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The Significance of SEBI in Investor's Protection

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ABSTRACT

The inception of the capital market in India can be traced back to the 18th century, during a time when the trading of East India Company securities commenced. The Indian capital market has made significant strides since its establishment at the beginning of the nineteenth century. The legislative enactment of the SEBI in 1992 as a regulatory body was tasked with overseeing and governing the securities markets within the nation's borders. The primary obligations of the SEBI encompass the preservation of the welfare of investors and the facilitation of growth and oversight within the Indian securities markets. Due to the accelerated process of advancement in the world of finance, the multifaceted role of SEBI as a regulatory authority and facilitator of market growth has become progressively intricate. It is to be noted that the erosion of investor's confidence has been attributed to the prevailing financial downturn, recessions, instances of misconduct, and various fraudulent activities that have plagued the capital markets. The paramount objective of all investors in the securities market is to mitigate risks and optimize returns. The feasibility of achieving this outcome is contingent upon their engagement with investments in a stable and protected securities market. Ensuring the safety of the financial markets as a conducive environment to feed investment necessitates the implementation of sufficient measures for safeguarding investors, which facilitate equitable and limpid transactions. This article elucidates several salient points, encompassing the paramount significance of SEBI in formulating and implementing policies aimed at safeguarding the interests of investors. Furthermore, it sheds light on the role of SEBI in investor protection.

Keywords: *SEBI, Investor, Securities Market.*

I. INTRODUCTION

Recent research indicates that the level of legal safeguards provided to investors inside a nation has a significant role in shaping the growth and progress of its capital markets.[3] Investors play a pivotal role in the intricate dynamics of the securities market. The concept of investor protection refers to a procedural or mechanistic approach aimed at safeguarding the interests of

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[3] Rafael La Porta et.al, *Investor Protection, and Corporate Valuation*,57(3) J Finance, 11479 (2002).

investors within the realm of the stock market.[4] In essence, it refers to the actions taken to establish and maintain openness in procedural issues while engaging investors via regulatory bodies, as facilitated by appropriate laws.[5] In India, a range of measures have been developed to safeguard the interests of investors, with the primary objective of ensuring safety for investors. It is to be noted that comprehensive operations of the securities market are contingent upon the discerning decisions and actions undertaken by the investors. They allocate their capital towards mutual funds and stock markets, thereby fostering the advancement of the securities industry and subsequently, the economy in general.

Robust investor protection is an indispensable prerequisite for fostering the sound and sustainable development of the securities market. Investor safety measures include a range of initiatives designed to safeguard the interests of investors from unethical practices perpetrated by corporations, operating within the securities market. In fact, investor protection pertains to any manifestation of a guarantee that investments undertaken by investors are unlikely to be impeded by fraudulent or misleading practices. Investor protection measures are designed to guarantee that investors are provided with comprehensive information on their acquisitions, transfers, and the operations of the firm in which they have made investments, among other relevant aspects.

In the Indian context, the regulation of investor protection is governed by a comprehensive framework including both legislative and self-regulatory measures. The administration of self-regulatory provisions is within the purview of the exchanges, while authorised statutory authorities are responsible for overseeing the implementation of statutory laws. The legislative measures aimed at safeguarding the interests of investors include the Companies Act of 2013, the Securities Contracts (Regulation) Act of 1956, the Securities Exchange Board of India Act of 1992, and the Depositories Act of 1996. The Securities and Exchange Board of India (SEBI) is a well-established regulatory authority entrusted with the responsibility of safeguarding the interests of investors in the Indian market.

II. The rationale for setting up SEBI

Prior to the formation of the SEBI, the Indian securities market had a multitude of issues. The establishment of SEBI was undertaken with the aim of addressing and resolving this particular predicament. The prevailing issues during the period may be enumerated as follows. The issue at hand is the fragmented nature of regulation and the presence of many administrative bodies.

