REGULATION OF THE CAPITAL MARKET AND THE ROLE OF SEBI

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"Free Enterprise was born with man and shall survive as long as man survives".

-A.D. Shroff
1899-1965
Founder-President
Forum of Free Enterprise

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By

G.V. RAMAKRISHNA*

The Forum of Free Enterprise has already acquired a reputation as a premier organisation which provides an opportunity for its members and for the speakers invited by the Forum to discuss various matters of national importance.

I am particularly grateful to the distinguished President of the Forum, Mr. Palkhivala for the very kind words that he said about me.

In India, we have seen in the last one year, many important changes in the economic field - changes of policies which people have been looking forward to, people have been asking for the last several decades, policies which had the stranglehold of bureaucratic control on our entrepreneurial energies. Many of these have now been dismantled and we have seen very refreshingly innovative policy changes that have come about in the last twelve months.

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* *The text is based on a talk delivered at a meeting under the auspices of the Forum of Free Enterprise on 17th September 1992 in Bombay. It was presided over by Mr. N.A. Palkhivala, President of the Forum. The author is presently Chairman, Securities & Exchange Board of India. Earlier he was Chief Secretary to the Government of Andhra Pradesh and also Secretary and Additional Secretary, Government of India, in various ministries. He was also Ambassador of India to Belgium, Luxembourg and European Economic Community in Brussels. Besides, he has held with distinction a number of other important positions in India and abroad.*

In the area of Industrial Licencing policy, MRTP, foreign direct investment, trade policy, and also in the area of capital markets, very significant changes have been brought about.

And yet, we need the Indian economy to make further adjustments; not only to our own situation, but also to the fast changing situation in the world.

For example, today we see in Europe great financial and monetary turmoil arising from the suspension of the European System of the Exchange rates. The UK has suspended its membership of the Exchange Rates mechanism. Italy has already done so, and the German interest rate has come down by quarter percent, which is not considered adequate and devaluation and destabilisation in the financial markets is now, at this moment being discussed in Brussels.

So it is in this changing international economic order that we have to look at India's situation. How far will these policy changes take us, what more needs to be done and what is the role of capital markets in the Indian economy and in the capital market, what is the role of SEBI - Securities and Exchange Board of India.

Now, if you look at the Indian economic scene, there are two major areas on which we have to rely for carrying this economy to the take off stage. And to continue the same analogy, the Indian economy can take off, in my view, only on the twin engines of exports and capital markets.

Exports will have to give us the external resources to meet our import needs; will have to help us to get out of external debt which is now running at about $ 70 Billion which we are not able to service fully. Almost all the external aid that we get goes towards servicing external debt and we have a trade deficit which is currently running at an annual rate of about $ 6 Billion. We cannot depend eternally on more and more foreign debt to meet our import needs. Our import needs are growing. In the field of energy, in the field of fertilizers, in the field of non ferrous metals not only to keep pace with our needs of agricultural development, with the growing needs of the populations, our vast population, our growing population, but also for economic and industrial development and even for export promotion, we need imports.

Now, we have to have a very strong drive towards export promotion, but we can't have a plane taking off on one engine. You can perhaps land on one engine but we are not talking about landing anywhere yet. You need the other engine of capital markets. In a deregulated economy, you have to have the savings of the people, the institutional savings channeled into productive economic activity. To promote the creation of wealth. To promote employment. And to promote economic growth. You need capital. And this capital has to come from the savings of individuals, households and institutions. And capital markets provide an avenue for channelising the savings for productive use. And therefore it is very important particularly when the role of government is being minimised, when the role of public sector financial institutions is being minimised, you have to depend on direct support from the savers in the economy to support the capital needs of our industry and for various other economic uses.

Now if we have to inspire the confidence of Indian investors in the capital market, there are certain basic prerequisites which have to be met. Just as to have a stable and orderly society we need the rule of law, for the orderly growth of the capital market, a strong system of contract laws is a prime prerequisite. The transactions in the capital market at every stage, involve counterparties in contractual situations. If it is a company which makes an issue of capital, and investors apply for shares or debentures, there is a contractual situation.

