

# Investor Grievance Redressal Architecture in Indian Capital Market



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Investors and their confidence in the market form the backbone of the securities market. Unlike other markets, direct participation of retail investors in the capital markets is very significant which makes it obligatory on the part of policy makers and enforcement agencies to ensure that such retail investors' interest is given paramount importance in the regulatory framework. The retail investors' number is ever-growing, steadily but surely, perhaps due to sustained confidence and awareness of the stock market among the retail investors.

Retail investor confidence building/sustaining efforts have to focus on (i) simplification of investment processes, (ii) reduction/elimination of risk intermediation (iii) continuous and quality

disclosures from corporates (iv) Reliable and robust investor grievance redressal mechanism amongst other things. The first three topics are oft-debated in public forums and not much of focus is given to the investor grievance redressal process operational in stock exchanges in India. This article attempts to describe the investor grievance redressal architecture in India and experience.

## **A comparison of grievance redressal architecture in India with other jurisdictions**

The Investor Grievance Redressal Architecture in India is different compared to other countries Stock Exchanges like Taiwan, Singapore and Australia. It involves a tiered structure that starts with reconciliation and then progresses towards quasi-judicial and then judicial mechanism. The parties to the dispute i.e. investors, trading members, sub-brokers, etc. are actively involved in the redressal mechanism.

In Taiwan, the Securities and Futures Investors Protection Centre is set up to handle investor grievance. In addition to consultation and mediation, the Centre also handles investors' complaints, files class-action lawsuits on behalf of investors, and derivative suits on behalf of companies. This Centre also manages an investor compensation fund. Where an individual is involved in a dispute related to the trading of securities or futures, the person may opt for arbitration mechanism or go for civil lawsuit. The Centre has an arbitration or mediation committee to provide mediation for civil disputes involving securities and futures investors. The centre may file lawsuits or submit cases for arbitration on behalf of twenty or more securities or futures investors affected by the same incident. Further, the compensation is paid from the investor compensation fund, in case, the brokerage firms become insolvent and cannot pay to the investors. The maximum compensation amount to each investor or trader is NT\$ 1 million, and maximum compensation amount to be paid to total investors or traders of each security from the fund is NT\$ 100 million.

In Australia, the investors have to contact the Australian Stock Exchange Customer Service Centre for filing their complaints. 21 days are given to try and resolve the matter directly. At the end of this period, if the matter remains unresolved or the parties are unsatisfied, matter may be taken up before the Australian Securities and Investments Commission (ASIC). Further, in case the party is not satisfied with the outcome, the disputes can be taken up under an approved complaint resolution scheme, such as Financial Ombudsman Service.

In Singapore, investors have to first lodge their complaint with their broker. If they do not receive a satisfactory response from their broker, they may follow up the matter with SGX. SGX has informed that if the matter involves a breach of their rules, they will investigate. However if it is purely commercial, they may not have the grounds to intervene. Where a broker has defalcated (eg. misappropriated funds) and where a broker is bankrupt or is being wound up, claims may be made against the Fidelity Fund. Each claim against the Fidelity Fund is limited up to S\$50,000 per individual.

## **Grievance Redressal at National Stock Exchange, India (NSE)**

The National Stock Exchange (NSE) has set up the Investor Services Cell to look into any complaint/dispute against the broker with whom the investor trades. To cater to the needs of investors, NSE has set up 14 Investor Services Centers across India. The Investor Services Cell facilitates resolution of complaints of investors against listed

corporate entities and NSE members. NSE has accorded high priority for resolution of investor complaints and therefore the activities of the Investor Services Cell are supervised by a board sub-committee known as the Investor Services' Committee exclusively constituted for the purpose. The Investor Services Cell also renders administrative assistance to arbitration proceedings in respect of cases that are admitted for arbitration under NSE's Arbitration framework.

● **Complaint Resolution:**

When trading, the investors may have some grievance against the trading member (share broker). The investor can directly file his complaint with the trading member. If his complaint is not resolved, he can file his complaint with the Exchange through multiple avenues. A complaint can be received from an investor through the following routes:

- Through the online mechanism on the NSE website
- Through SEBI's Complaint Redressal system
- Physical letters
- Emails

