

# Investor Protection

## Introduction

Investor protection is a very popular phrase which everyone concerned with regulation of the capital markets uses 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. Investor Beware should be the watchword of all programmes for mobilization of savings for investment. As all investment has some risk element, this risk factor should be borne in mind by the investors and they should take all precautions 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. Investors are a heterogeneous group, they are large or small, rich or poor, expert or lay and not all investors need equal degree of protection for their invested amount from the corporate securities.

## Meaning

The term 'investor protection' means a process or a mechanism by which the interest of an investor is protected in the security market. Basically, it denotes the acts done with object to bring and also maintain transparency in procedural aspect while dealing with investor through some regulatory bodies by means of some suitable legislation. In order to protect the interest of the investors, various investors protection mechanisms have been established in India. There are mainly three means i.e. mechanisms to protect the interest of investors in the security market regulatory bodies like SEBI, various Acts and Judiciaries.

Investor Protection According to the SEBI Act, 1992 Investor protection is 'protecting the interest of the investors in securities and promoting the development of and to regulate the securities market and for matters connected therewith or incidental thereto.' Generally, investor protection is known as legislation to protect the small investors from unscrupulous investment brokers and advisers.

Thus, the term 'investor protection' means those steps and measures which are required to protect the interest of the investors by enacting suitable legislation, establishing regulatory bodies or by passing of regulations or guidelines for protecting the interest of the investors in the capital market.

## **Investor Protection Measures by SEBI**

Investor protection legislation is implemented under the Section 11(2) of the SEBI Act. The measures are as follows:

- Formulation of Stock Exchange and other securities market business regulations.
- Registering and regulating the intermediaries of the business like brokers, transfer agents, bankers, trustees, registrars, portfolio managers, investment consultants, merchant bankers, etc.
- Recording and monitoring the work of custodians, depositors, participants, foreign investors, credit rating agencies, etc.
- Registering investment schemes like Mutual fund & venture capital funds, and regulating their functioning.
- Promotion and controlling of self-regulatory companies.
- Keeping a check on frauds and unfair trading methods related to the securities market.
- Observing and regulating major transactions and take-over of the companies.
- Carry out investor awareness and education programme.
- Train the intermediaries of the business.
- Inspecting and auditing the security exchanges (SEs) and intermediaries.
- Assessment of fees and other charges.

## **The Role of SEBI in Investor Protection**

SEBI has given out various methods and measures to ensure the investor protection from time to time. It has published various directives, driven many investor awareness programmes, set up investor protection Fund (IPF) to compensate the investors. Some of are:

- 1) **Issue of guidelines:** SEBI has issued guidelines to companies (bringing new issues in the market) mutual funds, portfolio managers, merchant bankers, underwriters, lead managers, etc. These guidelines are for bringing transparency in their operations and also for avoiding exploitation of investors by one way or the other. SEBI has introduced a code of advertisement for public issues for ensuring fair and truthful disclosures. In order to reduce the cost of issue, the underwriting is made optional on certain terms. These steps are also for the protection of investors. SEBI keeps watch on all intermediaries and see that they follow the guidelines in the right spirit. It also takes panel actions when the guidelines are not followed. These steps give protection to investors.

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- 2) **Public interest advertisements:** SEBI issues public interest advertisements to enlighten investors on the basic features of various instruments and minimum precautions they should take before choosing an investment. The SEBI desires to create awareness among investors about their rights and about remedies if problem arise. It has published some booklets for the information and guidance of investors.
- 3) **Dealing with complaints of investors:** The investors can make complaints to SEBI if they face problems relating to their investment in industrial securities and financial assets. SEBI receives thousands of complaints relating to non-receipt of refund orders, allotment letters, non-receipt of dividend or interest and delays in the transfer of shares and debentures. SEBI is making efforts to solve such complaints through appropriate measures.
- 4) **Investor education:** SEBI is aware that investor education is important for his protection. It encourages the formation of investor associations that disseminate information through news letters. SEBI is bringing out two monthly publications for the investors.  
These are:  
(a) SEBI- Market Review, (b) SEBI News-letter. These publications are for the education, guidance and protection of investors.
- 5) **Investor surveys:** SEBI has also conducted surveys in respect of investment and opportunities for the benefit of small investors. The findings of the surveys are given wide publicity so as to provide proper guidance to investors regarding their investment decisions.
- 6) **Introduction to stockinvest:** SEBI has introduced stockinvest as a new instrument useful while submitting application for shares. This new instrument introduced through the co-operation of banks gives protection to investors as they get interest on the application money till the allotment of shares.
- 7) **Disclosures by companies:** SEBI has introduced norms for disclosure of half yearly unaudited results of companies. It has also revised the format of prospectus to provide more information to investors. It also insists that every share application form is accompanied by an abridged prospectus. The provisions relating to disclosures are for the information and protection of small/average investors.

## **Investor Education and Protection Fund**

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 central government (GOI) has established a fund to be called Investor Education and Protection Fund [IEPF].

### **Objectives of Investor Education and Protection Fund (IEPF)**

- Educating investors about how the market operates.
- Making investors educated enough so that they can analyse and take informed decisions.
- Educating investors about the volatility of the markets.
- Making investors realise their rights and various laws about Investing.
- Promoting research and surveys to spread knowledge among the investors.

