

# **Hand Book For Investing & Investor Protection**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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It may also be noted that laws/regulations governing the capital market are continuously updated/changed, and hence an investor should familiarise himself with the latest laws/regulations by regularly visiting the relevant websites or contacting the relevant regulatory body.

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A hand book for Investing & Investor Protection authored by Dr. Maheshwari published by Institute of Chartered Accountants of India was recently released by Mr. K Mittal, secretary Ministry of Corporate Affairs Govt. of India. This hand book has been selected to be posted at website of AFIE (Asian Federation of Investors Education) Japan

## FOREWORD



India, despite being a developing country, has witnessed impressive economic expansion as compared to various emerging economies across the globe. This is due to shift from agricultural based economy to industrial and service sector economy after globalisation. The Indian capital market is looking very promising in the current scenario as well while the major economies of the world are grappling with worst financial crisis of recent times. The Government and the market regulators are taking proactive steps and using modernise techniques with a view to provide safe and transparent environment and encouraging investors to make investment in securities.

Institute being a *partner in nation building* has a noble duty towards the society to educate people that one should understand the pros and cons of the capital market before entering into the market. Chartered Accountants play a very active role in the capital market ranging from advisory, investment banking to regulatory role.

The Committee on Financial Markets and Investors' Protection of ICAI has come out with this publication on Investor education at the right time to impart knowledge in relation to the capital market. I firmly emphasise that this publication will provide utmost informative and educative material in a simple and lucid way, and all investors will derive maximum benefit from the publication. The targeted audience of this publication will be professionals, academicians, investors, students and the common man.

I compliment the author of the book, CA. N.C. Maheswari, FCA for his efforts. The Committee under the Chairmanship of CA. Vinod Jain, FCA deserves congratulations for their kind endeavour.

**CA. Amarjit Chopra**  
President  
The Institute of Chartered  
Accountants of India

## **PREFACE**



During the last decade, Indian capital market has seen a sea change in terms of globalisation, modernisation, and integration. It is now considered as one of the best in terms of technology. The optimistic reforms and positive policies from government and regulatory environment have given the Indian capital market a necessary boost. Today, India has been ranked as the fastest growing economy just next to China and considered as an Investment hub by foreign investors. However, most of the Indian households still prefer to deposit their savings into banks and other Government instruments and in order to sustain the growth of our capital market, it is absolutely necessary that savings of Indian household should come to the market.

It's also time for CA professionals to educate the investors and ensure larger participation of common man in the capital markets. It is also necessary to make them aware about the importance of availing the services of a Chartered Accountant for taking right investment decisions.

Realizing the need of the current market scenario and investor requirement, the Committee on Financial Markets and Investors' Protection of ICAI has come out with this publication on Investors' education. This publication provides information on investment process, rights of investor, commodity and currency market, clearing and settlement, grievances, arbitration aspects, etc. The contents of the book are simple and very precise and was written keeping in view in the interest of investors at large.

The author of the book, CA. N.C. Maheswari, FCA deserves all praise for his determined efforts in preparing this material.

I am sure that every person dealing in the capital market will read this publication with great interest and will be benefited from it.

**CA. Vinod Jain**  
*Chairman*  
Committee on Financial  
Markets and Investors' Protection  
of the ICAI

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# 1

CHAPTER

## INTRODUCTION

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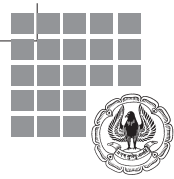
A **Capital market** is a market for equity and debt where commercial organisations (companies) and government can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year as the raising of short-term funds takes place on other markets (e.g., the money market). The capital market is a part of financial markets which also covers money market. Money market is a market for short-term debt securities like treasury bills, commercial papers, etc. Financial regulators, such as Securities and Exchange Board of India (SEBI)/Reserve Bank of India (RBI) keeps an eye on the activities of the capital markets in their designated jurisdictions so as to ensure that investors are safeguarded against fraud and also ensuring healthy functioning of the market, among other duties.

Capital markets may be classified into primary markets and secondary markets. In primary markets, new stocks or bond issues are sold to investors through public offer. On the other side, in secondary markets, liquidity to securities issued in primary market are provided which means existing securities can be sold and bought among investors or traders through a recognised stock exchange. Public/right issue, private placements, etc are some of the ways of raising capital in primary market.

A country's economic development is expressed through development of its Securities market. The object of economic activity in any country is to promote the well-being and improving living standard of the people, which depends upon the distribution of income in terms of goods and services in the economy. For the revival and conducive growth in any economy, production plays a vital role. Production of output depends upon material inputs, human inputs, and financial inputs. Material inputs are in the form of raw materials, plant and machinery, etc. Human inputs are like labour and entrepreneur. Financial inputs are in the shape of capital, cash, credit, etc. The proper synchronisation of these inputs encourages the growth process in the economy and promotes the well-being and standard of living of people in the country.

The financial inputs originates from the securities market system. Trading in money and monetary assets constitute the activity in the Securities markets and are referred to as the capital market activities. The capital market activities are based upon the investors' confidence, based on growth of their wealth and





anticipated capital appreciation from their investment. Investors are a group of heterogeneous people, may be rich or poor, may or may not have knowledge of capital market, risk tolerance differ for each of them but they all need equal degree of protection. Every investor has three objectives while investing his money, namely safety of the amount invested, liquidity (to get the money back as and when required) and highest return on their investment. A balance has to be maintained for raising of capital for economic development on the one side and investor protection and building investor confidence in the regulatory mechanism on the other. An efficient capital market is one which can provide a mechanism for raising capital as well as adequate safeguards to protect the interests of prospective investors. Unless the interests of investors in all respects are protected, raising of capital through capital market is not possible.

In the Indian Capital Market scenario, even before independence, an attempt to create a healthy and efficient capital market was made by means of taking legislative measures. The Capital Issues (Control) Act, 1947 was the first piece of legislation passed in India to control the Capital Market. In the year 1992, the Government has replaced the Capital Issues (Control) Act, 1947 by the Securities and Exchange Board of India Act, 1992 and SEBI was emerged as a new regulator for the Indian Stock Market. The Preamble of SEBI Act provides that:

*“An Act to provide for the establishment of a Board to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith or incidental thereto.”*

The main objectives of Preamble of the Act are:

1. To protect the interest of Investor, and
2. To promote, develop and regulate the Security Market.

SEBI has given considerable focus to the investors along with the development, promotion and regulation of the security market and that's why SEBI is called vigilant watch dog of the capital market. SEBI's role has been made multi-dimensional and it has been directed to regulate the working of Indian capital market with respect to investors' protection and by creating and enforcing ethical standards and regulations, so as to establish a stable, dynamic and efficient Securities Market thereby contributing to the growth of Indian Economy. Here is worthwhile to mention that SEBI strongly believes that



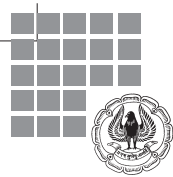
investors are the backbone of the securities market as they not only determine the level of activity in the securities market but also the level of activity in the country's economy.

The SEBI lays down guidelines for issuing companies, stock exchanges, stock brokers and other intermediaries, etc. Among other guidelines, the SEBI is of the view that the guidelines for Disclosure of Information for Investors' Protection are expected to protect the interest of the investors. It is based on the logic that the disclosures of information by the issuing companies as per the law, enable the investors to take a right investment decision. If at all, there is any grievance of an investor over the information disclosed or procedure to be followed, the investor can redress his grievance as per the grievance redressal mechanism of the SEBI.

However, many investors may not possess adequate expertise/knowledge or access to expert advice to take informed investment decisions. Some of them may not even be aware of the complete risk-return profile of different investment options. Normally investors are not fully aware of the safeguards they should take while dealing with market intermediaries i.e. stock brokers and depositories and dealing/investing in different type of securities and sectors having different risk profile. They may also not be familiar with the market mechanism and the practices as well as their rights and obligations.

Indian Capital Market, in the last decade, had undergone various transformations particularly in terms of technological advancements. As a result of which fast paced development of capital market have taken place and the overall scenario in the working of the stock market has been changed which has influenced the operations of all the participants of the stock market. Present stock market witnessed a broader look from what it used to be in eighties and before. Today Indian markets are very much related to global markets like never before. In the given scenario of capital markets, tremendous opportunities, challenges and threats are always exist. Investment in securities requires considerable skill and expertise and is considered more challenging and rewarding in comparison to various other investment options available but at the same time risk is also quite high in case the choice of securities is not correct. There are a large variety of instruments referred to as securities in common parlance.

Risk-return profile is different for different securities and investors also having a different risk appetite. Normally higher return carries high risk and vice



versa. The risk can be of following three types:

- Return risk [the return from the investment may depend on several contingent factors]
- Liquidity risk [it may be difficult to convert security into cash]
- Credit risk [counter party may default payment as it may not have integrity].

In Security market various investment options are available and investment decisions are generally based upon the following factors:

- Liquidity
- Safety
- Return on Investments
- Investor Life Cycle Stages
- Management Active involvement
- Minimum amount required for investment.

Investor normally neither knows nor having any control over day-to-day activities of any corporate. Investors are investing their money for the productive purposes of an enterprise but indirectly they are also exposing themselves to the business decisions and the various risks associated with it which may result in imprudent use of investors' money by promoters and management of the Company. In India, laws are there to protect the interest of investors but due to inadequacies of certain legislative measures innocent investors have been deprived of their hard earned money.

'Investor Protection' is a very popular phrase which all those concerned with regulation of the capital market these days, be they the Securities and Exchange Board of India, Stock Exchanges, Investors Associations or for that matter of fact the companies themselves. The term "Investor Protection" is a wide term encompassing various measures designed to protect the investors from malpractices of companies, merchant bankers, depository participants and other intermediaries.

'Investors Beware' should be the watchword of all programmes for mobilisation of savings for investment. As all investment has some risk element,

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this risk factor should be borne in mind of investors and they should take all precautionary measures to protect their interest in the first place. If caution is thrown to the winds and they invest in any venture without a prior assessment of the risk, they have only to blame themselves.

Various procedures, guidelines, rules and regulations have been issued in the legislations to protect the investors' right and repose the confidence. Proper care should be taken at the time of investing in the Security market.



# 2

## CHAPTER

# COMPONENTS OF MARKET

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Market exclusively does not depend upon the investors as there are various components of market which includes Corporate, various intermediaries like Stock Exchanges, Clearing Corporations, Depositories, and Regulators. Every component has its own importance in the scenario; however each one looks for potential investor, so we can say that investors are central point or as we earlier said *BACKBONE* in the system. Every system has its pros and cons and some of the forces simultaneously work to mislead or suppress important facts from the investor or some time investor himself unable to find out the exact or right information from the sources.

Some of market component work as Regulators, some as mediators, some as issuer and some as investors these are:

**REGULATORS:** Ministry of Corporate Affairs (MCA), Ministry of Finance (Stock Exchange Division), Securities Exchange Board of India (SEBI) and Stock Exchanges.

**INTERMEDIARIES:** Participants in the Indian capital market are required to register with SEBI to carry out their businesses, these includes:

- Stockbrokers, sub-brokers, share transfer agents, bankers to an issue, trustees of a trust deed, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers, and other such intermediaries who may be associated with the securities market in any manner;
- Depository participants, custodians of securities, FIs, credit rating agencies, and other such intermediaries who may be associated with the securities market in any manner.

**ISSUERS:** Corporate (Primary & Secondary Market), venture capital funds and collective investment schemes, including mutual funds.

### Risks Associated with Market

The **capital market risk** usually defines the risk involved in the investments. The stark potential of experiencing losses following a fluctuation in



security prices is the reason behind the capital market risk. The capital market risk cannot be diversified.

The capital market risk can also be referred to as the capital market systematic risk. While an individual is investing on a security, the risk and return cannot be separated. The risk is the integrated part of the investment. The higher the potential of return, the higher is the risk associated with it. The examination of the risk involved in the capital market investment is the one of the prime aspects of investing. It can be easily said that the risk distinguishes an investment from the savings.

The systematic risk is also common to the entire class of liabilities or assets. Depending on the economic changes the value of investments can fall enormously. There may be some other financial events also impacting the investment markets. In order to give a check to the capital market risk, the asset allocation can be fruitful in some cases.

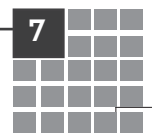
Any investment in stocks or bonds comes with the following types of risks.

- Market Risk
- Industry Risk
- Regulatory Risk
- Business Risk

The **market risk** defines the overall risk involved in the capital market investments. The stock market rises and falls depending on a number of issues. The collective view of the investors to invest in a particular stock or bond plays a significant role in the stock market rise and fall. Even if the company is going through a bad phase, the stock price may go up due to a rising stock market. While conversely, the stock price may fall because the market is not steady even if the investor's company is doing well. Hence, these are the market risks that the stocks investors generally face.

The **industry risk** affects all the companies of a certain industry. Hence the stocks within an industry fall under the industry risk. The **regulatory risk** may affect the investors if the investor's company comes under the obligation of government implemented new regulations and laws. The **business risk** may affect the investors if the company goes through some convulsion depending on management, strategies, market share and labour force.

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# 3

## CHAPTER

# INTRODUCTION TO INVESTING

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There are different types of investments available today. There are short-term investments, long-term investments, and different investment strategies exist as there are many types of investors in the market. If you find yourself a bit overwhelmed by the prospect of investing and are unsure of whether you should invest in short-term or long-term plans, don't let yourself get bent out of shape.

By simply taking the time to compare the benefits and drawbacks of both short-term and long-term investments, you can determine which type is best for you and your current financial needs.

In addition to providing you with the drawbacks and advantages of short-term and long-term investments, below you'll find other pertinent information that can assist you in making decisions about your finances... both for now, and in the future.

### **Short-term vs. Long-term: A comparison**

Obviously, there are differences between short-term and long-term investments. Short-term investments are designed to be made only for a little while, and hopefully show a significant yield.

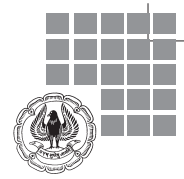
Whereas long-term investments are designed to last for years, showing a slow but steady increase so that there is a significant yield at the end of the term.

### **Advantages of Short-term investments**

The main advantages to short-term investments are the potential for fast growth and the fact that the term may only last a few weeks to a few months. Though there tends to be more fluctuation in many forms of short-term investments, these investments allow more control over your money and it usually isn't out of your possession for very long. Mobility and liquidity remains with you.

