The following contributions shall be made by the Stock Exchange to the IPF:

a) 1% of the listing fees received, on a quarterly basis.

b) 100% of the interest earned on the 1% security deposit kept by the issuer companies at the time of the offering of securities for subscription to the public, immediately on refund of the deposit.

c) Penalty collected by stock exchanges from Trading Members (TMs) for deficiency in modification of client code, if any, pursuant to SEBI Circular No. CIR/DNPD/6/2011 dated July 05, 2011.

d) Penalty collected by stock exchanges from TMs for default in pay-in for certain trades during periodic call auction for Illiquid scrips, if any, pursuant to SEBI Circular No. CIR/MRD/DP/ 6/2013 dated February 14, 2013.

e) Penalties collected by stock exchanges from their listed companies for non-compliance with various requirements of the SEBI (Listing Obligation and Disclosure Requirements) Regulations 2015 pursuant to SEBI Circular no. SEBI/HO/CFD/CMD/CIR/P/2020/12 dated January 22, 2020.

f) Penalty collected from TMs for default in pay-in by an investor in an Offer For Sale (OFS) transaction – 10% of the order value pursuant to SEBI Circular No. Page 3 of 18 SEBI/HO/MRD/MRD-PoD-3/P/CIR/2023/10 dated January 10, 2023.

g) Contribution towards the IPF based on the transaction charges collected from the members of the exchange, as per policy of the respective stock exchange.

h) At least 70% of interest or income received out of any investments made from the IPF.

i) Any other contribution as may be specified by SEBI from time to time.

Contribution to IPF of Depository

The following contributions shall be made by the Depository to the IPF:

a) 5% of their profits from depository operations every year.

b) All fines and penalties recovered from Depository Participants (DPs) and other users including clearing member pool account penalty as specified in SEBI circular no. SMDRP/Policy/Cir-05/2001 dated February 01, 2001.

c) Interest or income received out of any investments made from the IPF.

d) Funds lying to the credit of IPR (Investor Protection Reserve)/BOPF (Beneficial Owners Protection Fund) of the Depository or any other such fund/reserve of the Depository shall be transferred to IPF.

e) Any other contribution as may be specified by SEBI from time to time.

Deployment of Funds of IPF by Stock Exchanges and Depositories

i. Funds of the IPF Trust shall be invested in instruments such as Central Government securities, fixed deposits of scheduled banks and any such instruments which are allowed as per the investment policy approved by the respective Governing Boards of the Stock Exchanges and Depository. The investments shall be adequately diversified with single issuer exposure, excluding Government securities, not exceeding 10% of the IPF corpus. The investment policy shall be devised with an objective of capital protection, portfolio diversification, liquidity, along with highest degree of safety and least market risk.

ii. The balance available in the IPF as at the end of each month and the amount utilised during the month including the manner of utilization shall be reported to SEBI in the Monthly Development Reports of the stock exchanges and depository respectively.

2. Investor Services Fund of Stock Exchanges:

i. The stock exchange shall set aside at least 20% of the listing fees received for ISF for providing services to the investing public.

ii. In order to have better management and control on the contributions and utilization of ISF corpus, supervision of the same will rest with the Regulatory Oversight Committee.

iii. The amount in ISF of the stock exchanges and any interest generated from this ISF shall be utilized for the purpose as stated.

If a stock exchange or a depository is wound up or derecognized or exits, then the balance in the IPF and/or ISF lying un-utilised with the stock exchange and depository shall be transferred to Investor Protection and Education Fund of SEBI in terms of SEBI (Investor Protection and Education Fund) Regulations, 2009. The funds shall be utilised for purposes of Investor education, awareness, research, etc.

8.6 INVESTORS COMPLAINTS AND SEBI

Following are the entities against which complaints are handled by SEBI:

- Listed companies
- Stock Brokers/Sub-brokers
- Stock Exchanges
- Depository
- Depository Participants
- Registrars to an Issue/Share Transfer Agent
- Mutual Funds
- Portfolio Managers
- Bankers to an Issue
- Collective Investment Schemes
- Credit Rating Agencies
- Custodians of Securities
- Debenture Trustees
- Merchant Bankers
- Underwriters
- Alternative Investment Funds
- KYC registration Agencies.

SEBI also has a separate department to look into market irregularities. If any irregularities are found in trading in shares or manipulation in price or violation of Insider trading regulations, the same can be reported to SEBI.

