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## A study on regulatory measures for investors protection in stock market

Kuldeep Singh

[kuldeepsinghk85@gmail.com](mailto:kuldeepsinghk85@gmail.com)

Government Degree College, Solan, Himachal Pradesh

Dr. S. S. Narta

[kdbharmoria@gmail.com](mailto:kdbharmoria@gmail.com)

Himachal Pradesh University, Shimla, Himachal Pradesh

### ABSTRACT

*Investor's protection involves various measures taken by regulatory mechanism to protect the interest of investors from fraudulent and malpractices. Investor's protection legislation is implemented under section 11(2) of SEBI Act, to take into consideration the interest of investors, the framework design for this purpose involves proper regulation on the activities performed by stock exchanges to carry out activities relating to investor awareness and training Programme. So, it is the responsibility of regulatory mechanism to take various measures for the betterment of the interest of the investors. The emphasis under present paper is given to issues relating to awareness about investors right and duties, opening up Mutual Funds business for private players, compulsory internal audit and secretarial audit for depository participant and mandatory PAN for dealing in securities. Further an attempt has been made to know the perception of investors towards these issues.*

**Keywords**— *Investor's protection, regulatory mechanism*

### 1. INTRODUCTION

In recent years, financial sector developments in emerging economies have been aiming at shifting their financial systems from bank-based to security market-based, as has practiced in the establishment of stock markets in various countries. Liberalization and deregulations of markets for financial sector developments to facilitate economic growth have also been encouraged by the associated growing demand to access the capital.

The aim of market regulator is to create a market place free from restrictions with set of rules, regulations and processes in order to promote a free and fair play. Role of the regulator comes into action only when these rules are broken. The regulator provides a platform for the market players to trade under the set rules and guidelines, and expects from all the market participants to follow the rules in true spirits. But many a times, it has been observed that some of the market players hijack the markets and break the rules of the game to their advantages at the cost of majority of the players. The regulator has to keep a continuous watch on the activities of the market players and at the same time to keep pace with the advancement of technologies.

### 2. REVIEW OF LITERATURE

**Angela (2010)**, a well-known online trading specialist, talked about Investor Grievance Redressal Mechanism and investor grievances on account of failure on the part of market intermediaries like merchant bankers, depository participants, brokers, sub-brokers, RTA agents, etc. The author talked about the redressal of grievances through audit trial, and stressed upon the need for greater communication between the market intermediaries and the investors. The author also talked about various grievances like non-receipt of shares/ sale proceeds, non-settlement of accounts, disputes regarding rate differences, non-implementation of arbitration awards, etc. The author advised the investors to approach the concerned authorities without any delay in case they have any grievances.

**Alvares (2009)** discussed how an investor loses in securities market due to his habit of continued investing in the losing stock in a bid to cover up his lost money in the same stock by way of averaging out. The author cautions that if you had been winning on a particular stock before, it does not mean that you would win the next time you invest in the same. It calls for a fresh understanding of the market conditions and the 126 circumstances that will allow your stock to do well. The author also informed those investors are easily swayed by another similar emotions i. e. sunk cost fallacy. By that, he meant that investor throws good money after the bad money (stocks).

### 3. NEED OF THE STUDY

The present study attempts to identify the investor’s protection measures taken by regulatory authority to protect the interest of investors in stock market and their consideration towards investment decision in stock market. Investors might be able to identify some variables that they should consider and focus on while investing in stock markets. It would help them to minimize any significant unforeseen future losses and to benefit by developing profitable investment strategies as they would be able to suitably and swiftly modify their investment strategies in response to changes in these variables. This sort of literature survey would complement and provide value addition to the existing literature by helping academicians and researchers to strengthen and consolidate the existing theoretical and empirical frameworks on the investment behavior of investors in stock market. This nature of literature analysis would also help researchers to identify and explain some components of systemic risk. These all justifies the need for an attempt to evaluate the impact of demographic determinants on the investment behavior of investor’s in stock market.

### 4. OBJECTIVE OF THE STUDY

To analyze the impact of reforms measures on investors behavior.