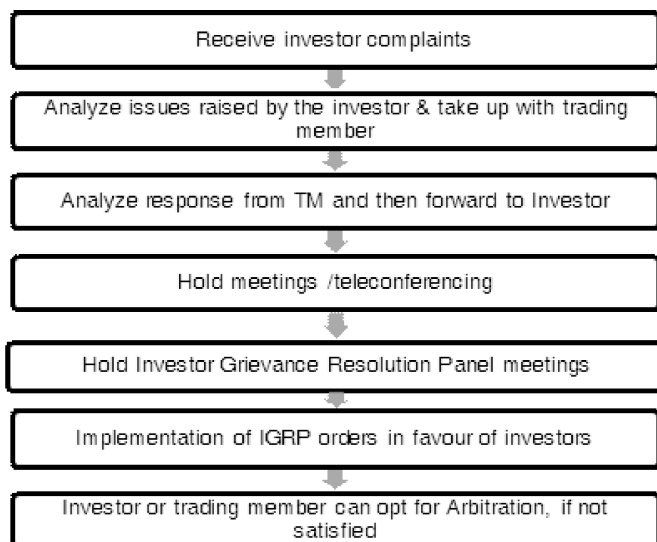
The complaints received could be for -

- Unauthorized trades / misappropriation & Closing out / squaring up
- Non receipt/delay in payment/securities
- Service related
- Non-receipt of documents
- Others

Over the last three years, there has been a decline in the complaints received in the category of Unauthorized trades / misappropriation & Closing out / squaring up.

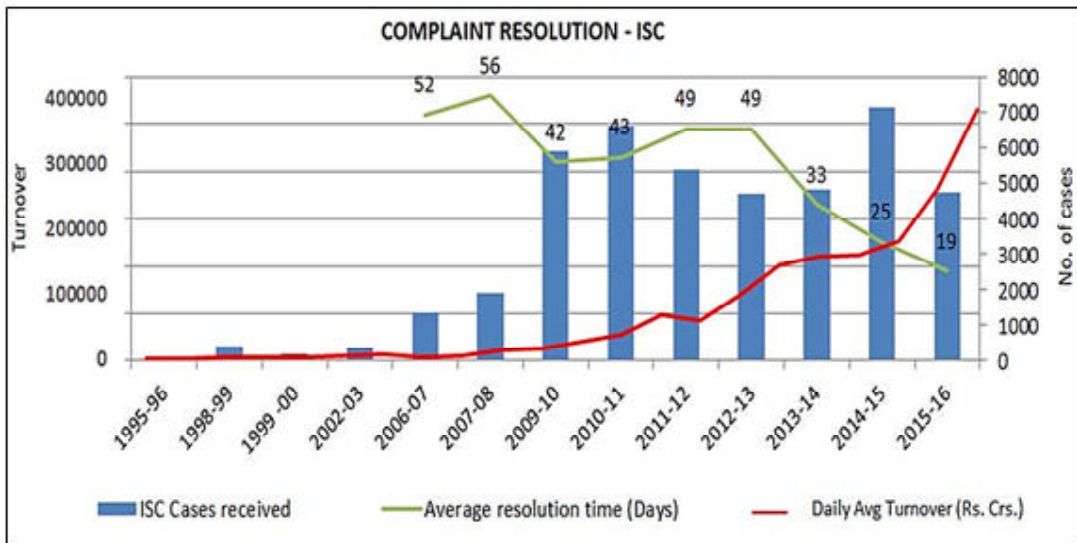
Nature	2013-14	2014-15	2015-16
Unauthorized trades / misappropriation & Closing out / squaring up	1987	1610	1682
Non receipt/delay in payment/securities	1124	3037	1211
Service related	1024	1714	1162
Non-receipt of documents	190	131	124
Others	520	637	583
Grand Total	4845	7129	4762

The investor can send his complaint to the Investor Services Cell which will take up the complaint with the trading member and facilitate resolution of the complaint.

