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Role of SEBI in regulation of stock exchanges in India

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Abstract
Stock markets emerged as good investment platform to huge population in India, particularly post covid period. Large of portion of young population entered in stock market for money management, without proper knowledge on the regulation aspects of the stock exchanges in India. This may result that fraudulent practices in market may hamper their profitability and capital. Therefore, present study emphasized on the different regulatory aspects of stock exchanges in India to protect the interest of investors.

Keywords: SEBI, stock market, NSE, BSE

Introduction
Present study examines regulatory system of stock market in India have to end the anomalies of the stock market in the country. In present both external and internal bodies are working for regulation of stock market in India. However, present study emphasized on the role of external regulations framed by GOI, SEBI, RBI and other regulatory bodies. The internal regulatory system of by- laws framed by stock exchanges as part of self-regulatory system is ignored. Webster's dictionary defined the term "Regulation' as "to control or direct by rules, principles, methods etc." and "A rule or an order issued by an executive authority or regulatory agency of a government and having the forcing of law. Similarly, some advocates opined the regulatory meaning as that market should have self-regulation system to avoid mal-practices in stock market. In general every stock market needs effective regulations to protect itself from market failures. However, regulatory system objective should be correction of imperfections in the market rather than disposal of competition. These results in outcome of distort consumer choice. The stock market regulations should aim at promotion of transparency and efficiency in operation which ultimate cause the protection of wealth of investors. In general regulatory system should be bases on three standard principles. The first principle is identification and correction of imperfection and failures of stock market. The second principle is substantial economies of scale may be derived from collective regulation and supervision of issuers and intermediaries. The third principle is development of good indicators and standards for measuring the quality of operations which boost the confidence among investors. The other aspects in regulation are either direct or indirect cost bear by participants in the stock market. The direct cost is the compliance cost bears all participants where as indirect cost is bear by the targeted participants only. In general implementation cost of regulation is not cost free exercise. Similarly, regulations and supervision framework should include limitation also. In Indian stock market, earliest legislation was introduced in the nineteenth century. Following the Share Mania of 1860-1865 (which followed the outbreak of American Civil War) the Government of Bombay, passed Act XXVIII of 1965. Thereafter, many legislative initiations took plane in India. Finally, Indian Capital Markets are regulated and monitored by the authorities of Ministry of Finance, The Securities and Exchange Board of India and The Reserve Bank of India. The important legislations in the regulations are Securities contract Act 1956, Companies Act 1956 and SEBI Act 1992 and other miscellaneous. In the present chapter brief discussion on each aspect is done.

Ministry of Finance
The Ministry of Finance regulates through the Department of Economic Affairs - Capital Markets Division. The division is responsible for formulating the policies related to the orderly growth and development of the securities markets (i.e. share, debt and derivatives) as well as protecting the interest of the investors. In particular, it is responsible for

- institutional reforms in the securities markets,
- building regulatory and market institutions,
- strengthening investor protection mechanism, and
- Providing efficient legislative framework for securities markets.

Reserve bank of India
Reserve Bank of India is an apex body of regulating banking sector in India. In addition it also regulated the money market instruments, debt instruments, public deposits and foreign currency transaction s in securities markets. However, as compared SEBI, RBI indirectly governs the functioning of companies insecurities markets.

Securities and Exchnage Board of India
The watch dog of the securities market in India is "Securities and Exchange Board of India" established as on 12th April 1988, but it received statutory status and emerged as apex regulatory body since 1992. The principal aim of this regulatory body is protecting investor interests, promoting and regulating the Indian securities markets. All participants (domestic & foreign) in Indian securities market should follow the regulations and rules timely issue of SEBI, otherwise, it is subject legal actions against them. The SEBI also work to prohibit unethical and illegal activities in security markets such as price determination, inside trading, unofficial private placement, violation stock exchange rules, delay of share transfers etc.

Objectives of the SEBI: The objectives of SEBI are

- To supervise the functioning of stock markets
- To safe guard or protect the interest of the investors
- To prevent the mal-practices and fraudulent activities in stock market
- To define code conduct for brokers, under writers and other intermediaries.

Organization Structure of SEBI: The organization structure refers to the different functioning areas of an organization with persons responsible for performing the functions of concerned department. The organization structure of SEBI is as given below. The present organization structure of SEBI consists of one chair man, two whole time members, and nine executive directors.

