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Role of Securities and Exchange Board of India (SEBI) in the Changing Financial Scenario of India

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Abstract SEBI is the regulator of the securities market in India. It was established to protect the interests of investors and support the development of the securities market. SEBI is responsible for regulating and monitoring the activities of stock exchanges, brokers and other intermediaries in the securities market. SEBI's role includes regulating and supervising the securities market, protecting the interests of investors, encouraging fair and transparent trading processes, and informing investors about their legal rights and obligations. In short, SEBI plays a key role in maintaining the integrity of the securities market in India. The role of SEBI has been studied critically in this research paper.

Keywords SEBI, Securities market, Investors, Stock exchanges

1. Introduction

Capital market is an important part of the Indian financial system and SEBI plays the supreme role as the regulatory body of this capital market. Thus, the role of SEBI in the Indian economy is very wide and important, which is directly related to the economic development of the country.

2. Introduction of SEBI

Before the establishment of SEBI, the regulation of the securities market in India was fragmented, with different regulatory bodies responsible for different aspects of the market. This led to a lack of coordination and consistency in regulation, which made the market prone to manipulation and fraud.[1] SEBI was established to avoid fraud and maintain transparency in the market. During the 70s and 80s, the Indian stock market faced many frauds such as unofficial private placements, insider trading, non-adherence to provisions of the Companies Act, market manipulation, violation of rules, manipulation of prices, and delay in delivery of shares, etc. This is when SEBI steps in to make it safer for investors by tightening the rules and regulations. Moreover, they bring in rules to make it transparent and operate systematically in the stock market.[2] The Securities and Exchange Board of India was constituted on April 12, 1988 as a non-statutory body through an Administrative Resolution of the Government for dealing with all matters relating to the development and regulation of the securities market and investor protection and to advise the Government on all these matters. SEBI was given statutory status and powers through an Ordinance promulgated on January 30, 1992. SEBI was established as a statutory body on February 21, 1992. The Ordinance was replaced by an Act of Parliament on April 4, 1992. The preamble of the SEBI Act, 1992 enshrines the objectives of SEBI – to protect the interest of investors in securities market and to promote the development of and to regulate the securities market. The statutory powers and functions of SEBI were strengthened through the promulgation of the Securities Laws (Amendment) Ordinance on January 25, 1995, which was subsequently replaced by an Act of Parliament.[3] The headquarters of SEBI is situated in Mumbai. The regional offices of SEBI are located in Ahmedabad, Kolkata, Chennai and Delhi.

3. Study Method

The choice of research method depends on the nature of the research. Since the nature of the present research is descriptive, therefore secondary data has been used for the research. Secondary data has been compiled using various sources like published books, articles published in various magazines and newspapers, journals, conference reports, working reports and websites, etc. The methodology of research is basically descriptive in which historical method, material analysis, library study method etc. have been used as auxiliary methods.

Objective of the research paper

1. General understanding of SEBI's objectives, functions and organizational structure.
2. To critically study the role of SEBI in the present scenario.

The scope of the study

This study was majorly planned to critically study the role of SEBI in the changing environment since its inception till now.

Tools of data collection

Information gathered through from various sources such as books, articles, and other related resources from SEBI.

Limitation of study

The study is limited to theoretical and conceptual data collected from various source Text Books, Websites, Brochure a financial press reports.

4. Objectives, Functions and Organizational Structure of SEBI

OBJECTIVES OF SEBI

The main objective of SEBI is protection of the interest of investors, promotion of the development of stock exchange, and regulation the activities of stock market.[4]

5. Functions of SEBI

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 therewith or incidental thereto"5 The Securities and Exchange Board of India (SEBI) is the regulatory body responsible for regulating the securities market in India. The functions of SEBI can be broadly classified into four categories6:

Regulatory Functions

SEBI formulates and enforces rules and regulations to ensure that the securities market operates in a fair, transparent, and efficient manner. SEBI is responsible for registering and regulating various entities such as brokers, mutual funds, investment bankers, etc. It also sets guidelines for the disclosure of information by companies to ensure transparency.