### **Disadvantages of Short-term investments**

As mentioned above, short-term investments tend to be a bit riskier and show a much higher rate of fluctuation than their long-term counterparts. While



there is a good chance that you'll make money with a short-term investment, there is also a chance that you'll lose money and in that situation it would be a gamble for you.

This is especially the case when dealing with the stock market, since many of the short-term investments made with stocks and bonds involve precision timing to sell when the stocks or bonds are at their peak just before they begin to drop.

### **Advantages of Long-term investments**

Just the opposite of short-term investments, long-term investments have the ability to gain small amounts of money over a longer period of time. The slow-but-steady pace of long-term investments allow for a much greater degree of stability and a much lower risk than short-term investments.

They also are ideal for making your savings or retirement fund grow. The long-term investments usually continue to grow over the years, maturing just as you need them.

### **Disadvantages of Long-term investments**

Of course, the main disadvantage of long-term investments is that they increase in value slowly and can take years to mature, which might not be able to meet your requirement or need at a point of time.

For those individuals who need a high yield in a short period of time, long-term investments are definitely not the way to go between the fees that are associated with some types of investment and the small fluctuations that any investment will experience, many long-term investments might actually go down in value before they begin to climb over time.

Additionally, with many of the long-term investments that you'll find, you tend to have much less control over your money until the investment matures. There are usually penalties or fines for early withdrawal or selling stocks and bonds through long-term investment programmes.



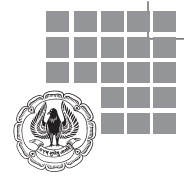
As investors, we would all like to beat the market and we would all like to pick “great” investments on instinct. However, while intuition is undoubtedly a part of the process of investing, it is just part of the process. As investors, it is not surprising that we focus so much of our energy and efforts on investment philosophies and strategies, and so little on the investment process. It is far more interesting to read about how Peter Lynch picks stocks and what makes Warren Buffett a valuable investor, than it is to talk about the steps involved in creating a portfolio or in executing trades. Though it does not get sufficient attention, understanding the investment process is critical for every investor for several reasons:

1. The investment process outlines the steps in creating a portfolio, and emphasizes the sequence of actions involved from understanding the investors risk preferences to asset allocation and selection to performance evaluation. By emphasizing the sequence, it provides for an orderly way in which an investor can create his or her own portfolio or a portfolio for someone else.
2. The investment process provides a structure that allows investors to see the source of different investment strategies and philosophies. By doing so, it allows investors to take the hundreds of strategies that they see described in the common press and in investment newsletters and to trace them to their common roots.
3. The investment process emphasizes the different components that are needed for an investment strategy to be successful, and by so doing explain why so many strategies that look good on paper never work for those who use them.

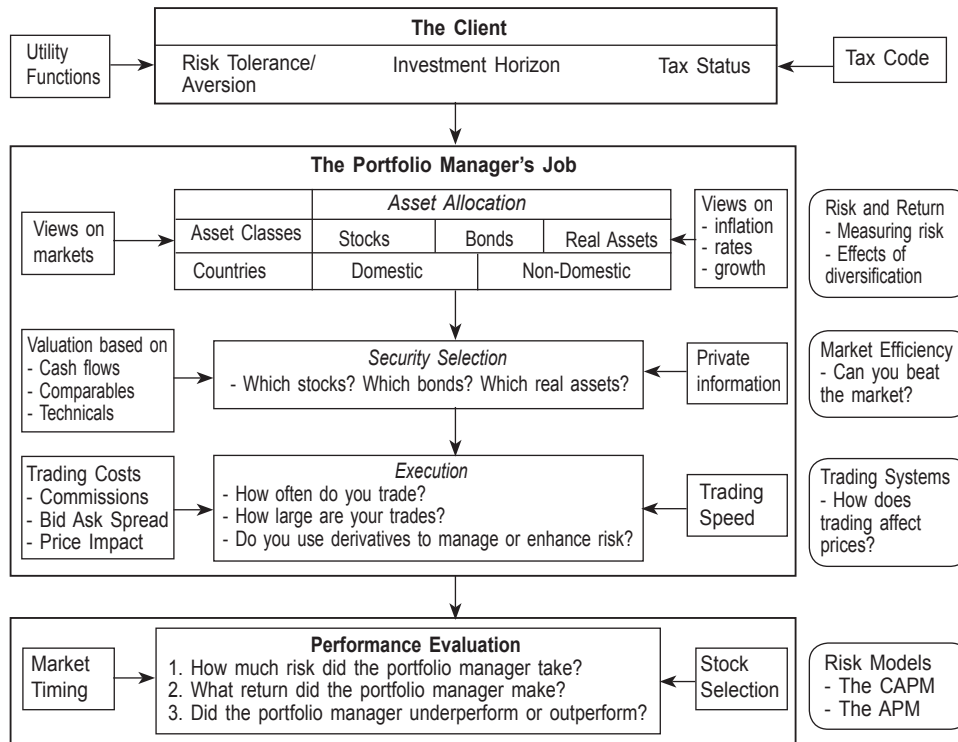
Investing well has a secret formula – having the right information, planning and making good choices.

### **The Investment Process**

The investment process is outlined in the chart given below:



**The Investment Process**



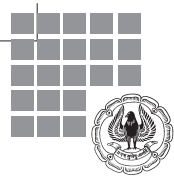
**Why Is Investing Important?**

- i. Inflation is eating away your returns
- ii. You are going to live longer
- iii. You have a substantial standard of living to maintain
- iv. Your families are getting smaller and nuclear
- v. Planned expenses

**What Are The keystones of Investing?**

**Step 1: Defining of Goals**

It is necessary and a first step to Start investing early, stay invested for the long term, invest systematically and asset diversification.



**Step 2: Setting Goals**

You must set goals and to decide How to set your goals?

Be realistic, establish time frames, devise a plan, be flexible; goals can change, don't look at your neighbour's goals, and to learn how to value your goals.

**Step 3: Managing Assets**

Investor should not put all the eggs in the same basket. Wealth creating assets in the investing process are:

“Equity, Debt, Gold, Real Estate, Art, Intangible Assets, Insurance Products, Private Equity and Structured Products.”

**Step 4: Controlling Liabilities**

Investor should focus on the market and take his decision wisely which should control all liability wisely and make his choice properly and carefully before investing in market, which could help him in avoiding liabilities created by investment in penny stocks.

**Step 5: Planning taxes**

Planning Tax plays a vital role in investment and before investment proper advice could be taken from the analysts or researchers or tax planners and trespass the rumours and avoid hearsay guidance.

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# 5

## CHAPTER

# COMMODITY MARKET

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### **Introduction & Brief History of commodity market in India**

Commodity markets have become alternative investment class world over. Now investor can trade in India in selected commodities, electronically. These commodities are traded on regulated commodities exchanges, in which these are bought and sold in standardized contracts. Just like equity futures in Stock Exchange, different commodities are available in the standardized format with fixed tenure and specification for trade on the commodity exchange.

India has four national commodity exchanges namely, Multi Commodity Exchange (MCX), National Commodity and Derivatives Exchange (NCDEX), National Multi-Commodity Exchange (NMCE) and Indian Commodity Exchange (ICEX). The regulatory body is Forward Markets Commission (FMC) which was set up in 1953 under the Ministry of Consumer Affairs.

### **Salient features of commodity market**

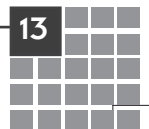
There is only one segment in commodity market i.e., there is no derivative and cash segments in commodities like in equity market. However there are two types of contracts in commodity trading, one cash settled contracts where there is no delivery on expiry of contract's tenure and trade will get settled only in cash, other is both cash and delivery settled contracts where buyer has to take physical delivery (if opted before executing their trade) of goods after the expiry of the contract's tenure.

In addition to this, there is an option available where buyer can trade commodities including bullion in dematerialized form with National Spot Exchange in smaller denominations. National Spot Exchange is regulated by respective State Government.

### **Frequently Asked Questions for beginners in commodity market trading**

#### **I. Where do one needs to go to trade in commodity futures?**

One can trade in commodity market through commodity exchanges in India which are MCX, NCDEX, NMCE and ICEX. All exchanges have electronic trading and settlement systems and a national presence.





**2. What is the minimum investment needed?**

You can have an amount as low as ₹ 5000. All you need is money for margins payable upfront to exchanges through brokers. The margins range from 5-10 per cent of the value of the commodity contract.

For trading in bullion, that is, gold and silver, the minimum amount required is ₹ 1000 and ₹ 2250 for on the current price of approximately ₹ 20000 for gold for one trading unit (10 gm) and about ₹ 45000 for silver (one kg).

The prices and trading lots in agricultural commodities vary from exchange to exchange (in kg, quintals or tonnes)

**3. Does one have to give delivery or settle in cash?**

One can do both. All the exchanges have both systems-cash and delivery mechanisms. The choice is yours. If you want your contract to be cash settled, you have to indicate at the time of placing the order that you don't intend to deliver the item.

If you plan to take or make delivery, you need to have the required warehouse receipts. The option to settle in cash or through delivery can be changed as many times as one wants till the last day of the expiry of the contract.

**Note:** *This is not applicable on mandatory cash settle contracts like Crude Oil.*

**4. What does one need to start trading in commodity futures?  
Start trading with separate demat account or with same demat account opened for equity trading?**

As of now you will need only one bank account and a separate commodity demat account (other than demat account for equity).

**5. Who is the regulator?**

The commodity trading an exchanges are regulated by the Forward Markets Commission under the Ministry of Consumer Affairs.

**6. In which commodities one can trade?**

Though the Government has essentially made almost all commodities eligible for futures trading, the nationwide exchanges have earmarked only



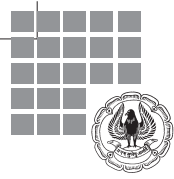
a select few for starters. While the NMCE has most major agricultural commodities and metals under its fold, the NCDEX, has a large number of agriculture, metal and energy commodities. MCX also offers many commodities for futures trading. Below is given the list of tradable commodities in India which is subject to change time to time by the regulator.

#### Commodities available for trade

Fibres	Indian 28.5 mm Cotton, Kapas, Kalyan, Kapas, Sacking, Raw Jute
Spices	Coriander/Dhania, Cardamom, Turmeric, Pepper, Coriander/Dhania, Red Chilli, Jeera/Cumin seed
Edible Oilseeds and Oil	Crude Palm Oil (CPO), RBD Palmoline, Rape / Mustard Seed, Copra/Coconut Oil, Soya Bean, Refined Soya Oil, Yellow Soya Bean Meal, Castor Seed, Kapas Khali / Cottonseed Oilcake, Expeller Mustard, Oil (Kachhi Ghani)
Pulses	Chana
Energy Products	Crude Oil, Light Sweet Crude Oil, Brent Crude Oil, Heating Oil, Aviation Turbine Fuel (ATF), Gasoline, Electricity (Weekly), Natural Gas, Imported Thermal Coal, Electricity (Monthly)
Vegetables	Potato, Barley, Maize-Feed/Ind. Grade, Yellow / Red Maize, Wheat
Metals	Copper, Aluminium, Lead, Mild Steel Ingot / Billets, Steel Long, Nickel, Platinum, Zinc, Tin, Gold (1 Kg.), Gold Mini (100 Gms), Gold HNI, Gold Guinea, Gold International, Silver (30 Kg.), Silver HNI, Silver Mini (5 Kg), Silver International
Others	Almond, Coffee, Rubber, Gur, Isabgul seed, Carbon Credit (CER), Mentha Oil, Menthol Flakes, Menthol Crystal, Guar seed, Guar Gum

#### 7. Are there circuit filters?

Yes the exchanges have circuit filters in place. The filters vary from commodity to commodity but the maximum individual commodity circuit filter



is 6 per cent. The price of any commodity that fluctuates either way beyond its limit will immediately call for circuit breaker.

### **Benefits of Commodity Futures Trading**

Futures trading performs two important functions, namely price discovery and price risk management with reference to given commodity. It is useful to all segments of economy. It ensures balance in supply and demand position throughout the year and leads to integrated price structure throughout the country. Main benefits of futures trading are:

1. Price stabilization-in times of violent price fluctuations-this mechanism dampens the peaks and lifts up the valleys i.e. the amplitude of price variation is reduced,
2. Leads to integrated price structure throughout the country,
3. Ensures balance in supply and demand position throughout the year, and

Encourages competition and acts as a price barometer to farmers and other functionaries

### **Safeguard to investors**

Do's and Don'ts for investors in commodity market are same as applicable in equity market.

□□

Investors can trade in four currencies in India on designated exchanges electronically. Currency Futures means a standardised foreign exchange derivative contract traded on a recognized stock exchange to buy or sell one currency against another on a specified future date, at a price specified on the date of contract.

### **Salient features of Currency Futures trading in India**

#### **Permission**

- (i) Currency futures are permitted in US Dollar - Indian Rupee, Great Britain Pounds – Rupee, Japan Yen–Rupee and Euro – Rupee pairs.
- (ii) Only Indian Resident can purchase or sell currency i.e., no NRI and FIIs are allowed to trade in currency market

### **Features of Currency Futures**

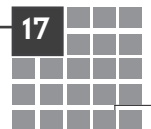
Standardized currency futures shall have the following features:

- a. Only USD-INR contracts are allowed to be traded.
- b. The size of contract (lot size) shall be USD / INR - USD 1000, EUR / INR - EUR 1000, GBP / INR - GBP 1000 and for JPY / INR - JPY 100000.
- c. The contracts shall be quoted and settled in Indian Rupees.
- d. The maturity of the contracts shall not exceed 12 months.
- e. The settlement price shall be the Reserve Bank's Reference Rate on the last trading day.

### **Frequently Asked Questions for currency trading**

#### **1. What is currency futures contract?**

A future contract is a standardized exchange traded contract, to buy or sell a certain underlying instrument at a certain date in the future, at a specified price. In the case of currency futures contract, the underlying instrument is a foreign exchange rate.







## 2. *Forward vs Futures?*

Futures are standardized forward contract traded on exchange. Forwards trade are generally executed by banks, etc. for a specific purpose to actual user as per rate specified by each bank individually. Thus rate can vary from party to party and bank to bank. Further, forwards are bilateral agreements between two counterparties whereas futures settlements are guaranteed by the exchange clearing house. Futures provide transparency in pricing, liquidity and anonymity while trading.