SEBI head and regional offices
Securities and Exchange Board of India has its head quarter in Bombay of Maharastra State, two interactive voice systems in the Headquarters. Moreover, it is has 21 offices in regional zones.

North Zone Branches: In north zone SEBI has six branches in capitals of the States such as New Delhi, Chandigarh, uttarkhand, J&K, Uttar Pradesh and Himachal Pradesh.

South Zone Branches: In south zone SEBI has five branches in capitals of the States such as Tamil Nadu, Karnataka, Telangana, Andhra Pradeshand &Kerala.

East Zone Branches: In east zone SEBI has five branches in capitals of the States such as West Bengal, Oddisha, Assam, Bihar, and Jharkhand.

West Zone Branches: In south zone SEBI has five branches in capitals of the States such as Gujarat, Madhya Pradesh, Rajastan, Goa & Chhattisgarh

Departments/Divisons In Sebi
The following are the department and division working in SEBI.

- Commodity Derivative Market Regulation Department is responsible for supervision and regulation of operation of commodity derivative segment in registered stock exchange and clearing corporation.
- SEBI has corporate finance department to monitor the activities of issue and listing of securities, scheme of arrangement of company internal and external reconstruction such as amalgamation, merger, acquisition and take over.
- SEBI has corporate finance investigation department to perform the preliminary and detailed investigations on the issue regarding fraud, diversion and miss-utilization of public funds and financial matters.
- SEBI has a department for economic and policy analysis for functioning of analysis of policies, statistics, publication and research regulations.
- SEBI has enforcement department to look the legal issue, complaint filed bySEBI and against SEBI orders in different courts of the country.
- SEBI has enquiries and adjudication department to monitor deal with quasi-judicial issues, provision of timely hearing, initiation of adjudication of various department against the violator of SEBI regulations.
- SEBI has recovery and refund department to deals with recovery of proceedings against defaulter of fees, penalties etc.
- SEBI has investigation department to perform the functions for conduction of examination, investigation of all violations, provision of referral to enforcement department, assistance to concerned department and maintenance of sufficient data.
- SEBI has Market Intermediaries Regulation and Supervision Department to perform the functions of registration, supervision, compliance monitoring and inspection on categories of market intermediaries such

as stock brokers in all segments, depository participants, credit rating agencies, underwriters, merchant bankers etc.
- SEBI has market regulation department for policy making and supervision of market operations of market infrastructure institutions such as stock exchanges, depositories and clearing corporation etc.
- Besides above department, SEBI has other departments also such as general service department, HR department, IT department, investment management department and legal affair department.

Functions of SEBI
In Indian security markets SEBI perform significant functions for protection, regulation and development of stock markets. These functions are discussed briefly in the present study.

Protective functions
SEBI perform different functions to protect the interest of investors in security markets. These functions include checking price manipulation, prohibition of insider trading, fraudulent trade practices, promotion of code conduct and promoting awareness among the investors.

Regulatory Functions
SEBI frame different regulations and rules regarding functioning activities in securities market. These regulation may be guidelines, directions, code conduct, policies, procedures, disclosure documents, auditing, amalgamation, take over, mergers etc.

Development Fuctions
In addition to protection and regulation, SEBI is also responsible for development of stock markets. The development functions consist of permission to new stock exchanges, new products, new segments, simplification of rules, educating investors, brokers and other participants.

Powers of Securities and Exchange Board of India
- SEBI has quasi legislative powers to frame rules and regulations on stock market functions to protect the interest of investors.
- SEBI has quasi executive powers for implementation of rules and regulations and file legal cases against violators.
- SEBI has quasi judicial power to give judgement on unethical and fraudulent activities.
- SEBI has power to register and regulate the functioning of ventures capital, mutual funds, merchant bankers, credit rating agencies and stock brokers etc.
- SEBI has powers to promote and regulate self- regulatory bodies in stock market.
- SEBI has power to conduct investor education and awareness campaigns
- SEBI has power to grant by laws adopted by stock exchange as part of self –regulation.
- SEBI has power for regulation of insider trading in stock market to protect the interest of minority shareholders.
- SEBI has power to call for information from the stock exchanges, mutual funds and other intermediaries.
- SEBI has power to investigate on the fake financial statements submitted by companies, taking necessary legal actions if proved.
- SEBI has powers to frame the policies and regulation for listing of stock exchange.
- SEBI has powers to enquiry on the any security market scams in India.
- SEBI has power to fees and impose penalties on the listed companies, stock market, and other market intermediaries.

