

## **UNIT – 3**

### **SECURITIES EXCHANGE BOARD OF INDIA**

The Securities and Exchange Board of India was officially appointed as the authority for regulating the financial markets in India on 12<sup>th</sup> April 1988. It was initially established as a non-statutory body, i.e. it had no control over anything but later in 1992, it was declared an autonomous body with statutory powers. SEBI plays an important role in regulating the securities market of India. Thereby it is important to know the purpose and objective of SEBI.

#### **Reasons for Establishment of SEBI**

At the end of the 1970s and during 1980s, capital markets were emerging as the new sensation among the individuals of India. Many malpractices started taking place such as unofficial self-styled merchant bankers, unofficial private placements, rigging of prices, non-adherence of provisions of the Companies Act, violation of rules and regulations of stock exchanges, delay in delivery of shares, price rigging, etc.

Due to these malpractices, people started losing confidence in the stock market. The government felt a sudden need to set up an authority to regulate the working and reduce these malpractices. As a result, the Government came up with the establishment of SEBI.

#### **Purpose and Role of SEBI**

SEBI acts as a watchdog for all the capital market participants and its main purpose is to provide such an environment for the financial market enthusiasts that facilitate efficient and smooth working of the securities market.

To make this happen, it ensures that the three main participants of the financial market are taken care of, i.e. issuers of securities, investor, and financial intermediaries.

#### **Issuers of securities**

These are entities in the corporate field that raise funds from various sources in the market. SEBI makes sure that they get a healthy and transparent environment for their needs.

#### **Investor**

Investors are the ones who keep the markets active. SEBI is responsible for maintaining an environment that is free from malpractices to restore the confidence of general public who invest their hard earned money in the markets.

#### **Financial Intermediaries**

These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

#### **Functions of SEBI**

SEBI primarily has three functions-

- Protective Function
- Regulatory Function
- Development Function
- Protective Functions

As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants.

It includes-

- Checking price rigging

- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

### **Regulatory Functions**

These functions are basically performed to keep a check on the functioning of the business in the financial markets.

These functions include-

- Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers etc.
- Levying of fees
- Performing and exercising powers
- Register and regulate credit rating agency

### **Development Functions**

SEBI performs certain development functions also that include but they are not limited to-

- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations
- Buy-sell mutual funds directly from AMC through a broker

### **Objectives of SEBI**

SEBI has following objectives-

#### **Protection to the investors**

The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.

#### **Prevention of malpractices**

This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.

#### **Fair and proper functioning**

SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.

### **Organizational Structure of SEBI**

The SEBI Board consist of nine members-

- One Chairman appointed by the Government of India
- Two members who are officers from Union Finance Ministry
- One member from Reserve Bank of India
- Five members appointed by the Union Government of India