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Trends in Capital Market and Securities and Exchange Board of India (SEBI)

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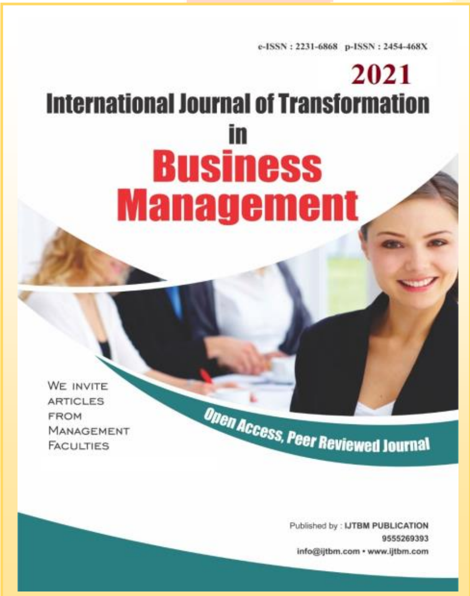

ABSTRACT

Capital Market Reforms were undertaken during the 1990s encompassing legislative regulatory and institutional reforms and the liberalization policy of India 1991, introduce the need of financial reform. Securities and Exchange Board of India (SEBI) was established in 1988 to regulate the security market. It has constituted various committees from time to time to efficiently manage the working and development of securities market. Various departments and regional offices manage the affairs of SEBI. The head Office of SEBI is situated at Mumbai. The current Chairman of SEBI is Mr. Ajay Tyagi. Statutory market regulator, which was created in 1992, was suitably empowered to regulate the collective investment schemes and plantation schemes through an amendment in 1999. Further, the power of SEBI have been empowered with compliance and enforcement powers including search and seizure powers through an amendment in SEBI Act in 2002 .SEBI Function is to protect the interests of investors in securities market , promote the development of securities market ,regulate the business in stock exchanges and any other securities markets to promote investors education and training of intermediaries of securities markets, prohibit insider trading in securities regulate substantial acquisition of shares and takeover of companies , register and regulate the working of stock brokers , sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and intermediaries associated with securities markets ,register and regulate the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies , register and regulate the working of venture capital funds and collective investment schemes including mutual funds , promote and regulate self-regulatory organizations .

Keywords: Capital, Institutional Reform, Risk, Securities.

INTRODUCTION

SEBI is India’s capital market regulator and is trying to benefit the investors by, Increasing the trading volumes, syncing with the Global Markets and Hedging.

OBJECTIVES OF SEBI

(a) **Protection of investors:** The primary objective of SEBI is to protect the rights and interests of the people in the stock market by guiding them to a healthy environment and protecting the money involved in the market.

(b) **Prevention of malpractices:** The main objective for the formation of SEBI was to prevent fraud and malpractices related to trading and to regulate the activities of the stock exchange.

© **Promoting fair and proper functioning:** SEBI was established to maintain the functioning of the capital market and to promote functioning of the stock exchange. They are ordered to keep eyes on the activities of the financial intermediaries and regulate the securities industry efficiently.

(d) **Establishing Balance:** SEBI has to maintain a balance between the statutory regulation and self-regulation of the securities industry.

(e) **Establishing a code of conduct:** SEBI is required to develop and regulate a code of conduct to avoid frauds and malpractices caused by intermediaries such as brokers, underwriters and other people.

FEATURES

SEBI is an organization that is responsible for maintaining an environment that is free from malpractices to restore the confidence of the general public who invest their hard-earned money in the market. SEBI controls the bylaws of every stock exchange in the country. SEBI keeps an eye on all the books of accounts related to the stock exchange and financial intermediaries to check their irregularities. The features of the Security and Exchange Board of India are,

(i) **Quasi-Judicial**-SEBI is allowed to conduct hearings and can pass judgments on unethical cases and fraudulent trade practices and helps to protect transparency, accountability, reliability, and fairness in the capital market.

(ii)**Quasi-Legislative**-SEBI is allowed to draft legislatures with respect to the capital market. SEBI drafts rules and regulations to protect the interests of the investors. As SEBI, LODR (Listing Obligation and Disclosure Requirements) helps in consolidating and streamlining the provisions of existing listing agreements for several segments of the financial market like equity shares. It helps in protecting the market from malpractices and fraudulent trading activities happening at the bay.

(iii)**Quasi-Executive** -SEBI covers the implementation of the legislation and allowed to file a complaint against any person who violates their rules and regulations. They also have the power to inspect all the books and records to check for wrongdoings.

