



## The role of SEBI in promoting corporate governance and transparency in the Indian Stock Market

Pratik Kumar<sup>1</sup>, Dr. Kamlesh Kumar<sup>2</sup>

<sup>1</sup> Research Scholar, Department of Commerce and Management, Faculty of Commerce, B. R. Ambedkar Bihar University, Muzaffarpur, Bihar, India

<sup>2</sup> Assistant Professor and Supervisor, Department of Commerce, Dr. J. M. College Muzaffarpur, Bihar, India

### Abstract

Corporate governance and transparency are crucial for the stability and growth of any stock market. In India, the Securities and Exchange Board of India (SEBI) plays a vital role in promoting these aspects in the Indian stock market. SEBI is the regulatory body responsible for monitoring and regulating all activities related to securities markets in India. Its objective is to protect investor interests, maintain fair practices, and ensure an efficient functioning of the stock market. One of SEBI's key roles in promoting corporate governance is setting regulations and guidelines for listed companies to follow. These include regulations on board composition, directors' remuneration, disclosure requirements, insider trading rules, etc., which aim at ensuring ethical business conduct by companies. By mandating such rules, SEBI promotes transparency within organizations by making sure that critical information is disclosed accurately to investors. Additionally, SEBI regularly conducts inspections and audits on listed companies to monitor their compliance with regulations regarding corporate governance practices. This helps identify any discrepancies or lapses in adherence to set standards and enables corrective actions to be taken promptly.

**Keywords:** SEBI, regulation, securities markets, investors and transparency

### Introduction

SEBI, or the Securities and Exchange Board of India, plays a crucial role in promoting corporate governance and transparency in the Indian stock market. As a regulatory body, SEBI is responsible for overseeing the functioning of securities markets in India and ensuring that listed companies adhere to rules and regulations related to corporate governance. One of the key ways SEBI promotes corporate governance is through its mandatory listing requirements for all publicly traded companies. These requirements include having a certain number of independent directors on their boards, disclosing financial information regularly and accurately, maintaining an ethical code of conduct, and establishing audit committees for oversight. By enforcing these standards, SEBI aims to promote transparent business practices among listed companies. Furthermore, SEBI also conducts inspections and investigations to ensure compliance with these regulations. This helps identify any potential issues or discrepancies within listed companies that could impact investors' confidence and overall market stability. In cases where fraudulent activities are uncovered, strict penalties are imposed by SEBI to maintain accountability among corporations. In addition to regulating listed companies' actions, SEBI also focuses on educating investors about their rights and responsibilities<sup>[1]</sup>.

### Literature Review

Corporate governance is an essential aspect of a well-functioning stock market, as it ensures that businesses are managed in a responsible and ethical manner. In India, the Securities and Exchange Board of India (SEBI) has been playing a crucial role in promoting corporate governance and transparency in the country's stock market. One of the key roles of SEBI in promoting corporate governance is through its regulations for listed companies. These regulations cover various aspects such as board composition, disclosure requirements, audit committees,

related-party transactions, and minority shareholder rights. SEBI also mandates regular reporting by listed companies on their compliance with these regulations to promote transparency.

This literature review aims to provide an overview of various studies conducted on SEBI's initiatives towards corporate governance and transparency. One of the earliest studies on this topic was conducted by Dr. S.N. Nadeem, (2017), where he analyzed SEBI's efforts towards strengthening board structures in Indian companies. The study concluded that SEBI's guidelines were effective in improving board composition and increasing independent directors' representation on boards<sup>[2]</sup>.

Yogesh Gupta and his colleagues (2016) also made a noteworthy contribution to this discussion by investigating the effects of SEBI-mandated corporate social responsibility (CSR) expenditures on company performance. Their research revealed a positive correlation between CSR spending and various financial performance metrics, suggesting that adherence to these regulations may improve a firm's overall value.

According to Prajakta. P. Babar (2024), SEBI has taken several initiatives such as mandatory disclosure requirements, appointment of independent directors, and establishment of committees like audit committee, nomination & remuneration committee to improve corporate governance practices. These measures have helped increase investor confidence and accountability among companies, resulting in better overall performance<sup>[3]</sup>.

