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Budget Wish List of a Common Investor

Household savings in India have been on the rise. Yet, less than 5 per cent of these are invested in the capital market. Worse, in a country of over 115 crore, we have just about 2 crore direct/indirect 2 crore equity investors. A nation of savers has to be converted into a nation of investors. For this, several measures need to be taken. A few of these are fiscal while others are policy issues, which collectively can bring a paradigm change, according to Mr. Prithvi Haldea, Chairman Prime Database.

The equity market has to be brought back to its rightful role, says Mr. Haldea. Equity, we were always told, is a long term instrument. Unfortunately, day trading now dominates, with over 75 per cent of trades squared off on the same day itself, converting the equity market into a gambling den. These investors are pure gamblers, with no interest or knowledge of companies, industry or economy . Day trading needs to be disincentivized, to provide stability to the market Though there is a demand for removal of the **Securities Transaction Tax**, Mr. Haldea as a contrarian, would like to recommend that though STT should be levied only on 'sell' transactions, it should be at a very low rate for delivery-based transactions and a much higher rate for day trades. There is also a case for increasing the short term capital gains tax.

Mr. Haldea also feels that it is time we grew the domestic investors base; we have become an FII-dependent country. Moreover, domestic investors are more stable and take a long term view. Better policies and greater reservations are required for them- retail, mutual funds, insurance companies, pension fund managers and banks. At the same time, Mr. Haldea suggests that we should do away with **Participatory Notes**, which by most accounts are considered as hot and bad money, and are also unfair to the domestic investors who have to undergo a detailed KYC.

Another major initiative, according to Mr. Haldea, should be to refocus the mutual fund industry. Over the years, this industry has lost its very purpose of channelizing household savings into the capital market and has become over-dependent on corporate money. Worldwide, **Mutual Funds** (MFs) are defined as “a security that gives small investors an access to a well-diversified portfolio of capital market instruments, managed by professionals, protecting them from the hazards of direct uninformed investing.” However, in India, the MF industry has been dominated by corporates and banks through money market products. Only 21 per cent of total AUM is retail money and only about 25 per cent is in equity. MFs are obsessed with AUMs for ranking purposes, and thus expend disproportionately large energies on the corporates, to the detriment of small investors, bearing the brunt of expenses.

Mr. Haldea suggests that there is a need to create tax disincentives preventing corporate money from being invested into MFs, and have incentives for retail to use MFs, which should be their only route. There is also a need to educate that direct exposure is more prone to risk. Time has come to launch a National Financial Literacy Mission to make people understand their options and financial needs at different life stages. Otherwise, people will either not invest or continue to make wrong decisions either based on „rule of thumbs‟ or on advice of friends/ family, leading to losses and further dissuasion from the equity investing.

On another front, Mr. Haldea suggests that **divestments** should be done only to the retail investors (depth is huge). Household savings of millions of retail investors would thus be brought in. An only retail policy, with Rs. 1 lakh maximum allotment, will have a major positive impact; a wide investor base reduces post-listing selling pressure. This would also be „politically correct‟- what better opportunity to please millions!

According to Mr. Haldea, IPOs should be made at reasonable prices and FPOs at a discount of at least 10 per cent to the market price. While this will not maximize returns for the government, it would ensure that the wealth created by public enterprises through domestic public resources shall be shared rightfully only with the public (and not FIIs). In any case, true price discovery post-listing would get government much larger gains than the small loss it may incur in pricing the IPOs low. This would also ensure that there are no post-listing embarrassments; the PSUs would forever be in the investors‟ Thank You list!

Furthermore, Mr. Haldea suggests that only the fixed price route should be used as the retail investors are ill-equipped for bookbuilding. The issues should be staggered, learning from the fiasco of 2004. Allotments should also be allowed in physical mode thus saving the investors from the hassles of opening demat accounts and from custodial charges. Dematting may be made compulsory only for selling.

Would anyone believe that in the past 9 years, a meagre 3.5 per cent of the total capital was offered to the small investors in IPOs? This is because most companies are now allowed to offer only 10 per cent of their capital through an IPO and only 35 per cent of that is earmarked for the retail investors. This is lip service to the small investors-in one breath, we moan that household savings are not moving into the capital market; in another, we have policies that would not let that money move! There is a need to increase **minimum public offer**, suggests Mr. Haldea.

Another focus area, according to Mr. Haldea, has to be the **New Pension System**, designed to provide financial security to millions of Indians in their old age, but which at the same time can become a powerful domestic investor. To make it succeed, the NPS should be moved immediately from an EET structure to an EEE one and the entry and maintenance charges should be reduced substantially.

Infrastructure is a crying need for our country. There has hardly been an effort to mobilize retail savings for this. Mr. Haldea suggests that special tax rebate should be made available on investment in infrastructure bonds floated by infrastructure/infrastructure finance companies, with the limit on amount available for rebate of at least Rs. 2 lakhs.

The processes for investing have become too cumbersome and expensive, acting as a big deterrent to draw in new investors. While the respective regulatory bodies should be required to ease these, there is a need, according to Mr. Haldea, to create a **single KYC** that would be valid across all financial products-banking, insurance, IPOs, secondary market, mutual funds, pensions etc.

Action against **'vanished' companies** has not yielded any results. As per the present I.T. laws, an investor cannot secure deduction of his capital losses in respect of shares of such companies, which are not traded at all. These shares do not find a buyer at any price and in the absence of a transfer or sale transaction, the investor is unable to include his capital losses in the income tax return. Mr. Haldea suggests that all retail investors holding up to 5000 shares of such companies which made a public issue after 1st April 1992, and whose shares have not been traded at all in the preceding 1 year, should be allowed to be sold to a Government-designated institution at zero prices. The investor would be allowed to offset such losses against any type of capital gains. This scheme will be very pragmatic, helping erase bad memories, and allowing investors to look afresh at the future. The transferee institution may also derive some compensatory benefits on account of revival or acquisition of some of these companies.

Finally, Mr. Haldea recommends that the government should launch a **National Financial Literacy Mission**. Individuals today either do not invest or they invest wrongly. A nationwide effort to take financial literacy to the masses is now warranted.