### 5. RESEARCH DESIGN AND METHODOLOGY

#### 5.1 Procedure used for Collection of Data

The Primary and Secondary data was collected for the purpose of the study from different sources as under:

**Sources of Primary Data:** Present study is primarily based on primary data. Primary data have been collected from the investors of stock market in India by using interview schedules to know their perceptions and behavior while making investments in the stock market.

#### 5.2 Questionnaire

The researcher used questionnaire method to collect responses for required data. Total 600 questionnaires were distributed and in order to safeguard the good quality of responses or feedback, the researcher employed two methods to collect responses from the respondents.

First method is directly handing over half of the questionnaire to the respondents and 80 percent of the questionnaires got filled in this way. Further, 300 questionnaires were mailed to the sample respondents on their personal mail through online mode and only 153 respondents have responded i.e. responses rate through online mode is approximately 50 percent. Therefore 393 respondents have filled the questionnaire both in offline and online mode and showing responses rate 65.5 percent.

**Sources of Secondary Data:** Secondary data relating to the study have been collected from the websites of stock Exchange, Central Statistical Organisation, Reserve Bank of India, SEBI and various publications, bulletins, magazines, Journals, etc. Secondary data collected have been used to analysis the impact of macroeconomics factors on the Stock Index of the Indian Stock Market.

### 6. RESULTS AND DISCUSSION

#### 6.1 Age wise Perception on Regulatory Measures for Investors Protection

Age wise perception of investors as shown in table 1 reveals that investors irrespective of their age agree that regulatory mechanism has made their investment in stock market safe and secure. The mean score of responses of investors above 60 years of age has been found highest on the issue of rights and obligation (3.79). Highest mean score of responses among the investors has been observed in 40-60 age groups as far as internal audit for depository participants(3.97) and secretarial audit for depository participants (3.42) is concerned. Whereas, for mandatory PAN, the highest mean score of responses has been observed among the investors in the age group between 20-40 years (3.72). Maximum variations in responses on regulatory mechanism for investors protection has been observed among the investors less than 20 years of age.

**Table 1: Descriptive Statistical Analysis on Regulatory Mechanism for Investors Protection: Age wise**

Variables	Age group(years)	Mean	Std. Deviation
Awareness about Investors Rights and Duties	Below 20	3.7931	.77364
	20-40	3.7864	.89279
	40-60	3.7468	.80490
	Above 60	3.7103	.85792
	Average	3.7506	.83843
Opening up Mutual Funds to Private sector	Below 20	3.4483	1.05513
	20-40	3.4466	.91532
	40-60	3.4286	.83906
	Above 60	3.5794	.84716
	Average	3.4758	.87776
Compulsory Internal Audit for Depository Participants	Below 20	3.5862	.73277
	20-40	3.7670	.75672
	40-60	3.9740	.74050
	Above 60	3.8318	.80665
	Average	3.8524	.76838
Secretarial Audit for	Below 20	3.1379	.95335

Depository Participants	20-40	3.2233	.99933
	40-60	3.4286	1.11939
	Above 60	3.3551	.98337
	Average	3.3333	1.04165
Mandatory PAN	Below 20	3.7241	.99630
	20-40	3.7282	.87665
	40-60	3.7208	.91106
	Above 60	3.5607	.89208
	Average	3.6794	.90295

Source of Data: Primary Probe

In order to know the difference in the responses of investors on the role of Regulatory mechanism for investor’s protection on the basis of their age, table 2 shows a significant difference at 5% level of significance on the statement relating to internal audit for depository participants.

**Table 2: ANOVA Results for Regulatory Mechanism for Investors Protection on the Basis of Age**

Variables	Particulars	Sum of Squares	Df	Mean Square	F-Test	Sig.
Awareness about Investors Rights and Duties	Between Groups	.361	3	.120	.170	.917
	Within Groups	275.202	389	.707		
	Total	275.562	392			
Opening up Mutual Funds to Private sector	Between Groups	1.603	3	.534	.692	.558
	Within Groups	300.418	389	.772		
	Total	302.020	392			
Compulsory Internal Audit for Depository Participants	Between Groups	5.130	3	1.710	2.939	.033
	Within Groups	226.310	389	.582		
	Total	231.440	392			
Secretarial Audit for Depository Participants	Between Groups	3.802	3	1.267	1.170	.321
	Within Groups	421.531	389	1.084		
	Total	425.333	392			
Mandatory PAN	Between Groups	2.073	3	.691	.847	.469
	Within Groups	317.530	389	.816		
	Total	319.603	392			

Post Hoc results on perception of investors on regulatory mechanism among the investors having age group 20-40 years as shown in table 3 reveals that there is a significant difference in the perception of investors in different age group on internal audit for depository participants when compared with investors below 20 years of age.

