An empirical study of complaints and arbitration proceedings in National Stock Exchange

Dr. Abhishek Tripathi
Dean (Commerce and Management), Kalinga University, Raipur

Abstract:

National Stock Exchange is one the two leading stock exchanges in our country. The stock exchanges act as a common market place for the securities thereby providing liquidity to the securities issued by the corporate. Arbitration process in stock exchanges forms a very important part of the customer grievance redressal mechanism. SEBI has been issuing guidelines from time to time to promote arbitration in the stock exchanges.

The volume of arbitration proceedings in the NSE has been an indicator of the efficiency of the capital market. The paper analyzes the various types of complaints/ arbitration proceedings conducted by the NSE. It looks into the various types of disputes which have contributed to the arbitration and their trend over the years.

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Introduction

National Stock Exchange is one of the two leading stock exchanges located at the heart of commercial capital Mumbai in India. It started its operations in the year 1994 and since then it has been ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995. It has the largest derivatives. The total number of listings in NSE are 2002 with the market capitalization of $3.4 trillion (as on August 2021). It has always been a front runner in the implementation of modern technology in the Indian capital market, being the first stock exchange to implement screen based trading in the country.

Arbitration refers to the settlement of disputes between various parties involved like Investors, Trading Members, listed companies, clearing members etc. It is a quasi judicial process and aims at quicker resolution of disputes amongst the various stakeholders.

Arbitration in NSE:

The three phases of transactions in the stock market are:

1. Trading
2. Clearning
3. Settlement

The clearing and settlement process in India can be depicted as follows:

The classification of complaints have been done by NSE in the following types:

Classification of Complaints and arbitration by NSE"

Type	Description
I	Non-receipt / delay in payment:
II	Non-receipt / delay in securities:
III	Non-receipt of documents
IV	Unauthorized trades / misappropriation:
V	Service related:

VI	Closing out / squaring up:
VII	Non implementation of arbitration award
VIII	IPO related
IX	Others

Need of the study

The Indian stock exchanges have been in the focus recently due to the resilience it has shown during the global slowdown. Also, the volume and value traded in the stock markets has been in the ever growing trend. The arbitration process is one of the most important aspects of the SEBI's mandate of protection of individual investors. It is important to study the efficacy of the arbitration process of the stock exchanges to understand the status of investors protection in the Indian Stock Market.

Objectives of the study:

1. To study the trend of various types of complaints resolution and arbitration done by the NSE.
2. To analyze the pattern of various types of complaints resolution and arbitration done by the NSE.
3. To analyze the factors which have led to the maximum number of complaints and arbitration by NSE.

Hypothesis:

H01: Unauthorized trades or misappropriation forms the major proportion of complaints/ arbitrations in NSE.

H02: The Covid Era constituted less number of arbitration proceedings in NSE as compared to Non-Covid times.

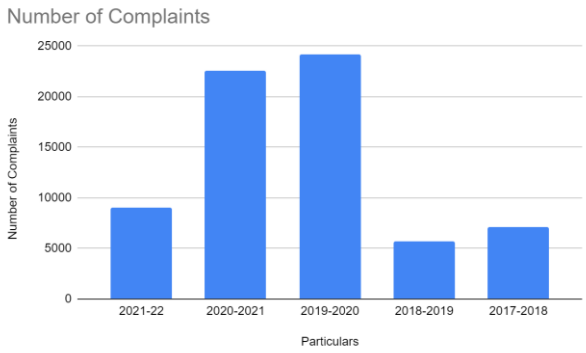
Research Methodology:

- This paper is based on the secondary data. It uses the official data published by NSE in its website every year.
- The Time Series Method of analysis has been used to analyze the data.
- Time period considered is the financial year from 2017-18 to 2021-22.

