SECURITIES AND EXCHANGE BOARD OF INDIA

Mumbai - 400 021

A Quick Reference Guide For Investors

Dear Investor,

Now that you have become a stakeholder in a listed company, we welcome you to the securities market. Securities and Exchange Board of India, a statutory body constituted by the government of India, stands committed to the assigned objective of protecting investors in the securities market.

Ensuring disclosure of full, fair and adequate information has been the hallmark of our regulatory principle. In continuation of our efforts in that direction, we thought it fit and timely to write to you making you aware of

- the rights that you have as a stakeholder in a company,
- the responsibilities that are cast on you,
- the risks that you have assumed,
- the procedures relating to trading and transfer of the securities and
- the remedies for problems that you may encounter.

We hope that this material will give you appropriate guidance, though in brief, whenever you have a question in your mind. For detailed guidance, you may approach your broker, the investor service centres of the stock exchanges, and of course, the Investor Guidance Division of the Securities and Exchange Board of India.

RISK REVISITED

When you invested, you did so with certain expectations about the performance of the company, the prospects of Income from and/or the capital growth of the securities that you now hold, the corporate benefits that may accrure to you etc.

While making that investment decision, you should have, obviously, taken not of and duly evaluated the attendant risks that go with such expectations.

You would remember that one such risk is that your expectations on income and/or growth may not materialise.

You would also recall that if you are an investor in the debt instruments, you can have recourse against the company, besides the market, for redeeming them. But, as an equity holder of a company, in order to realise the value of such investment, you have recourse only to the market.

And you would recollect that the disinvestment may result in capital losses also.

Further, you would have also noted that apart from the above mentioned investment risks, you also face the risk of running into problems with the trading and transfer of the securities.

YOUR RIGHTS

As a shareholder in a company, you enjoy certain rights, which are as follows :

- to receive the share certificates, on allotment or transfer as the case may be, in due time.
- to receive copies of the abridged Annual Report, the Balance Sheet and the P&L A/c and the Auditors' Report.
- to participate and vote in General Meetings either personally or through proxies.
- to receive Dividends in due time once approved in General Meetings.
- to receive corporate benefits like rights, bonus etc. once approved.
- to apply to Company Law Board (CLB) to call or direct the Annual General Meeting.
- to inspect the minute books of the General Meetings and to receive copies thereof.
- to proceed against the company by way of civil or criminal proceedings.
- to apply for the winding-up of the Company.
- to receive the residual proceeds.

Besides the above rights which you enjoy as an individual shareholder, you also enjoy the following rights as a group

- to requisition an Extra-ordinary General Meeting.
- to demand a poll on any resolution.
- to apply to CLB to investigate the affairs of the company.
- to apply to CLB for relief in cases of oppression and/or mismanagement.

As a debenture-holder, you have the right

- to receive interest/redemption in due time.
- to receive a copy of the trust deed on request.
- to apply for winding up of the company if the company fails to pay its debt.
- to approach the Debenture trustee with your grievance.

You may note that the above mentioned rights may not necessarily be absolute. For example, the right to transfer securities is subject to the company's right to refuse transfer as per statutory provisions.

YOUR RESPONSIBILITIES

While you may be happy to note that you have so many rights as a stakeholder in the company, that should not lead you to complacency; because you have also certain responsibilities to discharge. To be specific,

- to remain informed
- to be vigilant
- to participate and vote in general meetings.
- to exercise your rights on your own or as a group.

TRADING OF SECURITIES

You have the right to sell the securities that you hold at a price and time that you may choose. You can do so personally with another person or through a recognised stock exchange. Similarly you have the right to buy securities from anyone or through a recognised stock exchange at a mutually acceptable price and time.

Whether it is a sale or purchase of securities, effected directly by you or through an exchange, all trades should be executed by a valid, duly completed and stamped transfer deed.

If you choose to deal (buy or sell) directly with another person, you are exposed to counter party risk, i.e. the risk of non-performance by that party. However, if you deal through a stock exchange, this counter party risk is reduced due to trade/settlement guarantee offered by the stock exchange mechanism. Further, you also have certain protections against defaults by your broker.

When you operate through an exchange, you have the right to receive the best price prevailing at that time for the trade and the right to receive the money or the shares on time. You also have the right to receive a contract note from the broker confirming the trade and indicating the time of execution of the order and other necessary details of the trade. You also have the right to receive good delivery and the right to insist on rectification of bad delivery. If you have a dispute with your broker, you can resolve it through arbitration under the aegis of the exchange.

