PN-ACB-451
95478

Certification and Testing of Capital Market Intermediaries for Securities and Exchange Board of India

Financial Institutions Reform and Expansion (FIRE) Project

May 1997

Financial Institutions Reform and Expansion (FIRE) Project
US Agency for International Development (USAID/India)
Contract #386-0531-C-00-5010-00
Project #386-0531-3-30069

Price Waterhouse LLP
1616 North Fort Myer Drive
Arlington, VA 22209
Tel. (703) 741-1000
Fax (703) 741-1616

Financial Institutions Reforms and Expansion (FIRE) Project
128. T. V. Industrial Estate
Worli, Mumbai 400 025
Telephone: 4946630, 4963599
Fax : (91 22) 4963555

Price Waterhouse LLP

May 2, 1997

Mr. Vijay Ranjan
Executive Director
Securities and Exchange Board of India
Earnest House
Nariman Point
Mumbai 400 021.

Dear Mr. Ranjan,

Re: Certification and Testing of persons joining Capital Market Intermediaries

At your request and as a part of our contract with the US AID, Mr. Tom Keyes, President, Securities Services International and Price Waterhouse Capital Markets Consultant, continued his assistance to Securities and Exchange Board of India on developing and implementing a certification and testing model for intermediaries in the Indian capital markets.

Purpose of Activity

The purpose of this project was to assist the Committee for Certification of Persons joining Capital Market Intermediaries (*The Committee*) appointed by Securities and Exchange Board of India in finalizing its recommendations on the certification and testing process.

Activities Undertaken

The Committee for Certification was formed by SEBI to provide recommendations on an acceptable program for testing and certification of market intermediaries. The Committee was assisted by Mr. Keyes in the creation of a consultative paper on the subject of certification which was published by SEBI in January, 1997. This consultative paper included the syllabus for the proposed exam, which was developed with the assistance of Mr. Keyes.

The Committee received a number of comments and deliberated on them in its meeting on March 6, 1997. The enclosed draft report has been created after considering the Committee's deliberations and our comments.

The Draft Report of the Committee

The creation and successful implementation of the testing process will go a long way in professionalizing the Indian securities markets and would build investor confidence and faith in the markets. Without investor faith in the ability and professionalism of the market intermediaries the markets will not be able to expand and without a healthy growth of the capital markets Indian industrial development will be adversely affected.

The draft report of the Committee makes recommendations regarding the testing and certification process.

The Committee has recommended a gradual approach to certification starting from one exam of voluntary nature and moving to mandatory testing in two years. The syllabus incorporates the knowledge required for performing critical functions for the investor intermediary. The focus of the initial test is on professionalizing the investor interface as that has been recognized as the most critical part of the market.

The Committee has recommended setting up of a Standing Committee to oversee the examination process and an Examination Committee to develop and maintain the question bank.

Next Steps

Qualification, certification and registration of all market intermediaries are among the most significant issues facing the securities industry that need to be resolved urgently.

The importance of this exam to the Indian capital markets cannot be exaggerated. It is critical that SEBI initiates early action on the recommendations of the Certification Committee. SEBI needs to approve the report of the Committee so that the process as laid down by the Committee in its recommendations can be initiated. The establishing of the Standing Committee and the Examination Committee as soon as possible would help move the process forward.

If the process of establishing the exam is initiated in July 1997, and the committees established soon thereafter, we can aim at administering the first exam during November/ December of 1997.

A number of things have to be done before the first exam is administered. The implementation requires the preparation of a question bank, arranging for test administration, preparing the market place with information and seminars, assisting training institutions to prepare others for the test, conducting sample exams to test the examination and the process. After the test the answers have to be statistically examined to determine and eliminate ambiguous questions. The tests may then be corrected again and participants notified.

The process would needs to be refined with experience and that should take the administration of at least three exams.

We at the FIRE Project and Mr. Keyes would be pleased to offer our assistance throughout this process.

The FIRE Project under this contract shall continue till October 1998. We hope that we shall have the three exams by October 1998, and request your cooperation in being able to achieve this.

For the success of this project the participation and cooperation of your management and staff is essential. We would like to thank you and your colleagues at SEBI for the time, courtesy and cooperation extended to us during the course of this project.

Please get in touch with us at the FIRE project for any clarifications or further information you may require.

Thanking You,

Sincerely,

W. Dennis Grubb

W. Dennis Grubb
Principal Consultant

Certification and Testing of Capital Market Intermediaries,
for
Securities and Exchange Board of India

Price Waterhouse LLP
Mumbai
May 1997

5

DRAFT REPORT

THE COMMITTEE
FOR
CERTIFICATION AND TESTING
OF
PERSONS JOINING CAPITAL MARKET INTERMEDIARIES

to be issued by: Securities and Exchange Board of India,
Primary Market Department

May 1997
Mumbai

6

Table of Contents

I. Introduction 1

II. The Committee for Certification. 4

III. Objectives of the Committee 5

IV. Analysis of Issues and Recommendations . . . 6

V. Summary of Recommendations 16

APPENDIX

A. Draft Syllabus for Certification Test

CHAPTER 1. INTRODUCTION

Investor Protection is the central ethos of the existence of SEBI. The other functions of SEBI such as those involving the development and regulation of the capital markets have the common basic objective of investor protection. As another measure in this direction it is felt that improvement in the quality of intermediation in the securities markets would go a long way in improving investor protection. The quality of intermediation in the securities market forms the basis of investor confidence. The investors' perception of the quality of intermediation, depends on the conceptual and practical understanding of the intermediaries and also of the persons employed with the intermediaries, about the various facets of the securities industry and on their ability to provide fair and competent advice. Therefore, the persons working in the industry should realize the responsibility they shoulder and must be aware of the consequences their actions have on investors. It is essential that they are well equipped to play their designated role in the securities industry. It is, therefore desirable that any person appointed in any position with an intermediary institution or self employed in the industry has the necessary professional standard.

The Capital markets of the country are undergoing a transformation process marked by:

- Shifting investment preferences of investors from banks to capital markets and a steady increase in the number of investors.
- Increasing dependence of the corporate sector on capital market away from the traditional sources of finance like banks and financial institutions.
- Increasing automation and institutionalization of the capital markets, along with an increasing sophistication in capital market operations with the advent of screen based trading, depositories, a variety of mutual fund schemes etc.
- Increasing level of awareness among investors.

This transformation, which is essential for the development of the Indian capital markets, can be sustained only by ensuring that well qualified and trained personnel, who are willing to continuously update their skills, enter the securities industry to assist investors. The industry is in a continuous state of change with new skills being required for all the functional areas. For instance, the business of stock broking is radically different now from what it was in the past. A stock broker learned the intricacies of the business through family traditions or through working with a stock broker. However, in the fast changing scenario of today, such traditional learning of skills may not be enough and there is a need for professional and specialized training for the persons entering the industry.

There is a large work force engaged in the capital markets with varying levels of professional qualifications, skills and experience. Some of these persons have the desired levels of professional standards while others may fall short. Moreover, there are a variety of functions in the securities industry that need different levels and nature of specialization and orientation. There is a need to match the skill level of these market players with the functions they perform.

While there are no standards of qualifications for employment in the industry, the preferred qualifications are M.B.A., C.A., C.S., M.Com., Diploma in Computers etc. Skills are learned on the job and presently there is no formal education or training on capital markets especially in the area of operations, except some short term courses and seminars conducted by some institutions. Therefore, the industry needs to have a system of certification that would establish minimum standards for industry participants and enhance professionalism in the capital market.