## 3. *How does one start trading currency futures?*

Currency futures can be bought and sold through the trading members of all those recognized exchange providing trading in currency like NSE, USE, MCX-sx. etc. To open a currency trading account one will required completing the formalities with the authorized member. The trading member will allot you unique identification number.

To begin trading you will be required to deposit cash or collateral with your trading member as may be stipulated by them.

## 4. *How currencies futures contract finally will settled?*

Contract expiration date for each contract shall be the last working day of the month (excluding Saturday). The last trading day for each contract shall be two working days prior to the contract expiration date. The settlement will be fixed based on the Reserve Bank of India reference rate at 12.00 noon on the last trading day. All contracts will net settle in INR.

### **Illustration given for trade in currency market**

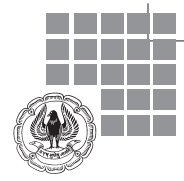
INR will depreciate against USD, caused by India's sharply rising import bill and poor FII equity inflow.

#### **Trade:**

USDINR 31st July, 08 Contract	:	43.5000
Current spot rate (9 July 2008)	:	43.0000
Buy 1st July contract	:	Value Rupees 43,500 (USD 1000 * 43.5000)
Hold contract to expiry	:	RBI fixing rate on 29 July 08 – 44.0000
Economic return	:	Profit – Rupees 500 (44,000 – 43,500)

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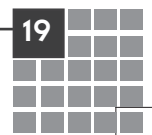


**Glimpse of growth in Currency market in India**

*\* Source National Stock Exchange*

**Safeguards for Investors**

Do's and Don'ts for investors in currency market are same as applicable in equity market.



Clearing and Settlement activity constitutes the core part of equity trade. After any equity deal is confirmed (when equities are obliged to change hands), the broker who is involved in the transaction issues a Contract Note to the Investor which has all the information about the transactions in detail, at the end of the trade day. In response to the Contract Note issued by broker, the investor now has to settle his obligation by either paying money (if his transaction is a buy transaction) or deliver the shares (if it is a sell transaction).

**Clearing House** is an entity of the stock exchange through which settlement of equities happens. The details of all transactions performed by the brokers are made available to the Clearing House by the Stock Exchange. The Clearing House gives an obligation report to Brokers and Custodians who are required to settle their money/securities obligations with the specified deadlines, failing which they are required to pay penalties. This obligation report serves as statement of mutual contentment.

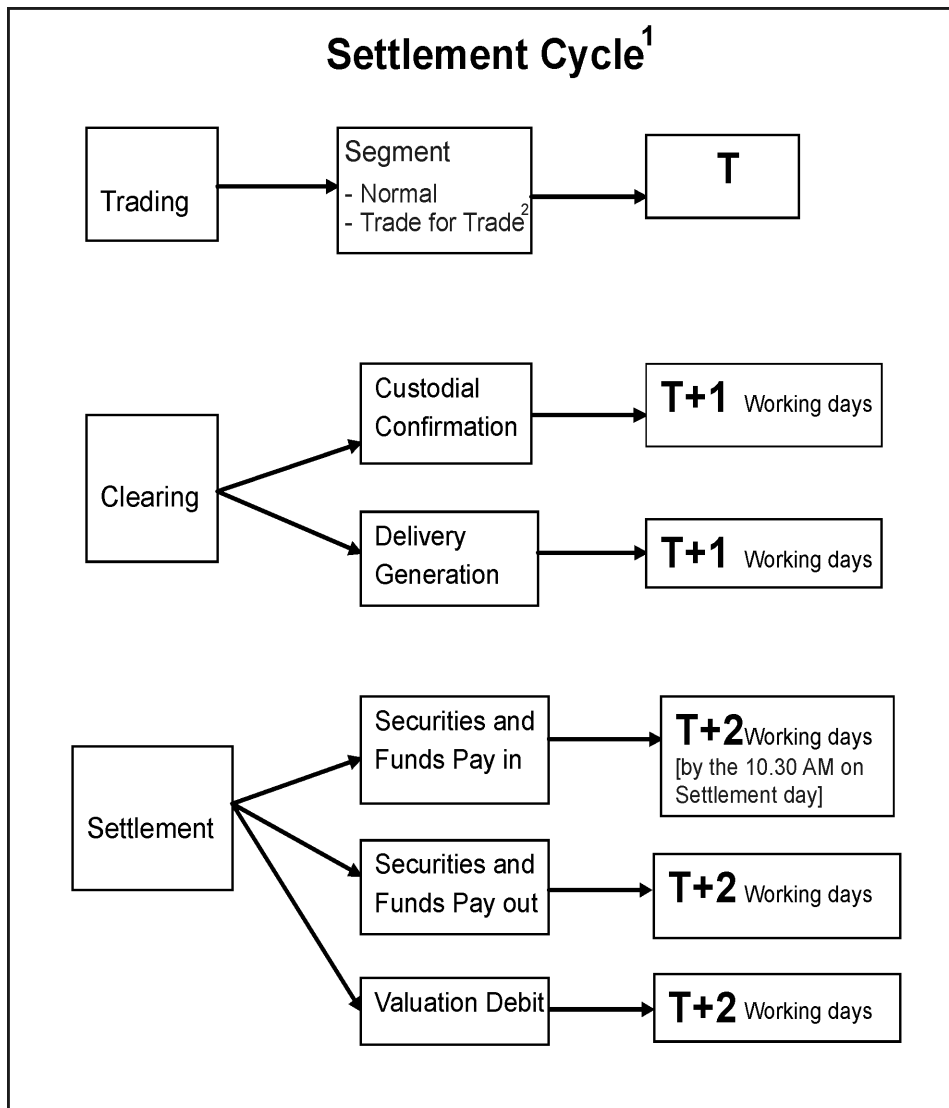
**Settlement cycle** is the period for which equities are traded in Exchange. For Indian stock exchange NSE, the cycle starts on Wednesday and ends on the following Tuesday, and for BSE the cycle starts on Monday and ends on Friday. At the end of this settlement cycle period, the obligations of each broker are calculated and the brokers then settle their respective obligations according to the guidelines, laws and regulations institutionalised by the Clearing agency

Under rolling settlement, all transactions, to the extent not closed out during the day, known as open positions at the end of the day mandatorily result in payment/ delivery 'n' days later. Currently trades in rolling settlement are settled on T+2 basis where T is the trade day. For example, a trade executed on Monday is mandatorily settled on Wednesday (considering two working days from the trade day). The funds and securities pay-in and Pay-out are carried out on T+2 day. Various activities and time prescribed are given below:

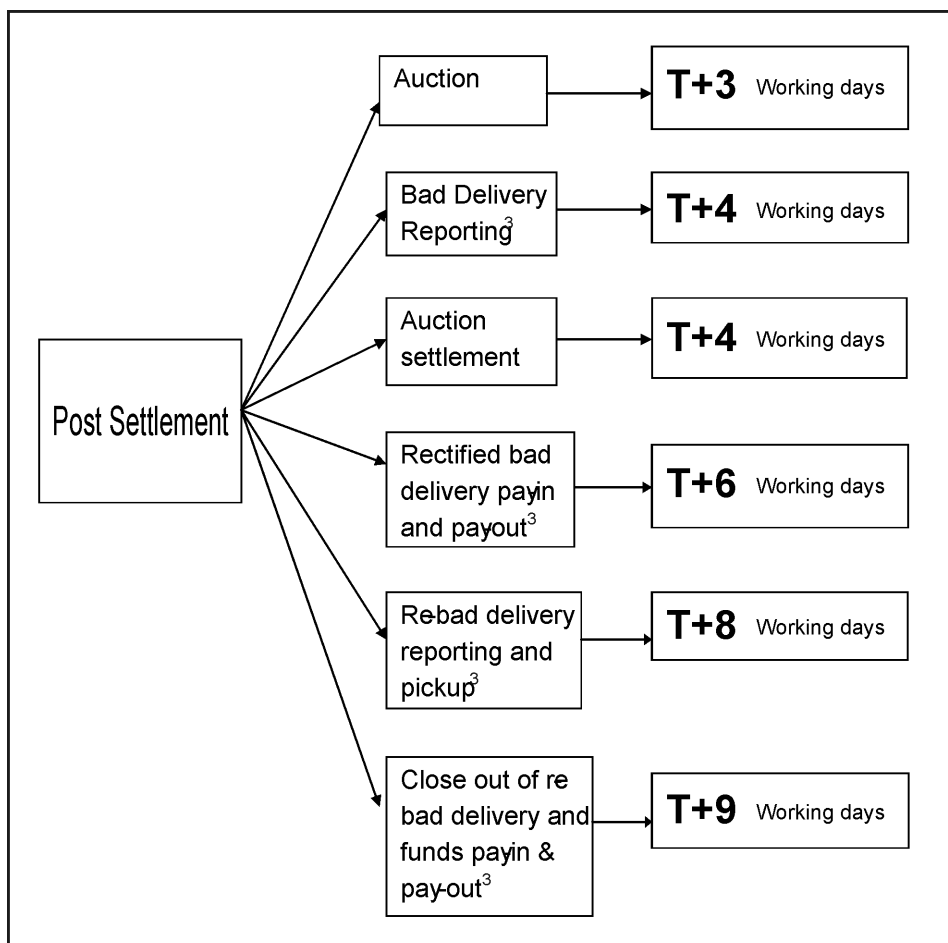
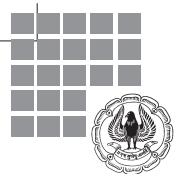
**Pay-In** is a process whereby a stock broker and Custodian (in case of Institutional deals) brings in money and/or securities to the Clearing House. This forms the first phase of the settlement activity.



### Settlement Cycle



1. For arriving at the settlement day all intervening holidays, which include bank holidays, exchange holidays, Saturdays and Sundays are excluded.
2. Settlement for Trade for Trade segment is done on a trade-for-trade basis and no intra day netting is allowed. Delivery and Funds obligations arise out of each trade are settled on T+2 working days by the 10.30 AM.



**Pay-Out** is a process where Clearing House pays money or delivers securities to the brokers and Custodians. This is the second phase of the settlement activity.

The whole set of money transaction is performed by a bank in the Stock Exchange premises. Exchange appoints this bank to handle the money part of the transaction.

3. Applicable in case of physical settlement only.

# 8

CHAPTER

## FINANCIAL DISCLOSURE TO INVESTORS

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Investors are generally considered one of the primary users of financial statements. They use the financial statements to determine the current profitability of the firm and attempt to predict its future profitability. Their interest is in the future growth of a company's stock price and/or the likelihood of the company paying dividends to the owner.

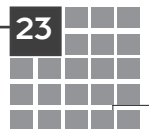
Financial reporting consists of Balance Sheet, Profit and Loss account, Notes to Accounts, Cash Flow Statement, Auditor's Report and Directors Report provides annually in the form of Annual Report to the shareholders and to the potential investors. Audit Report, Directors Report, Corporate Governance Report, Notes to accounts are the disclosure requirements for the investors. Through these documents an investor could access the relevant information about the financial statement, performance of the company, position of the company in comparison to current scenario, management discussion and analysis, growth prospects of the company, adverse and qualification remarks in the financial statements and other general information about the company.

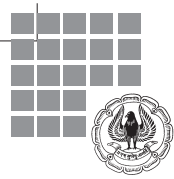
It should provide information that is useful to potential investors in making rational investment and similar decisions. Investors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

Although financial statements provide information useful to investors, yet these have some limitations.

A critical assumption in the use of financial statements is often made that the past will predict the future. For trends that have continued for many years will usually be true, but what is happening with fast moving and growing markets? Investors often try to estimate the future performance of the company based on previous information, but there is no guarantee that the company would perform as expected because nobody can predict the uncertainties of the changing world in general.

Further, financial statements should report enough information for Potential Investors and other entities such as banks, analysts, government,





various government authorities, taxation department, etc. to make well-informed decisions about the company. Even though financial statements are disclosed at least once annually, semi-annually or quarterly, there is a lapse period between one disclosure and the next. Within this short lapse, there could be major changes in a company's finances which are not yet revealed to the public before the next disclosure.

Thus potential investors would not be able to make a continual assessment of the company; their decisions would have to be based on the latest financial statements if the company does not make any non-obligatory updates.

Apart from this Listing Agreement provides that if a company is listed with a recognised stock exchange, it shall make disclosure under various clauses of the agreement. Some of the clauses requiring disclosures on Quarterly and Half yearly basis are:

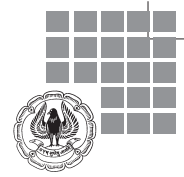
- Clause 41: Financial reporting of Audited or Unaudited financial results on Quarterly basis.
- Clause 35: Share Holding Pattern on quarterly basis.
- Clause 47: Certificate of Share Holding and details of share transfer on Half yearly basis.
- Clause 49: Corporate Governance report.
- Clause 52: Corporate Filing and Dissemination System (CFDS) online filing of financial statements.

Some clauses of Agreement require immediate intimation to exchange on occurrence of the event (i.e., Dividend declaration, financial statements disclosure, Issue of Bonus shares, Right Issue of shares, Takeover of shares or Acquisition, etc.) so that this information could not be misused by the management to take undue or unfair advantage of it. To protect such type of misuse of information and to make it publically available at once, Listing Agreement require that on occurrence of such type of events, intimation shall be given to exchange within 15 minutes via fax from the closure of meeting on which such decision has been taken by Board of Directors of the company.

To protect such type of practices SEBI had taken an initiative a longtime ago and issued Guidelines/Rules/Regulations on various matters to protect the

## Hand Book For Investing & Investor Protection

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interest of investors so that first holders of the information could not misuse the same while on possession of the same. SEBI has issued SEBI (Prohibition of Insider Trading) Regulations, 1992 and SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997 and various Regulations, Rules and Guidelines on intermediaries and market players to protect the interest of investor.

Insider Trading Regulations requires that an Un-Published Price Sensitive Information should not be disclosed to everyone and should be kept protected and on finalisation of decision immediate information should be given to concerned exchange. Similarly Takeover Regulations requires that if a person (promoter or person acting in concern or any person holding up to 14.99% shares) interested to acquire shares in a listed company he shall make proper disclosure as per the requirements of these regulations.