ORGANIZATION STRUCTURE OF SEBI

(A)The management of Board of SEBI consists of members Dr. S.A. Dave was the first Chairman of SEBI who was appointed on 10th April 1988. Mr.Ajay Tyagi is the present Chairman appointed on 10th February 2017 replacing Mr K Sinha.

1. The chairman of SEBI is appointed by Central Government.

2. Two members from amongst the officials of the of the Central Government dealing with Finance.

3. One member from the Reserve Bank.

4. Five other members of whom at least three shall be the whole-time members, to be appointed by the Central Government.

(B) **SEBI departments**--SEBI regulates Indian financial market through its 20 departments.

Sr.No		Sr.No	
1	Commodity Derivatives Market Regulation Department **(CDMRD)**	11	Integrated Surveillance Department **(ISD)**
2	Corporation Finance Department **(CFD)**	12	Investigations Department **(IVD)**
3	Department of Economic and Policy Analysis **(DEPA)**	13	Investment Management Department **(IMD)**
4	Department of Debt and Hybrid Securities **(DDHS)**	14	Legal Affairs Department **(LAD)**
5	Enforcement Department – 1 **(EFD1)**	15	Market Intermediaries Regulation and Supervision Department **(MIRSD)**
6	Enforcement Department – 2 **(EFD2)**	16	Market Regulation Department **(MRD)**
7	Enquiries and Adjudication Department **(EAD)**	17	Office of International Affairs **(OIA)**
8	General Services Department **(GSD)**	18	Office of Investor Assistance and Education **(OIAE)**
9	Human Resources Department **(HRD)**	19	Office of the Chairman **(OCH)**
10	Information Technology Department **(ITD)**	20	Regional offices **(RO)**

POWERS OF SEBI

(I) SEBI has the power to regulate and approve any laws related to functions in the stock exchanges.

(II)It has the powers to access the books of records and accounts for all the stock exchanges and it can arrange for periodical checks and returns into the workings of the stock exchanges.

(III)It can also conduct hearings and pass judgments if there are any malpractices detected on the stock exchanges.

(IV)When it comes to the treatment of companies, it has the power to get companies listed and de-listed from any stock exchange in the country.

(V)It has the power to completely regulate all aspects of insider trading and announce penalties and expulsions, if a company is caught doing something unethical.

(VI)It can also make companies list their shares in more than one stock exchange if they see that it will be beneficial to investors.

(VII)Coming to investor protection, SEBI has the power to draft legal rules to ensure the protection of the general public.

(VIII)It also has the power to regulate the registration of brokers and other middlemen who will deal with investors in the market.

MUTUAL FUND REGULATIONS BY SEBI

(a)SEBI has also made few policies and laid down guidelines for the mutual funds in order to safeguard the interests of the investors .

(b)These guidelines have been laid to bring uniformity in the working of the similar mutual funds scheme which will help the investors to make their investment decisions more clearly.

©To bring uniformity in the functionality of the similar mutual fund scheme , SEBI has categorized mutual funds in the five broad categories .They are, Equity Schemes, Debt Schemes, Hybrid Schemes, Solution Oriented Schemes .

SEBI CONTROLS

(i)The regulations of the stock exchange and capital market.

(ii)Prohibition of fraudulent and unfair trade.

(iii)Improving education and training of intermediaries of the securities market.

(iv)Promoting investors and registering intermediaries.

(v)Regulating substantial acquisition of shares and takeovers of companies.

(vi)Calling for information and records.

(vii)Conducting inquiries of audits and stock exchanges.

DEPOSITORY INSTITUTIONS

In economy, depositories play an important role in developing the country, as the developing countries don't have enough investments to complete their schemes efficiently. A good functioning securities market can stabilize economic growth. India needs investment for growth , so they need to improve market efficiency and protect the interests of investors to attract them to invest in our market. The capital market needs to improve investment opportunities for investors and take care of their interests and security.

In India, the depository institutions are governed under the Securities and Exchange

Board of India (SEBI). The depository must be formed under the Companies Act and must receive a certificate from SEBI. Depositories registered under SEBI are:

(i)Central Depository Service Limited (CDSL)

(ii)National Securities Depositories Limited (NSDL)-**NSDL** was established in 1996 by the National Stock Exchange (NSE). NSE introduced the rolling system which helped the investors to receive their payment within 5 days of the sale as it was 8-12 days, before NSE. **CDSL** was promoted by the Bombay Stock Exchange (BSE).

ADVANTAGES

Depository Systems play an important role as they help in eliminating the risks of holding physical securities. Initially, the buyers had to keep an eye on the transfer of shares but now the depository systems have reduced the risks by involving technology in the process. This helped in improving the chances of foreign investments in the Indian Capital Market. The advantages of Depository Institutions are,

(i)It reduced the chances of forgery and delay.

