Knowledge Initiatives

Several initiatives have been taken over the last few years with a view to develop the skills of market intermediaries, educate the investors and promote high quality research in the securities market. In order to further improve the skills and widen the knowledge base of people involved in the securities market, SEBI is planning to set up a global securities training centre, the 'National Institute for Securities Training'.

Quality Intermediation

Given the large number of different intermediaries, who compete among themselves to entice the investors to subscribe to their issues, the investors are in a dilemma as to which intermediary is to be patronized. This dilemma is not restricted to only the investors, but also to the issuers of securities. In this scenario, how does an investor/issuer discriminate among them? How does he know that a particular intermediary really understands his needs and can handle his money efficiently? Fortunately, all the intermediaries in the securities market are now registered and regulated by SEBI. There are codes of conduct prescribed for each intermediary as well as for their employees. Further, there is a system to monitor and inspect their operations. In case of violation of any regulation disciplinary actions are taken against them. All the intermediaries in the market are mandated to have a compliance officer who reports independently to SEBI about any non-compliance observed by him. Thus, a reasonably satisfactory arrangement is in place to ensure good conduct of the intermediaries.

In some segments of the financial markets such as the insurance and banking, there is conscious effort being made to equip the personnel joining these organizations with the required expertise. The employees of insurance companies upgrade their skills by taking associate and fellow examinations offered by the Insurance Institute of India. Similarly, bank officials can take junior associate and certified associate examinations conducted by Indian Institute of Bankers. However, in the securities market, there has been no such effort initiated. As a result, the professionalization of intermediaries has been left, by and large, to the market forces.

In some of the developed and developing markets, there is a system of testing and certification for persons joining market intermediaries. This ensures that these personnel have a minimum required knowledge about the market and the existing regulations. The benefits of this system are wide spread. While the intermediaries are assured of qualified staff, the employees get an opportunity to improve their career prospects. This in turn instills confidence in the investors to be associated with the securities market.

The formal educational or training programme on securities markets is not adequate to cover their areas of operations. For instance, no academic course teaches how to maintain depository accounts or to sell mutual fund products, issue contract notes or clear and settle trades on a stock exchange. As a result, a need for certification was being increasingly felt by the regulators as well as by the securities industry.

Initiatives in India

With a view to improve the quality of intermediation, SEBI had set up a Committee to prescribe standards of knowledge necessary for different types of specialized functions in the securities industry at operational and supervisory levels. The committee recommended that an examination based certification system was ideal to meet the requirements of the Indian capital markets. In the initial period, the test may be offered on a voluntary basis, but after a period of two years, the test is to be made mandatory. Thereafter, every person regardless of his educational qualifications has to pass the certification test within a period of 12 months from the date of his employment with the intermediary. Also, among the existing staff, two persons or 20%, whichever is higher, have to obtain the certificate within 12 months from the date on which the test becomes mandatory. If the intermediary is unable to employ the minimum number of certified persons, then it would automatically be de-registered from the date of the said violation. Initially there may be a single common test for all types of market intermediaries, subsequently specialised tests may be introduced. The examination can be taken by anyone, irrespective of qualifications, age, employment or experience. The Committee designed an exhaustive syllabus with a view to test the understanding a candidate has acquired of the securities market. It also tests his ability to provide sound advice to investors. Though the testing and certification system as recommended by the committee is yet to be operationalised, it has created an awareness of and need for certification among the market participants.

The L. C. Gupta Committee was set up by the SEBI to develop appropriate regulatory framework for derivatives trading in India. It recommended that the broker-members, sales persons/dealers in the derivatives market must pass a certification programme approved by the SEBI. This was reinforced by the Parliamentary Standing Committee on Finance, which examined the derivatives bill. The standing committee recommended that SEBI should in consultation with the stock exchanges endeavour to conduct the certification programme on derivatives trading with a view to educate investors and market players. Pursuant to this, SEBI has mandated that trading members must have qualified approved users and sales persons, who have passed an approved certification programme.