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[4] Moushumi Saramah, Protection of Investors in India,2(3) IJLLJS, 2 (2015).
[5] *Id*

The primary market was not integrated into the mainstream of the financial system. The investors were not provided with the prospectus and balance statement. Investors encountered challenges pertaining to delays in the processing of refunds and transfers.[6] No examination or assessment of the stock exchange was conducted. The operation of the stock market was mostly controlled by brokers, who operated it as an exclusive club.[7] Merchant bankers and other middlemen operated without regulatory oversight. Mutual funds operated with little regulatory oversight, resulting in inadequate disclosure practices and a lack of transparency in publishing Net Asset Values (NAVs). There is an absence of regulations against insider trading. Instances of fraudulent and unjust trading practices were prevalent. [8]

SEBI, established in 1988, functions as an administrative entity with the primary objective of overseeing and regulating the operations of stock exchanges, and stock brokers, and safeguarding the welfare of investors. Its establishment was to regulate and supervise these entities, ensuring the protection of investor interests. In 1992, an Act of Parliament conferred upon it a legislative standing. The removal of the Controller of Capital Issues in 1992 has resulted in increased prominence being attributed to it. The administration implemented a strategy of economic liberalization, which included the adoption of a free pricing policy for security matters. This phenomenon has led to the emergence of novel challenges in market dynamics, specifically pertaining to the number of share offerings, the premium imposed, the conversion of debentures, the introduction of creative issuance techniques, and the development of new financial instruments. In this context, SEBI acquires a new responsibility.

III. Composition and Function of SEBI

SEBI has undergone subsequent amendments in the years 1995, 1999, 2002, 2010, 2013, 2014, 2017, 2019, and 2021, in order to effectively cater to the ever-changing requirements of the finance sector and seamlessly align with its progressive trajectory. During the process of scrutinizing the organizational framework of the SEBI[9], it is discerned that the Board consists of a collective of nine individuals, wherein the role of chairman is assumed by one among them. There are two individuals who hold affiliations with the esteemed Ministry[10] of the Central Government. Their primary responsibilities entail the diligent oversight of the financial and administrative facets pertaining to the Companies Act of 1956. The onus of appointing a

[6] DR. AJ GEORGE & ANISH THOMAS, CAPITAL MARKET, 62.
[7] *Id*
[8] *Id*
[9] The SEBI Act, No 15 of 1992 Sec 4
[10] The SEBI (Amendment) Act, 59 of 2002, substituted the words ―Ministries and Law.

singular representative from the esteemed Reserve Bank[11], alongside a quintet of other individuals, lies squarely upon the Central Government. It is incumbent upon this governing body to ensure that a minimum of three of these aforementioned members possess the distinction of being whole-time participants.[12]

The functions of the SEBI may be classified into three distinct categories, namely regulatory function, protective function, and developmental functions. Regarding the matter of regulatory role, the SEBI has the authority to establish rules and regulations for the purpose of overseeing the operations of corporations, intermediaries, and other entities involved in the securities market.[13] The SEBI undertakes a regulatory role encompassing the formulation of rules, regulations, and a code of conduct. This is aimed at ensuring the successful operation alongside the regulation of various entities that participate in the world of securities, including business organizations, merchant bankers, brokers, and other intermediaries. SEBI is responsible for registering and overseeing the activities of intermediaries such as brokers, sub-brokers, and merchant bankers, as well as registering and supervising for investment companies and venture capital firms. The SEBI performs regular investigations and audits of securities exchanges, oversees significant acquisitions, and assumes control of corporations by establishing appropriate regulations**.**

This analysis aims to evaluate the protective role fulfilled by the SEBI in safeguarding the interests of investors and shareholders within the capital markets.[14] The Securities and Exchange Board of India (SEBI) introduced the SEBI (Prohibition of Fraudulent and Unfair Trade Practise related to Securities Markets) Regulations, in 2003 with the aim of banning fraudulent and unfair trade practices within the stock market. We can see that price rigging is one of the common acts of intentionally altering the value of stocks in order to induce swings within the securities market. This tool has the potential to perpetrate fraudulent activities targeting investors with substantial stakes in the securities market. The SEBI actively oversees and analyses the many elements that contribute to price manipulation in financial markets, and subsequently implements measures to mitigate and deter such illicit activity. The SEBI (Prohibition of Insider Trading) Regulations, 2015 serve as a legal framework that restricts the practice of insider trading inside the business sector. The SEBI undertakes several developmental tasks aimed at promoting and fostering activities within the field of securities.

