Working Paper

RETAIL INVESTORS AND THE BUDGET 1999 - AN AGENDA

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(Dr. Ramesh Gupta)

EXECUTIVE SUMMARY

With the advent of SEBI, the regulatory philosophy has changed from merit (administered) to disclosure (market based). Since retail investors do not have expertise and resources to fully understand the disclosed information, they generally participate in the capital markets through mutual funds. In India, institutional accountability to investors has been dismal and the regulators have repeatedly failed to provide effective and timely remedies. Retail investors, though enthusiastic in the beginning, have lost faith in mutual funds because of many ugly episodes.

Most of the investors' savings are now going to assured and/or fixed income schemes and not to equity funds. Financial development institutions are now in universal banking financing consumer loans and trading on interest spread rather than performing their basic role of converting deposits into risk capital and smoothening of maturity to fund long gestation projects. Foreign Financial Institutions (FIIs) also have not contributed much of risk capital for new projects; they are making money by fast churning their portfolios. Infrastructure and development-oriented projects are starved of funds. The government is concerned and wants to lure risk takers as opposed to traders in money back to the market. Retail investors are the major (rather only) source of providing risk capital in the absence of effective financial intermediation. The other identified sources are employees provident funds and trust monies, but here also trustees of these funds would need to take their contributors (that is retail savers/investors) into confidence.

This paper is an attempt to offer some suggestions and action points for the 1999 Budget to bring retail investors back into the market. Suggested measures are -

1. Make rules which are competitively neutral:

    a) Preferential Allotment: Abolish or substantially modify Section 81 of the Companies Act.

    b) Dematerialised Trading: Provide insurance and waive all costs except charges for transaction on shareholding through depositories.

c) Business Rules of Stock Exchanges: Streamline trading and settlement practices to provide equal business opportunities.

2. Bring Prices of Blue Chips within the reach of Retail Investors:

   a) Put a limit of Rs.25000 on the investment value of a market lot for a given scrip.

   b) Provide for no par shares in the Companies Act and/or induce high price companies to make frequent bonus issues.

3. Control Variability on Stock Exchanges:

   a) Levy a tax on stock exchanges turnover (say at one-hundredth of one per cent that is Re.1 for every Rs. 10000 value of trade) to contain unwarranted speculative trade which is causing irrational volatility. Tax to be collected from stock exchanges and not the trading members/brokers to avoid administrative hassles. Small exchanges may be exempt to provide them breathing space.

4. Modify Rules pertaining to Pricing and Marketing of New Issues:

   a) Introduce a dual system of control (disclosure-cum-merit based) as practiced in many states of the United States.

   b) Divest `*navratna*' PSUs at attractive prices to only retail investors to encourage equity cult.

5. Rejuvenate the Mutual Fund Industry in India:

   a) Evolve a code of ethics and its effective enforcement to enthuse confidence among retail investors.

   b) Allow assured returns on schemes to protect investors from unduly high intermediation risk.

   c) No need to provide further tax exemption on income received from mutual funds to avoid distortion in the fixed-income securities market.

6. Restructure the Unit Trust of India (UTI):

   a) Redefine UTI's role, mission, and strategy in the evolving Indian financial system.

b) Restructure the US-64 scheme segregating retail investors' funds from hot corporate money. Restrict investment by retail investors only by putting a limit on an individual holding of Rs. 150000.

7. Review the Existing Fiscal Measures provided to Stimulate Capital Markets:

   a) Reexamine the various tax concessions/saving schemes.

   b) Segregate schemes serving tax payers' social security concerns from investment-oriented schemes.

   c) No need to provide additional tax concessions as they are ineffective to generate risk capital from investors.

8. Provide an exit route to small investors of defunct (untraded but listed) companies.

9. Do not rush for derivatives (that is the proposed index futures) trading. It would harm retail investors and capital markets a great deal.

10. Reexamine the role of Foreign Institutional Investors (FIIs) in the Indian capital market. Appropriate restrictions need to put on their trading and speculative activities.

