

## **A Critical Review of New Issue Market Reforms**

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### **Abstract**

New issue market is an integral part of capital market. The decade of 1990 has witnessed the emergence of securities market as a major source of finance for trade and industry. The process of deregulation and liberalization has led to a speedy pace of growth during the first half of nineties, marketing almost unparalleled growth in the history of any nation. New issue market is the market for long term funds. This market consists of individuals, methods, institutions, services and practices engaged in raising fresh capital for both new and existing companies. This Market deals in only new securities which are acquired for the first time. This paper is an effort to critically study the reforms in issue market as well as grievance settlement procedure for investor protection.

Keywords: new issue market, financial institutions, financial markets, grievance settlement procedure, investor's protection.

### **Introduction**

An efficient, articulate and developed system is indispensable for economic and industrial growth of a country. The process of economic development is accompanied with parallel growth of financial institutions. The financial system and financial institutions foster the way for generously rising current income into savings or investments. The financial system is a set of institutions, instruments and markets which encourage savings channelising them to most efficient uses. The financial institutions are business

organizations which act as mobilizes and depositories of savings; and as purveyors of credit and finance.

Financial Institutions may be categorized mainly on two bases. One, on the basis of their main activity, the degree of their Specialization in relation to savings and borrowers with whom they deal. And other, on the basis of the process under which they are created. The financial institutions primarily transfer funds from surplus sectors (Lenders) to deficit sectors (Borrowers) in such a way as to redistribute the unavoidable risk associated with the cash flows.

Financial Markets are also classified as primary or new issue market and secondary market. The primary market deals in new financial claims. While secondary market deals in securities already issued. Although, different financial institutions according to their specialization have different functions to perform but there do exist overlapping with regard to the primary objectives of establishing a link between the savers and the borrowers. Savings and investments are the two important components of financial markets.

### **Objectives of the study**

The main objectives of the study are as under:

- To make critical review of new issue market reforms.
- To study the grievance settlement procedures and bring out how far these have resulted in investors' protection.

### **Reforms in new issue market**

The recently introduced reforms which are taken in new issue market are as under:

- **Norms For Idrs Notified**

Sebi framed the disclosures and other requirements for companies willing of issuing indian depository receipts in india. Sebi limited the requirements of size of issue, subscription of issue and disclosures to be made in prospectus of issue i.e. general information, offering details, offering details, financial informations among other requirements.

- **Continuous Listing Requirements**

As far as condition of continuous listing is concerned, listed companies are required to keep a minimum level of public shareholding at 25% of total shares issued. Sebi has also justified a transparent mechanism for compliance of continuous listing requirements for non-compliant companies.

#### **Shareholding Pattern**

Sebi has mentioned that shareholding pattern will be communicated by listed companies under 3 categories viz. “shares held by promoters and promoters group”, “shares held by public” and “shares held by custodian and against which depository receipts have been issued”.

- **IPO Rating**

Sebi has specified that the issuers have to mention on the cover page of offer document that they have selected for an ipo grading by rating agencies. If issuers choose for a grading, they are strictly required to communicate the grades in prospectus and abridged prospectus.

- **Qualified Institutional Placement**

Sebi has framed an effective method of raising funds known as qualified institutional placement from indian securities market through private placement of securities or bonds through qualified institutions buyers.

#### **Investors’ Grievance Settlement Mechanism**

The indian economy has witnessed spectacular changes in various fields. One among them is rising demand for financial products. Investment consciousness about industrial securities and other financial assets has spread fast among the investors which is symbolized by growing financialization of household sector savings. However, many companies, owing to their apathetic attitude curtailed the enthusiasm of common investors. Several companies have failed to provide proper services to the investor community.

## **Problems of Investors**

- The increased number of investors' complaint against companies, published in financial dailies like 'the economic times' and 'the financial express' indicate the growing quantum of investors' discontent. The basic reason of discontentment is the lock or break of dialogue between organization and investors.
- Another problem of the investors is the poor liquidity in indian stock market.
- One of the problem which find its mention in 'the economic times' has been the curtailing of supply of application forms.
- Some of the companies have posed the problem for their investors with respect to "right issues" as the shareholders remained unaware about the opening and closing of right issues due to lack of notification.
- Another major problem of new issue market relates to the excessive premium on the issues, which does not satisfy the criteria of justification.