New exchange members need to fulfill certain basic requirements to be eligible for admission as members of any stock exchange. These are provided under the Securities Contracts (Regulation) Rules, 1957 and SEBI (Stock Brokers and Sub brokers Rules and Regulations, 1992). Further, the Ministry of Finance at the instance of SEBI, prescribed in November 1989, an authorization criteria and a uniform selection process to be followed by all stock exchanges for admission of new members.

The new member authorization criteria consists of educational qualifications, experience, financial solvency and interview performance. SEBI subsequently decided that the candidates should also undergo a written test which should also form part of the selection process for new members. New exchange members are the only industry members that have been required to pass a qualification examination.

Similar practices are followed in most of the developed markets and are being introduced in the newly emerging markets around the world. The United States started testing in the late 1950s with a single test. This was developed over time with specialized testing for specific market areas and for different function levels such as sales and sales supervision. The U.S. industry now has 22 separate securities tests for supervisors and sales people. The United Kingdom started with one test, in the mid 1980s, and now has testing and certification for various market professionals. Other countries like Zambia and Indonesia etc. have begun certification either by testing or through specialized courses followed by testing. Countries like Sri Lanka, Tanzania, Lithuania etc,. have also initiated this process to improve the quality of their markets.

As the testing process developed over time, tests were adjusted to markets that became more complex, to match the level of knowledge required to enter the securities industry.

The Securities and Exchange Board of India under Section 11 (1) of the SEBI Act, has the duty to take such measures as it deems fit to promote the development of, and to regulate the stock market. Section 11 (2) (f) describes training of intermediaries as one of the measures that could be taken up by SEBI for the functions laid out in Section 11 (1).

Taking into account the international experience and the needs of the Indian markets, SEBI considered Certification by examination for persons operating in the markets. Moreover, such standardizaton will also assure the clients dealing with such personnel about their level of knowledge.

The Committee released a consultative paper in January 1997, presenting the views of the Committee on the various relevant issues. The Committee wished to obtain the comments of the market participants, investor associations and professionals etc. on the various aspects of certification before finalizing its report. A number of comments were received from several organizations, institutions and individuals. The Committee places on record its appreciation to all those who responded to the consultative paper. The Committee has considered all these comments before finalizing this report.

CHAPTER II. THE COMMITTEE FOR CERTIFICATION

With a view to achieving the objectives as laid out above and deciding on this key issue for the industry, Chairman, Securities and Exchange Board of India established a Committee in October 1995, to lay down standards of certification for persons operating in the Capital market.

The Committee consisted of the following persons:

Shri N. J. Yashaswy, Institute of Chartered Financial Analysts of India.
Dr. Tripal Raju, UTI Institute of Capital Markets.
Shri Uday Kotak, Kotak Mahindra Finance Company Ltd.
Shri Ajit Dey, Member, Calcutta Stock Exchange.
Shri K. N. Atmaramani, Tata Asset Management Company Ltd.

The Committee was chaired by Shri Vijay Ranjan, Executive Director, Securities and Exchange Board of India and Shri Vivek Kulkarni, Division Chief, Securities and Exchange Board of India at that time, was nominated as the Member Secretary. The Committee was assisted by Mr. Tom Keyes, Capital Markets Consultant, and Shri Paritosh Sharma, Securities Market Specialist, of Price Waterhouse under the Financial Institutions Reform and Expansion (FIRE) Project of the U.S. Agency for International Development (*US AID*). Dr. G. Sethu , Professor, UTI ICM also assisted the Committee in the preparation of the syllabus.

CHAPTER III. THE OBJECTIVES OF THE COMMITTEE

The Committee was mandated to prescribe the standard of knowledge necessary for different types of specialized functions in the security industry at operational and supervisory levels. Individuals aspiring to join the securities industry in any capacity would be required to pass the examination designed by the Committee. The candidates who qualify in the examination would be awarded a certificate based on which they would be able to operate in the industry. The Committee was also to outline the eligibility criteria, examination process and other administrative details related to the proposed test.

The Committee was specifically required to look into the following:

1. To identify the eligibility criteria for applicants taking the test.
2. Any exemptions from the requirements to test.
3. To prepare the syllabus and design the test.
4. To oversee the preparation of the study material.
5. To recognize the institution/s that could conduct the examination.
6. To lay down examination procedures and procedures for award of certificates.
7. To define the code of conduct for those who qualify.
8. To decide on continuous testing criteria for updation of skills.
9. To set up procedures for updation examination, if required.

12

CHAPTER IV. ANALYSIS OF ISSUES AND RECOMMENDATIONS

The Committee met on several occasions and distilled a list of relevant issues that needed to be focused upon. These issues were listed based on the existing qualification standards of the Indian capital market intermediaries, prevalent certification systems in the International Capital markets and the current and future needs of the Indian Capital Markets.

These issues were discussed considering the experience of other countries in the context of Indian markets, with the objective of developing a suitable model for the Indian market which would be in line with international standards.

After due deliberations, the Committee decided that an examination based certification system is ideal to meet the needs of the Indian capital markets. The essential features of this system, the issues listed and discussed by the Committee and the recommendations of the Committee are discussed in this chapter.

4.1 Certification: Voluntary or Mandatory

During the deliberations of the Committee, it was felt that there is a need to establish a basic minimum standard for all persons operating in the industry. However, the Committee felt that this should be pursued as a longer term objective and to begin with such certification should be accepted by the market as a value addition to their quality of intermediation, thus making the testing process voluntarily acceptable. Voluntary testing initially would also ensure that the quality and standard of the test shall be designed to attract industry participants.

However, the Committee was firmly of the opinion that though the test should be voluntary to begin with, considering the importance of developing and maintaining a minimum acceptable standard of intermediation, it should be made a mandatory requirement for operating in the industry, from an appropriate future date.

The Committee recommends that,

- **the test be offered on a voluntary basis in the initial period and the test be so designed that the market perceives value addition in the quality of intermediation.**

- **the test be made a mandatory requirement after a period of two years from the date of the first test.**

4.2 Rules regarding mandatory testing

The Committee discussed at length about the possibility of making all the staff employed with intermediaries take the test, and considered the expected response from the market, the hardship for persons already operating in the industry on the date of implementation of mandatory testing and the administrative issues in conducting a test for a large number of people.

The Committee also discussed the course curricula of professional examinations and the skill requirements of market intermediaries with reference to the knowledge of operations and procedures of the securities market.

The Committee recommends that after the date on which this test becomes mandatory,

- **every person irrespective of higher/ professional qualifications should be required to pass the certification test prior to seeking employment with a capital market intermediary, subject to the conditions laid down below.**
- **no person shall be employed by a capital market intermediary unless he / she has passed the certification test or passes the certification test within a period of 12 months from the date of employment.**
- **two persons or 20% of the existing staff, whichever is higher, employed with the capital market intermediary shall have to obtain the certificate within 12 months from the date on which the test becomes mandatory.**
- **any person who has not been active in the securities markets i.e. who has not been employed with a market intermediary or who has not been self employed in the industry, for a period of two years or more, shall be required to pass the certification test, within a period of 12 months from the reemployment.**

4.3 Exemptions

The Committee considered testing for intermediaries that have been active in the securities industry and felt that due to the fast pace of development in the Indian Capital Markets even these persons need to upgrade their skills and the test shall add value to them. It was also felt that even though certain exemptions may be necessary keeping in view the Indian market conditions, these exemptions should be minimized.

