

A Study on Influence of SEBI on Stock Market

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ABSTRACT

The Securities and Exchange Board of India (SEBI) is the regulatory body for dealing with all matters related to the development and regulation of securities market in India. SEBI was established on 12th of April in 1988. SEBI was given statutory powers on 12 April 1992 through the SEBI Act, 1992. SEBI is managed by six members-one chairman (nominated by Central Government), two members (officers of central ministries), one member (from RBI) and remaining two members are nominated by Central Government. The office of SEBI is situated at Mumbai with its regional offices at Kolkata, Delhi and Chennai. In 1988 the initial capital of SEBI was ~ 7.5 crore which was provided by its promoters (IDBI, ICICI, IFCI). This amount was invested and with its interest amount day-to-day expenses of SEBI are met. All statutory powers for regulating Indian capital market are vested with SEBI itself.

Keywords: *securities and exchange board of India , statutory power , capital market*

INTRODUCTION

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 powers 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.

OBJECTIVES OF THE STUDY

1. To understand the role of SEBI in regulating Insider Trading
2. SEBI's Regulation of the Indian Securities Market

RESEARCH METHODOLOGY

• Research design:-

Descriptive research studies are those studies which are concerned with describing the characteristics of a particular group of situations. Descriptive research includes different kinds of fact-finding inquiries and surveys. The main objective of this research is describing the state of conditions as it exists at the present moment. For these types of researches we often use the term ex-post-facto research method, the main characteristics of which is that the researcher has no control over the variables, he can only report what has happened or what is happening.

• Data collection:-

Secondary data

The secondary data are those which have already been collected by someone else and which have already been passed through the statistical process. It is collected from the books and internet.

Benefits of having SEBI as a regulator to the stock market players

SEBI helps in creating a healthy environment to facilitate an effective mobilization between the market participants and investors. It helps in locating the resources with the help of the securities market. SEBI establish rules and regulations, policy framework and infrastructure to meet the needs of the market.

The financial market majorly comprises of three groups:

- The Issuer of Securities :Issuers are the group that works in the corporate department to easily raise funds from the various sources of the market. So, SEBI helps the issuers by providing them a healthy and open environment to work efficiently.

●Investors :The investors are the soul of the market as they keep the market alive by providing accurate supplies, correct information, and protection to the people on a daily basis. SEBI helps investors by creating a malpractice free environment to attract and protect the money of the people who invested in the market.

●Financial Intermediaries:The intermediaries are the people who act as middlemen between the issuers and the investors. SEBI helps in creating a competitive professional market which gives a better service to the issuers and the investors. They also provide efficient infrastructure and secured financial transactions.

How does SEBI regulate Insider Trading

Company insiders have information unavailable to the public. These individuals have firsthand knowledge of what the company is doing and better information concerning what the future might hold. If there are likely problems for the company in the future, such as poor earnings, slow growth, or lawsuits, then insiders can sell their stock before these events happen. When this information becomes public, the stock's price should decrease. However, this price decrease occurs after the insider has sold his or her shares, thus avoiding the loss. In this case the insider beats the market. On the other hand, insiders know when their company has a bright future, high potential earnings, innovative products being developed, etc. When the future looks bright, insiders can buy shares before the public becomes aware of these facts. The price, later, fully increases to represent the positive information. In both cases, insiders use private information to beat the market.

Earlier, the concept of insider trading was limited to the aspect of a company insider tipping of an outsider and the outsider using the tip and trading in the company's shares, this constitutes a breach of fiduciary duty owed by the insider to the company's shareholders; it was called the classical theory of insider trading.

Insider trading weakens the confidence of the investor in the fairness and honesty of the securities markets and this is reason SEBI has treated the recognition and suit of insider trading violation as one of its main concern. SEBI's first enactment to restrain insider trading, namely, SEBI (Prohibition of Insider Trading) Regulations, 1992 did not make much advancement due to poor enforcement. These regulations, again, have been amended substantially over time. SEBI's current approach centers around prevention of insider trading by requiring listed companies, intermediaries, and advisors to set up internal systems for preventing insider trading and reporting on compliance or otherwise to SEBI. The insider trading regulations provide for disclosure of smaller amounts and provides for disclosure on selling shares (something which the takeover code does not mandate).

Regulation 2 (e) of SEBI (Prohibition of Insider Trading) Regulations defines an ‘insider’ as a person connected or deemed to be connected and who is reasonably expected to have access to any unpublished price sensitive information in respect of securities of a company, or who has received or has had access to such unpublished information.

The directors, officer, employers of the company, & persons involving a professional or business relationship including Chartered accountants and legal advisors are connected person as per regulations 2 (c).

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Regulation 3 & 3A enumerates the various acts that an insider and company are prohibited to do; these regulations prohibit an insider and a company to ‘deal’ in certain circumstances; The term ‘deal’ is defined under regulation 2(d) which describe dealing in securities to mean an act of subscribing, buying, selling or agreeing to do so by any person either as principal or agent.

The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 1992 requires that a person who is connected with a listed company and is in possession of any unpublished price sensitive information likely to materially affect the price of securities of company, shall not (i) On his behalf or on behalf of any other person deal in securities or (ii) Communicate such information to any other person, who while in possession of such information shall not deal in securities.

“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 company.

It is thus reasonable to claim that the regulatory framework is fairly comprehensive in its coverage of the securities trade. SEBI has mandated an enormous increase in the flow of information at the time of listing, after listing and relating to the trade. The long history of the functioning of the capital market and securities industry in India suggest that voluntary disclosure may not have become a pervasive trend and that without a regulatory push, there would have been underproduction of information. The cost of transaction and the risk of settlement have been minimized, making Indian stock exchanges one of the safest and the lowest cost securities markets in the world. The Indian mechanism for securities issuance is among the more sophisticated in the world with the introduction of the guidelines for book-building of issues.

The complex web of contracts that govern the issuance process provide a mechanism by which the responsibility for defaults and non-compliance may be affixed on either or both of the

important factors in the issuance process, namely, the issuer and the issue manager. Many of the agency problems that affected the securities trade have been addressed through the corporatization and demutualization of securities exchanges.

CONCLUSION

SEBI plays an important role in regulating all the players operating in the Indian capital markets. It attempts to protect the interest of investors and aims at developing the capital markets by enforcing various rules and regulations.

- SEBI is primarily set up to protect the interests of investors in the securities market .
- It promotes the development of the securities market and regulates the business .
- SEBI provides a platform for stockbrokers, sub-brokers, portfolio managers, investment advisers, share transfer agents, bankers, merchant bankers, trustees of trust deeds, registrars, underwriters, and other associated people to register and regulate work.
- It regulates the operations of depositories, participants, custodians of securities, foreign portfolio investors, and credit rating agencies .
- It prohibits inner trades in securities, i.e. fraudulent and unfair trade practices related to the securities market .It ensures that investors are educated on the intermediaries of securities markets .
- It monitors substantial acquisitions of shares and take-over of companies .SEBI takes care of research and development to ensure the securities market is efficient at all times .

SEBI ensures protection to all players from market manipulation and ensures that financial market is fair for all players , thereby building confidence in the system ; which attracts more cash to the system and helps both primary and secondary market to develop.

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