

## **PART THREE: FUNCTIONS OF SEBI IN RESPECT OF MATTERS SPECIFIED IN SECTION 11 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992**

Part Three of this Annual Report discusses and analyzes regulation and functioning of stock exchanges, subsidiaries of stock exchanges, regulatory action against stock exchanges, status of capital market, intermediaries registered with SEBI and matters pertaining to, Mutual Funds, Collective Investment Schemes and regulatory developments.

### **1. REGULATION OF STOCK EXCHANGES AND SUBSIDIARIES**

One of the key functions of the Board is to supervise and monitor the activities of the exchanges, clearing houses and the settlement system, strengthen market infrastructure and ensure that appropriate risk management systems are in place.

#### ***I. Inspection of Stock Exchanges:***

On-site supervision through inspection of stock exchanges is considered an effective regulatory tool. Under the policy of risk-based supervision which has been adopted from the year under review, stock exchanges having a significant turnover were taken up for on-site inspection. These were The Bombay Stock Exchange (BSE), Calcutta Stock Exchange (CSE), National Stock Exchange (NSE), Inter Connected Stock Exchange (ISE), Ludhiana Stock Exchange (LSE), Hyderabad Stock Exchange (HSE) and Ahmedabad Stock Exchange (ASE).

The objectives of the inspection were to ensure that -

A. The exchange provides a fair, equitable and growing market to investors,

- B. the exchange has complied with the conditions, if any, imposed on it at the time of renewal/ grant of its recognition under section 4 of the SC(R) Act, 1956.
- C. The exchange's organization, systems and practices are in accordance with the Securities Contracts (Regulation) Act (SC(R) Act), 1956 and rules framed thereunder,
- D. The exchange has implemented the directions, guidelines and instructions issued by the SEBI from time to time,
- E. There are adequate internal control mechanisms and risk management systems.

A Special inspection of Calcutta Stock Exchange (CSE), Uttar Pradesh Stock Exchange (UPSE), Ludhiana Stock Exchange (LSE) and Jaipur Stock Exchange (JSE) was also carried out during the year.

The post inspection follow up was also strengthened through -

- A. Increase in periodicity of review of compliance reports.
- B. Mandating review of action taken on the report by a sub-committee of the Governing Board of the stock exchanges atleast twice each quarter and submission of the review to the Governing Board of the exchange.
- C. Issue of letters of displeasure for failure to comply with the previous inspection reports and unsatisfactory compliance.
- D. Personal meetings to discuss the status of implementation of findings of inspection reports.

## **II. Inspection of Subsidiaries of Stock Exchanges**

A. Six subsidiaries of stock exchanges were inspected during the financial year 2002-03 viz ASE Capital Markets Ltd (ACML – Subsidiary of ASE), ISE Securities & Services Ltd (ISS - Subsidiary of ISE), LSE Securities Ltd (LSESL - Subsidiary of LSE), HSE Securities Ltd (HSESL - Subsidiary of HSE), SKSE Securities Ltd (SKSESL - Subsidiary of Saurashtra Kutch Stock Exchange) and VSE Securities Ltd (VSL- Subsidiary of Vadodara Stock Exchange). A special inspection of MPSE Securities Ltd (MPSESL - Subsidiary of MPSE) was carried out. Follow up action included discussion with the parent exchanges of the subsidiaries. Letters of displeasure were issued to the parent stock exchanges of those subsidiaries for which findings were serious as well as those which failed to comply with suggestions/observations of inspection reports.

## **III. Restructuring of Management of Subsidiaries:**

The inspection of the subsidiaries of stock exchanges revealed deficiencies in their functioning and risk management systems. The management structure of the subsidiaries needed to undergo change in order to enable them to be able to provide a safe and transparent market and effectively discharge their responsibilities towards investor protection. A Circular dated February 11, 2003 has, therefore, been issued to stock exchanges directing them to carry out the changes in management structure of their subsidiaries.

## **IV. Illegal Trading in Securities**

It had come to the notice of the SEBI that certain persons were engaging in trading in securities outside the purview of the stock exchanges ('illegal trading in securities'). Such trading particularly in Gujarat has come to be

known as 'DABBA' trading. There were also reports in the media regarding illegal use of terminals provided to the brokers by the National Stock Exchange in Kolkata and other places. Media had also reported Kerb trading in the cities of Kanpur, Kolkata, Mathura, Ahmedabad, Rajkot and Mumbai. Since these activities are illegal and pose a systemic risk besides luring common investors into the net, the Board took immediate action by sending teams to some cities of Gujarat viz. Ahmedabad, Vadodara and Rajkot to conduct surprise inspections. Since it is not possible to identify the persons who carry on these activities, the Chief Ministers of all the States were requested through letters and reminders to use the local police force to check these illegal activities. NSE, BSE and other Stock Exchanges were alerted to verify involvement of their members and take coercive action. The public were also cautioned through a notice issued in the newspapers in English, Hindi and major regional languages about the illegal activities and educating them about the perils of such illegal trades.

## **2. REGISTRATION AND REGULATION OF THE WORKING OF INTERMEDIARIES**

In order to interpose between issuers and investors, regulators recognize various classes of intermediaries in the capital market. Regulation through intermediaries has been found, perhaps more effective in certain spheres of activity. SEBI, over the period, recognized many types of capital market intermediaries in India and operations during the year is reviewed in the following sections.

### **I. Primary Market**

Intermediaries such as merchant bankers, underwriters, debenture trustees, bankers to an issue, registrars to an issue and share transfer agents and portfolio manager are the

intermediaries that function in the inter alia in the primary markets. From Table 3.1 it may be seen that number of registered intermediaries declined (except for portfolio managers) as a result of, consolidation of intermediary activities, enhanced compliance and disclosure systems and the general down trend in the primary markets.

**Table 3.1: Details of Intermediaries  
Registered as at end March 2003**

| Type of intermediary                                       |              | No.        |            | Variation<br>in Nos. |
|--|--------------|------------|------------|----------------------|
|  |              | 2001-02    | 2002-03    |                      |
| Registrar<br>to an Issue<br>and Share<br>Transfer<br>Agent | Category I   | 98         | 90         | -8                   |
|  | Category II  | 63         | 53         | -10                  |
|  | <b>Total</b> | <b>161</b> | <b>143</b> | <b>-18</b>           |
| Banker to an Issue   |              | 68         | 67         | -1                   |
| Debenture Trustee  |              | 40         | 35         | -5                   |
| Merchant Banker  |              | 145        | 124        | -21                  |
| Portfolio Manager  |              | 47         | 54         | +7                   |
| Underwriter  |              | 54         | 43         | -11                  |

Source: SEBI

## II. Secondary Market

Brokers are one of the most important links between the investors and the market. Their association with the stock exchanges and investors dates back to as early as nineteenth century. The number of registered brokers declined by 168 during 2002-03. Jaipur, NSE, Gauhati and OTCEI stock exchanges mainly contributed to this fall. However, on certain exchanges, for example, BSE, Delhi etc. there were new registrations. Tables 3.2 to 3.4 give

details of registered brokers – exchange wise, and their composition, and ownership pattern. There are 3835 corporate brokers in India as on March 31, 2003 and they constituted about 40 per cent of total brokers. Percentage of corporate brokers is found to be at the highest at NSE, OTCEI and BSE at 89 per cent, 76 and 67 per cent respectively and together constitute over fifty percent of the corporate brokers in all exchanges. NSE and BSE together have over one-third of corporate brokers between them. On the smaller exchanges such as Gauhati and Jaipur percentage of corporate brokers is negligible. The composition of membership has been shifting to the corporate entities over the years.

### MULTIPLE MEMBERSHIP :

Entities are allowed to obtain membership at more than one stock exchange. Table 3.5 gives details of such Multiple membership.

The multiple membership ranges between two to six. It may be seen that 854 entities

have membership at two exchanges while 3 entities have membership at 6 exchanges. About ten per cent of the total brokers have multiple memberships.