After detailed deliberations the Committee recommends that, exemption from the requirement of mandatory testing be granted only to those persons who have attained the age of 50 years on the date when the test becomes mandatory and having an experience of at least 10 years in the capital markets at that time, being employed with a SEBI registered capital market intermediary.

4.4 Single or Multiple Testing

The Committee, in its deliberations, felt that the securities industry has different specializations which require different levels and nature of skills and knowledge for different participants. For example, an employee of a merchant banker requires different skills than an employee of a registrar or a broker. Each intermediary takes decisions regarding suitability, while selecting employees for different specialized functions. However, in the absence of any minimum criteria test, as is being proposed now, the intermediary does not have an assured minimum level of skill or knowledge of the prospective employees to choose from. In this context, therefore, the Committee felt that each of these functional segments, should be tested separately for their respective skills and the required levels of knowledge.

However, the Committee agreed that such specialized multiple testing should be a long term objective, after the concept of testing and the attendant benefits to market players are widely accepted.

Therefore, the Committee recommends that,

- **the certification exam system be introduced, with a single common test for all market intermediaries.**
- **specialized tests should be introduced for different market participants at a later date, as required by the market conditions.**
- **the self regulatory organizations if any of the specific market segments for which specialized testing is to be introduced, be involved by SEBI in developing the syllabus at the time such specialized testing is introduced.**

4.5 Period of Validity

The Committee recommends that the certificate will be valid for life and the candidate will not be expected to take the test again, as long as he/ she is active in the securities industry.

However, the Committee felt that with the introduction of new functional areas in the securities industry specialized skills would need to be developed by market participants employed in these areas.

The Committee recommends that SEBI should prescribe specialized tests as a precondition for intermediaries operating in new markets and in new products such as derivatives, etc., at a later date.

4.6 Action in case of non compliance

The Committee feels that it is important that SEBI form and implement penalty measures for non compliance with the testing requirements.

The Committee recommends therefore that, the intermediary that violates the minimum number of employees norm should be deemed to be automatically

15

deregistered from the date of the said violation.

4.7 Test focus

Brokers, their employees, sub brokers and mutual fund agents etc. act as a link between the market and the investor. They exert considerable influence on investors' decision making, since they are perceived as having market information and expertise in evaluating various investment products. This perception needs to be sustained and strengthened which can be achieved only if persons having the requisite functional knowledge and skills interface with the investors.

Presently, there are no requirements for a person proposing to enter the industry other than the recently prescribed qualifications for new membership on exchanges. For example a person intending to become a sub broker simply declares himself as a sub broker and commences business.

There are thousands of brokers, their employees, sub brokers, mutual fund agents vying for the investor's money. The Committee felt that there was an urgent need to educate and professionalize this segment as these intermediaries were responsible for maintaining investor confidence in the markets. Moreover, as this segment has an investor interface, the process of investor education will also be accelerated with an improvement in the quality of these intermediaries. This examination should aim to improve the level of knowledge of these intermediaries.

The Committee recommends that,

- **the focus of this test initially, should be the most critical market intermediaries i.e. the brokers, their employees and sub brokers, who have the investor interface.**

- **all market participants would be welcome to take the exam, even though the focus of testing, to begin with, shall be the brokers their employees and sub brokers.**

4.8 Syllabus

The proposed qualification examination is intended to safeguard the investing public by ensuring that brokers and sub-brokers are competent to perform their functions. The examination will seek to measure whether a candidate possesses the requisite knowledge and skills to competently perform the critical functions.

Critical functions performed by brokers and sub-brokers in their dealing with the investing public were identified and deliberated upon by the Committee. Proceeding from its deliberations, the Committee identified the specific areas, the knowledge of which was

16

required to perform each critical function competently.

The syllabus for the examination and the examination have been formulated after keeping in mind the educational level and the functions performed by these intermediaries. The syllabus therefore, should prove useful as a means of understanding the purpose and nature of the exam and an introduction and guide to the basic subjects tested by the exam.

The examination will cover relevant areas so that the intermediaries are able to assess the investor's risk profile, suggest a menu of investment choices, help the investor with the paper work, appraise them of their rights and guide them in remedying their investment problems.

The committee recommends a syllabus that has seven sections broadly categorized as Investor Profile, Investment Products, Investment Math, Investment Procedures, Rules & Regulations, Investor Protection, Ethics & Codes of Conduct. The syllabus is attached to this document as Appendix A.

4.9 Eligibility

The Committee felt that persons should be encouraged to augment and supplement their knowledge through the test without concern for their educational or occupational qualifications. Therefore, the Committee after its deliberations proposed that there is no need to prescribe any pre qualification eligibility requirements.

The Committee recommends that the examination can be taken by anyone, irrespective of qualifications, age, employment or experience. However, the syllabus and the examination have been designed to be suitable for candidates with at least 12 years of schooling.

4.10 Frequency of Testing

The Committee recommends that,

- **the tests should be conducted twice a year, at an approximate frequency of six months.**
- **The frequency of the test can be increased, depending on the response from the market and the number of applicant candidates.**

ADMINISTRATIVE STRUCTURE

The Committee for Certification recommended the following administrative structure for efficient implementation of the steps suggested.

4.11 Standing Committee

The Committee recommends that a Standing Committee may be formed to take further decisions for enhancing professional standards in the securities industry.

Functions

The functions of the Standing Committee should include the following:

- periodically reviewing:
    - the syllabus,
    - testing standards,
    - the examination patterns
    - the test adminstration, and
- sponsoring and developing a Self Regulatory body to take over the role of the Committee.

The Constitution

The Standing Committee may be appointed by Chairman, Securities and Exchange Board of India. Persons with highest standards of professional achievement in public, private, or academic sector may be appointed.

- The Standing Committee should be broad based with representation from different regions, stock exchanges and intermediaries.
- While constituting the Committee, fair representation should be given to intermediaries, academic researchers, investor representatives and professional bodies.
- Initially the Committee may have 3 members who are market intermediaries, 2 researchers, one investor representative and two members from the professional bodies.
- Rules should be created that would allow that the members could be removed for any professional misconduct, with two thirds of the Committee approving the removal.

- A suitable officer of SEBI should be appointed as Chairman and secretarial assistance be provided by SEBI.
- The Committee may co-opt any person for specific meetings. The co opted members should have no right to vote, but their views should be recorded in the minutes.

4.12 Examination Committee

The Committee also recommends that an examination Committee be formed by SEBI.

<u>The Constitution</u>

- The Examination Committee may be constituted out of the standing Committee with some additional members.
- This Committee should be appointed for specified periods.
- The Committee may have five members. It may be constituted of two professors of prestigious management schools, two intermediaries and one regulator.
- The Committee should maintain the highest standards of professional integrity.

<u>Functions</u>

The examination Committee shall be responsible for the following functions:

- maintaining an exhaustive question bank,
- updating lists of professors of reputed business schools and senior executives of reputed intermediaries who will participate in setting questions,
- deciding the weight age for each section and reviewing the syllabus.
- reviewing the performance of the specialized agency appointed to administer the test and proposing changes if necessary.

This Committee must function as an autonomous body and should not be a sub Committee of the standing Committee.

4.13 Secretariat

Chairman, SEBI may appoint a suitable officer and a secretary to provide the secretarial assistance to the Committee. The secretariat will be responsible to process all the administrative work related to the examination.

19

4.14 The Test:

The Committee feels the test should examine the entry level knowledge of selected functions based on the minimum criteria required for entering the securities industry. The Committee also feels that the emphasis in the proposed test should be on basic concepts rather than memory testing.