### **Funding of IEPF**

Following amounts shall be part of IEPF, if they remain unpaid for a period of seven years from the date of declaration except point (f) and (g):

- a. Amounts in the unpaid dividend accounts of companies;
- b. The application moneys received by companies for allotment of any securities and due for refund;
- c. Matured deposits with companies;
- d. Matured debentures with companies;
- e. The interest accrued on the amounts referred to in clauses (a) to (d).
- f. Grants and donations given to the Fund by the Central Government, State Governments, companies or any other institutions for the purposes of the Fund; and
- g. The interest or other income received out of the investments made from the Fund.

### **Utilisation of Fund**

The Companies Act, 2013 (the Act) provides in itself the purposes for which the Fund shall be utilised in accordance with the Rules. They are:

- To refund in respect of unclaimed dividends, matured deposits, matured debentures, the application money due for refund and interest thereon;
- Promotion of investors' education, awareness and protection;

- Distribution of any disgorged amount among eligible and identifiable applicants for shares or debentures, shareholders, debenture-holders or depositors who have suffered losses due to wrong actions by any person, in accordance with the orders made by the Court which has ordered disgorgement;
- Reimbursement of legal expenses incurred in pursuing class action suits under section 37 and 245 by members, debenture-holders or depositors as may be sanctioned by the Tribunal; and
- Any other purpose incidental thereto.

## **Investor Grievance Redressal Mechanism of SEBI**

### **Investor Grievances**

An investor may have a complaint against, a listed company or an intermediary registered with SEBI. In the event of such complaint, the investor should first approach the concerned company/ intermediary against whom there is a complaint. Sometimes the response received may not be satisfactory. Therefore, investors should know as to which authority they should approach, to get their complaints redressed.

#### **Entities against which complaints are handled by SEBI**

i. Listed companies ii. Stock Brokers/Sub-brokers iii. Stock Exchanges iv. Depository v. Depository Participants vi. Registrars to an Issue / Share Transfer Agent vii. Mutual Funds viii. Portfolio Managers ix. Bankers to an Issue x. Collective Investment Schemes xi. Credit Rating Agencies xii. Custodians of Securities xiii. Debenture Trustees xiv. Merchant Bankers xv. Underwriters.

### **Types of Investor Grievances**

S. No.	Nature of Grievance
1	Delay in transfer of shares.
2	Non-receipt of shares/dividends/rights/bonus shares.
3	Delay/ Non-receipts in issue of duplicate shares.
4	Delay/ Non-receipt of annual reports.
5	Delay/ Non-receipt of redemption amount of debentures.
6	Delay/ Non-receipt of interest on debentures.
7	Delay/ Non-credit of shares in the account by the broker.
8	Delay/ Non-payment of sale proceeds by the broker etc.
9	Manipulation in the accounts statements.
10	Unauthorized trades and unauthorized movements of shares

	and funds from the clients' accounts.
11	Delay/ Non-updating of clients' information in records.

## **HOW INVESTOR COMPLAINTS ARE HANDLED IN SEBI?**

SEBI has a dedicated department viz., Office of Investor Assistance and Education (OIAE) to receive investor grievances and to provide assistance to investors by way of education. Investors who are not satisfied with the response to their grievances received from the Stock Exchanges/Depositories can lodge their grievances with SEBI. Grievances pertaining to stock brokers and depository participants are taken up with respective stock exchange and depository for redressal and monitored by SEBI through periodic reports obtained from them. Grievances pertaining to other intermediaries are taken up with them directly for redressal and are continuously monitored by SEBI. Grievances against listed company are taken up with the respective listed company and are continuously monitored. The company is required to respond in prescribed format in the form of Action Taken Report (ATR). Upon the receipt of ATR, the status of grievances is updated. Where the response of the company is insufficient / inadequate, follow up action is initiated. If the progress of redressal of investor grievances by an entity, is not satisfactory, appropriate enforcement actions (adjudication, direction, prosecution etc.) are initiated against such entity.

## **SCORES (SEBI Complaints Redress System)**

SCORES is a web based centralized grievance redress system of SEBI. SCORES enables investors to lodge and follow up their complaints and track the status of redressal of such complaints online from the above website from anywhere. This enables the market intermediaries and listed companies to receive the complaints online from investors, redress such complaints and report redressal online. All the activities starting from lodging of a complaint till its closure by SEBI would be online in an automated environment and the complainant can view the status of his complaint online. An investor, who is not familiar with SCORES or does not have access to SCORES, can lodge complaints in physical form at any of the offices of SEBI. Such complaints would be scanned and also uploaded in SCORES for processing.

The salient features of SCORES are:

- SCORES is web enabled and provides online access 24 x 7; ☐
- Complaints and reminders thereon can be lodged online at the above website at anytime from anywhere; ☐

- An email is generated instantaneously acknowledging the receipt of complaint and allotting a unique complaint registration number to the complainant for future reference and tracking;
- The complaint forwarded online to the entity concerned for its redressal; ☐
- The entity concerned uploads an Action Taken Report (ATR) on the complaint; ☐
- SEBI peruses the ATR and closes the complaint if it is satisfied that the complaint has been redressed adequately; ☐
- The concerned investor can view the status of the complaint online from the above website by logging in the unique complaint registration number; ☐
- The entity concerned and the concerned investor can seek and provide clarification on his complaint online to each other; ☐
- Every complaint has an audit trail and ☐
- All the complaints are saved in a central database which generates relevant MIS reports to enable SEBI to take appropriate policy decisions and or remedial actions, if any.