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## SEBI's Pragmatic Actions

### Why in News?

The Securities and Exchange Board of India (SEBI) has taken several measures to reduce volatility across markets.

### What is SEBI?

- SEBI is a statutory regulatory body established under the SEBI Act, 1992.
- It monitors and regulates the Indian capital and securities market.
- It will protect the interests of the investors formulating regulations and guidelines to be adhered to.

### What are its recent measures?

- The regulator has raised margins for stocks, and lowered the market-wide position limit for stock futures to curb speculation.
- It has also set a limit of Rs 500 crore on index derivatives positions taken by mutual funds, financial institutions, and proprietary traders.
- It has imposed penalties at up to 10 times the prescribed minimum for non-compliance.
- These measures are broadly in line with actions taken by many overseas market regulators, which are all struggling to cope with the pandemic.

### What would be the investors' attitude?

- While tighter controls might lead to less wild price fluctuations, the trend is likely to remain bearish.
- Even strong supportive action by the Federal Reserve and the European Central Bank has not reversed poor investor sentiment.
- Until the threat of the pandemic recedes, investors would avoid risk.
- They will seek the safety of hard currency instruments like US government bonds.
- This "risk-off" attitude has hit every emerging market hard.
- In March 2020, the Nifty has already dropped by over 21% in 3 weeks, which was caused due to the heavy selling by foreign investors.

- Consequently, the rupee has fallen to historic lows, breaching the Rs 75 barrier versus the US dollar.

### **How will the world be affected?**

- There are uncertainties about how long the lockdown will last, and the full extent of the damage it will cause, both in terms of deaths and economic losses.
- COVID-19 is likely to have triggered a global recession.
- Right now, the world economy is struggling to contain a supply shock caused by lockdowns and cessations of normal economic activity.
- But it will soon become a demand issue as more and more people suffer income losses.

### **How will India be affected?**

- Even before coronavirus surfaced, the Indian markets were perceived as overvalued, given the slower growth over the past seven quarters.
- The first six months of 2020 could be worse.
- Growth may slide further and the corporate results will be dismal.
- While sectors such as aviation, tourism, transport, etc., will be hit particularly hard, there will be losses and slowdowns across the board.

### **What are the few positives to the current sell-off?**

- Investors may find value in beaten-down stocks and a weaker rupee could help improve India's competitiveness.
- Another positive is low energy prices, which help the trade balance and assist in containing the fiscal deficit.

### **What is the conclusion?**

- The bottom line is the markets hate uncertainty and the pandemic is causing huge amounts of it.
- Until there is clarity on the pandemic front, and a promise that the disease can be contained, investors will continue their flight to safety.
- While SEBI's actions are pragmatic, at best, they will reduce volatility.
- But, the investors will wait for good news on the coronavirus front before they start buying emerging-market stocks again.

**Source: Business Standard**



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