SEBI-The Depository Act 1996
A depository is an organization where investors can hold their securities in electronic form on the request of investors through depository participants. An investor can access and utilize the services of depositories through opening an account called De-materialization account at depository participant. A depository participant is a company registered under companies Act 1956 and recognized under the section 12(1A) of the SEBI Act 1992. In present two depositories in operation in India namely
- Central Depository Services Limited and
- National Services Depository Limited

Depository performs the functions such as opening of investor account, dematerialization and re-materialization of shares, settlement of transactions, dealing with IPOs and creation of encumbrance. The regulation of depositories in India is governed by SEBI through The Depository Act 1996. This Act consists of 11 chapters and 98 Sections and four schedules. In the present study a details discussion of this Act is made.

Chapter one: This chapter deals with preliminary aspects i.e. definition of various terms connected with this Act such as applicant, association, change in control, from, governing board, inspecting officer, persons acting in concern etc.

Chapter two: This chapter deals with registration of depositories. In this chapter section 3 deals with application for grant of certificate of registration, section four deals with application to conform to the requirements, section five deals with furnishing of information, clarification and personal presentation, section six deals with Consideration of application for grant of certificate of registration, section seven deals with grant of certificate of registration, section 8 and 9 deal with payment of annual fee and payment of annual charges respectively and section 9 deals with procedure for not granting registration certificate.

Chapter Three: This chapter deals with certificate of commencement of business. In this chapter section 11, 12, 13 and 14 deal with application for certificate, application for requirements, furnishing information and consideration for certificate of commencement of business. Similarly, Section 15 deals with certificate of net worth, 16 deals with grant of commencement of certificate, 17 concerned with code of conduct and 18 deals with reasons for not granting certificate of commencement of business.

Chapter Four: This chapter deals with ownership of depository, definitions, general conditions, shareholding in depository, eligibility of acquiring shares in depository, monitoring of shareholding limits, requirement of fit and proper,

Chapter Five: This chapter deals with governance of depository, composition of governing board, conditions for appoint of directors, managing directors, code of conduct for directors, compensation of directors and other staff, segregation of regulatory requirements, statutory committee and disclosure and corporate governance norms.

Chapter Six: This chapter deals with registration of participants, application for registration, requirement documents, considerations, grant of certificate, code of conduct and procedure for not granting certificate.

Chapter Seven: This chapter deals with rights and obligations of depositories and depository participants, hypothecation or pledge process, agreement between depository and issuer, system, procedure, connectivity, mechanism for investor protection, withdrawal of participant, internal and external monitoring, review and evaluation process, business continuation and withdrawn plan etc

Chapter Eight: This chapter deals with listing of securities

Chapter Nine: This chapter deals with inspection, investigation, obligation of board on inspection, submission of report to the board, action on inspection, appoint of auditor, boar of recovery of expenses and application of chapter.

Chapter Ten: This chapter deals with procedure, liabilities, for action in case of default by issuer and agent.

Chapter Eleven: This deals with powers of depositories for call of information from participants, directions, power to remove difficulties, specify procedures etc and clarification on issue and repeal and savings.
The first scheduled deals with different application forms, instructions, second schedule deals with application fee, registration fee, annual charges and fees, Schedule three deals with code of conduct for depositories, depository participants, directors, key managers and schedule four deals with deals with regulations of departments.

The code of conduct for depositories

SEBI framed this code conduct for smooth running of depositories to promote the interest of investors.

1. A depository should strictly follow the provisions of the Act, Depositories Act, 1996, Rules, Regulations, circulars, guidelines and any other directions issued by the Board.
2. A depository has to adopt appropriate measures towards investor protection and education of investors.
3. A depository is responsible for all its applicants/participants in a fair and transparent manner.
4. A depository shall promptly inform the Board of violations of the provisions of the Act, Depositories Act, the rules, the regulations, circulars, guidelines or any other directions by any of its participants, issuer or issuer's agent.
5. A depository is responsible for proactive and responsible attitude towards safeguarding the interests of investors, integrity of the depository system and the securities market.
6. A depository shall make endeavors for introduction of best business practices amongst itself and its participants.
7. A depository shall act in utmost good faith and shall avoid conflict of interest in the conduct of its functions.
8. A depository should indulge in unfair competition, which is likely to harm the interests of any other depository, participants / investors to place them in a disadvantageous position while competing for any assignment.

