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Regulatory Performance against Capital Market Misconducts – An Indexical Analysis

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Abstract - The extant research attempts to answer research questions from both previous literatures and present empirical analysis. The researcher considers this work unique and relevant for the following reasons. Firstly, determination of investor perception index to analyse the satisfaction level of both retail and domestic institutional investor; and to know who is more positively perceived towards effectiveness of regulatory measures against fraudulent activities; Secondly, determination of regulatory performance index based on 25 Investor Protection regulatory measures existing in Indian securities law for parallel effort to investigates that whether those measures are in practice or simply a law on book and to analyse whether performance of one regulatory measure effect on another one. Furthermore our research hypothesis postulates that, the retail investors negatively perceived compare to domestic institutional investors towards effectiveness of regulatory measures against fraudulent activities;

Ultimately finds that the retail investors negatively perceived as compare to domestic institutional investors on the efforts of SEBI towards safeguarding investors from fraudulent activities. Furthermore there are suggestive evidence that among the selected regulatory measures of Indian securities law only few of them are in practice and remaining are only exist in books.

KEYWORDS: retail investors, domestic institutional investors, SEBI, Investor Perception Index, Regulatory Performance Index.

I. INTRODUCTION

Aftermath of global financial crisis and other corporate scandals generate unsavoury episodes for stock market investors at global level. Ostensibly policymakers enamoured with strong regulatory stance to bolster investor confidence in major economic centres [1]. Nonetheless the investor problems would not limited to global crisis, they are facing day to day problems and become victims of illegal activities of issuers and trading members. More importantly the good investor protection should ensure the proper arrangements for investor grievance redressal and level of attention giving towards investor education and awareness, availability of tools for investors for easy trade, proactive regulatory stance against fraudulent activities of issuers and other market participants. The important areas that the regulators need to take painstaking steps to curb malpractices to protect investor community are, Insider trading; Vanishing companies and Price manipulation [2]. The deterrents on these frauds could help to build domestic investors participation in the market. Here one issue raises that, whether the fraudulent activities viz. insider trading, vanishing companies, price manipulation etc are reasonable to claim the regulatory framework is fairly comprehensive or not.

Besides it is important to evaluate the behaviour of investors towards regulatory measures protecting them. Indeed the investor behaviour is considered as key magnitude to analyze the effectiveness of investor protection in any domain [3]. It is rightly said by Schwartz that the behaviour and satisfaction of retail investors have significant implications for regulators [4]. Hence the regulators have to thoroughly and frequently analyze the changing investor behaviour to cope up with their policy initiatives before implementing them [5]. Most of the law and financial commentators linked investor behavioural model to investor protection regulations, which evoke several critics against type of legislation that the country need to adopt. Indeed regulators need to reform their investor protection policies based on investors' behavioural implications, investors' actual needs from the regulation, demographical factors of individual investors [6] and institutional objectives of institutional investors [7] etc. Indeed investor behaviour may positively affect on market and vice versa. For instance the bulk trades viably create herding tendency [8]. Hence regulator needs such an indicator to analyse good and bad effect of investor behaviours.

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There is a need for such a single indicator for better analysis of retail and institutional investor satisfaction and preferences over SEBI measures towards investor protection. This indicator could be named as investor perception index on investor protection measures. Here one more question raises that, whether our investors positively perceived towards SEBI efforts in investor protection?

Undeniably the regulators of capital market are responsible for to maintain confidence in the financial system, and protect its users [9]. According to Kukreja (2012), "the investors promised with current earnings and capital appreciation, only if the elements like trust, guidance and regulations are steadily exist in the capital market" [7]. Moreover the success of regulatory enforcement is depends on economic and political conditions of the countries. Precisely the malpractices in the system gradually test those regulatory strategies, and awake the regulators to be alert. However there is need for proper coordination between policy makers and regulators. Ultimately one last question arises whether the investor protection prevailing in Indian securities market is law in action or simply a law on book? This question is examined in this study by determining regulatory performance index. The regulatory performance index is better indicator to examine function of regulator in the area of investor protection. Hence there is a need for such index to appreciate or to criticise the role of regulators in all aspects of investor protection. All these research questions impulse to raise new research avenue, which could able to answer these questions in a better dimension. The present research work aid to dig the answers from both previous literatures and present empirical analysis.