## B. Sub-Broker Registration

Sub-brokers are intermediaries between the broker and the investor. SEBI Requirements include registration of sub-brokers through the stock exchanges at which the broker is a

## A. Broker Registration

**Table 3.2: Details of Registered Brokers**

| Total No. of Registered Brokers as on 31-3-2002 | Addition during the year 2002-2003 | Reconciliation - Cancellation/ Surrender of Memberships | Total No. of Registered Brokers as on 31-3-2003 |
|---|------------------------------------|---|---|
| 9687  | 135                                | 303   | 9519  |

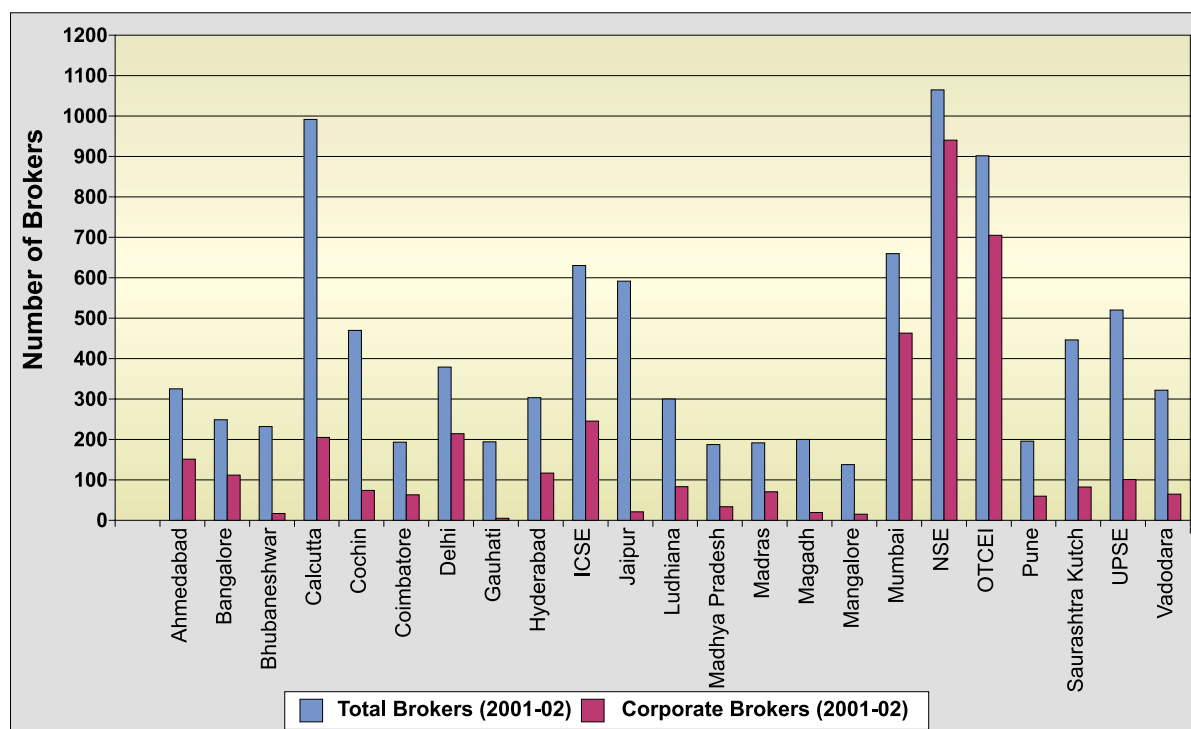
Source: SEBI

**Table 3.3: Exchange-wise Brokers registered with SEBI**

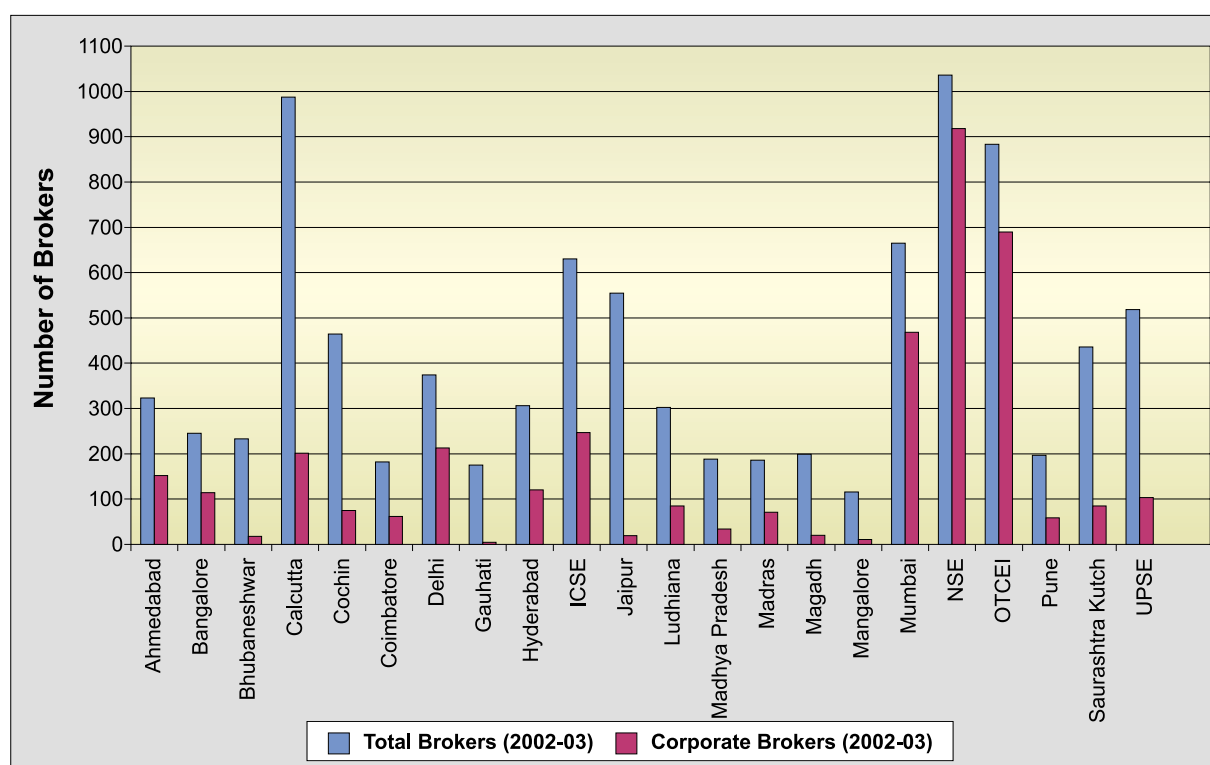
| Sr. No. | Stock Exchange   | Total Regd Brokers (31.3.02) | Corporate Regd. Brokers | Corporate Broker as a Percentage of total brokers | Total Regd Brokers (31.3.03) | Corporate Regd. Brokers | Corporate Broker as a Percentage of total broker | Absolute Variation – Total regd Brokers |
|---------|------------------|------------------------------|-------------------------|---|------------------------------|-------------------------|--|---|
| 1.      | Ahmedabad        | 325                          | 151                     | 46.46   | 323                          | 152                     | 47.06  | -2                                      |
| 2.      | Bangalore        | 249                          | 112                     | 44.98   | 245                          | 114                     | 46.53  | -4                                      |
| 3.      | Bhubaneshwar     | 232                          | 17                      | 7.33  | 233                          | 18                      | 7.73   | 1                                       |
| 4.      | Calcutta         | 992                          | 205                     | 20.67   | 987                          | 201                     | 20.36  | -5                                      |
| 5.      | Cochin           | 470                          | 74                      | 15.74   | 464                          | 75                      | 16.16  | -6                                      |
| 6.      | Coimbatore       | 193                          | 63                      | 32.64   | 182                          | 62                      | 34.07  | -11                                     |
| 7.      | Delhi            | 379                          | 214                     | 56.46   | 374                          | 213                     | 56.95  | -5                                      |
| 8.      | Gauhati          | 194                          | 5                       | 2.58  | 175                          | 5                       | 2.86   | -19                                     |
| 9.      | Hyderabad        | 303                          | 117                     | 38.61   | 306                          | 120                     | 39.22  | 3                                       |
| 10.     | ICSE             | 630                          | 245                     | 38.89   | 630                          | 247                     | 39.21  | 0                                       |
| 11.     | Jaipur           | 592                          | 21                      | 3.55  | 555                          | 19                      | 3.42   | -37                                     |
| 12.     | Ludhiana         | 300                          | 83                      | 27.67   | 302                          | 85                      | 28.15  | 2                                       |
| 13.     | Madhya Pradesh   | 187                          | 34                      | 18.18   | 188                          | 34                      | 18.09  | 1                                       |
| 14.     | Madras           | 192                          | 71                      | 36.98   | 186                          | 71                      | 38.17  | -6                                      |
| 15.     | Magadh           | 200                          | 19                      | 9.5   | 199                          | 20                      | 10.05  | -1                                      |
| 16.     | Mangalore        | 138                          | 15                      | 10.87   | 116                          | 11                      | 9.48   | -22                                     |
| 17.     | Mumbai           | 660                          | 463                     | 70.15   | 665                          | 468                     | 70.38  | 5                                       |
| 18.     | NSE              | 1065                         | 940                     | 88.26   | 1036                         | 918                     | 88.61  | -29                                     |
| 19.     | OTCEI            | 902                          | 705                     | 78.16   | 883                          | 690                     | 78.14  | -19                                     |
| 20.     | Pune             | 196                          | 60                      | 30.61   | 197                          | 59                      | 29.95  | 1                                       |
| 21.     | Saurashtra Kutch | 446                          | 82                      | 18.39   | 436                          | 85                      | 19.5   | -10                                     |
| 22.     | UPSE             | 520                          | 101                     | 19.42   | 518                          | 103                     | 19.88  | -2                                      |
| 23.     | Vadodara         | 322                          | 65                      | 20.19   | 319                          | 65                      | 20.38  | -3                                      |
|         | <b>Total</b>     | <b>9687</b>                  | <b>3862</b>             | <b>39.87</b>                                      | <b>9519</b>                  | <b>3835</b>             | <b>40.29</b>                                     | <b>-168</b>                             |

