



IGF/SENSEX/08/29

January 24, 2008

Mr. M. Damodaran
Chairman
Securities & Exchange Board of India
SEBI Bhavan, Plot No.4A, G Block
Bandra Kurla Complex
Bandra East, Mumbai 400 051

Sub: Urgent Meeting of Investors Associations
Ref : Corrective steps – Recent Crisis – Few observations

Dear Sir,

Small Investors are not able to come out from the "Shock" of 21 & 22 January. They feel they have been cheated & looted by the 'System'. Their hard earned savings got lost due to 'Arbitrary, unhealthy, Defective Mechanism of F & O'. Lacs of Investors have lost lacs of rupees each.

The volatility is shocking. Over Valuation and Over Speculation is surprising. It is sad that in the name of development the system has pushed and encouraged Speculation.

It took 17 months for Sensex to travel from 10,000 to 15,000. Only 6 months from 15,000 to 21,000. And 11 days to go back to 15,000.

The feeling among Small Investors in Mumbai, Ahmedabad, Delhi and major urban areas is "they have been cheated and looted". Lakhs of Rupees of each of them have got lost. The losses are already booked/incurred. No benefit whether the Market – Sensex goes up or down now. The transactions, positions were arbitrarily cut off in unjustified manner.

Following observations are made particularly in recent crisis in the Capital Market, which require immediate attention and correction :

- Is it a crash or Scam?
- Lakhs of Small Investors across the country individually have lost lakhs of Rupees in the present crash
- NSE and Brokers unilaterally cut off Future & Options (F&O) positions of Small Investors on 21st and 22nd January 2008.
- Brokers' terminals went off during the trading hours of 21st and 22nd January.

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- 2 -

- No new purchase orders were accepted by the brokers for Small Investors.
 - The whole F&O system of NSE proved disaster.
 - Only big investors, FIIs and others were allowed to keep and continue their F&O contracts.
 - Only big investors and FIIs were allowed to purchase the index level of 15000 or so (Sensex)
 - Finance Minister, SEBI Chairman and Government were boasting about the economic growth when the Sensex crossed 21000 (11th January 2008).
 - When Sensex got crashed, nobody was ready to accept responsibility and liability.
 - Non-introduction of physical settlement in the F&O segment is causing volatility and crisis.
1. The time period allowed for pay-in for future market is not in consistence with the available banking/payment system in the country. For cash market, due to this reason only, settlement system is T+2 and is not reduced due to non-availability of period, mode of payment and the crisis persists. Mark to market losses of a day has to be met in the morning next day. Mark to market losses are determined upto the end of the day when the banks are closed and are expected to be paid before the opening of the bank next day. This is practically impossible. This is leading to imbalance.

Brokers are required to fund. When the mark to market losses are huge, to stop the fall, all the brokers sell in the same day leading to crisis. The situation arises that, due to non-payment, they are required to sell the securities. However, due to the same situation of most of the brokers, i.e. non-availability of any limit, etc., there is no possibility of their paying. On the one side there are sellers, on the other side, due to the system failure, there are no buyers leading to further crisis/panic and thus enters vicious circle. The system failure happens because of this system size.

Immediate correction is required. Our market is different from overseas market in this regard. We have a lot of retail participation. In foreign markets, institutions/Funds mainly participate and therefore retail participation is not there. Hence T+1 settlement there is possible.

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- 3 -

2. Non-introduction of physical settlement is causing volatility and crisis.
3. The size of F&O contract was originally conceived as Rs.2 lakhs. However, due to increase in the price, the same is not modified. The size of the contract because of this has become very huge. At times, one contract becomes more than Rs.10 lakhs. The necessary change to reduce the size of the contract quantity is not done regularly. Because of this, the exposure of the retail investors increases.
4. Small Investors feels, "There are few large players catering to retail market. Their share is significant. The crisis is precipitated by them collectively and acting in concert. These big players have big muscle and financial power. They induce the retail investors by offering various facilities without proper education. Then the crisis is created in the form of margin, money calls. Their positions are squared off unilaterally. The other side buyers are also generally funded by them only. The systematic cheating and grabbing is done to these retail investors."
5. Adhoc margin is determined by system. Margin is as high as 100% in few scrips and in most scrips 50%. The same is not qualified. Looking into the circumstances, margins are kept at the same level when the Index was 21,000 and when it was 16,000. Immediate correction is required on the above.

An urgent meeting of Investors' Associations be called to discuss the "Crash & Crisis".

Thanking you,

Yours truly,

Dr. KIRIT SOMAIYA, Ex-M.P.
President, Investors' Grievances Forum

cc to : Mr. G. Anantharaman, Member, SEBI, Mumbai
cc to : Dr. T.C. Nair, Member, SEBI, Mumbai
cc to : Mr. V.K. Chopra, Member, SEBI, Mumbai