Consequential amendment was made in Listing Agreement in year 2009 after Satyam fiasco and some important changes were done by SEBI in clauses 35, 41 of listing agreement. One of these changes requiring compulsory disclosure of pledged shareholding of the Directors of the company so that it could be ensured that how seriously and bonafidely Promoters and Director are running and managing the company.

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# 9

## CHAPTER

# FINANCIAL DERIVATIVES: GOOD OR BAD?

A lot of people have different opinions and views on financial derivatives. The views range from financial derivatives as useful instruments to being unnecessary waste of time, effort and money. Are financial derivatives really useful or not? Are these financial tools inherently good or bad?

A derivative is a financial instrument (or more simply, an agreement between two people/two parties) that has a value determined by the future price of something else. Derivatives can be thought of as bets on the price of something. Suppose you bet with your friend on the price of a bushel of corn. If the price in one year is less than ₹ 300 your friend pays you ₹ 100. If the price is more than ₹ 300 you pay your friend ₹ 100. Thus, the underlying in the agreement is the price of corn and the value of the agreement to you depends on that underlying.

So derivatives is the collective name used for a broad class of financial instruments that derive their value from other financial instruments (known as the underlying), events or conditions. Essentially, a derivative is a contract between two parties where the value of the contract is linked to the price of another financial instrument or by a specified event or condition.

Derivatives are usually broadly categorised by the:

- relationship between the underlying and the derivative (e.g., forward, option, swap)
- type of underlying (e.g., equity derivatives, foreign exchange derivatives, interest rate derivatives, commodity derivatives or credit derivatives)
- market in which they trade (e.g., exchange traded or over-the-counter)
- pay-off profile (Some derivatives have non-linear payoff diagrams due to embedded optionality).

There is no definitive rule for distinguishing one from the other, so the distinction is mostly a matter of custom. Derivatives are used by investors to:

- provide leverage or gearing, such that a small movement in the underlying value can cause a large difference in the value of the derivative



- speculate and to make a profit if the value of the underlying asset moves the way they expect (e.g., moves in a given direction, stays in or out of a specified range, reaches a certain level)
- hedge or mitigate risk in the underlying, by entering into a derivative contract whose value moves in the opposite direction to their underlying position and cancels part or all of it out
- obtain exposure to underlying where it is not possible to trade in the underlying (e.g., weather derivatives)
- create optionality where the value of the derivative is linked to a specific condition or event (e.g., the underlying reaching a specific price level)

### **Hedging**

Hedging is a technique that attempts to reduce risk. In this respect, derivatives can be considered a form of insurance.

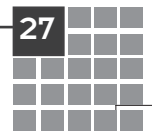
Derivatives allow risk about the price of the underlying asset to be transferred from one party to another. For example, a wheat farmer and a miller could sign a futures contract to exchange a specified amount of cash for a specified amount of wheat in the future. Both parties have reduced a future risk: for the wheat farmer, the uncertainty of the price, and for the miller, the availability of wheat. However, there is still the risk that no wheat will be available because of events unspecified by the contract, like the weather, or that one party will renege on the contract. Although a third party, called a clearing house, insures a futures contract, not all derivatives are insured against counterparty risk.

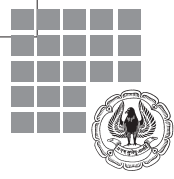
### **The Up Side of Financial Derivatives**

Nevertheless, the use of derivatives also has its benefits:

Derivatives facilitate the buying and selling of risk and many people consider this to have a positive impact on the economic system. Although someone loses money while someone else gains money with a derivative, under normal circumstances, trading in derivatives should not adversely affect the economic system because it is not zero sums in utility.

Former Federal Reserve Board Chairman Alan Greenspan commented in 2003 that he believed that the use of derivatives has softened the impact of the economic downturn at the beginning of the 21st century.





### **The Down Side to Financial Derivatives**

Like a coin that has two sides, financial derivatives also have their down side. A disadvantage of financial derivative is the possibility that it can make you lose money. While financial derivatives help increase profits and reduce risks, it may also make you lose out on a lot of money or other assets. Imagine this situation for example. A cotton farmer enters into a contract with a weaver. Both of the parties need the cotton as a resource to continue in their business. Thus, they can enter into a contract to benefit them. The cotton producer may agree on a fixed price to sell the cotton to the weaver on harvest time. This ensures a fixed income and a sure customer for the cotton farmer. On the other hand, the weaver is also ensured of a supply of cotton. This agreement could be a disadvantage when the price of cotton fluctuates. If the price of cotton goes up, the farmer would still have to sell the cotton at the earlier agreed cost. This makes the farmer lose out on the profit. Price fluctuations on the cotton could affect the weaver too. If the price of cotton goes down, he still has to pay the high cost that was agreed in the contract, regardless of the decrease in cotton's price or value.

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Good understanding of investment opportunities alone may not help the investor in the securities market to trade. It is also important that the investor understands the process of investing, such as finding an appropriate broker, handling buying and selling of securities and maintaining records.

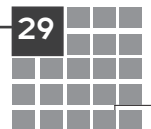
Before choosing a broker/sub-broker the investor should be aware of the following things:

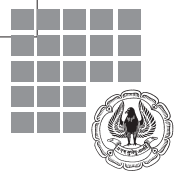
- From where the broker/sub-broker has learnt the business?
- How long has he been serving the securities industry?
- Whether he has eligible qualifications as a broker?
- How many clients does he serve?
- What fees and expenses does he charge?

### **Major Obligations and Responsibilities of a Broker**

- a) Entering into an agreement with his client or with sub-broker and client;
- b) Maintenance of separate books of accounts and records for clients;
- c) Maintenance of money of clients in a separate account and their own money in a separate account;
- d) Issue of daily statement of collateral utilization to clients;
- e) Appointment of compliance officer;
- f) Issue of contract note to his client within 24 hrs. of the execution of the contract;
- g) Delivery/Payment to be made to the client within 24 hrs. of pay-out; and
- h) Other duties as specified in the SEBI (Stock Brokers and Sub-Brokers) Rules, 1992.

In case an investor feels that his issue/problem/grievance is not being sorted out by concerned intermediary then he may take up the matter with





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the immediate/next higher level authority/SRO for the concerned intermediary. If the investor is not satisfied with the resolution of his complaint then he can escalate the matter to SEBI. Example: for complaint against sub-broker/broker you may approach stock exchange. For complaints against DPs, you may approach Depository.

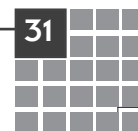
In order to expedite the process of redressal of complaints and to make the process of lodging a complaint easier for the complainants, all SEBI registered intermediaries have been mandated to designate an e-mail ID of the grievance redressal division/compliance officer exclusively for the purpose of registering complaints. The intermediaries have also been advised to display the e-mail ID and other relevant details prominently on their websites.

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Equity holders are the real owner of the company and with the growth of the company equity holders also get capital appreciation. Vice versa is also true. Investment in equity shares cannot be guaranteed with any income and/or growth. Following are the Rights and responsibilities of a shareholder of a company:

**RIGHTS AS A SHARE HOLDER**

- To receive the share certificates, on allotment or transfer (if opted for transaction in Physical mode) as the case may be, in due time. Now in IPO, investors will be allotted shares in dematerialized mode only and subsequently they can rematerialize the allotted shares.
- To receive copies of the Annual Report containing the Balance Sheet, the Profit & Loss account and the Auditor's Report.
- To participate and vote in general meetings either personally or through proxy.
- To receive dividends in due time once approved in general meetings.
- To inspect the statutory registers at the registered office of the company.
- To receive corporate benefits like rights, bonus, etc. once approved.
- To apply to Company Law Board (CLB) to call or direct the Annual General Meeting with requisite number of shareholders.
- To inspect the minute books of the general meetings and to receive copies thereof.
- To proceed against the company by way of civil or criminal proceedings.
- To apply for the winding up of the company with requisite number of shareholders.
- To receive the residual proceeds in case of winding up.
- To receive offer to subscribe to rights shares in case of further issues of shares.
- To receive offer in case of takeover or buyback under SEBI Regulations.





### **RIGHTS AS A GROUP**

- To requisite an Extra-ordinary General meeting.
- To demand a poll on any resolution.
- To apply to CLB to investigate the affairs of the company.
- To apply to CLB for relief in cases of oppression and/or mismanagement.

### **RIGHTS AS A DEBENTURE HOLDER**

- To receive interest/redemption in due time.
- To receive a copy of the trust deed on request.
- To apply before the CLB in case of default in redemption of debentures on the date of maturity.
- To apply for winding up of the company if the company fails to pay its debt.
- To approach the Debenture Trustee with your grievance.
- You may note that the above mentioned rights may not necessarily be absolute.

### **RESPONSIBILITIES AS A SHARE HOLDER**

- You may be happy to note that you have so many rights as a stakeholder in the company that should not lead you to complacency; because you have also certain responsibilities to discharge. However, these are not statutory liabilities.
- To be specific.
- To remain informed.
- To be vigilant.
- To participate and vote in general meetings.
- To exercise your rights on your own or as a group.

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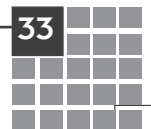
Some DO's AND DON'Ts on various matters have been issued by SEBI, BSE and NSE for the Investors to guide them and ensure fair play in the market to accomplish their Primary objectives:

**A. PRIMARY MARKET - ISSUE OF SECURITIES****DO's**

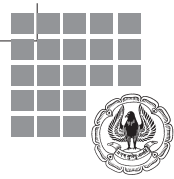
- ✓ Read the Prospectus/ Abridged Prospectus carefully and note
  - Risk factors pertaining to the issue.
  - Financials of the issuer.
  - Object of the issue.
  - Outstanding litigations and defaults, if any.
  - IPO Grading.
  - Basis of issue price.
  - Business Overview.
  - Background of promoters
  - Instructions before making application.
- ✓ In case of any doubt/problem, contact the compliance officer named in the offer document.
- ✓ In case you do not receive share certificate or credit to demat account or refunds of application money, lodge a complaint with compliance officer of Issuer Company and post issue lead manager as stated in the offer document.

**DON'Ts**

- × Do not fall prey to market rumors.
- × Do not go by any implicit/explicit promise made by any one.
- × Do not invest based on Bull Run of the market index/scrips of other companies in same industry/issuer company.







- ✗ Do not bank upon the price of the shares of the issuer company to go up in the short run.

## **B. PRIMARY MARKET - BUYBACK OF SECURITIES**

### **DO's**

- ✓ Read the special resolution regarding the proposed buy back in detail and then vote for it.
- ✓ Compare the price offered in buy back with market price during last few months, Earning per Share, Book Value etc.
- ✓ Determine whether the price offered is reasonable.
- ✓ Read the instructions for making the application for tendering of shares carefully and follow them.
- ✓ Ensure that your application reaches the collection centre well within time.
- ✓ If you don't get the letter of offer within reasonable period, contact the Merchant Banker.
- ✓ Mention all details as required in the letter of offer legibly.
- ✓ Furnish all the documents asked for in the letter of offer.
- ✓ Send application through the mode (post/courier/hand delivery/ordinary post etc.) specified in the letter of offer.
- ✓ Contact Merchant Banker (MB) if no response is received from company/ MB regarding consideration for tendered shares within stipulated time.
- ✓ Contact Compliance Officer mentioned in the letter of offer in case of any grievance against the company.
- ✓ Contact the Registrar of Companies in case you feel that provision of the Companies Act has been violated.
- ✓ Contact the Merchant Banker in case of any grievance against the procedure followed in the buy back.



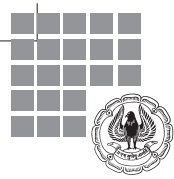
### **DON'Ts**

- × Don't submit multiple applications.
- × Don't forget to fill up the application legibly.
- × Don't mutilate the application form.
- × Don't cross/cut in the application form.
- × Don't send the application at wrong address.
- × Don't send the application after the close of offer.
- × Don't forget to give complete information in the application form.
- × Don't forget to sign on application form.
- × Don't give wrong/contradictory information on the application form.

## **C. SECONDARY MARKET - DEALING IN SECURITIES**

### **DO's**

- ✓ Transact only through Stock Exchanges.
- ✓ Deal only through SEBI registered intermediaries.
- ✓ Complete all the required formalities of opening an account properly (Client registration, Client agreement forms, etc).
- ✓ Ask for and sign "Know Your Client Agreement".
- ✓ Read and properly understand the risks associated with investing in securities / derivatives before undertaking transactions.
- ✓ Assess the risk – return profile of the investment as well as the liquidity and safety aspects before making your investment decision.
- ✓ Ask all relevant questions and clear your doubts with your broker before transacting.
- ✓ Invest based on sound reasoning after taking into account all publicly available information and on fundamentals.



## Hand Book For Investing & Investor Protection

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- ✓ Give clear and unambiguous instructions to your broker / sub-broker / depository participant.
- ✓ Be vigilant in your transactions.
- ✓ Insist on a contract note for your transaction.
- ✓ Verify all details in contract note, immediately on receipt.
- ✓ Crosscheck details of your trade with details as available on the exchange website.
- ✓ Scrutinize minutely both the transaction and the holding statements that you receive from your Depository participant.
- ✓ Keep copies of all your investment documentation.
- ✓ Handle Delivery Instruction Slips (DIS) Book issued by DP's carefully just like your cheque book.
- ✓ Insist that the DIS numbers are pre-printed and your account number (client id) be pre-stamped.
- ✓ In case you are not transacting frequently make use of the freezing facilities provided for your demat account.
- ✓ Pay the margins required to be paid in the time prescribed.
- ✓ Deliver the shares in case of sale or pay the money in case of purchase within the time prescribed.
- ✓ Participate and vote in general meetings either personally or through proxy.
- ✓ Be aware of your rights and responsibilities.
- ✓ In case of complaints approach the right authorities for redressal in a timely manner.
- ✓ In case physical deliveries are received, check them as per the Good/Bad delivery guidelines issued by SEBI.
- ✓ Transfer of ownership of physical shares should be executed by a valid, duly completed and stamped transfer deed.
- ✓ Educate other investors (Friends, Family etc.) about these Dos & Don'ts.