Therefore, the Committee recommends that,

- **a multiple choice test should be offered.**
- **the minimum passing score may be kept at 70%. However, the weight age for each section shall be notified in advance for the benefit of the candidates.**
- **the test can initially be administered in cities with stock exchanges.**

4.15 Standard of the test

The Committee felt that the standard of the test has to be sufficiently high for the applicants and the employers to feel that the test adds value. At the same time the test should be based on the minimum criteria that a person employed in the industry needs to have. This balance is essential for the success of the test.

The process of maintaining the quality of the test should be continued even after the first test has been administered as experience is gathered in the area.

The Committee feels that the examination Committee should form the test taking into account the need to maintain sufficiently high standards.

4.16 Application form

Information to be collected

The Committee recommends that, the application form should require applicants to provide all relevant information about their educational background and experience as well as information that would confirm the identity of the applicant.

Penalty for false information

The Committee also recommends that, SEBI should impose penalty of decertification for those persons who provide false information in the application form.

20

4.17 Certificates

The Committee recommends that,

- **each successful candidate should receive a certificate signed by the chairman of the examinations Committee and the member secretary.**

- **this certificate should have a unique number that shall be used by the Committee to maintain the database of certified candidates on a permanent basis.**

4.18 Test Administration

The test is best administered by a specialized agency. The Committee considered the ability of the Institute of Banking Personnel Selection, Mumbai for the purpose of administering the test. In the opinion of the Committee the institute has the right infrastructure to handle all aspects of test administration. They administer the IIM entrance exam as well as the State Bank of India probationary officers exam. They have several other public and private sector clients. In the recent S.B.I. probationary officers entrance exam, the institute handled 3.5 lakh applicants. The institute has 12 faculty members specialized in psychometric analysis. The institute has a capacity to handle all aspects of test administration including co-ordination with the examination Committee, maintaining a question bank, generating a random question paper, printing the test booklets, processing the applications, conducting exams all over India, tabulating and declaring results and maintaining the data base of both applied and successful candidates. The institute is willing to participate in the proposed activity.

Though the final decision on the agency lies with the Standing Committee, this Committee recommends that the Institute of Banking Personnel Selection, Mumbai, may be used to conduct the proposed test.

4.19 Finance

The certification work should eventually pass on to a self regulatory body and therefore the project has to be self financing. The main source of revenue would be the examination fee.

The fees should be sufficient to create and maintain a high standard of testing and administering the exam.

The Committee has proposed a system which would require keeping of records of successful candidates on a continuous basis as opposed to the other tests which are one time tests and the records of successful candidates are not kept after the process of testing is over for the year.

Also, the preparation of a challenging question bank for this test would be a costly exercise. The other tests like the IIMs, Banking entrance etc. are aptitude tests where a number of questions can be offered without much repetition. The certification test questions are expected to be more difficult to set as the questions have to be restricted to the specialized functions as defined by the testing criteria. The services of professionals from premier Institutes and also of reputed private consultants are required which will make the test preparation more expensive.

In view of these reasons the Committee recommends that an examination fee of Rs. 1500/= be charged to applicants.

22

CHAPTER V. SUMMARY OF RECOMMENDATIONS

5.1 Certification: Voluntary or Mandatory

The Committee recommends that,

- the test be offered on a voluntary basis in the initial period and the test be so designed that the market perceives value addition in the quality of intermediation.

- that the test be made a mandatory requirement after a period of two years from the date of the first test.

5.2 Rules regarding mandatory testing

The Committee recommends that after the date on which this test becomes mandatory,

- every person irrespective of higher/ professional qualifications should be required to pass the certification test prior to seeking employment with a capital market intermediary, subject to the conditions laid down below.

- no person shall be employed by a capital market intermediary unless he / she has passed the certification test or passes the certification test within a period of 12 months from the date of employment.

- two persons or 20% of the existing staff, whichever is higher, employed with the capital market intermediary shall have to obtain the certificate within 12 months from the date on which the test becomes mandatory.

- any person who has not been active in the securities markets i.e. who has not been employed with a market intermediary or who has not been self employed in the industry, for a period of two years or more, shall be required to pass the certification test, within a period of 12 months from the reemployment.

5.3 Exemptions

After detailed deliberations the Committee recommends that exemption from the requirement of mandatory testing be granted only to those persons who have attained the age of 50 years on the date when the test becomes mandatory and having an experience of at least 10 years in the capital markets at that time, being employed with a SEBI registered capital market intermediary.

5.4 Single or Multiple Testing

The Committee recommends that,

- the certification exam system be introduced, with a single common test for all market intermediaries.

- specialized tests should be introduced for different market participants at a later date, as required by the market conditions.

- the self regulatory organizations if any of the specific market segments for which specialized testing is proposed to be introduced, be involved by SEBI in developing the syllabus at the time such specialized testing is introduced.

5.5 Period of Validity

The Committee recommends that SEBI should prescribe specialized tests as a precondition for intermediaries operating in new markets and in new products such as derivatives, etc., at a later date.

5.6 Action in case of non compliance

The Committee recommends that the intermediary that violates the minimum number of employees norm should be deemed to be automatically deregistered from the date of the said violation.

5.7 Test focus

The Committee recommends that,

- the focus of this test initially, should be the most critical market intermediaries i.e. the brokers, their employees and sub brokers, who have the investor interface.

- all market participants would be welcome to take the exam, even though the focus of testing, to begin with, should be the brokers their employees and sub brokers

5.8 Syllabus

The committee recommends a syllabus that has seven sections broadly categorized as Investor Profile, Investment Products, Investment Math, Investment Procedures, Rules & Regulations, Investor Protection, Ethics & Codes of Conduct. The syllabus is attached to this document as annexure A.

5.9 Eligibility

The Committee recommends that the examination can be taken by anyone, irrespective of qualifications, age, employment or experience. However, the syllabus and the examination have been designed to be suitable for candidates with at least 12 years of schooling.

5.10 Frequency of Testing

The Committees recommends that the tests should be conducted bi annually at an approximate frequency of six months.

ADMINISTRATIVE STRUCTURE

The Committee for Certification recommended the following administrative structure for efficient implementation of the steps suggested.

5.11 Standing Committee

The Committee recommends that a Standing Committee may be formed to take further decisions for enhancing professional standards in the securities industry.

Functions

The functions of this Committee should include the following:

- periodically reviewing :
    - the syllabus,
    - testing standards,
    - the examination patterns,
    - the test adminstration, and
- sponsoring and developing a Self Regulatory body to take over the role of the Committee.

The Constitution

The Standing Committee may be appointed by Chairman, Securities and Exchange Board of India. Persons with highest standards of professional achievement in public, private, or academic sector may be appointed.

- The Standing Committee should be broad based with representation from different regions, stock exchanges and intermediaries.
- While constituting the Committee, fair representation should be given to intermediaries, academic researchers, investor representatives and professional bodies.
- Initially the Committee may have 3 members who are market intermediaries, 2 researchers, one investor representative and two members from the professional bodies.

- Rules should be created that would allow that the members could be removed for any professional misconduct, with two thirds of the Committee approving the removal.

- A suitable officer of SEBI should be appointed as Chairman and secretarial assistance be provided by SEBI.

- The Committee may co-opt any person for specific meetings. The co opted members should have no right to vote, but their views should be recorded in the minutes.

5.12 Examination Committee

The Committee also recommends that an examination Committee be formed by SEBI.