Source: SEBI

**Chart: 3.1 Corporate Brokers and Total Brokers across Stock Exchanges (2001-02)**



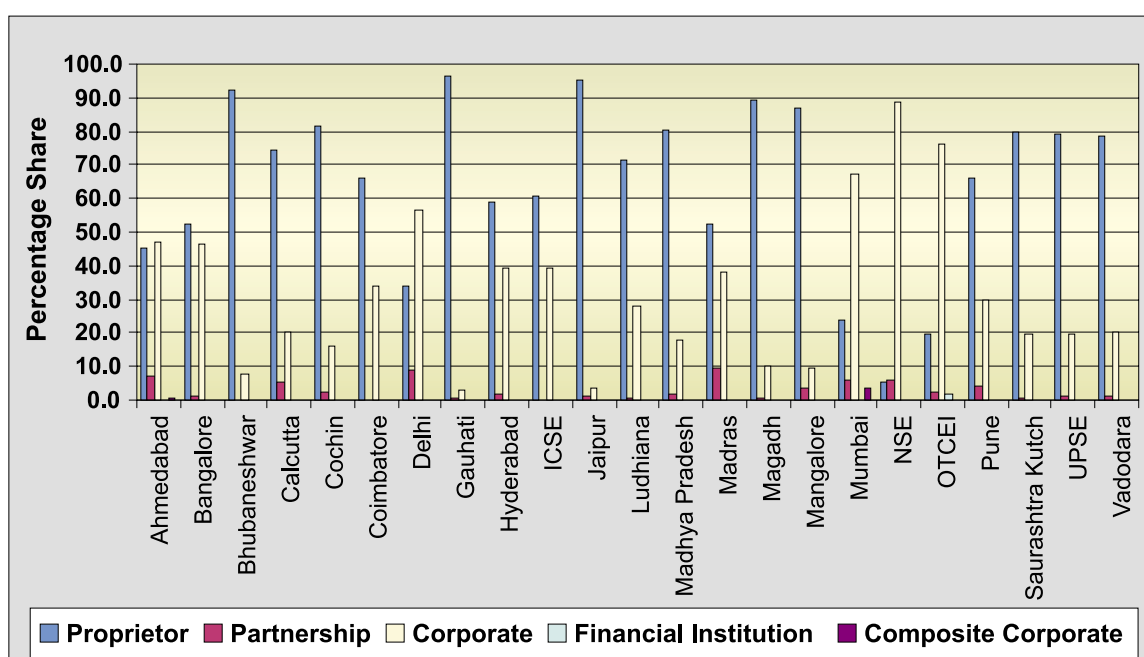
**Chart: 3.2 Corporate Brokers and Total Brokers across Stock Exchanges (2002-03)**



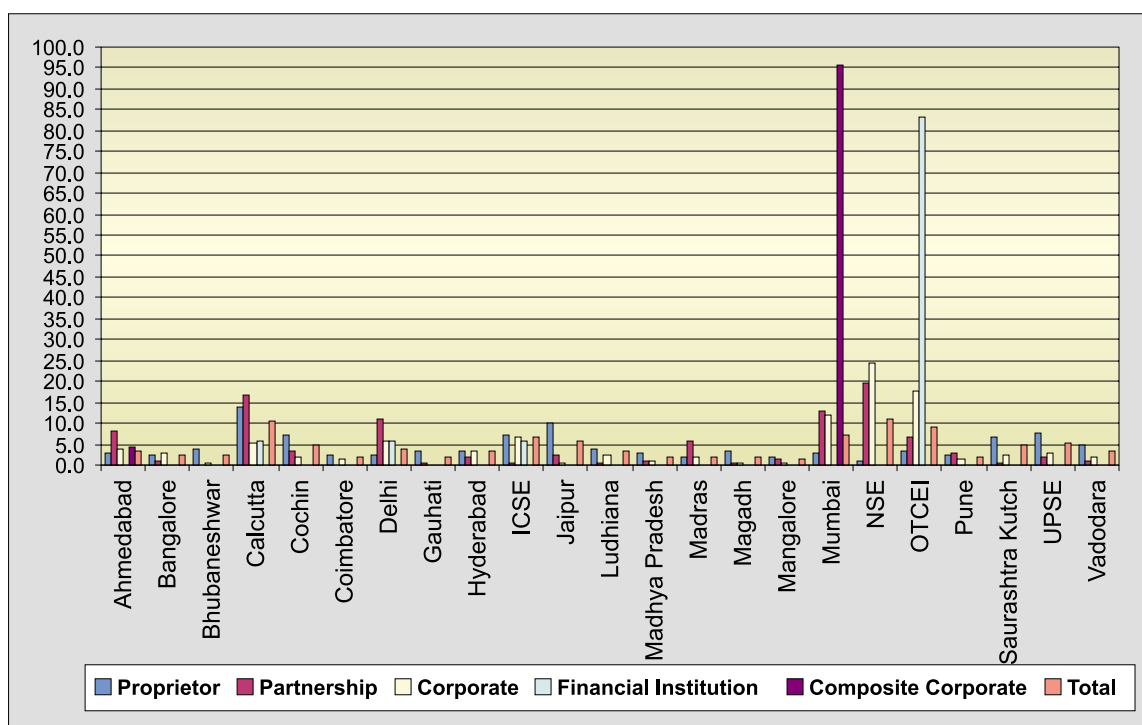
**Table 3.4: Classification of Brokers as per Nature of Ownership (March 31, 2003)**