The following are not considered as complaints by SEBI:

- Complaints those are incomplete or not specific
- Allegations without supporting documents
- Offering suggestions or seeking guidance/explanation
- Seeking explanation for non-trading of shares or illiquidity of shares
- Not satisfied with trading price of the shares of the companies
- Non-listing of shares of private offer
- Disputes arising out of private agreement with companies/intermediaries

The following complaints are not handled by SEBI:

- Complaints against unlisted/delisted/wound up/liquidated/sick companies.
- Complaints that are sub-judice (relating to cases which are under consideration by court of law, quasi- judicial proceedings etc.)

- Complaints falling under the purview of other regulatory bodies viz.RBI, IRDA, PFRDA, CCI, FMC, etc., or under the purview of other ministries viz., MCA, etc.

Limitations in dealing with the complaint by SEBI

Sometimes a complaint is successfully resolved and the entity is advised to send reply to complainant. But in certain cases, the entity or company denies wrongdoing, and it remains unclear as to who is wrong or whether any wrongdoing occurred at all. If this happens, SEBI cannot act as a judge or an arbitrator and force the entity or company to resolve the complaint. Further, SEBI cannot act as personal representative or attorney of the complainant. Securities laws and other laws provide important legal rights and remedies if an investor has suffered wrongdoing. On their own, investors can also seek to resolve their complaint through the courts, consumer courts, or arbitration.

8.7 TRENDS IN INVESTOR COMPLAINTS HANDLED BY SEBI

SEBI has a dedicated department viz., Office of Investor Assistance and Education (OIAE) to receive investor grievances and to provide assistance to investors by way of education. The complaints are handled by all operational departments pertaining to their areas. Investors who are not satisfied with the response to their grievances received from the Stock Exchanges/Depositories can lodge their grievances with SEBI.

Table 8.1: Receipt and Redressal of Investor Grievances at SEBI

Period	Grievances Received		Grievances Redressed	
	During the Period	Cumulative	During the Period	Cumulative
2010-11	56,670	27,63,565	66,552	26,12,854
2011-12	46,548	28,10,113	53,841	26,66,695
2012-13	42,411	28,52,524	54,852	27,21,547
2013-14	33,550	28,86,074	35,299	27,56,846
2014-15	38,442	29,24,516	35,090	27,91,936
2015-16	38,938	29,63,454	35,145	28,27,081
2016-17	40,000	30,03,454	49,301	28,76,382
2017-18	43,131	30,46,585	43,308	29,19,690
2018-19	42,202	30,88,787	42,576	29,62,266
2019-20	55,526	31,44,313	39,624	30,01,890
2020-21	58,873	32,03,186	50,425	30,52,315
2021-22 $	32,836	32,36,022	37,730	30,90,045

$ as on December 31, 2021

Source: www.sebi.gov.in

Grievances pertaining to stock brokers and depository participants are taken up with respective stock exchange and depository for redressal and monitored by SEBI through periodic reports obtained from them. Grievances pertaining to other intermediaries are taken up with them directly for redressal and are continuously monitored by SEBI. Grievances against listed company are taken up with the respective listed company and are continuously monitored. The company is required to respond in prescribed 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. If the progress of redressal of investor grievances by an entity, is not satisfactory, appropriate enforcement actions (adjudication, direction, prosecution etc.) are initiated against such entity.

Table 8.2: Category Wise number of Received and Pending Actionable complaints

Sr. No	Category	Received	Pending Actionable
1	Stock Broker	135907	1525
2	Refund/Allotment/ Dividend/Transfer/ Bonus/Rights/ Redemption/Interest	135196	500
3	Registrars to an Issue and Share transfer Agents	30072	463
4	Depository Participants	29182	328
5	Mutual Funds	37774	197
6	Stock Exchanges	10384	151
7	Investment Adviser	18958	111
8	Corporate Governance/Listing Conditions	15213	101
9	Non-Demat/Remat	4000	89
10	Research Analyst	1200	74
11	Depository	3347	63
12	Collective Investment Scheme	17524	51
13	Delisting of securities	5360	44
14	Prelisting/Offer Document (Shares)	12369	41
15	KYC Registration Agency (KRA)	849	27
16	Portfolio Managers	1805	26
17	Takeover/Restructuring	2257	16
18	Special Enforcement Cell	182	12
19	Merchant Bankers	1259	11