As noted by Jayati Sarkar (2005), SEBI has been instrumental in enhancing the disclosure obligations for firms listed on Indian stock exchanges through regulations like the Listing Agreement. This framework requires companies to regularly provide significant information about their operations. The shift towards more stringent disclosure standards is viewed as a vital advancement in promoting transparency and curbing corporate misconduct.

### Research Gap

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It plays a crucial role in ensuring fair and transparent functioning of companies, protecting shareholders' interests, and enhancing overall economic efficiency. In recent years, with the growth of Indian stock market, there has been an increasing emphasis on corporate governance practices to improve investor confidence and attract more investments. The Securities and Exchange Board of India (SEBI) is the regulatory body responsible for overseeing the functioning of the Indian stock market. One major research gap relates to the lack of empirical evidence on how SEBI's regulations have impacted corporate decision-making processes and brought about changes in transparency levels among companies listed on Indian stock exchanges.

### Impact of SEBI's Regulations on Corporate Governance

The Securities and Exchange Board of India (SEBI) has been instrumental in promoting corporate governance and transparency in the Indian stock market. Its regulations have had a significant impact on the functioning of companies listed on the stock exchange, ensuring that they adhere to ethical standards and act in the best interest of their stakeholders.

One of the key impacts of SEBI's regulations on corporate governance is increased accountability. The board of directors is now required to actively participate in decision-making processes and take responsibility for their actions. They are also mandated to disclose any conflicts of interest and ensure fair treatment for all shareholders. This has resulted in a more responsible and transparent approach towards business operations, ultimately improving investor confidence<sup>[4]</sup>.

SEBI's regulations have also brought about greater independence in the functioning of boards. As per its guidelines, at least half of the board members must be independent directors who do not have any material or pecuniary relationship with the company or its management. This ensures that decisions are made impartially without any vested interests, leading to better governance practices.

In addition, SEBI has introduced stringent disclosure requirements for listed companies regarding financial information, related party transactions, and other important details that could affect shareholder value. These disclosures help investors make informed decisions about their investments and hold companies accountable for their actions.

Furthermore, SEBI's regulations have also played a crucial role in promoting gender diversity on boards. It has made it mandatory for listed companies to have at least one woman director on their board, bringing much-needed diversity to decision-making processes.

### Challenges faced by SEBI in promoting corporate governance

SEBI, the Securities and Exchange Board of India, plays a critical role in promoting corporate governance and transparency in the Indian stock market. However, this task is not without its challenges. In this section, we will discuss some of the major challenges that SEBI faces in fulfilling its mandate.

- **Lack of Compliance:** One of the biggest challenges faced by SEBI is ensuring compliance with its regulations and guidelines. Despite having stringent laws in place, there are instances where companies fail to comply with them, leading to corporate governance failures.
- **Weak Enforcement Mechanism:** Another challenge faced by SEBI is the weak enforcement mechanism in place. While it has the power to take action against non-compliant companies and individuals, it often faces delays and hurdles in imposing penalties or punishments.
- **Insider Trading:** Insider trading remains a major concern for SEBI as it undermines fair competition and transparency in the stock market. It involves buying or selling securities based on confidential information that is not available to other market participants.
- **Lack of Market Infrastructure:** The Indian stock market still lacks advanced infrastructure compared to developed markets like the US or UK.
- **Technological Advancements:** With rapid technological advancements, new forms of financial frauds have emerged which pose a significant challenge for SEBI's surveillance systems.
- **Cross-border Transactions:** As India's economy becomes increasingly integrated with global markets; cross-border transactions have become more prevalent.
- **Lack of Awareness:** Despite its efforts, SEBI still faces the challenge of creating awareness among companies and investors about the importance of corporate governance.

While SEBI has made significant progress in promoting corporate governance, it continues to face challenges that require constant monitoring and adaptation to ensure a fair and transparent stock market in India<sup>[5]</sup>.

### Future initiatives and developments by SEBI for better transparency in the Indian stock market

SEBI (Securities and Exchange Board of India) has been playing a significant role in promoting corporate governance and transparency in the Indian stock market. In recent years, there have been several initiatives taken by SEBI to further enhance transparency in the stock market and ensure fair practices.

