

Investor Alert



[Quarterly Newsletter of CREAT focusing on
Investor Education and Protection]

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Dear friends

We are happy to inform you that the Consumer Rights Education and Awareness Trust (CREAT) has been granted provisional recognition as Investor Association by the Securities & Exchange Board of India (SEBI). Perhaps CREAT is the only consumer advocacy group in Karnataka to be recognized as such. The recognition is valid for one year from August 2007 and is likely to be extended for another three years. This depends on the activities we undertake to promote investor education and protection. The recognition is one more feather in the cap of CREAT. Since its establishment in 1993 CREAT has been moving forward and diversifying its activities. In the past one decade CREAT has widened its activities to include consumer education, empowerment and training to access to information, trade and economic governance, telecom and regulatory reforms, Very soon we will be focusing on issues like Human Rights, Voter Education, and Road safety

We at CREAT have identified several activities towards promotion of investor education and protection. To start with CREAT will be organizing a state level workshop at Bangalore to train consumer activists on issues relating to investor protection. District level workshops will be organized in two districts. Another workshop targeting lecturers in Commerce and Economics is also planned. CREAT has observed that sufficient materials on investor protection are not available in Kannada language. To fill this gap CREAT will publish flyers, brochures, guides and other materials.

This inaugural issue of INVESTOR ALERT is another effort to enlighten the general public about investor protection. CREAT is already publishing other newsletters namely Consumer Info, Consumer Education, Infotap (in English) Balakedara Mahithi and Praja Mahithi (in Kannada). CREAT is also in the process of bringing out another newsletter focusing on trade, globalization and economic issues. INVESTOR ALERT will contain articles, snippets, news items, notifications, guidelines and other informative materials relating to investor protection. We hope you will continue to support our activities. Please send in your suggestions to improve the quality of this newsletter.

You may be aware that CREAT has launched its website (www.creatindia.org). We will be posting this as well as other newsletters of CREAT on this website. Please let us know whether you need hard copies of newsletters produced by CREAT. CREAT is incurring substantial resources for producing and distributing newsletters and other publications. We request you to make a donation to meet the expenses. Cheques and Demand Drafts may be drawn in favour of CREAT, Bangalore.

Think before you invest

Investment in any share, stock, debenture or mutual funds is not simply putting your hard earned money based on the promise made by the selling agents or the companies. Though sufficient information is provided in the offer documents, you as an investor need to familiarize yourself before deciding to invest. Here are some of the dos and don'ts you need to follow before investing.

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DO's

1. Always deal with the intermediaries registered with SEBI.
2. Always keep copies of all investment documentation (e.g. application forms, acknowledgment slips, contract notes)
3. Always keep copies of documents you are sending to companies etc.
4. Send important documents by a reliable mode/registered post to ensure delivery.
5. Ensure that you receive contract note at the end of the day/ account statement for every transaction.
6. Ensure that you have money before you buy.
7. Ensure that you are holding securities before you sell.
8. Follow up diligently and promptly e.g. if you do not receive the required documentation within a reasonable time contact the concerned person i.e. the trading Member, company etc. immediately.
9. Give clear and unambiguous instructions to your broker/agent/depository participant.
10. Mention clearly whether you want to transact in physical mode or demat.
11. Investors should take informed investment decision without being influenced by misleading recommendations given in the public media such as newspaper; electronic media, websites etc. verify the tall claims made in such advertisements.

Don'ts

1. Don'ts deal with unregistered Trading Members/ sub-brokers, intermediaries.
2. Don't forgo taking due documents of transactions, in good faith even from people whom you know.
3. Don't get misled by companies showing approvals/registrations from Government agencies as the approvals could be for certain other purposes and not for the securities you are buying.
4. Don't fall prey to promises of unrealistic high returns.
5. Don't transact based on rumors generally called 'tips'
6. Don't forget to take note of risks involved in the investment.
7. Don't get misled by guarantees of repayment of your investments through post-dated cheques.
8. Don't hesitate to approach concerned persons and then the appropriate Authorities.
9. Don't get swayed by promises of high returns.

