

## L) OTHER FUNCTIONS

### *Y2K and Indian securities markets*

The Year 2000 problem poses a significant challenge for the capital market and other related activities. Failure to address this issue in timely manner would cause operational problems to all the institutions operating in the securities market, even to the extent of disruption of financial markets. As a result, it is imperative that all the agencies operating in the capital market, either directly or indirectly, should take necessary steps to ensure that the problems and disruptions due to Year 2000 problem are minimized.

In the securities industry, three factors magnify the scope of the Year 2000 problem:

- The securities industry relies heavily on computerised information processing technology., "Information and communications technologies are critical to healthy and efficient primary and secondary markets."
- The industry is enormous. There are more than 9000 companies, which are listed across 23 stock exchanges having 9000 brokers, who are having terminals in nearly 200 cities. Besides there are 402 Merchant bankers, 225 Registrars and Share Transfer Agents, Bankers to the Issue and other primary market intermediaries.
- Industry participants are highly interdependent. Many are also connected to national and global financial communities. Thus, it is important not only that individual market participants assure that their systems are able to handle the Year 2000, but also that they can continue to communicate with other members of the domestic and global industry.

### *SEBI and Y2K*

For a smooth transition to the next millennium, it is imperative that the efforts carried out at various levels in various sections of the industry should be integrated. As a regulatory body for the Indian capital market SEBI has initiated steps to co-ordinate and synchronise the efforts made by the various agencies operating in the capital market. A time bound schedule for implementation of a comprehensive plan to combat the Y2K problem has been drawn up by SEBI and has been circulated to all the intermediaries functioning in the capital market either directly or through Self Regulatory Organisations.

The intermediaries had been advised to reach Y2K compliant position by December 31, 1998 so that they are able to test, validate and implement the systems by June 30, 1999. A task force has been set up to monitor the progress periodically and to co-ordinate the efforts to find a solution to this problem. Additional stress has been laid upon the contingency measures in view of possible failures of key parts of financial market infrastructure. The testing and validity of the contingency plans is being emphasised to counter any failure.

It is obvious that no individual IT user, individual institution, sector, market, or country is immune to the difficult issues presented by the Year 2000 problem. Even if an institution has verified and tested all its internally developed systems and applications, it will be affected by: the state of readiness of its vendors and third party service providers; the public utilities upon which it relies; the infrastructure that it relies upon for its trading, payment and external information needs. Moreover, the globalisation of financial and economic activity and the widespread use of information and telecommunications technology throughout the world have created various intrasystem and intersystem interconnections and global

interdependencies, which greatly add to the complexity of the challenge.

SEBI is also co-ordinating efforts with the Reserve Bank of India, Insurance Regulatory Authority, Indian Banks Association, Department of Electronics and Department of Telecommunications in order to ensure that the market functions smoothly and efficiently in the next millennium .

The following measures have been taken by the SEBI to ensure Y2K compliance in the capital market and also to keep the investors well informed on the Y2K status:

- It is now mandatory for all listed companies to give a brief status on their Y2K preparedness level in their published quarterly results.
- Every intermediary registered with SEBI is compulsorily required to discuss this issue in all Board meetings .
- SEBI nominees on the board of Stock Exchanges would discuss the status of the Y2K preparedness of the Stock exchanges, clearinghouses/clearing corporations, and the brokers operating on the stock exchanges at the Board meetings.
- It is compulsory for all the companies approaching the capital market since April 1999 to declare their Y2K preparedness status in their offer document.
- It shall be mandatory for all intermediaries registered with SEBI to keep hard copies of all the current records pertaining to their own and their client's operations as on December 30th, 1999. They would be required to keep the hard copies of all the necessary documents and records, which are dependant on information technology and have a direct bearing on the functioning of the capital market.

In their disclosures the companies and the intermediaries have been asked to disclose the following:

the risk of the company's Year 2000 issues

the cost to address the company's Year 2000 issues

the company's contingency plans.

The company's disclosure should be specific to each company and quantified to the extent practicable. The disclosures should be in sufficient detail for the reader to comprehend the effect of the Y2K problem on the company's operations/processes/functions and also evaluate the remedial steps taken by the company.

The Risk to the Company due to Year 2000 problem

The companies should list the operations, processes, functions, which could be adversely affected due to the Year 2000 problem.

For each of the processes/ operations/ functions the following information should be disclosed.

Status of progress of making these Y2K compliant (indicating the percentage of the work completed)

The date by which the work would be completed.

The names of other intermediaries, directly dependant upon the above processes/operations/functions.

The Cost to Address the Company's Year 2000 issues.

Companies must disclose material historical and estimated costs of remediation. This includes costs of directly related to fixing Year 2000 issues. In the worst case, the replacement cost of a non-compliant IT system should be disclosed as an estimated Year 2000 cost.

The Company's Contingency Plans.

Companies should briefly disclose the contingency plans in the event of system breakdown/failure due to the Year 2000 problem.

### ***Grievance Redressal – Mutual Funds***

A total of 29,644 complaints (cumulative) were received by the SEBI against 17 mutual funds, including UTI, till March 31, 1999, out of which 27,867 complaints were redressed. The redressal rate of investors' grievances by mutual funds was 94.01 per cent.

UTI, which accounts for 71.86 per cent of the total complaints, shows a redressal rate of 96.51 per cent.

