Securities and Exchange Board of India (SEBI)

What is SEBI?

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.

SEBI was founded on April 12, 1992, under the SEBI Act, 1992. Headquartered in Mumbai, India, SEBI has regional offices in New Delhi, Chennai, Kolkata and Ahmedabad along with other local regional offices across prominent cities in India.

The objective of SEBI is to ensure that the Indian capital market works in a systematic manner and provide investors with a transparent environment for their investment. To put it simply, the primary reason for setting up SEBI was to prevent malpractices in the capital market of India and promote the development of the capital markets.

About SEBI

- 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.
- SEBI was formed in 1988 as a non-statutory body.
- 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 functions under the Ministry of Finance.
- 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 of SEBI

- The functions of SEBI are carried out by a Board of 9 members – 1 Chairman and 8 members
- The Chairman of SEBI is nominated by Central Government

- Two members are nominated by the Finance Ministry of India.
- The Reserve Bank of India nominates one member to the SEBI board.
- Rest of 5 members(3 of them must be full time) are nominated by the Government of India.
- The current Chairman of SEBI is Mr Ajay Tyagi.

Functions of SEBI

1. Quasi-Legislative – It drafts regulations in its legislative capacity
2. Quasi-Executive – It conducts investigation and enforcement action

Powers of SEBI

For the discharge of its functions efficiently, SEBI is vested with the following powers:

- to approve by-laws of stock exchanges.
- to require the stock exchange to amend their bylaws.
- inspect the books of accounts and call for periodical returns from recognized stock exchanges.
- inspect the books of accounts of financial intermediaries.
- compel certain companies to list their shares in one or more stock exchanges.
- registration brokers.

Responsibilities of SEBI

- To promote the development of the Securities Market and to regulate the Securities Market.
- To Protect the Interest of Investor in Securities.
- To overview the market operations, organizational structure and administrative control of exchange.
- Registration and regulation of the working of the intermediaries.
- To prohibit the unfair trade practices in the market.
- Promoting and regulating self-regulatory organizations.
- To provide education for the investors and to give training for the intermediaries.
- To regulate substantial acquisition of shares and to take over it.
- Performing such functions and exercising such powers under the provisions of the securities contracts (Regulations) Act 1956 as may be delegated to it by the central government.

Securities & Exchange Board of India (SEBI) The security market in an economy is that segment of a financial market which raises **Long-term Capital** through instruments like shares, securities, bonds, mutual funds, debentures. This market is known as the security market of economy.

The security market in India comprises of a Security regulator (SEBI), stock exchanges, different share indices, brokers, FIIs,etc.

The security market has two complementary markets – Primary and secondary markets.

Primary Markets: It is a market where those instruments are traded directly between the entity raising capital and the instrument purchasing entity.

Secondary Markets: The market where those instruments of security market are traded among the primary instrument holders. These transactions require an institutionalized floor for trading, this platform is known as the stock exchanges.

Securities and Exchange Board of India (SEBI) is an apex body for overall development and regulation of the securities market. It was set up on April 12,1988. To start with, SEBI was set up as a non-statutory body. Later on it became a statutory body under the Securities Exchange Board of India Act, 1992. The Act entrusted SEBI with comprehensive powers over practically all the aspects of capital market operations.

Reasons for Establishment of SEBI:

With the growth in the dealings of stock markets, lot of malpractices also started in stock markets such as price rigging, ‘unofficial premium on new issue, and delay in delivery of shares, violation of rules and regulations of stock exchange and listing requirements. 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).

Purpose and Role of SEBI:

SEBI was set up with the main purpose of keeping a check on malpractices and protect the interest of investors. It was set up to meet the needs of three groups.

1. Issuers:

For issuers it provides a market place in which they can raise finance fairly and easily.

2. Investors:

For investors it provides protection and supply of accurate and correct information.

3. Intermediaries:

For intermediaries it provides a competitive professional market.