11. Review the Structure and Functioning of SEBI:

    a) Clarify SEBI's role as developer, protector and regulator (like the trinity of Brahma, Vishnu, and Mahesh all in one).

    b) Provide permanency to rules and regulations.

    c) Award exemplary punishment to violators to enthuse confidence among retail investors.

    d) Induct market savvy/knowledgeable people on its staff.

RETAIL INVESTORS AND THE BUDGET 1999 - AN AGENDA

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It is heartening to know that the Ministry of Finance is showing genuine concern about retail investors. However, it remains to be seen how this concern gets translated into reality through appropriate budget measures and/or regulatory changes. Before suggesting changes let me overview the developments in the past few years.

With the advent of SEBI, the regulatory philosophy got changed from merit (administered) to disclosure (market based). Since there is asymmetry of information available between issuers and investors, disclosure policy presupposes existence of a matured and vibrant financial analyst industry. Retail investors do not have expertise and resources to fully understand the information, and therefore, generally participate through financial institutions.

In the proposed regulatory framework the institutions are supposed to collect funds from retail investors and provide risk capital to industry for existing and greenfield projects, some of which may have long gestation periods. It is considered the most efficient and cost effective method of raising risk capital. Further, to globalize the market, companies are encouraged to raise equity capital abroad (through GDR/ADR) and foreign financial institutions (FIIs) are allowed to invest in India. New practices like book building, proportionate allotment, preferential private placements, etc. were introduced in the domestic market. Unfortunately, the changeover system did not work out the way it was conceived. Most of the blue chip companies in the name of financial restructuring conveniently made preferential allotment

at much below market prices to promoters and their associate companies at the cost of small shareholders. Most of the new issues made by unknown companies and greenfield projects during 1992-95 and subscribed mainly by retail investors have been pushed to the B-2 group, shares of which hardly or never get traded. The Primary market is almost non-existent. Institutional investors shuffle their portfolios and make profits by trading/speculating in secondary markets. Retail investors are expected to take up the new issues. However, having lost heavily in the primary market, retail investors are not taking the bait.

With the introduction of automated screen based trading in 1994, secondary markets look liquid and efficient. But the functioning of stock exchanges today resembles proficient trading posts (more like casinos) rather than investment centers. Trading volumes are averaging Rs. 4000 crore a day, however, most of the trade is of a speculative nature confined to selected scrips involving inter-valan and inter-exchange arbitrage. Reported delivery percentage is 15-20%, but if one eliminates inter-exchange arbitrage, actual investment deliveries are less than one per cent. Are these increasing volumes serving any economic purpose to society ? The primary purpose of stock markets is to facilitate raising of funds by the corporate world and allocation of funds to different sectors of the economy offering the best risk-return trade off. The reality is that increased trading on Indian stock exchanges is locking up about Rs. 6000 crore as working capital without generating commensurate economic benefits. Further, increased volatility generated through disproportionate speculative volumes is keeping away the genuine investor from the markets.

Unlike developed countries, institutional accountability in India to investors has been dismal and regulators have repeatedly failed to provide effective and timely remedies. Retail investors, though enthusiastic in the beginning, have lost faith in the institutions because of many ugly episodes. In the absence of

genuine understanding of the functioning of stock markets, regulators seem to be bolting the stable only when the horse has fled.

In the secondary markets, there have been marked improvements in trading and settlement practices owing to technology improvements and have considerably decreased transaction costs as well as risks associated with trading and settlement. However, this has resulted in unhindered speculation as opposed to investment. Further, priorities of the two premier stock exchanges of the country i.e., the National Stock Exchange and the Bombay Stock Exchange are misplaced. Both are in a combative position to garner increased market share. Success is measured in terms of volumes traded. Both seem to be taking dogmatic positions to protect their grounds. For example, simple reforms like common settlement, appropriate tick size, rules governing short sale, etc. have been debated for years. If these issues are resolved, speculative trade in the form of intra-valan and inter-exchange arbitrage would reduce considerably affecting their collection of fee on traded values and interest earning on collected margins. On forward trading, the two exchanges have taken dogmatic but opposite positions **without providing any economic justification.** One exchange favours indigenous system of badla and the other derivative trading. It is open to question whether regulators understand the implications of either position for genuine investors in India. A genuine investor is looking for a simple investment opportunity with somewhat higher but manageable risk in the secondary markets. Unfortunately the stock exchanges today are offering the investor a superfast rollercoaster ride more prone to giving heart attacks (ruin him financially) rather than a pleasurable ride (a profitable investment opportunity). SEBI must outline its priorities in the Indian context.

