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The Role of Securities and Exchange Board of India (SEBI) in Regulating the Indian Securities Market: A Comprehensive Overview

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Abstract:

As a vital hub for investment and capital mobilization, the Indian securities market is essential to the nation's economic growth. The Securities and Exchange Board of India (SEBI) is regulating operating the security market in India. This essay offers a thorough analysis of SEBI's crucial function in maintaining efficiency, justice, and transparency in the Indian securities market. It looks at the regulatory framework that SEBI put in place, emphasizing how well it protects investors, maintains market integrity, and promotes long-term market growth. The regulatory actions and interventions taken by SEBI to maintain the stability and openness of the derivatives market are assessed severely in this paper. It outlines the steps taken by SEBI, such as strict disclosure laws, margin restrictions, and risk management procedures, to reduce the risks connected with trading in derivatives. It also explores the proactive role played by SEBI in improving market monitoring measures, which helps to ensure fair market practices and discourage market manipulation.

This paper attempts to offer important insights into the major contributions of SEBI to promoting a strong and well-regulated securities market in India by a thorough analysis of the regulatory interventions undertaken by the agency. It emphasizes how crucial SEBI's proactive strategy is to preserving market stability, boosting investor trust, and encouraging long-term growth in the derivatives trading industry.

Keywords: Securities Market, Role of SEBI in India Securities market

1. Introduction:

Securities Market

Modern economies rely heavily on the securities market to exchange financial instruments, raise cash, and manage financial risk for people, corporations, and governments. In order to help investors achieve their financial goals, stocks, bonds, derivatives, and other financial products are exchanged on a variety of platforms known as securities markets. These markets are essential for determining asset pricing and capital allocation, which in turn affects economic development and growth.

Individual investors, institutional investors, businesses, governments, and financial intermediaries like banks and brokerages are some of the major players in the securities market. To control financial risks, raise cash, and diversify portfolios, these players buy and sell assets. The primary and secondary markets are how the securities market is run. The primary market helps to governments and other businesses to issue new securities and other bonds and receiving money directly from investors. The secondary market, on the other hand, facilitates investor trading of already-issued securities and offers these financial instruments price discovery and liquidity.

For investors, financial professionals, and politicians alike, having a thorough understanding of the securities market is essential because it allows for well-informed decision-making and efficient regulation to maintain a fair and functional market ecology. The securities market is still a vital component of international financial systems, supporting capital formation and economic growth even as it changes.

Primary Market:

Primary market means the securities which are directly sold to public for the first time. Businesses who want to raise money by issuing bonds or shares do so through the main market. An Initial Public Offering (IPO) for shares and a public issuance for bonds refer to the process of offering securities on the main market. During the public offering or IPO, investors will have the option to immediately subscribe for these new securities. In order to safeguard the interests of investors, the Securities and Exchange Board of India (SEBI) oversees the primary market in India and makes sure those laws and regulations are followed.

Secondary Market:

Securities that have previously been issued in the primary market are bought and sold by investors in the secondary market. The secondary market's main objective is to give

investors liquidness so they may purchase and sell assets with ease. Trading in the secondary market is made easier by India's two main stock exchanges, the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). SEBI regulates the secondary market to guarantee honest and open trading procedures.

All investors must understand the main differences between the primary and secondary markets in the Indian financial system. While investors use the secondary market to purchase and sell assets in the hopes of making a profit, companies use the primary market to obtain capital for a variety of reasons, including expansion, debt repayment, and acquisitions. Both markets are vital to the whole ecology of the capital markets and support the expansion and improvement of the Indian economy.

2. Indian Securities Market

The history of the Indian securities market begins with the founding of the Bombay Stock Exchange (BSE) in 1875, which acted as the country's first exchange for trading stocks. The Securities Contracts Regulation Act (SCRA), which established a legislative framework for securities trading, was one of the major milestones that propelled the market's evolution over time.

An important turning point was the founding of the Securities and Exchange Board of India (SEBI) in 1988, which made it the main regulatory body in charge of policing and supervising the securities industry. Subsequent developments, such as the National Stock Exchange (NSE)'s founding in 1992, the introduction of electronic trading systems, and the adoption of dematerialization and online trading platforms, transformed the Indian securities market into a cutting-edge financial ecosystem. The market's integrity, openness, and stability have been consistently reinforced by regulatory changes and investor protection measures put in place by SEBI. This has encouraged the market's growth and development as an essential part of India's financial infrastructure.

Key components of the Indian Securities Market:

- ❖ **Equity Market:** This market makes it easier for investors to acquire and sell shares of publicly traded corporations by facilitating the trading of company stocks. It gives businesses a venue to generate money through the issuance of shares through follow-on public offers (FPOs) and initial public offerings (IPOs).