II. LITERATURE REVIEW

This section gives an overview of domestic as well as global legal practices towards various aspects of investor protection and also trying to grounding how domestic legislation efforts are forward or lag behind towards global standards. For better analysis of different facets of investor protection the literatures are reviewed based on the following dimensions:

1. Behavioural Finance and Legal Implications
2. Investors Problems and Fraudulent Activities in Securities Market- Insider Trading, Broker Irregularities,

Behavioural Finance and Securities Legal Implications

Behavioural finance is the basic concept of financial studies; hence there is a need to canvas major conceptual and empirical studies of legal and financial researches went on this area. Among those, important literatures are quoted here:

(Rashid & Nishat, 2009), analysed the behaviour of retail investors of Bangladesh regarding overall regulatory framework, satisfaction on stock availability and the cost-return trade-off etc. for this purpose the author was conducted a survey of 300 retail investors of Dhaka city. By using factor analysis constructed four factors—investment analysis, ease of transaction, information management and risk management—as the components of structural efficiency. The authors used regression analysis to test the most important variables, and found that investors are dissatisfied if the market issuing company and regulatory frameworks cannot provide an integrated framework for investment analysis.[4]

(Sehgal, Sood, & Rajput, 2009), determined the factors that have a decisive bearing on investor sentiment and also attempts to find the relationship between investor sentiment and stock market performance. The authors found that the regulatory framework of a financial market does seem to have a strong bearing on investor sentiment especially the legal provisions relating to corporate governance and Grievance Redressal Mechanism.[5]

(Burke, 2009), described different investors behavioural models. Under rational expectations model the investors presumes that corporate insiders and securities professionals would not hesitate to lie, cheat or steal the market. Whereas under the trusting investor model the investor has faith that at least some people are trustworthy. This behaviour generally is based on past positive experience. According to Prof. most of the retail individual investors are behaving like trusting investors, hence regulators has to take proper action in maintaining the confidence of these investors.[1]

(Kabra, Mishra, & Dash, 2010), attempts to analyse the key factors that influence investment behaviour and ways these factors impact investment risk tolerance and decision making process among men and women and among different age groups. According to researchers, there is a need to study investor's behaviour periodically because it changes according to time and market conditions.[3]

(Cohen, Webb, Nath, & Wood, 2010), placed increased attention on the corporate disclosure of non-financial information. This study used a survey of 750 retail investors to examine perceptions about indicators of economic performance; corporate governance policies and performance; and corporate social responsibility. Survey results indicated that retail investors currently are most concerned with economic performance information, followed by governance, and then corporate social responsibility information. [6]

(Kirkpatrick, Lehuedé, & Hoki, 2011), described the institutional investors behaviour on the newly implemented OECD corporate Governance principles. According to authors the goal of optimising returns for targeted levels of risk, as well as for prudential regulation, the institutional investor diversify investments into large portfolios, many of them having investments in thousands of companies. Some

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managers pursue active investment strategies, but increasingly, they passively manage against a benchmark, resorting to indexing.[7]

(Kukreja, 2012), measured the investors' perception towards Indian capital market with reference to National Capital Region (NCR) investors of India. This research was a descriptive research study, in which, systematic sampling technique was used. Trail survey was used to select the sample size, validity and reliability of the instrument. 120 samples were selected for the study. Major findings of this study include, age has significant impact on investment, and educational qualification has significant impact on tax advantages. 119 functional variables were used in this study to measure investors' perception. The author finally suggested that the investor has huge scope for current earnings and capital appreciation in emerging market like India.[10]

(M.V., Basu, & Vaidyanathan, 2013), identified the presence of 'market-wide herding' in the Indian capital market and whether Institutional Investors impact such Herding. In particular, the paper looks at the impact of FII Flows as well as mutual funds on herding. The work also looks at the impact of index return and volatility on herding. The study period includes 2007, the year of peak FII Inflows and 2008 the year of peak FII Outflows. The author further point out that like other developing economy, the Indian capital markets have welcomed institutional investors as they provide the much-needed liquidity for the markets; however, the increased role of the institutional investor, particularly the FII has also lead to a rise in negative perceptions about their impact on the markets.[8]

Investor Problems and Prevailing Securities Law

The important areas that the regulators need to take painstaking steps to curb those malpractices to protect investor community are: i. insider trading; ii. vanishing companies; iii. price manipulation. Following are the few important research works contributing on investor problems:

(Goyal, 2004), found reason for the basic market failures in 2008 crisis on Indian capital market and attempt to evaluate reform proposals after the crisis. According to him the major reason for crisis are volatility and procyclicality, information failure, exclusion, market power and size. According to author crisis was the lesson for emerging markets to give priority to the development of domestic markets by ensuring stability by paying attention to incentive structures and macroeconomic systemic effects, and rely on competition and technology to improve inclusion.[9]

(Castro, Clementi, & MacDonald, 2004), introduce investor protection into a standard overlapping generations' model of capital accumulation to assess the widely held affirmative view. Ultimately this paper concluded that the better investor protection implies better risk sharing. Because of entrepreneurs' risk aversion, this results in a larger demand for capital and wealth creation.[11]

(Suchismita Bose, 2005), Author made a comparative analysis of SEBI and SEC measures towards malpractices such as price manipulation and frauds in India and US respectively. Based on empirical evidence the author examined that SEBI was unable to establish price manipulation in any single scrip allegedly manipulated. According to author it is easier for SEBI to take action as against intermediaries, but in case of insiders like company directors and major players in the market it is not possible for SEBI to take proper action. Noticeably in US the civil enforcement by the SEC has proved to be an extremely powerful tool against insider trading.[12]

