

IFS

Chapter:- Investor Protection And Grievance
Redressal Mechanism
B.COM (SEM:-III)

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INVESTOR PROTECTION: GRIVANCES AND THEIR REDRESSAL

What is an Investor?

- ✓ **An investor is any person who commits Capital with the expectation of financial returns. Investors utilize investments in order to grow their money and/or provide an Income during retirement, such as with an annuity.**
- ✓ **A wide variety of investment vehicles exist including (but not limited to) stocks, Bonds, commodities, Mutual Funds, exchange-traded funds (ETFs), options, futures, foreign exchange, gold, silver, retirement plans and real estate. Investors typically perform technical and/or fundamental analysis to determine favorable investment opportunities, and generally prefer to minimize risk while maximizing returns..**

What is Investor Protection

- ✓ The investor insurance money is a symbol of assurance. In simpler words investor protection implies that up to a specific breaking point, The Investor Can get the cash back if the dealer goes into Bankruptcy or submits extortion.
- ✓ It is a significant Factor to consider when you open a Trading Account or a record with an online dealer. At the point when you open an exchanging account at a brokerage, you normally get financial backer security..

An Investment risks are very high due to **dishonest practices, frauds and unethical investment culture**. Investors experience a sense of **helplessness and insecurity**, they have hardly any confidence in financial markets.

The Government, the Company Law Board and the SEBI, in recent years have made efforts to protect the investors. **Investors protection** is a wide term, it encompasses all the measures designed to protect investors from malpractices of brokers, companies managers to issue, merchant bankers, registrar to issues etc.

USUAL GRIEVANCES OF INVESTORS

- **Against Companies.**
- **Against Brokers.**
- **Against depositories.**

USUAL GRIEVANCES AGAINST COMPANIES

- **Delay in registering transfer of securities.**
- **Non-payment or delay in payment of dividend.**
- **Non-repayment or delayed repayment of public deposits**
- **Non-receipt of rights issue offer**
- **Non-receipt of duplicate share certificate**
- **Transmission of shares.**
- **Non-receipt of notice of meeting**

USUAL GRIEVANCES AGAINST BROKERS

- ✓ **Delay or default in payment of securities sold**
- ✓ **Delay or default in delivery of purchased security to the client.**
- ✓ **Non-Issue of contract note.**
- ✓ **Charging excess brokerage from clients.**
- ✓ **Non-passing of corporate benefits.**
- ✓ **Overcharging.**

GRIEVANCES AGAINST DEPOSITORY PARTICIPANT

- Depository Participant is an institution which holds securities either in certificated or uncertificated form, help in dematerialization of securities etc. of the holder.
- Various banks and other institutions are doing this work. Every depository participant must forward all the dematerialization or materialization requests of his clients to the concerned company within 7 days of the receipt of the request but delays are quite common

Main Depositories are:

- NSDL: National Securities Depositories Limited (1996)
- CDSL: Central Depositories Services Limited (1999)

METHODS OF REDRESSAL OF INVESTORS GRIEVANCES

An investor can seek redressal of his grievances from, the following agencies:

1. Grievance cells in stock exchanges
2. SEBI
3. Company Law Board
4. Courts
5. Press

GRIEVANCE CELL/ INVESTOR SERVICE CELL IN STOCK EXCHANGES

All the recognised stock exchanges have established Investors services cells to redress the grievances of investors. These cells have played an important role in settlement of grievances and have infused confidence among investor. Investors approach these investors grievance cells to lodge complaints against companies and members of the stock exchange acting as brokers. Both BSE and NSE too have their grievance cells.

METHOD OF REDRESSAL OF GRIEVANCE AGAINST COMPANIES IN INVESTOR SERVICE CELL

1. After receiving the complaint from investors, these are forwarded to the concerned company which is directed to solve the matter within 15 days, progress is monitored.
2. If, in spite of reminder, the company fails to resolve the complaints and the total number of pending complaints against the company exceeds 25 and if these complaints are pending for more than 45 days, the cell issues a show cause notice of 7 days to the company.
3. If the company still fails to resolve the complaint within 7 days of issue of show cause notice the scrip of the company is suspended from trading.
4. Investors grievance cell can also transfer scrips of defaulting company to Z category for non-resolution of investors complaints
5. Companies which have a long history of not resolving investors grievances and have a large number of pending complaints are instructed to employ special personnel to clear pending complaints on a priority basis.

METHOD OF REDRESSAL INVESTORS GRIEVANCES AGAINST STOCK BROKER BY INVESTOR SERVICE CELL

1. When a complaint is lodged with the stock exchange authorities, they forward it to the investor service cell which refers the complaint to the concerned broker and asks him to settle the complaint and send a reply within 7 days.
2. If no reply is received or the received reply is not satisfactory the matter is placed before the Investors Grievance Redressal Committee (IGRC) of the stock exchange.
3. This committee hears both, the complainant, the broker and efforts are made to solve the matter failing which, it is referred for arbitration which is a quasi-judicial process.
4. A sole arbitrator is appointed if the sum is for less than 25 lakhs, for claims above Rs. 25 lakhs, a panel of 3 arbitrators is appointed.
5. An aggrieved party can file an appeal against the award given by the arbitrator in appropriate court.

