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A STUDY ON ROLE OF SEBI IN INDIAN CAPITAL MARKET

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ABSTRACT - The securities and exchange board of India called SEBI is the regulatory authority established under the SEBI act 1992 and is a regulator for capital markets in India.SEBI principal responsibilities and primary functions include safeguarding the investor interests, promoting and regulating the Indian securities markets. **The history of the capital market in India dates back to the 18th century when East India company securities were traded in the country. For the Indian capital markets it has been a difficult road throughout the journey. Now the capital market is organized, fairly integrated, mature, more global and modernized. India might catch up to other significant global financial markets in terms of market fairness and freedom with a fresh round of SEBI reforms. The global economic downturn, depressions, unethical behaviour, and other capital market frauds have damaged investors' confidence in the Indian capital market. Several important points are made in this article, including the importance of SEBI in investor protection policies, as well as current market trends and the evolution of investor protection laws over the last two decades.**

Keywords: Capital market, SEBI, Securities and exchange board of India, Regulations.

INTRODUCTION:

The capital market is a market for long –term funds both equity and debt- and funds raised within and outside of the country. The primary market refers to the long –term flow of funds from the surplus sector to the government and corporate sector (through primary issues) and to banks and non-banks financial intermediaries (through secondary issues). A primary issue of the corporate sector leads to capital information (creation of net fixed assets and incremental change in inventories).

There is a market for existing securities called the secondary market. The primary market produces capital information through primary issues, but the secondary market solely supports the liquidity and marketability of outstanding debt and equity instruments.

The history of the capital market in India dates back to the 18th century when East India company securities were traded in the country. It has been a long journey for the Indian capital market. The capital market is now organized, reasonably integrated, developed, more international, and modernized. In terms of technology and value-cumulative-volume of trading, the Indian equity market ranks among the best in the world. Our Indian equity stocks' entire market capitalization value on August 31, 2010, was over Rs. 70 lakh.

Objectives of the study:

- To find out the role of Security Exchange Board of India in Indian Capital market.
- To bring valid points about SEBI reforms
- To study the roles and responsibilities of Securities and Exchange Board of India in the Indian Capital Markets.
- To know the investor protection measures taken by SEBI.
- To outline the key functions and powers of SEBI.

Scope of the study:

This study was majorly planned to observe the performance and review of key initiations made by SEBI, relating to supervision of the Indian capital market and Investor Protection Measures taken by SEBI since 1992.

Tools of data collection:

Information gathered through from various sources such as books, articles, and other related resources from SEBI.

Limitation of study:

The study is limited to theoretical and conceptual data collected from various source Text Books, Websites, Brochures of the financial press reports.

Regulation of Capital Market:

The securities market is regulated by various agencies, such as the Department of Economics Affairs (DEA), the Department of Company Affairs (DCA), the Reserve Bank of India (RBI) and the SEBI. A high level committee on capital and financial markets coordinates the activities of these bodies.

Role of Securities and Exchange Board of India in Indian Capital Market:

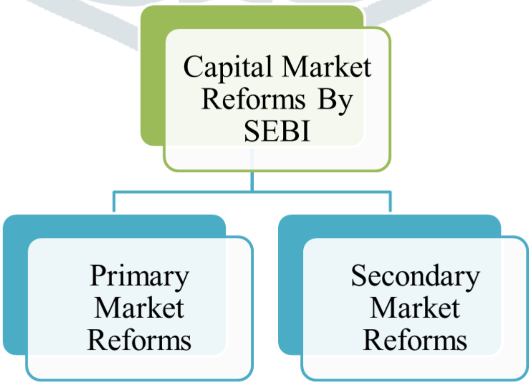
Their goal is to establish a market where they may conduct profitable business operations. First and foremost, the Securities and Exchange Board of India (SEBI) puts the interests of investors first. The listed corporations are expected to regularly disclose investment information in order to increase openness in investment operations. The Securities and Exchange Board of India (SEBI) continuously discloses information to improve transparency in stock market activity while also protecting investors' rights and interests. Market intermediaries benefit from ongoing training and development in investment-related activities since it gives them a competitive, professional edge while also enhancing market operations in a suitable and effective way to better serve investors and issuers.

Objectives of SEBI :

The regulated stock market has specific objectives in order to promote and function effectively and efficiently.

- One of the main objective is to guide, educate, protect the rights, interest of individual and retail investors for building sustainable development in the capital market.
- To avoid trading frauds at all stages and to strike a balance between legislative control and self-regulation by the securities industries. Prevent trading and investment malpractices in the capital market for enhancing market efficiency and effectiveness in the Indian economy.
- To control, create, and promote a code of conduct and ethical standards for brokers, specifically merchant brokers, in order to increase their professionalism and competitiveness.
- It is crucial to inform, safeguard, and support individual and retail investors in order to establish a strong capital market, which will in turn enable the stock market expand and function.
- The regulatory function is essential in the market to ensure justice and transparency.
- Controlling brokers and sub-brokers while also granting permission to other crucial participants in the industry.
- It is possible to establish an array of investment vehicles, including mutual funds.
- Detection of stock market fraud and unethical business practices and retaliation.
- Monitoring insider trading and imposing appropriate sanctions on offenders.
- Several awareness camps will be held to educate investors. • Educating and empowering those who act as go-betweens.
- Conducting rigorous research and development to make the necessary information accessible to all market participants.