| Sr. No. | Stock Exchange   | Proprietor  | Partnership | Corporate   | Financial Institution | Composite Corporate | Total       |
|---------|------------------|-------------|-------------|-------------|-----------------------|---------------------|-------------|
| 1.      | Ahmedabad        | 147         | 24          | 151         | 0                     | 1                   | 323         |
| 2.      | BSE              | 158         | 39          | 446         | 0                     | 22                  | 665         |
| 3.      | Bangalore        | 128         | 3           | 114         | 0                     | 0                   | 245         |
| 4.      | Bhubaneswar      | 215         | 0           | 18          | 0                     | 0                   | 233         |
| 5.      | Calcutta         | 735         | 51          | 200         | 1                     | 0                   | 987         |
| 6.      | Cochin           | 379         | 10          | 75          | 0                     | 0                   | 464         |
| 7.      | Coimbatore       | 120         | 0           | 62          | 0                     | 0                   | 182         |
| 8.      | Delhi            | 127         | 34          | 212         | 1                     | 0                   | 374         |
| 9.      | Gauhati          | 169         | 1           | 5           | 0                     | 0                   | 175         |
| 10.     | Hyderabad        | 180         | 6           | 120         | 0                     | 0                   | 306         |
| 11.     | ICSE             | 382         | 1           | 246         | 1                     | 0                   | 630         |
| 12.     | Jaipur           | 529         | 7           | 19          | 0                     | 0                   | 555         |
| 13.     | Ludhiana         | 215         | 2           | 85          | 0                     | 0                   | 302         |
| 14.     | Madhya Pradesh   | 151         | 3           | 34          | 0                     | 0                   | 188         |
| 15.     | Madras           | 97          | 18          | 71          | 0                     | 0                   | 186         |
| 16.     | Magadh           | 178         | 1           | 20          | 0                     | 0                   | 199         |
| 17.     | Mangalore        | 101         | 4           | 11          | 0                     | 0                   | 116         |
| 18.     | NSE              | 58          | 60          | 918         | 0                     | 0                   | 1036        |
| 19.     | OTCEI            | 173         | 20          | 675         | 15                    | 0                   | 883         |
| 20.     | Pune             | 130         | 8           | 59          | 0                     | 0                   | 197         |
| 21.     | Saurashtra Kutch | 349         | 2           | 85          | 0                     | 0                   | 436         |
| 22.     | UPSE             | 409         | 6           | 103         | 0                     | 0                   | 518         |
| 23.     | Vadodara         | 251         | 3           | 65          | 0                     | 0                   | 319         |
|         | <b>Total</b>     | <b>5381</b> | <b>303</b>  | <b>3794</b> | <b>18</b>             | <b>23</b>           | <b>9519</b> |

Source: SEBI

**Chart 3.3 : Percentage Share of Classification of Brokers in Total (March 31, 2003)**

**Chart 3.4 : Percentage Share of Classification of Brokers  
Distributed among All Exchanges**



**Table 3.5: Multiple Membership Details :**

| No. of Memberships | 2001-02        |                        | 2002-03        |                        |
|--------------------|----------------|------------------------|----------------|------------------------|
|                    | No. of members | Total Multiple Members | No. of members | Total Multiple Members |
| 2                  | 627            | 1254                   | 854            | 1708                   |
| 3                  | 90             | 270                    | 82             | 246                    |
| 4                  | 9              | 36                     | 10             | 40                     |
| 5                  | 4              | 20                     | 3              | 15                     |
| 6                  | 1              | 6                      | 3              | 18                     |

Source: SEBI

member. Details of registered sub-brokers – exchange wise, is given in Table 3.6. About 99% of the sub-brokers are registered through members of NSE and BSE. During the year 54% of the registrants were through NSE members compared to 45 percent through BSE members. Six exchanges do not have any sub-brokers.

### III. Registration of FIIs

As at March 31, 2003 there were 502 FIIs and 1361 sub-accounts registered with SEBI.

During the year 49 FIIs were granted fresh registration whereas 34 FIIs were granted renewal of registration. 163 sub-accounts got registered and the registration of 71 sub-accounts were renewed.

### IV. Registration of Custodian of Securities

Eleven entities stood registered as custodian of securities as of March 31, 2003 compared to 12 entities as of March 31, 2002.

**Table 3.6: Stock Exchange- wise Registered Sub-Brokers : Percentage Share in Total**

| <b>Sr. No.</b> | <b>Name of Stock Exchange</b> | <b>During 2002-03</b> | <b>As on March 31, 03</b> |
|----------------|-------------------------------|-----------------------|---------------------------|
| 1.             | Ahmedabad                     | 0.3                   | 1.1                       |
| 2.             | Bangalore                     | 0.0                   | 1.2                       |
| 3.             | Bhubaneshwar                  | 0.0                   | 0.1                       |
| 4.             | Calcutta                      | 0.1                   | 1.1                       |
| 5.             | Cochin                        | 0.0                   | 0.3                       |
| 6.             | Coimbatore                    | 0.0                   | 0.2                       |
| 7.             | Delhi                         | 0.0                   | 3.5                       |
| 8.             | Gauhati                       | 0.0                   | 0.0                       |
| 9.             | Hyderabad                     | 0.0                   | 1.5                       |
| 10.            | ICSE                          | 0.1                   | 0.0                       |
| 11.            | Jaipur                        | 0.0                   | 0.3                       |
| 12.            | Ludhiana                      | 0.0                   | 0.3                       |
| 13.            | Madhya Pradesh                | 0.0                   | 0.9                       |
| 14.            | Madras                        | 0.0                   | 0.0                       |
| 15.            | Magadh                        | 0.0                   | 0.0                       |
| 16.            | Mangalore                     | 0.0                   | 0.0                       |
| 17.            | Mumbai                        | 45.3                  | 51.8                      |
| 18.            | NSE                           | 54.1                  | 35.4                      |
| 19.            | OTCEI                         | 0.0                   | 0.2                       |
| 20.            | Pune                          | 0.0                   | 1.2                       |
| 21.            | Saurashtra Kutch              | 0.0                   | 0.0                       |
| 22.            | UPSE                          | 0.0                   | 0.2                       |
| 23.            | Vadodara                      | 0.0                   | 0.6                       |
|                | <b>Total</b>                  | <b>100.0</b>          | <b>100.0</b>              |

Source: SEBI

### **3. REGISTRATION AND REGULATION OF COLLECTIVE INVESTMENT SCHEMES INCLUDING MUTUAL FUNDS**

#### **I. Registration of Collective Investment Schemes (CIS)**

Subsequent to the notification of Regulations, SEBI had received applications for grant of

registration from 50 CIS entities. Out of these 50 CIS entities, SEBI had granted provisional registration to six CIS entities, while applications of 44 CIS entities were rejected and they were ordered to wind up their schemes and make repayment to their investors. During the year 2002-2003, the provisional registration granted to one CIS



entity expired. Thus, the total number of provisionally registered CIS entities is five.

In terms of Regulations, an existing collective investment scheme which has (i) failed to make an application for registration to the Board; or (ii) not been granted provisional registration by the Board; or (iii) having obtained provisional registration fails to comply with the provisions of Regulation 71; or (iv) is not desirous of obtaining provisional registration; is required to wind up its existing schemes, make repayment to the investors and thereafter submit "Winding up and Repayment Report" to SEBI. SEBI has received "Winding up and Repayment Report" from 57 CIS entities.

Prosecution under Section 24 of SEBI Act, 1992 has been filed by SEBI against 139 erring CIS entities. Other actions such as debarring the promoters/ directors/ managers/ persons in charge of the business of the scheme from operating in the capital market; writing to the State Governments to register civil/ criminal cases against the erring entities for apparent offences of fraud, cheating criminal breach of trust and misappropriation of public funds; writing to the Department of Company Affairs to initiate the process of winding up of the erring 555 CIS entities has also been taken up.

Requests have been made to police authorities to file the First Information Reports against 49 CIS entities for offences such as criminal breach of trust, cheating, etc.