OTHER MEASURES TAKEN BY INVESTOR SERVICE CELL

1. Calling company representatives to the stock exchange to interaction.
2. Calling registrars and transfer agents to the stock exchange to interact.
3. Issuing monthly press releases,
4. listing top 25 companies against whom maximum complaints are pending for resolution, this is also released on the website of the exchange.
5. In the case of Bombay Stock Exchange, it can pursue Mumbai based companies to depute their representatives to the exchange to take up the pending list of complaints and resolve them without delay.

REDRESSAL OF GRIEVANCES THROUGH 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 thereunder and provisions that are covered under Section 55A of Companies Act, 1956 are 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.
- 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.

SCORES (SEBI online complaint redressal system)

- SCORES is a web-based centralized grievance redressal system of SEBI.
- SCORES is web-enabled and provides online access 24 x 7.
- Complaints and reminders thereon can be lodged online at the above website at anytime from anywhere.
- An email is generated instantaneously acknowledging the receipt of complaint and allotting a unique complaint registration number to the complainant for future reference and tracking.

- The complaint forwarded online to the entity concerned for its redressal
- The entity concerned uploads an Action Taken Report (ATR) on the complaint.
- SEBI peruses the ATR and closes the complaint if it is satisfied that the complaint has been redressed adequately.
- The concerned investor can view the status of the complaint online from the above website by logging in the unique complaint registration number.

GUIDELINES RELATED TO INVESTORS PROTECTION

- SEBI (Disclosure and Investor Protection) Guidelines, 2000.
- SEBI (Investor Protection and Education Fund) Regulations 2009

REDRESSAL BY COMPANY LAW BOARD

- Company law Board which was constituted in May 1991 has been entrusted with many powers which were previously exercised by high courts. Every bench of company Law Board is deemed to be a civil court and every proceeding before it is deemed as judicial proceeding.
- To protect the interests of investors it has the power of inspection of records and documents and enforcing attendance of witnesses.
- An aggrieved investor can apply to the Company Law Board

(i) To investigate the affairs of the company

(ii) For relief in case of oppression of management and/or mismanagement

- investors can also lodge complaints about delay and non-payment of fixed deposits and interest thereon with the Company Law Board.
- Representations about desired changes in the Companies Act for investors protection can also be made to the Company Law Board

REDRESSAL OF INVESTORS GRIEVANCES THROUGH COURTS

- When an investor has tried all other ways of getting his grievance settled there is no other way left with him except to proceed against the company or the intermediary by way of civil and criminal proceedings.
- Suits against companies can be filed in the high courts of the states. Every high court has special designated benches about company affairs and all complaints against companies in breach of Companies Act are heard there.
- An aggrieved party can file cases in high courts against the companies to get justice but the process of law is quite time-consuming and costly and hence beyond the reach of small investors.

REDRESSAL OF INVESTORS GRIEVANCES THROUGH PRESS

- ✓ If an investor fails to get his grievance remedied from concerned company or authorities, he thinks of bringing bad publicity to the company or to the authorities not listening to him, by reporting the matter to the press.
- ✓ Investors form unfavourable opinion about such company and think that this may happen to them also. So they avoid investing in this company. Such a situation can prove suicidal for the company
- ✓ To avoid bad publicity, the concerned company or the stock exchange management or the government agency like SEBI settle his grievance and report back to the newspaper as to what they have done about the complaint.



SEBI – Securities and Exchange Board of India



Introduction:

- Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India. It was established in the year 1988 and given statutory powers on 30 January 1992 through the SEBI Act, 1992
- SEBI was formed in 12/04/1988 under the jurisdiction of Govt. of India. Its Headquarter in Mumbai, Maharashtra.
- Initially SEBI was non-statutory Body without any statutory body power. In 1995, SEBI is given Additional statutory power by the Govt. of India through the Amendment to the SEBI Act 1992.

Background of SEBI:

- Securities and Exchange Board of India (SEBI) was first established in the year 1988 AQF as a non-statutory body for regulating the, securities market.
- It became an autonomous body by The Government of India on 12 April 1992 and given statutory powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament.
- SEBI has its headquarters at the business district of Complex in Mumbai, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmadabad respectively.
- It has opened local offices at Jaipur and Bangalore and is planning to open offices at Guwahati, Bhubaneswar, Patna, Kochi and Chandigarh in Financial Year 2013 - 2014.

Background of SEBI: (Continued.)

- Controller of Capital Issues was the regulatory authority before SEBI came into existence; it derived authority from the Capital Issues (Control) Act, 1947. In April 1988 the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India.