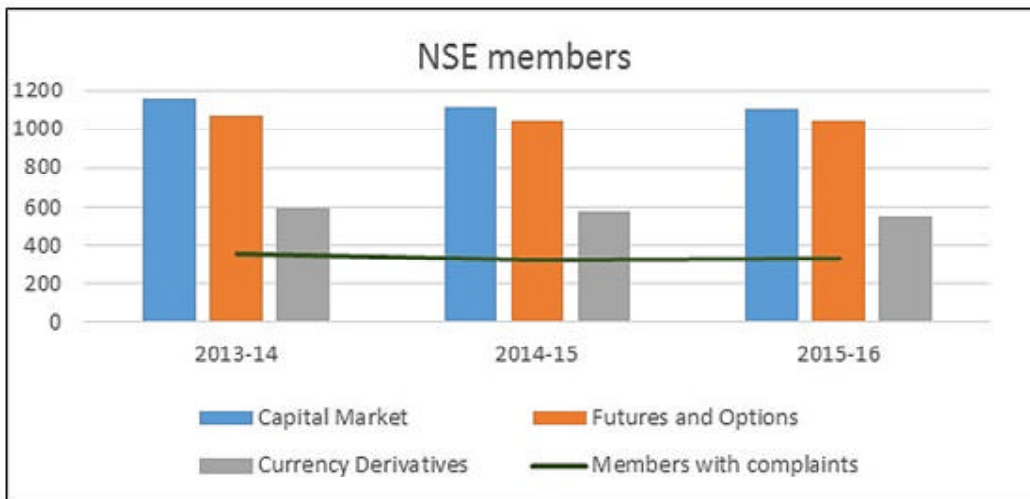


Through a telephonic discussion with the trading member and investor, NSE officials try and resolve the complaints amicably. In case the complaint is not resolved or either of the parties is unhappy with the resolution worked out, the complaint is placed before the Investor Grievance Resolution Panel (IGRP). IGRP consists of external parties who are not in full time employment (retired) and who have some knowledge of the financial market. IGRP also endeavours to resolve the complaint and if not resolved, passes an order giving admissibility of the claim in favour of the investor or otherwise. If the order is in favour of the investor, NSE blocks the amount from the available deposits of the trading member with NSE and pays the investor in case the trading member decides not to file arbitration. If the trading member decides to file arbitration, an interim amount is released to the investor from the Investor Protection Fund (IPF).

As can be seen from the chart below, the number of complaints received is a negligible fraction of the daily average turnover. Efforts have also been made in decreasing the time taken in resolving a complaint.

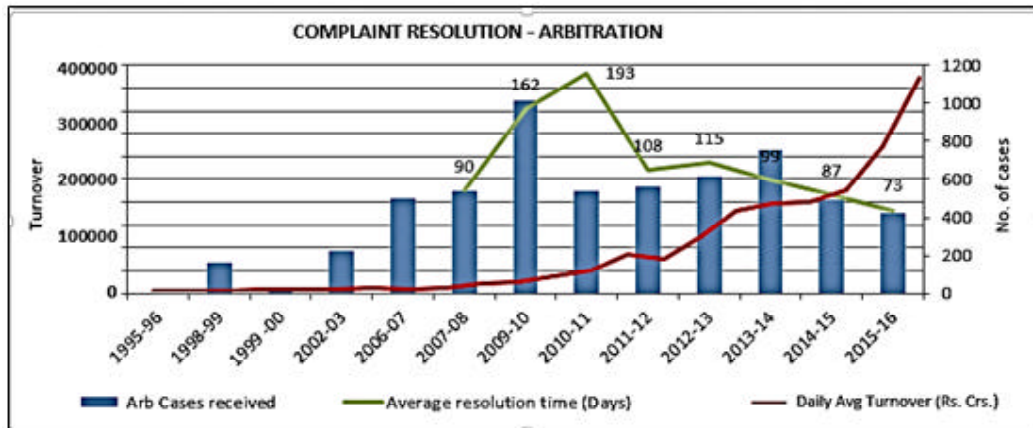


Compared to the number of members who are registered with NSE and are trading, complaints received are for less than one-third the number of members.



● **Arbitration**

In case either party is dissatisfied with the outcome of the IGRP, they can file arbitration, which is a quasi-judicial mechanism of redressing disputes. The arbitration panel consists of retired professionals such as judges, bankers, etc. The arbitrator conducts hearings with the parties and passes his judgement in the form of an award. The awards which are in favour of the investor are implemented by NSE i.e. the amount is taken from the trading member and paid to the investor. Here too, if the trading member wishes to appeal further in appellate arbitration, an interim amount is paid out of IPF to the investor.



- **Appellate Arbitration**

In case either party is dissatisfied with the outcome of the Arbitration, he can file for Appellate Arbitration. A panel of 3 arbitrators will preside over the matter and pass their judgment. If a party is still not satisfied with the appellate arbitration award, he may file a case under the provisions of Arbitration Act in High Court. An interim amount is paid out of IPF to the investor, in case the trading member opts for filing a case under the provisions of the Arbitration and Conciliation Act.

- **Remedy to investors/compensation to investors in case of broker default**

NSE has set up a statutory Committee, known as the Defaulters' Committee, to administer the assets in respect of the defaulters /expelled members in NSE. The Defaulters' Committee calls in and realizes the security deposits in any form, margin money, other amounts lying to the credit of and securities deposited by the defaulter and recover all moneys, securities and other assets due, payable or deliverable to the defaulter by any other Trading Member. The Defaulters' Committee distributes the amount available in the defaulter's account to the admitted claims on pro-rata basis as per the priority laid out under NSE Rules/Regulations/Bye-Laws.

- **Investor Protection Fund**

NSE has established an Investor Protection Fund with the objective of compensating investors in the event of defaulters' assets not being sufficient to meet the admitted claims of investors, promoting investor education, awareness and research. In case the funds in Defaulters' account are insufficient to meet the admitted value of claims, compensation is paid from the Investor Protection Fund, based on the recommendations of the Defaulters' Committee up to a maximum of Rs.1.5 million.