20	Bankers to an Issue	2380	11
21	Buy back of securities	1628	10
22	Alternative Investment Fund	250	7
23	Venture Capital Funds	817	6
24	Prelisting /Offer Document (Debentures & Bonds)	915	6
25	PACL Committee	2091	4
26	Commodity Exchanges	564	2
27	Debenture Trustee	1372	2
28	Enforcement Division	101	1
29	Credit Rating Agencies	153	1
30	Minimum Public Shareholding	208	1
31	Recovery and Refund Department	379	1
32	Financial Statement Fraud	1944	1
33	Underwriters	7	0
34	Miscellaneous Surveillance Issues	14	0
35	Foreign Institutional Investors	19	0
36	Spreading Rumours / Buy Sell Tips	25	0
37	Real Estate Investment Trust	27	0
38	Price/Volume Manipulation in Commodity Future and Options	32	0
39	Custodian of Securities	58	0
40	Infrastructure Investment Trust	58	0
41	Sub-broker	419	0
42	Fake and Forged	1889	0
43	Insider Trading	2521	0
44	Price/Market Manipulation	8756	0

Source: SEBI SCORES Statistics in July 2023

This table helps us understand category wise most frequently occurring grievances.

8.8 INVESTORS GRIEVANCES AND DISPUTE RESOLUTION MECHANISMS

Despite various Investor Awareness Campaigns by IEPF and IPEF the Financial Literacy in India is still very low. The same has been established through various studies. Moreover, India's Financial Inclusion Index has improved to 56.4 from 53.9 in the year 2021. The improvement has been seen across all its sub-indices (Access, Usage and Equality). But it still has a huge population which is not Financially Literate. This leads to misunderstandings, complaints and grievances.

Various financial scams that took place in India in the past such as Harshad Mehta Scam, YES Bank Scam, CR Bhansali Scam, etc., has also eroded Investor Confidence and lead to huge volume of Grievances.

In case of any complaint related to the securities market, investor may first approach the concerned intermediary or company. The concerned intermediary or company shall facilitate investor complaint redressal. In case the grievance remains unresolved, investor may approach the concerned Stock Exchange or Depository against the Stock Broker or the Listed Company.

If investor is still not satisfied with the redressal, investor may lodge a complaint with SEBI through a web based centralized grievance redressal system called SCORES (SEBI Complaints Redress System). SCORES enables investor to lodge a complaint, follow up and track the status of redressal of the complaint(s) online, at any time and from anywhere.

SCORES (SEBI Complaints Redress System)

SEBI has been receiving complaints on SCORES and also getting regular emails regarding complaints. These complaints are examined and are taken up with respective companies or intermediaries for redressal. Based on the action taken reports given by companies/regulated entities, actions are taken by SEBI as per the prescribed rules/regulation/circular, etc. Thereafter, complaints are closed by SEBI. There are some complaints which are addressed as per the existing norms but these complaints are continuously referred back to SEBI despite having been addressed such as by advising complainants to approach appropriate authorities or forums such as civil courts, consumer courts, arbitration mechanism, or to other regulators, etc.

Guidance to general public about effective ways to redress their grievances, the types of complaints handled by SEBI, Complaints arising out of activities that are covered under SEBI Act, 1992; Securities Contract Regulation Act,1956; Depositories Act,1996, and Rules and Regulations made there under and provisions that are covered under the Companies Act, are handled by SEBI.

8.9 INVESTOR GRIEVANCE REDRESSAL AT STOCK EXCHANGES/DEPOSITORIES

Investors who are not satisfied with the response to their grievances received from the brokers/Depository Participants/listed companies, can lodge their grievances with the Stock Exchanges or Depositories. The grievance can be lodged at any of the offices of the BSE/NSE located at Chennai, Mumbai, Kolkata and New Delhi. In case of unsatisfactory redressal, the exchanges have designated Investor Grievance Redressal Committees (IGRCs), or

Regional Investor Complaints Resolution Committees (RICRC). These forums act as a mediator to resolve the claims, disputes and differences between entities and complainants. Stock Exchanges provide a standard format to the complainant for referring the matter to IGRC. The committee calls for the parties and acts as a nodal point to resolve the grievances. In case the investor is not satisfied with the conciliation done by IGRC, he/ she can go for arbitration and file arbitration under the Rules, Bye-laws and Regulations of the respective Stock Exchange/Depository.

The exchange takes up the grievance received against brokers and companies listed on the exchange.