The Association of Mutual Funds in India (AMFI) has taken a major initiative to build a cadre of trained professional distributors of mutual fund products by starting the AMFI certification for agents and distributors for mutual fund schemes. SEBI has supported AMFI by mandating it for all MFs to appoint agents/distributors who have obtained AMFI certification w.e.f November 1, 2001. In case of firms/companies, the requirement of certification may be made applicable to the persons engaged in sales and marketing.

NSE's Certification in Financial Markets

National Stock Exchange's Certification in Financial Markets (NCFM), a testing and certification mechanism, has become extremely popular and is sought after by the candidates as well as employers due to its unique on-line testing and certification programme. It offers all the certifications mandated by SEBI, IRDA, NSDL, AMFI, FIMMDA and NSE itself. The entire process from generation of question paper, invigilation, testing, assessing, scores reporting and certifying is fully automated-there is absolutely no human intervention. It allows tremendous flexibility in terms of testing centres, dates and timing by providing easy accessibility and convenience to candidates as they can be tested at any time and from any location. The purpose is to test the practical knowledge and skills that are required to operate in the financial markets, in a very secure and unbiased manner.

NCFM offers a comprehensive range of modules covering many different areas in finance. Some of these modules enjoy regulatory and/or industry patronage (Table 8-1). A total of approximately 140,000 candidates have taken test of different modules of NCFM as at end June 2004.

Table 8-1: NCFM Modules

Sl. No.	Name of Modules	Primary Inspiration
1.	Derivatives Core Module	Regulatory Requirement
2.	NSDL - Depository Operations Module	Industry (NSDL) Initiative
3.	Surveillance in Stock Exchanges Module	Regulatory Persuasion
4.	AMFI - Mutual Funds (Advisors) Module	Industry (AMFI) Initiative
5.	AMFI - Mutual Funds (Basic) Module	Industry (AMFI) Initiative
6.	Capital Market (Dealers) Module	SRO's Requirement
7.	Pre-recruitment Examination for Life Insurance Agents	Regulatory Requirement
8.	Pre-recruitment Examination for General Insurance Agents	Regulatory Requirement
9.	FIMMDA - NSE Debt Market (Basic) Module	Industry (NSE & FIMMDA) Initiative
10.	Securities Market (Basic) Module	Industry (NSE) Initiative
11.	Commodities Market Module	Industry (NSE) Initiative

Through a system of certification, it can be ensured that intermediation is carried out by trained personnel. This would induce investors to use their services. Industry/SROs/Regulators have made a modest beginning, but adequate attention is not given to this dimension of the market. Though NCFM has been offering a wide range of modules, there is still scope to offer such certifications for each category of intermediary/activity. SEBI should also specify certification as a mandatory requirement for all operational level employees for all types of intermediaries. For instance, IRDA has made it compulsory for all the life insurance agents and general insurance agents.

Hence, it is required that all new employees joining the intermediaries and all intermediaries joining the market, should be certified. For the existing intermediaries and employees, a grace period of five years should be given to qualify for this certification. The employees should also be required to update their skills and expertise by seeking certification at intervals of five years. There should be an arrangement to maintain a database of certified professionals and enforce a code of conduct for them so as to enable prospective employers access the database to meet their personnel requirements. This would enhance the knowledge and skill of the intermediaries (including regulators and SROs), who, in turn, can educate and guide the investors in securities and issuers of securities.

Research Initiatives

The regulators and SROs have been actively promoting academicians and market participants to carry out research about various topics in the various segments of securities market. The initiatives by a few of them are presented below:

SEBI

In order to improve the understanding and knowledge about Indian capital market, and to assist in policy-making, SEBI has been promoting high quality research in capital market. It has set up an in-house research department, which brings out working papers on a regular basis (Table 8-2). During the year, several research studies (topics as presented below) have also been conducted *viz.*, *Cost Benefit Analysis of T+1, Development of Corporate Debt Market in India, Behavioral Economics: Case of Irrational Behavior of Market Agents, Disclosures Standards in Indian Stock Market: A Cross Country Comparison, IPO Analysis: Shareholding Pattern in the Immediate Post-Listing Phase, Short Selling: Overview, Review and Issues, Corporate Governance: A Brief Account of the Major Developments, Assessment of Securities Settlement System in India.*