Objectives of SEBI:

The overall objectives of SEBI are to protect the interest of investors and to promote the development of stock exchange and to regulate the activities of stock market. The objectives of SEBI are:

1. To regulate the activities of stock exchange.
2. To protect the rights of investors and ensuring safety to their investment.
3. To prevent fraudulent and malpractices by having balance between self regulation of

business and its statutory regulations.
4. To regulate and develop a code of conduct for intermediaries such as brokers, underwriters, etc.

Functions of SEBI:

The SEBI performs functions to meet its objectives. To meet three objectives SEBI has three important functions. These are:

i. Protective functions

ii. Developmental functions

iii. Regulatory functions.

1. Protective Functions:

These functions are performed by SEBI to protect the interest of investor and provide safety of investment.

As protective functions SEBI performs following functions:

(i) It Checks Price Rigging:

Price rigging refers to manipulating the prices of securities with the main objective of inflating or depressing the market price of securities. SEBI prohibits such practice because this can defraud and cheat the investors.

(ii) It 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) 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.

(iv) SEBI undertakes steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities.

(v) SEBI promotes fair practices and code of conduct in security market by taking following steps:

(a) SEBI has issued guidelines to protect the interest of debenture-holders wherein companies cannot change terms in midterm.

(b) SEBI is empowered to investigate cases of insider trading and has provisions for stiff fine and imprisonment.

(c) SEBI has stopped the practice of making preferential allotment of shares unrelated to market prices.

2. Developmental Functions:

These functions are performed by the SEBI to promote and develop activities in stock exchange and increase the business in stock exchange. Under developmental categories following functions are performed by SEBI:

(i) SEBI promotes training of intermediaries of the securities market.

(ii) SEBI tries to promote activities of stock exchange by adopting flexible and adoptable
approach in following way:

(a) SEBI has permitted internet trading through registered stock brokers.

(b) SEBI has made underwriting optional to reduce the cost of issue.

(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. To regulate the activities of stock exchange following functions are performed:

(i) SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries
such as merchant bankers, brokers, underwriters, etc.

(ii) These intermediaries have been brought under the regulatory purview and private
placement has been made more restrictive.

(iii) SEBI registers and regulates the working of stock brokers, sub-brokers, share transfer
agents, trustees, merchant bankers and all those who are associated with stock exchange in
any manner.

(iv) SEBI registers and regulates the working of mutual funds etc.

(v) SEBI regulates takeover of the companies.

(vi) SEBI conducts inquiries and audit of stock exchanges.

The Organisational Structure of SEBI:

1. SEBI is working as a corporate sector.
2. Its activities are divided into five departments. Each department is headed by an executive director.
3. The head office of SEBI is in Mumbai and it has branch office in Kolkata, Chennai and Delhi.
4. SEBI has formed two advisory committees to deal with primary and secondary markets.
5. These committees consist of market players, investors associations and eminent persons.

Objectives of the two Committees are:

1. To advise SEBI to regulate intermediaries.
2. To advise SEBI on issue of securities in primary market.

3. To advise SEBI on disclosure requirements of companies.
4. To advise for changes in legal framework and to make stock exchange more transparent.
5. To advise on matters related to regulation and development of secondary stock exchange.
These committees can only advise SEBI but they cannot force SEBI to take action on their advice.

SEBI – A watchdog of financial market

An investment plays very important role for the economic growth. It shows the level of economy in the world economies. It 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 longterm 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

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. 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 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 certificate through the stock exchanges. The eligibility criteria for registration as a subbroker 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

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.

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 certificate through the stock exchanges. The eligibility criteria for registration as a subbroker are as follows:

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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. 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.

What are the Powers of SEBI

Securities and Exchange Board of India has the following three powers:

Quasi-Judicial: With this authority, SEBI can conduct hearings and pass ruling judgements in cases of unethical and fraudulent trade practices. This ensures transparency, fairness, accountability and reliability in the capital market. SEBI PACL case is an example of this power.

