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STOCK MARKET REFORMS AND INVESTORS

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ABSTRACT

Stock Market is very important for a strong economy. We need to make stock market strong. This is possible only with the changes in the rules and regulation. These reforms are very important for the investors. There are a lot of reforms such as screen based trading, demutualization, compulsory dematerialization, ban on insider trading, rolling settlement, investor education, internet trading etc. In this paper we will discuss about stock market reforms given by Securities Exchange Board of India after year 2000. I prepared a questionnaire to know the effect of stock market reforms on investors. Simple percentage, mean, standard deviation, variance are used for the purpose of analysis. The study concluded that investors are positively affected by the reforms.

***KEYWORDS**: Broker, Dematerialization, Demutualization Permanent account number.*

INTRODUCTION

Stock market is the part of capital market. Capital market includes primary and secondary market. Secondary market is the stock market or stock exchange. A stock exchange includes an association of persons or firms to regulate and supervise all transactions, rules, regulations and standard practices to govern all market transactions, authorized stock brokers and an exchange floor where stock brokers or their authorized agents meet during fixed business hours to buy and sell securities. In stock market reforms mainly the secondary market reforms are taken in to consideration. The Securities and Exchange Board of India (SEBI) is the regulatory body of the stock market. It gives rules and regulation to control the stock exchanges. These rules and regulation are called the stock market reforms. The main stock market reforms were given by SEBI in the year 1991. But I take in to consideration the stock market reforms after the year 2000 only. The effect of stock market reforms on investors is shown in this paper. SEBI was initially constituted on 12 April, 1988 as a non statutory body through a resolution of the Government for dealing with all matters relating to development and regulation of securities market and investor protection and to advise the Government on all these matters. Besides, SEBI has also been empowered to impose monetary penalties on capital market intermediaries and other participants for a range of violations. In this research paper we will examine the effect of stock market reforms on investors.

REVIEW OF LETERATURE

Maini, Neeraj and Sharma, Sanjeev (2009) analyzed the reforms in Indian capital market regarding investor protection. They examined a lot of reforms such as rolling settlement, screen based trading, depository services, demutualization, internet trading derivative trading etc. No of brokers and no. of listed companies had increased. They studied on different factors such as information related to company, reliability of information provided by the company, financial fundamental of company and company profile. According to them today's investor was not satisfied with the financial information provided by the companies for taking the investment decision but wanted to had no financial information also. They concluded that the investor should provide the right information so that they can take right decision.

Gurumurthy R. (2006) evaluated the securities market reforms. NSE became the largest stock exchange in the world in terms of handling the highest number of transactions in 2005. It had 565 million transactions in 2005. It had examined that because of internet trading; NSE had reached the households of the country. Because of demet interest of small investors had increased. The settlement cycle was also reduced to T+2.Derivatives also introduced in year 2002. It was also observed that the debt market was dominated by govt. securities. There were also given the reforms in debt market such as removal of TDS (tax deduction at source) on the trading of govt. securities, introduction of primary dealers, introduction of derivatives such as interest rate swaps and futures , the auction system, screen based trading, the settlement cycle T+1basis etc. It was also observed that the 90% of govt. securities were in demet form. Delivery Vs Payment system was also introduced. Lastly he concluded that there was a positive effect of reforms on the stock market.

Hanson, James A and Kathuria, Sanjay (1999) examined in the segment of capital market reforms of his research paper that there was a lot of weakness of Indian capital market before reforms such as limited transparency, dealer based trading system, costly trading in capital market, unreliable settlement trades etc. The capital market reforms were started in 1992 in response to the "scam of 1992". The reforms were such as FIIs were permitted to trade etc. They observed that the transparency and the liquidity were the result of the computer based trading, order matching system, improved settlement system, etc. In the year 2000, SEBI eliminated badla. They concluded that to strengthen the financial system we need a well regulated framework of capital market.

Deene, Shivkumar; DM Madhuri and Gangashetty, studied in their research paper about capital market reforms. They used primary and secondary data. In primary market reforms they studied about SEBI guidelines such as disclosure and investor protection guidelines, transparency in the stock market compulsory Demat a/c, book building, badla system abolished, rolling settlement etc. They also explained SEBI's efforts towards investor's education. In secondary market reforms they explained introduction of derivatives, dematerialization etc. SEBI regulation for stock brokers was also given in research paper. At last they concluded that SEBI played an important role for capital market reforms.