Developmental Functions

SEBI aims to develop and improve the securities market in India by promoting transparency, efficiency, and investor protection. It develops policies and guidelines for the growth and development of the securities market.

Protective Functions

SEBI aims to protect the interests of investors by regulating the securities market. It takes measures to prevent fraudulent and unfair trade practices and takes action against defaulters.

Promotional Functions

SEBI aims to promote the development of the securities market in India by creating awareness about the benefits of investing in the securities market. It also encourages the participation of foreign investors in the Indian securities market.

6. Organizational Structure of SEBI[7]:

SEBI India follows a corporate structure. It has a Board of Directors, senior management, department heads and several crucial departments.

To be precise, the structure of SEBI comprises over 20 departments, all of which are supervised by their respective department heads, which in turn are administered by a hierarchy in general.

The hierarchical structure comprises the following 9 designated officers –

- The Chairman – Nominated by the Indian Union Government.
- Two members belonging to the Union Finance Ministry of India.
- One member belonging to the Reserve Bank of India or RBI.
- Other five members – Nominated by the Union Government of India.

The below-mentioned list highlights some of the most critical departments of SEBI –

- The Information Technology Department.
- The Foreign Portfolio Investors and Custodians.
- Office of International Affairs.
- National Institute of Securities Market.
- Investment Management Department.
- Commodity and Derivative Market Regulation Department.
- Human Resource Department.

Besides these, other crucial departments take care of legal, financial and enforcement-related affairs.

7. SEBI Power, Reforms and Challenges

Powers of SEBI

Following are the key powers of SEBI[8]:-

- **Quasi-judicial Powers:** In cases of fraud and unethical practices in the securities market, SEBI India can pass judgments. The said power of SEBI facilitates transparency, accountability and fairness in the securities market.
- **Quasi-executive Powers:** SEBI can examine the Book of Accounts and other vital documents to identify or gather evidence against violations. If it finds one violating the regulations, the regulatory body can impose rules, pass judgments and take legal actions against violators.
- **Quasi-Legislative Powers:** To protect the interest of investors, the authoritative body has been entrusted with the power to formulate pertinent rules and regulations. Such rules tend to encompass listing obligations, insider trading regulations and essential disclosure requirements.

The body formulates rules and regulations to eliminate malpractices in the securities market. The Supreme Court of India and the Securities Appellate Tribunal have the upper hand when it comes to the powers and functions of SEBI. The two apex bodies must go through all their functions and related decisions. By **Securities Laws (Amendment) Act, 2014,** SEBI is now able to regulate any money pooling scheme worth Rs.100 cr. or more and attach assets in cases of non-compliance.

8. Securities and Exchange Board of India Reforms

Since its inception, the Securities and Exchange Board of India (SEBI) has initiated several key reforms to regulate and develop the securities market in India. Some of the significant reforms initiated by SEBI are[9]:

- SEBI introduced electronic trading on Indian stock exchanges in 1994, replacing the traditional open outcry system. The move helped increase transparency and efficiency and reduce trading costs.

- The SEBI Act made dematerialization of securities mandatory in 1996, which facilitated electronic custody and transfer of securities, thereby reducing the risks associated with physical certificates.
- SEBI is continuously working towards strengthening the disclosure norms of listed companies. Several regulations have been introduced, such as the Insider Trading Regulations 2015, which require mandatory information on insider trading, and the Stock Exchange Listing Regulations 2015, which require detailed disclosures from listed companies.
- SEBI has introduced a number of measures to protect investors' interests, including setting up an Investor Protection Fund to compensate investors for losses incurred due to fraudulent practices.
- SEBI regulates the activities of various market intermediaries, including brokers, investment banks and mutual funds, to ensure that they comply with the regulatory framework and act in the best interest of investors.
- SEBI has promoted the creation of market infrastructure institutions such as the National Stock Exchange (NSE) and Central Depository Services (India) Limited (CDSL) to strengthen the Indian securities market.
- SEBI changed the market scenario with the online trading system and created the BOLT system to ensure transparency in trading and investments on the stock exchange and to facilitate every transaction on the stock exchange.