- ❖ **Debt Market:** Debt instruments such as corporate and government bonds as well as debentures are issued and traded in the debt market. By borrowing money from investors and guaranteeing regular interest payments in addition to the return of the principal amount at maturity, it allows the government and businesses to generate capital.
- ❖ **Derivatives Market:** This market offers a trading venue for financial contracts whose values are based on underlying assets, such as indices, equities, or commodities. It consists of tools like futures and options that let investors manage financial risks, speculate on market movements, and hedge against price variations.
- ❖ **Commodity Market:** A variety of commodities, such as industrial metals, precious metals, agricultural products, and energy resources, can be traded on the commodity market. Through channels for price discovery and risk management, it helps participants hedge against price volatility and promotes the smooth operation of the agricultural and industrial sectors.
- ❖ **Foreign Exchange Market:** The foreign exchange market facilitates the buying, selling, and speculating of different currencies by people, companies, and financial organizations. It is essential for controlling foreign exchange risks related to international transactions and for promoting commerce and investment on a worldwide scale.
- ❖ **Mutual Funds and Asset Management:** By combining the money of several investors to purchase a diverse portfolio of assets, the mutual fund sector in India is essential to the securities market. Asset management firms oversee these funds and provide a range of mutual fund schemes to suit investors' varying risk tolerances and financial goals.
- ❖ **Regulatory Bodies:** The Securities and Exchange Board of India (SEBI) is the main regulatory body that oversees and controls the various market players in India. It also protects investor interests, ensures that rules and regulations are followed, and upholds the integrity and transparency of the market.
To negotiate the complexities of the Indian securities market and take full advantage of its potential for investment, growth, and risk management, investors, market players, and regulators must have a thorough understanding of these components.

Functions of the Indian Securities Market:

The Indian securities market performs a number of vital roles that support effective risk management, capital allocation, and economic growth. The following are a few of the main roles played by the Indian securities market:

- ❖ Capital Mobilization
- ❖ Investment Opportunities
- ❖ Risk Management
- ❖ Liquidity Provision
- ❖ Corporate Governance
- ❖ Economic Growth

3. Securities and Exchange Board of India (SEBI):

The regulatory body in charge of policing the Indian securities market is called the Securities and Exchange Board of India (SEBI). It was founded in 1988 as an independent organization and is governed by the Indian government's Ministry of Finance. Protecting investor interests and encouraging the expansion and regulation of the securities market are the main goals of SEBI, which was established to oversee and manage the Indian capital market.

When it comes to developing and implementing laws that control how the securities market, which includes stocks,

bonds, and other financial instruments- operates, SEBI is a key player. In order to maintain the integrity and stability of the Indian securities market and to encourage investor trust, SEBI regularly updates its regulatory framework and keeps an eye on market activity. With its proactive approach to tackling new issues and dedication to advancing investor safety, SEBI has established itself as a major player in India's financial regulatory system.

A number of crucial responsibilities that are essential to controlling and supervising the Indian securities market are assigned to the Securities and Exchange Board of India (SEBI). These roles support the growth and regulation of the securities market while also guaranteeing ethical behaviour, openness, and investor protection. Some of the main functions of SEBI include:

- ❖ Regulation and Oversight: Stock exchanges, intermediaries, and other securities market players are subject to regulations and oversight by SEBI. It creates and implements principles, rules, and laws to guarantee investor protection, openness, and equitable practices.
- ❖ Investor Protection: SEBI is dedicated to defending investors' rights. It takes a number of steps to inform investors of

their rights and obligations, encourages disclosures to be transparent, and controls fraud and insider trading

- ❖ **Fostering Market Development:** SEBI is essential to the growth of the Indian securities industry. It accelerates the acceptance of cutting-edge technology, fosters market innovation, and supports the launch of new financial goods and services.
- ❖ **Market Intermediaries:** Stockbrokers, sub-brokers, depositories, custodians, and portfolio managers are among the entities that SEBI oversees. It establishes guidelines for their behaviour, keeps an eye on their operations, and takes the required steps to guarantee that they are abiding with the law.
- ❖ **Policy Formulation:** SEBI actively participates in the development of laws and rules pertaining to the securities industry. It continuously evaluates market developments, pinpoints areas that require regulatory action, and suggests policy modifications to adjust to the changing market dynamics.

4. The Role of Securities and Exchange Board of India (SEBI) in Regulating the Indian Securities Market

Through controlling and directing its operations, SEBI plays a crucial role in the Indian securities market. By creating and enforcing regulations, it protects investors and fosters openness while ensuring market integrity. In order to enable investors to make knowledgeable investment decisions and actively engage in the market, SEBI also runs programs to advance financial literacy and investor education.