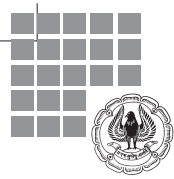
### **DON'Ts**

- × Given the benefits of trading on stock exchange it is advisable to avoid off-market transactions.
- × Don't deal with unregistered intermediaries.
- × Don't fall prey to promises of unrealistic returns.
- × Don't invest on the basis of hearsay and rumours; verify before investment.
- × Don't forget to take note of risks involved in the investment.
- × Don't be misled by rumours circulating in the market.
- × Don't be influenced into buying into fundamentally unsound companies (penny stocks) based on sudden spurts in trading volumes or prices or non authentic favourable looking articles / stories.
- × Don't follow the herd or play on momentum - it could turn against you.
- × Don't be misled by so called hot tips.
- × Don't try to time the market.
- × Don't hesitate to approach the proper authorities for redressal of your doubts / grievances.
- × Don't leave signed blank Delivery Instruction Slips of your demat account lying around carelessly or with anyone.
- × Do not sign blank Delivery Instruction Slips(DIS) and keep them with Depository Participant(DP) or broker to save time. Remember your carelessness can be your peril.
- × Do not follow investment advice from news channel experts – do your own research.
- × Do not invest under peer pressure.

### **D. SECONDARY MARKET: DEALING WITH BROKERS & SUB-BROKERS**

#### **DO's**

- ✓ Deal only with SEBI registered intermediaries.



## Hand Book For Investing & Investor Protection

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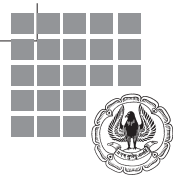
- ✓ Ensure that the intermediary has a valid registration certificate.
- ✓ Ensure that the intermediary is permitted to transact in the market.
- ✓ State clearly who will be placing orders on your behalf.
- ✓ Insist on client registration form to be signed by the intermediary before commencing operations.
- ✓ Enter into an agreement with your broker or sub-broker setting out terms and conditions clearly.
- ✓ Ensure that you read the agreement and risk disclosure document carefully before signing.
- ✓ Make sure that you sign on all the pages of the agreement and ensure that the broker or a representative authorised to sign, signs on all the pages of the agreement. Also the agreement should be signed by the witnesses by giving their name and address.
- ✓ Insist on a valid contract note/confirmation memo for trades done each day 24 hours of the transaction.
- ✓ Sign the duplicate contract note/confirmation memo, to be kept with the broker once you receive the original.
- ✓ Insist on bill for every settlement.
- ✓ Ensure that broker's name, trade time and number, transaction price and brokerage are shown distinctly on the contract note.
- ✓ Insist on periodical statement of accounts.
- ✓ Issue cheques/drafts in trade name of the intermediary only.
- ✓ Ensure receipt of payment/ deliveries within 48 hours of payout.
- ✓ In case of disputes, file written complaint to intermediary/ Stock Exchange/ SEBI within a reasonable time.
- ✓ In case of sub-broker disputes, inform the main broker about the dispute within 6 months.
- ✓ Familiarise yourself with the rules, regulations and circulars issued by stock exchanges /SEBI before carrying out any transaction.

## Hand Book For Investing & Investor Protection

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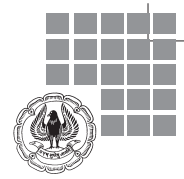
- ✓ Give clear and unambiguous instructions to the broker/sub-broker.
- ✓ Keep a record of all the instructions issued to the broker/sub-broker.
- ✓ Keep track of your portfolio in your Demat a/c on a regular basis.
- ✓ Before placing an order with the market intermediaries, please check about the credentials of the companies, its management, fundamentals and recent announcements made by them and various other disclosures made under various regulations. The sources of information are the websites of Exchanges and companies, databases of data vendor, business magazines, etc.
- ✓ Adopt trading/investment strategies commensurate with your risk-bearing capacity as all investments carry some risk, the degree of which varies according to the investment strategy adopted.
- ✓ Carry out due diligence before registering as client with any intermediary. Carefully read and understand the contents stated in the Risk Disclosure Document, which forms part of the investor registration requirement for dealing through brokers.
- ✓ Be cautious about stocks, which show a sudden spurt in price or trading activity, especially low price stocks.
- ✓ Send important documents by a reliable mode (preferably through registered post) to ensure delivery.
- ✓ Ensure that you have money before you buy.
- ✓ Ensure that you are holding securities before you sell.
- ✓ Follow up diligently and promptly e.g. If you do not receive the required documentation within a reasonable time, contact the concerned person; i.e. the Trading Member, company etc., immediately.
- ✓ Always keep copies of all investment documentation (e.g. application forms, acknowledgements slips, contract notes).
- ✓ Always keep copies of documents you are sending to companies, Trading Member, Registrar and Transfer Agent, etc.
- ✓ Mention clearly whether you want to transact in physical mode or in demat mode.



- ✓ Lodge your complaint or Arbitration Application against the Trading Member, at the concerned Regional Arbitration Centre, by confirming geographical jurisdiction. Please use for the purpose, your address as intimated to your Trading Member by following due process of law. The details of geographical jurisdiction of each Regional Arbitration Centre are also available on the Contract Note.

### **DON'Ts**

- × Don't deal with unregistered brokers / sub-brokers, or other unregistered intermediaries.
- × Don't execute any documents with any intermediary without fully understanding its terms and conditions.
- × Don't file your grievance/s and / or arbitration application against trading member, in the Regional Arbitration Centre having no geographical jurisdiction over the matter. Please use for the purpose, your address as intimated to your Trading Member by following due process of law.
- × The Exchange redresses investors' complaints through arbitration and IGRC mechanism, which are quasi-judicial in nature. The period consumed in redressal of complaint thru IGRC will not be considered while measuring period of 'limitation' in filing arbitration application provided the complaint is filed at the concerned Regional Arbitration Centre.
- × Don't file your grievance/s against companies listed on BSE, in the Regional Arbitration Centre having no geographical jurisdiction over the matter, for its expeditious redressal. Please use your address for deciding the geographical jurisdiction.
- × Don't deal based on rumors or 'tips'.
- × Don't fall prey to promises of guaranteed returns.
- × Don't get misled by companies showing approvals / registrations from Government agencies as the approvals could be for certain other purposes and not for the securities you are buying.
- × Don't leave the custody of your Delivery Instruction Slip book in the hands of any intermediary.



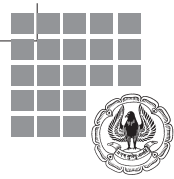
- × Don't get carried away with advertisements about the financial performance of companies in print and electronic media.
- × Don't blindly follow media reports on corporate developments, as some of these could be misleading.
- × Don't blindly imitate investment decisions of others who may have profited from their investment decisions.
- × Don't forgo obtaining all documents of transactions, in good faith even from people whom you know.
- × Don't forget to take note of the risks involved in an investment.
- × Don't get misled by guarantees of repayment of your investments through post-dated cheques.
- × Don't hesitate to approach concerned persons and then the appropriate authorities.
- × Don't get swayed by promises of high returns.

## **E. SECONDARY MARKET: INVESTING IN DERIVATIVES**

### **DO's**

- ✓ Go through all rules, regulations, bye-laws and disclosures made by the exchanges.
- ✓ Trade only through – Trading Member (TM) registered with SEBI or authorised person of TM registered with the exchange.
- ✓ While dealing with an authorised person, ensure that the contract note has been issued by the TM of the authorized person only.
- ✓ While dealing with an authorised person, pay the brokerage/payments/margins etc. to the TM only.
- ✓ Ensure that for every executed trade you receive duly signed contract note from your TM highlighting the details of the trade along with your unique client-id.
- ✓ Obtain receipt for collateral deposited with Trading Member (TM) towards margin.





- ✓ Go through details of Client-Trading Member Agreement.
- ✓ Know your rights and duties vis-à-vis those of Trading Member.
- ✓ Be aware of the risk associated with your positions in the market and margin calls on them.
- ✓ Collect / pay mark to market margins on your futures position on a daily basis from / to your Trading member.

### **DON'Ts**

- ✗ Do not start trading before reading and understanding the Risk Disclosure Documents.
- ✗ Do not trade on any product without knowing the risk and rewards associated with it.

## **F. OTHERS - COLLECTIVE INVESTMENT SCHEME (CIS)**

### **DO's**

- ✓ Before investing ensure that the entity is registered with SEBI.
- ✓ Read the offer document of the scheme especially the risk factors carefully.
- ✓ Check the viability of the project.
- ✓ Check and verify the background/expertise of the promoters.
- ✓ Ensure clear and marketable title of the property/assets of the entity.
- ✓ Ensure that the Collective Investment Management Company (CIMC) has the necessary infrastructure to carry out the scheme.
- ✓ Check the credit rating of the scheme and tenure of the rating.
- ✓ Check for the appraisal of the scheme and read the brief appraisal report.
- ✓ Read carefully the objects of the scheme.
- ✓ Check for the promise vis-a-vis performance of the earlier schemes in the offer document.
- ✓ Ensure that CIMC furnishes a copy of the Annual Report within two months from the closure of the financial year.



- ✓ Note that SEBI does not guarantee or undertake the repayment of money to the investors.
- ✓ Please visit <http://investor.sebi.gov.in> for CIMC's registered with SEBI and FAQs with regard to Collective Investment Schemes in their respective vernacular languages.

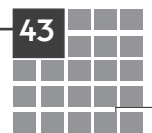
### **DON'Ts**

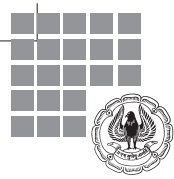
- ✗ Do not invest in any CIS entity not registered with the SEBI.
- ✗ Do not get carried away by indicative returns.
- ✗ Do not invest based on market rumours.

## **G. INVESTING IN MUTUAL FUNDS**

### **DO's**

- ✓ Read the offer document carefully before investing.
- ✓ Note that investments in Mutual Funds is less risky in compared to the direct investment in stocks.
- ✓ Mention your bank account number in the application form.
- ✓ Invest in a scheme depending upon your investment objective and risk appetite.
- ✓ Note that Net Asset Value of a scheme is subject to change depending upon market conditions.
- ✓ Insist for a copy of the offer document/key information memorandum before investing.
- ✓ Note that past performance of a scheme is not indicative of future performance.
- ✓ Past performance of a scheme may or may not be sustained in future.
- ✓ Keep track of the Net Asset Value of a scheme, where you have invested, on a regular basis.
- ✓ Ensure that you receive an account statement for the money that you have invested.

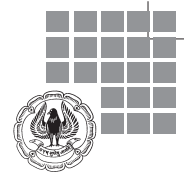




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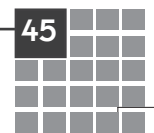
- ✓ Update yourself on the performance of the scheme on a regular basis.
- ✓ Peruse the annual reports and half yearly financial results of mutual funds. These are published in national newspapers and on websites of mutual funds.
- ✓ Find out about entry load & exit load in case of open-ended schemes and check for initial expenses & exit load in case of close-ended schemes. Actual expenses for each scheme are disclosed in half yearly results.
- ✓ Find out about the investment profile provided in portfolio disclosures which is available on half yearly basis.
- ✓ With assistance from sources of information like Scheme Offer documents, Key Information Memorandum, Statement of accounts, Annual and half yearly reports, portfolio disclosures etc., you are recommended to take informed investment decisions, not based on hearsay.
- ✓ Waiver of Entry Load is provided for Direct Applications. Investors wanting to make Applications for mutual fund schemes without a distributor/broker, should cut across the section on 'Distributor information' in application form, mark it as 'Direct application' and countersign. The waiver of Entry Load for Direct Applications is available for new applications and for switch-ins from one scheme to another.
- ✓ If an investor is seeking the help of a distributor, find out the value added services that are provided by distributor in respect of investments in mutual fund schemes.
- ✓ Please verify that no entry/exit load is charged to you for bonus units issued, if any, and in lieu of units allotted on reinvestment of Dividend.
- ✓ The offer documents for mutual Fund Schemes are now bifurcated as 'Scheme Information Document (SID)' and 'Statement of Additional Information (SAI)'. Each scheme has a SID whereas SAI is common for all schemes. While making investment decisions, you, as investor, are expected to peruse the SID and SAI besides the existing Key Information Memorandum (KIM).
- ✓ Take care to mention nominee/nominees in your application forms.
- ✓ Complete KYC requirements as per instructions on application form.



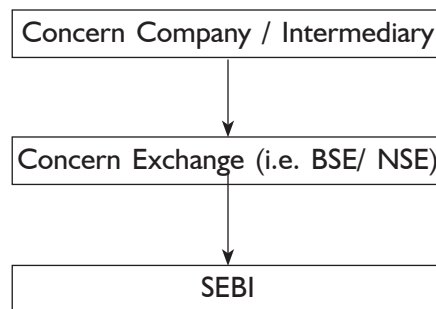
### **DON'Ts**

- × Do not invest in a scheme just because somebody is offering you a commission or other incentive, gifts etc.
- × Do not get carried away by the name of the scheme/Mutual Fund.
- × Do not fall prey to promises of unrealistic returns.
- × Do not forget to take note of risks involved in the investment.
- × Do not hesitate to approach concerned persons and then the appropriate authorities for any problem.
- × Do not deal with any agent/broker dealer who is not registered with Association of Mutual Funds in India (AMFI).
- × Avoid herd mentality while buying / selling into mutual fund schemes.
- × Don't leave out KYC details in your application forms. That will make the forms liable for rejection.
- × Don't rush into making investments that do not match your risk taking appetite and investment goals.
- × Investors should be wary of concentrating their mutual fund portfolio in one particular asset class and not diversifying across various types of scheme profiles.

□□



There will be occasions when Investors have a grievance against a listed company/ intermediary, and then Investor should approach in following way.



Investor should first approach to the Concern Company / Intermediary and if in case Concern Company or Intermediary fails to resolve the matter then investor should go through to the concern Exchange (i.e. NSE/ BSE) where the company or intermediary is registered and investor could use the settlement mechanism of the Exchange to resolve the dispute or issue. Both NSE and BSE have their own dispute settlement mechanism and also provide Arbitration facility and rendering Awards on the basis of hearing.

### **National Stock Exchange (NSE)**

Empowerment of investors through education and protection of interest of investors is one of the primary objectives of NSE. To cater to the needs of investors, NSE has established its Investor Services cell (ISC) at Mumbai, Chennai, Kolkata and New Delhi.

The Investor Services Cell facilitates resolution of complaints of investors against the listed corporate entities and NSE members. NSE has accorded high priority for resolution of investor complaints and therefore the activities of Investors Services Cell are supervised by a Board Sub-Committee exclusively constituted for the purpose.