Copy of Loan Agreement is your right

Henceforth the Non-Banking Finance Companies (NBFC) will have to furnish a copy of the loan agreement along with all enclosures mentioned in the loan agreement. The Reserve Bank of India (RBI) has made it clear that not furnishing a copy of the loan agreement and/or enclosures is an unfair trade practice and this could lead to disputes between the NBFC and the borrower with regard to terms and conditions on which the loan is granted. The RBI has given this direction in the light of several complaints by borrowers that they are not aware of the terms and conditions including rate of interest either the NBFC does not provide details or the borrower has no time to look into detailed agreement.

In this background it may be mentioned that the RBI had issued guidelines on Fair Practices Code for Non-Banking Financial Companies during September 2006. As per these guidelines NBFCs should convey in writing to the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof and keeps the acceptance of these terms and conditions by the borrower on its record.

Mutual Funds to help you in PAN Application

Not having a Permanent Account Number (PAN) should not be a hurdle for Investors planning to invest in Mutual Funds (MF) For, the Securities and Exchange Boards of India (SEBI) has come to your help. In a circular the SEBI has said that the MF distributor visiting you with the investment scheme will provide you with a PAN application form and will even volunteer to submit the form on your behalf.

Funding institutions such as the UTI Mutual Funds are providing the PAN application (Form 49A) to investors through the distribution in an attempt to meet SEBI's know-your-customer (KYC) norms. The mandatory norms require all new mutual fund investors to submit the PAN identification number or proof of PAN application with the Income-tax Department.

Participatory Note Demystified

What are Participatory Notes?

Participatory Notes (PN), also known as P-notes, are instruments issued by registered foreign institutional investors (FII) to overseas investors, who wish to invest in the Indian stock markets.

PNs are issued only in favor of regulated foreign entities and not permissible to be issued to an Indian or other restricted entity. Hedge funds operate using the PN route and can pull back funds as a short

notice. They tend to make markets volatile. PN route is suspected to be a conduit for Indian promoters to manipulate the market.

Sub-accounts are special purpose vehicles floated by foreign funds in which they manage money on behalf of their overseas clients. Sub-accounts need to be registered with the Securities and Exchange Board of India.

Earlier, a SEBI investigation exposed how Indian money was routed from India to Mauritius, London, and British Virgin Islands, US and re-entered the contra as foreign money through PNs

Why are PNs popular?

Overseas investors do not need to register themselves with the market regulator, SEBI. This reduces costs of operations and also disclosures. It is not mandatory for FII to disclose their PN details to the SEBI, unless specifically asked for.

How does it work?

PNs are issued to investors on the basis of stocks purchased by the FII on their behalf. In the books of the FII these appear as proprietary trades

(Source: The Financial Express)

Investment advisors to disclose earnings

The Securities and Exchange Board of India (SEBI) has decided to bring investment advisors who sell equity or equity-linked products under its direct regulatory purview. The draft SEBI Investment Advisors Regulations 2007 framed by SEBI investment advisors will have to disclose commissions and rewards earned on the products sold to investors.

Further SEBI has made it mandatory for all investment advisors of securities to get them registered with it. Though there is no official data on the number of investment advisors in the country, but it is estimated that there are several thousands who earn a living by selling equity or equity-linked products to investors.

As per the draft regulations an investment advisor shall disclose to a prospective client all material information about itself, its business, its disciplinary history, the terms and conditions on which it offers advisory services, its affiliations with other intermediaries and such other information as is necessary to take an informed decision to avail its services.

