Regulatory Practice of SEBI

Introduction

The Securities and Exchange Board of India (SEBI) is the financial market regulatory authority in India. It was established by a special act in the parliament and thus is Statutory Corporation. The aim of SEBI is '*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*' (as stated in the preamble).

Formation/History

The formation of the SEBI dates back to 1988. SEBI was originally established as a non-statutory institution by the government. Before the formation of the SEBI, Controller of Capital Issues was the regulatory authority. The Controller of Capital Issue was a statutory corporation, by the Capital Issue Control Act passed in the Parliament on April 18th, 1947.
Under the Capital Issue Control Act, the government had the power to decide which company could raise how much capital. No company shall, "except with the consent of the Central Government, make an issue of capital," the Act stated. Fast forward to the time when our economy gradually opened up, the CCI was repealed on 5 August 1992. This led to the formation of the Securities and Exchange Board of India on 12 April 1992 (incorporated as a statutory body). Through the means of regulations, SEBI steered the capital markets. However, the transition from CCI to SEBI was opposed. People argued that the capital markets, particularly the primary market, were getting murkier and shadier as the SEBI permitted free pricing of initial public offerings. This invited the private sector to exploit the gullible public. But with the power of hindsight we can say that on the contrary, private participation has allowed the financial markets to soar. Consequently, it catalyzed the real economy in ways that were impossible to imagine before 1992.

Organizational structure and function of divisions

SEBI is governed by the board of members, which consists of a Chairman, whole time, and part-time members. The chairman of SEBI is nominated by the Union Government of India. Other members on the board consist of two members from the finance ministry, one member from the Reserve Bank of India, and five other members are also nominated by the Centre. The headquarters of SEBI is situated in Mumbai (as it is the financial hub) and the regional offices are located in Ahmedabad, Kolkata, Chennai, and Delhi. SEBI's functions are distributed to its 23 departments. These roles of these departments and divisions include investor awareness, inspection, risk management, forming market policies and rules, managing complaints amongst others.

Function and Need for regulation

SEBI's role is to safeguard the rights of investors by monitoring transactions and the security markets. They step in to avoid malpractices such as insider trading, stock price manipulation, and the formation of cartels. It controls the stockbrokers and sub-stockbrokers by mandating license requirements and quantitative requirements.

For instance, during the Satyam Scam fake sale invoices were used to show higher revenues, and bank receipts were manipulated to show higher cash reserves. This way the promoters falsely inflated the price of Satyam stock. Learning from this scam SEBI amended the Listing Agreement to include provisions to enhance the role of the Audit Committee in cases of suspected fraud and irregularities in 2014. In 2015, SESBI framed Listing Obligation and Disclosure Requirements for all listed companies.

Road ahead

Over the years SEBI has steadily evolved and learned from both domestic and international experiences. A major positive on SEBI's part has been stringent margin requirements, like the recently introduced limits on margin limits. Through such limitations, financial losses like those witnessed with the failure of Long Term Capital Management, where leverage was over 100 times, and a recent one with Archegos capital investment have been avoided. These rules also offer protection and prevent situations like the recently witnessed Game stock rise and crash in the US. Such rules have also limited financial damage in the past even from big crises like the 2008 Global Financial Crisis.

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