POWER

➤ For the discharge of its functions efficiently, SEBI has been vested with the following powers:

- To approve by-laws of Securities exchanges.
- To require the Securities exchange to amend their by-laws.
- To inspect the books of accounts and call for periodical returns from recognized Securities exchanges.
- To inspect the books of accounts of financial intermediaries.
- To compel certain companies to list their shares in one or more Securities exchanges.

Objectives of SEBI:

The Overall objectives of SEBI are protecting the Interest of the Investors & to promote the development of the stock Exchanges & to regulate the Activities of the stock market.

The Main objectives are:

- To regulates the Activities of the Stock Exchanges.
- To Protect the Rights of the Investors & Ensuring Safety to their Investment.
- To Prevent the fraudulent & malpractices by having the balance between self regulation of the buyers and statutory obligations.

Objectives of SEBI: (Continued.)

- To Regulate and develop the code of conduct for Intermediaries [Such As:- Brokers, Underwriters etc.]
- To Regulate the Securities and Ensure Fair Practices.
- To Promote the Efficient Services by Brokers, Merchant bankers, and other Intermediaries they competitive and Professional.
- To Regulate the Activities of Stock Exchanges.
- To Promote and developments of the Securities Market.

Structure of SEBI

SEBI has a corporate framework comprising of various departments each managed by a department head. There are about 20 departments under SEBI. Some of these departments are corporation finance, economic and policy analysis, debt and hybrid securities, enforcement, human resources, investment management, commodity derivatives market regulation, legal affairs, and more

The hierarchical structure of SEBI consists of the following members:-

- ✓ The chairman of SEBI is nominated by the Union Government of India.

- ✓ Two officers from the Union Finance Ministry will be a part of this structure.

- ✓ One member will be appointed from the Reserve Bank of India.
Five other members will be nominated by the Union Government of India.

SEBI Functions:

SEBI Performs functions to meet its objectives:-

- Protective Functions.
- Developmental Functions.
- Regulatory Functions.

Authority and Power of SEBI

The SEBI has three main powers:-

- i. **Quasi-Judicial:** SEBI has the authority to deliver judgements related to fraud and other unethical practices in terms of the securities market. This helps to ensure fairness, transparency, and accountability in the securities market.
- ii. **Quasi-Executive:** SEBI is empowered to implement the regulations and judgements made and to take legal action against the violators. It is also authorised to inspect Books of accounts and other documents if it comes across any violation of the regulations.
- iii. **Quasi-Legislative:** SEBI reserves the right to frame rules and regulations to protect the interests of the investors. Some of its regulations consist of insider trading regulations, listing obligations, and disclosure requirements. Despite the powers, the results of SEBI's functions still have to go through the Securities Appellate Tribunal and the Supreme Court of India.

Protective Functions:

- It Checks Price Manipulations.
- It Prohibits the Insider Trading.
- It Prohibits the fraudulent and unfair trade practices.
- It undertake steps to Educate the Investors that they are able to Evaluate the Securities of the various companies and select the most Profitable Securities.
- It Promote the fair practices & code of conduct in the Securities market.
- It Protects the Interest of the Investors and provide the safety of the Investment.
- Issues the guideline Interest of the Debenture Holders.

Development Functions:

- It has made the optimal the underwriting of the new Issue.
- It Promoting the Investor's Education.
- It gives training to the Intermediaries.
- It Conducting the Research and Publishing.
- It Promoting the Fair Practices.
- The code of conduct and self regulatory organizations.
- Initial Public offer of the Primary Market is permitted through stock exchanges.

Development Functions: (Continued.)

- SEBI promotes training of intermediaries of the securities market.
- SEBI tries to promote activities of stock exchange by adopting flexible and adoptable approach in following way:
 - ✓ SEBI has permitted internet trading through registered stock brokers.
 - ✓ SEBI has made underwriting optional to reduce the cost of issue.
 - ✓ Even initial public offer of primary market is permitted through stock exchange.

Regulatory Functions:

- Regulates the Stock Exchanges and self regulatory organizations.
- Registration and regulators of the stock brokers, Sub brokers, Registers to all Issue, Merchant bankers, underwriting Portfolio Managers.
- Registration and Regulation of the working of the collective Investment schemes Including the Mutual Fund.
- Prohibition of the fraudulent and unfair trade practices, relating to Securities Markets.
- Prohibition of Insider Trading.
- Regulating the Substantial acquisition and take over of the Companies.

TRADING MECHANISM

- The SEBI has been consistently endeavoring to promote a market which is both efficient and fair and also one which protects the rights of investors.
- Modernization of market infrastructure improves market transparency and trading efficiency. Risk containment measures improves market integrity and credibility.
- These have been the main focus of the SEBI's efforts in the secondary market.
- The SEBI also directed its efforts towards encouraging the stock exchanges to become effective and self regulatory organizations.