The Constitution

The Examination Committee may be constituted out of the standing Committee or with additional members.

This Committee should be appointed for specified periods

This Committee may have five members. It may be constituted of two professors of prestigious management schools, two intermediaries and one regulator.

The Committee should maintain the highest standards of professional integrity.

Functions

The examination Committee shall be responsible for the following functions:

- maintaining an exhaustive question bank,

- updating lists of professors of reputed business schools and senior executives of reputed intermediaries who will participate in setting questions,

- deciding the weight age for each section and reviewing the syllabus.

- reviewing the performance of the specialized agency appointed to administer the test and proposing changes if necessary.

This Committee must function as an autonomous body and should not be a sub Committee of the standing Committee.

5.13 Secretariat

Chairman, SEBI may appoint a suitable officer and a secretary to provide the secretarial assistance to the Committee. The secretariat will be responsible to process all the administrative work related to the examination.

5.14 The Test:

Therefore, the Committee recommends that a multiple choice test should be offered.

The Committee also recommends that the minimum passing score may be kept at 70%. However, the weight age for each section shall be notified in advance for the benefit of the candidates.

The test can initially be administered in cities with stock exchanges.

5.15 Standard of the test

The Committee feels that the examination Committee should form the test taking into account the need to maintain sufficiently high standards.

5.16 Application form:

Information to be collected

The Committee recommends that the application form should ask for all relevant information about the candidates educational background and experience as well as information that would confirm the identity of the applicant.

Penalty for false information

The Committee also recommends that SEBI should impose penalty of decertification for those persons who provide false information in the application form.

5.17 Certificates

The Committee recommends that each successful candidate should receive a certificate signed by the chairman of the examinations Committee and the member secretary.

The Committee also recommends that this certificate should have a unique number that shall be used by the Committee to maintain the database of certified candidates on a permanent basis.

5.18 Test Administration

Though the final decision on the agency lies with the Standing Committee, this Committee recommends that the Institute of Banking Personnel Selection, Mumbai, may be used to conduct the proposed test.

5.19 Finance

The Committee recommends that an examination fee of Rs. 1500/= be charged to applicants.

28

APPENDIX A

Draft Syllabus for Certification Test

Appendix

Draft Syllabus for Certification Test

The Report of the Committee for Certification
of Intermediaries in the Capital Market
set up by Securities and Exchange Board of India

May 1997
Mumbai

Section I Investor Profile

The purpose of this section is to introduce elementary techniques to determine the investors profile. The profile would contain the investors basic family information, income, present portfolio and risk tolerance. Based on a simple questionnaire the investors risk taking ability would be assessed. Appropriate class of investments would then be recommended to the investor. The section provides details on obtaining customers, appropriate communications, investor information, risk profile in the following paragraphs.

Obtaining Investors; Communications to Investors, General standards of truthfulness and good taste; Recommendations of securities; disclosure of current price, market making, other relevant information; Authentication of communications; Ethics and Code of Conduct that govern solicitations, investment advice and advertisements.

Obtaining Investor information; An advisor (Broker, Sub-broker, Portfolio Manager) should take reasonable steps to ascertain details covering the investor risk profile; financial profile; social profile: investor identification details; family; income; employment; age; investments; other assets; financial liabilities; other responsibilities; social standing; investment horizon; risk taking ability etc.

Investment Product Risk classification: Different products have different degrees of risks. An understanding of these is required for providing the best advice to the investor. Fixed Income Investments (Government (Public Sector) and Private Sector); Tax Oriented Investments; Growth Investments; Speculative Investments.

Providing Best Advice to the Investor; In line with investor needs; Should not make any specific recommendation without determining suitability for the investor; should inform relevant facts to investor before investing; to be satisfied that no other better investment opportunity is available.

Investor agreement.

Best Execution of Orders (best price; best advantage to investor)

Section II **Investment Products**

The purpose of this section is to introduce an array of investment products, that range from risk free government securities, corporate debentures, stocks to speculative investments like plantation schemes. The products are primarily classified into Fixed Income, Mutual Funds, Shares and Speculative Investments. The risk return trade off of each investment is also explored. The information presented in this section will help the applicant in recommending the right investment for an investor. This recommendation will of course depend on the investors risk profile which was explored in section I.

Fixed Income Investment products: Bank deposits; Central Government Securities; State Government Securities; Bonds issued by Local Authorities; Relief Bonds; Indira Vikas Patra; Public sector bonds; Cumulative Term deposits (CTD); Treasury bills; Commercial paper; Bill of exchange (HUNDI); Certificates of deposits; National Savings Certificates (NSC); Public Provident Fund; National Savings schemes; Retirement benefit plans; Post office small savings scheme; Company Debentures; Company fixed deposits; Deep Discount Bonds; Secured Premium Notes; Floating rate note (FRN); Zero Coupon bond; Zero-Coupon Convertible Bond; STRIPS

Features of fixed income products: Amount of Investment; Face Value / Par Value / Issue Price; Periodicity; Cumulative and/or Non-Cumulative; Maturity; Denomination; Interest Rate / Discount / Yield; Safety; Credit Rating; Secured / Unsecured; Convertible / Non-convertible; Put and Call Options; Conversion Time/s; Conversion Price; Premium; Front-end Discount; Interest Payment Periods; Redemption / Withdrawal Terms; Premature Withdrawal Terms; Loan availability; Taxation; Persons eligible to Invest etc.

Mutual Funds: Types and features; Asset Management Company's Offering Funds (AMCs); Close-end funds; Open-end funds; Growth funds; Income funds; Balanced funds; Index funds; Money market mutual funds; Equity Linked Tax Saving Schemes (ELSS); Sectoral fund; Off-shore fund/country funds; Speciality funds; Small companies funds; International funds; US 64 etc.

Shares: Preference shares; Equity Shares; *Warrants* - Exercise price, time limit, number of shares / bonds per warrant, price of warrant; detachable warrants; attached warrants; puttable warrants; naked warrants; *Rights on* equity shares- Rights Ratio, Rights Price, Price of underlying Assets, Ex-rights price, Cum-rights price, Book Closure; *Global Depository Receipts (GDRs); American Depository Receipts (ADRs).*

Speculative Investments: This section introduces several leveraged instruments. Readers are expected to know elementary details:

Futures: Financial futures; standardized; cash price, futures price, contract time, delivery date;

Options: Call option; put option; strike price; buyer; option writer; Greenfield venture schemes in *plantations, real estate* investments.

Risk: Security specific, business, interest rate, inflation, exchange rate, political, liquidity and credit risk; risk free rate of return; market rate of return; risk premium; risk return trade off of investment products; elementary principles and advantages of diversification.

Section III **–Investment Mathematics**

This section deals with basic concepts and quantitative tools, helpful in the understanding and interpretation of investment information available from the financial press and financial product literature.

Terminology

Bonds and Debentures: Simple yield; current yield; yield to maturity; redemption yield; coupon rate; principal; face value; maturity; discount; premium; simple interest; compound interest; quarterly compounding; semi annual compounding; duration; conversion premium.

Equity Shares: Share price quotation; return on equity investment; earning per share; dividend yield; cash earning per share; price to earning ratio (earnings multiple); diluted P/E; adjusted EPS; fully diluted EPS; book value; market price; intrinsic value; dividend yield; capital gain; value of a 'right'; value of 'bonus'; capitalization rate; cost of equity; cum dividend price; ex dividend price; initial public offering; offer price; beta.