The Investor Services Cell also renders administrative assistance to arbitration proceedings in respect of arbitration cases that are admitted for Arbitration under the Exchange's Arbitration Framework.



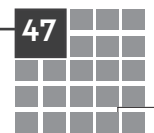
### **Bombay Stock Exchange (BSE)**

Protecting the interest of the investors dealing in securities is one of the main objectives of BSE. In pursuit of this objective, Department of Investors' Services was set up in 1986. The grievances of investors against listed companies and BSE Trading Members are redressed by BSE. BSE also assists in the arbitration process both, between Trading Members inter-se and between Trading Members and non-Trading Members. The capital market can grow only when investors find it safe for them to invest and they are assured that the rules governing the market are fair and just for all the players. With a view to ensure speedy and effective resolution of claims, differences and disputes between Trading Members inter-se and between Trading Members and non-Trading Members, BSE has laid down a set of procedures for arbitration thereof. These procedures are duly embodied in the Rules, Bye-laws and Regulations of BSE, which have been duly approved by the Government of India / Securities and Exchange Board of India (SEBI).

BSE has installed a Toll Free line 1800 22 6663 at which the investors can inform on any specific lead with regard to any type of undesirable trading practices in any scrip or any type of market aberration observed by them. Investors are requested to get their messages recorded in English or Hindi. Identity of the investor will be kept confidential.

### **Securities and Exchange Board of India (SEBI)**

There will be occasions when Investors have grievances against a listed company/ intermediary registered with SEBI. **In the event of such grievance Investors should first approach the concerned company/ intermediary against whom they have a grievance.** However, Investors may not be satisfied with their response. Therefore, Investors should know whom they should turn to, to get their grievance redressed. SEBI takes up grievances related to issue and transfer of securities and non-payment of dividend with listed companies. In addition, SEBI also takes up grievances against the various intermediaries registered with it and related issues.



**Given below are types of grievances to be resolved with:**

- a. The STOCK EXCHANGES at their Investor Information Center:**
  - Complaints related to securities traded/listed with the exchanges.
  - Complaints regarding the trades effected in the exchange with respect to the companies listed on it or by the members of the exchange.
  - Issue of duplicate share certificates.
- b. The MINISTRY OF CORPORATE AFFAIRS (MCA)/ concerned REGISTRAR OF COMPANIES (ROC):**
  - Complaints against unlisted companies.
  - Complaints regarding non-receipt of annual report, AGM Notice.
  - Fixed deposit in manufacturing companies.
- c. The RESERVE BANK OF INDIA (RBI):**
  - Fixed deposits in banks and NBFCs.
- d. The Concerned Company/ROC:**
  - Forfeiture of shares
- e. The SECURITY EXCHANGE BOARD OF INDIA (SEBI):**
  - Refund Order/ Allotment Advise.
  - Non-receipt of dividend.
  - Non-receipt of share certificates after transfer.
  - Debentures.
  - Non-receipt of letter of offer for rights.
  - Collective Investment Schemes
  - Mutual Funds/Venture Capital Funds/Foreign Venture Capital Investors/Foreign Institutional Investors/Portfolio Managers, Custodians.

## Hand Book For Investing & Investor Protection

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- Brokers/Securities Lending Intermediaries/Merchant Bankers/ Registrars and Transfer Agents/Debenture Trustees/ Bankers to Issue/Underwriters/Credit Rating Agencies/Depository Participants.
- Securities Exchanges/Clearing and Settlement Organizations/ Depositories.
- Derivative Trading
- Corporate Governance/Corporate Restructuring/Substantial Acquisition and takeovers/Buyback/Delisting/Compliance with Listing Conditions.





# 15

CHAPTER

## CAN AN INVESTOR FILE AN APPLICATION BEFORE CONSUMER FORUM?

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Shares or debentures after they have been issued are regarded as goods. In case of deficiency of service by an intermediary or company, an investor can approach the Consumer Forum.

“Normally the broker contracts are one-sided in favour of the broker. However, the consumer can sue the broker under the Consumer Protection Act, 1986, for deficiency of service, in case the broker faults” said one of the advocates from the Supreme Court.

In addition, since the trading is in the electronic form, the consumer can sue the broker under Section 79 of the Information Technology Act, 2000, for its role as a network service provider. Under this, they are liable to pay compensation up to ₹ 1 Crore.

□□

Arbitration is a *quasi judicial* process of settlement of disputes between Trading Member, investor, clearing member, sub-brokers etc. Arbitration aims at quicker legal resolution for the disputes. When one of the parties feels that the complaint has not been resolved satisfactorily either by the other party or through the complaint resolution process of the Exchange, the parties may choose the route of arbitration.

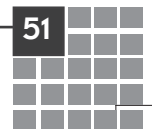
### **Bombay Stock Exchange (BSE)**

BSE also assists in the arbitration process both, between Trading Members *inter-se* and between Trading Members and non-Trading Members. The capital market can grow only when investors find it safe for them to invest and they are assured that the rules governing the market are fair and just for all the players. With a view to ensure speedy and effective resolution of claims, differences and disputes between Trading Members *inter-se* and between Trading Members and non-Trading Members, BSE has laid down a set of procedures for arbitration thereof. These procedures are duly embodied in the Rules, Bye-laws and Regulations of BSE, which have been duly approved by the Government of India / Securities and Exchange Board of India (SEBI).

The Complaint against trading members of the Exchange or Applications for Arbitration should be filed at the concerned Regional Arbitration Centre referred to in column 1 below covering that State or Union Territory of India, referred to in Column 2 below, within which the most recent address/ registered office address of the constituent, as duly communicated in writing to the trading member in accordance with law, is located. Provided in respect of a non-resident Indian Constituent, the Seat of Arbitration shall be Regional Arbitration Centre which covers the States and Union Territories given in Column 2, in which lies the address or the Registered Office address, as the case may be, of the trading member, depending upon corporate or non-corporate membership of the trading member. The hearings shall be held in the concerned Regional Arbitration Centre in which the Applicant had duly filed the Application for Arbitration.

### **Arbitration Procedure**

For the purpose of resolution of grievances between investors and member brokers, the exchange has constituted an arbitration committee with the approval of SEBI.





## Hand Book For Investing & Investor Protection

The non-member arbitration panel consists of retired High court and City Civil Court Judges, Chartered Accountants, Companies Secretaries, Solicitors and other professionals having in-depth knowledge of the capital market.

On receiving the direction for arbitration from the IGRC, the applicant files relevant supporting documents for arbitration. A setoff arbitration documents is sent to the other party for giving his counter reply.

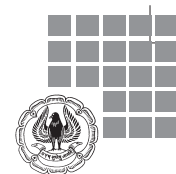
After completion of the formalities, the matter is fixed for hearing before arbitrators. For claims less than ₹ 10 lakhs, the applicant has to propose the name of three arbitrators and the respondent has to consent on the name of the arbitrators. In case respondent do not consent on the arbitrator, the exchange appoints the arbitrator to adjudicate the matter. For claims above ₹ 10 Lakhs, a panel of three arbitrators, one each to be appointed by applicant and respondent and the presiding arbitrator has to be appointed by the exchange to adjudicate the matter.

The date of hearing is fixed and the concern parties are informed about the date through notices. After hearing both parties and taking the submissions and the documents on records, the arbitrator close the reference and the award (decision) is given.

### Jurisdiction of Courts

The Courts in Mumbai shall have exclusive jurisdiction in respect of all proceedings to which the Exchange is a party, and in respect of all other proceedings, the Courts having jurisdiction over the area in which the respective Regional Arbitration Centre is situated, shall have jurisdiction.

<b>Column 1</b>	<b>Column 2</b>
<b>Regional Arbitration Centres</b>	<b>States and Union Territories covered by the Regional Arbitration Centres</b>
Bombay Stock Exchange Limited Regional Office – North, 7th Floor, Mercantile House K G Marg, New Delhi - 110 001. Telephone Number: 011-41510481 Telefax No.: 011-41510480 E-mail Id: (iscdelhi@bseindia.com) (ritesh.kumar@bseindia.com)	Delhi, Haryana, Uttar Pradesh, Uttaranchal, Himachal Pradesh, Punjab, Jammu & Kashmir, Chandigarh, Rajasthan



Column 1	Column 2
<b>Regional Arbitration Centres</b>	<b>States and Union Territories covered by the Regional Arbitration Centres</b>
Bombay Stock Exchange Limited Regional Office – East, 1st Floor, Kishor Bhaban 17, R. N. Mukherji Road Kolkata –700 001 Telephone Number: 033-22133184, Telefax No.: 033-22130530 E-mail Id: (isc.kolkata@bseindia.com) (anirban.guha@bseindia.com)	West Bengal, Bihar, Jharkhand, Orissa, Assam, Arunachal Pradesh, Mizoram, Manipur, Sikkim, Meghalaya, Nagaland, Tripura, Chhattisgarh
Bombay Stock Exchange Limited Regional Office – South, 4th floor, Exchange Building No. 11, Second Line Beach Chennai – 600 001 Telephone Number: 044-42163999 Telefax No.: 044-42164999 E-mail Id: (iscchennai@bseindia.com) (s.periyasamy@bseindia.com)	Andhra Pradesh, Karnataka, Kerala, Tamilnadu, Andaman & Nicobar, Lakshadweep, Pondicherry.
Bombay Stock Exchange Limited Regional Office – West, Department of Investor Services, P J Towers, 1st floor, Dalal Street, Fort, Mumbai – 400001. Telephone Number: 022-22721233/34 Fax No.: 022-22723677 E-mail Id: (crasto@bseindia.com)	Maharashtra, Gujarat, Goa, Daman & Diu, Dadra & Nagar Haveli, Madhya Pradesh

### National Stock Exchange (NSE)

On the same lines as mentioned above, the NSE also provide Arbitration mechanism for settlement of disputes between the parties. One of the parties to the dispute who wants legal remedy for resolving dispute could apply for arbitration. In other words investor, sub-broker, trading member or clearing member can apply for arbitration.

The Applicant - constituent is required to submit the requisite number of arbitration application sets as mentioned below depending upon the claim amount and the number of respondents (trading member /sub broker) involved in the matter.



### **Number of Sets Required to be Filed**

- Documents to be submitted in triplicate if the claim is less than ₹25 lakhs and only against the trading member.
- Documents to be submitted in four sets if the claim is less than ₹25 lakhs and against the trading member and the sub broker.
- Documents to be submitted in five sets if the claim is more than ₹25 lakhs and only against the trading member.
- Documents to be submitted in six sets if the claim is more than ₹25 lakhs and against the trading member and the sub broker.

### **Amount of Deposit**

- Upto ₹ 10 lakhs: ₹10,000/- (deposit is taken only from the trading member and not from the constituent)
- More than ₹10 Lakhs but less than or equal to ₹25 Lakhs: ₹12,000/-
- Above ₹ 25 Lakhs: ₹18,000/-

The application for arbitration has to be filed at the Regional Arbitration Centre (RAC) viz. Mumbai, Delhi, Kolkata or Chennai covering the state in which the Constituent ordinarily resides.

If the value of claim made by applicant or counter claim made by the other party is less than or equal to ₹ 25 lakh, sole Arbitrator is appointed. If the value is more than ₹ 25 Lakh, panel of three Arbitrators is constituted by the exchange. However Investor may attend the arbitration proceedings and defend the matter on his own or authorise a representative to defend the matter. He also has the opportunity to use services of an advocate to represent the matter.

□□

**Proforma of the Arbitration application is given below:**

**FORM NO. I**  
**Arbitration Application**

Name of Applicant:

Status: Trading Member/Participant of the Exchange/ Constituent

Office/residential address of Applicant

Tel: Off \_\_\_ res. \_\_\_

Fax: Off \_\_\_ res. \_\_\_

Mobile Tel. No.

To,

Arbitration Department,

National Stock Exchange of India Limited,

Mumbai, Delhi, Calcutta, Chennai (Strike out which ever is not applicable)

Sirs,

I/We, am/are a Trading Member/ participant of the Exchange/Constituent of \_\_\_\* (please mention name of Trading Member).

I/We hereby apply for adjudication by arbitration of the claim, difference and dispute within the meaning of the Bye laws, Rules and Regulations of the Exchange which has arisen and is now pending between me and the following person

Name:

Status: Trading Member of the Exchange/ Constituent\*

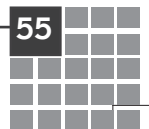
Office /residential Address:

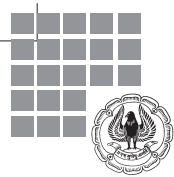
Tel: Off \_\_\_ res. \_\_\_

Fax: Off \_\_\_ res. \_\_\_

The amount of claim in the matter is: (whether F&O / CM)

(a) ₹ \_\_\_\_\_ (in words) (Rupees \_\_\_\_\_ only)





## Hand Book For Investing & Investor Protection

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- (b) In case of securities give details
- i) Security Name/s
  - ii) Calculate Market Value of Securities as on the date of application  
(Add the market value of securities to the claim amount giving the break up of the claim)

Please find enclosed a Cheque/Pay order/ Demand Draft No. \_\_\_\_\_ dated \_\_\_\_\_ issued by \_\_\_\_\_ bank in favour of National Stock Exchange of India Limited for an amount of ₹ \_\_\_\_\_ (Rupees \_\_\_\_\_ only) payable at Mumbai/Delhi/ Calcutta/ Chennai towards Arbitration deposit for defraying costs and expenses of arbitration.

I/We state that I do not want a hearing from the arbitrator/ I do want a hearing from the arbitrator\*

Signature of Applicant

Date: \_\_\_\_\_

Place: \_\_\_\_\_

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Note:

- 1) The Applicant shall put his/her signature on all the pages of the documents submitted along with this form and if the Applicant is a firm/company, the rubber stamp of the firm/company shall be affixed on all the pages.

If the Applicant is a firm/company then the authorised representative of the Applicant has to submit the authority letter/board resolution as the case may be along with this form.

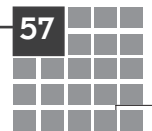
- 2) In case of Mumbai seven names are to be suggested from the list of persons eligible to act as arbitrators. In case of Delhi, Calcutta and Chennai five names are to be suggested from the list of persons eligible to act as arbitrators in the respective regions

\* Strike whichever is not relevant.