If an issuer has an understanding and a contract with the underwriter, there is a contractual situation. If the lead manager has to perform with due diligence for promoting an issue, there is a contractual situation. And when the investor gives his money to the company and asks for shares, there is a contractual situtation. And so on.

And when you come to the stock exchanges, you find even more complicated contractual situations. It is a client to broker situation, it is a broker to broker situation, it is an exchange to broker contractual situation.

So we have to have a strong system of contract law which will inspire the confidence of the investor in the integrity of the market and the integrity of the system itself. And to support the infrastructure for a contractual legal system, we need a supervisory body to make sure the contracting terms are fair; that there is minimal scope for fraud and deception and there is speedy redressal available for violation of contractual terms by one or the other of the counterparties. That is the role of the supervisory system.

There is another, very important point which would be taken into account by the investor. He normally calculates the risks in relation to the returns when he makes an investment. And in this calculation of risk, several factors are taken into account. The political situation, the stability of policies, the economic situation, the macro economic situation, and the specific risks attached to the particular sector of industry and the particular unit in which he is putting his money. These are risks that he normally evaluates in looking at the likely returns he is going to get.

But there is another risk which he will take into account and that is the contracting risk. The failure of contract is an additional risk which he will take into account if the contractual system is weak. If the supervisory system is weak, it will be an added risk that he takes, which we see today in many cases where investors take the risk. When you go to a broker and buy a share, you don't know when you are getting your share, how many months later. It costs you money, there's a time value for money.

When you are applying for shares, you don't know when you get the shares or when your money is returned to you. That is another contractual situation where risks are involved. Now unless these risks are normalised by effective supervision, what will happen is, with this added risk, the investor will look for higher returns which will put up the cost of capital to the users who want this capital. He will evaluate the return in relation to the added risks arising from a weak contractual situation or a contractual legal system. And therefore, if we want to reduce the cost of capital, if we want to improve the efficiency of capital, there is a sound economic reason for having a strong system of contract law, and an effective supervisory system which provides for redressal, which provides for minimising the risk of fraud and deception.

This fact has been recognised all over the world and particularly now, when the Indian capital markets are being opened, to foreign investors, the deficiencies in one capital market, have an impact on another capital market. The failure of the contractual system in one capital market has an impact on another capital market with which it may be financially or more organically linked.

The most recent example we saw in our own country was the failure of the contractual system in the dealings between banks which had its repercussions in another system which also had its own contractual system - the stock exchange. And today, when the world capital markets are getting more and more closely integrated, the risks in one market will be taken into account by investors coming in from other markets. When we have foreign institutional investors planning to come into India, they are also going to evaluate the risks of the Indian capital market system in relation to the risks in other capital markets because they have the opportunity of investment in markets round the world.

Therefore, if we have to attract foreign investment, we have to show that we have an efficient, fair, transparent capital market system which treats Indian investors and foreign investors in a fair and equitable manner.

The situation in which we find ourselves today is very close to the situation that they found in the US soon after the depression in the early thirties when President Roosevelt tried to form the Securities and Exchange Commission of the USA which is today the premier securities regulation body in the world. But if you see the history of the formulation of the SEC, they went through precisely the same problems we are going through today, after 57 years of experience of the USSEC. When the SEC wanted the brokers to register with them, they objected. President Roosevelt had opposition because of vested interests in some sections of the Congress. So he put his foot down and said if the American economy has to develop as a free market economy, it needed a strong Securities and Exchange Commission.

