



Recommendations
on
Capital Markets
Governance & Investor Protection



**THE INSTITUTE OF
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IN PURSUIT OF PROFESSIONAL EXCELLENCE
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Recommendations

1. CAPITAL MARKETS – CHALLENGES, OPPORTUNITIES FOR INNOVATION

During the discussion on Capital Markets – Challenges, Opportunities for Innovation, the experts suggested as under:

- **Expand the retail investor base** - For a developed Capital market, there is need to expand the participation of retail investor and also enhance the investor morale and domestic allocation. Following are the suggested areas to be focused to increase the participation of retail investors :
 - **Reduction in the complexity and cost of opening dematerialised accounts** to encourage people beyond the top-10 centres i.e Metros and ‘A’ Grade Cities to invest directly in equities.
 - **Increased investor education and awareness in semi-urban centres** to cover each and every corner of the country. It is necessary to increase the awareness among general public in rural area as they are less aware. Investor Camps / Investor Awareness Programmes should be organized on continuous basis.



- **Appropriate measures should be initiated** to make financial services companies to focus on ethical selling practices and enhanced disclosures.
- **Indirect Investor participation** should be enhanced through mutual funds and long-term retirement products.
- **High net-worth Non-resident Indians (NRIs)** should be targeted by facilitating account opening and introducing reforms to simplify profit repatriation.
- **Class Action Suits should be introduced against erring corporates.** Special courts should be assigned to deal with these matters.
- **Market Making should be made compulsory in all illiquid stocks** on the same lines as it is applicable to SME Platform of Stock Exchanges at present.
- **Stringent Rules/ Regulations be introduced** for better monitoring of companies post IPO/FPO for use of funds. There should be provision for refund in case the discrepancies are noted.
- **Target Tier II and Tier III cities** - The share of household savings invested in equities is low and there is availability of immense potential in Tier II and Tier III cities. These cities should be the focal point to attract investment in Capital Markets. This can be achieved by organizing Investor Awareness Programmes and also few special incentive schemes may be launched for these regions.



- **Go beyond equities to other instruments and products** - For increasing the resource mobilisation, there is a need to focus on other instruments like Mutual Funds where the funds are managed by big firms and portfolio managers.

- **Deepening the Corporate Bonds Market** - The reforms has been suggested to deepen corporate bond, warrants and interest-rate futures market and to streamline securities lending and borrowing by:
 - Allowing pension funds to invest in investment-grade corporate bonds.
 - Allowing insurance companies to invest in all investment-grade corporate bonds.
 - Creating a liquid benchmark index that can be used for pricing.
 - Allowing credit hedging instruments such as Credit Default Swaps.

- **Deepening the Warrants Market** - India's warrants market is underdeveloped due to challenges in participation, product design and pricing, therefore there is need for following reforms:
 - Allowing registered, well-capitalised entities with risk management capabilities to act as third-party issuers for warrants.
 - Introducing allotment of a percentage of equity to minority shareholders along with preferential allotment to promoters (on an optional basis).
 - Allowing trading of preferentially allotted warrants in the secondary market.



— Introducing multiple warrant products to meet diverse investor needs.

➤ **Deepening the Interest-rate Futures Market** - Interest-rate derivatives are needed to hedge rate risks, the largest macro-economic risk. Globally, interest rate derivatives constitute the largest part of derivatives turnover on both exchange-traded as well as OTC products. In India interest-rate derivatives account for less than 1 percent of turnover. In this context, it is suggested:

— to make interest rate futures available on a broader range of securities (both long and short-term).

— to allow greater participation for FIIs (Not just limited by their exposure) as it will help create liquidity.

2. RECENT REGULATORY CHANGES IN CAPITAL MARKETS

During the discussion on Recent regulatory changes in Capital Markets, the experts suggested as under:

➤ Small companies should utilize the services of professionals like Company Secretaries / merchant banker / registered intermediary to help monitor compliances.

➤ Focus on high levels of corporate governance and transparency by corporates is needed to increase investor confidence. Sound reforms, forum and mechanism are necessary to be introduced for better transparency.

➤ Restricting the number of family members on the board of companies, can help in



protection of minority shareholders.

3. SME EXCHANGE : EMPOWERING INDIA'S SME SECTOR

During the discussions on SME Exchange – Empowering India's SME Sector, the experts suggested as under:

- **Wider publicity about SME platform** - In India BSE and NSE have created SME exchanges, BSE-SME and EMERGE respectively. This will lead to mobilization of the diversified resources of finance and build a bridge between the SMEs, Private Equity and the Venture Capital. This initiative should be widely publicized to make SMEs aware of the opportunity.
- **Motivate SMEs** – SMEs have low capital base and inadequate exposures. SMEs need to be motivated to list on Exchange(s), as only two companies are listed on BSE SME Exchange till date.
- **Heavy penalties** should be imposed on market makers for violation of market making rules for SME segment.
- **Approaching the SMEs with high growth potential** - For the growth of SME sector, the following steps may be initiated:
 1. To cover the various enterprises, there is need to target Industries at different locations and SME clusters.
 2. SMEs should be approached through Chambers of Commerce, Industry



Department(s) under State Government(s), Industry Associations etc. to avail the opportunity of accessing Capital Markets through SME Platform.

3. There is need for co-ordination with banks and angel investors for bringing the companies on SME platform.
4. The professionals like Company Secretaries can play an important role in educating the promoters of the SMEs and guiding them in raising equity capital on SME platform.
5. Members, brokers and sub-brokers having branches and franchises spread across the country can play important role in mobilizing and educating the SMEs with their market knowledge and experience.
6. Broadcast the benefits of SME exchange. The reason of less development of SME exchange is less publicity of this exchange. People are not aware that this kind of platform is available with BSE and NSE.

4. INDIAN CAPITAL MARKET: HOW TO REBUILD INVESTOR CONFIDENCE

During the discussion on Indian Capital Market : How to Rebuild Investor Confidence, the experts suggested as under:

- Formulation of National Financial and Education Policy and inclusion of financial planning & literacy as a part of school curriculum would result in better awareness



for the new generation.

- Investors possess limited knowledge and information on products, their benefits and risk attached, which acts as a deterrent to investment. There is a need for increased penetration of Capital Markets to reach out to investors which are untapped as of today. The lack of penetration is characterized by the fact that around 85% of the trading volume on NSE and BSE comes from top 10 cities. So, Financial Literacy and easy availability and accessibility of information is needed.
- The advantages of equity investments, knowledge about investor friendly products need to be disseminated with a greater focus.
- To fetch the investment, procedure and processes for investments in financial products are required to be made simpler.
- Government need to focus on small investors with introduction of new, innovative and alternative financial products.
- Investor Awareness Programmes should be organized for specific demographics of population to cover the length and breadth of the country. Basically, to cover the remote areas, Investor Awareness Programmes and media campaigns should be rigorously organized.
- Technology can help in a big way in creating investor awareness and rebuilding investor confidence.



- Depositors need to be converted into real investors. Kiosks of banks in rural areas can sell a wide variety of financial products.
- To build the investor confidence, there is need to strictly implement the best corporate governance practices.
- There is a need to teach investors how to rectify the mistakes and avoid the repetition of previous mistakes.
- Companies should educate their employees on equity investments.
- Severe punishments be prescribed for wrong doers.
- Every listed company should appoint Ombudsman to deal with investor grievances.
- Investors' Confidence need to be rebuilt through:
 - Enhanced Investor Protection
 - Better Transparency
 - Market Integrity
 - Market Efficiency
 - Enhanced Quality of Supervision over market intermediaries.