If you decide to operate through an exchange, you have to avail the services of a SEBI registered broker/sub-broker. You have to enter into a broker-client agreement and file a client registration form. Since the contract note is a legally enforceable document, you should insist on receiving it. You have the obligation to deliver the shares in case of sale or pay the money in case of purchase within the time prescribed. In case of bad delivery of securities by you, you have the responsibility to rectify them or replace them with good ones.

TRANSFER OF SECURITIES

Transfer of securities mean that the company has recorded in its books, a change in the title of ownership of the securities effected either privately or through an exchange transaction. To effect a transfer, the securities should be sent to the company along with a valid, duly executed and stamped transfer deed duly signed by or an behalf of the transferor (seller) and transferee (buyer). It would be a good idea to retain photo-copies of the securities and the transfer deed when they are sent to the company for transfer. It is essential that you send them by registered post with acknowledgment due and watch out for the receipt of the acknowledgement card. If you do not receive the confirmation of receipt within a reasonable period, you should immediately approach the postal authorities for confirmation.

Sometimes, for your own convenience, you may choose not to transfer the securities immediately. This may facilitate easy and quick selling of the securities. In that case you should take care that the transfer deed remains valid. However, in order to avail the corporate benefits like the Dividends, Bonus or Rights from the company, it is essential that you get the securities transferred in your name.

On receipt of your request for transfer, the company proceeds to transfer the securities as per provisions of the law. In case they cannot effect the transfer, the company returns back the securities giving details of the grounds under which the transfer could not be effected. This is known as Company Objection.

When you happen to receive a company objection for transfer, you should proceed to get the errors/discrepancies corrected. You may have to contact the transferor (the seller) either directly or through your broker for rectification or replacement with good securities. Then you can resubmit the securities and the transfer deed to the company for effecting the transfer. In case you are unable to get the errors rectified or get them replaced, you have recourse to the seller and his broker through the stock exchange to get back your money. However, if you had transacted directly with the seller originally, you have to settle the matter with the seller directly.

Sometimes, your securities may be lost or misplaced. You should immediately request the company to record a stop transfer of the securities and simultaneously apply for issue of duplicate securities. For effecting stop transfer, the company may require you to produce a court order or the copy of the FIR filed by you with the Police. Further, to issue duplicate securities to you, the company may require you to submit indemnity bond, affidavit, sureties etc. besides issue of a public notice. You have to comply with these requirements in order to protect your own interest.

Sometimes, it may so happen that the securities are lost in transit either from you to the company or from the company to you. You have to be on your guard and write to the company within a month of your sending the securities to the company. The moment it comes to your notice that either the company has not received the securities that you sent or you did not receive the securities that the company claims to have sent to you, you should immediately request the company to record stop transfer and proceed to apply for duplicate securities.

DEPOSITORY AND DEMATERIALISATION

Shares are traditionally held in physical or paper form. This method has its own inherent weaknesses like loss/theft of certificates, forged/fake certificates, cumbersome and time consuming procedure for transfer of shares etc. Therefore, to eliminate these weaknesses, a new system called Depository System has been established.

A depository is a system which holds your shares in the form of electronic accounts in the same way a bank holds your money in a savings account.

Depository System provides the following advantages to an investor.

- Your shares cannot be lost or stolen or mutilated.
- You never need to doubt the genuineness of your shares i.e., whether they are forged or fake.
- Share transactions like transfer, transmission etc. can be effected immediately.
- Transaction costs are usually lower than that in the physical segment.
- There is no risk of bad delivery.
- Bonus/Rights shares allotted to you will be immediately credited to your account.
- You will receive the statement of account of your transactions/holdings periodically.

When you decide to have your shares in electronic form, you should approach a Depository Participant (DP) who is an agent of the depository and open an account. You should surrender your share certificate in physical form and your DP will arrange to get them sent to and verified by the company and on confirmation credit your account with an equivalent number of shares. This process is known as de-materialisation. You can always reverse this process if you so desire and get your shares reconverted into paper form. This process is known as re-materialisation.

Share transactions (like sale or purchase and transfer/transmission etc.) in the electronic form can be effected in a much simpler and faster way. All you need to do is that after confirmation of sales/purchase transaction by your broker, you should approach your DP with a request to debit/credit your account for the transaction. The Depository will immediately arrange to complete the transaction by updating your account. There is no need for separate communication to the company to register the transfer.

GRIEVANCE REDRESSAL

There will be occasions when you have a grievance against the company in which you are a stakeholder. It may be that you have not received the share certificates on Allotment or on transfer; it may be that you did not receive the dividend/interest warrant or refund order; perhaps you did not receive the Annual accounts etc. while you would first approach the company in that regard, you may not be satisfied with the company's response thereto. You would like to know whom you should turn to get your grievance redressed. The following table would provide you the guidance in this regard.