And he appointed as one of the first, if not the first, Chairman of the SEC, the dean of the law school from Harvard, Mr. Landis. Mr. Landis was a very strong first Chairman of the SEC. Perhaps because of that or for other reasons, he didn't last too long. And, President Roosevelt with his own, canny sense of timing, found another dean of the law school from Yale, Mr. William O. Douglas who was brought in as SEC Chairman;

and later was elevated to the US Supreme Court. And at the time that Douglas was about to leave, Mr. Felix Frankfurter was brought on to the SEC as Chairman.

That is the kind of distinguished lineage that the USSEC had, not the kind of undistinguished, bureaucratic leadership that you now have in India! Sir, but then SEC has grown from strength with very strong backing from the US President. It has been in existence now for 57 years. It has developed a mass of regulations and a greater mass of case law. But we don't have to reinvent the wheel today. We don't have to go through the same processes through which they went.

And today you find in almost all free market economy countries and many emerging market and developing countries, securities regulatory organisations set up by their Governments. Then, all these organisations got together and formed an International Organisation of Securities Commission and that is called IOSCO which today has a membership of 70 countries which have statutory capital market regulatory bodies – in South America, North America, Europe, Asia, Australia, Japan - seventy countries including Mauritius.

The interesting fact is, 69 of these 70 countries had statutory regulatory bodies before we had it in India. Mauritius had it, Malaysia had it, Indonesia had it; all of them had statutory regulatory bodies.

Now, in IOSCO, we have evolved a code of conduct where we say for the integrity of the global capital market, and for integrating global capital markets, all regulatory bodies should adopt and enforce certain basic minimum levels of code of conduct. I'll just read some of the principles that have been accepted by all the seventy countries at a meeting we had a couple of years ago in Santiago, Chile, which I attended. These principles are :

* Honesty and fairness to avoid misleading and deceptive acts or representations.

* Due diligence for best execution in the interest of the customer and integrity of the market.

* Capabilities in terms of resources and procedures of intermediaries.

* Information about customers and information for customers.

* Avoidance of conflicts of interest.

* Compliance with all regulatory requirements for conduct of business activities to promote the best interests of the customers and the integrity of the market.

Members of IOSCO have been advised to report on the implementation of these principles through their legal structures and supervisory arrangements.

Now if I have to report honestly, on the implementation of this code of conduct in India, I fear I may face expulsion from the international organisation. But, this code of conduct lays down the blueprint of what we are not doing today and what we ought to be doing and what we should look for in the Indian capital market. Every one of these principles is being observed in the breach in the Indian capital market, I am sorry to say.

Therefore, SEBI doesn't have to look for work, it is all there staring us in the face. Now it is in this background that SEBI which was set up by an administrative order in 1988, became a statutory body in April 1992, almost exactly 4 years after it was set up administratively. And for a long time, since I joined here, we had the appellation of a toothless tiger, and we more or less accepted that, we almost tried to adopt that as the symbol our organisation, but then many people said that it will mislead people and you are not really going to be toothless all the time and a grown up and an old tiger doesn't grow new teeth, therefore, don't adopt it.

But the fact is, we now have a reasonable degree of statutory powers. And yet, in all these years, Indian capital market has been a very vibrant and a growing capital market. It is one of the leading capital markets in the developing countries. We have the second largest number of listed companies in the whole world. Next only to the USA, 6500 companies. We have the largest number of exchanges in any country - 21 exchanges. We have 15 million investors. And in the decade of the eighties, the amounts that we raised from the Indian capital market went up from Rs. 200 Crores a year to Rs. 10,000 Crores a year. So we are growing in quantitative terms, but not, unfortunately in qualitative terms.

And this growth in quantitative terms without an improvement in the efficiency and integrity of the market affects vast number of investors who have supported the growth of this market.

Fifteen million investors putting Rs. 10,000 Crores in the market without anyone looking at the fairness of the market, at the integrity of the market, at the efficiency of the market puts them at great risk.