Capital Market Reforms By SEBI:



Primary Market Reforms by the SEBI:

India's capital market has been given new regulations and standards by the Securities and Exchange Board of India (SEBI). In their offer papers, the issuing firms must provide information about the risks they face, and their debt instruments must be rated. Steps have been taken to ensure that businesses make ongoing disclosures so that investors may compare promises with actual results. This additional obligation has increased the merchant bankers' accountability for the offer document and the issuance process. In an effort to uphold a higher standard of accountability and transparency, the lead managers' due diligence certificates, which confirm the veracity of the disclosures in the offer document, are now a formal component of the document itself.

The following primary market reforms were formulated by SEBI:

- Disclosure and Investor Protection (DIP) guidelines: This rule mandates that all relevant and accessible information about an issuer be made available to investors so that they may make an educated choice about whether or not to invest.
- Eligibility Criteria for issuers (DIP-2000): A corporation has the ability to select its own standard denomination and pricing if it meets the requirements to issue securities. In offer papers, it's crucial to mention elements such the minimum promoter holdings, the size of the public issue, the issue expenditures, information disclosure, and advertising.
- Transparency: All offer papers submitted to SEBI may be viewed through process release and on the SEBI website. Companies are urged to seek applications from the general public within 21 days of filing.
- Free Pricing of Securities: The price of a security is entirely under the issuer's discretion. The book-building process is advantageous for small investors because it helps them identify pricing and develop an investment plan.

Secondary Market Reforms by the SEBI:

Trading systems on Indian stock exchanges have been under scrutiny since the founding of the Securities and Exchange Board of India in 1992. The system's principal flaws were discovered in two areas:

- The clearing and settlement method used by the stock exchange, in which the seller delivered the shares and the buyer paid for them, and (iii)
- The company's procedure for transferring ownership of stock into the buyer's name.

Paperwork, settlement delays, and a lack of clarity on transactional charges and pricing characterized the process. The SEBI gave orders to stock exchanges all throughout India to ensure that no carryovers were allowed and that all securities transactions were completed by delivery and payment only. The floor-based open outcry has been replaced with an electronic technique. Rolling settlement has taken the place of the previous approach of period settlement. In terms of efficiency, electronic depository systems have surpassed share certificates. The risk management system has been expanded to include more types of margins. Foreign institutional investors (FIIs) are now permitted to trade on the stock market. To prevent insider trading, a number of procedures have been put in place.

Minority shareholders' rights are protected by the introduction of a takeover code. A variety of derivative contract types have been developed for hedging. As a result of the reforms, governmental and regulatory modifications have updated the market structure. When it comes to investing their money, investors today have more options. The securities market changed from a T+3 rolling settlement time to a T+2 rolling settlement time on April 1, 2003. Straight through processing (STP) has been made required for all institutional stock market transactions.

SEBI seeks to promote institutional investors, securities trading of the highest caliber, first-rate payment and settlement systems, and an informed investor class. The creation of a monitoring mechanism for depository institutions and self-regulatory organizations (SROs) are also covered. As part of this endeavour, SEBI has also introduced new financial products (derivatives) to the Capital Market. These financial contracts and instruments derive their pricing from the cost of another asset, or "underlying," which is a derivative. The underlying pricing of a derivative may be based on an asset (such as commodities, equities, residential mortgages, commercial real estate, loans, and bonds) or index (such as interest rates, currency exchange rates, stock market indices, consumer price index (CPI)).

Roles and responsibilities of SEBI in Indian capital market:

The goal of SEBI is to provide an efficient surveillance system for the securities market, promote accountable and responsible player autonomy, and uphold the game's rules. Through constant evaluation of its current policies and programs, creation of new policies, creation of new regulations in areas that were previously unregulated, and implementation of these policies and regulations to ensure market expansion, SEBI has attempted to strike a balance between the two goals throughout its eighteen years as a statutory body.

- Dematerialization has accelerated the process. From time to time, SEBI has taken a number of actions to ensure the smooth and quick growth of primary and secondary markets for the development of all regions.
- Improvements have been made in the clearance and settlement system. The formation of depositories—NSDL and CDSL—as well as a clearing corporation—NSCCL—has been a significant step in this approach.
- To prepare the market for the twenty-first century, the SEBI has implemented a number of changes in the primary and secondary markets as well as catalyzed the modernization of the market infrastructure. Most likely the only country in the world using screen-based commerce is India. The potential for price rigging and manipulation has decreased as a result of computerized trading because a paper trail may now more easily lead regulators to the homes of the guilty.
- SEBI has numerous tools for preventing fraud in the capital market. It has the authority to impose trading restrictions on brokers who engage in dishonest and unfair business activities in the stock market. Capital market intermediaries are subject to sanctions if they engage in insider trading.
- The modification of mutual funds regulations, which now provide fund managers more operational flexibility and strengthen their accountability and supervision, has greatly accelerated the development of mutual funds. It recently implemented KYC requirements and stopped charging an entry-load for investor investments in NFOs or in any active schemes. SEBI is trying its level best for availability of ULIPs at very normal and cheaper rates.