Grievance against Exchange Trading Members

Exchange takes up the following types of grievances against Trading Members or Brokers in Capital Markets/Futures & Options segment:

1) Non-Issuance of the Documents by the Trading Member.
2) Non-receipt of Funds/Securities.
3) Non-receipt of margin/security deposit given to the Trading Member.
4) Non-receipt of Corporate Benefit (dividend/interest/bonus, etc).
5) Auction value/close out value received or paid.
6) Execution of Trades without consent.
7) Excess Brokerage charged by Trading Member/Sub-broker.
8) Non-receipt of Credit Balance as per the Statement of Account.
9) Non-receipt of Funds/Securities kept as margin.
10) Excess brokerage charged (other than an option premium).

Grievance against Companies

Against Companies, Exchanges usually take up following types of grievances:

1) ***Public/Further Offerings***

Complaint regarding non-receipt of;

a) Allotment Advice
b) Securities purchased through an Initial Public Offer
c) Refund Order
d) Interest on delay Redemption/Refund Amount
e) Sale Proceeds of Fractions Entitlement
f) Composite Application Form (CAF) for Rights Offer [Rights for (CAF) Application]
g) Securities purchased through a Rights Offer
h) Letter of offer for buyback

2) ***Corporate Actions***

Complaint regarding non-receipt of:

a) Dividend

b) Interest on Debentures, Bonds or other Debt Instruments

c) Securities on account of a Bonus/De-merger/Merger/Stock Split

d) Redemption Amount

3) *Transfer of Securities:*

Complaint regarding non-receipt of:

a) Securities after Dematerialization

b) Securities after Transfer/Transmission

c) Duplicate Certificate relating to securities.

Grievances not handled at Exchange Level:

A Stock Exchange would not always be in a position to take up the complaints. Exchanges usually do not consider following types of grievances against the Trading Members:

1) Complaints in respect of transactions which are already subject matter of Arbitration proceedings.
2) Complaint involving payment of funds and transfer of securities to entities other than Trading Member.
3) Claims for mental agony/harassment and expenses incurred for pursuing the matter with the Investor Service Cell (ISC).
4) Claim for notional loss, opportunity loss for the disputed period or trade.
5) Complaints pertaining to trades not executed on the Exchange by the complainant.
6) Claims of sub-broker/authorized persons for private commercial dealings with the trading member.
7) Claims relating to transactions which are in the nature of loan or financing which are not within the framework defined by the Exchange.

Similarly, exchanges usually do not consider following types of grievances against companies:

1) Complaints pertaining to securities not listed on the exchange.
2) Complaints for refund of postal charges, telephone expenses and miscellaneous charges.
3) Compensation for mental agony, harassment.
4) Notional loss due to delay in receipt of shares sent for transfer or after IPO.
5) Complaints which fall outside the purview of the listing agreement and not related to the Exchange.
6) Pledge and assignment of shares.
7) Inability of complainant to establish ownership of security.

8.10 INVESTOR GRIEVANCES AGAINST MISLEADING ADVERTISEMENTS

In certain cases publicity material, circulars, brochures are published by the companies, brokers or Intermediaries inviting applications from the public for subscription to shares/debentures. However, these publicity materials may not form part of the prospectus or letter of offer.

Grievance

Investors may have complaints against the advertisement, brochures, circulars which have exaggerated claim of the performance of the company. The above information circulated is marked "This is only an announcement and not a prospectus" or "Private circulation only". This practice could be misleading to the investing public because it may contain the information not included in the Prospectus.

Rights and Remedies

Companies Act: In case of misleading advertisements, the investor may write to Department of Company Affairs (DCA) and seek remedy.

Consumer Protection Act (COPRA): The investor can file complaints before the District Forum, State Commission or National Commission.

SEBI: The Investor can write to SEBI in case of misleading advertisements, circulars or brochures.

8.11 INVESTOR GRIEVANCES DUE TO DELAY IN PAYMENT OF INTEREST ON DEBENTURES

Investors who would like to have fixed return by way of interest, normally invest in debentures on the assumption that the debentures are secured and risk free investments. Investors are advised to verify whether the company is healthy or sick and check the credit rating of the company before making such investments.

Grievance

There have been instances where investors have complained of non-receipt or delay in the receipt of debenture certificates or interest thereon, non-appointment of Debenture Trustee or non-creation of the stipulated security.

Rights and Remedies

Companies Act: In case of delay in payment of interest on debentures, the investor may refer to the Companies Act and write to the CLB. The investor can also seek remedy by approaching the court.

SEBI: Investors can write to SEBI and obtain redressal with regard to delay in payment of interest on debentures.