9. A depository is responsible for the acts or omissions of its employees in respect of the conduct of its business.
10. A depository should monitor the rules and regulations compliance by the participants and which is a safeguard the interest of investors and the securities market.

SEBI (Stock Brokers Regulations) Act 1992.

Stock broker is also known as depository participant in who has significant role in promotion of investment process through mediation between depository and investor. The stock broker also provides advisory services, research reports, IPOs subscription facility and mutual funds schemes. Stock brokers operations should be in compliance of SEBI regulations Act 1992. This consists of seven chapters, 30 sections and six schedules.

- Chapter one deals with the preliminary aspects such as definitions and meaning of words used in the Act.
- Chapter two deals with registration process of clearing members, application, information furnishing, procedure for registration and rejection, payment fees and condition for registration.
- Chapter three deals with registration of sub brokers, registration, application, procedure for registration and rejection, effect of refusal and general obligations and inspection etc.
- Chapter four deals with general obligation and responsibilities such as proper maintenance of books, records and appoint of compliance officer.
- Chapter five deals with procedure of inspection such as rights and procedure of inspection, obligations of stock brokers, submission of report, action on inspection and appoint of auditor.
- Chapter Six deals with action procedure in case of default of stock brokers i.e. liability for non-compliance of rules and regulations, monetary penalty and prosecution etc.
- Chapter seven deals with power to remove difficulties, specification of procedures, issue of clarifications.
- Schedule one deal with different forms for application, recommendation and registration. Scheduled two deals with code of conduct for stock brokers, schedule three deals with fees to be paid by stock brokers, scheduled four deals with fee by stock brokers and clearing members. Scheduled six deals with net worth of deposit requirements for stock brokers, clearing members, and self-clearing members.

Code of Conduct for Stock Brokers

- Stock brokers should maintain integrity, promptness and fair business operations at high standards.
- Stock broker should develop sufficient skills, care and diligence to conduct business.
- Stock brokers should not perform any fraudulent, manipulative, speculative transactions and should be spread any rumors in market.
- Stock brokers should not involve any false market transactions affects the interest of investors.
- Stock brokers operations and other functions should be in line with the provisions of the Act, directions and instruction of SEBI time to time.
- Stock brokers should have to execute order of every investor without partiality, the details regarding execution and rejection of order should be intimated timely, payment settlement should be in timely manner.
- Stock broker has to send contract notes, margin statements and other information to investors timely and accurately.
- Stock broker has to keep investor information confidentially and should not share with others, except regulatory bodies.
- A stock broker has to inform all types of fees, commission, penalties imposed on the investors.
- Stock brokers should not for the investors to buy or sell any securities.
- Stock broker firms should have sufficient and competent staff to perform brokerage transactions effectively.
- Stock broker should co-operate with other parties in finding un-matched transactions.
- Stock broker should protect the interest of investors.
- Stock broker should have well mechanism to redress the grievances of investors.
- Stock broker who is acting as under writer should not involve in un-fail completion activities.
- Stock Broker or any of its employees shall not render, directly or indirectly any investment advice about any security in the publicly accessible media.

SEBI Prohibition of Fraudulent and Unfair Trade Practies Relating to Securities Market Regultions Act 2003

SEBI has power for prohibition of fraudulent and unfair trade practices concerned to security market regulation Act 2003. As per this Act fraudulent is defined as expression, omission or concealment committed in deceitful manner by a person or agent in securities such as mis-representation of truth, false suggestions, promises and false statements etc. This act consists of three chapter and 13 sections. The first chapter deals with definition of the words, chapter two prohibitions of fraudulent and unfair trade practices in securities market and Chapter three deals with investigation on the issues.