(Patra & Roul, 2009), pointed out the problem with the reference to Initial Public Offerings case of 2006. In 2006, two major IPO scams took place. The IPOs of YES Bank and Infrastructure Development Finance Corporations were targeted by market manipulators in the year, 2006. In this article the authors hold a position that in order to give justice to small investor in capital market both the fairness and efficiency should be given equal importance at all level i.e. allocation, operational and pricing of IPOs. Further explains the SEBI, RBI action against such scams and point out the responsible bodies for such disaster.[13]

(Avgouleas, 2009), investigates limitation of European regulatory failures to cause global financial crisis. The global financial crisis has exposed the many limits of disclosure as an effective regulatory tool in financial markets. First, the famed disciplining power of the market failed to constrain disastrous risk taking by banks. Second, most of the risks that led to the creation of the 2008 catastrophe were often fully disclosed but the markets failed to understand them. In the case of banks, disclosure-based market discipline failed mainly because of the implicit government guarantee. In the case of capital markets, the reasons for disclosure's failure were product complexity and the impact of socio-psychological factors. Finally author argues that the EU needs to re-examine the role of disclosure in two contexts: prudential regulation of banks and retail investor protection. EU policy-makers should use empirical and experimental studies before any reform of the investor protection framework.[14]

(Sabarinathan, 2012), studied identified some of the major interventions of SEBI regulation relating to primary market, disclosures of corporate and market intermediaries, corporate governance, takeovers, insider trading, fraudulent trade practices and stock exchange governance and major developments in trading mechanism like settlement system, dematerialisation. He found with the result that the data provide a quantitative measure of the work accomplished by SEBI, they do not measure its impact on the efficiency of the market.[2]

 DOI : 10.18231/2454-9150.2018.0151

(Mohanty), developed a corporate governance index by using nineteen measures of corporate governance. Further he assigned unequal weights to all 19 measures. In order to assign weights he divided over all measures into positive-form, negative-form and neutral-form. For negative-form measures, he assigned higher negative weights compare to positive-form measures. Here the author combined all measures into one composite measure to develop corporate index. Ultimately he found that companies with good financial performance have actually performed better compared to companies with poor governance records. He further noticed that the corporate mis-governance is not a fault of the institutional investors. However, being dominant shareholders, they are performing active role in the affairs of the company.[15]

(Venugopal, Sudarsan, & Himachalam, 2012), explored various problems faced by small investors in primary market, secondary market and with stock brokers, this is because of their gullibility. They found that investors are unaware of major regulatory measures to protect them against those problems. Most of the investors are known the regulators like RBI, MCA, SEBI etc but their knowledge on their function is limited.[16]

(Babu & Naidu, 2012), viewed that the SEBI's Investor Protection measures gave mixed results. On the positive front, many banks sponsored mutual fund had launched assured return schemes and attracted more number of investors. SEBI has introduced a ASBA facility in public issue. In this process the application money shall remain blocked in the bank account till finalisation of the basis of allotment in the issue or till withdrawal / failure of the issue or till withdrawal / rejection of the application, by initiating the safeguards of both issuing company and the investor. The study further revealed that investor education campaigns achieving positive results to some extent, but not fully. This indicates that Indian investors gradually stay away with the market, which calls for immediate attention of the apex body to frame and effectively implement the measures to protect the interests of small investors, and restore their confidence in the stock market.[17]

(Chandrasekhar, Sarat, & Akriti), criticised the treatment of Indian regulation on the protecting the interest of the retail investors. Unfortunately only institutional and high net worth individual investors are largely responsible for increases in the volume and value of transactions. While criticising the function of SEBI, authors point out that even though SEBI has built and strengthened its market monitoring and regulatory apparatus by achieving the significant success in increasing transparency and reducing market manipulation and fraud, increase the retail investor participation is not satisfactory. As for as the prevailing perception is that the individual or small retail investor are considered less important in the market. There is no constant definition for retail investors in Indian capital market.[18]

(Allen, Chakrabarti, r De, Qian, & Qian), demonstrated that eventhough the Indian legal system has differences between investor protection provided by the law and with the protection in practice, the India got high scores in Investor Protection compare to English-origin countries. Hence according to authors the protection of investors in India is only on paper.[19]

III. RESEARCH GAP

Investor Protection is a widely studied area. There were lot of law and financial academic research work and policy reports available at domestic as well global perspective on investor protection. However, most of the studies have focused either on retail investors or on institutional investors independently. In a way most studies have focused only on the retail investors and there seem to be not much research interest on the protection of institutional investors. There is a lacuna in those studies which would point out here:

1. Most of the studies on behavioural finance were done at global context and very few at domestic level. No doubt these studies provide a platform with a wide range of investor behavioural theories/models, developed on the basis of retail and institutional investors unique needs and objectives. While investor's behaviour keeps on changing with time, place and market situations, accordingly the behavioural finance needs periodical analysis of investors' behaviour. Indeed investor perception studies at domestic level were vague in nature.
2. Neither study was conducted on retail investor perception on regulatory measures against fraudulent activities of issuers and brokers. On the part of institutional investors perception most of the studies went on corporate governance as specific not regulatory measures as a whole.
3. Whereas investor problem is concern, most of the studies determined the investor loss and problem during the period of economic crisis-2008 and scams. The investor problems would not limited to global crisis, they are facing day to day problems and become victims of illegal activities of issuers and trading members. Hence more studies need to conduct to evaluate frequent investors problems and regulatory stance against those misconducts.
4. Agglomeration of literatures is there which concerned in developing investor perception index on corporate governance. But there is a need for plenty of work to determine investor perception index on regulatory measures in protecting domestic investors.
5. Noteworthy none of the work done on determining regulatory performance index, by evaluating the

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prevailing securities law at Indian capital market towards protecting interest of investors.

Therefore, there is a clear need to carry out an empirical study which compares the effectiveness of protection measures both in terms of retail investors and institutional investors. The present study attempts to respond to these voids and bridge the important research gap in the area of investor protection in India.

OBJECTIVES OF THE STUDY

To fill this lacuna the present research states the following objectives:

1. To determine and examine the retail and domestic institutional investors' perception index on regulatory measures of SEBI against preventing fraudulent activities
2. To establish regulatory performance index to analyse functioning of regulatory measures prevailing in Indian securities law in order protect the interest of the investors

IV. RESEARCH HYPOTHESIS

Based on the above objectives we state following Research Hypothesis:

H1: with respect to SEBI measures against preventing fraudulent activities in capital market retail investors perceived negatively compare to domestic institutional investors

H2: The performance of one regulatory measure does impact on performance of other regulatory measure

MATERIAL AND METHODS

TYPE OF DATA

Primary Data

The primary data was collected through conducting survey among retail individual investors and large domestic institutional investors.

The Primary Data are collected in respect of the following:

- In order to collect retail and institutional investors' preferences over SEBI measures against fraudulent companies with their ranking responses;
- Comparing retail and institutional investors' satisfaction level on SEBI measures against fraudulent companies;
- In order to determine retail and institutional investor perception index based on their satisfaction level;

Secondary Data

The secondary data on the other hand was collected primarily from various websites of SEBI, MCA, World Bank, NSE and BSE. Whereas secondary sources of secondary data include Acts, Regulations, Guidelines, Books and Journals, working papers, and annual reports of SEBI. In order to prepare regulatory performance index the SEBIs' regulatory measures were accessed more frequently from both primary and secondary sources.

The secondary data are collected in the following mode:

- Acts, Regulations and Guidelines concern to Indian securities law to protect retail and domestic institutional investors;
- SEBI's Regulations, Guidelines, annual reports to analyze measures taken to protect retail and domestic institutional investors;
- Examining various Indian securities law prevailing to protect investors in Indian capital market to prepare regulatory performance index;
- Various literatures in the field of investor protection to gather financial and law commentators views on different dimensions towards investor protection;

STUDY PERIOD

The study was conducted in respect of secondary data during the period of 2011-12 to 2015-16, whereas for the purpose of primary data the survey was conducted in the year 2016.

SURVEY INSTRUMENT

Questionnaires

The primary data had been collected through well-structured questionnaires. The questionnaires were drafted separately for both retail and institutional investors by keeping in mind the slight differences in SEBI measures towards their protection and major differences in their investment behaviour. All questionnaires were pre-tested and inputs validation was done by market experts and some officials in the field of finance for ensuring the appropriateness of questionnaire structure.

The questionnaire had close ended and in the form of likert scales, ranking scales and multiple choices intends for giving relevant range of options to respondents to insight analyses of their attributes. Further the questionnaire structure used multi item questionnaire to fulfil the various dimension of study and to build investor perception index. The details regarding questionnaire design are reported as below:

- The questionnaires drafted for retail investors, consist of seven subscales: i. demographic factor; ii. Basic investment information; iii. Investor awareness and interest on SEBI role; iv. SEBI measures on mismanagement and omission in prospectus; v. SEBI

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measures against insider trading; vi. SEBI measures against vanishing company; vii. SEBI measures on restricting the norms for Brokers;

- The questionnaires drafted for domestic institutional investors, consist of subscales: i. Organization information; ii. Investor awareness and interest on SEBI role; iii. SEBI measures as against mismanagement and omission in prospectus; iv. SEBI measures against insider trading; v. SEBI measures against vanishing company; vi. SEBI measures on restricting the norms for Brokers;
- The questionnaires for the present study are prepared by using different scaling techniques like nominal and ordinal scales. The likert scale is used to analyze satisfaction level of both retail and domestic institutional investors on SEBI measures as against fraudulent activities, whereas ranking responses are used to determine the preferences of both retail and domestic institutional investors over SEBI measures against fraudulent activities. The likert scale and ranking responses were considered under ordinal scales in SPSS.