**Table 3: Post Hoc Results on Regulatory Mechanism for Investors Protection: Age wise**

Variables	Age (In years)	Below 20	20-40	40-60	Above 60
Awareness about Investors Rights and Duties	Below 20	-	.00670	.04635	.08282
	20-40	-.00670	-	.03965	.07613
	40-60	-.04635	-.03965	-	.03647
	Above 60	-.08282	-.07613	-.03647	-
Opening up Mutual Funds to Private Sector	Below 20	-	.00167	.01970	-.13116
	20-40	-.00167	-	.01803	-.13284
	40-60	-.01970	-.01803	-	-.15087
	Above 60	.13116	.13284	.15087	-
Compulsory Internal Audit for Depository Participants	Below 20	-	-.18078	-.38782	-.24557
	20-40	.18078	-	-.20704	-.06479
	40-60	.38782	.20704	-	.14225
	Above 60	.24557	.06479	-.14225	-
Secretarial Audit for Depository Participants	Below 20	-	-.08537	-.29064	-.21721
	20-40	.08537	-	-.20527	-.13184
	40-60	.29064	.20527	-	.07343
	Above 60	.21721	.13184	-.07343	-
Mandatory PAN	Below 20	-	-.00402	.00336	.16339
	20-40	.00402	-	.00738	.16741
	40-60	-.00336	-.00738	-	.16003
	Above 60	-.16339	-.16741	-.16003	-

5% Significant Level

**6.2 Education wise Perception on Regulatory Mechanism for Investors Protection**

Table 4 reveals that irrespective of education qualification investors feel that, SEBI’s Regulatory Measures have helped them in making their investment safe and secure. The highest mean score of responses on awareness about rights and obligation of

investors has been observed among professional investors (3.96), whereas, mean score of matriculate respondents who feel that regulatory mechanism has helped in opening up mutual fund for private sector was found highest (3.60). As far as internal audit for depository participant is concerned, the highest mean score has been observed among graduate respondents whereas for making secretarial audit compulsory for depository participants, the mean score of responses was found high among investors having Doctorate degree (3.57).

**Table 4: Descriptive Statistical Analysis on Regulatory Mechanism for Investors Protection; Education wise**

Variables	Education Qualification	Mean	Std.Deviation
Awareness about Investors Rights and Duties	Matriculate	3.7215	.71498
	Graduate	3.6711	.83377
	Post. Graduate	3.8390	.92423
	Doctorate	3.5000	.75955
	Professional	3.9697	.80951
	Average	3.7506	.83843
Opening up Mutual Funds to Private Sector	Matriculate	3.6076	.74106
	Graduate	3.3691	.91791
	Post. Graduate	3.5254	.85447
	Doctorate	3.5000	1.01905
	Professional	3.4545	1.00284
	Average	3.4758	.87776
Compulsory Audit for Depository Participants	Matriculate	3.8101	.96178
	Graduate	4.0201	.70202
	Post. Graduate	3.7542	.69105
	Doctorate	3.5000	.65044
	Professional	3.6970	.72822
	Average	3.8524	.76838
Secretarial Audit for Depository Participants	Matriculation	3.5570	.91633
	Graduate	3.2483	1.01280
	Post. Graduate	3.2288	1.17968
	Doctorate	3.5714	.64621
	Professional	3.4545	1.00284
	Average	3.3333	1.04165
Mandatory PAN	Matriculate	3.7722	.76710
	Graduate	3.6107	.94948
	Post. Graduate	3.7119	.95274
	Doctorate	3.5714	.85163
	Professional	3.6970	.84723
	Average	3.6794	.90295

*Source of Data: Primary Probe*

In order to know the variation in the responses of investors on Regulatory measures for investors protection on the basis of their educational qualification, table 5 shows a significant difference at 5% level of significance on the statement relating to internal audit for depository participants.