One of the major steps taken by SEBI is the implementation of the Electronic Book Mechanism (EBM) for issuance of securities on private placement basis. This initiative aims to bring more accountability and transparency in private placements as it requires all issuers to disclose information regarding their issue on a digital platform. This will not only prevent any potential manipulation but also provide investors with access to accurate information about the issuer.

SEBI has also made changes to the Insider Trading Regulations, making them more stringent and broad-based. It now covers all listed companies, their promoters, key management personnel, and other connected entities. The

new regulations require mandatory disclosures of trades made by insiders within two working days, which promotes timely dissemination of information to investors.

To improve disclosure standards for listed companies, SEBI has introduced Integrated Reporting by Listed Entities (IRLE). This requires listed companies to disclose all relevant financial and non-financial data through one report instead of multiple reports. It will help investors get a holistic view of a company's performance while promoting transparency<sup>[6]</sup>.

Another development is the implementation of Real-Time Gross Settlement (RTGS) for trading transactions in government securities (G-Secs). Earlier, G-Secs were traded through physical settlements that caused delays and increased settlement risks. With RTGS, trades are settled instantly on a gross basis without any netting off process. This reduces settlement risks significantly while ensuring efficient price discovery.

### Research Objective

Corporate governance and transparency in the Indian stock market has gained significant attention over the years, with increasing concerns about ethical practices and accountability among companies. As a regulatory body, the Securities and Exchange Board of India (SEBI) plays a crucial role in promoting good corporate governance practices that ensure fair treatment of shareholders, stakeholders, and other investors. The research objective here is to analyze the key initiatives taken by SEBI in promoting corporate governance and transparency in the Indian stock market.

### There are following objectives on this study

- To examine the regulatory framework of SEBI and its role in enforcing corporate governance standards in listed companies.
- To assess the effectiveness of SEBI guidelines for improving transparency and disclosures in annual reports of listed companies.
- To identify the impact of SEBI regulations on promoting ethical practices and fair dealing among market participants.
- To investigate the relationship between good corporate governance practices and stock performance in Indian markets.
- To analyze the influence of SEBI's Code of Conduct on enhancing trust and investor confidence in the stock market.

### Hypothesis

**H0:** SEBI does not play a significant role in promoting corporate governance and transparency in the Indian stock market.

**H1:** SEBI plays a crucial role in promoting corporate governance and transparency in the Indian stock market with its regulatory measures.

### Research Methodology

The research methodology used for this study will be a combination of both qualitative and quantitative approaches. The primary data will be collected through interviews with key industry experts such as SEBI officials, executives from

listed companies, auditors, regulators, and other relevant stakeholders. Secondary data will be sourced from published reports, articles, journals, websites and government regulations related to corporate governance practices. To understand SEBI's role in promoting corporate governance effectively; various theoretical frameworks such as agency theory, stakeholder theory, stewardship theory etc., will be utilized to provide an analytical framework for evaluating its effectiveness. Additionally different parameters like board composition & structure including independent directors' ratio on boards along with their education qualification would be used to assess regulatory compliance towards better code on Corporate Governance Legislations laid down by SEBI.

### Research Question

- What is the historical background and evolution of SEBI's role in corporate governance in India?
- How has SEBI implemented regulations and policies to improve transparency in the Indian stock market?
- What impact has SEBI had on the overall effectiveness of corporate governance practices in Indian companies?
- Has there been a significant improvement in promoting ethical conduct among listed companies as a result of SEBI's interventions?
- What are the main challenges faced by SEBI in enforcing corporate governance standards?

### Data Discussion

The Securities and Exchange Board of India (SEBI) plays a crucial role in promoting corporate governance and transparency in the Indian stock market. As the primary regulator for securities markets in India, SEBI has implemented several measures to ensure that listed companies adhere to ethical practices and maintain high levels of corporate transparency. One of the key roles played by SEBI is enforcing regulations related to disclosure and financial reporting. Companies are required to comply with strict guidelines when it comes to sharing information with their shareholders, potential investors, and the general public. This helps in building trust among stakeholders and promoting a culture of transparency.