Nature of grievance	Can be taken up with
In case of any Public Issue, non-receipt of	
• Refund order	SEBI
• Interest on delayed refund	Dept. of Company Affairs
• Allotment advice	– do –
• Share certificates	Stock Exchange
• Duplicate for all of the above	Registrars to the issue
• Re-validations	– do –
In case of a listed security, non-receipt of the certificates after	
• Transfer	SEBI
• Transmission	– do –
• Conversion	– do –
• Endorsement	Dept. of Company Affairs
• Consolidation	Stock Exchange
• Splitting	– do –
• Duplicate of securities	– do –

Nature of grievance	Can be taken up with
Regarding listed Debentures, non-receipt of	
• Interest due	SEBI
• Redemption proceeds	Dept. of Company Affairs
• Interest on delayed payment	Debenture Trustees Stock Exchange
• Regarding bad delivery of shares	Bad delivery cell of the stock exchange
• Regarding shares or debentures in unlisted companies	Dept. of Company Affairs
• Deposits in collective investment - schemes like plantations etc.	SEBI
• Units of Mutual Funds	SEBI
Fixed Deposits in Banks and Finance	Reserve Bank of India
• Companies Fixed Deposits in manu-facturing companies	Dept. of Company Affairs

Investor Information Centres have been set up in every recognised stock exchange which in addition to the complaints related to the securities traded/listed with them, will take up all other complaints regarding the trades effected in the exchange and the relevant member of the exchange.

Moreover, two other avenues always available to the investors to seek redressal of their complaints are :

- Complaints with Consumers' Disputes Redressal Forums
- Suits in the Court of Law.

Offices of SEBI	Jurisdiction for the companies having their Registered offices in
Head Office Mittal Court, 'B' Wing, 1st Floor, 224 Nariman Point, MUMBAI-400 021	Gujarat, Maharashtra Madhya Pradesh, Goa, Daman Diu, Dadra and Nagar Haveli
Northern Regional Block No. 1, Rajendra Bhawan, Rajendra Place, Dist. Centre, NEW DELHI -110 008	Haryana, Himachal Pradesh, Punjab, Jammu and Kashmir, Rajasthan, Uttar Pradesh, Delhi and Chandigarh

Offices of SEBI	Jurisdiction for the companies having their Registered offices in
Eastern Regional FMC Fortuna, 5th Floor, 234/3A AJC Bose Road, KOLKATTA-700 020	Assam, Bihar, Manipur Meghalaya, Nagaland, Orissa, West Bengal, Sikkim, Arunachal Pradesh, Mizoram, Tripura, Andaman and Nicobar Islands
Southern Regional 3rd Floor, D'Monte Bldg., No. 32, D'Monte Colony, TTK Road, Alwarpet, CHENNAI - 600 018	Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Pondicherry, Lakshadweep and Minicoy islands

KEY TERMS

Arbitration : Settlement of claims differences or disputes between one member and another and between a member and his clients, authorised clerks, sub-brokers, etc. through appointed arbitrators. It is a quasi-judicial process that is faster and is an inexpensive way of resolving a dispute. The Exchange facilitates the process of arbitration between the members and their clients. The disputes between the parties are resolved through an arbitration in accordance with the bye-laws of the Exchange.

Auction : An auction is a mechanism utilised by the Exchange to fulfill its obligation to a counter party member when a member fails to deliver good securities or make the payment. Through auction, the Exchange arranges to buy good securities and deliver them to the buying broker or arranges to realise the cash and pay it to the selling broker.

Bad delivery cell : When a delivery of shares turns out to be bad because of company objection etc. the investor can approach the bad delivery cell of the stock exchange through his broker for correction or replacement with good delivery.

Bid and offer : Bid is the price of a share a prospective buyer is prepared to pay for a particular scrip. Offer is the price at which a share is offered for sale.

Brokerage : Brokerage is the commission charged by the broker for purchase/sale transaction done through him. The maximum brokerage chargeable, as stipulated by SEBI, is at present 2.5% of the trade value.

Carry forward trading : Carry forward trading has evolved in response to local needs in India and it refers to the trading in which the settlement is postponed to the next account period on payment of contango charges (known as 'vyaj badla') in which the buyer pays interest on borrowed funds or the backwardation charges (known as 'undha badla') in which the short seller pays a charge for borrowing securities.

Circuit breakers : It is a mechanism by which Exchanges temporarily suspend the trading in a security when its prices are volatile and tend to breach the price band.

Clearing : Clearing refers to the process by which all transactions between members are settled through multilateral netting.

