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ROLE OF S.E.B.I. AS A REGULATORY AUTHORITY

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ABSTRACT

Generally people plan that some part of their income to spend and remaining income to invest. They may invest money in bank, insurance policy or by purchasing shares, debentures and mutual funds. More risk is associated with investments of stock market. For the protection of such investors a regulatory authority has been established called as SEBI by the government. The paper shows the role of SEBI (Securities and Exchange Board of India) as regulatory body for the protection of investors' money. The Primary function of Securities and Exchange Board of India under the SEBI Act, 1992 is the protection of the investors' interest and the healthy development of Indian financial markets. It is very difficult task for the regulators to prevent the scams, regulating and monitoring each and every segment of the financial markets. One of the activities in the hand of the regulator is the collection and distribution of money to the investors. SEBI had issued new guidelines for the protection of the investors through the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000.

Keywords: Investment, capital market, stock exchange, intermediaries and insider trading

INTRODUCTION

An investment plays very important role for the economic growth. The investment shows the level of economy in the world economies. Investment is one of the outcomes of savings, which is a result of postponement of consumption. People save some portion of their income for future plans, uncertainties, unforeseen expenses, unemployment and sickness. When a person deposits his/her money in a bank or buys the shares of a company, it can be said that it is an investment. In any country, the financial system plays as a mediator between lenders and borrowers. Always investors are needed adequate protection to encourage more savings and investments. So government has given authority to RBI to protect the investors' investments. Securities and Exchange Board of India (SEBI) is one of such institutions. In general, the financial market is divided into two parts, one is money market and another one is capital market. Money market is a market which provides short term finance while capital market provides medium and long term finance. Securities market is an organized capital market. Securities market is divided into as primary market and secondary market. The origin of the stock market in India started at the end of the eighteenth century. Initially long-term negotiable securities were issued. An important event in the development of the stock market in India was the formation of the native share and stock brokers ' association at

Bombay in 1875, which was the precursor of the present Bombay Stock Exchange. Subsequently several associations/exchanges in Ahmadbad (1894), Calcutta (1908), and Madras (1937) were formed. Stock exchange means a body of individuals, whether incorporated or not, constituted for the purpose of regulating or controlling the business of buying, selling or dealing of securities. The securities include shares, bonds, debentures, government securities and rights.

The Bombay Stock Exchange (BSE) and the National Stock Exchange of India Ltd (NSE) are the two primary exchanges in India. In addition, there are 22 Regional Stock Exchanges. A regulatory body is essentially needed to regulate and monitor the activities of stock exchanges. To fulfill the need, the Securities and Exchange Board of India (SEBI) was established by the Government of India in 1988 through an executive resolution. And subsequently it was upgraded as a fully autonomous body (a statutory Board) in the year 1992 with the passing of the Securities and Exchange Board of India Act on 30th January 1992. SEBI has four different departments namely; primary department, issue management and intermediaries department, secondary department and institutional investment department. On 26th January, 1995, the government promulgated an ordinance amending the SEBI act, 1992, and the Securities Contracts (Regulation) Act, 1956. Prior to SEBI, the capital markets were regulated by the Capital Issues (Control) Act of 1947. However, it did not have any statutory powers at that time and its role was limited to collection of investor-related information from various market participants, advising the government on issues related to stock markets and regulation of a few market entities. After establishment of SEBI, the government gave statutory powers in 1992 through the Securities and Exchange Board of India (SEBI) Act. The next major amendment to the SEBI act was made in 2002. So SEBI has powers to seek information and records from banks and many other authorities, and also for inspection of the books of accounts of listed companies.

OBJECTIVES

- To outline the role of Securities and Exchange Board of India in the capital markets
- To know key functions of the SEBI

The statutory powers of SEBI include to protect the interests of investors in securities, to promote the development of securities market, to regulate the securities market and for matters connected to which. Moreover SEBI has powers to control speculation activities, insider trading, takeovers and other substantial share acquisitions.

The functions of SEBI are as follows

- Regulating the business in stock exchange and any other securities markets.
- Registering and regulating the working of collective investment schemes, including mutual funds.
- Prohibiting fraudulent and unfair trade practices relating to securities markets.
- Promoting investor's education and training of intermediaries of securities markets.

- Prohibiting insider trading in securities, with the imposition of monetary penalties, on erring market intermediaries.
- Regulating substantial acquisition of shares and takeover of companies.
- Calling for information from carrying out inspection, conducting inquiries and audits of the stock exchanges, intermediaries and self regulatory organizations in the securities market.

SEBI is a watch dog of the stock exchanges of India. SEBI has issued a new set of comprehensive guidelines governing issue of shares and other financial instruments, and has laid down detailed norms for stock-brokers and sub-brokers, merchant bankers, portfolio managers and mutual funds. With a view to regulate functions of stock exchanges in country the government passed the Securities Contracts (Regulation) Act in 1956. The act came into force in 1957. SEBI started functioning as an independent regulator in 1988, when its' first Chairman S A Dave who picked up six officers from IDBI and began functioning from IDBI's office itself. The total head-count of SEBI today exceeds more than 600. Recently SEBI completed 25 years in its service and celebrated silver jubilee festival. On the occasion of silver jubilee celebrations, Prime Minister Manmohan Singh stated that SEBI sought greater powers from government to rein in market manipulators and said dealing with errant entities that are financially strong and those collecting money illegally is one of the major challenges before it. SEBI can also make a vital contribution to the revival of the economy and increase the investments towards development of infrastructure facilities.