Time Value: Present value; future value; compound value; annuities; amortization; discount rate; internal rate of return; equal monthly instalments.

Stock Exchange Indices: Names of important indices; composition of indices; differences between various indices; basic application of indices.

Mutual Funds: Amortization of front end fees; net asset value; discount/ premium to NAV; impact of 'loading' on returns.

Warrants, Futures, Options, Swaps, GDRs, ADRs, ECBs, Rights: Exercise price of a warrant; time limit; naked warrants; puttable warrants; cash price of a future; futures price; cost of carry; contract time; delivery date; call option; put option; exercise price of an option; option premium; intrinsic value of an option; in the money option; out of the money option; option writer; option holder; interest rate swaps; currency swaps; fixed rate; floating rate; maturity of a swap; swap payment; issue price of a GDR/ADR; GDR Ratio; premium/ discount of a GDR/ADR; underlying asset in a GDR/ ADR/ derivative; rights ratio; rights price; ex rights price; cum rights price; rights closure; bonus closure.

Financial Statements: Net worth; current assets; current liability; debt to equity ratio; current ratio; margin; turnover ratios; cost of capital.

Taxation: Personal Income Tax; Tax planning investments; pre tax return; post tax return.

General: libor; basis points; credit rating; inflation rate; real rate of interest; capital adequacy.

Basic Investment calculations

Bonds, term loans and Debentures: Simple and compound interest rate calculations; bond yield calculations; annuities and amortization; yield calculations; riskiness (credit risk; liquidity risk; interest rate risk; inflation risk); reading financial tables.

Firm's equity related calculations: EPS, cash EPS, book value, net worth; risk of the equity share; dividend yield; capital gain yield; earnings yield; adjustments for rights, bonus, conversion, dividends; premia and discounts.

Mutual Funds: Total market value; net asset value; offer price; sales charge.

Calculations that help in interpretation of financial information: Ratios in financial statements; simple financial analysis (time series; cross sectional); Du Pont chart; common size income statement and balance sheet.

Investment decision making: Pay back period; internal rate of return; net present value; return on investment.

Data Sources: Annual reports of companies; stock exchange publications; CMIE publications; RBI economic statistics; financial dailies; financial magazines; brochures; brokerage research publications; financial television programmes; data banks; newsletters; credit rating agency information; on line data sources (e.g. Reuters, Bloomberg)

Data interpretation:

Reading, understanding and interpreting financial statements: brochures on new issues, newsletters to investors, interpretation of credit ratings; *Deficiencies in using documented information*: on standardization of data and definitions; non adjustments for rights, dividends, bonus; non representative samples in data reporting; inappropriate comparisons (arising out of size effect, differences due to differing accounting policies, nature of business, non - coincidence of accounting periods, special considerations due to geographical locations of the firms, etc.).

Misunderstanding of some financial indicators: An illustrative list: Economic worth of book value; Investment at cost; Valuation of fixed assets; Depreciation as a source of funds; Price Earnings ratio; Accounting earnings per share; Dividend yield as cost of capital; auditor's qualifying remarks and the notes to accounts; estimates or projections in the prospectus have to be judged carefully.

Section IV Investment Procedures

This section deals with procedures and processes involved in securities investment. While opening a bank account is simple, primary market issues and secondary market trading require an overall understanding of market practices. This section describes in brief the market players and the institutional arrangements that go into the investment process.

Primary market procedures: Primary market procedures related to public issues and rights issues. Instruments such as equity shares, preference shares, cumulative convertible preference shares, debentures, floating rate notes, warrants and so on are sold through the primary market mechanism.

This involves *understanding procedures* like: Obtaining the share application form and prospectus; contents of application; understanding the prospectus: (short term, highlights, risk factors, projections, EPS, P/E ratio, promise vs performance, litigations, contingent liabilities etc.); application money, stock invest, receipt of allotment advice/ refunds; proportionate allotment, listing.

The role of intermediaries like: registrars, banker to an issue, lead manger, merchant banker, investment adviser, custodian etc. and *understanding related terms* like: book building, net offer to public, promoters contribution, lock in shares, private placement, road show, grey market, IPOs, composite issue, credit rating, asset backed securities etc.

Secondary market Procedures: Stock Exchanges: Role and Functioning; Membership; Brokers and sub brokers; Jobbers and market makers.

Trading: on own account, on behalf of investors; Trading hours; margins; Screen-based Trading: Quote Handling; Order Handling; Order Execution; etc. Bombay Stock Exchange (BOLT): Negotiable Deals, Crossed Deals, Opening price determination, Closing Price Computation, Touch line etc.; National Stock Exchange (NEAT): Order Matching, Counter party exposure limits, Order types, Types of Conditions, Time Conditions, Price Conditions; OTCEI: market making, quotations etc.; Issue of Contract note.

Settlement: Classification of scrips (Group A, Group B, Permitted Securities); Trading Cycle & Settlement (rolling settlement, fixed period settlement); Clearing house; Pay-in and Pay-out; Types of contracts; Types of Deliveries:(Hand Delivery; Spot Delivery; Special Delivery; Delivery for Clearing); Failure to deliver; Bad Deliveries and Redressal; what constitutes bad delivery (defects in certificates and transfer deed); Defaults and Redressal Procedure; Auction procedures.

Share Transfers: Procedures; transfer deed; stamp duty; Book Closure; record date; Ex-Dividend / Ex-Bonus / Ex-Rights / Cum-Dividend / Cum-Bonus / Cum-Rights Objections; exchange procedures related to objection; Revalidation of Transfer Deed; blank transfers; role of transfer agent.

Risks in the physical delivery settlement system; Depository:(concept, book transfers, dematerialisation); Clearing Corporation.

Non-Tradeable Securities: Procedures for bank deposits, Post Office (NSC, NSS), companies (PSU or private sector Companies fixed deposits); obtaining and completing application form; Withdrawal; Premature Withdrawal; Interest Accounting; Taxation etc.

Section V **Rules and Regulations**

This section deals with the rules and regulations that govern securities issuance, trading and investor protection in India. Market intermediaries dealing with clients are expected to have a thorough knowledge of these regulations. The section covers legislation like the Companies Act, MRTP Act, COPRA, SEBI Act etc. and covers SEBI's regulations and circulars regarding various segments of the market.

The Companies Act (1956) and rules (1957)

Prospectus; Disclosures; Advertising and other communication (Sections 55 to 68 and Schedule II); Allotment (Sections 69 to 75); Transfer of shares (Section 108 to 112); Requirements for listing of securities; Listing Agreement/ Listing criteria; NSE/ OTCEI/ BSE/ Regional Exchanges.

Securities Contracts (Regulation) Act, 1956 and Rules, 1957

Recognition of Stock Exchanges; Recognized Exchanges to submit periodical returns to SEBI; Power of SEBI to call upon exchanges or any member for any information or explanations relating to the affairs of the stock exchange or the member in relation to the stock exchange; Power of SEBI to make or amend Exchange Rules and Bye- laws; Power to supersede governing board of exchanges; Power to suspend business of recognized stock exchanges (Sections 3 to 12); Contracts in securities; Contracts in notified areas illegal or void in certain circumstances; Members may not act as principals in certain circumstances; Power to prohibit contracts in certain cases (Sections 13 to 16);

Qualifications for membership of recognized stock exchanges; Books of account and other documents to be preserved by the recognized stock exchanges and by their members ; No member to act as a principal, in respect of any securities with any person other than a member of a recognized stock exchange, unless he has secured the consent or authority of such person and discloses this fact in the note, memorandum or agreement of sale or purchase.