Table 8-2: Working Papers of SEBI

Sl. No.	Title of Study
1.	Stock Market Volatility: An International Comparison
2.	Transaction Cost for Equity Shares in India
3.	Stock Market Volatility-A Comparative Study of Selected Markets
4.	Transaction Cost for Equity Shares in India (Revised)
5.	Dematerialisation: A Silient Revolution in the Indian Capital Market
6.	Impact of Takeover Regulations on Corporate Sector in India - A Critical Appraisal
7.	Trade Execution Cost of Equity Shares in India
8.	Price Discovery and Volatility on NSE Futures Market

NSE Research Initiative

NSE administers a scheme called the NSE Research Initiative. This aims at improving the market efficiency further. The initiative fosters research with a purpose to support and facilitate stock exchanges to design market microstructure, to help participants frame their strategies, assist regulators to frame regulations, and in general to broaden the knowledge horizon of the securities market. The initiative has received tremendous response from the academics as well as the market participants from within and outside the country. The studies completed/ under progress under the initiative are presented in Table 8-3.

Data Dissemination

NSE compiles, maintains and disseminates high quality data to market participants, researchers and policy-makers. This acts as a valuable input for formulating strategy, doing research and making policies. NSE has been maintaining the historical database of all the details of every order placed on its trading system and every trade executed. This data is disseminated through monthly CD releases which are priced at a nominal rate. The following information is available on CDs:

- Summary information about each security's high price, low price, closing price and last traded price, turnover (value and volume), and number of trades for each trading day.
- Database of stock market indices computed by IISL. Both intra day and end of day information is available for Nifty, Nifty Junior and Defty.
- Snapshots of limit order book of NSE at different points during a day.
- Database of circulars issued during the month. Every development in the market in terms of market design is documented in these circulars.

Besides, NSE's web-site itself is a storehouse of information.

Table 8-3: Studies under the NSE Research Initiative

Sl. No.	Title of Study
Completed Papers	
1.	Econometric Estimation of Systematic Risk of S&P CNX Nifty Constituents
2.	Stock Market Development and its Impact on the Financing Pattern of the Indian Corporate Sector
3.	Efficiency of the Market for Small Stocks
4.	Determinants of Financial Performance of Indian Corporate Sector in the Post-Liberalization Era: An Exploratory Study
5.	Should pension funds invest in equities? An analysis of risk-return tradeoff and asset allocation decisions
6.	Changes in liquidity following exposure to foreign shareholders: The effect of foreign listings, inclusion in country funds and issues of American Depositary Receipts
7.	Is the Spread Between E/P Ratio and Interest Rate Informative for Future Movement of Indian Stock Market?
8.	Merger Announcements and Insider Trading Activity in India: An Empirical Investigation
9.	Achieving an Individual Investor Friendly System using the power of the Internet
10.	Improved Techniques for using Monte Carlo in VaR estimation
11.	Short selling and its Regulation in India in International Perspective
12.	Empirical investigation of multi-factor asset pricing models using Artificial Neural Network
13.	Idiosyncratic Factors in Pricing Sovereign Bonds: An Analysis of the Government of India Bond Market
14.	The Extreme Value Volatility Estimators and Their Empirical Performance in Indian Capital Markets
15.	Equity Market Interlinkages: Transmission of Volatility – A Case Of US and India
16.	Institutional Investors and Corporate Governance in India
17.	Dividend policy of Indian Corporate Firms : An Analysis of Trends & Determinants
18.	Market Microstructure Effects of Transparency of Indian Banks
19.	Futures Trading, Information and Spot Price Volatility of NSE-50 Index Futures Contract
20.	Measuring productive efficiency of stock exchanges using price adjustment coefficients
21.	Do Futures and Options trading increase stock market volatility?