SUGGESTED MEASURES

First of all the regulators must define their priorities. If risk capital has to be procured from retail investors (and unfortunately the country has no choice but to rely mostly on domestic savings for investment purposes), the government **must show a genuine concern for retail investors**. Policies should be made to protect small investors who are the source of risk capital and not merely serving the interests of financial institutions who only act as intermediaries. The solution is not to pander to FIIs (freedom to invest as they like), venture funds (tax exemptions), and mutual funds (tax exemptions and freedom to invest funds as they like without any restrictions) or meddle with tax laws selectively favouring an industry or a corporate body. The concessions mainly help the institutions seeking changes. They may marginally help retail investors, but would not restore their confidence.

1. MAKE RULES WHICH ARE COMPETITIVELY NEUTRAL:

Regulators and Self-regulatory organizations (SROs) should make sure that rules do not favour one or the other group of investors. If SEBI's bias is in favour of institutional investors and if it desires retail investors to invest only through institutions, it should make sure that these institutions are worthy of the investors' trust. SEBI should ensure that strict norms of accountability and enforcement of just contracts are in place. SEBI and SROs have repeatedly failed in these endeavours. It has become a matter of credibility.

Regulators and financial intermediaries (including stock exchanges) highlight the value addition in new services, new instruments, and new systems of trading, but nobody discloses (or is even willing to discuss) the inherent risk in the changeover. Risk-return parameters in the changed system for all investors

have to be the same. For retail investors to come back to the market, the game has to be fair and there should be a level playing field.

a) Preferential Allotment:

Section 81 of the Companies Act should be eliminated or substantially modified prohibiting preferential allotment in an ongoing company. Every shareholder should have equal rights while equity is being diluted. Adjustment of cross-holding in the name of financial restructuring by group companies has hurt small shareholders considerably. Misuse of this particular section has hurt the retail investor most.

b) Dematerialised Trading:

Nobody can question the point that dematerialised trading is a convenient and cost effective system compared to the present system. Efficiency gains accrue to everybody, but only retail investors have been asked to bear the so-called `agency risk' that is holding of shares through depository participants. Regulators are ignoring this risk. SEBI should have worked out an insurance scheme for holdings of retail investors with depositories in the same way as it exists in other countries. This should not be considered as a favour or subsidy to the retail investor. It is the cost to be paid to enjoy efficiency gains by everybody. Secondly, retail investors find the cost of operating and holding through depositories very high. The spread of depositories across the country is negligible which would cause considerable hardship for shareholders in remote places. Further, the depositories are going to benefit a great deal by lending of shares as is being done in other countries. The institutional investors would be able to negotiate sharing of such gains, but not the retail investors. To be fair to retail investors, all charges except transaction charges should be waived.

c) Business Rules of Stock Exchanges:

During the last five years, retail investors have lost heavily. The stock markets are down but FIIs and smart brokers have made money by selectively investing (in information technology, pharmaceutical and FMCG companies). Associates of these institutions have made much more by trading/speculating on their own account. Trading and settlement practices do not ensure a basic principle of efficient markets: competitive neutrality. Rules are heavily weighted in favour of large investors; some of them patently discriminate retail investors. One has to look behind well structured and so called cost efficient practices to appreciate this point. For example, custodial trade can be settled outside the clearing house providing a scope for *'chalu upla'* among institutional investors. Negotiated deal, trade for ware housing, lending securities for short sale, compulsory dematerialised trading without providing adequate facilities are some other means through which large investors benefit a great deal.