Indian Contract Act, 1872

Definitions and Interpretations; proposal, promise, promisor, promisee, consideration, void agreement, contract, voidable contract, void contract; Communication, acceptance and revocation of proposals; Communication when complete; Revocation of proposals and acceptances, Revocation how made, Acceptance must be absolute; What agreements are contracts; Who are competent to contract; Consent, Free Consent; Coercion, Undue Influence, Fraud; Misrepresentation; Breach of contract and Remedies; Principal, Agent and sub-agent;

Consumer Protection Act, 1986 (COPRA)

Extent of Coverage: (applies to all goods and services unless specifically exempted by the Central Government; covers all sectors whether private, public or cooperative); Provisions of the Act are compensatory in nature; Definitions: (Consumer; Goods and Services; Unfair Trade Practices); Defects and deficiency; Procedures for filing complaints; District Forum, State Commission, National Commission; Relief available to consumers (removal of defects from goods, replacement of goods, refund of the price paid, award of compensation for the loss or injury suffered).

Monopolies and Restrictive Trade Practices Act, 1969

Definitions; Section 2(e) {Goods}, Section 2 (o) {Restrictive Trade practice}, Section 2(r) -Service; Section 36 A - Unfair Trading Practices - Definition; Section 36 B - Inquiry into Unfair Trade Practices by the Commission; Section 36 D - Powers exercisable by the commission inquiring into an Unfair Trade Practice.

Companies (Acceptance of Deposit) Rules, 1975 as amended

These rules regulate the deposits accepted by companies from the public. Section 3(1) (a), Period of deposit; Section 3(1) (c), Rate of Interest; Section 3(1)(d), Brokerage; Section 3(2), Aggregate amount of deposits in relation to net owned funds. ; Section 3 (A), Maintenance of Liquid Assets; Section 4, Form and Particulars of the Advertisement .

RBI Guidelines for Non Banking Finance Companies - Miscellaneous Non Banking Companies (Reserve Bank of India) Directions, 1977.

Registration Requirements with RBI; Capital Adequacy; Periodic Reporting to RBI; Credit Rating.

Securities and Exchange Board of India Act, 1992 as amended

Role and Functions - General powers; Regulating the business in stock exchanges and any other securities market; registering and regulating the working of stock brokers, sub brokers, share transfer agents, bankers to issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisors and such other intermediaries who may be associated with the securities markets in any manner;

SEBI to regulate all intermediaries in the securities business; Penalties for failure to follow rules and regulations under the Act; Power to adjudicate; Powers of Adjudicating Officer; Appellate Procedure: Securities Appellate Tribunal; High Court; Central Government.

SEBI Regulations and Guidelines

SEBI Guidelines on Disclosures and Investor Protection: Pricing of Primary Public Issues; New companies to issue stock to public at par; New companies promoted by existing profitable companies can freely price issues; Existing profitable companies can freely price issues

SEBI (Insider Trading) Regulations: The Definition of 'Insider'; "Person deemed to be a connected person" ; 'Unpublished Price Sensitive Information' ; Responsibilities of Insider.

SEBI Substantial Acquisition of Shares and Takeovers Regulations, 1994: Disclosures regarding substantial acquisition of shares; Continual disclosures; Takeovers.

SEBI Regulations on prohibition of fraudulent and unfair trade practices relating to securities markets: Prohibition against Market Manipulation; Prohibition of misleading statements to induce sale or purchase of securities; Prohibition on unfair trade practice relating to securities; Power of the Board to order investigation; Procedure for investigation; Duty to produce records; Power of the Board to issue directions; Purpose of direction; Suspension or cancellation of registration of an intermediary holding a certificate of registration..

SEBI (Stock Brokers and Sub brokers) Regulations, 1992 and SEBI (Stock Brokers and Sub brokers) Rules, 1992: No stock broker or sub broker shall buy, sell or deal in securities, unless he holds a certificate granted by the board under the regulations. *Stock Brokers:* Conditions for grant of certificate to stock broker; Procedure for stock broker certification; Eligibility Criteria; *Sub Broker:* General definition of a sub broker; Conditions for grant of certificate to sub broker; Procedure for sub broker certification; Eligibility Criteria; General Obligations and Responsibilities: To maintain proper books of accounts, records etc. In addition, brokers must comply with record-keeping requirements established by exchanges. Brokers are subject to these requirements as a condition of being an exchange member; Books of accounts and other records shall be preserved for a minimum period of five years.

Registration of dealers in securities outside the stock exchanges (SEBI Press Note dated 10/5/92)

Need to show transaction price and brokerage separately in contract notes (SEBI Circular No. SE/7566, dated 6/8/92)

Regulation of transactions between clients and brokers (SEBI Press Release 18/11/93 and SEBI Circular SMD/SED/2913/93): Clients moneys to be kept in a separate account, with 'Client' in the account title; No money to be paid into clients account other than for specific purposes; No money to be withdrawn from clients account other than for specific purposes; compulsory for all member brokers to keep separate accounts for clients' securities and to keep accounts to distinguish clients' securities from own securities.

Contract notes: Mandatory for a broker to issue contract note to a client within 24 hours of execution of the contract.

Payment/ Delivery obligations from and to clients: 20% margin requirement; mandatory by client in full within 48 hours from the issue of contract note for cash shares and 7 days for specified shares; Payments/ delivery to be made to clients within 48 hours of stock exchange payout.

Precautions to be exercised by member brokers of stock exchanges while dealing on behalf of clients. (SEBI letter SMD-1/23341 dated 18/11/93)

Mandatory Precautions: Client personally known or introduced by a known person; record of introduction of all clients; data on clients to be maintained (Name, address, telephone number and age, employment status, nature of business and address, banker and bank account number, introducer's name and address, names of all persons on whose behalf the client is operating and in case of company, details of company and relevant resolutions, bank reference); Due care to be exercised when broker is delivering broker; (Transferor Signature should be witnessed by broker or authorized sub broker; only cheque payment should be made in the name of the shareholder), If selling client name and shareholder name on certificate are different, proper enquiries should be made and a record should be maintained; Names of clients frequently delivering shares which are received under objection, to be informed to the stock exchange. Names of frequently defaulting clients to be informed to the stock exchange; Brokers should insist that clients return duplicates of contract notes duly signed; No adjustment should be made between one client account and other without express authority.

Guidelines: Client to provide full particulars in writing about current/ previous dealings; opinion about clients should be taken from these other member brokers; Additional details should be insisted upon like the Income Tax PAN /GR number for clients placing large orders; Caution should be exercised while executing large orders for new clients; Caution should be exercised when the clients are dealing with more than one broker; If a client habitually delays payment the broker should insist on advance payment or larger cash margin before execution; Member-brokers should not accept cash or give cash against securities. Only Account Payee Cheques should be used.

SEBI Portfolio Manager Rules and Regulations, 1993: Definitions: *Portfolio manager; Discretionary portfolio manager;* Capital Adequacy; agreement with the client; what should the contract contain; Fees charged without guaranteeing or assuring any return; fees independent of return to client; Each client's funds to be managed in accordance to the needs of each client.

Delivery - Regulations and practices of "good delivery"

Service Tax: Applicability; procedures.

Capital Adequacy norms for brokers: Base Minimum Capital ; Additional Capital Requirements related to the volume of business; Forms in which capital required to be maintained; Reporting requirement.