(ii)Unlike physical transfer, these transfers are immediate.

(iii)The securities are controlled by the stock exchange.

(iv)It reduced the chances of bad delivery, fake certificates, and signature related issues.

(v)The fear of losing the certificate is reduced as everything is online.

(vi)This electronic system is time-saving.

(vii)It restricted the transfer of Benami properties.

Depository Participants

The agents which provide services related to depositories to investors is known as a depository participant. Any approved institution from RBI which agrees on the rules prescribed by SEBI can be a depository participant as stockbrokers, financial corporations, foreign banks, etc.

Free Transferability

Free transferability of securities with security, accuracy, and speed is given by the Depositories Act, 1996. It was achieved by:

(a) making the securities of public limited companies freely transferable with some exceptions.

(b) dematerializing the securities in the depository mode.

© maintaining the ownership records in a book-entry form.

Rights of Transferee

(i)The transferee must receive the share certificate in due time.

(ii)The transferee must receive a copy of the annual report with the auditor's report.

(iii)The transferee must receive the dividends in due time.

(iv)The transferee must inspect the statutory registers at the registered office.

(v)The transferee must receive corporate benefits like rights, bonus, etc.

(vi)The transferee must receive the residual proceeds.

(vii)The transferee must receive an offer in case of takeover or buyback under SEBI regulations.

So, SEBI introduced the Depositories Act, 1996 to make share transfer secured and easily accessible because SEBI is trying to protect and develop the interest of the investor in the Indian Market.

(B) Recent Trends in Capital Market

1. **Technology and capital market** [IT and Telecommunication Revolution-automatic and electronic trading platform-real time information passing – screen based trading help to make transactions anywhere -internet trading- mobile trading- Electronic clearing and settlement-RTGS in 2004 (Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order. The minimum amount to be remitted through RTGS is ` 2 lakh. There is no upper ceiling for RTGS transactions. Under normal circumstances the beneficiary branches are expected to receive the funds in real time as soon as funds are transferred by the remitting bank. The beneficiary bank has to credit the beneficiary's account within 30 minutes of receiving the funds transfer message. Straight through Processing (STP) will completely automate the process of order flow and clearing and settlement on the stock exchanges .

2. Mobile Based Trading--Shorter trade cycles , [adopted 'rolling settlement' has been introduced in 1/4/2003 instead of 'account period settlement'. Rolling Settlement is a mechanism of settling trades done on a stock exchange on T + 1/2/3/4/5 days basis. The netting (settling of obligation between two parties) of trades is done only for the day and not for multiple days. This contrasts with account settlement, in which all trades are settled once in a set period of days, regardless of when the trade took place. It took between one to two weeks for the investor for settlement.

3. The Credit Rating Information Services of India Ltd. (CRISIL, 1988), Investment Information and Credit Rating Agency of

India Ltd (ICRA 1991) etc were set up to assess the financial position of institutions.

4. Merchant banking was started by many banks to provide financial services. -A bank that deals mostly in international finance, long-term loans for companies and underwriting . Merchant banks do not provide regular banking services to the general public.

5. NSDL and CDSL—Depositories- NSDL stands for 'National Securities Depository', whereas CDSL stands for 'Central Depository Securities' Limited. They hold various securities like shares in electronic form. NSDL and CDSL were set up to give free transferability of securities, electronic transfer and also scruples trading on stock exchange. A depository is an organization that holds securities of investors in an electronic format at the request of an investor through a registered Depository Participant. It assists in the allotment and transfer of securities and securities lending .This system is governed under the Depositories Act by the Government. The enactment of this act paved the way for the establishment of NSDL and CDSL.

6. Introduction of Risk Management System- An efficient clearing and settlement system . Risk containment measures include capital adequacy requirements of members, monitoring of member performance and track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached , etc.

5. *Insurance Regulatory and Development Authority- (* IRDA) was set up in 2000 which helped the entry of private insurance companies in India. Many public sector banks, foreign banks, financial institutions have launched many new mutual funds that has helped the investors to have wide choices .

6. Entry of Qualified Foreign Investors- The Qualified Foreign Investor (QFI) is sub-category of Foreign Portfolio Investor and refers to any foreign individuals, groups or associations, or resident, however, restricted to those from a country that is a member of Financial Action Task Force (FATF) . SEBI helped the market participants by consolidating their settlement functions at a single clearing meeting and by reducing the effective trading cost for investors. The board improved the market by allowing the contributions of the foreign participants through certain background checks before entering the Indian Market and active participation of Foreign Institutional Investors (FIIs) .