8.12 INVESTOR GRIEVANCES DUE TO NON-PAYMENT OF DIVIDENDS

Dividends are declared by the company with the approval of the shareholders in its general meeting. Accordingly, a resolution declaring dividend payable by the company is passed. This becomes a debt due by the company to the shareholders.

Grievance

In certain cases the shareholders complain of non-receipt of the dividend declared by the company.

Rights and Remedies

Companies Act: In case of non-payment of dividends, the investor may write to the DCA and can also seek remedy u/s.621.

SEBI: Investors can write to SEBI and obtain redressal with regard to non-payment of Dividends.

Consumer Protection Act (COPRA): The investor can file complaints before the District Forum, State Commission or National Commission depending upon the jurisdiction of the claim involved.

8.13 INVESTOR GRIEVANCES DUE TO INSIDER TRADING

Insider is any person who accesses the unpublished price sensitive information of the company before it is available to the general public. Insiders may include Corporate Officers, Directors, Owners of firm, who may be having substantial interest in the equity of the company. They could also be neither corporate officers nor large shareholders, however, they may have access to non-public information due to their relationship with the entity.

Insider Trading is an act of buying and selling of securities by a person having unpublished price sensitive information (which is not available in the market) with the intention of making abnormal profits and avoiding losses. This price sensitive information includes dividend declaration, issue or buy back of securities, amalgamation, mergers or takeovers, major expansion plans, change of policies, etc.

Redressal of Grievance

SEBI is making all efforts to prevent insider trading and to build up investor confidence. It had set various committees in this regard and on their recommendations various regulations have been implemented to curb the insider trading.

Moreover, three other avenues are always available to the investors to seek redressal of their complaints. These are through:

- the notice of the Stock Exchange where the Securities of companies are listed.

- Complaint with Consumer's Disputes Redressal Forums
- Suits in the Court of Law.

8.14 INVESTOR GRIEVANCES AGAINST TRADING MEMBER

The nature of complaints received by the Exchange against its Trading Members can be broadly classified into the following categories:

- Non-receipt of delivery of shares/Non removal of objection/Non-receipt of sale proceeds of shares/Non-receipt of dividend/Non-receipt of Rights, Bonus shares.
- Disputes regarding Rate Difference.
- Disputes relating to non-settlement of Accounts
- Miscellaneous Items.

Investor Grievance Redressal Committee (IGRC)

Valid complaints supported by necessary documents are forwarded to the concerned Trading Member to reply/settle the complaints within 7 days from the receipt of the letter. If no reply is received or reply received is not satisfactory, the matter is placed before the Investors' Grievance Redressal Committee (IGRC) headed by a Retired High Court Judge. IGRC is constituted by the Governing Board to resolve the Complaints of non-members against Trading Member through the process of reconciliation. The parties are heard and the matter is tried to be solved amicably or it is referred for Arbitration under the Rules, Bye-laws, and Regulations of the Exchange.

8.15 DISPUTE RESOLUTION THROUGH ARBITRATION

Arbitration is a mechanism of settlement of disputes between trading member, investor, clearing member, sub-brokers, etc. This process of resolving a dispute is comparatively faster than other means of redressal. When one of the parties feels that the complaint has not been resolved satisfactorily either by the other party or through the complaint resolution process of the exchange, the parties may choose the route of arbitration. Any one (Investor, trading member or clearing member, sub-broker) to the dispute who wants legal remedy for resolving dispute could apply for arbitration. If anyone wants to apply for arbitration process, s/he has to fill up a form and submit few documents.

If the grievance is not resolved by the Stock Exchange/Depository due to disputes, an investor can file arbitration subject to the Bye-laws, Rules and Regulations of the exchange / Depository. All claims, differences or disputes between the investors and stock brokers/depository participants can be filed for arbitration. To obtain information about when and how to file an arbitration claim, investors may visit the websites of the Stock Exchanges or the Depositories. Simplified arbitration can be a less costly alternative to legal recourse before the Courts of Law. If the investor has an account with the Broker or a Depository Participant (DP), s/he can choose arbitration to settle disputes. The investor generally cannot pursue an issue through arbitration if it is barred by limitation prescribed. When deciding whether to arbitrate, the investor has to bear in mind that if the Broker or DP goes out of business or declares bankruptcy, s/he might not be able to recover money even if the arbitrator or court rules in his/her favor. However, with certain restriction to the nature of transactions, Stock Exchanges may settle on case to case basis the claim of an investor up to a limit prescribed in the "Investor protection fund" guidelines of the respective Stock Exchange. The claimant is required to carefully review the rules governing simplified arbitration before filing a claim and should also weigh the costs of arbitrating against the likelihood of being able to collect any award in favour. An investor, who has a claim/counter claim up to Rs. 10 lakh against a Broker and files arbitration reference for the same, need not make any deposit for filing arbitration.