The questionnaires to some retail investors were distributed directly, some through post and some circulated through e-questionnaires by using Google form and sent to their respected e-mails (collected from brokers). Further appropriate assistance and explanation were provided to the individuals during filling up of responses directly. At the same time questionnaires to domestic institutional investors were distributed directly by visiting their head offices by frequently contacting the relevant department officials.

V. STUDY DESIGN

The study is based on the descriptive research design. Under this the study considered two methods, i.e. Survey and Case study. The survey facilitates to understand the perception level of retail investors and institutional investors on SEBI measures against market misconducts in Indian capital market. Based on the satisfaction level of investors the perception index is found by comprising the output of different items of questionnaire relevant to the SEBI measures against fraudulent activities. On the other hand the case study method is used to analyse the present regulatory performance to find regulatory performance index.

TARGET POPULATION

1. The group of literary individual investors who invested in Indian capital market through NSE and BSE and spread over in Karnataka state
2. The Domestic Institutional investors in Karnataka state

STUDY POPULATION

1. The literary retail investors who invested in Indian capital market through NSE and BSE and spread over in twelve major cities of four division of Karnataka.
2. The Domestic Institutional investors having head office in Karnataka.

SAMPLE SIZE AND METHOD

This study was based on the input from 500 retail investors of 12 major cities of Karnataka. Totally 12 major cities of four divisions of Karnataka were selected for the purpose of covering retail investors to the survey. Convenience sampling is used to select samples of retail investors. Whereas the domestic institutional investor is concern, the institutions which are registered and having head offices in Karnataka were taking in to consideration. Noticeably only 9 banks including public sector Banks and regional rural banks have head office in Karnataka. Only 6 among them are the major institutional respondents and remainder of institutional investors were rejected to give their responses.

VI. RANKING RESPONSES AND TOTAL SCORES

Both retail and domestic institutional investors were asked to rank various regulatory measures against fraudulent activities in Indian capital market in order of their preferences on a 8 point scale (from 1 to 8). Their responses are analysed by grouping number of retail respondents who ranked those measures on top five choices, whereas in case of institutional respondents who ranked those measures on top three choices. Further the total scores is determined by assigning a highest weight of 8 to the factor most recommended and a weight of 1 to the factor least recommended, finally, summed those weights to get the total score. Additionally the average score is computed by, average score=total score/n (sample siz).

INDEX FORMATION

The study attempt to find out two types of index: i. Investor Perception Index, and ii. Regulatory Performance Index. These two indices are developed for parallel analysis of confidence level of retail and institutional investors on the regulatory enforcement (i.e., Investor perception index), and with the performance of various measures of shareholder protection taken by SEBI (i.e., Regulatory performance index).

INVESTOR PERCEPTION INDEX

The Index consists of several items, each item considered as single variable. Each item is providing with positive statements describing the SEBI role in preventing fraudulent activities in Indian capital market. By using likert scale each variable assigned 1to 5 weights, i.e. 1 for highly dissatisfied and 5 for highly satisfied. By using IBM SPSS, the each variable comprised to form a single

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variable. Considerably the index is formed separately for both retail and institutional investors. As the responses are analyzed in the form of ordinal scale, the higher the index indicates higher level of satisfaction of the investors towards SEBI measures against fraudulent activities. Here the independent t-test is used to analyse and compare the individual and domestic institutional investors' perception on SEBI measures against malpractices of capital market.

REGULATORY PERFORMANCE INDEX

In order to emphasizing the crucial role played by the SEBI, the study claimed to cover the various aspects of investor protection including public enforcements like fines, prison and other criminal actions on defaulter of securities law prevailing to protect the interest of the investors in Indian capital market. Here to address these concern of regulatory performance, the researcher develop measures of investor protection taken by SEBI, directly aimed at the preventing market misconducts and other actions towards the protecting the interest of investors. The performance of SEBI is analysed based on the twenty five measures taken by SEBI in the period of five years starting from 2011-12 to 2015-16. Significantly those measures are prevailing in Indian securities law, but in order to know whether those measures are in practice or simply on law of books, this work is done. The five years are considered to investigate to know whether any mentioned regulatory measures were taken place in any of the year/years or not. The following are the regulatory measures and relevant sources of references used to analyse the regulatory performance of SEBI:

Table 1: Investor Protection Measures

Regulatory Measures	Source
Whether yearly Penalty amount Levied under SEBI Act against non-compliance of complaint redressal is increasing.	SEBI Act, 1992, as amended till the year 2016.
Whether number of complaints against companies is decreasing.	NSE and BSE websites
Whether number of complaints against trading member is decreasing.	NSE and BSE websites
Whether the fine and imprisonment period increased for non-compliance of disclosures	SEBI Act, 1992 as amended till 2016
Whether the misstatement in prospectus is treated as criminal liability as well as civil liability and punishable under Indian securities law	Companies Act, 2013 and SEBI Act, 1992 as amended till 2016
Whether there is a sufficient and timely reporting system exist for every shareholders to access and take informed investment decisions	SEBI (ICDR), 2009 as amended till 2016
Whether SEBI presently taking action against non-compliance of disclosure standards	SEBI Annual reports 2011-12 to 2015-16
Whether there is a provisions regarding review and approval requirements for related party transactions	Companies Act, 2013 and SEBI (PIT) Regulation ,2015
Whether it is required that an external body, for example, an external auditor, review the transaction before it takes place.	Companies Act, 2013
Whether immediate disclosure of the transaction to the public, the regulator or the shareholders is required.	SEBI (PIT) Regulation ,2015
Whether single shareholder plaintiffs or group of shareholders plaintiffs (class action suit) are able to sue directly or derivatively for any fraudulent activities of companies/issuers like insider trading, market manipulation erring companies and against vanishing companies etc.	SEBI (LODR) Regulations, 2015 (Listing Regulations)
Whether such frauds treated as non-bale able offence	Companies Act, 2013
Whether the fine and imprisonment periods on such fraudulent companies is increased during the time of study.	SEBI Act 1992
Whether there is a provision to surrender any kind of wrongful gain made by such fraud companies.	Companies Act, 2013, SEBI (PFUTPR),2003
Whether it is required that an external body, for example, an external auditor, is responsible to report instances of fraud to the central authority within prescribed time framework.	Companies Act, 2013
Whether the SEBI conducting periodic investigation and completed cases taken against such fraudulent companies during the course of study period.	SEBI Annual Reports
Whether there is a provision of penalisation (both fine and imprisonment) and punishment (i.e., debarring, suspension from trading and dealings in its own and/or other securities in the market, cancellation of registration etc.) for such violators of regulation of capital market.	Companies Act, 2013, SEBI (PFUTPR),2003

 DOI : 10.18231/2454-9150.2018.0151

Whether there is a regulation to address shareholders ability to sue and hold directors liable for self-dealing and misuse of corporate assets and create conflict f shareholder interest.	Companies Act, 2013, SEBI (PIT) Regulation ,2015, SEBI (PFUTPR),2003
Whether there is a provision to build transparency in related party transactions.	Companies Act, 2013, SEBI (PIT) Regulation ,2015, SEBI (PFUTPR),2003
Whether there is regulation to shareholders to access to evidence and allocation of legal expenses in shareholder litigation	Companies Act, 2013,
Whether the stock brokers are liable for penal action for default of any rules regulation of securities law, like failure to redress investor grievances, excess brokerage charges, failure to settle due amount to investors, failure to provide contract note, involving any fraudulent trade practices etc.	I. Depositories Act, 1996, Stock Broker and Sub-Broker Regulations, 1992
Whether SEBI has taken action against unauthorised trading.	SEBI circular, Number: CIR/MIRSD/15/2011 dated: August 02, 2011
Whether SEBI has taken action against price manipulation by stock brokers.	SEBI Annual Reports
Whether day by day complaints against brokers are decreasing	NSE, BSE websites
Whether there is any institutional arrangements to surveillance the every activities of the registered brokers and investment advisors.	SEBI Act, 1992, Securities Contracts (Regulation) Act, 1956

Source: Established by the author

The above table (see table 1) shows the different measures consider under securities law, which are used to evaluate the SEBI regulatory performance prevailing in the Indian securities law for the year starting from 2011-12 to 2015-16. The each measures mentioned in the above table are considered as single variable to assert whether that measures which are available in Indian securities market are in practice or not. If it practicing and followed by the Indian capital market regulator SEBI, we assigned the score is equal to 1 or otherwise equals to 0. After determining the scores this allows to calculate regulatory performance Index by comprising each variable into one single measure by using SPSS. Higher the regulatory performance index, regulator performance is good and at the same time more measures of law existed in law book is in practice.

VI. RESULTS

Table 2: Retail Investors Ranked Responses on SEBI Measures against Fraudulent Companies (n=500)

Measures	No. of Respondents listing in Top Five Choices (%)	Total Score	Average Score	Ranking
1	399 (79.8%)	2862	5.724	II
2	404 (80.8%)	2676	5.352	III
3	458 (91.6%)	2944	5.888	I
4	364 (72.8%)	2215	4.43	V
5	209 (41.8%)	1826	3.652	VII
6	316 (63.2%)	2366	4.732	IV
7	265 (53%)	1987	3.974	VI
8	104 (20.8%)	1319	2.638	VIII

Source: Established by the author

Note: 1= Cancelling registration of the company, 2= Delisting their securities, 3= Permanently prohibiting company from dealing in securities in the capital market, 4= Increasing penalty amount against those company proprietor/director, 5= Increasing imprisonment period against those company proprietor/director, 6= Using latest technology in speeding up the fraud detection and taking legal action, 7= Avoiding political influence in safeguarding such fraud company, 8= Continue with the present regulatory measures against such company

The retail respondents were asked to rank the regulatory action by SEBI is effective towards fraudulent companies. The above table shows number of respondents who ranked those measures in top five choices, overall average scores of that measure and ranking based on the measures that have highest average scores. The dense of retail investors recommended that, “permanently prohibiting company from dealing in securities in the capital market” is the best measure against fraudulent companies. Permanently prohibiting company from dealing in securities in the capital market is also having highest average scores and highest ranking.