**Table 5: ANOVA Results for Regulatory Mechanism for Investors Protection on the Basis of Education**

Variables	Particulars	Sum of Squares	Df	Mean Square	F-Test	Sig.
Awareness about Investors Rights and Duties	Between Groups	4.393	4	1.098	1.571	.181
	Within Groups	271.170	388	.699		
	Total	275.562	392			
Opening up Mutual Funds to Private sector	Between Groups	3.381	4	.845	1.098	.357
	Within Groups	298.639	388	.770		
	Total	302.020	392			
Compulsory Audit for Depository Participants	Between Groups	8.006	4	2.002	3.476	.008
	Within Groups	223.434	388	.576		
	Total	231.440	392			
Secretarial Audit for Depository Participants	Between Groups	7.595	4	1.899	1.764	.135
	Within Groups	417.738	388	1.077		
	Total	425.333	392			
Mandatory PAN	Between Groups	1.680	4	.420	.513	.727
	Within Groups	317.923	388	.819		
	Total	319.603	392			

Post Hoc result as shown in table 6 reveals that there is a significant difference in the perception of graduate investors on regulatory mechanism evolved for depository participants through internal audit while comparing it with investors from other background.

**Table 6: Post Hoc Results for Regulatory Mechanism for Investors Protection: Education wise**

Variables	Educational Qualification	Matriculate	Graduate	Post Graduate	Doctorate	Professional
Awareness about Investors Rights and Duties	Matriculate	-	.05038	-.11746	.22152	-.24818
	Graduate	-.05038	-	-.16784	.17114	-.29856
	Post Graduate	.11746	.16784	-	.33898	-.13071
	Doctorate	-.22152	-.17114	-.33898	-	-.46970
	Professional	.24818	.29856	.13071	.46970	-
Opening up Mutual Funds to Private sector	Matriculate	-	.23847	.08217	.10759	.15305
	Graduate	-.23847	-	-.15630	-.13087	-.08542
	Post Graduate	-.08217	.15630	-	.02542	.07088
	Doctorate	-.10759	.13087	-.02542	-	.04545
	Professional	-.15305	.08542	-.07088	-.04545	-
Compulsory Audit for Depository Participants	Matriculate	-	-.21001	.05589	.31013	.11316
	Graduate	.21001	-	.26590*	.52013	.32316
	Post Graduate	-.05589	-.26590*	-	.25424	.05727
	Doctorate	-.31013	-.52013	-.25424	-	-.19697
	Professional	-.11316	-.32316	-.05727	.19697	-
Secretarial Audit for Depository Participants	Matriculate	-	.30864	.32815	-.01447	.10242
	Graduate	-.30864	-	.01951	-.32311	-.20622
	Post Graduate	-.32815	-.01951	-	-.34262	-.22573
	Doctorate	.01447	.32311	.34262	-	.11688
	Professional	-.10242	.20622	.22573	-.11688	-
Mandatory PAN	Matriculate	-	.16141	.06029	.20072	.07518
	Graduate	-.16141	-	-.10113	.03931	-.08623
	Post Graduate	-.06029	.10113	-	.14044	.01489
	Doctorate	-.20072	-.03931	-.14044	-	-.12554
	Professional	-.07518	.08623	-.01489	.12554	-

5% Significant Level

**6.3 Occupation wise Perception on Regulatory Mechanism for Investors Protection**

Table 7 shows that the highest mean score of responses on awareness about rights and duties of investors (3.81) and internal audit for depository participant (3.94) has been observed among self employed investors. Mean score of responses of professional investors on opening mutual funds for private sector, mandatory PAN and secretarial audit for depository participants (3.66) was found high, compared to investors engaged in other occupations.