In CWP No. 3352/98 in the matter of Shri. S. D Bhattacharya and others vs SEBI, the Hon'ble High Court, Delhi impleaded all the CIS entities. Earlier, the court had, inter-alia, restrained them from selling, disposing of and /or alienating their immovable properties or parting with the possession of the same. Their

directors had also been interdicted from transferring their immovable property in any manner whatsoever. The Hon'ble High Court also made it clear that its order will not come in the way of companies intending to refund the money to their investors. In an order dated January 22, 2002, the Hon'ble High Court has ordered to freeze the bank accounts of 513 erring CIS entities and their directors/promoters till they comply with the regulations/SEBI Directions regarding repayment to their investors.

## **II. Mutual Funds Registered with SEBI**

During the year, registration was granted to two new mutual funds in the private sector viz HSBC Mutual Fund and Deutsche Mutual Fund. With the enactment of the UTI (Repealment Ordinance), the UTI was divided into the UTI-I and UTI-II. UTI-II known as UTI Mutual Fund was registered with SEBI on January 14, 2003.

During the year 2002-03, the certificate of registration granted to two mutual funds were cancelled viz JF Mutual Fund (formerly known as Jardine Fleming Mutual Fund) and Pioneer ITI Mutual Fund (formerly known as Kothari Pioneer Mutual Fund). In case of JF Mutual Fund, the schemes were taken over by Sun F&C Mutual Fund whereas the schemes of Pioneer ITI Mutual Fund were merged with Templeton Mutual Fund.

**Table 3.7: Mutual Funds Registered with SEBI**

| <b>Sector</b>  | <b>As on<br/>31-03-2002</b> | <b>As on<br/>31-03-2003</b> |
|----------------|-----------------------------|-----------------------------|
| Public Sector  | 8                           | 9*                          |
| Private Sector | 29                          | 29                          |
| Total          | 37                          | 38                          |

\* Public sector mutual funds include UTI Mutual Fund.

Source: SEBI

### III. Venture Capital Funds

#### A. Domestic and Foreign Venture Capital Funds

During the year, registration was granted to nine new domestic venture capital funds (DCVFs). Registration was also granted to four foreign Venture Capital Investors (FVCIs).

**Table 3.8: Number of Venture capital Funds**

|      | 31-03-2002 | 31-03-2003 |
|------|------------|------------|
| DVCF | 34         | 43         |
| FVCI | 2          | 6          |

Source: SEBI

### 4. PROMOTION AND REGULATION OF SELF REGULATORY ORGANISATIONS

#### I. Development of Stock Exchanges as Self Regulatory Organisations

There are 23 stock exchanges recognized under Section 4 of the Securities Contracts (Regulation) Act, 1956. These exchanges were recognized /set up over a period of time to stimulate growth of capital market through channelising the savings of individuals and small investors. These exchanges are suitably empowered by the section 9 of SC(R)A, 1956 to make bye laws for the conduct of business, regulation and control of contracts.

SEBI is contemplating development of Self Regulatory Organizations (SROs) for market intermediaries. Stock exchanges are already acting as SROs and the SRO structure needs to be strengthened further. The objective for promoting intermediaries like Stock Exchanges as Self Regulatory Organizations (SROs) is that since they have a better feel on the ground reality, they should take care of the micro aspects of regulation. The other inherent advantages of self regulation are:

- Self regulation becomes the responsibility of market professionals and may result in greater acceptance of rules by the members of SRO.

- It also provides market players with greater flexibility to respond to securities market.
- It avoids duplication of responsibilities: it is observed over years of experience that if the regulatory body gets into micro regulation, it loses the sight of fundamentals and lands up in duplication of responsibilities, besides
- SROs are expected to have a better understanding of ground realities.

However, for any organization /body like Stock Exchange to effectively function as an SRO, it is necessary that it has the capacity to enforce compliance to byelaws, rules and regulations laid down by itself. Further, these SROs should be able to enforce and establish rules which prevent fraudulent and manipulative trade practices and promote just and equitable principles of trade. Presently such powers are conferred to the exchanges by the section 9 of SC(R)A, 1956 whereby they can make bye laws for the conduct of business, regulation and control of contracts.

However, developing Stock Exchanges as Self Regulatory Organizations and enhancing their effective regulatory role puts additional responsibility on SEBI to ensure that SROs are efficiently carrying out/conducting their monitoring responsibilities.

### 5. FRAUDULENT AND UNFAIR TRADE PRACTICES

SEBI took up investigations in 122 cases in 2002-03 bringing the total cases taken up for investigation till end of this financial year to 654 cases. Of these 122 cases, investigation into 102 cases have been completed during 2002-2003.

### 6. INVESTOR EDUCATION AND THE TRAINING OF INTERMEDIARIES

#### I. Securities Market Awareness Campaign:

SEBI, launched the nation-wide Securities Market Awareness Campaign to empower

investors with education in the securities market in a ceremony held at Vigyan Bhawan, New Delhi on January 17, 2003. The campaign was inaugurated by Shri A.B. Vajpayee, Hon'ble Prime Minister, Republic of India. Shri Jaswant Singh, Hon'ble Union Minister for Finance and Company Affairs delivered the keynote address. Several prominent personalities contributing to the growth of the Indian Securities Market and other eminent personalities were also present.

The inaugural session of the programme featured a curtain raiser audio-visual encompassing the theme of the campaign “

Empowering Investors – A SEBI Initiative”. It showed that people in India have respect for money but treat it with a little knowledge. A mnemonic especially created by Shri R.K. Laxman, for the SEBI campaign was also unveiled by Hon'ble Prime Minister. The inaugural session was followed by three technical sessions wherein discussions emphasising empowerment of investors through education and the roles played by intermediaries, issuers and professionals in investor education were held by eminent personalities. This campaign is expected to sustain the felt need for investor education and awareness across the country.



Inauguration of **Securities Market Awareness Campaign** at New Delhi.  
*Standing Left to Right:* Shri Vinod Dhall, Secretary, Department of Company Affairs, Shri G.N. Bajpai, Chairman, SEBI, Shri A.B. Vajpayee, Hon'ble Prime Minister, Shri Jaswant Singh, Hon'ble Union Finance Minister, Shri Bimal Jalan, Governor, RBI, and Dr. S. Narayan, Finance Secretary.

An educative website (<http://investor.sebi.gov.in>) was also dedicated to investors.

## 7. PROHIBITION OF INSIDER TRADING

During the year 2002-03, 13 cases of alleged insider trading were taken up for investigation. A total of 14 cases of insider trading were completed during the financial year.

## 8. SUBSTANTIAL ACQUISITION OF SHARES AND TAKE-OVERS

During the 2002-03, 83 cases were referred for adjudication under section 15 of SEBI Act, 1992 for alleged violation of the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and a total of Rs. 73,95,000/- was received towards monetary penalties.

## 9. INSPECTION AND INQUIRIES

### I. Stock Brokers and Sub Brokers :

**Table 3.9: Inspection/ Enquiry- Stock Brokers and Sub- Brokers**

| Particulars                     | 2001-2002 | 2002-2003 |
|---------------------------------|-----------|-----------|
| Inspections – Brokers           | 10        | 135       |
| Inspections – Sub Brokers       | Nil       | 58        |
| Enquiries ordered – Brokers     | 24        | 62        |
| Enquiries ordered – Sub Brokers | Nil       | 3         |
| Warned                          | 39        | 38        |
| Suspended                       | 15        | 24        |
| Registration cancelled          | 18        | 122       |
| Adjudication                    | Nil       | 1         |
| No Action                       | 2         | 337       |

Source: SEBI

### II. Monitoring and Inspections of Mutual Funds

Inspections of 32 active mutual funds, covering the period October-March 2002, were ordered and were carried out by independent chartered accountancy firms. All the inspection reports were processed and necessary action was taken on the findings

of inspections and mutual funds were advised to take corrective action, wherever necessary.