## **Investor's Protection**

Investors are the back bone of the securities market. The investors' protection is a wider term which includes the various measures taken by government and sebi to protect the investors interest. Since the investors' confidence is an essential pre-requisite for growth of capital market. So, it is necessary to generate their confidence in capital market. For boosting their confidence, it is essential to ensure availability of adequate, upto date and correct information to investors, so that they can make the cost and benefit analysis before investment. The government, sebi and stock exchange authorities are working as watchdog through rules, regulations and control mechanisms. Many reforms have taken place in new issue markets and secondary markets to protect investors in the recent past.

Despite all the precautionary measures by the regulating authorities and investors, certain grievances and issues arise in the capital market. The complaints of investors come mainly against:

- I. Member brokers of stock exchanges.
- Ii. Companies listed for trading on stock exchanges.

in addition to the above, the complaints against sub brokers, agents, issue managers, merchant bankers etc. can also be seen. But the stock exchanges can not entertain the complaints against these as per their rules.

- **Complaints Against Brokers**

Investors make complaints mainly against sub brokers, agents and brokers regarding the price, quantity, defective delivery, delayed delivery and payment and non-payment etc. The grievances against brokers are as follows:

- a. Non-issue of contract note.
- b. Non-delivery /delayed delivery of securities.
- c. Non-payment/delayed payment for selling of securities.
- d. Changing for purchase at the rate higher than the exchange prices.
- e. Charging brokerage for selling and purchasing of securities at higher price.

Non-passing of corporate benefits to the purchaser

- **Complaints Against Companies**

The common grievances of investors regarding companies are as follows:

- a. Delay in transfer or delay in dematerialization.
- b. Non-payment or non-delayed payment of dividend.
- c. Non-receipt of notice of meetings.
- d. Non-receipt of annual reports.
- e. Non-payment/delayed payment of fixed deposits.
- f. Non-receipt of right share offer.

## **Redressal of Grievances**

The removal of grievance can be studied under the following heads:

- **Grievance Cells**

SEBI has a separate investors grievances and guidance division at head office for the redressal of investors' grievances. The grievance letters received by cell are classified into different categories to further strengthen investors' confidence and market safety. It was decided to set up an investor grievances redressal cell (igrc)

in the department of economic affairs (dea). This cell will coordinate the efforts of regulatory agencies, viz. Rbi, sebi and dea to redress investors' grievances.

- **Investor Protection Cell**

All the exchanges have an active and efficient dispute resolution mechanism. The investor service cell is established to look into the investor's grievances against the listed companies and stock brokers. It also settles the disputes between investors and trading members and among the trading members. The stock exchange authorities are authorized to delist the specified companies for specified periods. Now, the investors are being given with the right to name arbitrator.

- **Trade Guarantee Fund**

The bse created the trade guarantee funds in 1997. The main objectives are as under:

- a. To ensure timely completion of settlement of contracts and thereby protect the interest of investors and members of exchange.
- b. To build confidence in the minds of secondary market operations.
- c. To guarantee the settlement of the bonafide transactions of members to exchange inter-se which forms a part of stock exchange settlement?
- d. To protect the interest of investors, promote the development and regulate the secondary market.

A defaulter's committee having 60% public representatives is set-up to manage the fund. The failure of the members to meet his obligation on pay-in-day to the clearing house is informed to executive director or president of the exchange. The president or governing board or any two elected directors after giving two hours notice to the defaulting member declare him as defaulter. Now, the defaulter's committee has to pay the unpaid settlement dues of the defaulter to the clearing house before the payout.

## Conclusion

Although sebi has been very active in issuing frequent guidelines and modifications, but still there has been a lot of abbreviations in the functioning of new issue market. The current market scenario in new issue market has rendered the investors suspecting whether the new issue market is actually as attractive as it proclaimed to be. The small investors started feeling short of expectations and lended themselves to less fortunate position. The trends and practices prevalent in the market have created the need for investors' protection. In order to strengthen the investors' protection, there is an urgent need for setting up investors information centre. The objectives of such centre should be to educate the investors about the intricacies in stock business, train the investors by way of programs, courses and seminars about how to read and evaluate the company prospectus and reports. Further, a judicial forum is required to redress investors' grievance concerning award of compensation.

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