When I first came here in 1990, around August, we were getting sporadically about 500 complaints from investors a month. When I started looking at these seriously firstly I thought that is a good way of educating oneself to find out exactly what is wrong with the market because they are the people who can tell you where the shoe pinches. I started looking at the complaints and started giving them responses, taking it up with companies. The number of complaints grew. Today, I am now getting, on the average, 1000 complaints a day - at least 30,000 a month and I have had to expand my computer capacity, my staff etc. People ask me why is this? I said I don't think the levels of inefficiency in the market have gone up, because they can't, but the number of complainants who feel encouraged to write to us because they have some hope of redressal is going up.

That's a very big responsibility for me to deal with – 30,000 complaints a month. It has been a very educative process and if you look at the cross section of people who complain and the cross section of the companies involved in the complaints. In a fortnight complaints related to over 1000 companies – in a fortnight, and the complainants ranged from retired army generals, chief secretaries, cabinet secretaries to pensioners, widows, small investors, police officers, bankers, perhaps many of you are in that category. We have categorised these complaints. They arise in the primary market and they arise in the secondary market also. We are now getting better compliance from the companies, when we take it up with them and say look into this complaint, send the money back, send the allotment letter or share certificate.

We have now reached the level of getting about 30% of the complaints redressed which is not a bad thing. It is about 10,000 a month. The other thirty percent of the complaints are incapable of being redressed because these Companies are sick companies, BIFR Companies or fly by night Companies who have flown away long ago. The middle thirty percent are the reluctant reformers, if I may say so, who can redress but are reluctant to reform and so we are targeting them and it is a very interesting experience to see and today when we get any kind of a prospectus before us, we get the list of all the group Companies, and look at all the complaints against those Companies and ask them to say what they are doing about it. Now many Companies have started setting up Investors Grievance Cells.

Then we said when we are going to the market, the fundamental requirement in any free market is adequate disclosure of information to the investors about the company. Till a few months ago, all that we got was an application form and an indication saying that if you want the full prospectus, write to us and start paying. They never got it and our investors operated just on the strength of the name of the company -- on an application form. We said that's not proper, invest in at least an abridged prospectus that should go with every application form. Then we had a problem with them. They said yes, we have printed and attached on the sheet with a perforated sheet, you can tear off the abridged prospectus and use the application form. Then we started getting another type of complaint.

Then we did a bit of snopping around and spoke to printers as to how do they print these forms as some of these application forms are without the abridged prospectus. They said we do 'what the man says -- The company says print 20% with the abridged prospectus, but make sure that the remaining 80% at least carry half the perforation; it shouldn't be a plain edge so people can say it has just been detached !".

Then we devised another way of trying to put the abridged prospectus on the back of the application forms so that you can't get an application form unless it also gives you the abridged prospectus. Then this battle of wits went on and they said all right, we will take care of SEBI. And then you will see a strange connection between this kind of application form coming with the abridged prospectus and the share prices of glass companies. Because the print is so small, the sale of magnifying glasses went up!

Now I have to tell them 'you shall not print less than 7 points' in the printers language. This is an example of how regulations get multiplied just because people do not observe the spirit of what we are trying to say --

they are compelling us to multiply regulation, we are very reluctant to do it, we don't want to do it. They are compelling us to go down to the level of specifying the size print. They can't do it themselves.

Then they say that the size of print is big, the size of the paper will go up by 10%, and therefore our expenses will go up and how are we supposed to meet it. We asked them, "who bears the promotional expenses. Not just the promoter. It is the investor who bears that as part of the project cost, which is capitalised. So you are asking him to pay for the promotional cost and you have to share the promotional cost in a fair manner, not just for promoting yourself but also for giving him information in a readable manner.

It is an equitable apportionment of the total promotional cost in favour of the investor who is after all financing it. It is not all the promoter's money that is spent. So then they said yes we are now reassessing our position, now we will for the present as best as we can and till we are caught red handed, we will do what we can.

