

INVESTOR FUND

Need for change

Investor protection funds are largely underutilised

In accordance with the guidelines issued by the Union ministry of finance, Bombay Stock Exchange (BSE) set up an Investor Protection Fund (IPF) in July, 1986. The primary objective of this fund, run as a charitable trust and managed by trustees comprising public representative, investor association representative, board members and exchange officials, is to protect and safeguard the interests of investors in case of any default by a member of the exchange, as also to promote investor education and awareness on a regular basis.

The Investor Protection Fund Trust, based on the recommendations of the Defaulters' Committee, compensates the investors to the extent of funds found insufficient in defaulters' account to meet the admitted value of claim, subject to a maximum limit of ₹15 lakh per investor. This compensation amount has been progressively raised by the exchange from as low as ₹10,000 in 1988 to the present level. The last revision was performed in December 2009.

The BSE IPF which has a corpus of ₹636 crore as on 31 March 2013, is also used for conducting investor awareness programmes across the country in association with Investors' associations registered with SEBI, educational institutions, professional and industry bodies like ICSI, CII, ASSOCHAM and FICCI towards the development of the capital markets. On an average, the exchange arranges around 2,000 such programmes annually.

"The IPF corpus is meant for payment to investors in case any broker defaults on a transaction done on BSE. Besides, we conduct a series of awareness programmes in association with SEBI and other bodies for the development of the capital market," says Ashishkumar Chauhan, managing director and CEO of BSE which has built up this fund through trading members' contribution of one



Dogra: good use

paise per ₹1 lakh of gross turnover. Moreover, the exchange also contributes on a quarterly basis 2.5 per cent of the listing fees collected by it. As also the entire interest earned by the exchange on 1 per cent security deposit kept with it by the companies making public/rights issues is credited to the fund. "Among various other sources, every time someone transacts on BSE, 0.001 per cent of the transaction charges received by BSE goes to the IPF," adds Chauhan.

Investor awareness

In line with BSE, NSE also has a fund with similar objectives. Market observers have estimated the size of the fund at around ₹700.

"Basically the idea behind having such funds is to protect investors by education first and then from defaults while trading. This is hence of good use even for exchanges which are able to address these issues without having to draw from its own funds," says D.R. Dogra, managing director, Care Ratings.

Even as the incidents of default have been negligible, exchanges say that they have been conducting various programmes related to investor awareness on a regular basis. This apart, BSE manages eight service centres in Delhi, Kolkata, Chennai,

Ahmedabad, Kochi, Rajkot, Kanpur and Indore for attending investors' complaints against members and making available arbitration mechanism for the local investors. As part of the Investor education process, BSE publishes research reports for the tiny traded companies. Till date, the exchange has published 1,410 such research reports, available on its Website for the benefits of investors.

"Moreover, as part of the financial inclusion plan of the Union government to spread financial education across the country we have tied up with various business channels like Bloomberg India TV, Zee Business, CNBC TV 18, CNBC Awaaz and Doordarshan to educate the investors," states a BSE official.

However, experts believe that these funds are underutilised to a large extent and hence there is enough room for improvement. According to them, the entire compensation process remains quite cumbersome and so there is need to rationalise the whole process for speedy redressal of claims. Besides, the fund has also fallen short in creating the desired level of awareness and educating the investors. "There is scope for improvement. There is a lot left to be desired in terms of educating the retail investors, the participation of whom in the capital markets has dwindled over the years. These funds could be more robust in nature," says M.T. Raju, director, Indian Institute of Capital Markets.

"There are not many cases of defaults in the past. Hence, these funds could have been done better in terms of educating investors, particularly retail ones who have tried to keep themselves away from stock markets," states Arun Kejriwal of Kejriwal Research and Information Services.

All said and done, it is high time that stock exchanges and regulators geared up to put in place an adequate risk mitigation mechanism through educating investors on a much holistic manner. A large section of retail investors still lacks the knowledge and wherewithal and hence don't enjoy the desired comfort to participate in the capital market.

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