Dissemination of information on debentures

It has been decided that Companies which issue debentures and their respective debenture trustees/ stock exchanges shall disseminate all information regarding the debentures to the investors and the general public. Information to be disclosed includes events of default by Issuer Company to pay interest on debentures or redemption amount, failure to create on the assets, and revision of rating assigned to the debentures. All information / reports on debentures issued including compliance report filed by the companies and the debenture trustees shall be placed on the website of the debenture, the issuer company and the stock exchanges

(Ref: MIRSD/DPS III/ Cir-11/07 dated August 6, 2007)

PAN card to be biometric

Henceforth the permanent account number (PAN) cards issued to tax payers will be biometric cards that contain the physiological characteristics such as finger prints or eye colour of the card holder. There are currently around 50 million PAN cards, which will remain valid even if the holder refuses to opt for the biometric version.

The new biometric cards are expected to cost Rs.200 to Rs.300 while a non-biometric card costs Rs.67. As per the Income Tax Department sources, nearly 1.3 million PAN cards are duplicate (more than one card per person) The Department has de-duplicated around 1.1 million cards and the process is continuing.

(Source: Business Standard)

Be an informed DEMAT account holder

Following are some of the guidelines issued by National Securities Depository Limited (NSDL) with regard to DEMAT

1. Submit copy of your PAN Card to your Depository Participant (DP)
2. Keep your Delivery Instruction Slips in safe custody. Fill the slips completely before signing and submitting to the DP. Do not sign blank slips
3. Submit Delivery Instruction Slips to your DP before the deadline time
4. In case of change in your address or bank details, inform your DP immediately
5. Make sure your DP sends Transaction Statements to you regularly
6. Avail of Nomination facility for your Demat Account
7. Give Power of Attorney only if you so desire and that too, to a trusted person
8. Avail of the internet based IDeAS and SPEED-e facilities to view and transfer your securities online
9. Avail of SMS Alert facility to know transfer of shares from your account
10. Avail of Transposition cum Demat facility to dematerialize securities held in joint names in the same account even though names in the certificates are in different order

(Source: NSDL press release)

Law to regulate investment advisors

The Government is considering a proposal to harmonise various regulations related to investment advisors for protecting investors' interest. According to the Finance Ministry officials efforts would be made to converge the regulations and not regulators governing the financial intermediaries. It is reported that the Ministry is not in favour of formulating an additional legislation as it would add to the complexities.

At present there are more than two million insurance agents also selling other financial products as well. At present, investment advisors as a separate class of intermediaries are not registered and regulated by SEBI. Investment advisors sell products that fall under the jurisdiction of agencies such as Insurance Regulatory and Development Authority, Reserve Bank of India, NBFC deposits, mortgages, and Forward Markets Commission, besides pension products, government bonds and tax consultancy.

It is believed that SEBI is likely to allow a private sector self-financing regulatory organization to act as a first level regulator to deal with the large number of investment advisers in India

(Source: Deccan Herald)

Workshop on Investor Education

A one day workshop on Investor Education and Protection was organized by CREAT with the assistance of SEBI on 27th November 2007 at the National Law School of India University, Bangalore. The objective of the workshop was to educate and inform the representatives of voluntary consumer associations and other civil society organizations about investor protection, role of SEBI in protecting



investors and the need for investment for economic development.

Over 55 representatives from all over Karnataka participated in the workshop.

Mr. Muruges, of the Karnataka State Chartered Associations of India made a presentation on the need for investor protection, the functions of SEBI and various grievance redressal mechanisms available for investors.

Mr. Y.G. Muralidharan of CREAT spoke on the 'Investors' Right to Know' wherein he highlighted the various guidelines and provisions with regard to prospectus, offer documents and advertisements that are issued by companies inviting deposits from public.

Mr. Muralidharan said that with CREAT being recognized as an investor protection organization by SEBI, such workshops will be held periodically on various issues related to stock market. He further said that these workshops will be held in other cities of Karnataka and requested the participants to lend their support.

Reading material 'Empowering Investors through Education' in English and Kannada brought out by SEBI was distributed to the participants



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