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Regulatory role and functions of securities exchange board of India

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Abstract

An investor usually trade securities in the security market for earning maximum returns. The security market is a platform where investors trade in shares, bonds, and derivatives. This trading is facilitated by stock exchanges. It acts as a platform, a marketplace that connects buyers and sellers. India is fifth largest stock market in the world and market capitalization of Indian market is approximated 3.3 trillion dollar. India is currently the second fastest developing economy in the world and given the huge growth potential, the count of foreign investors is increasing too. Securities and Exchange Board of India (SEBI) is a statutory regulatory body entrusted with the responsibility to regulate the Indian capital markets. It monitors and regulates the securities market and protects the interests of the investors by enforcing certain rules and regulations. Due to these malpractices the customers started losing confidence and faith in the stock exchange. So, Government of India decided to set up an agency or regulatory body known as Securities Exchange Board of India (SEBI). SEBI performs various protective, development and regulatory functions to manage and control the capital market. This paper empirically analyze the various regulatory actions taken by the SEBI during last two financial years.

Keywords: Investor, securities and exchange board of India (SEBI), security market, regulatory body

1. Introduction

The major role of SEBI is to protect the interest of investors in Indian capital market and promote healthy financial market. SEBI is a financial regulatory body that reports to the Ministry of Finance. It was established in 1988 as a non-statutory organization, but in 1992 the SEBI Act granted it statutory powers that empower it to regulate the securities market, protect investors' interests, and promote market development. The Securities and Exchange Board of India is the highest regulatory body with regards to the functioning of the Security Markets, Stock Exchanges, Commodities Markets etc. in India. It was made an Autonomous and Independent Regulatory body after the passing of the Securities and Exchange Board of India Act, 1992 by the Indian Parliament.

SEBI now has statutory powers with regards to regulation of the Securities and Commodities market in India. The main objective of SEBI is to facilitate the growth and development of the capital markets and to ensure that the interests of investors are protected. The Head office of SEBI is in Mumbai and regional offices at Kolkata (East), Ahmedabad (West), New Delhi (North) and Chennai (South). It also has local offices in almost all major cities of the country.

Structure and Power of SEBI

SEBI structure includes one chairperson and eight members for smooth functioning. The Chairpersons of SEBI is nominated by Central Government. Out of eight, two members are nominated by Finance Ministry of India. One member of the board is nominated by Reserve Bank of India. In rest five members three are full time and all of these are nominated by Government of India.

SEBI has to play an important role in the capital market for its regulations and proper functioning. In order to discharge the functions and duties efficiently SEBI is vested with following important powers.

- To govern and approve the laws of stock exchange.
- To amend the rules of stock exchange.
- To inspect all the book of accounts and call for all periodical returns from the recognized stock of exchange.
- To check and inspect the book of accounts of all financial intermediaries.
- To instruct the companies to list their shares in one or more stock exchanges.

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- To register the brokers in stock exchange.

SEBI was established to check malpractices and protect the interest of investors. It was set up to fulfill the needs of following three groups in the market.

1. **Issuers:** SEBI provides the place to the issuer for raising the finance efficiently and effectively.
2. **Investors:** SEBI plays a role of protector for the investor and also supplies correct and accurate information for them to operate in the market.
3. **Intermediaries:** A competitive professional market is provided by the SEBI for the intermediaries.

The overall objective of SEBI is to protect the interest of investors in the market and promote the activities for the development of stock exchange. It also regulate the activities of stock market by intervene through various regulations. SEBI also regulates the code of conduct for all the intermediaries like brokers and underwriters etc.

Functions of SEBI

SEBI has to perform some specific functions to achieve its objectives. All the functions of SEBI are categorized in the three types.

1. Protective Functions
2. Development Functions
3. Regulatory Functions

1. Protective Functions: These functions are performed by the SEBI to protect all interests of investors and also provide financial safety of investment. Protective functions of SEBI include the following activities.

(i) Price rigging: means the state in which prices of securities are manipulated with an objective to inflate or decline the prices. This activity creates unhealthy competition in the market and affects the interest of investor. SEBI prohibits these types of practices in the market and thus protect the interest of investors.

(ii) Prohibits Insider Trading: Insider is any person connected with the company such as directors, promoters etc. These insiders have sensitive information which affects the prices of the securities. This information is not available to people at large but the insiders get this privileged information by working inside the company and if they use this information to make profit, then it is known as insider trading, e.g., the directors of a company may know that company will issue Bonus shares to its shareholders at the end of year and they purchase shares from market to make profit with bonus issue. This is known as insider trading. SEBI keeps a strict check when insiders are buying securities of the company and takes strict action on insider trading.

(iii) Prohibits Fraudulent and Unfair Trade Practices: SEBI controls the misleading behavior of companies which creates unfair trade practices in the market. These practices directly and indirectly affect the sale-purchase of securities in the capital market. SEBI always has to check on these practices in the interest of investors.

(iv) Educate and Aware Investors: Protective functions of SEBI can be achieved with the awareness level of investors. SEBI is introducing and conducting education and awareness

seminars for the investors.

(v) Promotes Fair Practices: SEBI promotes fair practices in the market by protecting the interest of debenture holders by issuing code of conduct so that, functions could be performed on issued guidelines. SEBI also empower with investigation and checking of trading in the market, which includes the fine and imprisonment for fraudulent. SEBI has stopped the practice of making preferential allotment of shares unrelated to market prices.

2. Developmental Functions: are related to the promotion of activities for the development of stock exchanges. In promotional activities SEBI performs two types of developmental functions.