### Findings

The Securities and Exchange Board of India (SEBI) plays a crucial role in promoting corporate governance and transparency in the Indian stock market. As the regulator of the securities market, SEBI has implemented various measures to protect investor interests and enhance confidence in the market. These measures include setting up regulations for listed companies, conducting inspections and investigations, enforcing rules against fraudulent practices, and imposing penalties on non-compliant entities.

### There are following findings on this study

- SEBI has established a comprehensive regulatory framework for corporate governance, which is constantly reviewed and updated to keep up with changing market dynamics.
- The implementation of the Clause 49 of Listing Agreement by SEBI has significantly improved transparency in financial reporting and disclosures by listed companies.

- SEBI has implemented strict disclosure norms for related party transactions, ensuring fairness and accountability in decision-making processes.
- The establishment of independent audit committees under SEBI guidelines has led to greater oversight and effectiveness in monitoring financial reporting by companies.
- Through regular inspections and investigations, SEBI ensures that listed companies comply with corporate governance norms, thus promoting ethical practices and preventing fraudulent activities.
- In order to promote shareholder activism, SEBI introduced provisions for electronic voting in shareholders' meetings as well as institutionalization of proxy voting services.

### Suggestions

SEBI or the Securities and Exchange Board of India plays a crucial role in promoting corporate governance and transparency in the Indian stock market. It is the regulator for securities markets in India, entrusted with the responsibility of protecting investors' interests and ensuring fair practices by listed companies. SEBI has been playing an active role in creating a conducive environment for companies to operate ethically and transparently.

### There are following suggestions on this study

- **Regular Monitoring:** SEBI should regularly monitor the compliance of listed companies with their corporate governance obligations and take strict action against those found in violation.
- **Encouraging Independent Directors:** SEBI should encourage the appointment of independent directors on company boards to ensure a balance of power and unbiased decision making.
- **Disclosure Norms:** SEBI can introduce stricter norms for disclosure of information by listed companies to promote transparency in their operations.
- **Protection for Minority Shareholders:** SEBI can introduce measures to protect the interests of minority shareholders who may not have a significant say in decision making but are affected by it.
- **Disclosure Requirements:** Mandatory disclosure requirements have been put in place by SEBI for listed companies, making it easier for investors to access relevant information about the company.
- **Audit Committees:** To ensure effective oversight, SEBI mandates that all listed companies must have an audit committee comprising of independent directors who monitor the financial reporting process of the company.

### Conclusion

In conclusion, SEBI has played a crucial role in promoting corporate governance and transparency in the Indian stock market. With its various regulations and measures, it has successfully strengthened the accountability of companies towards their stakeholders and ensured fair and transparent functioning of the market. However, there is still room for

improvement as instances of frauds and scams continue to occur. It is vital for SEBI to continuously review its policies and take necessary actions to prevent such occurrences. At the same time, companies must also embrace ethical practices and adhere to good corporate governance principles to maintain investors' trust in the Indian stock market. Only through this collaborative effort can we achieve a strong economy with sustainable growth prospects for all stakeholders involved.

### Limitations of Study

One of the major limitations of this study is the lack of comprehensive data on corporate governance practices in India. While there are regulations and guidelines set by SEBI, it is difficult to ascertain whether companies are adhering to them. This is due to inadequate disclosures and reporting standards, making it challenging to measure the effectiveness of SEBI's efforts in promoting corporate governance. Another limitation is the scope of the study, which focuses solely on SEBI's role in promoting corporate governance and transparency in the Indian stock market.

### Further Research

India's stock market has grown significantly in the past few decades, attracting a large number of domestic and foreign investors. The Securities and Exchange Board of India (SEBI) plays a crucial role in regulating this market and ensuring fair practices for all stakeholders. In recent years, SEBI has also taken on the responsibility of promoting corporate governance and transparency within listed companies. Corporate governance refers to the system by which companies are directed and controlled, with an emphasis on transparency, accountability, and ethical conduct. It is essential for building investor confidence and maintaining a level playing field for all shareholders. One of SEBI's primary mandates is to enforce regulations that promote good corporate governance practices among listed companies.

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