2. BRING PRICES OF BLUE CHIPS WITHIN THE REACH OF RETAIL INVESTORS:

For a small investor it is difficult to participate in Indian stock markets. Most of the good and promising companies' shares are being traded at very high prices. Given the market lots of 100 shares (in some cases it is 50), the investment required even for a single lot in a scrip may range from Rs. 30000 to Rs. 250000. Moreover the small investor cannot put all his eggs in one scrip which means that unless an investor has a minimum capital of about Rs. 5 lakh to be invested only in the equity market, he would not be able to participate. The present system does not allow a genuine investor to be in the market; he can be in the market only through institutions. This is one reason that retail investors (including sub-brokers) now use their capital as working capital for speculation rather than as investment.

In most countries, the average share price of good companies is very low (say $ 20-30 in the United States). In order to have a large investors' base, companies continuously split their shares whenever prices become high. This is possible to do because in these countries no par value shares are allowed. In countries where shares are issued at par, the par value is kept very low; moreover these companies share their profits by continuously declaring bonus.

The government should consider allowing no par shares to be issued and/or modifying listing requirement so that the value of a market lot does not exceed Rs. 25000. This would force companies to continuously split their shares. If no par shares cannot be issued, the law should be amended so that free reserves do not exceed a certain multiple of paid up capital which would induce companies to issue bonus shares more frequently. Splitting of shares and/or issuing of bonus shares would not affect funds availability for a company as it does not involve distribution of funds. In fact, since shareholders would be adequately rewarded, pressure on companies to declare high dividends would get reduced.

3. CONTROL VOLATILITY ON STOCK EXCHANGES:

The unduly large turnover in the stock exchanges without commensurate investment activities are not of much benefit to the economy. In fact, large funds get tied up as working capital in these speculative activities. Non-delivery trade increases volatility and instead of helping in price discovery it only enhances price distortion. To quote from Business Week (January 18,1999 page 52):

Merrill Lynch & Co. Vice-Chairman John L. Steffens believes that day trading has made a casino out of the market. He says day trading has caused problems for Merrill customers, since it is hard for Merrill to execute orders for a stock that is

gyrating wildly. And, he says day trading is a good way to lose money. "I think this day trading and the kind of volatility it has created is not good for anybody. It is not a heck of a lot different than betting on red or black"

The same article further reports that Muriel F. Siebert, chairman of another brokerage firm, believes day traders are responsible for the irrational volatility in stocks. *"You can't let these people go wild."*

The two quotes pertain to US stock market which is matured, deep, well diversified, competitive and efficient. In India instead of a day, a whole week is allowed to square off transactions before netting for settlement. And, on top of that, different trading cycles across stock exchanges further encourage inter-exchange speculation.

Till the stock exchanges and SEBI get their act together to control this unwanted volatility and come up with a system which would encourage a healthy investment climate, government may levy a small tax on stock exchanges' turnover. This will be akin to the proposed Tobin tax on international movement of hot capital which is creating havoc with the global financial system. The total turnover of Indian stock exchanges in 1997-98 as per SEBI annual report was Rs. 908691 crore. This year it is expected to increase by 35 per cent which means a turnover of Rs. 12 lakhs crore. Even if 0.01% (that is Re.1 for every Rs.10000 value of trade) tax is imposed, the collection could be about Rs. 120 crore. This tax would be collected from stock exchanges and not the trading members/brokers to avoid administrative hassles. The government may think of exempting small stock exchanges from this tax to give them breathing space from competition. These funds can be used to strengthen the capital market and help in spreading the equity cult among retail investors.

4. MODIFY RULES PERTAINING TO PRICING AND MARKETING OF NEW ISSUES:

In the post liberalization period, many promoters, aided and abetted by merchant bankers, issued shares at irrelevant prices and false promises. Free pricing has taken its toll and investors have lost heavily. In order to give all those involved time to learn and adjust, merit regulation should be practised simultaneously with the new disclosure system. Even in the United States, 35 states still practice this dual system (securities regulation in United States is both federal and state subject). It is a myth, especially in India where genuine investment trade is less than 1 per cent of total turnover on the stock exchanges, that market prices in a highly liquid market (presumed indicator large turnover) reflect fundamental values and help in price discovery reflecting new information. Often many trades result in price fixation and not price discovery. Government and regulators should not subscribe to this myth propagated by efficient market theorists.