Further, Investor confidence building has two elements in it. One to educate and create awareness and two, once the investor is confident, support him with prompt, easy to understand and critical alerts that help him in dealing with securities market.

### **Other services which help in reducing investor grievances**

- **Trade Verification Module:**

Trade Verification Module is a very simple tool set up through NSE website to verify trades executed in an account. An investor can fill in his own details and obtain 10 days trading data in his account for verification. Since this was started for retail investors, only data for non-proprietary and non-institutional trades are available through this module.

- **Welcome SMS and email to investors:**

When investors get registered for trading for the first time on NSE, a welcome SMS and email is sent to them. They are informed that their trade details would be sent to them at the end of the trading day. Information on investment concepts, investor alerts, rights and obligation as an investor as well as the Do's and Don'ts of trading are also sent to them through this mail.

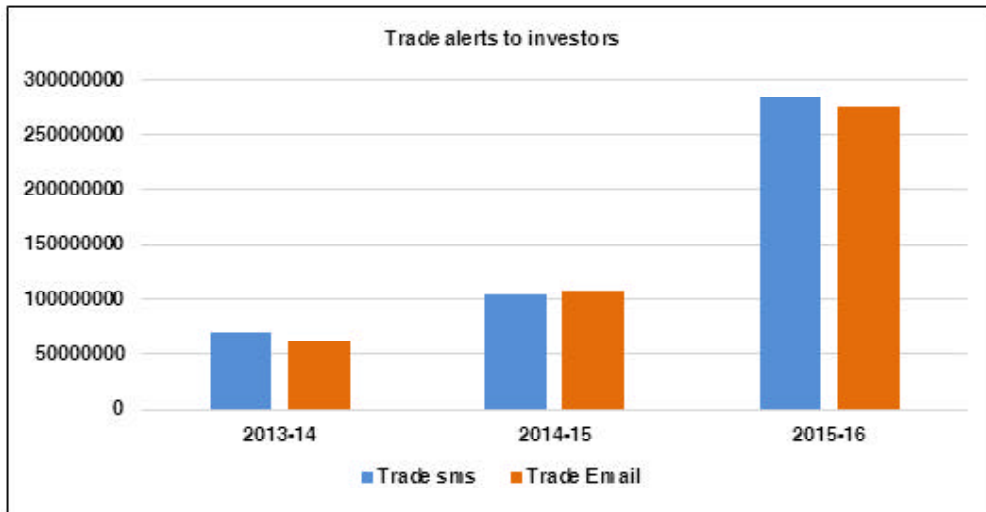
- **Trade Alert facility:**

In a bid to reach out to all retail investors, NSE sends the details of transactions to all non-proprietary and non-institutional investors, by the end of trading day, on the mobile number and/or email address, registered by their trading members.

Some aspects of the alert facility are:

- Facility is absolutely free of cost
- Alerts are sent after end of market hours
- Facility is provided for trades done on NSE and only on days when the investor trades on NSE
- Facility covers all Cash Equity, Equity Derivatives, Currency Derivatives and Debt Segment

NSE sends out around 450,000 SMSs and around 450,000 emails to investors on a daily basis. The total number of SMS and emails being sent in the year has increased drastically due to the continuous monitoring of trading members to upload their client details.



● **Alerts on actual settlement**

A stock broker is required to settle the funds/securities of its clients within 24 hours of the payout from NSE. However, for operational ease a client may specifically authorize the stock broker to maintain a running account. In case of a running account, the stock broker, as per the existing regulatory requirements, should settle the accounts of such clients at least once in a calendar quarter or month, depending on the preference of the client.

As a measure of investor protection and as a pro-active compliance initiative, NSE has been sending emails to registered clients of select Stock Brokers to make them aware of the requirement and importance of actual settlement, the need to review their trading activities, the statement of accounts, margin statements, etc. Further the investors are advised not to give authorization to their members for not settling their accounts. Investors have also been provided an email ID wherein they can report any instance of non-settlement of accounts. Till date email alerts have been sent to more than 900 thousand clients.

This initiative will enhance the investor's confidence that NSE too is taking measures to safeguard the interest of investors.

● **Intimation on square up due to margin call**

Incase the Member has made margin calls to the client and the client has failed to comply with these margin calls, then the contract note issued by Member for transactions owing to non-compliance of such margin calls would bear a remark specifying the same. The Member is also required to maintain a verifiable record of having made such margin calls and that the clients have not complied with the same.

As the individual investor's community and the investment avenues are on the rise, it is imperative that investor confidence is maintained in the stock market. The elements in building investor confidence i.e. educate, create awareness, support in dealing with the securities market and avenue for grievance redressal, need to be continuously addressed. NSE believes that if the major worries of investors like volatility, price manipulation, unfair practices of brokers, fraudulent companies, and complicated processes are well addressed, investor confidence is built and sustained.

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