Functions of SEBI:

To meet its objectives SEBI has three important functions. They are:

1. **Protective Function:**

SEBI carries out these functions to safeguard investor interests and ensure the safety of investments. It Prevents Price Rigging: In order to inflate or deflate the market price of securities, price rigging is the act of manipulating the pricing of securities. Insider trading is the practice of using information obtained from SEBI by employees of a firm to their financial advantage.

i. SEBI prohibits fraudulent and Unfair Trade Practices: SEBI does not allow the companies to make misleading statements which are likely to induce the sale or purchase of securities by any other person.
ii. SEBI undertakes steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities.

2. Developmental Functions:

These functions are performed by the SEBI in order to promote, foster, and expand stock exchange activities and boost trading activity. SEBI performs the following tasks under developmental categories:

i. SEBI promotes training of intermediaries of the securities market.
ii. SEBI employs the following flexible and adaptive methodology to enhance stock exchange activities:
   (a) SEBI has approved online stock trading via authorized stock brokers.
   (b) SEBI has eliminated underwriting as a requirement to lower issuing costs.
   (c) Even initial public offer of primary market is permitted through stock exchange.

3. Regulatory Functions: These functions are performed by SEBI to regulate the business in stock exchange:

i. In or to control intermediaries like merchant bankers, brokers, underwriters, etc. SEBI has drafted rules, regulations, and a code of conduct.
ii. Regulations have been expanded to include these intermediaries, and restrictions on private placement have been tightened.
iii. SEBI registers and regulates the working of mutual funds etc.

Power of SEBI :

- Power to call periodical returns from recognized stock exchanges.
- Power to compel listing of securities by public companies.
- Power to impose fees or other charges in order to carry out regulatory purposes.
- Power to contact recognized stock exchanges or their members for information or an explanation.
- Power to ratify the bylaws of recognized stock exchanges.
- Power to refer inquiries regarding stock exchange matters to their members.

Investigations taken up by SEBI:

SEBI conducts investigation, if it has reasonable ground to believe that any person has violated provisions of SEBI Act, 1992 (SEBI Act) and regulations framed thereunder like PFUTP Regulations; PIT Regulations etc. Investigation is initiated based on reference received from sources such as SEBI's Integrated Surveillance Department, other operational departments within SEBI, exchange reports, government agencies, media reports, complaints KYC documents obtained from brokers, depository participants, bank records like account statements and KYC details, information about the company including financial results and shareholding pattern, major corporate developments including events around them, information obtained from other market intermediaries and alleged entities etc.

Trends in Investigation:

Nature of Investigations	Investigations taken up					Investigations Completed				
	2017-18	2018-19	2019-20	2020-21	2021-22__	2017-18	2018-19	2019-20	2020-21	2021-22
Market Manipulation and Price rigging	40	84	35	41	38	120	60	39	46	82
Issues related										
Manipulation	1	2	2	0	0	9	1	1	2	1
Take overs	1	6	2	3	0	0	3	1	4	5
Insider Trading	15	70	49	30	17	6	19	57	40	48
Miscellaneous	60	32	73	20	4	10	27	72	48	33
Total	**117**	**194**	**161**	**94**	**59**	**145**	**110**	**170**	**140**	**169**

YEAR	Cases taken up for Investigation	Cases completed
2011-12	154	74
2012-13	155	119
2013-14	108	120
2014-15	70	122
2015-16	133	123
2016-17	245	155
2017-18	117	145
2018-19	194	110
2019-20	161	170
2020-21	94	140
2021-22	59	169

Source: SEBI Annual Reports

Nature of Investigations taken up and completed by SEBI :

Source: SEBI Annual Reports

CONCLUSION:

The capital market system has a long history extending back more than 100 years, and the SEBI is a recognized regulatory body with a twenty-one-year history. There should be a cross-border cooperation among all sort of regulators and between professional investors and traders. Because it has actively and continuously implemented improvements, the Securities and Exchange Board of India has had considerable success in its role as a regulator. The Securities and Exchange Board of India made numerous adjustments to the primary and secondary markets. The SEBI should oversee this capital market system in a way that all sub-systems gradually transition to self-regulatory organizations (SROs). The limits within which these sub-systems must function should be established by the SEBI. The basic framework for regulation, disclosure, monitoring, and trade is also in place.

Consequently, the SEBI should cease being preoccupied with daily regulations and start thinking more strategically. The Securities Exchange Board of India has achieved success as a regulator by aggressively and consistently promoting systemic reforms.

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