OBECTIVES OF THE STUDY

1. To study the stock market reforms after the year 2000.

2. To examined the effect of stock market reforms on investors.

LIMITATION OF THE STUDY

Many major reforms were given in 1991 by SEBI but I took only the stock market reforms only after the year 2000, because all the reforms after year 1991 were not possible to take in to consideration. I collected responses only from 100 investors because of time problem.

RESEARCH METHODOLOGY

The primary data has been used for the study. However, at appropriate places secondary data has also been used. I collected the responses of 100 investors of Ambala and Chandigarh for survey. The data has been collected on the basis of the questionnaire. The likert five point scale had used and had asked the respondents to respond to each statement in terms of several degrees, usually five degree of agreement and disagreement. Further analysis has been unable by using statistical tools. For this purpose, descriptive statistics like mean, standard deviation, variance and co variance were used.

STOCK MARKET REFORMS IN INDIA

ON LINE TRADING

The net was used as a medium of trading in internet trading. Orders were communicated to the stock exchange through website. Internet trading started in India on 1st April 2000 with 79 members was seeking permission for online trading.

Trading in derivatives products, such as stock index future, stock index options and futures and options in individual stocks had also been introduced in June 2000.

SECONDARY MARKET FOR CORPORATE DEBT SECURITIES

Full disclosure (initial and continuing) as per the companies Act, 1956, SEBI Guidelines, 2000 and Listing Agreement with the stock exchanges were to be made by listed companies for private placement of debt securities.

FILLING OF STANDARDIZED QUARTERLY RESULTS

With a view to improving upon the disclosure, SEBI was standardizing the format for quarterly results from the year 2000. All listed companies were also required to disclose shareholding pattern on a quarterly basis within 15 days of the end of quarter.

UNIQUE IDENTIFICATION NUMBER

On May2, 2001, SEBI introduced a system of unique identity number for investors with over Rs. 1 lakh exposure in equity. Brokers were given three months' deadline to fulfill the mandatory obligations of acquiring the permanent account number, PAN, for purposes of identifying their clients.

On July2, 2001, the NSE commenced trading in American style options contracts on individual securities. NSE introduced options on individual securities in all 31 securities as approved by SEBI.

All scrip included in the ALBM / BLESS or MCFS in any stock exchange or in BSE 200 list were brought under rolling statement with effect from July 2, 2001

INVESTOR PROTECTION FUND

It was established with effect from October1, 2001. The exchanges maintained an Investor Protection Fund to make good investor claims, which may arise out of non settlement of obligations by the trading member, who had declared a defaulter, in respect of trade's execution the Exchange. The maximum amount of claim payable from the fund to the investor was Rs. 10 lakh.

INVESTOR'S EDUCATION

SEBI's efforts towards Investor's Education were as follows:-

1. It had launched intensive investor education exercise.

2. Published number of booklets on policy developments for educating the investors.

DEMUTUALIZATION

Trading of shares of all companies listed in stock exchanges in demat form became compulsory with effect from 2nd Junuary2002.

COMPULSORY SHARE CAPITAL AUDIT

On Jan.1 2003, the SEBI ordered that all listed companies have to subject themselves to a secretarial audit by a qualified chartered accountant or a company secretary.

DERIVATIVES

SEBI granted approval to NSE and BSE to start trading in index futures contract in April2000 and May 2000 respectively. SEBI also approved the proposal of NSE and BSE to start trading in index options contracts in June 2001. Following this derivative market on 12 additional stocks became operative in Jan. 2003. With a view to realizing the advantages of an exchange traded mechanism, trading in interest rate derivatives on stock exchanges was also launched in 2003.

ROLLING SETTLEMENT

SEBI had introduced T+5 rolling settlement in equity market from July 2001 and subsequently shortened the cycle to T+3 from April 2002. After the T+3 rolling settlement experience it was further reduced toT+2 to reduced the risk in the market and to protect the interest of the investors from 1st April 2003, there was T+2 settlement cycle and then to T+1 on setting up Real Time Gross Settlement System by RBI during 2004-05.

BAN ON INSIDER TRADING

The ban was effective from 9August, 2003. This action was required in order to protect the interest of investors and ensure safety, integrity and orderly development of the securities market.

SEPARATE TRADING WINDOW

In order to facilitate execution of large trades without impacting the market, the stock exchanges were allowed to provide separate trading window for block deals subject to certain conditions. BSE and NSE activated this window with effect from Nov.14, 2005.