### A. Adjudication Ordered and Monetary Penalties Imposed

Monitoring of mutual funds was further strengthened through their periodical reports submitted to SEBI and inspection reports to ensure that interests of investors are protected. Clarifications were sought from the mutual funds from time to time on compliance of regulations and guidelines. SEBI took disciplinary action against a number of mutual funds in the year 2002-03, the details of which are given in the following table:

**Table 3.10: Adjudication/Penalty Imposition – Mutual Funds**

| Sr. No. | Description                         | No. of Mutual Funds |
|---------|-------------------------------------|---------------------|
| 1.      | Adjudication Ordered                | 4                   |
| 2.      | Financial Penalty Imposed           | 6                   |
| 3.      | Warning / Deficiency Letters issued | 35                  |
| 4.      | Compensation to Schemes             | 2                   |
| 5.      | Other issue                         | 1                   |
| 5.      | Payment of Interest                 | 19                  |

Source: SEBI

### Adjudication Ordered and Monetary Penalties Imposed

During the year, adjudication proceedings were ordered against four mutual funds – Reliance Mutual Fund, Kotak Mahindra Mutual Fund, First India Mutual Fund and Dundee Mutual Fund.

On the basis of adjudication ordered in the current year as well as those ordered in the previous year but decided in the current year, financial penalties were imposed on the following mutual funds for violation of SEBI Regulations :

- Kotak Mahindra Mutual Fund :** A penalty of Rs. 50,000 each was imposed on Kotak Mahindra AMC Pvt. Ltd. and



Kotak Mahindra Mutual Fund respectively for lack of due diligence on their part for violation of guidelines on additional plans.

2. **LIC Mutual Fund** : The investment limit as prescribed in clause 10 of the Seventh Schedule to SEBI (Mutual Funds) Regulations, 1996 was exceeded in case of 3 schemes viz., Dhan 88(1), Dhan Tax Saver 96 and Dhan Tax Saver 97. These investments were made in the 1<sup>st</sup> quarter of the year 2000. A penalty of Rs. 1 lakh each was imposed on LIC Mutual Fund and Jeevan Bhima Sahayog Asset Management Co. Ltd. for the violation of the Regulations, which has since been paid.
3. **First India Mutual Fund** - The AMC violated Clause 1 of the Seventh Schedule of the SEBI (MF) Regulations, 1996 when it invested more than 15% of its NAV in the debt instruments of a single issuer in case of the 'First India Income Fund' scheme. A penalty of Rs.3 lakhs was imposed on First India AMC Pvt.Ltd. and an amount of Rs.1 lakh is imposed on First India Mutual Fund for lack of due diligence on their parts. Mutual Fund has paid the penalty.
4. **Dundee Mutual Fund** : The AMC reported violation of Clause 1 of Seventh Schedule (Regulation 44(1)) as it had invested more than 15% of its NAV in unrated debt instruments issued by a single issuer. A penalty of Rs. 5 lakhs was imposed on Dundee Investment Management Research Pvt. Ltd. and an amount of Rs. 2 lakhs was imposed on Dundee Mutual Fund for lack of due diligence on their parts, which has since been paid.
5. **Shriram Mutual Fund** : In the quarters ended June 98, September 98,

December 98, March 99, September 99 and December 99, the business through associated brokers exceeded the limit of 5% of the aggregate purchases and sales of securities made by the Mutual Fund in all its schemes, in violation of Regulation 25(7a) of SEBI (MFs) Regulations, 1996. Mutual Fund did not report this violation earlier. The matter was referred for adjudication and as per the Adjudication order, Shriram Asset Management Co. Ltd., has been imposed penalty of Rs. 5 lakhs under Section 15E of SEBI Act, 1992 and Shriram Mutual Fund has been imposed penalty of Rs. 2 lakhs under Section 15D(b) of SEBI Act, 1992. The mutual fund preferred an appeal before the Securities Appellate Tribunal against the penalty imposed which is still pending.

6. **Reliance Mutual Fund : (24/3/03)** The Reliance Monthly Income Plan had exceeded investment restriction by investing in unrated instruments of a single issuer in violation of Clause 1A Seventh Schedule and Regulation 44(1) to the SEBI (MFs) Regulations 1996. After examining the issue the matter was referred to adjudication. A penalty of Rs. 4 lacs is imposed on Reliance Capital Asset Management Ltd. and an amount of Rs. 2 lacs is imposed on Reliance Mutual Fund.

### Warning / Deficiency Letters

Considering the magnitude and seriousness, 35 warning/deficiency letters were issued to 21 mutual funds on the basis of monitoring through various periodical reports and deficiencies pointed out in the inspection reports.

Some of the main reasons for which warning and deficiency letters were issued to mutual funds were:

1. Violation of advertisement code/guidelines
2. Delay in submission of periodical reports
3. Inadvertent short-selling
4. Failure to install systems and compliance mechanism in place
5. Systemic deficiencies for delays in remitting the repurchase/redemption proceeds (apart from their paying interest to unit holders)
6. Marginally exceeding the investment limits.
7. Non-compliance regarding uploading NAVs on AMFI website
8. Delay in updating offer document and filing within the mandatory 2 years period and delay not reported to SEBI
9. Delay in publication of half yearly financial results in 2 newspapers and posting it on AMFI website as per our circular
10. Non-compliance of standard observations in offer documents
11. Discrepancies in calculation of annualized returns in draft offer document
12. Submission of securities holding statement later than the time stipulated by SEBI in the guidelines
13. Discrepancy in case of inter-scheme transfers
14. Delay in giving information to SEBI auditors on timely basis.

#### Compensation to Scheme:

1. **IL&FS Mutual Fund** – For the purpose of meeting immediate cash requirement the AMC shifted the sell position from one exchange to another. In this process

the scheme incurred a notional loss of Rs.1.05 lac. The matter was reported in the inspection report of 1999-2001 and on discussing this issue with the AMC, they reimbursed the notional loss of Rs.1.05 lacs to the scheme.

2. **Birla Sun Life Mutual Fund** – The mutual fund reported that various balances and accounts of their schemes had deficits of around Rs.10.82 crores. The reasons attributed for the variations included errors, non-reporting/ inaccurate reporting of subscription, redemption and exchange transactions, factoring of applicable loads, computation of dividend liability. The differences were made good by the AMC alongwith interest. The boards of the AMC and trustee company confirmed that no investor was adversely affected and they were satisfied with the entire adjustment process including the control systems put in place to prevent recurrence of such events.

#### Other Actions :

**Escorts Mutual Fund** – Two offer documents filed by the mutual fund have been kept in abeyance, pending compliance of certain directions issued to them on the basis of the findings of the inspection report.

#### Payment of Interest

SEBI has made it mandatory that the mutual funds must pay interest @ 15% for the delays in despatch of repurchase/redemption proceeds to the unitholders. The mutual funds are required to report these cases of delays to SEBI on quarterly basis.

During the year 2002-2003, 19 mutual funds paid Rs. 5.56 lacs as interest to 9805 investors for the delay in despatch of redemption / repurchase proceeds.

During the year 2001-2002, 14 mutual funds paid Rs. 2.57 lacs as interest to 399 investors

for the delay in despatch of redemption / repurchase proceeds.

During the year 2000-2001, 22 mutual funds, paid interest of Rs. 8.37 lacs to 6,722 unitholders as against a total amount of Rs 17.24 lacs paid to 14,686 investors during 1999-2000.

Due to strict action by SEBI and making it mandatory to pay interest for the delays in despatch of redemption/repurchase proceeds, the number of such cases of delays have declined considerably.

## 10. DELEGATED POWERS AND FUNCTIONS

SEBI under sub-sec (2) of Sec 8 of SC(R) A, 1956 notified the amendments to the Article/ Rules of 12 exchanges who failed to implement the Chairman's order dated January 10, 2003 issued under section 8 of the Act specifying that no broker member will hold post of any office bearer to give effect to. The exchanges in question were Uttar Pradesh Stock Exchange, Kanpur, Ahmedabad Stock Exchange, Bangalore Stock Exchange, Coimbatore Stock Exchange, Pune Stock Exchange, Vadodara Stock Exchange, Guwahati Stock Exchange, Bhubaneswar Stock Exchange, Mangalore Stock Exchange, Hyderabad Stock Exchange, Jaipur Stock Exchange and Madhya Pradesh Stock Exchange.