9. SEBI Challenges

The Securities and Exchange Board of India (SEBI) faces several challenges in recent times, some of which are[10]:

- The COVID-19 pandemic has resulted in significant market volatility and poses a challenge for SEBI to maintain market stability and protect investor interests.
- As the use of technology in the securities market increases, cyber security risks also increase. SEBI must ensure that market infrastructure and systems are secure and protected from cyber threats.
- SEBI must ensure effective implementation and compliance of the regulatory framework by market participants. This requires a robust enforcement mechanism and sufficient resources.
- SEBI is working to integrate the Indian securities market with global markets, which poses a number of challenges, including the need to adapt the regulatory framework and address cross-border legal and compliance issues.
- Too much emphasis is placed on regulating market behavior and less on prudential regulation.
- Regulations far from perfect in both its rules and enforcement, particularly in areas such as insider trading.

10. Finding the Role of SEBI in the Changing Financial Scenario of India

Security Exchange Board of India's efforts is always to create an effective stock market system for the safe securities market and encourage responsible and accountable autonomy and transparency on the part of all players the capital market, who should have disciplined themselves and observe the rules of the market mechanism, therefore, they can minimize losses. This would be possible through intermediaries set themselves up to an effective self-regulatory body. SEBI's role includes regulating and overseeing the securities market, safeguarding investors' interests, encouraging fair and transparent trading procedures, growing the securities market, and informing investors about their legal rights and obligations. From this perspective, when we evaluate the actions of SEBI, we find that SEBI has been successful in performing its role to a great extent. we find that "SEBI steadily gain more powers to oversee India's capital markets. It has ensured a well-functioning market and driven market development: dematerialization of shares, shortening settlement cycles, initiating nationwide electronic trading, introducing risk management systems, establishing clearing corporations, nurturing the mutual fund industry and so on. SEBI has earned respect from domestic and global investors for improving the efficacy of the market. New initiatives for improving analytical capabilities, strengthening surveillance & risk management and to promote research have been taken by SEBI in recent years to counter the volatility in market. Today, the Indian capital market can compares favorably with mature markets. "[11] On the other hand we also know issues with SEBI that is "In recent years SEBI role became more complex, the capital markets regulator is at a crossroads. There is excessive focus on regulation of market conduct and lesser emphasis on prudential regulation. Its legislative powers are near absolute as the SEBI Act grants wide discretion to make subordinate legislation. The Securities offering documents are extraordinarily bulky and have substantially been reduced to formal compliance rather than resulting in substantive disclosures of high quality."[12]

11. Conclusion

SEBI is to regulate the securities market in India. These include registering and regulating market participants, monitoring stock exchange operations, monitoring insider trading and market manipulation, and enforcing laws to protect investor interests. There should be cross-border cooperation between all types of regulators and professional capital market investors and intermediaries. The Security Exchange Board of India has achieved success as a regulator by consistently implementing reforms vigorously and appropriately. The Security Exchange Board of India has implemented numerous reforms in the primary and secondary markets. The Security Exchange Board of India has also played a key role in taking timely and useful measures in the process of liberalization, privatization and globalization that have led to greater participation of retail investors, institutional investors and corporates. Today, SEBI is regarded as one of the world's top regulatory authorities and plays an essential role in the growth and regulation of the Indian securities market. The SEBI has made significant progress in regulating and developing the securities market in India since its inception. However, there are still several areas where SEBI needs to focus to move forward, some of which are: Strengthening Enforcement, Improving Market Infrastructure, Enhancing Investor Protection, Aligning with Global Standards etc. Overall we can say that SEBI has been successful in achieving its objective to a great extent.

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