Therefore I keep telling them, the Controller of Capital Issues who was seen by everybody as a symbol, as more than a symbol of bureaucratic control has gone. We had, over the years accumulated, various circulars and detailed instructions which added up to 300 pages. Now, we tried to compress that and issued something which was less than twenty pages. The day we issued it, hundreds of people started applying their minds to discover loopholes in the guidelines. Now we see everyday instances of persons trying to take advantage of loopholes, which is totally against the spirit of what we are trying to say. "There is this word omitted here and therefore, we are free to do that, we don't care for the spirit" – seems to be their motto.

Now, if I let this go, the investors and the public ask me why are you letting this kind of thing happen ? What is your role ? If I don't let it go and start issuing a series of clarifications. I will also accumulate 300 pages of guidelines during the next two years. We don't want it.

So we try to have simple guidelines and regulations and expect observance of the spirit by everyone concerned. Not just the issuer, not just the company, but everyone concerned. It is the lack of observance of the spirit of these regulations that leads to tighter and tighter and more and more detailed regulations which will strangle the person himself. We don't want this to happen.

That's a very big dilemma we are facing and we want to have a public input to say how detailed our guidelines and regulations should be.

The other major area we are looking at is in the field of the role of the very important intermediary, and whose role we have studied rather closely in the primary market and that is not so much the lead manager – he is important -- but a little known player, called the registrar to the issue. He has a very key role in looking at all applications that he gets sifting the genuine applications giving a fair shake to the genuine applications and drawing lots, making the allotment, sending the allotment letters, and sending the refund orders or the Stockinvest to the unsuccessful applicants. We have seen in detail the working of more of these registrars and we are quite convinced that they are the weakest link in the primary market who give rise to the maximum number of complaints from investors.

If you look at the way in which the applications are handled, you have an employees quota reserved, 5% or so in a company, and he merrily handles 98,000 applications under that quota. We ask them how many employees does the company have; have you got the list; and he says "Oh, 600 or 700" -- And yet you put 98,000 people there.

Then you have what are called telephone directory applications where you pick names from the telephone directory and apply in the names of 2,000 or 1,500 people taken from the telephone directory, and payments made by a single cheque for all fictitious characters with the same address. It is a violation of the Companies Act. They have done that. But they say these days the telephone directories are heavy, unwieldy, and you have to scan the pages and how many names can you find, so why not just pick one name and use that in 2,000 applications. They have done that also -- we have seen that. So Mr. XYZ is there in all 2000 applications and the registrar doesn't bother to verify it. And then you have the allotment procedures, the Stock Exchange says you must draw lots, in this ratio, after inversion of numbers and all the rest of it.

We have had the experience in the last one year -- with all the controls of CCI and the formula based pricing

-- of heavy oversubscription of issues -- 10 times, 20 times, 1000 times and more. So there are a very large number of unsuccessful applicants whose money has to be returned because they are not eligible to get any shares. And this money that had to be returned in 1991 was in excess of Rs. 1,500 Crores. The outcome of this was when people did not get their money, they couldn't put it in any other shares. They couldn't go into the securities market. The same players were depriving the capital market of their funds. And the beneficiary of these Rs. 1,500 Crores were the companies and their banks in which this money was kept.

The law says that it should be returned in 70 days plus 8 days grace, then they have to pay interest and for further delay they are liable for prosecution, and yet monies were not returned for 6 months, 7 months, 8 months and then we have to pursue it with them. And then we thought of this Stockinvest scheme which was very reluctantly accepted by them because it was depriving them of this float money. And some of the industrialists and issuers came and said "We have taken into account this float money and the interest accrual in our project financing calculations and you are asking us to revise all our calculations by depriving us of this. But we said that, that money doesn't legitimately belong to them. There was a company which for various reasons hadn't returned some Crores of Rupees to as many as 26 Lakh investors. When we asked them to refund the money with interest they refused. And then they took us to the High Court here. We spent a few lakhs fighting it and we won the case.