### I. Supersession of the Boards of Stock Exchanges :

**Table 3.11: Supersession**

| Name of the Stock Exchange   | Notification Dated | Period   |
|------------------------------|--------------------|----------|
| Uttar Pradesh Stock Exchange | July 12, 03        | One Year |
| Bhubaneswar Stock Exchange   | January 3, 03      | One Year |
| Ahmedabad Stock Exchange     | March 25, 03       | One Year |

Source: SEBI

### II. Other Actions Initiated under Delegated Powers and Functions :

- A warning letter was issued to Ahmedabad Stock Exchange pursuant to the show cause notice issued under Sec 12 of SC(R) A, 1956 for delayed implementation of SEBI Circular on calculation of margins on gross basis across clients.
- The Uttar Pradesh Stock Exchange was advised to direct the ED to immediately relinquish office of the Executive Director as no prior approval of SEBI was sought for appointment violating the SEBI circular dated April 20, 1993 and also the Article of Association of the Exchange.

**Table 3.12: Renewal of Stock Exchange Registration**

| Name of the Stock Exchange | Notification Dated | Period   |
|----------------------------|--------------------|----------|
| Bhubaneswar                | June 5, 02         | One Year |
| Cochin                     | November 8, 02     | One Year |
| Coimbatore                 | September 18, 02   | One Year |
| Gauhati                    | May 1, 02          | One Year |
| Jaipur                     | January 9, 03      | One Year |
| Ludhiana                   | April 28, 02       | One Year |
| Mangalore                  | September 9, 02    | One Year |
| OTCEI                      | August 23, 02      | One Year |
| Pune                       | September 9, 02    | One Year |
| SKSE, Rajkot               | July 10, 02        | One Year |
| Uttar Pradesh              | June 3, 02         | One Year |

Source: SEBI

- C. A warning letter issued to Ahmedabad Stock Exchange for non inclusion of all the clauses of Code of Ethics and delayed compliance of the said circular.
- D. The Mangalore Stock Exchange was advised to direct the Executive Director to immediately relinquish office of the Executive Director as no prior approval of SEBI was sought for appointment violating the SEBI circular dated April 20, 1993 and also the Article of Association of the Exchange.
- E. A warning letter issued to Madras Stock Exchange pursuant to show cause notice issued under Sec. 12 of SC(R) A, 1956 for delayed implementation of SEBI Circular pertaining to calculation of margin on gross basis across clients.

## 11. FEES AND OTHER CHARGES

**Table 3.13: Fees and Other Charges Received**

| Item  | (Rs. in lakh)            |   |
|---|--------------------------|---|
|   | Fees Received<br>2001-02 | Fees Received<br>2002-03<br>(Unaudited) |
| Offer Documents and Prospectuses filed                  | 126.40                   | 105.6                                   |
| Merchant Bankers  | 64.23                    | 212.70                                  |
| Underwriters  | 25.000                   | 54.00                                   |
| Portfolio Managers                                      | 62.25                    | 115.00                                  |
| Registrars to an Issue and Share Transfer Agents        | 19.40                    | 5.95                                    |
| Bankers to an Issue                                     | 13.70                    | 12.50                                   |
| Debenture Trustees                                      | 30.90                    | 10.00                                   |
| Takeover Offer Documents filed                          | 76.25                    | 252.85                                  |
| Mutual Funds  | 145.75                   | 143.25                                  |
| Stock Brokers and Sub-Brokers                           | 8,079.44                 | 10,003.56                               |
| Foreign Institutional Investors                         | 408.32                   | 338.79                                  |
| Sub Account - Foreign Institutional Investors           | 174.01                   | 113.13                                  |
| Depositories  | 20.00                    | 20.00                                   |
| Depository Participants                                 | 77.70                    | 69.14                                   |
| Venture Capital Funds                                   | 6.25                     | 46.50                                   |
| Custodian of Securities                                 | 65.00                    | 50.00                                   |
| Approved Intermediaries under Securities Lending Scheme | 44.79                    | 29.21                                   |
| Penalties   | 97.14                    | 101.45                                  |
| Collective Investment Schemes                           | 5.00                     | 0.25                                    |
| Credit Rating Agencies                                  | —                        | 12.00                                   |
| Listing Fees-Contribution from Stock Exchanges          | 186.50                   | 194.02                                  |
| Foreign Venture Capital Funds                           | 5.67                     | 21.85                                   |
| Derivatives   | 104.73                   | 144.59                                  |
| <b>Total</b>  | <b>9,838.43</b>          | <b>12,056.34</b>                        |

Source: SEBI



## 12. RESEARCH AND INTERNATIONAL RELATIONS

During the year, SEBI brought out several research papers on various aspects of the secondary market. One of the papers was on price discovery and volatility on NSE futures market.

### I. Price Discovery and Volatility on NSE Futures Market

This paper studied price discovery and volatility in the context of introduction of Nifty futures at the National Stock Exchange (NSE) in June 2000. Cointegration and Generalised AutoRegressive Conditional Heteroscedasticity (GARCH) techniques are used to study price discovery and volatility respectively. The major findings are that the futures market (and not the spot market) respond to deviations from equilibrium; price discovery occurs in both the futures or spot market, especially in the latter half of the study period. The results also show that volatility in the spot market has come down after the introduction of stock index futures.

#### A. Price discovery

Results indicate that the null hypothesis is rejected at one per cent level, showing that both the markets are integrated. Information flows from one market to another market. The results are very useful to regulators as well as to market participants. Any regulatory initiative on futures market will have its desired impact on cash market. Therefore, regulators can take actions in the futures market such as reduction in contract size, changes to margins and others which will have their desired impact on the cash market. Market participants, such as investors, can use these results to predict impact of shocks of the futures market on cash market.

Price discovery results indicate that the information gets reflected first in the futures

market and the dissemination time to the cash market is unascertainable from the results. One of the constraints of the data is that daily close values are used whereas the information might get transmitted much faster. This particular aspect can be stated more authoritatively only if high frequency data is used for this purpose. High frequency data is currently not available for spot market Index in India, therefore they could not be employed in the equation.

#### B. Volatility

Results of the study indicate that volatility has reduced after introduction of Index futures. The study suggested the following to further improve efficiency, liquidity and reduce volatility : a) introduction of futures contracts on more number of indices b) permission to introduce smaller value contracts c) Efforts may be made to look at margin imposition system and reduce margins without compromising on the integrity of the market and d) enhance institutional participation.

### II. Survey of Indian Investors, 2000-01

The first Survey of Indian Investors was conducted during 1998-99 SEBI and NCAER conducted another survey of Indian investors during April-December, 2000 based on a sample of 2,88,081 households located in geographically dispersed rural and urban areas. The findings of the Survey were published in March, 2003. The important findings are:

- An estimated 13.1 million or 7.4 percent of all India households totaling 21 million individuals directly invested in equity shares or debentures or both during 2001-02.
- An estimated 11.8 million households totaling 19 million individuals invested in units of mutual funds during 2001-02.
- The number of debenture owing

households at 9.6 million far exceeded the number of equity owing households at 6.5 million.

- Altogether, there is a projected total of 13.1 million investor households as per 2000-01 Survey as against 12.8 million investor households as per 1998-99 Survey, thereby indicating an increase of 3 lakh investor households.
- While the number of investor households in the urban sector declined by 1 million between both the Surveys, the number of investor households in the rural sector increased by 1.3 million.
- The number of investor households owing equity shares declined to 6.6 million in 2000-01 (12.1 million in 1998-99) while the number of investor households owning debentures shot up to 9.6 million in 2000-01 (3.7 million in 1998-99).
- The growth of investor households has decelerated to 2.3 percent.
- The percentage of households investing in equity or debentures is more in urban areas (15.29 percent) than in rural areas (4.24 percent).
- The number of non-investor households increased from about 156 million in 1998-99 to nearly 164 million in 2000-01.
- The Southern Region (46 percent), Western Region (33 percent), Northern Region (11 percent) and Eastern Region (11 percent) figure in the same order in the share of investor households.

