Regional Stock Exchanges for Spread of Equity Cult

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With all the modernisation and automation of trading, clearance and settlement of securities Indian stock exchanges have achived in recent years, emerging in the process on par or even above the most developed stock markets of the world, the spread of equity cult in the country is abysmally low. There are at best of reckoning not more than 20 million shareholders, which is just two percent of the population ,as against 15-25 percent in developed markets.

Worse still ,even the limited shareholding population the nation has, is concentrated in metropolitan cities, and that too in Mumbai and Ahmedabad. As per the SEBI - NCAER survey of Indian investors, there were over 6.5 million investor households in 2000-01(a sharp decline from 12.1 million in 1998-99) out of which only 1.9 million were from the rural areas and the balance 4.6 million from the urban areas. While rural areas account for nearly 70 percent of the population ,the number of equity investor households account for only 29.2 percent of the total equity investor households.

Responses to the offer of equity shares in recent years depict a worsening situation. Almost 80 to 90 percent of the collections come from the five cities of Mumbai, Kolkata, Delhi, Chennai and Ahmedabad, out of which Mumbai and Ahmedabad alone account for 85-90 percent of the collection from these five centres.

It is imperative that the cult of equity spreads through out the length and breadth of the country. Potential investors in urban, semi- urban and rural areas need to be educated and encouraged to invest in the steadily expanding equity market of the country.

The state of art facilities available with the Regional Stock Exchanges (RSEs) which are lying virtually idle at present, can be fruitfully deployed to undertake this overseas responsibility

One possible way is to utilize their resources fruitfully in the primary market. SEBI has permitted presently book-building to be carried out only by NSE and BSE. The entire public issue formalities are coordinated by the lead manager, who also acts as the lead book runner. The lead book runner is usually supported by four to five syndicate members, who carry the responsibility for marketing of the issue and for underwriting, In order to attract subscriptions from investors from all over the country, the lead book runner appoints sub-syndicate members, who may be members of different stock exchanges and also others who have large client base .The sub- syndicate members are responsible for the marketing of the issue in their respective regions and for the actual collection of subscription amounts and their remittances to the concerned syndicate member. It has been observed over the last few years the entire primary market operations have become concentrated in the hands of only a handful of large investment managers, who rely on their own private network of sub-syndicate members for handling all issues made by companies.

In the interest of ensuring the spread of equity cult in the country, it is essential to review the present set of norms relating to primary market operations, in order to make use of the facility available with the RSEs. The following measures are suggested:

First, besides NSE and BSE, all other stock exhanges may be considered to participate in the book- building process, for the listing and delisting of securities. This would revive the primary market function in these exchanges too.

Second, companies may be given an option for running the book on a stock exchange only for the purpose of attracting wider invetor participation ,without the concomitant responsibility of also listing on such exchange. This would give an additional benefit to the companies, as they could go about marketing their issues through many stock exchanges, without being forced to also list the securities on them.

Third, at least two or three syndicate members may be appointed from each of the stock exchanges participating in the issue process. This would lead to the widening of the base of investment managers in the country ,which is very essential for creating a more competitive and diversified environment.

Fourth, all trading members of such participating exchanges should be allowed to tie up with any of the syndicate members as sub-syndicate members, for which a standard format for agreement between these entities may be devised. This move would enable all the trading members to participate in the public issue process by effectively marketing the issue among their clients.

Fifth, the participating exchanges could be made to develop standard software for capturing collection details, receipt status, brokerage/commission payable, etc. which can be deployed by the syndicate members across their network of sub-syndicate members. This would lead to grater harmonization in the primary market process.

Sixth, the electronic clearing system of the stock exchanges could be used for transfer of subscription amounts from the investors to the accounts of the syndicate members and from the syndicate members to the concerned lead managers. This would achieve the purpose of more efficient and timely funds transfer and the clients would not be in the dark about the fate of the clearing of their instruments.The clearing system of the stock exchange can also be used for effecting refunds to clients in the case of unsuccessful/partial subscriptions,which under the proposed mode,would be much faster than in prsent system.

Last,the Investor Grievances Cells of the participating stock exchanges may be designated as the first level for a redressal of complaints lodged by investors who have subscribed for the public issue and suitable changes may be introduced in the bye-laws of the stock exchanges to arm them with arbitration powers.This move would decentralize the grievance redressal mechanism,leading to lesser inconveniences and cost for the investors and speedier disposal of grievances.

The network of RSEs can also be utilized in the secondary market operations of both National Stock Exchange(NSE) and Bombay Stock Exchange(BSE). As per the latest regulatory move, subsidiaries of RSEs will be hived off from the RSEs. Financially strong parties who may take over these subsidiaries are likely to deny to the all members of RSEs the same facilities they are presently enjoying.As a result, several RSEs members,who are presently operating as sub-brokers of subsidiaries of RSEs will be denied the facility of offering services to their investors.A leading financial institution, which has not floated any subsidiary to trade in securities,should take a lead and become a member of NSE and BSE and enroll all eligible interested members of RSEs as sub-brokers.The vast network available with the interested members of RSEs can then be utilized fruitfully in servicing the investors in the catchment areas of RSEs-there are all 19 of them all over in country to participate actively in secondary market operations.

Benefits of investment in equities are reaped at present mainly by citizens of metropolitan cities of the country,and that too by the creamy layer.A Government devoted to *aam admi* should pay attention to widen the base of beneficiaries to cover the entire country.Such efforts will help in increasing the strength of equity holders in the country from the present stagnating levels to higher orbits.RSEs can play a crucial supplementary role in this behalf. Fostering RSEs needs to be looked from that angle.It is worth noting that Forward Market Commission ,which is the regulatory authority for commodity markets,is all in favour of regional commodity encourages to grow simultaneously alongwith the national exchanges.