DECISIONS TAKEN BY SEBI FOR A HEALTHY CAPITAL MARKET

SEBI is the regulatory body for the Indian capital markets and adopt various steps and functions to ensure smooth and healthy operation of the capital markets.

(i)Determination of Premium and Share Prices: All the listed Indian companies which have been given a free hand in determining their stock prices and premium on those prices. SEBI ensures that the determined pricing and premium is equally applicable for all without any sort of discrimination.

(ii)Eligibility Criteria for Under Writers: SEBI has fixed the minimum asset limit at 20 lakhs INR to work as an under writer. SEBI also looks after the functioning if under writers as well and holds the full authority to cancel their registration if any irregularity is found in the purchase of unsubscribed part of the share issue.

(iii)Abolishing Insider Trading: Insider Trading was one of the biggest loopholes of the Indian Capital Markets. A recent web series has also portrayed, how insider trading was used for making huge profits. SEBI introduced the SEBI regulation 1992 which ensures honesty and transparency in the Capital Markets.

(iv)The control on Mutual Funds: SEBI announced the SEBI Mutual Funds Regulation in 1993 which gave the authority to take over the direct control of all mutual funds of private sector and government. As per the announcement, any company which floats a mutual fund should necessarily have net assets worth over INR 5 Crores and should consist a contribution of at least 40% from the promoter.

(v)Control on FIIs: Foreign Institutional Investors or FIIs, now need to be registered with SEBI before they step in the Indian Capital Markets. The directives issued by SEBI in this regard state that every FII who is investing in Indian Capital Markets needs to have a SEBI registration.

Corporate governance encompasses the mechanisms, rules and practices by which companies are operated and controlled. It aims to mitigate conflicts of interest between shareholders and promote ethical decision-making, transparency and integrity at the executive level. The role of SEBI in corporate governance is to ensure these rules are implemented and followed by all parties.

(I)The organization ensures that companies issuing securities use fair practices and disclose relevant information to the shareholders. It also regulates takeovers, listing agreements of stock exchanges, corporate restructurings and more. SEBI guidelines for corporate governance are designed to provide a safe, transparent environment for investors and prohibit fraudulent or unfair practices, like insider trading.

(II)The role of SEBI in ensuring ethical standards among corporations became even more important in 2018 when the organization imposed additional compliance conditions. As big firms will be required to have at least one woman independent director and separate chairpersons and CEOs. Furthermore, listed companies must disclose related-party transactions and hold a specific number of annual general meetings. SEBI initiatives in corporate governance are largely based on the recommendations made by the Kotak committee in March 2018 and aim to enhance transparency.

(III)In addition to its role in corporate governance, SEBI has protective, regulatory and developmental functions. The organization protects investors by prohibiting malpractices related to securities and promoting fair trade practices. It aims to educate them on money management, trading and finances in general.

(IV)Its regulatory functions have the role to ensure that corporations and financial intermediaries alike follow its guidelines and code of conduct. The end goal is to keep the financial market running smoothly.

(V)The developmental functions of SEBI aim to promote computerized trading and modernize the market infrastructure. These initiatives have led to a reduction in fraud and unfair practices. The organization requires companies that buy or sell stocks to register for a dematerialization (Demat) account online, which helps reduce bureaucracy and simplifies the process of holding investments. The Demat system allows traders to work from anywhere and mitigates the risks associated with paper shares, such as trading delays or thefts.

CONCLUSION

SEBI helps in regulating the Indian Capital market . SEBI or the Security and Exchange Board of India is a regulatory body controlled by the Government of India to regulate the capital and security market . Before the Security and Exchange Board of India, the Controller of Capital Issues was the regulating body to regulate the market which was controlled by the Capital Issues (Control) Act, 1947. SEBI controls the issuers of securities, the investors and the market intermediaries. The Board draft regulations and statutes under its legislative authority, also pass rulings and orders under its judicial capacity and operate investigations in its executive limits. SEBI works as a barrier to avoid malpractices related to the stock market by establishing a code of conduct and promoting the healthy functioning of the stock exchange. SEBI didn’t have the authority to regulate the stock exchange, but in 1992 the Union Government gave statutory powers to SEBI through the SEBI Act. 1992. SEBI deals with all the policies and regulations of the market. SEBI also signed a contract with the International Organization of Securities Commission and allowed its members to maintain a regular check for cross border misconduct in their respective jurisdictions. SEBI regulates the functioning of the stock market, mutual funds, etc. and developmental functions of SEBI aim to promote computerized trading and modernize the market infrastructure. SEBI guidelines for corporate governance are designed to provide a safe, transparent environment for investors and prohibit fraudulent or unfair practices, like insider trading. SEBI strongly believes that the investors are the soul of the securities market and they need to protect the interests of investors for the development of the capital market.

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