**Table 7: Descriptive Statistical Analysis on Regulatory Mechanism for Investors Protection: Occupation wise**

Variables	Occupation	Mean	Std. Deviation
Awareness about Investors Rights and Duties	Professional	3.6667	.54667
	Self. Employed	3.8194	.80777
	Public Sector	3.7447	.74070
	Private Sector	3.6667	1.11270
	Total	3.7506	.83843
Opening up Mutual Funds to Private sector	Professional	3.4667	.97320
	Self. Employed	3.4236	.79842
	Public Sector	3.4681	.89085
	Private Sector	3.5897	.95938
	Total	3.4758	.87776
Compulsory Audit for Depository Participants	Professional	3.8667	.97320
	Self. Employed	3.9444	.62330
	Public Sector	3.8511	.91758
	Private Sector	3.6795	.59202
	Total	3.8524	.76838
Secretarial Audit for Depository Participants	Professional	3.6667	.92227
	Self. Employed	3.2778	1.08676
	Public Sector	3.2624	1.11256
	Private Sector	3.4359	.83105
	Total	3.3333	1.04165
Mandatory PAN	Professional	3.7333	.82768
	Self. Employed	3.4306	.82490
	Public Sector	3.7943	.87438
	Private Sector	3.9103	1.02166
	Total	3.6794	.90295

Source of Data: Primary Probe

In order to know the variations in the responses of investors on the basis of their occupation one-way ANOVA has been applied. Table 8 shows a significant difference at 5% level of significance in the perception of investors on the issue of PAN on the basis of their occupation whereas, no significant difference in the perception of investors has been observed on other statements relating to regulatory mechanism.

**Table 8: ANOVA Results for Regulatory Mechanism for Investor Protection on Occupation Basis**

Variables	Particulars	Sum of Squares	Df	Mean Square	F-Test	Sig.
Awareness about Investors Rights and Duties	Between Groups	1.448	3	.483	.685	.562
	Within Groups	274.114	389	.705		
	Total	275.562	392			
Opening up Mutual Funds to Private sector	Between Groups	1.416	3	.472	.611	.608
	Within Groups	300.605	389	.773		
	Total	302.020	392			
Compulsory Audit for Depository Participants	Between Groups	3.558	3	1.186	2.025	.110
	Within Groups	227.882	389	.586		
	Total	231.440	392			
Secretarial Audit for Depository Participants	Between Groups	5.308	3	1.769	1.638	.180
	Within Groups	420.026	389	1.080		
	Total	425.333	392			
Mandatory PAN	Between Groups	15.024	3	5.008	6.396	.000
	Within Groups	304.579	389	.783		
	Total	319.603	392			

Post Hoc results shows a significant difference in the responses of investors working in private sector when compared with investors engaged in other occupation as far as making PAN mandatory for transactions is concerned.

**Table 9: Post Hoc Results for Regulatory Measures for Investors Protection: Occupation wise**

Variables	Occupation	Professional	Self. Employed	Public Sector	Private Sector
Awareness about Investors Rights and Duties	Professional	-	-.15278	.07801	.00000
	Self. Employed	.15278	-	.07476	.15278
	Public Sector	.07801	-.07476	-	.07801
	Private Sector	.00000	-.15278	.07801	-
Opening up Mutual Funds to Private sector	Professional	-	.04306	-.00142	-.12308
	Self. Employed	-.04306	-	-.04447	-.16613
	Public Sector	.00142	.04447	-	-.12166
	Private Sector	.12308	.16613	.12166	-
Compulsory Audit for Depository Participants	Professional	-	-.07778	.01560	.18718
	Self. Employed	.07778	-	.09338	.26496
	Public Sector	-.01560	-.09338	-	.17158
	Private Sector	-.18718	-.26496	-.17158	-
Secretarial Audit for Depository Participants	Professional	-	.38889	.40426	.23077
	Self. Employed	-.38889	-	.01537	-.15812
	Public Sector	-.40426	-.01537	-	-.17349
	Private Sector	-.23077	.15812	.17349	-
Mandatory PAN	Professional	-	.30278	-.06099	-.17692
	Self. Employed	-.30278	-	.36377*	-.47970*
	Public Sector	.06099	.36377*	-	-.11593
	Private Sector	.17692	.47970*	.11593	-

5% Significant Level

## 7. CONCLUSIONS

The conclusion of the study reveals that there is a positive association of investor’s perception on the issue relating to investor protection measures taken by regulatory authority. Investors in the age group between 40-60 and post graduate investors were found more satisfied with compulsory audit for depository participant. On the basis of occupation investors working in private sector are found more satisfied as far as mandatory PAN for financial transactions in stock market is concerned.

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