### ***Grievance Redressal – Securities Market***

The Investor Grievances Redressal and Guidance Division assists investors who prefer to make complaints to SEBI against companies. There has been a sustained increase in the number of Investor grievances resolved through SEBI's intervention, over the period of time

SEBI has established a comprehensive redressal mechanism whereby each investor is sent an acknowledgement with a reference number. A standardised complaint format is available at all SEBI offices and in the SEBI Website for the convenience of investors. Each complaint is taken up with the company immediately and follow up is made every quarter. The companies are advised of their obligations to redress the complaints and are warned of stern action for failure to redress complaints. Officers hold periodic meetings with errant companies. Recalcitrant companies are referred for prosecution. SEBI also releases a fortnightly press release for public information, on the status of investor grievance redressal highlighting companies against whom more than 1000 complaints are outstanding.

***Table 3.12: Investor Grievances – Cumulative***

<b><i>Financial Year (End March)</i></b>	<b><i>18, 794</i></b>	<b><i>4, 061</i></b>	<b><i>21.61</i></b>
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1991-92			
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, 346	22, 69, 665	93.24

Source: SEBI

*During 1998-99, the SEBI received 99114 complaints as against 159670 complaints during 1997-98. The average receipts has consequently declined to around 275 per day as against 450 during the previous year (Table 3.12).*

*In order to ascertain correct status of redressal, SEBI has been conducting an exercise of sending reply paid post cards to investors requesting them to reply as to whether the complaint has been resolved or not. During the year the SEBI sent 75496 reply paid post cards to investors whose complaints were pending as of March 31, 1998 per SEBI database. 40962 cards were received back of which 6117 replied that the complaints were resolved and 33356 replied that the complaints were not resolved. This exercise helps SEBI to ascertain whether complaints reported as resolved by companies are actually resolved.*

#### **Defaulting Companies**

*During 1998-99 also, periodic meetings were held by the SEBI with the CEO / Compliance Officer / Sr. Officers of the companies which did not register satisfactory investor grievance redressal position. During such meetings, the SEBI impressed on them the need to redress the investor grievances with greater urgency. The impact of these meetings on the record of redressal has been found to be very good and therefore SEBI has decided to make this a continuing exercise.*

*During 1998-1999 the SEBI has initiated prosecution proceedings against four companies / their directors. The total number of prosecutions launched upto March 31, 1999 stands at 10. The total number of complaints outstanding against these companies was 11,809 as of March 31, 1999.*

#### **Investor Associations**

As of April 1, 1998 there were 2 registered investor associations who applied for renewal.

The SEBI has also been granting financial assistance to the registered investor associations to conduct investor education programmes.

### ***Overseas Investors' Cell***

SEBI has been constantly striving to provide a congenial investment climate for Overseas Investors. In this direction, an NRI cell has been functioning in the Division since January 1, 1997 for redressal of grievances of NRIs in the Capital Market.

Foreign Institutional Investors/Mutual funds and other overseas investors have since become an integral part of our Capital Markets. In its continuing endeavor to facilitate investments by overseas investors and to enhance their confidence in our regulatory and redressal mechanisms, SEBI has created an Overseas Investors Cell by expanding the scope of N R I cell. The Overseas Investors Cell (OIC) addresses and answer queries on registration procedures, formalities, and other investment related issues pertaining to SEBI. The cell also has a window for Redressal of Overseas Investors' Grievances ("ROVING-WINDOW"), for receipt and redressal of complaints.

### ***Coordination with Overseas Regulators***

SEBI is an active and a leading member of International Organisation of Securities Commission (IOSCO). At the 23<sup>rd</sup> Annual Conference of IOSCO held in Nairobi in September 1998, Mr. D.R. Mehta, Chairman SEBI, was unanimously elected as the Chairman of the Asia Pacific Regional Committee (APRC), a regional sub-committee of IOSCO. SEBI is also a member of the Executive Committee of IOSCO-the apex policy making body of IOSCO as well as the Emerging Markets Committee

India stands committed to the various measures and efforts undertaken by IOSCO in order to improve transparency in the functioning of the international capital markets and increasing the efficiency of the global securities markets.

India continued its efforts to foster the spirit of co-operation amongst the international bodies and regulatory bodies in the Asia-Pacific region. During the Asian crisis the focus of discussion was on curbing the volatility in the region and integrating the global and regional efforts to stem the crisis and to find measures to avoid the recurrence of the crisis. This issue was discussed during the APRC meetings held under the chairmanship of Mr. D.R. Mehta at Nairobi and Hong Kong and the following important viewpoints emerged from the meetings:

- Increased regulatory co-operation, including information exchange, in order to strengthen market surveillance and maintain overall market transparency and integrity.
- To encourage the APRC members to take active steps to support the development and adoption of high standards of corporate governance and establishment of a dialogue group to monitor developments in this area.
- To arrange training for enforcement officers and other multilateral training activities for member nations in the region.
- To set up a working group for ensuring better regulation and supervision of hedge funds in the region.

During the year SEBI officials visited Australia and New Zealand to study the regulatory and supervisory procedures being followed for the plantation schemes by the respective regulatory agencies.

SEBI also played host to officers from Securities and Exchange Commission, Bangladesh who had visited India to understand and comprehend the structure and functioning of the Indian capital market.