PAN COMPULSORY

SEBI stipulated that Permanent Account Number (PAN) would be the sole identification number for all participants in the securities market, irrespective of the amount of transaction w. e. f. July2, 2007.

SHORT SELLING

On Dec.20, 2007, SEBI allowed institutional investors to short sell, in addition to the retail investors who were allowed to short sell earlier. The move, combined with a Stock Lending Borrowing (SLB) mechanism, which was also allowed, has the potential to make the market more vibrant and price discovery more efficient.

STOCK EXCHANGES

Membership of governing boards of stock exchanges was changed to include 50% outside (non broker) representatives. SEBI had constituted a group to review and examine the present structure of Stock exchanges and examine the legal and financial issues involved in demutualising stock exchange.

ANALYSIS AND DISCUSSION

Frequency for all the seven variables explains their percentage, mean, std. deviation, variance and co variance reported in the Table 1. The table represents the data of responses of 50 respondents to help in making an analytical study.

The mean score for each variable ranges from 1.00 to 5.00 where 1 indicates strongly disagree and 5.0 indicates strongly agree towards the given statement. Scores around 4.0 indicates agree. The responses seem to be positive response towards the given statement. Score around 3.0 indicates indifferent responses. Similarly scores around 2.0 reflect disagree. The S.D. and the Variance show the consistency in the data and the variance show the variation in the responses given by the responses.

TABLE 1

Responses	F	%
SA	28	56
A	22	44
I	0	0
D	0	0
SD	0	0

Mean= 4.56

S.D. = .4963

Variance = .240

The statement was that transparency has increased due to online trading. So as a result investor's confidence increased in the stock market. On the basis of the above table 1, 56% of investor's responses are strongly agreed and remaining 44% of investors are agreed with the statement. It can also be ascertained that the mean score is near to 5 which indicates that the respondents strongly agree towards the above given statement. The standard deviation is .496, which indicates the high consistency in the data used. The variance is .24, it is very low that show the less variation in the responses given by the respondent. . Because of screen based trading the electronic form of certificate is available. Online trading makes the securities market transparent, as the customer can himself see the market price on the screen. Investor's confidence has increased in the stock market as the system becomes more transparent.

TABLE: 2

Responses	F	%
SA	13	26
A	33	66
I	4	8
D	0	0
SD	0	0

Mean = 4.18

S.D.=.18

Variance=.0324

The statement was that the investor's grievances redressal has become effective. 26% of total investors are strongly agreed, 66% investors are agreed and remaining 8% are indifferent to the statement. The mean score is 4.18 which indicate that the most of the candidates are agrees to the given statement. The Standard Deviation is .18 showed the less consistency in the data. The variance shows that there is very low variation in the responses of investors. During the year 1991-92, total 18,794 grievances were received by the SEBI and only 4,061 grievances had redressed. The investor's grievances redressal rate was only 21.61% in the year 1991-92. During the year 2008-09, the total 26, 74,560 grievances were received by SEBI and 25, 03,560 grievances were redressed. The investor's grievances redressal rate was 93.61% during the year 2008-09. This figure show that after the stock market reforms the investor's grievances redressal rate increased to the large extent.

TABLE 3

Reponses	F	%
SD	29	58
A	14	28
I	2	4
D	5	10

SD	0	0

Mean=4.34

S.D.=.951

Variance=.904

The cost of transactions has reduced to low brokerage fees/ share transfer charges/ postage charges/ competition in brokerage industry. On this statement, out of total respondents 58% were strongly agreed to the statement, 28% was agreed, 4% were indifferent and remaining 10% were not agreed. The mean is 4.34 that indicates that the respondents are strongly agree to the above given statement. The standard deviation is .951 showed the less consistency in the data used. The variance is .904 is relatively very high which indicates that there is very high variation in the responses given by the investors. the brokerage fees of brokers are reduced to .15% from 3%. In the year 2000, the total number of registred sub broker was only 9,957. It increased to 62,471 at the end of the year 2009. So as a result the cost of transaction reduced. The other reason is the TDS on govt. securities has been eliminated. You are free from the cost of stamp duty, when you have Demat.

