Stock Market Regulation in India

Why in news?

The Supreme Court asked the Securities and Exchange Board of India (SEBI) and the government to produce the existing regulatory framework in place to protect investors from share market volatility.

To know about the Adani-Hindenburg Saga, click here

What are the laws governing the market?

- The securities market in India is regulated by four key laws
  1. The Companies Act, 2013
  2. The Securities and Exchange Board of India Act, 1992 (SEBI Act)
  3. The Securities Contracts (Regulation) Act, 1956 (SCRA)
  4. The Depositories Act, 1996

Securities and Exchange Board of India (SEBI)

- SEBI was established in 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992 (SEBI Act).
- The SEBI headquarters is located in Mumbai.
- SEBI is run by a board of directors, including
  - A chair who is elected by the parliament
  - Two officers from the Ministry of Finance
  - One member from the Reserve Bank of India
  - Five members who are also elected by the parliament

The SEBI Act

- **Powers of SEBI** - It empowers SEBI
  - To protect the interests of investors
  - To promote the development of the capital/securities market
  - To register intermediaries like stock brokers, merchant bankers, portfolio managers
  - To regulate their functioning by prescribing eligibility criteria, conditions to carry on activities and periodic inspections
  - To impose penalties such as monetary penalties, including suspending or

cancelling the registration
    - To regulate trading, clearing and settlement on stock exchanges

The Securities Contracts (Regulation) Act (SCRA)

- Powers of SEBI
    - To recognise (and derecognise) stock exchanges, prescribe rules and bye laws for their functioning
    - To recognise and regulate stock exchanges and commodity exchanges
- The Act also seeks to protect the interests of investors by creating an Investor Protection Fund for each stock exchange.

The Depositories Act

- This Act introduced and legitimised the concept of dematerialised securities being held in an electronic form.

The Companies Act

- It has delegated the SEBI to enforce the regulation of raising capital, corporate governance norms such as periodic disclosures, board composition and resolution of investor grievances.

Subject	Regulation
Fund-raising activities	Issue of Capital and Disclosure Requirement Regulations
Corporate governance norms	Listing Obligations and Disclosure Requirements Regulations
Collective investment scheme	Collective Investment Regulations

How to curb market volatility?

- Exchanges have upper and lower circuit filters to prevent excessive volatility.
- SEBI **does not interfere** to prevent market volatility but it has powers to regulate trading and settlement on stock exchanges.
- Using these powers, SEBI can direct stock exchanges to stop trading, totally or selectively.
- It can also prohibit entities or persons from buying, selling or dealing in securities, from raising funds from the market and being associated with intermediaries or listed companies.

What are the safeguards against fraud?

- The key forms of fraud includes
    1. Market manipulation
    2. Insider trading
- SEBI notified the **Prohibition of Fraudulent and Unfair Trade Practices Regulations** in 1995 and the **Prohibition of Insider Trading Regulations** in 1992

to prevent the fraud.
- The violation of these regulations are predicate offences that can lead to a deemed violation of the Prevention of Money Laundering Act.
- SEBI has been given the powers of a civil court to summon persons, seize documents and records, attach bank accounts and property, and to carry out investigations.
- Appeals against orders of SEBI and the stock exchanges can be made to the **Securities Appellate Tribunal (SAT)** comprising three members.
- Appeals from the SAT can be made to the Supreme Court.

References

1. **The Hindu | How is the stock market regulated in India?**
2. **SEBI | About SEBI**