Our Views

Appropriate resilience displayed by our regulators in not talking through media

Any major incident in the capital markets can evoke media frenzy and a public expectation of a reactionary action from the regulator. Given the complexity of the situation, such a knee jerk reaction without a full appreciation, the depth and genuineness of the situation could have far-reaching unintended consequences for large pools of capital and several small and big investors. Therefore, worldwide the regulators carefully examine the issue before making any hasty remarks or decisions. In such a situation, a seasoned regulator, Indian or global, should always look to first protect the system and ensure an orderly running of the markets. The Indian regulators certainly have a robust pre-set framework within which the market is continuously and proactively being reviewed to avoid any systemic risk. In the recent several years we haven't seen any disruption in the markets.

In the case of a recent significant incident of a specific group, I believe that our regulators have come out with flying colours in ensuring that there is no risk to the markets. In fact, if we look at the history and data for the last several years, particularly from 2018-19 onwards, Additional Surveillance Measures (ASM) were triggered at various points in time for most of the traded stocks of this group. The ASM has been put in place by the SEBI and the Stock Exchanges to address the issue of excessive volatility in specific scrips. Whenever there are sharp movements in any individual stock prices, on the upper or the lower side, the ASM is triggered automatically. Apart from price variation, other parameters that trigger ASM include volume variation, client concentration, market capitalisation, delivery percentage, etc. An ASM trigger leads to an imposition of a higher margin of even up to 100%, a reduction in price band, settlement on a gross basis as against the normal net basis, etc. In the last 3 years some of these scrips have been in ASM for more than 500 days each. The higher margin would have drawn the attention of the investors to take a considered view while making their investment decisions. Similarly, more recently, when prices of some of these specific scrips started to fall because of certain market information, regulators were active through the ASM mechanism. In my opinion, our markets have a robust existing framework to shortlist scrip under ASM.

Secondly, there is a narrative being built that the emerging market regulators are not decisive. We must question whether decisiveness means a regulator having a knee-jerk reaction to market information and should it use media as a tool to communicate with the markets. In my view, regulators need to go into the details of the issue and decide their plan of action rather than reacting to media pressures. They cannot be talking up or down the markets through media. Only a comprehensive understanding of the issue at hand will allow the regulators the ability to arrive at the right decision.

I also looked up global precedents in similar situations. In the last twelve years, three different research firms have published investigative reports on around 18 different corporates with listed and traded shares. These are cases in the developed economies and under the jurisdiction of established regulators. In none of those cases any global regulator made any comments until they finished their detailed work which in most cases took a minimum of 1 year, and on an average 2+ years. Post their analysis, depending on their findings, they decided to act or not. In 30% of the cases no action was required and in 15% cases a fine was levied. In none of these cases any pre or simultaneous public communication from the regulator was done. The most recent investigative report on a global company, Nikola, was published on September 10, 2020 and a public announcement of the regulatory action by their regulator was done on December 21, 2021. Similarly, in case of the report on Genius Brands published in June 2020, the lawsuit by a group of investors was dismissed by the federal judge and no action has been taken by the regulator.

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I do think this is a sign of a mature market, a mature regulator, and a mature regulatory framework. Am glad that our capital markets have one of the best regulatory frameworks and governance under which we can operate without any fear of unintended disruption. Our regulators have shown good judgment and resilience in spite of the enticement. It is important that we repose faith in their ability to do their job rather than forcing them to talk through media.

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