They contested that and they took us to the Supreme Court, we fought it there and we won the case and they paid out a few crores of Rupees to 26 Lakhs investors. Why is it happening like this. This is one of the factors that makes me feel that what we need in this country is higher level of corporate ethics.

I have yet to see one resolution of any of these Chambers of Commerce or Federations which calls upon its constituents to observe better level of ethics in favour of investors, because, there is a strange and erroneous feeling in our country that everything that is in favour of the investor is against the issuer. And anything in favour of the intermediary is against both the issuer and the investor. And therefore, they say it is a zero sum game. If I gain, you are bound to lose and if you gain, I am bound to lose which is totally wrong. This is a situation where if the investor gains, the issuer will gain. A satisfied investor is a strong supporter of the capital market. It is not a zero sum game. Therefore why don't the companies take a cooperative approach, and inspire investor confidence and avoid all these thousands of complaints.

Then we said if we look at the individual complaints and we start redressing these thousands of complaints, it is a very inefficient way of going about it. It is like trying to treat children who are being dished out polluted ice cream, outside a school. You have to treat every child in a hospital. That's essential but you will keep treating them day after day, unless you take steps to stop that fellow from selling that ice cream. Therefore we said that we want systemic changes. And then we will have less complaints, less cause for complaints. That is why, in the SEBI act, we have been given a very wide role of regulating and overseeing the working of all intermediaries in the market.

But we don't yet have direct powers over the issuers and this considerably reduces our capacity to redress investor grievances.

The fact is that we have legislation for the capital market which is not totally integrated as it happens in other countries. But if we regulate the intermediaries, you get into another category; into the secondary market. Now the secondary market is a very complicated market where we have stock exchanges and some of our exchanges are amongst the oldest in the world. The Bombay Stock Exchange is 134 years old which is probably the second or the third oldest in the whole world. Which is a great credit to it. But if today, in 1992, you observe the practices of 1922, I don't think its being a very modern exchange. People have to change and I have been telling them "You are an important self regulatory body and we respect you as a self regulatory body. But how well are you regulating yourself ?".

That is why we have said that we wanted brokers to register with us. They said "No we don't want to register with you, we are registered with the exchanges, we are self regulating, we don't want any other regulator. In other countries they are registered with the statutory body.

The only fight they had was in 1935 with the USSEC and they got registered with the SEC. Today in many countries round the world and in almost all Asian countries they are registered with the statutory regulatory body apart from being just members of their own association or company which is the stock exchange.

The most recent case is that of a major market, the Japanese market. There, after the recent Nomura Securities scandal they have set up a Securities Exchange and Sueveillance Commission. They don't believe in mincing words so they used the words Surveillance Commission. And they want brokers to be licensed apart from being members of the Stock Exchange. So we have this in a number of countries, we are not the first ones to ask for registration of brokers.

But we have told them, their registration with us will imply certain obligations towards your clients, towards your fellow brokers and for compliance with their own bye laws and regulations of the exchange which they have given unto themselves. We will interfere and intervene directly with them only after exhausting all opportunities of activating the stock exchange administration. Only if they fail, we will intervene directly. And that is what we want to follow.

But our experience unfortunately has not been very good. Stock Exchange administrations have to be more impartial in enforcing their own bye laws and regulations. They have got a number of provisions in their bye laws which call for checking market manipulation and price rigging. And I don't think these provisions are brought to anybody's attention.

Another major lacuna we have in our secondary market is the absence of a law against insider trading. The first thing that a foreign investor asks when he comes to India is "Are you able to check insider trading ? Do you have a law against insider trading ?" We say "No". And then they go around and talk to a few more people who are more honest and they say there is nothing but insider trading in this market !!. This is extremely discouraging.

So we have worked on it. Six months ago, we had prepared a regulation and a consultative paper on insider trading in which we drew upon the experience of many other countries round the world, we took an eclectic approach, and prepared something which meets our needs, simple but effective and now we are in the process of notifying that under the SEBI act and we have provided fairly deterrent punishment both by way of fines and imprisonment for insider trading.