Regulations for Intermediaries

A broker is a member of a recognized stock exchange, who is permitted to do trades on the floor of the exchange. He is enrolled as a member with the concerned exchange and is registered with SEBI. A sub broker is a person who is registered with SEBI as such and is affiliated to a member of a recognized stock exchange.

The SEBI's regulatory jurisdiction extends over companies listed on stock exchanges and companies intending to get their securities listed on any recognized stock exchange in the issuance of securities and transfer of securities, in addition to all intermediaries and persons associated with securities market. SEBI specify the matters to be disclosed and the standards of disclosure required for the protection of investors in respect of issues. It can issue directions to all intermediaries and other persons associated with the securities market with the interest of investors or of orderly development of the securities market. And it can conduct enquiries, audits and inspection of all concerned and adjudicate offences under the Act. Totally, it has been given necessary autonomy and authority to regulate and develop an orderly securities market. All the intermediaries and persons associated with securities market, viz., brokers and sub-brokers, underwriters, merchant bankers, bankers to the issue, share transfer agents and registrars to the issue, depositories, participants, portfolio managers, debentures trustees, foreign institutional investors, custodians, venture capital funds, mutual funds, collective investments schemes, credit rating agencies, etc., shall be registered with SEBI and shall be governed by the SEBI regulations pertaining to respective market intermediary. Registration of stock brokers are concerned a stock broker applies in the prescribed format for grant of certificate through the stock exchanges. The stock

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exchange forwards the application form to SEBI as early as possible not later than thirty days from the date of its receipt. SEBI takes into account for considering the grant of a certificate all matters relating to buying, selling, or dealing in securities and verifies that whether the stock broker:

1. Is eligible to be admitted as a member of a stock exchange,
2. Has the necessary infrastructure like adequate office space, equipment and man power to effectively discharge his activities,
3. Has any past experience in the business of buying, selling or dealing in securities,
4. Is subjected to disciplinary proceedings under the rules, regulations and bye-laws of a stock exchange with respect to his business as a stockbroker involving either himself or any of his partners, directors or employees, and
5. Is a fit and proper person.

After satisfaction of SEBI regarding eligibility of stock-broker, it grants a certificate to the stock-broker and sends intimation to the concern stock exchanges. Similarly, registration of sub-brokers are concerned a sub-broker applies in the prescribed format accompanied by a recommendation letter from a stockbroker of a recognized stock exchange for grant of a certificate through the stock exchanges. The eligibility criteria for registration as a sub-broker are as follows:

1. The applicant is not less than 21 years of age,
2. The applicant has not been convicted of any offence involving fraud or dishonesty,
3. The applicant has at least passed 12th standard equivalent examination from an institution recognized by the Government, and Provided that SEBI may relax the educational qualifications on merits having regard to the applicant's experience.
4. The applicant is a fit and proper person.

After verification of the applications of sub-brokers, the stock exchange certifies and grants a certificate to the sub-broker and sends intimation to the concern stock exchanges. SEBI has power to suspend the registration of brokers if necessary, due to the problems caused violation of rules and regulations. A broker's registration number begins with the letters "INB" and that of a sub-broker with the letters "INS". The maximum brokerage can be charged by a broker is decided by the stock exchanges as per the exchange regulations. The SEBI (Stock brokers and Sub brokers), 1992 stipulates that a sub-broker cannot charge from his clients a commission which is more than 1.5% of the value mentioned in the respective purchase or sale note .

The following fees are charged by a broker.

1. Brokerage fee is charged by member broker.
2. Penalties arising on specific default on behalf of client (investor)
3. Service tax as stipulated

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Control on Insider trading

SEBI also undertakes the important tasks like avoid insider trading and increase transparency in trading to encourage small investors to invest in equities. Insider means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to unpublished price sensitive information relating to securities of a company. The insiders are people such as a directors and an officers or an employees of the company or hold a position involving a professional or business relationship between themselves and the company whether temporary or permanent. Price sensitive information means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of securities of that company. The price sensitive information includes periodical financial results of a company, intended declaration of dividends, Issue of securities or buy-back of securities, any major expansion, amalgamation, mergers and takeover plans, disposal of the whole or substantial part of the undertaking and any significant changes in policies, plans or operations of a company.

CONCLUSION

Government of India has established the supreme authority SEBI to monitor and control the proceedings of the capital market in the country. As a regulatory authority of capital markets, SEBI has been undertaking various tasks relating to issue of shares, undertaking, intermediaries, trading of stocks and other merchant banking activities. And also it monitors the tasks of mutual funds. SEBI has additional powers and functions with reference to civil court procedure 1908 to regulate the capital market. In recent years, most of the small investors have been participating in trading activities of stocks and derivatives through exchanges because the investors believe that the SEBI is a watch dog of the stock exchanges of India and it always protects their interest and investments.

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