Another myth about Indian retail investors is that before advent of free pricing investors greatly benefitted at the cost of the corporate world because prices fixed by Controller of Capital Issues (CCI) were well below the market prices, and therefore, Indian investors have become greedy. No doubt investors made good money in FERA and blue chip companies, notably Reliance, but there were also issues (particularly those of lease companies and others) where the investor lost heavily. It is a universally recognized phenomenon that when access to the capital market is not adequately regulated, good issues get underpriced to make up for lemons, as the investor is unable to differentiate good from bad at the time of subscription. With an administered price regime, return vis-a-vis risk in the primary market was still in favour of the investor. One does not have to go back to the era of CCI, but regulators must do serious rethinking on free pricing.

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To activate the primary market, government must allow small investors to make some money by offering them PSU shares at really attractive prices. Once the government offers its Navratnas, good private sector companies will follow suit. So far PSU disinvestment has been through GDR and/or book building and private placement favoring a few merchant bankers and that is also at prices dictated by them. This is not the way to bring retail investors back into the market. Retail investors must make money. Dhirubhai Ambani and many successful promoters followed this dictum to spread the equity cult. Promoters must share their profit with existing and new shareholders.

5. REJUVENATE THE MUTUAL FUND INDUSTRY IN INDIA:

Since mutual funds are going to be the main vehicle for channeling retail investors' savings into capital markets, it is essential that mutual funds and their association do some soul searching. The least they must ensure is that money is not diverted or used for sponsor's group companies and fund managers do not indulge in private trades. Further, they must do a comprehensive survey of retail investors in India about their needs, preferences, and investment behaviour. Copying successful products from abroad is not going to take them very far. The product design, its pricing, and marketing strategy has to be done keeping local needs in mind. SEBI's intervention in product design and pricing should be minimal; however, it must make sure that intended contracts are fully enforced.

a) Justification for Assured Returns:

Retail investors are willing to take market risk but would like to limit their losses due to intermediation risk which arises because of poor institutional accountability and lack of complete faith in the integrity of people managing the funds. This risk which is almost non-existent in the developed countries, is very

high in India. Retail investors firmly believe that the regulatory and legal system is not yet fully capable of checking institutional frauds and failures. Retail investors are willing to accept a return lower than those available on risk- free securities for a possibility of participating in gains in the equity market, but minimal returns have to be assured.

b) Tax Benefits For Income from Mutual Funds:

There are suggestions to exempt from income tax the income received from mutual funds. It may give a fillip to the mutual fund industry, but it would create serious anomalies in the system. If income from mutual funds is made tax free, it would distort the risk-return pattern for the fixed income securities market. Every corporate entity would have its own mutual fund and use this as a vehicle to earn tax free interest income on its surplus funds. Further, this measure would not succeed in promoting equity mutual funds, it would only encourage money market funds. Equity funds are essentially tax free now. Being growth funds, income distribution is not large and capital gains realized on sale of units are indexed and taxed at a much lower rate. To encourage equity funds, government may consider providing a separate deduction for income from equity funds.

Even for the US-64 scheme, there is no need to provide any special tax benefit. The dividend received by investors in mutual funds is already entitled for a deduction. This is more than sufficient for retail investors. A higher exemption limit would benefit only big operators who are involved in dividend stripping and other tax saving strategies at the cost of general tax payers.

6. RESTRUCTURE THE UNIT TRUST OF INDIA (UTI):

The problem of the Unit Trust of India (UTI) is exceptional. UTI was set up to mobilize retail savings and provide reasonable

assured return to investors. UTI was not a mutual fund for retail investors, it was a government sponsored financial institution which investors could trust their money with. After the advent of SEBI, the entire investment game has changed. UTI management started acting like an American style mutual fund but without having any well defined objectives and strategies to manage the entrusted funds. A trust fund set up to serve small investors became the hunting ground for hot corporate money. UTI needs to rethink its mission and role in the Indian financial system. Government must separate UTI's operations into mutual fund where UTI can compete with other mutual funds and a fixed income developmental institution (for retail investors).