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[11] The SEBI (Amendment) Act, 59 of 2002, substituted the words ―The Reserve Bank of India.
[12] The SEBI (Amendment) Act, 59 of 2002, substituted the words ―two other members.
[13] P. Swathi, C. H. Deepthi, *Role of SEBI in Investors Protection,*3(4) IJEAM,522 (2021).
[14] Jyoti Bhoj & Akanksha Khurana, *Sebi: Achievements Problems, And Emerging Challenges,*6(4) Indian J. Appl. Res.119, (2016).

Those responsibilities are designed to facilitate the economy's growth and enhance the purchasing of securities via the utilization of new technology. The SEBI offers training opportunities to intermediaries operating within the securities market. The SEBI plays a crucial role in supporting research endeavours aimed at promoting the development and progress of the securities market.

IV. POWERS OF SEBI TO PROTECT THE INVESTORS

The SEBI possesses the authority to halt the trade of any security that is traded on a recognized stock exchange, restrict individuals from utilizing the market for securities, and prohibit any intermediary or person affiliated with the stock market from engaging in transactions that may be detrimental to the interests of investors.[15] Section 11A confers upon the Board the authority to regulate or prohibit the dissemination of any prospectus, offer document, or advertising soliciting funds for the acquisition of stocks.[16] It has the authority to issue directives to stockbrokers, sub-brokers, share transfer agents, and other intermediaries. These directives serve the purpose of safeguarding the interests of investors and/or promoting the growth and advancement of the securities industry in India.[17] SEBI requires certain intermediaries involved in securities market transactions, to get a registration certificate from SEBI.[18]SEBI has the authority to suspend or revoke a certificate of registration that has been issued by the board.[19] It have the authority to restrict the utilization or deployment of manipulative and deceptive devices, insider trading, as well as considerable acquisition of stocks or control by any individual.[20] Section 15HA of the SEBI was successfully implemented with the purpose of imposing more rigorous sanctions for those involved in fraudulent and unfair trading practices.[21] The SEBI has the authority to levy fines for a range of violations, including failures, defaults, non-disclosures, and other crimes as stipulated in the relevant legislation. This includes sanctions for the failure to address concerns raised by investors, and fines for engaging in insider trading[22].

V. INVESTORS PROTECTION MEASURES UNTAKEN BY SEBI

Investors have a crucial role in the functioning and stability of the economic and capital markets. Market activity levels are determined by them. The funds and stocks are used as investment

[15] The SEBI Act, No. 15 of 1992. Sec 11(4).
[16] The SEBI Act, No. 15 of 1992.
[17] The SEBI Act, No. 15 of 1992. Sec 11B
[18] The SEBI Act, No. 15 of 1992. Sec 12
[19] *Id*
[20] The SEBI Act, No. 15 of 1992. Sec 12A
[21] The SEBI Act, No. 15 of 1992.
[22] The SEBI Act, No. 15 of 1992 Sec 15G

vehicles to stimulate market expansion, hence fostering economic growth. Therefore, it is of utmost importance to safeguard the greatest interests of the stakeholders.

i. **Investor Education and Protection Fund (IEPF)**

The SEBI has implemented many steps to ensure investor safety. One such action is the establishment of the Investor Education and Safety Fund (IEPF) under the government of India, as mandated under the Companies Act of 1956. As per the provisions outlined in the act, it is mandated that companies that have successfully operated for a duration of seven years must transfer any unclaimed fund dividends, matured deposits, debentures, share application money, and other relevant assets to the Government via the IEPF.[23]

ii. Unique order code number

It is mandatory for the stock exchanges to establish a mechanism whereby every transaction is allocated a distinct order code number, which is sent by a broker to their respective clients. Upon the execution of the transaction order, it is required that this numerical value be written on a contract.[24]

iii. The practice of time-stamping contracts

Stock brokers are obligated to keep an accurate record of the precise moment at which a customer places a request, and thereafter include this information in the contract note, along with the time at which the order is executed. This practice will guarantee that the broker prioritises the execution of the customer's order and accurately charges the client the appropriate price, refraining from exploiting any intra-day price fluctuations for personal gain.[25]

iv. The process of simplifying the procedure for share transfer and allotment.

