B.Com. Program in Accounting
Semester-IV
CC-8: Capital Market
Unit 5: Securities and Exchange Board of India

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Introduction:

In 1980's there were huge malpractices and frauds emerging in the stock market of India. This was due to huge sudden cash flow in the market. Everyone wanted to get rich very quickly by finding loopholes in the system. Most prominent of these frauds was price rigging. Insult to the injury was that there was no authority to listen to grievances of traders and investors. This situation created a grey-area and forced many traders and investors shirk from the stock market. Union Government of India noticed this decrease of figures and decided to form an organization which can help recover the decrease in the financial market of India.

Securities and Exchange Board of India (SEBI) was established in 1988. Primary role at that time was to observe the market but SEBI had no power to control anything. It was a non-statutory body. To give it powers, Union Government of India passed SEBI Act 1992. On 12 April 1992 SEBI became an autonomous body with statutory powers.

Organizational Structure of SEBI:

There are main 9 (nine) members on the SEBI Board.

1. One chairman appointed by Government of India
2. Two members are officers from Union Finance Ministry
3. One member from Reserve Bank of India (RBI)
4. Five members are appointed by Union Government of India. Out of these five, three are whole-time members

Objectives of SEBI:

The main objectives of SEBI are:

(1) Regulation of Stock Exchanges: The first objective of SEBI is to regulate stock exchanges so that efficient services may be provided to all the parties operating there.

(2) Protection to the Investors: The capital market is meaningless in the absence of the investors. Therefore, it is important to protect the interests of the investors. The protection of the interests of the investors means protecting them from the wrong information given by the companies in their prospectus, reducing the risk of delivery and payment, etc. Hence, the foremost objective of the SEBI is to provide security to the investors.

(3) Checking the Insider Trading: Insider trading means the buying and selling of securities by those people's directors Promoters, etc. who have some secret information about the company and who wish to take advantage of this secret information. This hurts the interests of the general investors. It was very essential to check this tendency. Many steps have been taken to check inside trading through the medium of the SEBI.

(4) Control over Brokers: It is important to keep an eye on the activities of the brokers and other middlemen in order to control the capital market. To have a control over them, it was necessary to establish the SEBI.

(5) Regulate the financial market of India: SEBI was established to regulate the financial market of India. To achieve this objective, it takes care of three most important entities of financial market. These are:

    a. Issuers of securities: These are corporate entities which raise funds from the financial market. SEBI ensures that they get a transparent and healthy environment for their needs.

    b. Investor: These are the ones who keep the financial market alive. They earn from these markets thus it is the responsibility of SEBI to ensure that investors don't fall prey to any manipulation or fraud in the market.

    c. Financial Intermediaries: These intermediaries act as a mediator in the financial market. Their presence brings smoothness and safety in financial transactions.

Powers and Functions SEBI:

SEBI's Preamble describes in detail the functions and powers of the board. Its Preamble states that SEBI must "protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected there with or incidental there to."

Its functions can be divided in three parts, these are:-

1. Protective functions

   SEBI performs the following functions to provide a safe and transparent environment for investors, who keep the financial market alive. These protective functions are –

   i. Prevent price rigging

      One of the most important objectives behind the establishment of SEBI was to stop manipulated huge fluctuations in the financial market. Fluctuations are actually the basis to trade and earn money in the financial market for traders/investors. In-fact by studying historical fluctuations, several theories have emerged to predict the trend. These theories are collectively called as Technical Analysis (TA) and today very popular among traders. Usually, these fluctuations are natural but sometimes sudden fluctuations are fixed already by a group of the corporates leading to a huge loss for investors/traders. These fixed fluctuations are called price rigging/price fixing/collusion. SEBI keeps strict surveillance to prevent such price riggings. Introduction of circuits is one of them. A circuit is defined as a threshold with respect to previous day closing. If a security price goes beyond this defined circuit (threshold), a circuit breaker comes into action and trading on that security is halted for some time or the whole day.

   ii. Prohibit insider trading

      This can be seen as a part to prevent price rigging. A company's stock price fluctuation is highly affected by any public news/announcement about that company. Obviously, any forthcoming public news/announcement is already accessible by some persons in the company. What if they take advantage of this coming news/announcement by buy-sell company's security beforehand. This is called insider trading. To prevent insider trading, SEBI has barred trusts of listed companies and employee welfare schemes from purchasing their own shares from the secondary markets. SEBI also asks listed companies to disclose all their existing employee benefit schemes involving the stock purchase and align them in accordance with its ESOS and ESPS guidelines within a given timeframe.

iii. Financial education for Investors

SEBI conducts various online and offline seminars through various mediums to educate the traders and investors. This education starts from basics of financial market and covers money management as well.

iv. SEBI guidelines

There are several other unfair practices which can be used by the corporates and others to manipulate security markets. SEBI makes sure that these are prevented beforehand by enforcing its bye-law guidelines.

2. Developmental functions

Developmental functions refer to the SEBI initiatives which bring fresh breathe and innovations in Indian financial market. Developmental functions include but not limited to

i. Introduction of electronic platform for financial market
ii. DEMAT form of securities
iii. Introduction of Discount brokerage
iv. Training for financial intermediaries
v. Buy-sell mutual funds directly from AMC through a broker
vi. Underwriting is optional to reduce the cost of issue
vii. IPO is permitted through exchange

3. Regulatory functions

Regulatory functions refer to enforcement of SEBI bye-laws to financial intermediaries and corporates. This ensures that stock market will run smoothly with transparency. This function includes –

i. SEBI has designed guidelines and code of conduct that are enforced to financial intermediaries and corporates.
ii. SEBI registers all the intermediaries, share transfer agents, trustees and all those who are associated with the stock exchange in any manner.
iii. SEBI registers and regulates the functioning of mutual funds.
iv. SEBI regulates takeover of companies.
v. Conduct inquiries and audit of exchanges.

Weblography:

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