An avenue like US-64 that can assure reasonable returns with no downside risk is a must in our country. However, this should be exclusively for retail investors and not for the rich institutions. Since it is difficult to restrict institutions from subscription (owing to the very nature of Indian laws), the big contribution can be shut out by putting a limit on the units that an investor can hold at, say Rs. 1,50,000. US-64 has to stop being an extension of the Indian companies' treasury department. The scheme should not be allowed to be used to deploy temporarily surplus funds with high assured return and no risk. It would require massive restructuring of the scheme. Segregation of funds and investment must be done quietly so as not to create panic in the market, however this act cannot be delayed for too long hoping that the market would recover and everything will be fine.

7. REVIEW THE EXISTING FISCAL MEASURES PROVIDED TO STIMULATE CAPITAL MARKETS:

There is a strong belief (particularly in the Indian context) that tax concession is one way to induce retail investors to participate in the capital market and thus provide stimulation to it. Since independence, this has been one instrument which

almost all the finance ministers have used. Unfortunately, for the last three years, despite government conceding every single measure suggested by opinion makers, industry associations and lobby groups, retail investors are not responding. The reasons are not hard to find.

Tax concessions are mostly meant to boost an industry, sector (e.g. housing, infrastructure etc.), or specific financial intermediary (e.g. venture funds, mutual funds etc.). For an investor, tax concession does affect the returns available from given investment; however, it does not affect the risk contained in it. With the change of the regulatory system from merit (administered) to disclosure (market based), the risk profile of investment opportunities (except those which are guaranteed by government) have changed considerably. Tax concessions do not adequately compensate the investor for increased risk and there fore, minor tax changes have lost their impact as stimulants. Tax changes are sought only by those people who directly benefit from them most.

To illustrate the above point for a given tax concession; retail investors are investing only in those schemes which are sponsored by government institutions (like IDBI, ICICI etc.) or very reputed private mutual funds. Further, most of these schemes are fixed income oriented and, therefore, investors are really not taking any risk. They are just getting the tax benefit for a slightly lower interest rate (about 1 to 1.5 per cent for a three-year investment in lieu of an upfront tax rebate of 20 percent on investment and/or exemption from capital gains tax).

The instruments which were conceived as social security measures have turned into tax-free investment opportunities for the rich. The government will have to do a comprehensive reexamination of these tax savings concessions and various schemes. Without generating much of the long term funds for risk-oriented

projects, the government is losing heavily on its tax revenue. Government must reexamine the entire gamut of tax concessions given to promote financial investment, segregate schemes promoting tax payers' social security concerns from their investment activities. To promote investment in long gestation projects (e.g. infrastructure), it may be worthwhile to give upfront subsidy or directly assume project risk rather than giving piecemeal tax concessions and guarantees to promoters and financial institutions. Promoters/Financial institutions want to act only as a rentier class. Financial institutions want only to benefit from risk-free clear spread between the deposit and lending rates. They are reluctant to perform their basic task of converting fixed obligation investment into risk capital (trade in risk) and short maturity deposits into long term investment (maturity smoothening). Abandonment of these roles by financial intermediaries have considerably affected the developmental projects with long gestation period (e.g., infrastructure). However, much research work needs to be done in this area and the issues need to be widely debated.

8. PROVIDE AN EXIT ROUTE TO SMALL INVESTORS OF DEFUNCT COMPANIES:

Premier stock exchanges are thinking of delisting thousands of companies for not paying the listing fees. Some of these companies do not even exist. There are many others which probably are sick and badly managed. Appropriate legislation should be passed to make them private companies; or else they should be handed over to some body which could provide an exit route to small investors. Recently, there was a proposal that financial institutions have started exploring this possibility of unloading their untraded shares by selling their stakes to promoters and other buyers. Why not have a similar scheme for small investors also ? This will provide welcome relief to retail investors who owe untraded shares in large numbers and who feel cheated by the system. It would also create a new investment climate.