(i) Training of Intermediaries: SEBI organizes training programmes for the intermediaries related to their activities in the market. This training programme helps the brokers, underwriters and other intermediaries in their smooth functioning in the market.

(ii) Promotion of Stock Exchange Activities: SEBI has permitted internet trading through registered stock brokers. SEBI has made underwriting optional to reduce the cost of issue. Even initial public offer of primary market is permitted through stock exchange.

3. Regulatory Functions: The major function of SEBI is to regulate and govern Stock exchange by set rules and guidelines. To regulate the activities of Stock exchange SEBI has to perform the following functions.

(i) Rules, regulations, and code of conduct are framed by the SEBI to regulate the activities and functioning of intermediaries in the market like merchant bankers, brokers and underwriters etc.

1. All the intermediaries have been brought under the regulatory purview and private placement has been made more restrictive.
2. SEBI also regulates the stock brokers, sub-brokers, share transfer agents, trustees, merchant bankers and all those who are associated with stock exchange in any manner by registering them in stock exchange.
3. Mutual funds are also registered and regulated by the SEBI
4. (v) Audits and working inquires of companies are also conducted by the SEBI.
5. Takeover of companies is also regulated by the SEBI.

Empirical analysis of specific regulatory roles of SEBI

A number of regulatory roles are performed by SEBI in terms of controlling the activities of security market. Inspection and surveillance activities are performed by the SEBI under regulatory roles in the stock market.

In this paper an empirical analysis of SEBI regulatory activities is performed of last two financial years in order to overview the overall performance.

1. Inspections: SEBI conducted inspections of various Market Infrastructure Institutions during 2021-22, to have an oversight on the activities carried out by them. During 2021-22, comprehensive inspections of NSE, BSE and MSEI were carried out by SEBI, while, on-site inspections of the surveillance functions.

Table 1: Inspection of Stock Brokers, Depository Participants and Clearing Members

Particulars	2020-21	2021-22
Stock Brokers	92	92
Depository Participants	58	51
Clearing Members	00	04

Source: Annual Report SEBI, 2021-22, pp. 192

Table.1 explains the number of inspections cases carried by SEBI of Stock Brokers, Depository Participants and Clearing members during last two financial years. During 2021-22 inspection cases are more as compare to last financial year and highest cases are recorded of stock brokers.

Table 2: Inspection of Debenture Trustees and Credit Rating Agencies

Particulars	2020-21	2021-22
Credit Rating Agencies	06	07
Debenture Trustees	02	04

Source: Annual Report SEBI, 2021-22, pp. 192

Table.2 explains the number of inspections cases carried by SEBI of Credit Rating Agencies and Debenture Trustees during last two financial years. During 2021-22 inspection

Table 4: Regulatory Action against other Intermediaries/funds

Intermediaries/Funds	2020-21			2021-22		
	Administrative Warnings	Deficiencies Letters	11B (Interim Order)	Administrative Warnings	Deficiencies Letters	11B (Interim Order)
Portfolio Managers	2	2	0	3	0	0
Alternative Investment Funds	2	0	0	4	0	0
Venture Capital funds	1	0	0	0	0	0
Investment Advisers	8	2	6	6	0	2
Research Analyst	7	0	0	3	0	0
Foreign Venture Capital Investor	0	0	0	0	0	0
Total	20	4	6	16	0	0

Source: Annual report of SEBI, 2021-22, pp. 195

Table 4 explains that most of the regulatory actions were taken as administrative warnings in both years. It is also reviewed that most of the cases of regulatory actions were recorded in year 2020-21.

4. Conclusion

The SEBI is a regulatory body which is twenty one years old and the capital market system is more then 100 years old. There should be cross – border cooperation among all sorts regulators and between regulators and profession. SEBI can ensure a free and fair market and take India into league of major global capital markets in the next round of reforms. To enable this, it has to thoroughly review its structure and functioning. Investigations are initiated based on evidence available from various resources including SEBI's own surveillance activities, stock exchanges, other intermediaries, complaints from various sources including press reports. The SEBI then calls for information, compels production of documents, summons person interrogation, examines witnesses and where necessary. To empower investors make informed decisions and facilitate fair dealing, the SEBI introduced online filing and dissemination of time sensitive price information, benchmarking or mutual fund schemes, valuation norms for unlisted scrips in mutual fund portfolios, rationalization of depository participants' charges and new regulation for portfolio managers. The SEBI should supervise this capital market system in such a manner that all sub-

cases are more as compare to last financial year and highest cases are recorded of Credit rating agencies.

2. Regulatory Actions against Mutual Funds

SEBI under takes thematic inspections of the mutual funds for specific area of concern separately.

Table 3: Breakup of Regulatory Action

Types of Regulatory Action	2020-21	2021-22
Adjunction	1283	03
Administrative Warnings/Warning letters Issued	214	13
Deficiency Observation Issued	03	02
Advice Letter Issued	01	09

Source: Annual Report SEBI, 2021-22, pp. 212

Table 3 explains the regulatory actions taken up by the SEBI during last two financial years. Most of the regulatory actions were taken in year 2020-21 in terms of adjunction and in 2021-22 09 advice letter issued against 01 in 2020-21.

3. Regulatory Actions against other Intermediaries/funds

The details of administrative warnings, deficiency letters, interim directions under Section 11B issued to other intermediaries is given in table 4 below.

systems become self-regulatory organisations (SROs) gradually. The SEBI should lay down the boundaries within which these sub-systems should operate. Moreover, the fundamental infrastructure for regulation, disclosure, surveillance and trading are all in place.

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