Self-regulatory organizations (SROs) : The concept of self regulation is based on the belief that the protection of public interest is in the interest of the industry. Members of the industry set standards for the conduct of their business with the objective of enhancing their professionalism and their stature in the eyes of the public. The Self Regulatory Organization then develops mechanisms for enforcement of these standards on its members. The rules, regulations, ethical standards and norms are created and enforced by industry professionals knowledgeable about the business and therefore are likely to be widely accepted in the industry.

Functions of SROs: Establish criteria for membership; Set ethical rules; Set rules for marketplace; Establish facilities for the punishment of violations of industry rules and regulations; Training and Continuing Education of members.

Enforcement Procedures for rule violations (Bye- Laws of the BSE, NSE etc.); termination of Membership; Defaulters Committee and procedure during default.

Section VI Investor Protection

Investors have a right to demand disclosure of adequate information on investment products and satisfactory service from both the issuer and the intermediary selling the financial product. Several statutory and non statutory investor protection measures are in place for the benefit of investor. Statutory measures involve approaching the appropriate regulator. The most important regulators that investors should be aware are: Ministry of Finance, the SEBI, the Department of Company Affairs, the Company Law Board, the Stock Exchange, the Monopolies & Restrictive Trade Practices Commission and the Consumer forums. In addition, the non statutory avenues for investor protection are available through the professional associations - the ICAI, ICWAI, ICSI, AMBI, AMFI, the brokers associations etc.

This section introduces an illustrative list of a few common investor grievances and possible remedies. While the ultimate remedy in approaching the competent civil or criminal courts is always available, the investor might save time and money from the intermediation of other forums. The reader is advised to be familiar with the sections, rules, regulations that appear in the following paragraphs.

Misleading Advertisements: DCA Circular 5.(13)-CL-VI/62 dated 21/5/62; MOF No.F.No.1/28/SE/86 dated June 24, 1987, SEBI Clarification No. IX dated 11th October 1993, RBI Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977, Section 68 & 621of the Companies Act, 1956, Section 36 (A) of MRTP Act, Section 9 of COPRA and Stock Exchanges with reference to MoF letter Nos. F.1/1/SE/74 dated 9/10/75, F.14/3/SE/76 dated 12/3/76 and No.F.1/23/SE/86 dated 22nd May 1986.

Disclosures in Prospectus: The investors right to true and adequate disclosures is reinforced by several regulatory authorities. Schedule II under Section 56 & Section 62 of the Companies Act 1956, SEBI guidelines for Disclosure and Investor Protection, RMB(DIP Series) circular No.1 (1993-94) dated April 7, 1993 and SEBI clarifications I to IX

Delay in Listing of Securities: Section 73 & 621 of the Companies Act 1956, Rule 19 of Securities Contracts (Regulation) Rules 1957, Complaint to DCA, SEBI & MOF.

Delay in Despatch of Securities: Under Section 53, 113, 621 of Companies Act 1956, Complain to DCA, CLB, SEBI & MOF.

Delay in Transfer of Securities: Section 53, 111 of the Companies Act 1956, Section 22(A) of the SCAR, 1956, Section 9, 11, 17 and 21 of COPRA.

Trading in Odd Lots: MoF circular No.F.14/7/SE/85 dated 14th April 1986,. Even the financial institutions like GIC, Canara Bank, UTI and few companies introduce schemes which provide added liquidity to odd lot trading.

Stock Market Transactions: The complaints could relate to non-receipt of securities even after payments, excess brokerage, short or delayed payments, non-furnishing of contract notes, shares switching, duplicate shares etc. Arbitration Procedures of stock exchanges allow for recovery of monetary losses. Hearing & Appeals: Member- Non member Arbitration (Decision may be appealed to courts). and the Investor Protection Fund at the stock exchanges. File a civil suit or file a criminal complaint under the Indian Penal Code and complain to SEBI..

Default in Re-Payment of Deposits: Section 58(A) of the Companies Act and the Companies (Acceptance of Deposits) Rules, 1975, Companies under the BIFR, Relief Undertakings, Section 12 of COPRA.

Delay in Payment of Interest on Debentures: Copy of the Trust Deed from the company under Section 118 of the Companies Act, 1956, Meeting of debenture holders and Section 12 of COPRA

Non-Payment of Dividends: Section 205A , 207 and 621 of the Companies Act, 1956 and Section 12 of COPRA.

Insider Trading and Unfair Trade Practices: SEBI (Insider Trading) Regulations 1992 & Cheating under Indian Penal Code

Complaints Against Commercial Banks: Investors having complaints against commercial banks can approach the local customer service committees. They can also approach the regional zonal and head office of that bank. In addition, they can approach the regional offices or central office of the RBI. Recently they have an option to approach the bank ombudsmen for any specific corruption complaints against the bank staff. The reading list may have to be prescribed in consultation with the RBI who have issued several circulars on the issue. The most important one is DBOD.No.ROC.GC.22/C.408C(P)-83 dated April 22, 1983

Non banking Financial Companies: The NBFCs include the hire purchase finance companies, equipment leasing companies, housing companies and other loan companies. These are primarily regulated by the Reserve Bank of India under Non Banking Financial Companies Directions.

Code of Conduct Violations: All professionals advising on and selling investment products are subject to code of conduct. A few intermediaries like merchant bankers, brokers, sub brokers, registrars, bankers to an issue, debenture trustees, mutual funds, FIIs are subject to statutory codes of conduct prescribed by SEBI. Other professionals like chartered accountants, company secretaries, cost and work accountants have their code of conduct enforced by the respective SRO. Most of these codes prescribe satisfactory service, truthful disclosure of conflicts and fair market practices for their members. Investors hurt by the intermediaries or professional conduct could complain to the respective statutory body or the SRO. Section VII enumerates the codes of conduct prescribed for different class of professionals.

Section-VII Ethics and Codes of Conduct

Intermediaries in the market are expected to adhere to and maintain a high standard of fairness and integrity in their dealings with other market participants and their clients. Market intermediaries should exercise due diligence, disclose any conflicts, maintain confidentiality, and provide the best advice to clients. Compliance with statutory requirements, adherence to trading practices, having capabilities to service customers etc. are mandated by the industry's codes of conduct. Adherence to these codes of conduct is essential to build a higher level of investor confidence in the Indian securities markets.

Code of Conduct under SEBI (Merchant Bankers) Regulations, 1992;
Code of Conduct under SEBI (Underwriters)Regulations, 1993;
Code of Conduct under SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993;
Code of Conduct for Brokers (Regulation 7) and Code of Conduct for Sub-brokers (Regulation 15) under Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations 1992;
Code of Ethics for Agents and Representatives of Unit Trust of India.

Self-regulatory organizations (SROs) like stock exchanges, professional associations etc. have codes of conducts for their members.

Code of Conduct for NSE trading members
Code of Conduct for OTCEI members and dealers

BSE Bye laws also define misconduct, unbusinesslike conduct and unprofessional conduct.

Misconduct (Section 356); Unbusinesslike conduct (Section 357); Unprofessional conduct (Section 358)

Codes of Conduct of Professional Associations like the Institute of Chartered Accountants of India, Institute of Cost and Works Accountants of India, Institute of Company Secretaries of India etc. are applicable for the members of these associations.

Professional Misconduct is defined in the First and Second Schedule of the Chartered Accountants Act, 1949, Cost and Works Accountants Act, 1959 and Company Secretaries Act , 1980.

Current Developments:

The readers are advised to refer to current developments in the above subject area from time to time. The reader is also advised to refer to latest guidelines, regulations, procedures, products etc. related to the above areas.