**Contact Regional Arbitration Centers (RACs)**

<p><b>MUMBAI:</b></p> <p>National Stock Exchange of India Ltd. 'Exchange Plaza', C-1, Block G, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051 Tel. No: (022) 2659 8190 Fax No : (022) 2659 8191 E-mail: <a href="mailto:www.nse.co.in">www</a></p>	<p><b>DELHI:</b></p> <p>National Stock Exchange of India Ltd. 4th Floor, Jeevan Vihar Building, Parliament Street, New Delhi-110 001 Tel No : (011) 2334 4313 Fax No: (011) 2336 6658</p>
<p><b>KOLKATA:</b></p> <p>National Stock Exchange of India Ltd. 1st Floor, Park View Apartments, 99, Rash Behari Avenue, Kolkata – 700 029. Tel No : (033) 24631802 1805, 24631809 1812 Fax No : (033) 24631791 / 1806</p>	<p><b>CHENNAI:</b></p> <p>National Stock Exchange of India Ltd. 2nd floor, Ispahani Centre, Door No 123-124, Nungambakkam High Road, Chennai - 600 034 Tel No : (044) 2833 2500 Fax No.: (044) 2833 2510 / 2521</p>





SEBI has also provided the facility to the investors to register their complaints online. Very less and formal information is required in the forms and after filling the form it can be submitted online at the same time. List of types of forms available on the SEBI website is given below:

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**Type-I:** Refund Order/ Allotment Advise.

**Type-II:** Non-receipt of dividend.

**Type-III:** Non-receipt of share certificates after transfer.

**Type-IV:** Debentures.

**Type-V:** Non-receipt of letter of offer for rights.

**Type VI:** Collective Investment Schemes

**Type VII:** Mutual Funds/ Venture Capital Funds/ Foreign Venture Capital Investors/ Foreign Institutional Investors/ Portfolio Managers, Custodians.

**Type VIII:** Brokers/ Securities Lending Intermediaries/ Merchant Bankers/ Registrars and Transfer Agents/ Debenture Trustees/ Bankers to Issue/ Underwriters/ Credit Rating Agencies/ Depository Participants.

**Type IX:** Securities Exchanges/ Clearing and Settlement Organizations/ Depositories.

**Type X:** Derivative Trading

**Type XI:** Corporate Governance/ Corporate Restructuring/ Substantial Acquisition and Takeovers/ Buyback / Delisting / Compliance With Listing Conditions

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**CONTACT DETAILS OF SEBI HEAD  
OFFICE AND REGIONAL OFFICES****Head Office : Mumbai (Bombay)**

**Head Office:** Plot No.C4-A,'G' Block, Bandra Kurla Complex,  
Bandra (East), Mumbai 400051  
Tel : +91-22-26449000 / 40459000  
Fax : +91-22-26449016-20 / 40459016-20  
E-mail : sebi@sebi.gov.in

**North Zone : New Delhi**

**Regional Office:** The Regional Manager, 5th Floor,  
Bank of Baroda Building, 16, Sansad Marg,  
New Delhi - 110 001.  
Tel. Board: +91-11-23724001-05  
Fax : +91-11-23724006.  
E-mail : sebinro@sebi.gov.in

**South Zone : Chennai (Madras)**

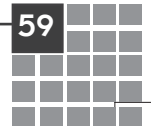
**Regional Office:** The Regional Manager, D' Monte Building,  
3rd Floor, 32 D' Monte Colony, TTK Road,  
Alwarpet, Chennai : 600018.  
Tel : +91-44-24674000/24674150  
Fax: +91-044 -2467 4001  
E-mail : sebisro@sebi.gov.in

**East Zone : Kolkata (Calcutta)**

**Regional Office:** The Regional Manager, L&T Chambers, 3rd Floor,  
16, Camac Street, Kolkata 700 017  
Tel : +91-33-23023000. Fax: +91-33-22874307.  
E-mail : sebieero@sebi.gov.in

**West Zone : Ahmedabad**

**Regional Office:** Western Regional Office Unit No: 002, Ground Floor,  
SAKAR I, Near Gandhigram Railway Station,  
Opp. Nehru Bridge Ashram Road, Ahmedabad - 380 009  
Tel : +91-79-26583633-35  
E-mail : sebiwro@sebi.gov.in



Investor Awareness Programs are being regularly conducted by SEBI, BSE, NSE, at various places in the country to educate the investors and to create awareness among the investors regarding the capital market and in particular the working of the stock exchanges.

The Investor Awareness Programmes cover topics like DOs and DON'Ts for investors, Instruments of Investment, Portfolio approach, Mutual funds, Trading, Clearing and Settlement, Rolling Settlement, Investors' Protection Issues, Trade Guarantee Fund, Dematerialization of Shares, Debt Market, Investors' Grievance Redressal system available with SEBI, BSE & Company Law Board, information on Sensex and other Indices, Derivatives etc.

### **Ministry of Corporate Affairs (MCA)**

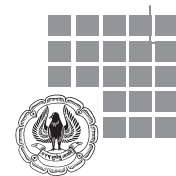
Financial literacy allows to fully appreciate opportunities and associated risks, take informed decisions and participate actively in the economic growth story of the country by converting saving into investments. Ministry of Corporate Affairs (MCA) has a dedicated approach for empowering investors through education and awareness building.

MCA on 27th September, 2007 launched a website [www.iepf.gov.in](http://www.iepf.gov.in). It provides information about IEPF and the various activities that have been undertaken/ funded by it. This website provides information on various aspects such as role of capital market, IPO investing, Mutual Fund Investing, Stock Investing, Stock Trading, Depository Account, Debt Market, Derivatives, Indices, Indices (comic strip), Index Fund, Investor Grievances & Arbitration (Stock Exchanges), Investor Rights & Obligations, Do's and Don'ts etc.

MCA, through Investor Protection and Education Fund, to prevent unscrupulous entities from harming investors and, in the process help build public confidence in the financial system, thereby enabling flow of public investment to the right avenues, aid and sponsor a website named [www.watchoutinvestors.com](http://www.watchoutinvestors.com)

### **Securities and Exchange Board of India (SEBI)**

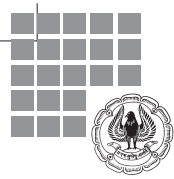
Various Investors awareness programme, Seminars and workshops have been conducted and continue to be conducted by the SEBI. SEBI has also



maintained a website <http://investor.sebi.gov.in> especially for the investors where any kind of information is easily available. Investors can file their grievances online, this website is an initiative of SEBI to protect and educate the investors about their rights and obligations.

SEBI launched a comprehensive education campaign aimed at creating awareness among investors about securities market, which has been christened – **“Securities Market Awareness Campaign” (SMAC)**. **The motto of the campaign is – ‘An Educated Investor is a Protected Investor.’**

- The campaign was launched at the national level by the then Prime Minister, Shri Atal Bihari Vajpayee, on January 17, 2003.
- The national launch was closely followed by launches in **12 states**.
- The structural foundation of the campaign is based on workshops that are being conducted all across the country with the continued and active participation of market participants, market intermediaries, Investors Associations etc., to spread SEBI’s message of **“Invest With Knowledge”**.
- **Workshops** - At workshops, the aim is to acclimatise the investors with the functioning of the securities market, the basic fundamentals of investment and risk management and their rights and responsibilities. **Till date, more than 2188 workshops have been conducted in around 500 cities/towns across the country.**
- **Advertisement** - SEBI has prepared simple “do’s and don’ts” for investors relating to various aspects of the securities market. Till date, over 700 advertisements relating to various aspects of Securities Market have appeared in 48 different newspapers/6 magazines, covering proximately 111 cities and 9 regional languages, apart from English and Hindi.
- **Educative Materials** - SEBI has prepared a standardised reading material and presentation material for the workshops.
- **All India Radio** - With regard to educating investors through the medium of radio, SEBI Officials regularly participate in programmes aired by All India Radio.
- **Website dedicated to Investor Education** ([http:// investor.sebi.gov.in](http://investor.sebi.gov.in))
- **Cautionary Message on television** - With a view to use the electronic media to reach out to a larger number of investors, a short cautionary



message, in the form of a 40 seconds filmlet, has been prepared and the same is being aired on television.

- **Internet based response system:** A simple and effective internet based response to investor complaints has been set up. On filing of your complaint electronically, an acknowledgement mail would be sent to your specified email address and you will be issued a complaint registration number instantaneously.

### **National Stock Exchange (NSE)**

National Stock Exchange (NSE) has been carrying out Investor education and financial literacy programs in various forms. It carries out training programs for investors, students and market participants and also offers courses for schools and colleges in financial literacy.

NSE has also launched a course in basic financial literacy. The aim of the course is to educate learners on simple concepts of personal finance. The course covers basic topics such as income, taxation, expenditure, savings & investment avenues, borrowing, managing risk, budgeting etc. The course also provide information about the financial institutions and different products offered by them through which they one can meet their financial needs and learn the benefits of prudent saving and investing.

Very recently, the NSE as a part of its ongoing endeavor to educate investors in different parts of the country, has started an investor awareness initiative on the Delhi Sealdah Rajdhani. The coaches of the train carries display panels on the precautions an investor should take before, during and after trading. Audio messages also play inside the coaches, throughout the both way journey. The motto of this initiative is Soch kar, Samajh kar, Invest kar and the panels carry messages like “trade only through entities registered with SEBI, don’t be careless about giving a power of attorney to brokers and fill your KYC details carefully “etc.

### **Bombay Stock Exchange (BSE)**

BSE has also taken initiative through BSE Training Institute (BTI) which organizes investor education programs periodically on various subjects like Capital Markets, Fundamental Analysis, Technical Analysis, Derivatives, Index Futures and Options, Debt Market etc. For the Derivatives market, BTI conducts BCDE i.e. BSE’s certification on Derivative Exchange, a certification test recognised by the SEBI.



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BSE's official Website: [www.bseindia.com](http://www.bseindia.com) which is the focal point for information dissemination. It updates the investors with the latest information on the stock market on a daily basis through real time updation of statistical data on market activity, corporate information and results. Educative articles on various products and processes are also available on the site.



# 21

CHAPTER

## ICAI INITIATIVES ON INVESTOR PROTECTION

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The Institute of Chartered Accountants of India as '*Partner in Nation Building*' always plays active role in supporting government in all its initiatives. Accordingly, the Committee on Capital Market and Investors' Protection was set up by the Institute in the year 1994-95. Since the financial service sector witnessed stupendous growth in those years, the Committee in order to widen its scope, in the year 1999-2000, was re-christened as Committee on Financial Markets and Investors' Protection. The main objectives of the Committee is to pro-actively participate with the Regulator(s) on the thought process relating to various Bills/Regulations/Notifications/ circulars and other documents, to bring out Booklets/Monographs/research publications in the field of financial markets, commodity markets, money markets, corporate governance, investors protection and on other topics of interest to investors. Besides the Committee is entrusted with the task of conducting training programmes and conferences for members and others on matters relating to Financial Markets and Investors' Protection.

Realising the growing need of Corporate Governance and Investor Protection, the Committee on Financial Markets and Investor's Protection chartered its action plan with significant number of initiatives. Its interaction with the regulators such as Ministry of Company Affairs, the Securities and Exchange Board of India and various stock exchanges were by and large pro-active. The Committee submitted suggestions to the Government/Regulator on various matters such as revival of the primary and secondary capital market, issues relating to takeover code, issues relating to speculative transactions, nation-wide chain programmes on investor's protection etc. The Committee focused mainly on two major issues i.e. emerging role of chartered accountants in corporate governance and bringing awareness among the investors on the intricacies in the capital market. Study Groups were constituted on different subjects relevant to the capital market, investor protection and to the members at large.

The Committee represented the Institute in almost all Committees of the SEBI and actively contributed on the various policy matters such as suggestions before the SEBI Advisory Committee on reforms in the primary capital market. The Committee also submitted its detailed suggestions / comments on the rules/regulations relating to Financial Companies Regulations Bill, 2000; Indian Depository Rules, 2001; Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Ordinance, 2002 and Nidhi Companies.



Since its inception in the year 1994-95, the investor education and protection is one of the most focused areas of the Committee, and number of Investor Awareness Programmes were organised in association with Ministry of Corporate Affairs, various stock exchanges, Investors associations on regular basis besides developing educative material for them. The Committee has already organised around 220 such programmes till date.

In the year 2009-10, the Committee had made representation to the BSE/NSE/SEBI on the issue relating to reduction in the number of trading holidays for stock exchanges in tune with the international practices.

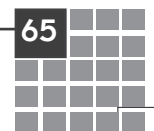
In the year 2009, the Securities and Exchange Board of India (SEBI) has constituted the Takeover Regulations Advisory Committee (TRAC) under the Chairmanship of Mr. C. Achutan with the mandate to examine and review the Takeover Regulations of 1997 and to suggest the suitable amendments as deemed fit. The TRAC submitted its report on July 19, 2010. The Committee has compiled and submitted clause wise exhaustive comments, recommendations including suggestions on the above said Report of the Takeover Regulations Advisory Committee and submitted for kind consideration of SEBI.

In the Year 2010-11, the Committee has also submitted recommendations including suggestions on the **Report on Review of Ownership and Governance of Market Infrastructure Institutions (MIIs)** of the Committee constituted by SEBI under the Chairmanship of Dr. Bimal Jalan, (Former Governor, Reserve Bank of India).

It had also submitted measures for strengthening investor protection, by way of incorporating in the Companies Bill, 2009.

In addition to above, the Committee also conducted various other programmes such as Investor Summit, Private Equity Workshop's and Career Counseling Programmes, etc. The Committee has also published various publications such as booklets and pamphlets on Investors Awareness, Hand Book on Capital Market Regulations, Background Material on Private Equity and Guidance Note on Certification of Corporate Governance.

The Committee on Financial Markets and Investors' Protection is playing a pro-active role in enriching the knowledge of investors in relation to capital market.





The securities market operations promote the economic growth of the country. More efficient is the securities market, the greater is the promotion effect on economic growth. It is, therefore, necessary to ensure that securities market operations are more efficient, transparent and safe. In this context, the investors need protection from the various malpractices and unfair practices made by the corporate and intermediaries. As the individual investors' community and the investment avenues are on the rise, it is interesting to know how the investors shall be protected through various legislations.