Quasi-Legislative: Powers under this segment allow SEBI to draft rules and regulations for the protection of the interests of the investor. One such regulation is SEBI LODR (Listing Obligation and Disclosure Requirements). It aims at consolidating and streamlining the provisions of existing listing agreements for several segments of the financial market like equity shares. This type of regulation formulated by SEBI aims to keep any malpractice and fraudulent trading activates at bay.

Quasi-Executive: SEBI is authorised to file a case against anyone who violates its rules and regulation. It is empowered to inspect account books and other documents as well if it finds traces of any suspicious activity.

Functions of SEBI

The functions and powers of SEBI have been listed in the SEBI Act,1992. SEBI caters to the needs of three parties operating in the Indian Capital Market. These three participants are mentioned below:

- **Issuers of the Securities:** Companies that issue securities are listed on the stock exchange. They issue shares to raise funds. SEBI ensures that the issuance of Initial Public Offerings (IPOs) and Follow-up Public Offers (FPOs) can take place in a healthy and transparent way.
- **Protects the Interests of Traders & Investors:** It is a fact that the capital markets are functioning just because the traders exist. SEBI is responsible for safeguarding their interests and ensuring that the investors do not become victims of any stock market fraud or manipulation.
- **Financial Intermediaries:** SEBI acts as a mediator in the stock market to ensure that all the market transactions take place in a secure and smooth manner. It monitors every activity of the financial intermediaries, such as broker, sub-broker, NBFCs, etc

Functions and responsibilities

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as "...to 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".

SEBI has to be responsive to the needs of three groups, which constitute the market:

- issuers of securities
- investors
- market intermediaries

SEBI has three functions rolled into one body: quasi-legislative, quasi-judicial and quasi-executive. It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity. Though this makes it very powerful, there is an appeal process to create accountability. There is a Securities Appellate Tribunal which is a three-member tribunal and is currently headed by Justice Tarun Agarwala, former Chief Justice of the Meghalaya High Court.[8] A second appeal lies directly to the Supreme Court. SEBI has taken a very proactive role in streamlining disclosure requirements to international standards.[9]

Powers

For the discharge of its functions efficiently, SEBI has been vested with the following powers:

- to approve by−laws of Securities exchanges.
- to require the Securities exchange to amend their by−laws.
- inspect the books of accounts and call for periodical returns from recognised Securities exchanges.
- inspect the books of accounts of financial intermediaries.
- compel certain companies to list their shares in one or more Securities exchanges.
- registration of Brokers and sub-brokers

♦ SEBI committees

- Technical Advisory Committee
- Committee for review of structure of infrastructure institutions
- Advisory Committee for the SEBI Investor Protection and Education Fund
- Takeover Regulations Advisory Committee
- Primary Market Advisory Committee (PMAC)
- Secondary Market Advisory Committee (SMAC)
- Mutual Fund Advisory Committee
- Corporate Bonds & Securitisation Advisory Committee

Functions of SEBI

SEBI carries out the following tasks to meet its objectives: Protective functions, Regulatory functions, and developmental functions. Functions that SEBI performs as a part of its protective functions are:

· It checks price manipulation

· It bans Insider trading

· It prohibits unfair and fraudulent trade practices

· It promotes fair code of conduct in the security market

· It takes efforts to educate the investors regarding ways to evaluate the investment options better

As a part of its regulatory functions, SEBI performs the following role:

· It has designed a code of conduct, rules, and regulations to regulate the brokers, underwriters, and other intermediaries.

· SEBI also governs a company’s takeover.

· It regulates and registers the workings of share transfer agents, stockbrokers, merchant bankers, trustees, and others who are linked with the stock exchange.

· It regulates and registers the mutual funds as well.

· It conducts audits and inquiries of stock exchanges.

As a part of its developmental functions, SEBI performs the following role:

· It facilitates the training of the intermediaries.

· It aims at promoting activities of the stock exchange by having an adoptable and flexible approach.