Company objection : An investor sends the certificate along with the transfer deed to the company for transfer. In certain cases the registration is rejected because of signature difference, or if the shares are fake, forged or stolen etc. In such cases the company returns the shares along with a letter which is termed as a company objection.

Cum-bonus : The share is described as cum-bonus when a purchaser is entitled to receive the current bonus.

Cum-rights : The share is described as cum-rights when a purchaser is entitled to receive the current rights.

Day order : A day order, as the name suggests, is an order which is valid for the day on which it is entered. If the order is not matched during the day, at the end of the trading day, the order gets cancelled automatically.

Dematerialisation : Dematerialisation is the process by which shares in the physical/paper form are cancelled and credit in the form of electronic balance is maintained on highly secure system at the depository.

Ex-bonus : The share is described as ex-bonus when a purchaser is not entitled to receive the current bonus, the right to which remains with the seller.

Ex-rights : The share is described as ex-right when a purchaser is not entitled to receive the current rights, the right of which remains with the seller.

Forward trading : Forward trading refers to trading where contracts traded today are settled at some future date at prices decided today.

Good-bad delivery : A share certificate together with its transfer form which meets all the requirements of title transfer from seller to buyer is called good delivery in the market.

Delivery of a share certificate, together with a deed of transfer, which does not meet requirements of title transfer from seller to buyer is called a bad delivery in the market.

Insider trading : Trading in a Company's shares by a connected person having non-public, price sensitive information, such as expansion plans, financial results, takeover bids, etc., by virtue of his association with that Company, is called insider trading.

Jumbo certificate : A jumbo share certificate is a single composite share certificate issued by consolidating/aggregating a large number of market lots.

Market lot : Market lot is the minimum number of shares of a particular security that must be transacted on the Exchange. Multiples of the market lot may also be transacted. In demat scrips the market lot is 1 share.

No-delivery period : Whenever a book closure or record date is announced by a company, the Exchange sets a no-delivery period for that security. During this period, trading is permitted in that security. However, these trades are settled only after the no-delivery period is over. This is done to ensure that investor's entitlement for corporate benefits is clearly determined.

Odd lot : A number of shares that are less than the market lot are known as odd lots. Under the scrip based delivery system, these shares are normally traded at a discount to the prevailing price for the marketable lot.

Order-driven trading : It is a trading initiated by buy/sell orders from investors/brokers.

Over-the-Counter trading : Trading in those stocks which are not listed on a stock exchange.

Pay-in : Pay-in day is the designated day on which the securities or funds are delivered/paid in by the members to the clearing house of the Exchange.

Pay-out : Pay-out is the designated day on which securities and funds are delivered/paid out to the members by the clearing house of the Exchange.

Price band : The daily/weekly price limits within which price of a security is allowed to rise or fall.

Price rigging : When a person or persons acting in concert with each other collude to artificially increase or decrease the price of a security, that process is called price rigging.

Quote-driven trading : Trading where brokers/market makers give buy/sell quote for a scrip simultaneously.

Record date : Record date is the date on which the beneficial ownership of an investor is entered into the register of members. Such a member is entitled to get all the corporate benefits.

Rematerialisation of shares : It is the process through which shares held in electronic form in a depository are converted into physical form.

Screen-based trading : When buying/selling of securities is done using computers and matching of trades is done by a stock exchange computer.

Settlement : It refers to the scrip-wise netting of trades by a broker after the trading period is over.

Settlement guarantee : Settlement guarantee is the guarantee provided by the clearing corporation for settlement of all trades even if a party defaults to deliver securities or pay cash.

Splitting / Consolidation : The process of splitting shares that have a high face value into shares of a lower face value is known as splitting. The reverse process of combining shares that have a low face value into one share of higher value is known as consolidation.

Spot trading : Trading by delivery of shares and payment for the same on the date of purchase or on the next day.

Stop transfer : The instruction given by a registered holder of shares to the company to stop the transfer of shares as a result of theft, loss etc.

Trade guarantee : Trade guarantee is the guarantee provided by the clearing corporation for all trades that are executed on the Exchange. In contrast the settlement guarantee guarantees the settlement of trade after multilateral netting.

Trading for delivery : Trading conducted with an intention to deliver shares as opposed to a position that is squared off within the settlement.

Transfer deed : A transfer deed is a form that is used for effecting transfer of shares or debentures and is valid for a specified period. It should be sent to the company along with the share certificate for registering the transfer. The transfer deed must be duly stamped and signed by or on behalf of the transferor and transferee and complete in all respects.

Transmission : Transmission is the lawful process by which the ownership of securities is transferred to the legal heir/s of the deceased.

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