22. Section switching stock market price effect in the Indian capital market and the policy implications thereof
23. Study of Common Stochastic Trend and Co-integration in the Emerging Markets - A case study India, Singapore and Taiwan
24. Market Discipline in the Indian Banking Sector: An Empirical Exploration
25. Conditional CAPM and Cross sectional returns – A study on Indian Securities Market
26. Evaluating index fund implementation in India
27. Measuring Volumes in the Indian Financial Markets Some Terminological and Conceptual Issues
28. Corporate Social Responsibility Initiatives by NSE NIFTY Companies – Content, Implementation Strategies & Impact
29. Measures for Improving Common Investor Confidence in Indian Primary Market : A Survey
30. Informational Content of Trading Volume And Open Interest – An Empirical Study of Stock Options Market In India
31. An analysis of the Dynamic Relationships Between South Asian and Developed Equity Markets
32. Corporate Governance and Market reactions

Papers under Progress

1. The Impact of Introducing Stock Futures Trading on the Cash Market in India
2. An analysis of the Dynamic Relationships Between South Asian and Developed Equity Markets
3. Insider Ownership and Corporate Governance
4. Price and Volume Effects of S & P CNX Nifty Index Reorganization
5. Understanding Speculative Bubbles in Stock Markets
6. Seasoned Capital Offerings: Earnings Management and Long-Run Operating Performance of Indian Firms
7. Estimating and Forecasting Volatility of Equity Market Using Asymmetric – GARCH Models
8. Indicators of Shareholder Wealth Maximization: A Comparative study of Indian Industries
9. Volatility Spillovers
10. Management Motivation for Share Buyback: An Empirical Study of Corporate India
11. Improving Index Fund Implementation in India
12. Untangling the web of Indian Pyramids

NSENEWS

NSENEWS, a monthly publication of NSE, is the most referred publication among professionals in the securities market. Among other monthly data, it also puts out articles in order to educate the market participants and investors about latest developments in the industry. These articles analyse market developments in terms of the working of the market and provide theoretical and empirical inputs for policy initiatives.

Investor Awareness

Investors are the backbone of the securities market. An educated and aware investor is not only well acquainted with the functioning of the market, but is also aware of his rights and obligations. As the class of educated investors increases, so does the width of the market. The regulators, self regulatory organisations (SROs), non-government organisations (NGOs), and investor fora/associations need to take steps to educate the investors.

SEBI had launched a nation-wide intensive investor education exercise aimed at creating awareness among the investors in securities market in January 2003. Following the national launch, the campaign has already been extended to 12 states. SEBI has also put in place a comprehensive investor grievances processing mechanism. Office of Investor Assistance and Education (OIAE) is a single window interface of SEBI. It accepts complaints from aggrieved investor for matters falling within its jurisdiction. These complaints received are acknowledged and taken up with the concerned entities either directly by OIAE or by the Investor Complaint Cell of the concerned department.

The Department of Company Affairs (DCA) also informs the general public about the agency they should approach for redressal of their grievances. For complaints relating to deposits in banking companies and non-banking financial companies, the investors should approach the RBI. All complaints relating to listed companies are dealt by SEBI and for unlisted companies by DCA. In the case of deposits from non-banking non-financial companies, the depositors should approach the Company Law Board. If the orders passed by the Board are not honored, then they should approach the concerned Registrar of Companies. These complaints relate to non-registration of transfer of shares, non-refund of share application money, non-receipt of dividends, non-receipt of duplicate shares, non-issue of share certificates, non-issue of debenture certificates, bonus shares, share certificates on conversion, after endorsement etc.

Investors' Associations

SEBI registers and supports investor associations engaged in education of investors and redressal of investor complaints. At the end of March 2004, the following Investors Associations were registered with SEBI:

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

Investor Protection Fund

Despite the various efforts taken by the regulators and exchange, some problems do arise. A cushion in the form of Investor Protection Funds (IPFs) is set up by the stock exchanges. The purpose of the IPF is to take care of investor claims, which may arise out of non-settlement of obligations by the trading members. The IPF is also used to settle claims of such investors whose trading member has been declared a defaulter. Further, the stock exchanges have been allowed to utilise interest income earned on IPF for investor education, awareness and research.

The Companies Act, 1956 also provides for an Investor Education and Protection Fund (IEPF) to protect the interests of small shareholders. The fund is utilised for conducting direct education programmes, organising seminars, promoting research activities and providing legal assistance to genuine investor litigants through investor grievances forums. The fund is managed by a committee comprising both government and non-government members. The IEPF is constituted from grants received from the government and from the unclaimed dividends, share application money, matured deposits and unclaimed debentures of the corporates.