Followings are the various roles of SEBI in regulating the Indian Securities Market:

❖ **Regulatory function**

In India, SEBI is essential to the regulation of the securities industry. Its primary goals are to safeguard investors' interests and guarantee honest and open transactions with securities. Stockbrokers, merchant bankers, and other intermediaries are among the participants in the securities market that SEBI oversees. Additionally, it guarantees that listed businesses follow the rules and specifications it has established.

❖ **Role as a supervisor**

SEBI is in charge of overseeing the operation of the Indian securities market. It keeps an eye on how different market participants are operating to make sure they follow the rules and specifications it

has established. In order to make sure there are no wrongdoings or regulatory infractions, SEBI also carries out inspections and investigations.

❖ **The function of development**

Through its promotion and growth, SEBI contributes to the development of the securities market. The development of the Indian securities market has involved a number of measures, including the introduction of new goods and instruments, the encouragement of foreign investment, and the promotion of investor education and awareness. Additionally, SEBI has improved the technology and infrastructure utilized in the securities market.

❖ **The function of investor protection**

The protection of investors' interests is one of SEBI's main responsibilities. It accomplishes this by making sure listed firms give investors accurate and timely information, by stopping insider trading and fraudulent activity, and by taking enforcement action against those who break the law. Additionally, SEBI gives investors information about the benefits and dangers of investing in securities.

❖ **The function of enforcement**

By taking legal action against people who break its rules and regulations,

SEBI is able to enforce them. If intermediaries break its rules, it has the authority to punish them, bring legal action, and even suspend or terminate their registration. Additionally, SEBI is able to look into and prosecute insider trading and other fraudulent activities.

❖ **Market development role**

The development and promotion of the Indian securities market is greatly aided by SEBI. It has implemented a number of measures to improve market liquidity, including permitting algorithmic trading, permitting the introduction of new products like equity derivatives, and permitting short sales. In an effort to promote the listing of start-ups and small- and medium-sized businesses (SMEs), SEBI has also relaxed many of the rules.

❖ **Encouraging openness and disclosure**

Companies are required by SEBI requirements to give investors accurate and timely information. Listed firms have to abide by the terms of the listing agreement and disclosure obligations, which include giving the stock exchange and investors' access to key information including financial statements and minutes of board meetings. This regulation promotes openness in the

securities market and guarantees that investors may make well-informed decisions.

❖ **Promoting Investor Education and Awareness**

Due to its recognition of the value of investor education and awareness, SEBI has launched a number of programs to support this. It has started a number of efforts to inform investors about the benefits and dangers of investing in securities as well as the rules and policies that it has established. Additionally, investors can make complaints and seek resolution for their issues through the investor grievance redressal procedure established by SEBI. Investor trust has increased as a result of this system, which has also improved investor accessibility to the securities market.

❖ **Controlling Stock Markets**

Additionally, SEBI controls how India's stock markets operate. It establishes the rules for stock exchange registration, operation, and behavior. SEBI keeps an eye on how stock markets are doing and punishes those who break the rules. This guarantees investors' trust in the integrity of the market and the smooth and

transparent operation of the stock exchanges.

❖ **Controlling Indirect Investments**

In addition, SEBI is essential to controlling foreign investment in India. It establishes the rules for foreign investment in the securities market, including how foreign investors must register, operate, and behave. SEBI keeps an eye on foreign investors' performance and prosecutes those who break the rules. This makes it easier to guarantee that foreign investments in India are legal and transparent.

5. Conclusion

In order to maintain the integrity, openness, and stability of the Indian securities market, the Securities and Exchange Board of India (SEBI) has proven to be a crucial player in its development and regulation. By means of its diverse regulatory structure and proactive initiatives, SEBI has effectively cultivated investor trust and promoted a favorable atmosphere for the expansion and advancement of the market. Additionally, investor safety has been strengthened by SEBI's efforts to advance disclosure standards and market openness, empowering market players to make knowledgeable investment decisions. Its focus on raising

corporate governance standards has increased listed businesses' accountability and transparency, encouraging investor trust and creating a positive investment environment.

Additionally, the efforts made by SEBI to advance investor education and financial literacy have been crucial in equipping investors with the know-how needed to successfully negotiate the intricacies of the securities market. Through raising investor understanding of market risks and responsible investing techniques, SEBI has helped to establish a community of knowledgeable and resilient investors, which has aided in the long-term, sustainable growth and development of the Indian securities market.

In summary, a favorable climate for investment and capital formation has been greatly aided by SEBI's persistent commitment to upholding an egalitarian, open, and investor-friendly securities market in India. It has been positioned as a major pillar of the Indian financial system and has made a substantial contribution to the economic growth and development of the nation through its aggressive regulatory interventions, emphasis on investor protection, and facilitation of market expansion.

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