The Securities and Exchange Board of India (SEBI) has established a committee led by Shri R Chandrasekaran, the Managing Director of the Stock Holding Corporation of India Limited. The committee's objective is to develop a method aimed at enhancing the efficiency and effectiveness of share transfer and allocation processes. The draught study prepared by the board of trustees has been sent to various intermediaries in the market to solicit their feedback. Taking into consideration the aforementioned criticism, the study will be brought to a close and significant action will be taken to implement the recommendations. The implementation of the recommendations put forward by this panel is expected to significantly alleviate the challenges faced by investors due to excessive delays in share transfers and poor deliveries. The order code

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[23] Fincash, https://www.fincash.com/l/investor-protection-measures-sebi
[24] Securities Exchange Board of India, https://www.sebi.gov.in/sebi_data/commondocs/pt1b2c_h.html
[25] Securities Exchange Board of India, https://www.sebi.gov.in/sebi_data/commondocs/pt1b2c_h.html

number is distinct and exclusive.

v. The Investor Awareness Programme

It is a comprehensive initiative aimed at enhancing knowledge and understanding among potential investors about many aspects of investment. The investor protection measures implemented by the SEBI are guided by the principle that a well-informed investor is more likely to make safe investment decisions. The SEBI initiated the Securities Market Awareness Campaign in January 2003. SEBI now organises frequent events aimed at educating and fostering awareness among investors. The curriculum covers significant topics such as portfolio management, Mutual Funds, tax regulations, Investor Protection Funds, and the Investors' Grievance Redressal mechanism of SEBI. Additionally, it facilitates training pertaining to derivatives, stock market trading, and the Sensex index, among other topics.

VI. CHALLENGES

Notwithstanding these efforts, the securities market in India continues to encounter many obstacles. One of the foremost issues that must be addressed is the need to achieve a harmonious equilibrium among various stakeholders, including investors, issuers, and intermediaries. The SEBI is responsible for ensuring that its rules and regulations effectively facilitate the growth and advancement of the securities market, while simultaneously safeguarding the interests of investors and other relevant stakeholders. One further problem encountered by SEBI pertains to the need for enhanced collaboration across diverse regulatory entities. The SEBI is required to have a tight working relationship with other regulatory entities, including the Reserve Bank of India and the Ministry of Corporate Affairs. This collaboration is essential to ensure that SEBI's policies and regulations are in harmony with the wider governing structure established inside the nation. Nevertheless, despite these obstacles, the significance of SEBI's role in fostering investor protection and market growth in India cannot be overemphasised. The Indian financial sector has seen substantial development throughout the years, with the SEBI playing a pivotal role in facilitating this expansion. By persistently enhancing its regulatory framework and fostering investor education, SEBI has the potential to facilitate the development of a securities market in India that is characterised by transparency, efficiency, and resilience, hence yielding advantages for all parties involved. Another problem that arises is the regulatory framework, which draws inspiration from the regulatory systems of the United States and the United Kingdom, leading to the establishment of the SEBI. When examining the rules of the United States and the United Kingdom, it becomes apparent that their purposes diverge. Indian lawmakers drew inspiration from this rule, leading to the development of a problematic combination. This situation exacerbates the ambiguity around the jurisdiction, function, and responsibilities of SEBI, hence resulting in unjustified disruptions and misdirected regulatory actions inside the financial industry. Consequently, the interest of investors in the securities market was impacted. In the context of India, the UK might be considered a reliable partner due to its emphasis on safeguarding the interests of investors and its strict regulations against unscrupulous and illegal securities transactions. The investigation conducted exhibits inefficiency, leading to a decrease in the rate of conviction. The prevalence of insider trading cases serves as clear evidence. The entity in question lacks the authority to engage in wiretapping of phone conversations, which is a key investigative technique used by other countries.

VII. Conclusion

In order to overhaul the Indian capital market, SEBI has undertaken a number of measures in recent years. Ensuring the protection of investors' interests is among the foremost concerns of regulatory agencies overseeing the securities market. The SEBI has implemented a range of measures in the stock market with the aim of safeguarding the interests of investors. These efforts include the implementation of time stamping of contracts, the introduction of Application Supported by Blocked Amount, and the implementation of Unique Client Code, among others. The SEBI has the authority to give directives to different intermediaries and corporations with the objective of ensuring that investors are provided with a conducive market environment for their transactions. Additionally, it has implemented other awareness initiatives. However, the SEBI has faced several problems, as outlined in the article. It is worth noting that SEBI has the potential to enhance its regulatory capabilities and emerge as one of the most influential and authoritative regulatory bodies globally.

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