

Investor protection through Investor Grievance Redressal Mechanism at SEBI

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Abstract

A dynamic and efficient capital market is a vital and indispensable part of a nation's financial infrastructure. Indian stock market is the fourth best-performing market in the world. Retail investors account for nearly 97 per cent of total investors in Indian mutual funds accounting for nearly 47 million investor accounts. Resolution of securities market dispute could result in lowering the cost of equity/capital in the country. Secondly, dispute resolution platform provide a feedback mechanism of the regulation in the securities industry- which regulation is working, not working but needs fine-tuning. It is in this context, we examine the role and efficacy of SEBI's SCORES securities dispute resolution system using the widely used three attributes of a good dispute resolution system: accessibility, efficiency and fairness. As far as the first criteria are concerned- accessibility to investors- SCORES fare very well. It is overzealous in accepting customer complaints. On the flip side, given the overtly inclusiveness of the SCORES system, it has the potential to create a number of —hard-to-solve cases with weak information set which can impact adversely the reputation of the regulator. SEBI's SCORES model is a unique model and could be characterised as —advocacy model' with investors interest in the forefront. As far as the second attribute is concerned, viz., efficiency, SCORES system also fares favourably. The redressal rate at 96 per cent in recent years is one of the highest among regulators world-wide. Similarly, the time taken also scores positively (less than a year). Most of the cases get resolved in the initial stages itself. To improve the redressal rate further, it is recommended that an active mediation role as opposed to conciliation rule may be played by the regulator.

This could further improve the redressal rate and satisfaction rate of investors. In terms of the fair ness issue, the extant literature discusses the proposition that it is the —have's with enhanced access to resources and their repeat plays that make them more successful in the court systems. Using the complainants' success rate as a metric, we found that arbitration system for NSE's success rate to be around 46 per cent and the customer satisfaction is around 54 per cent. It would be interesting to examine how the complainants' success rate varies over organizational settings and how these are shaped by the relative experience and resources of parties to dispute. In this regard, it is recommended that the SCORES system monitor repeat players (RP) who tend to —play for rules to the disadvantage of individuals as —one shooters' (OSs). SEBI should consider extending the mediation and arbitration model prevalent among broking community to the company level (primary and secondary market) so similar benefits could accrue to the investor community. Lastly, it is important to discuss the communication strategy of SEBI. Reputation of the regulator is a public good and the communication strategy is crucial in building the reputation of the regulator. The literature on the central banks' communication strategy suggest limited transparency arguing that release of information about the problems to segments of the financial system may potentially be harmful as it can trigger a run on the financial system. In contrast, no comment or silence could be interpreted as an acknowledgement of guilt. In the case of SCORES, the good record has hardly been noticed in the market rather the market has been focusing on the bad news. The extant literature has suggested that if an agency enjoys good reputation it can afford to keep silent since most of the criticism will not tarnish that reputation. SEBI has built a good reputation in recent years in the

securities market but the fact that the good news about SEBI performance in securities dispute resolution is not getting across the market it is important to have a balanced approach. In this regard, the role of social media could be useful. Social media could be used extensively in investor education and communicating the good news about the regulator. This requires a re-evaluation of the current strategy.

Keywords: Securities dispute settlement, SCORES, India

Invest

1. To put (money) to use, by purchase or expenditure, in something offering potential profitable, as interest, income, or appreciation in value.
2. To use (money), as in accumulating something.

Investor

An investor puts money behind an idea, a project or a company with the hope of making a financial return. An investor is a person or entity that purchases assets with the objective of receiving a financial return. Types of investments include: equity, debt securities, real estate, currency, commodity, derivatives such as put and call options, etc. An investor is a person who is an individual or a corporate legal entity investing his capital in another venture or business but does not do the business himself or itself. The investor has no role to play in the day-to-day management of the business or its control except as permitted by the law. Investor carries on business when they buy and sell assets, arranges for other to buy and sell assets, manages assets belonging to others, or operates collective investment schemes. An investor engages these activities, but they are not having any control over the day-to-day activities of any corporate.

About SEBI

Securities and Exchange Board of India (SEBI) is a statutory body established under the SEBI Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market. Redressal of investor grievances is one of the key components of SEBI's efforts to protect the interests of investors in securities.

Investor's rights and responsibilities

Investors are the real owner of the company and with the growth of the company investor also get capital appreciation. Following are the rights and responsibilities of investor of the company.

Rights as a shareholder

- To receive the share certificates, on allotment or transfer
- To receive copies of the Annual Report containing the Balance Sheet, the Profit & Loss account and 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.

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- To inspect the minute books of the general meetings and to receive copies thereof. f
- To proceed against the company by way of civil or criminal proceedings. f
- To apply for the winding up of the company with requisite number of shareholders. f
- To receive the residual proceeds in case of winding up. f
- To receive offer to subscribe to rights shares in case of further issues of shares. f
- To receive offer in case of takeover or buyback under SEBI Regulations.
- To demand a poll on any resolution. f
- To apply to Company law board to investigate the affairs of the company.
- To apply to Company law board for relief in cases of oppression and/or mismanagement.

Right as a debenture holder

- To receive interest/redemption in due time. f
- To receive a copy of the trust deed on request. f
- 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.

Right as a security holder

- To be specific. f

- To remain informed. f
- To be vigilant. f
- To participate and vote in general meetings.
- To exercise your rights on your own or as a group.

Investor Grievance Redressal Mechanism

SEBI has a dedicated department 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 can lodge their grievances with SEBI. 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. (<http://scores.gov.in>) 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. 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

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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.

Process of complaint in SCORES

To register a complaint online on SCORES portal, (<http://scores.gov.in>) click on “Complaint Registration” under “Investor Corner”. The complaint registration form contains personal details and complaint details. There are certain mandatory fields in the Form. These fields include Name, Address for correspondence, State, Email Address of Investor. After filling the personal details, select the complaint category, entity name, nature of complaint related to, complaint details in brief (up to 1000 characters). A PDF document (up to 1MB of size for each nature of complaint) can also be attached along with the complaint as the supporting document. On successful submission of complaint, system generated unique registration number will be displayed on the screen which may be noted for future correspondence. An email acknowledging the complaint with complaint registration number will also

be sent to the complainant's email id entered in the complaint registration form.

Limitations of score

Sometimes a complaint is successfully resolved and the entity is advised to send reply to complainant. But in certain cases, the entity or company denies wrongdoing, and it remains unclear as to who is wrong or whether any wrongdoing occurred at all. If this happens, SEBI cannot act as a judge or an arbitrator and force the entity or company to resolve the complaint. Further, SEBI cannot act as personal representative or attorney of the complainant.

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