The arbitration process at Stock Exchanges is given below:

- Applicant submits arbitration application to Exchange
- Application is verified and sent to Respondent
- Arbitrator appointed and documents forwarded to Arbitrator
- Hearings held by Arbitrator
- Arbitrator passes award
- Award debited if in favor of constituent
- Appeal filed by aggrieved party
- Hearings held and appeal award passed
- Petition filed u/s 34 of the Indian Arbitration Act in Court

If the applicant is not satisfied with award passed by arbitration panel, s/he can go for appeal against the award to Appellate mechanism in the exchange itself.

Based on inputs received from investors regarding functioning of the Arbitration mechanism at the Stock Exchanges, several changes have been made to the Arbitration mechanism by SEBI to make it simpler.

8.16 CHALLENGES BEFORE SEBI FOR RESOLVING COMPLAINTS

SEBI follows up with companies who do not redress investor's grievances by sending reminders to them, having meetings with them and issuing pre-enforcement letters for pending complaints. While the entity is directly responsible for redressal of the complaint, SEBI initiates action against recalcitrant entities on the grounds of their unsatisfactory redressal of large number of investor complaints as a whole. Enforcement actions as provided under the Securities laws (including launch of Adjudication, Prosecution proceedings, Directions u/s 11B of SEBI Act, 1992) are initiated against the companies and/or its Directors whose progress in redressal of investors' grievances is not satisfactory.

Despite the best efforts of SEBI, many grievances cannot be resolved by SEBI or resolved to the satisfaction of the complainant. It is, therefore, possible that a grievance has been closed in SEBI's records while the complainant still feels aggrieved. For example, a grievance cannot be resolved because the matter is sub-judice. Similarly, resolution of a grievance may require dispute resolution through arbitration. The Stock Exchange/ Depository may have advised the complainant to go for arbitration.

Table 8.3: Status of SCORES complaints for the month of October, 2021

Month	Pending at the beginning of the month	Received	Disposed	Pending Actionable	Pending complaints >3 months	Average Resolution time in days
October 2021	4095	3536	3676	4159	29	36.8

Source: www.sebi.gov.in

Above table sourced from SEBI website helps us understand volumes faced by SCORES team in a month and the average time taken to resolve these issues.

Table 8.4: Category-wise complaints pending for more than 3 months

Sl. no	**Category**	**Number of Pending complaints**
1	Investment Adviser	8
2	Refund/Allotment/ Dividend/Transfer/ Bonus/Rights/Redemption/Interest	7
3	Non-Demat/Remat	3
4	Registrars to an Issue and Share transfer Agents	3
5	Stock Broker	3
6	Venture Capital Funds	2
7	Depository Participants	1
8	Mutual Funds	1
9	ResearchAnalyst	1
Grand Total		29

Source: www.sebi.gov.in

This sample table helps us understand the nature of tricky complaints received by the SEBI Grievance portal SCORES.

8.17 SUMMARY

SEBI is the apex regulatory body for the securities market in India. Without the monitoring and guidance of SEBI, the financial markets in India will become unregulated. Traders, investors, and companies will be unable to operate in the market in a legal manner. The Investor Education initiative of IEPF (MCA) and IPEF (SEBI) have also raised the Financial Inclusion and Literacy as shown in the improved FINDEX Scores for India.

8.18 SELF ASSESSMENT QUESTIONS

1. Who initiated IEPF and with what objectives?
2. What was the need for IPEF?
3. Do IEPF and IPEF serve the same purpose? Comment.
4. Who are the Stakeholders of the Financial Markets? What kind of grievances could they possibly have?
5. What is SCORES system?
6. What is the stake of SEBI in ensuring that Grievances are well handled?
7. Can Grievances be prevented altogether?
8. What is the scope and limitations of SEBI in Grievance handling?
9. What are the Investor Grievance Redressal facilities available at Stock Exchanges/Depositories?
10. What is the Arbitration process at the Stock Exchanges?

8.19 FURTHER READINGS

Khan, M.Y. (2019) *Indian Financial System,* Tata McGraw-Hill.

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