IEPF provides financial assistance to any organisation/entity/person with a viable project proposal on investors' education and protection. The eligible entities are those registered under the Societies Registration Act or formed as Trusts or incorporated Companies. They should be in existence for a minimum period of 2 years employing a minimum of 20 members. They should be governed by properly established rules, regulations and or by-laws prior to its date of application for registration. In addition, they should not be a profit making entity. The limit for each entity for assistance would be subject to 5% of the budget of IEPF during that financial year and not exceeding 50% of the amount to be spent on the proposed programme/activity.

Disclosures

The spread of information should be uniform across investors in a timely fashion so as to increase the efficiency of the market. One of the major sources of information about a company is the disclosure made by the company itself. The Companies Act has laid down detailed guidelines for disclosures to be made by all companies. These have been supplemented further by the Disclosure and Investor Protection Guidelines of SEBI, and the listing agreement. Under the Companies Act, all companies have to prepare statutorily audited annual accounts, which are to be sent to all shareholders and lodged with the Registrar of Companies, after being approved by the company Board. The listed companies are also required to submit the annual accounts to every stock exchange where they are listed. In addition, listed companies have to prepare abridged unaudited financial summaries for every quarter and submit a cash flow statement. The most substantive financial disclosures of companies are found in the annual reports, particularly the balance sheet and profit and loss account.

It is only very recently that ICAI has issued accounting standards in the areas of consolidation of accounts, segment reporting, deferred taxes, related party transactions and earning per share and their applicability to continuous disclosure requirements. So that the companies would provide fair disclosures of related party transactions and consolidated accounts of subsidiaries and associate companies, which was not earlier.

While the quantity and quality of financial disclosures is an important issue, how these disclosures are made is also important. Mostly companies have been making the disclosures through the annual reports and the quarterly reports. All other important announcements are made through the public media. It is, however, possible that such information reaches common investors later than it is made available to some others. To impart healthy practices in this regard, the companies are now required to make announcements regarding corporate actions, such as declaration of dividends and bonus, and financial results of the company, within 15 minutes from the close of Board meeting in which these decisions are taken. Further, companies should be promoted to use the information technology for dissemination of information. Some companies, however, may find it unaffordable to maintain web-sites. It would be better to have a common web-site for providing information on various companies at one place.

NSE has put in place a system that ensures proper, up-to-date and correct information is available to the all investors. Such price-sensitive information as bonus announcements, mergers, new line of business, etc. received from the companies is disseminated to all the market participants through the network of NSE terminals all over India. The Exchange initiates action where such price-sensitive information is not provided to the Exchange at the prescribed time. NSE has recently launched a new system, under which all corporate announcements including that of Board meetings that needs to be disclosed to the market is handled in a straight through and hands free manner. As and when the company submits the information in electronic form the same is seamlessly broadcast to the market and also simultaneously displayed on the NSE website.

NSE conducts various seminars and programs for the investors all over the country with a view to educate them on their rights and obligations and also the precautions they should take while dealing in the securities market.

EDIFAR

In association with National Informatics Centre (NIC), SEBI has set up an Electronic Data Information Filing and Retrieval (EDIFAR) System. This system facilitates an electronic filing of certain information by listed companies. This is an automated system for filing, retrieving and disseminating of time sensitive corporate information, which are now being filed physically by the listed companies. The primary objective is to centralize the information and accelerate its dissemination and thereby enhance transparency and efficiency for the benefit of various classes of market participants.

The system is being introduced in phases and is applicable to 2,544 companies. In the first phase, the information that is filed online are: (i) financial statements comprising of balance sheets, profit and loss account and full version of annual report, half yearly financial statements including cash flow statements and quarterly financial statements, (ii) corporate governance reports, (iii) shareholding pattern statement, (iv) statement of action taken against the company by an regulatory agencies and (v) such other statement, information or report as may be specified by SEBI from time to time in this regard.

These filings are in addition to the filings made by the companies with the stock exchange in compliance with the provisions of the listing agreement. Gradually the physical filing should be discontinued and both the number of companies as well as disclosure statements should be expanded to cover all the actively traded companies for all the disclosure statements. EDIFAR is available at http: //sebiedifar.nic.in.

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