Table 3: Domestic Institutional Investors Ranked Responses on SEBI Measures against Fraudulent Companies (n=6)

Measures	No. of Respondents listing in Top Three Choices (%)	Total Score	Average Score	Ranking
1	4 (66.67%)	37	6.17	III

 DOI : 10.18231/2454-9150.2018.0151

2	3 (50%)	31	5.17	IV
3	6 (100%)	45	7.5	I
4	2 (33.33%)	29	4.833	V
5	1 (16.67%)	27	4.5	VI
6	2 (33.33%)	41	6.83	II
7	None	10	1.667	VII
8	None	8	1.33	VIII

Source: Established by the author

Note: 1= Cancelling registration of the company, 2= Delisting their securities, 3= Permanently prohibiting company from dealing in securities in the capital market, 4= Increasing penalty amount against those company proprietor/director, 5= Increasing imprisonment period against those company proprietor/director, 6= Using latest technology in speeding up the fraud detection and taking legal action, 7= Avoiding political influence in safeguarding such fraud company, 8= Continue with the present regulatory measures against such company

The Institutions Respondents were also asked to rank the SEBI regulatory action is effective towards fraudulent companies. The above table shows number of respondents who ranked those measures in top three choices, overall average scores of that measure and ranking based on the measures that have highest average scores. The domestic institutional respondents' preferred "Permanently prohibiting company from dealing in securities in the capital market" is the best measures against fraudulent companies.

Table 4: Independent t-test for Analysing Retail and Domestic Institutional Investor Perception towards SEBI Measures against Preventing Fraudulent Activities in Capital Market

Group	N	t-value	df	P value (2-tailed)	Decision
Retail Investor	500				
Domestic Institutional Investor	6	-3.95	504	0.00	Reject null hypothesis

Source: Established by the author

The above table contrast retail and domestic institutional investor perception level towards SEBI measures against preventing fraudulent activities in capital market. Further results assert that the p-value is less than 0.05 and to reject the null hypothesis.

Table 5: Chi-square Test for Analysis of Regulatory Performance Index

Categories	Frequencies	Percentage	X^2	p-Value (2-tailed)	Decision
Yes	7	28			
No	18	72			
Total	25	100	4.84	0.028	Reject null hypothesis

Source: Established by the Author

The above table indicates statistical analysis of SEBI performance based on the functioning of 25 regulatory measures with two categorical variables (i.e., yes, no). Noteworthy only 28% of the regulatory measures are law in action whereas 72% are law on book. Consequently the p-value is less than .05, hence we reject null hypothesis and accept alternative hypothesis.

VII. DISCUSSION

Research question 1 asks that, whether the fraudulent activities viz. insider trading, vanishing companies, price manipulation etc are reasonable to claim the regulatory framework is fairly comprehensive or not. Despite of strong regulatory framework the retail and domestic institutional investors are often encountered with capital market misconducts from the issuers. Ideally introduction of entry norms for new issuers avoid the entry of vanishing or fly-by-night companies to some extant but not utterly. Under insider trading some of the transaction undertaken by the company insiders/controlling shareholders is considered to be illegitimate until it disclosed to the investing public. Consequently with this backdrop of illegitimate insider behaviour the strong legal enforcement force to be occur at major economic centres. Noticeably the jurisdiction of insider trading is significantly vary and even becoming more complex from country to country. This may due to how extent the insider trading is taboo by considering investors trouble or still encouraging due to political interference in certain country. Notwithstanding the insider trading in India is punished with prison for five years and further imposing penalty of minimum of five lakh rupees (five hundred thousand) to twenty five crore rupees (two hundred and fifty million) or three times the profit made. Unfortunately, several cases of insider trading involving reputed industrial groups were investigated and brought to court by SEBI, but SEBI was unable to convince the Securities Appellate Tribunal (SAT)[12]. This might be because the SEBI does not have independence authority to judge and convict the accused and violator of the law. Further it is laissez behaviour of SEBI to grant so many

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entities that violated Prohibition of Insider Trading (PIT) regulation by settling their cases with some agreed money. Similarly some entities came to collect huge money from investors and vanished over night. Along with these perils so many investors burnt their finger by the price manipulation. But there is no evidence that investor get compensation for such damages.