DATA ANALYSIS

1. Total Number of Complaints:

Particulars	2021-22	2020-2021	2019-2020	2018-2019	2017-2018
Number of Complaints	9034	22567	24188	5735	7137



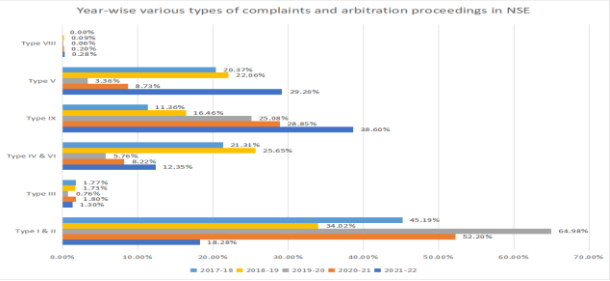
The number of complaints have risen to maximum in the year 2019-20. There is a clear difference which can be observed in the number of complaints during COVID times and other times.

Analysis of Types of Complaints

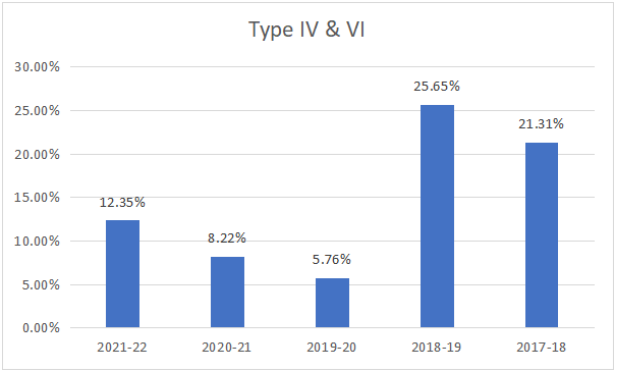
TYPE OF COMPLAINT*	2021-22	2020-21	2019-20	2018-19	2017-18
Type I & II	1651	11780	15717	1951	3225
Type III	117	406	184	99	126
Type IV & VI	1116	1854	1394	1471	1521
Type IX	3487	6511	6067	944	811
Type V	2638	1970	812	1265	1454
Type VIII	25	46	14	5	0
Grand Total	**9034**	**22567**	**24188**	**5735**	**7137**

TYPE OF COMPLAINT*	2021-22	2020-21	2019-20	2018-19	2017-18
Type I & II	18.28%	52.20%	64.98%	34.02%	45.19%
Type III	1.30%	1.80%	0.76%	1.73%	1.77%
Type IV & VI	12.35%	8.22%	5.76%	25.65%	21.31%
Type IX	38.60%	28.85%	25.08%	16.46%	11.36%
Type V	29.20%	8.73%	3.36%	22.06%	20.37%
Type VIII	0.28%	0.20%	0.06%	0.09%	0.00%
Grand Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

It can be observed from above data that till 2021, major components of complaints and arbitration proceedings in NSE were related to Type I & II but in the year 2021-22, Type IX and and Type V have taken the precedence.



Complaints/ Arbitration proceedings due to Unauthorized Trades and Mis-appropriations:



The maximum contribution made by this category of complaints is 25.65% in the year 2018-19. Also, the same decreased in the year 2019-20 and has been growing steadily in the year 2020-21 and 2021-22.

Acceptance/ Rejection of Hypothesis:

S.N	Hypothesis	Accepted/ Rejected	Rationale
HO1	Unauthorized trades or misappropriation forms the major proportion of complaints/ arbitrations in NSE.	Rejected	Major proportion of complaints and arbitration proceedings are contributed by Type-I and Type-II, i.e. Non-receipt and delay in payment and securities.
HO2	The Covid Era constituted less number of arbitration proceedings in NSE as compared to Non-Covid times.	Rejected	The arbitration proceedings saw a major increase during the COVID era.

Conclusion:

- The major complaints and arbitration proceedings in NSE are from the non-receipt/ delay in securities and payments.
- Overall, Type I, II and IX and recently type V has started contributing maximum to complaints and arbitration proceedings in NSE.
- During COVID era, service related issues contributed less to the complaints and arbitration proceedings in NSE.
- The online system of resolution of disputes has been instrumental in reducing the overall complaints.
- There has been a sharp decrease in the number of complaints/ arbitration proceedings in the year 2021-22.

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