As an advance action, we have written to all those who are likely to have access to price sensitive inside information, which is not known publicly. We have written to banks, to financial institutions, to Chambers of Commerce, the stock exchanges, all of them to say "set up internal procedures to warn your officers and to tell them that the law is coming; you will all be liable for severe action if you are found to indulge in insider trading".

And all of them have responded very readily to say "We welcome this move, we are setting up internal procedures, we needed it all these decades and now we are getting it for the first time."

This is an area where we want better administration of stock exchanges, better treatment of clients. A simple thing, when you buy or sell a share you don't know at what price you have bought, at what price you have sold, you get a lumpsum amount and that's all that you get. And it is net of all that you have to pay including brokerage and don't ask further questions.

It is necessary that contract notes are given with particulars of price, brokerage and other details. And therefore enforcement of their own bye laws, their own instructions, is something which stock exchange administrations have to take up seriously. They have a chance now, if they fail in that, we will be failing if we do not intervene.

And we have a duty to the public, we have a duty to the investor, we have a duty to the Parliament of India, which has set up SEBI and given us these powers. And we have to give a report to Parliament to say what we have done in every one of these areas. And we are answerable to Parliament. And therefore we have to be active in this. If in this process, we tread on some toes, we hope people will understand that it is for a larger cause, for the cause of the integrity of the capital market, for the cause of inspiring the confidence of our investors in the capital market.

But we are also aware of one very important point and that is -- we want to keep our rules and regulations as simple as possible. We don't want complicated, elaborate rules. But simple regulations, effectively enforced, vigilantly enforced, impartially enforced are far more useful than a mass of regulations which nobody looks at or which are imperfectly enforced, which are enforced with a great deal of partiality. So, my objective is to have simple rules and regulations but effectively enforced and I think that is going to be useful.

But in doing this, as I said earlier, we need a lot of cooperation from all players in the market. And when I say this, I must say a word about investors. It is not as if all investors are innocent people who are being taken for a ride. We have seen in the last few years a very high proportion of speculative investors entering the market, who do not want or deserve protection. So the proportion of genuine investors is going down in relation to the total number of investors both in the primary and in the secondary market. And this is a sign where we have to take care primarily of the genuine investors who are savers, who have put their hard earned savings.

That's why I said the other day "Bombay audience will understand if not others". I said where there is money there is Lakshmi and where there is big money, there is Mahalaxmi in it.

In those days when Mr. Talyarkhan used to write about racing 30-40 years ago he used to plead for clean racing. And towards his last days, he was very sad that clean racing was a thing of the past in India.

So whether it is just backing horses or pulling horses or doping horses or anything is a sort of insider trading and rigging in the race course. So we need clean systems, we need a level of ethics and a level of morality and unless we have that, no amount of regulation will bring about the kind of changes we want.

We have to look to eminent people like Mr. Palkhivala to speak to these people; he is not just an eminent jurist but he is a very senior industrialist, he is a Chairman of companies and what he says will be listened to with a great deal of respect. Therefore it is people like him who have to speak up and say "Raise the ethical standards of our capital markets". And if that is done, SEBI, as I said, will only be a reluctant regulator.

If we have to get foreign investors here, we have to improve our market, but I keep saying, we are not improving the capital market because of foreign investors. We are doing it primarily for the Indian investor for 15 million Indian investors. And if the market is good for 15 million Indian investors, it had better be good for the foreign investors.

In any case, no capital market in the world is perfect. After 57 years of SEC they had a Michael Milken and Boski and after so many years in Japan they had a Nomura, then they had Paul Sanders and the Blue Arrow case in the UK. They have effective systems to deal with them. So I said that the recent scam is a sign that we are going global, but let it not be taken too seriously.

The views expressed in this booklet are not necessarily those of Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

-Eugene Black

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FORUM OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions and other means as befit a democratic society.

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