9. DO NOT RUSH FOR INDEX FUTURES TRADING:

It is falsely claimed that index futures trading unlike option trading provides portfolio hedging. It only facilitates a kind of programme trading with high leverage which could create extra risk in the market. Secondly, the number of index portfolio holders in India is very small to make it a competitive market. The markets in India are already highly speculative. The delivery based cash market is so thin that arbitrage between futures and cash market is almost impossible. In the absence of such arbitrage, the futures market would have its own life without any link to the cash market. It would also become unwarranted welcome for foreign hedge funds which are very vola tile and move across the countries. Most of the countries in our stage of market development do not have futures trading and the ones which are having it are abandoning and/or putting restrictions on their operations because of the volatility it is causing to the cash market. It is also apprehended that if derivative trading is allowed, government would have to rescue some more public financial institutions within one year of commencing such trading. Examples of Hongkong and Singapore from South-East Asia are not relevant, they are more of off-shore financial centers without having a hinterland economy. Off-shore derivative trading on Indian stock indices is an unfounded fear not worth losing sleep over.

10. ROLE OF FOREIGN FINANCIAL INSTITUTIONS (FIIS):

Contribution made by the Foreign Financial Institutions (FIIs) to the Indian capital markets should be reviewed. Despite the proverbial Oliver asking for more, FIIs have had a free run in our country. SEBI is always looking over its shoulder that its rules do not displease FIIs while taking Indian investors, big or small for granted. Five or six institutions which have made about 40 percent of the total FIIs investment of 8 billion dollars have placed them a dominant position in Indian markets. They have

rendered even the biggest Indian financial institutions helpless. Once mighty UTI has been left a mere spectator to be bailed out by the government. FIIs have bought in the best of Indian companies without contributing a single penny for new ventures. Their portfolio reshuffling is confined to top 100 scrips. Float in these blue chip companies has almost dried up rendering stock market operations highly speculative. The largest brokerage houses have become sub-brokers to foreign brokerage firms. One wonders whether the controls exercised by them are worth their contribution. Hence, it is pleaded that even at the cost of international criticism, restrictions must be placed on FIIs. FIIs are welcome to invest in the country but they must also participate in financing greenfield projects. Their activities should not be confined to only reaping benefits by investing of existing matured companies which have been nursed by small investors' risk capital.

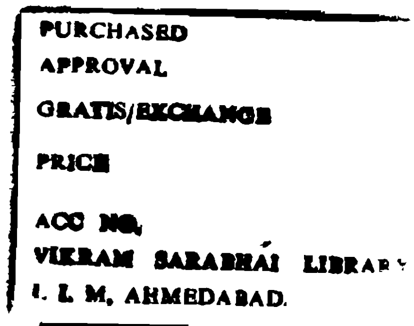
11. REVIEW THE STRUCTURE AND FUNCTIONING OF SEBI:

One had thought that, with the establishment of SEBI, there will be some conceptual thinking, some kind of vision before enacting laws to regulate capital markets. But lately, SEBI has turned itself into more of an administrative wing doing only a fire fighting job. For every single issue, a number of study groups and/or committees are constituted. In every committee, every interest group except the retail investor is represented to protect its immediate interests. For SEBI, regulation has become a political process seeking immediate consensus rather than developing a stable regulatory framework for capital markets. SEBI must have a think tank with experts from relevant fields and not merely an assembly of successful bureaucrats from various government agencies. The thinktank should help SEBI conceptualize a problem and help find a long term solution. SEBI officials, instead of looking for solutions abroad, should visit investment centers in India more often and listen to domestic investors'

concerns and suggestions.

There should be some permanence to the rules framed by SEBI. Continuous modifications and reviews, sometime on weekly basis, only help speculators and do not inspire confidence among investors. Some changes in the rules by SEBI and SROs get implemented even before they are publicly announced. SEBI has not been able to stop such violations. Retail investors want to see that defaulters are given exemplary punishment to have a deterrent effect on future violators. It would inspire a great confidence among retail investors.

Government must restructure SEBI, define its role, powers, staffing policy and its accountability to retail investors. It was supposed to protect the investor, but it is not sure who the investor is - institutions who are mere facilitators and intermediaries of saving-investment processes in the economy, or the retail investors who are providing risk capital from their hard earned savings.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