Securities market in general are to be regulated to improve the market operations in fair dealings and easy to access the market by corporate and investors. The present positive attitude of investors is heartening though investor sentiments have been shaken by the various scandals. Even though, there are various opportunities available for investment, investors are scared of investing. In this situation, the individual investors' protection becomes necessary to sustain the economic development of the country. The desired level of economic growth of a country is dependent upon availability of protection to its investors'.

Globally, there is increased evidence to suggest that investor protection has assumed an important role in the economic development of a country. Integrity of the financial markets and economic well being of the country depend on corporate accountability and investors confidence. The global concern to make capital markets safer and transparent can be achieved by strengthening financial system and managing the crisis efficiently. Globally, many countries have undergone investors' confidence crisis in different aspects. The global evidence suggests that every time there is stock market crisis, money pours into bank deposits. Again with economic recovery in the country, the funds are diverted to the markets.

It is important for investors to realise that returns on equities are cyclical in nature and also, market moves up and down with time. Understanding market and being patient while market is going down is important while investing in equities. The revival of investors' protection in the corporate securities market is necessary to make market more efficient by means of converting savings to investment. If the investors are not protected properly by way of providing fair rate of return and safeguarding their capital, the corporate

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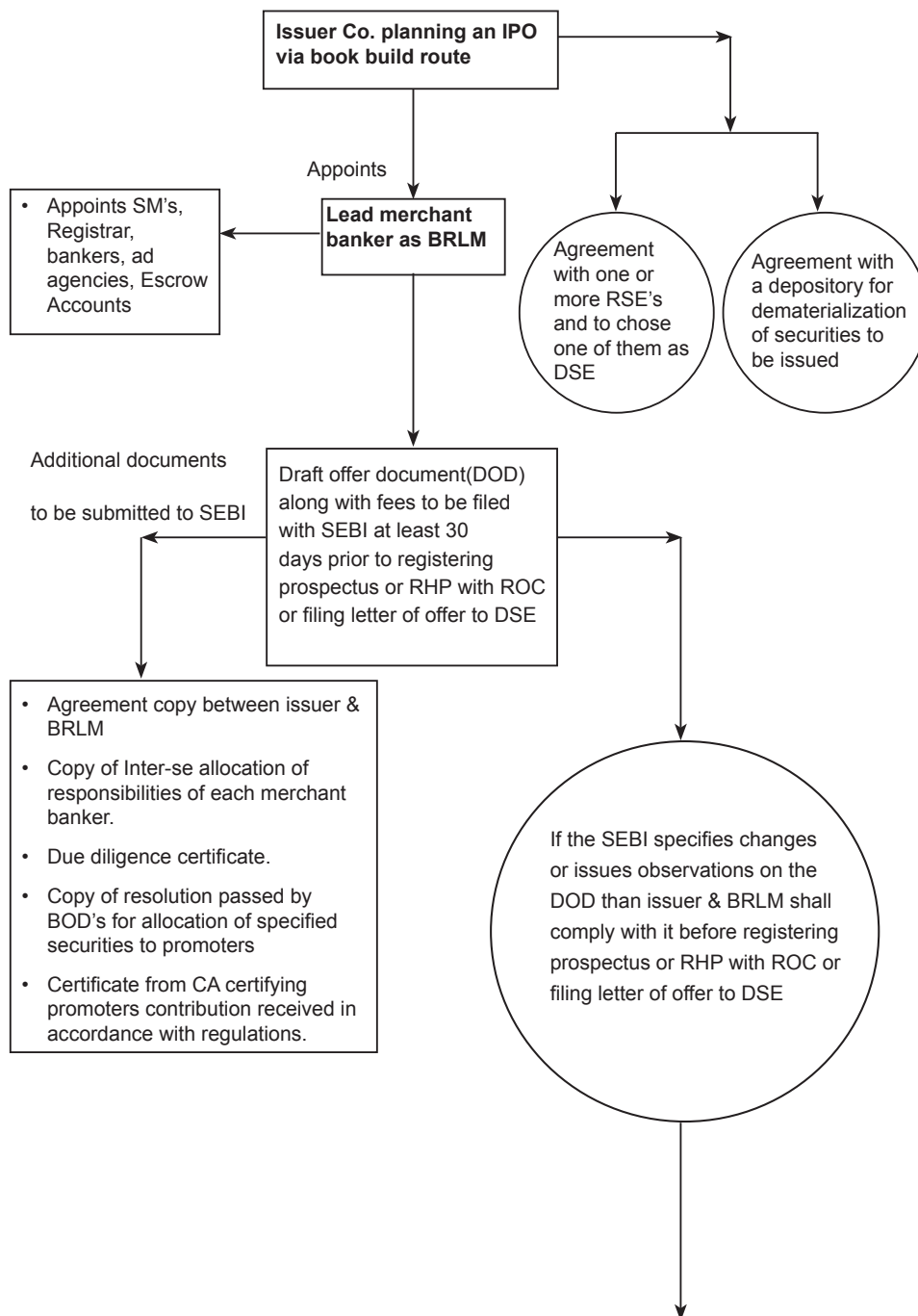


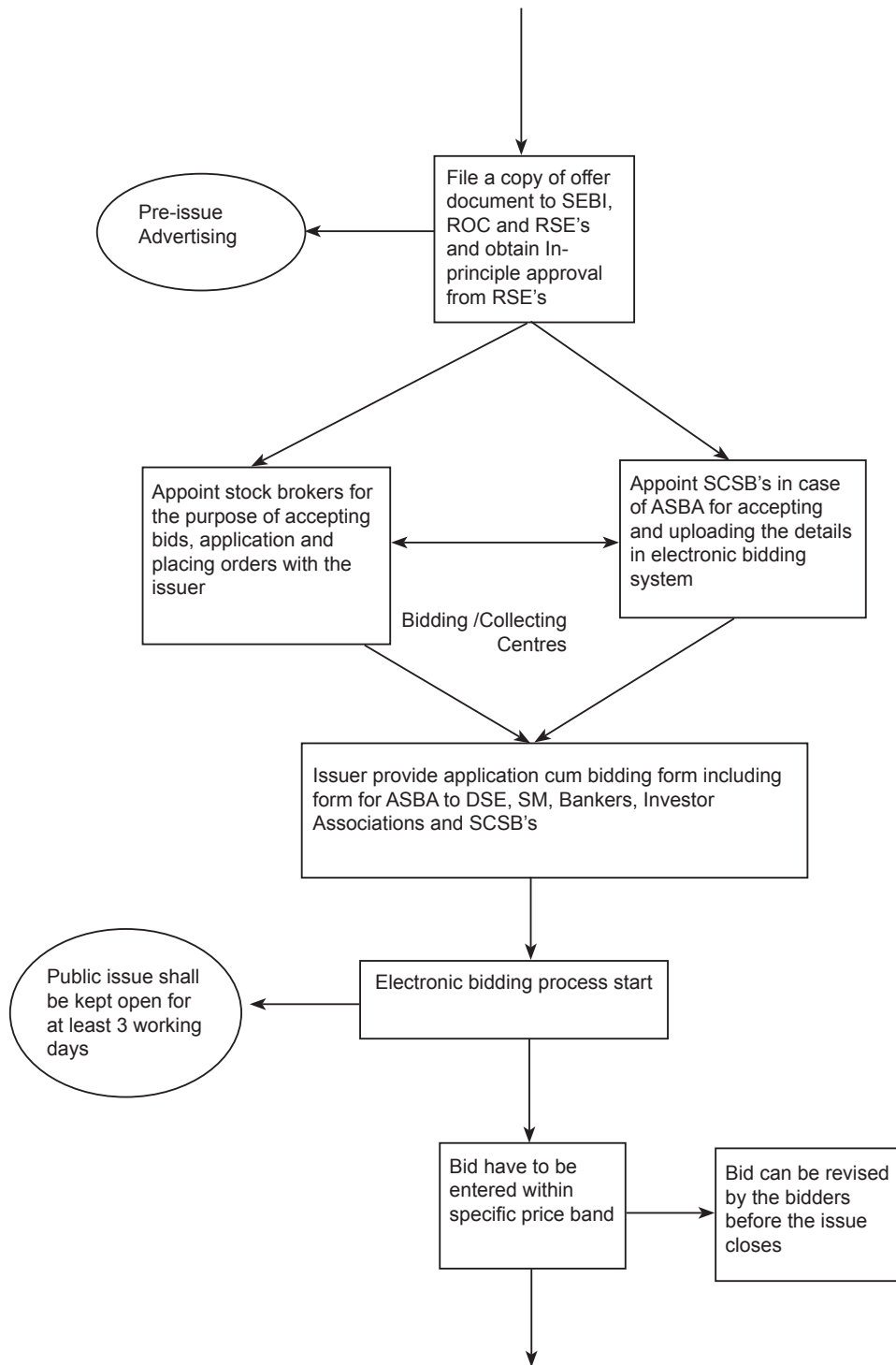
will not be able to mobilize funds from the market at reasonable rate in times to come.

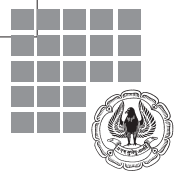
In view of the foregoing with a view to gain the confidence of investors in the securities market it is necessary to provide adequate rate of return on investors' capital by corporates through their operational efficiency. This will enable us to lure back investors to the capital market. This can be done by a series of systematic measures which would build their confidence in the systems and processes and protect the interest of investors.

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## BOOK BUILDING PROCESS

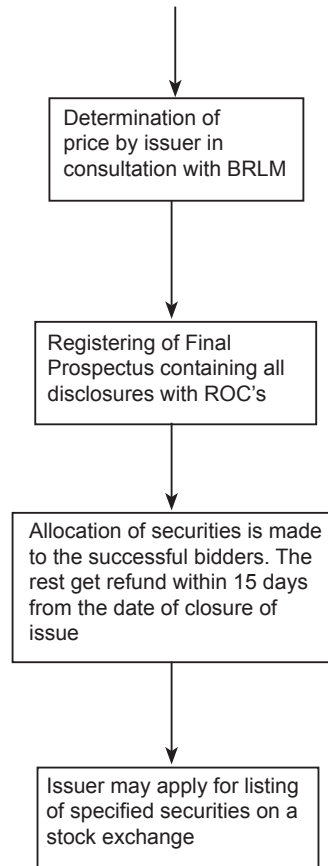






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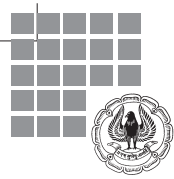
### Abbreviations Used:

- SM - Syndicate Members
- BRLM – Book Running Lead Manager
- RSE – Recognized Stock Exchange
- DSE - Designated Stock Exchange
- DOD – Draft Offer Document
- ROC – Registrar of Companies
- BOD - Board of Directors
- SEBI – Securities and Exchange Board of India
- RHP – Red Herring Prospectus
- SCSB's – Self Certified Syndicate Banks
- ASBA- Application Supported by Blocked Amount

**APPLICATIONS SUPPORTED BY  
BLOCKED AMOUNT (ASBA) PROCESS**

Under ASBA facility, investors can apply in any public/ rights issues by using their bank account and authorizing its bank to block the application money in the bank account, for subscribing to an issue. In this case, application money shall be debited from the bank account only if his/her application is selected for allotment after the basis of allotment is finalized. The ASBA process is given below:

1. An investor, intending to subscribe to a book built public issue through ASBA, shall submit a completed ASBA Form I (“Physical ASBA”) to a Self Certified Syndicate Bank (SCSB), with whom the bank account to be blocked, is maintained. He can also submit the form electronically through the internet banking facility offered by the SCSB (“Electronic ASBA”).
2. The SCSB shall give an acknowledgement specifying the application number to the ASBA investor, as a proof of having accepted ASBA application.
3. In case of insufficient balance in the bank account mentioned in the ASBA application, the ASBA application shall be rejected by the SCSB.
4. (i) After accepting a Physical ASBA, the SCSB shall block funds available in the bank account to the extent of application money specified. The SCSB shall then upload the (i) Application number (ii) DP ID, Client ID (iii) Bid Quantity (iv) PAN in the electronic bidding system provided by the Stock Exchange(s).  
  
(ii) In case of online ASBA application, the investor himself/ herself shall fill in the above details and application number shall be generated by the system automatically. The SCSB shall thereafter upload all the abovementioned details in the electronic bidding system provided by the Stock Exchange(s).
5. The SCSB shall generate a Transaction Registration Slip/ Order number, confirming upload of ASBA details in the electronic bidding system of the Stock Exchange(s).
6. In case, an ASBA investor wants to withdraw his/ her ASBA during the bidding period, he/ she shall submit his/ her withdrawal request to the SCSB, which shall do the necessary process and unblock the funds in the relevant bank account.



7. The updated electronic bid file shall be made available to the Registrar to the Issue by the Stock Exchange(s).
8. After closing of bidding period, the SCSB shall send the aggregate information of (i) Total number of ASBAs uploaded and (ii) Total number of shares and total amount blocked against the uploaded ASBAs to the Registrar to the Issue.
9. The Registrar to the Issue shall reconcile the compiled data received from the Stock Exchange(s) and all SCSBs.
10. The Registrar to the Issue shall then match the above mentioned reconciled data with the depository's database for correctness of DP ID, Client ID and PAN. In case mismatch of data such ASBA application shall be rejected. The Registrar shall also reject multiple ASBAs applications determined based on common PAN.
11. The Registrar shall inform each SCSB about errors, if any, in the bid details, along with an advice to send the rectified data.
12. An ASBA investor has an option to submit the withdrawal request to the Registrar to withdraw his/her ASBA application. The Registrar shall delete the withdrawn bid from the bid file.
13. The Registrar to the Issue shall finalise the basis of allotment and submit it to the Designated Stock Exchange for approval.
14. Once the basis of allotment is approved by the Designated Stock Exchange, the Registrar to the Issue shall provide the details such as (i) No. of shares to be allotted (ii) Amount to be transferred from the relevant bank account to the issuer's account, for each valid ASBA (iii) Details of Withdrawn/ unsuccessful ASBA, (iv) Details of rejected ASBAs, to the CB of each SCSB, along with instructions to unblock the relevant bank accounts and transfer the requisite money to the issuer's account.
16. SCSBs shall unblock the relevant bank accounts and confirm the transfer of requisite money against each successful ASBA to the Registrar to the Issue.
17. The Issuer shall make the allotment
18. The Registrar to the Issue shall credit the shares to the demat account of the successful ASBA investors.

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