SEBI prohibition of insider trading-regulations 1992

Insider trading refers to the trading in securities by insider persons of the companies such as promoters, directors, managers, employees and other affairs who know the information earlier than public. These people are prohibited for trading in securities more than prescribed quantity and timing due to knowing of price sensitivity information which is unpublished. Therefore, insider trading is prohibited and is considered an offence as per SEBI (Insider Trading) Regulations, 1992. Unpublished price sensitive information, which if published or known, is likely to have an impact on the market price of the securities of that company. This unpublished information may be regarding financials, dividends, business orders, amalgamations, mergers, take over, bonus shares etc. The regulations enable SEBI, to take steps to investigate an allegation of insider trading and appoint inspectors on the basis of any complaint or with personal interest. On the basis of the report of the inspectors, SEBI is empowered to prosecute persons found prima facie guilty of insider trading in an appropriate court. Person(s) violating the provisions of regulations is (are) liable to be punished with imprisonment or fine or both. SEBI with an aim to prevent insider trading this Act was enacted on 15th January 2015 on the recommendations of Sodhi committees. This act deals with five chapters and two schedules.

Code of Conduct

In order to strengthen insider-trading regulations, SEBI has proposed a code of conduct for listed companies, its employees, analysts, market intermediaries and professional firms. The regulations also deals with disclosure of shareholding by directors or officers, who are insiders, and substantial shareholders (holding more than 5% shares/voting rights) of listed companies.

The Securities Contract Act 1956

This is the principal Act which governs and regulates the trading of securities in India. SCRA has direct and indirect control on all aspects of securities trading operations and the functioning of stock exchanges with an objective to prevent undesirable transactions in securities. It gives SEBI regulatory jurisdiction over:

a. Stock exchanges through a process of recognition and continued supervision,
b. Contracts in securities, and
c. Listing of securities on stock exchanges.

As a condition of recognition, a stock exchange complies with conditions prescribed by SEBI. Organized trading activity in securities takes place on a specified recognized stock exchange. The stock exchanges determine their own listing regulations which have to conform to the minimum listing criteria set out in the Rules like 90% subscription is necessary for listing. According to section 2(h) of the Indian Contract Act, 1872, a contract is an agreement enforceable by law.

Therefore, there has to be an agreement to create a contract and secondly, it has to satisfy certain requirements mentioned in section 10 of the Act, i.e., the agreement has to be between parties competent to contract, with their free consent, for a lawful object and consideration, and it should not have been declared as void agreement. The Securities Contracts (Regulation) Act, 1956 [SC(R)A1 was enacted to avoid undesirable transactions in securities by regulating the business of dealing.

Prevention of Money Laundering Act 2002

Money laundering Act was enacted in India on 17th January 2003 and commenced since 1st July 2005, with an objective of prevention of money laundering and fight against the criminal activities of getting legal status to money earned from illegal activities. This act is also applicable to prevent illegal activities in stock market by all intermediaries such as stock brokers, sub brokers, share transfer agents, under writers, portfolio managers, investment advisor and merchant bankers etc. According this Act all intermediaries should separately record transactions such as

- All transactions more than Rs 10 Lakh foreign currency and less than Rs 10 Lakh in both domestic and foreign currency took place in one month.
- All suspicious transaction took place through DD/ demat transactions etc.
- Adoption of know your customer policies and procedures.
- Compliance with relevant rules and regulations.
- The regular surveillance of both domestic and foreign investor’s investment activities.

Companies Act 1956

The Companies Act deals with both the financial and non-financial aspects of corporate sector. It seeks to protect the interests of the shareholders and to promote their effective participation and control of companies. Part 111 of the Act concern with prospectus and allotment and other issued relating to issue of shares and debentures, whereas part-IV deals with the various classifications of share capital and debentures. The company has power to purchase its own shares (Sec 77A) and prohibition of buy-back in certain circumstances (Sec 77B) is worth noting. Sections 100-105 of the Act deal with reduction of share capital and Section 108 to 112 of the Act deal with the various issues regarding transfer of shares and debentures. Sections 108A, 108B, 108C lay down the provisions relating to restrictions on acquisition of shares, transfer of shares by the companies within the same management and transfer of shares of foreign companies.

Conclusion

It is concludes from the above study that, Indian took many legislative reforms towards regulation of stock market over the period. However, among them establishment of SEBI is major milestone which act as watch dog of the market. In present regulatory system SEBI design and direct various policies, procedures, code of conduct for high regulation of market and protection of interest of investors.

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