Recent Rule Changes in the Securities Markets and its Significance

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The Indian Securities market has seen tremendous growth and penetration in the recent past with a considerable increase in participation by retail investors. Just during the pandemic, 1.4 crores new investors registered with the National Stock Exchange of India Limited (NSE). The total number of registered investor base crossed 4.5 crores in July 2021 (unique PAN numbers) and cities beyond top 25 ranked cities in FY22[1] accounted for 66% of new investor registrations and cities ranked beyond the top 100 cities accounted for 40% of new investor registrations. This is heartening news for capital markets. But continued healthy growth requires a fair, credible and transparent market. With this objective and to safeguard the investors' assets lying with trading members, SEBI, NSE and other market infrastructure institutions (MIIs) have taken, during the past 2-3 years, various detective and preventive measures to protect investors' interest. As measures are strengthened, previous misconduct comes to light, which then helps regulators and MIIs to calibrate further responses.

Exchanges have changed their focus from monitoring of compliances during inspections to offsite monitoring of investor assets and margins, on an ongoing basis. Clearing Corporations in any case monitor margins on an online real time basis for each investor to keep the systemic risk low. Some of the other steps that decrease risk and protect investor assets:

- Investor funds lying with trading members are now being reported on a weekly basis and exchanges are setting up methods of corroboration and verification by seeking information directly from banks.
- A series of measures to control misuse of investors' securities, which was the primary cause of a number of trading member defaults, have been taken including discontinuation of running account of securities maintained by trading members. A new mechanism of margin pledge/re-pledge has been put in place under which securities provided towards margin by investors will remain the investors' account until required for settlement.
- In order to streamline the risk management framework of both cash and derivative segments, collection of upfront margins from investors in cash market segment has been mandated, with the introduction of collection of peak margins. This requires every investor to provide margins/ collateral to the trading members for their trades. In monitoring such collection, a certain level of certainty is introduced that investors' funds are utilized in a manner that the investors intended the use for.

Using technology tools, Exchanges monitor alerts generated on an ongoing basis because a focused and continuous approach of offsite monitoring is required to enable swift and effective actions against trading members that operate against the rules. Our offsite supervision strategy has ensured that alerts generated by the Exchange are analyzed and monitored without conducting an actual onsite inspection of the trading member.

Exchanges conduct forensic audits where there is a suspicion of misuse of investors' asset. Criminal and civil proceedings are also being initiated against members who have defaulted in their payment to their investors.

For effective functioning of the capital market, enhanced supervision goes hand in hand with investor education and awareness measures and despite all efforts, if a trading member were to default, easy settlement of claims. Exchanges investor protection actions consist of resolving complaints, framework for grievance redressal and arbitration (including appellate) and settling claims of investors of defaulted members. Investor measures include the following:

- Trade verification – Trading members send investor account related information within 24 hours of trade execution. Stock exchanges also send trade confirmation every day by emails / SMSs directly to investors' mobile / email. Investors can check their trade details every day on exchanges' website.
- Weekly statement of funds and securities balances are sent to all active investors. These weekly messages number more than 2.5 crores.
- Investor grievance redressal – SEBI and Exchanges have investor grievance redressal offices across the country. Investors can also complain electronically to SEBI and exchanges. All investor complaints are addressed in a time bound manner.
- Reduced and simplified documentation requirements for paying investors of defaulted trading members. Effectively, claimants have to submit relevant bank statement along with duly filled in claim form, identify verification and bank cancelled cheque at the time of claim lodgment.
- MIIs regularly conduct awareness programs for investors through seminars and advertisements to educate investors of their rights and obligations concerning trading members.

In addition to all the above measures, SEBI has also introduced investor collateral segregation which mechanism will become effective around the year end. This will ensure that systemically, MIIs can use collateral allocation information to ensure that the collateral allocated to an investor is used towards the margin obligation of that investor.

These investor measures are designed to increase the trust of investors in markets, particularly that of retail investors. But investors need to be aware of their obligations too. To achieve this objective, MIIs have spent considerable amount of time and resources so that investors exercise due care and caution in their securities dealings and do not fall prey to irrational claims and scams.

Lastly, exchanges run extensive surveillance and investigation departments and take appropriate actions including multiple surveillance measures to contain volatility, including higher margins, deposits and restricted trading frequency. Market abuse is identified through surveillance measures including price and volume alerts and monitoring for market abuse activities like spoofing, front running, insider trading, layering, and the like. Hotlines are available for anonymous reporting of market abuse practices.

Any increase in investments by retail investors in capital markets is to be welcomed. Success of a deep and liquid capital market depends not only on policy initiatives but also proactive measures to detect and control wrongdoing. It is our hope that the above steps will act as the foundation for sustained interest in Indian capital markets.

[1] Period from April 1,2021 to July 25, 2021