Research question 2 asks what kind of regulatory actions preferred by retail and domestic institutional investors that the SEBI need to take against fraudulent activities? According to the analysis, both retail and domestic institutional investors favoured that, "permanently prohibiting company from dealing in securities in the capital market" is the best measure towards fraudulent companies rather taking simple actions against those companies. As most of the action taken by the SEBI against fraudulent companies, is debarring companies in dealing accessing securities for certain period of time. But here investors not satisfied with such a simple action, they want SEBI to take more severe action against those fraud companies. In US and other major countries there is no need of proof to get punish, but violation of insider provision itself is enough for penalize under law. More number of researches documented that the effective level of investor protection and the quality of legal institutions in India are quite weak. Further the quality of public enforcement of securities laws appears to be a problem in India. These are all results appeared due to SEBI action against related party transaction and other frauds would take long time. Hence there should be regulatory reform that create new trajectory by fast movement of securities cases resolution.

Research question 3 asks who perceived positive towards regulatory actions against fraudulent activities. Based on the analysis the retail investors perceived negatively compare to domestic institutional investors. This might be because the main victims of these kinds of illegitimate activities are retail investors as compare to large domestic institutional investors. Due to their inverse behaviours both investors' exposure to these kinds of malfunctioning may vary. The retail investors on one side considerably have less investment profile, gullible, easily trust all market promises until it get defrauded. Despite small individual need not capable to abide big financial crisis, price manipulation, accounting scandals, insider trading and even small day-to-day trading problems of brokers and issuers. Consequently they need painstaking attention from regulators to protect them in each and every stage of investment starting from listing norms to till fulfilling post listing requirements. Virtually domestic institutional investors who considered as well sophisticated investors on another side could able to protect themselves and not completely depends on SEBIs' investor protection efforts. Considerably, they are professionally involved in investment activities and to be considered as well informed investors. Because of their huge investments domestic institutional investors are participating in major role of corporate management functions and their chance of get defrauded is less. as well as they also played as big dealers so that the brokers also not intends to create bad reputation with domestic institutional investors. Undeniably every kind of investors' interest should be balancing even-handedly under the scale of justice. But all type of investors does not want same level of protection, as there are weak segments who completely depend on regulation to protect them and some other segments who could able to protect themselves and depends less on regulation. Hence it is the duty of regulators to provide level playing field for poor segment of investors by trigger restrictions on the market misconducts of issuers as well as trading members.

Research question 4 asks whether the investor protection prevailing in Indian securities market is law in action or simply a law on book? the analysis further revealed that more number of regulatory measure simply exists on law of books, only few of them in practice. The Allen et.al, demonstrated that eventhough the Indian legal system has differences between investor protection provided by the law and with the protection in practice, the India got high scores in Investor Protection compare to English-origin countries. This denotes the poor quality of Indian securities law enforcement. Hence there is a need to calibrate of securities laws towards abandoned area of malpractices instances of insider trading, price manipulation and vanishing companies.

VIII. CONCLUSION

The need for reap of malpractices sought through deterrent effects of regulatory stance in the legal system of the stock market. The retail and domestic institutional investor's growth in domestic market certainly help to attraction of new and more diverse capital market is purely depend on the success of the regulatory surveillance and enforcement against those market abuses. Consequently, the success of regulatory enforcement is itself dependent on economic and political conditions of the countries. The malpractices in the system gradually test those regulatory strategies, and awake the regulators to be alert. Most of the legal and financial studies demonstrated that the safety of Indian stock market is endorsement with poor legal system which ultimately usher to unsuccessful regulatory enforcement. Hence there is a need to calibrate of securities laws towards abandoned area of malpractices instances of insider trading, manipulation and vanishing companies. Further merely addressing the regulations and provisions in Acts and regulations is not enough; instead there should be filing of criminal complaints against promoters of companies alleging series of fraudulent acts where prima facie case is needed. In country like India where the regulation inevitably depends on political or other government agencies interference may cause for unsuccessful

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enforcement. There is a need for radical changes in legal structure by avoiding political intervention in safeguarding such fraud companies, so that the regulator feasible to work independently without reputational damage. Evidentially more number of investor protection measures are simply exists on paper, hence there is need for effective enforcement in sweeping overhaul of regulations on investor protection.

Further merely regulatory intervention is not enough, instead regulators need to reform their investor protection policies based on investors' behavioural implications, investors' actual needs from the regulation, etc. Aggrieved investors certainly cause for regulatory reputational harm. Moreover the retail investors' chance of defrauding is high compare to domestic institutional investors. Hence SEBI should buttress the investor protection measures in order to fillip retail investors' trust in the market. Similarly SEBI also does not neglect the domestic institutional investors' participation as they are sophisticated and enhance the corporate governance practices in investee companies which also indirectly helpful for retail investors of those entities. SEBI also take the assistant of these domestic institutions to educate and aware retail investors regarding the market abuses and relevant policy measures prevailing in the Indian securities law. This would help to create level playing field for both retail and institutional investors and use the domination of institutional investors in a good manner. It is possible to build investors democracy.

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