TABLE 4

Responses	F	%
SA	36	72
A	9	18
I	5	10
D	0	0
SD	0	0

Mean=4.62

S.D.=.66

Variance=.396

Because of demat, the paperwork has reduced and immediate transfer of shares has becomes possible and 72% of the investors are strongly agreed, 18% are agree and remaining are indifferent to this statement. The mean is 4.62 which is near about five that showed the respondents as strongly agreed to the given statement. The standard deviation is .66 which shows that the data is highly consistent. The Variance is .396 which indicates that there is less variation in the responses given by the investors. Because of Demat you need not posses any physical certificate to show your ownership in shares. Further Demat, eliminates risks associates with forgery, loss due to fire, Demat account holder can also avoid stamp duty etc. There is n o need to send it to the company's registration for transfer ownership. This process normally takes larger time. So the transfer of shares become fast, because of demat.

TABLE 5

Responses	F	%
SA	37	74
A	13	26
I	0	0
D	0	0
SD	0	0

Mean=4.74

S.D. =.438

Variance=.192

The settlement of transactions process has become speedy.74% investors are strongly agreed and remaining 26% are agreed to this statement. The mean is 4.74 which very high that show that the most of the investors are strongly agreed to the given statement. The standard deviation is .438 which are also very high and indicates that the the data used are highly consistent. The variance is .192 which shows that there is low variation in the data used. . There are stock market reforms with help of them the settlement process becomes speedy such as settlement cycle reduced to T+1 in derivatives market and T+2 in the cash market, dematerialization, internet trading etc. It also reduced the unhealthy speculative transactions and risk. Govt. securities are traded in the retail segment of stock exchanges on a T+3 rolling settlement basis.

TABLE 6

Responses	F	%
SA	12	24
A	25	50
I	10	20

D	3	6
SD	0	0

Mean=4.92

S.D. =.821

Variance=.67

The statement is that the investor's education about the investment in security has increased after the security market awareness campaign. 24% investors' responses as strongly agree, 50% are agreed, 20% are indifferent and remaining 6% are disagreed. The mean is 4.92 which is high that indicates that the respondents are strongly agree to the given statement. The standard deviation is .821 which shows that the data are highly consistent. The variance is .673 that indicates that there is high variation in the responses given by the respondents. Educational activities such as seminars, training, research and publication are used to educate investors. Stock brokers arrange workshops to train the investors about the investment in the stock market.

TABLE 7

Responses	F	%
SA	11	22
A	38	76
I	1	2
D	0	0
SD	0	0

Mean=4.2

S.D. =.447

Variance=.199

Now, different companies provide margin facility to investors to invest in the stock market up to some extent. The table showed that 22% respondent's responses as strongly agree, 76% are agreed and remaining 2% are indifferent. The mean is 4.2 shows that most of the respondents are agreed to the given statement. The standard deviation is .447 which indicates that the data is consistent. The variance is .199 which concludes that there is very low variation in the responses of the respondents. Different broking companies are providing margin facility to investors. The limit of margin trading in future segment and in cash segment is 90% and 70% respectively. It means that 70% of total investment is provided by the broking company and remaining 30% will be of the investor. This limit is depending on different broking companies. This facility is available for small investors.

CONCLUSION AND FINDINGS

1. Because of online trading, quarterly statement given by different companies, involvement of banks in the stock market etc the transparency has increased and the investor’s confidence increased in the stock market. Most of the investors are agreed with the given statement.

2. With the help of stock market reforms such as Investor’s guidance series, Investors Protection Fund, Internet Trading, Telephonic Trading, Demat, Active Investor’s Association and other steps taken by SEBI in resolving the grievances, the investor’s grievances redressal rate is increased from 21.61% in 1990-91 to 93.61% in the year 2008-09.

3. Increase in competition from NSE, Demat, reduction in the brokerage fees, elimination of TDS from Govt. securities, reduction in the postage and transfer charges, internet trading, increase in the total number of registered brokers and total number of registered sub broker etc. are the main reforms. Mostly investors are agreed that because of these reforms the cost of transaction of shares is reduced.

4. Demat account has a lot of benefits such as elimination of bad deliveries, elimination of stamp duty, faster settlement cycle, immediate transfer of shares, speedy investor grievances and reduced paper work.

5. Reduced settlement cycle, internet trading, dematerialization etc helps the settlement of transactions process to become speedy.

6. With the help of the seminars, lectures, workshops, training programs etc investors become educated about the investment in the stock market and we can say that the investor’s education has increased after the stock market reforms.

7. The margin facility provided by different broking companies is benefited for the small investor and the fluctuation in stock market prices is increased drastically.

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