### III. International Affairs

The Board continued to play an important role at the international fora by extending co-operation to international regulatory bodies and other international organisations.

During the year 2002-03, SEBI was elected as a member of the IOSCO Emerging Markets Advisory Board in Kuala Lumpur, Malaysia. SEBI also became a member of the Screening Group and the Verification Team for the IOSCO Multi Lateral MoU project. SEBI was also a part of the IOSCO Implementation Committee Meeting on IOSCO Objectives and Principles of Securities Regulations.

In December 2002, SEBI signed a Memorandum of Understanding with the Financial Services Commission, Mauritius to strengthen communication channels and establish a framework for assistance and mutual cooperation between the two parties. The MoU marked the beginning of greater collaboration between India and Mauritius to effectively regulate and develop securities and futures markets, in view of greater cross-border trade and cross-market linkages brought about by the globalisation of financial markets. In January 2003, SEBI signed a Memorandum of Understanding with Securities and Exchange Commission, Sri Lanka. Under the MoU, both regulators recognised the desirability for providing assistance and exchange of information to aid each other in ensuring compliance with laws and regulations in their respective countries. The scope of the Memorandum includes providing assistance and taking action against insider dealing, market manipulation and other fraudulent practices in securities dealings.

SEBI's application for becoming signatory to the IOSCO Multilateral MoU concerning Consultation and Cooperation and the Exchange of Information was approved by the Screening Group of IOSCO and the MoU would be signed in the near future. Currently, only nine IOSCO members have become signatory to the MoU. SEBI is amongst the few Regulators from the emerging markets to be admitted as a signatory.



*Memorandum of Understanding with Financial Services Commission, Mauritius*



*Memorandum of Understanding with Securities and Exchange Commission, Sri Lanka*

During the year the following international meetings were attended by officials of the Board.:

**A. Fourth Round Table on Capital Market Reform in Asia in Tokyo, Japan**

The theme of this year's Round Table in Tokyo was Medium Term Responses to the Crisis in Asian Financial Markets. Regulators from Asian jurisdictions deliberated upon the following issues:

- a. Progress in Capital Market Reform in Asia
- b. Market Structure
  - Demutualisation
  - Cross border alliances
  - Mergers of securities and derivatives markets
- c. Regulatory Structures
  - Integrated regulators
  - Conglomerates
  - Governance of the regulators
- d. Corporate Governance
  - OECD Principles
  - Closely held companies listed on stock markets
  - Financial institutions

e. Issuers

- Debt restructuring initiatives
- SMEs and venture capital

**B. Annual Conference of the International Organization of Securities Commissions (IOSCO) in Istanbul, Turkey**

The theme of this year's conference was "Globalization: Opportunities and Challenges." This theme was chosen in recognition that the process of globalization presents both new opportunities to investors and financial services providers and new challenges to financial services regulators. The conference provided a forum for securities regulators and industry participants to consider fundamental issues relating to the increasing provision of financial services on a cross-border basis and the associated international capital flows. In addition, the conference provided a forum for regulators and industry participants to consider issues that are of paramount concern subsequent to the events of 11 September 2001 and recent corporate failures of international significance.

**C. International Organisation of Securities Commissions (IOSCO) Emerging Markets Committee Meeting in Kuala Lumpur, Malaysia.**

The theme of this year's EMC Meeting was "Strengthening Investor Confidence in

Emerging Markets”. Apart from the customary meetings of the EMC working groups and the EMC Plenary Meeting, a special briefing session for EMC members focusing on IOSCO’s newly endorsed Multilateral Memoranda of Understanding and the work of the Implementation Committee was also held to inform the members of the current development in this regard.

***D. Intentional Organisation of Securities Commissions (IOSCO) Asian Pacific Regional Committee (APRC) meeting and APRC Enforcement Director’s Conference in Colombo, Sri Lanka.***

The IOSCO- APRC Meeting was held in January 2003 in Colombo. The meeting focused upon the issues of international co-operation and enforcement like

- a. Regulation of Terminals Placed by Overseas Exchanges or Trading Systems
- b. Investor Protection

- c. IMF Financial Sector Assessment Programme
- d. Corporate Governance

### **13. OTHER FUNCTIONS**

#### **I. Grievances Redressal**

##### **A. Mutual funds**

The complaints received from investors against the mutual funds are taken up directly by the Board with the mutual funds for redressal. Out of a total of 41,695 complaints (cumulative) which have been received by SEBI against 36 mutual funds till March 31, 2003, a total of 41,468 complaints stand redressed.

##### **B. Securities market**

SEBI has a comprehensive investor grievances processing mechanism. A standardised complaint format is available at all SEBI offices and on the SEBI website for the convenience of investors. Complaints

**Table 3.14: Redressal of Grievances –**

| <b>Financial Year<br/>(End March)</b> | <b>Grievances Received<br/>(Cumulative)</b> | <b>Grievances Resolved<br/>(Cumulative)</b> | <b>Redressal Rate<br/>(Per Cent)</b> |
|---------------------------------------|---|---|--------------------------------------|
| 1991-92                               | 18,794                                      | 4,061                                       | 21.61                                |
| 1992-93                               | 1,29,111                                    | 27,007                                      | 20.92                                |
| 1993-94                               | 7,13,773                                    | 3,66,524                                    | 51.35                                |
| 1994-95                               | 12,29,853                                   | 7,18,366                                    | 58.41                                |
| 1995-96                               | 16,06,331                                   | 10,34,018                                   | 64.37                                |
| 1996-97                               | 18,23,725                                   | 14,65,883                                   | 80.38                                |
| 1997-98                               | 23,35,232                                   | 21,42,438                                   | 91.74                                |
| 1998-99                               | 24,34,364                                   | 22,69,665                                   | 93.24                                |
| 1999-00                               | 25,32,969                                   | 24,16,218                                   | 95.39                                |
| 2000-01                               | 26,29,882                                   | 25,01,801                                   | 95.13                                |
| 2001-02                               | 27,11,482                                   | 25,72,129                                   | 94.86                                |
| 2002-03                               | 27,48,916                                   | 26,11,101                                   | 94.99                                |

Source: SEBI

received from investors are acknowledged and a reference number is sent to the complainant. Complaints are taken up with the concerned companies. SEBI officers also hold meetings with the company officials to impress upon them their obligation to redress the grievances of investors. Recalcitrant companies are referred to Enforcement Division for appropriate action. SEBI also issues fortnightly press release for public information, on the status of redressal of investor grievances. This report is also posted on SEBI web-site.

During the period 1991-92 to 2002-03, SEBI received 27,48,916 grievances from investors. Of this a total of 26,11,101 grievances were redressed by companies, which indicates a redressal rate of 94.99 per cent. The cumulative status of investor grievances received by SEBI, resolved by companies and the redressal rate in this regard from the year 1991-92 to 2002-2003 is provided in Table 3.14.

### **C. Investors' Associations**

The Board has been granting registration to Investor Association in order to bring about a organised form of investor movement. The role of investor associations are two fold -

one, to take up investor complaints and raise issues which may affect interest of investors and two, educating and creating awareness about the securities markets to investors SEBI. The investor associations are also nominated in various Committees so that they have an opportunity to represent the 'investor angle' in any proposed policy changes. As of the end of the year, the following investors' associations were registered :

1. Consumer Education and Research Society, Ahmedabad.
2. Consumer Unity & Trust Society, Jaipur.
3. Ghatkopar Investors' Welfare Association, Mumbai.
4. Investors' Grievances Forum, Mumbai.
5. Jagrut Grahak Mandal, Patan (Gujarat)
6. Kolhapur Investors' Association, Kolhapur
7. Midas Touch Investors' Association, Kanpur

Some of the Investors' Associations registered with SEBI have organised seminars for educating investors on various topics of capital market with the financial support extended by SEBI.