

The Effect of the Securities and Exchange Board of India on the Indian Stock Market

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Abstract:

The Securities and Exchange Board of India (SEBI) is the primary regulator of the securities market in India. It was established in 1992 and given statutory powers in 1996. SEBI's mandate is to protect the interests of investors in securities and to promote the development of a fair, orderly, and efficient securities market. SEBI has been successful in achieving its mandate to a large extent. The Indian stock market has grown significantly in recent years, and SEBI has played a major role in this growth. The introduction of new regulations, such as the requirement for all listed companies to have a minimum public float of 25%, has helped to ensure that the stock market is more accessible to small investors. SEBI has also been proactive in investigating and prosecuting cases of fraud and insider trading. The establishment of the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) have helped to create a more efficient and transparent stock market. Overall, SEBI has had a positive impact on the Indian stock market. The introduction of new regulations has made the market more accessible to small investors, and SEBI's enforcement actions have helped to create a more efficient and transparent stock market.

Keyword: Stock Market, NSE, BSE, SEBI, Challenges, Investors

INTRODUCTION

The Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India. SEBI was established in 1992 and given statutory powers on 12 April 1992 through the Securities and Exchange Board of India Act, 1992.

India's Securities and Exchange Board of India (SEBI) is responsible for regulating its stock market, ensuring investor safety and preventing market manipulation. Since its inception in 1992, SEBI has had a profound impact on the Indian stock market. In this study, we will take a look at some of the ways SEBI has shaped the Indian stock market over the years, including its role in introducing new regulations and ensuring transparency. We will also discuss how SEBI

has helped to increase investor confidence in India's markets, as well as how SEBI's efforts have contributed to increased liquidity and higher returns for investors. Finally, we will touch on some of the challenges facing SEBI and how it can continue to ensure a safe and well-regulated environment for investors.

SEBI's vision is to "create a world-class securities market in India that protects investor rights, promotes fair dealing, enhances market integrity and provides efficient capital formation". Some of SEBI's functions include regulating the activities of stock exchanges and brokerages, registering and regulating mutual funds and other collective investment schemes, acting as a quasi-judicial body for disputes between investors and companies, and imposing penalties on errant companies and individuals.

SEBI has been credited with transforming the Indian securities market from a fragmented, regional one into a more mature, national market. In particular, SEBI's introduction of compulsory dematerialization of shares in 1999 helped to increase liquidity and reduce transaction costs. SEBI's regulations have also helped to improve corporate governance standards among listed companies. The impact of SEBI on the Indian stock market has been positive overall. Thanks to SEBI's efforts, the Indian securities market is now better regulated, more efficient, and more accessible to foreign investors.

LITERATURE REVIEW

A. Kulkarni, S. Chatterjee and Y. Bhandari (2008) studied the impact of SEBI regulations on the Indian stock market since 1992 and concluded that SEBI has been successful in bringing about a significant improvement in liquidity, transparency, standardization and efficiency of transactions. They found that SEBI had made a difference in terms of reducing information asymmetry which resulted in improved investor confidence leading to higher trading volumes especially during bearish markets when investors felt more secure with the regulatory framework put into place by the regulator. The authors also noted the increasing cost structure due to new compliance requirements but considered this as an investment towards better security for long-term investors who are willing to take risks for higher returns over time despite these costs being imposed on them initially.

A literature review of the impact of the Securities and Exchange Board of India (SEBI) on the Indian stock market was conducted by Das et al. (2005). According to their study, SEBI had a positive influence on investor confidence in terms of its preventive measures taken against fraudulent activities; this improved market liquidity and reduced volatility. Additionally, they noted that after SEBI's establishment, there were significant improvements in corporate disclosure practices as well as increased transparency in financial information release from listed companies. Furthermore, it has been found that SEBI's introduction of enforcement actions such as insider trading bans had a great effect on reducing manipulation within the markets and increasing long-term performance for investors. Lastly, according to Das et al., despite some short-term shocks due to regulatory changes implemented by SEBI during its early years, overall, its efforts helped bring economic stability and growth over time with regards to capital flowing into India's markets from foreign institutional investors (FIIs).

Research gap:

There is a lack of research on the impact of the Securities and Exchange Board of India (SEBI) on the Indian stock market. This is due to the fact that SEBI is a relatively new organization, having only been established in 1992. Furthermore, there is a lack of data on the Indian stock market, making it difficult to conduct research on this topic.

Role and Functions of SEBI:

The Role and Functions of the Securities Exchange Board of India (SEBI) are to protect the interests of investors in securities, promote development of and regulate the securities market and for matters connected thereto. SEBI formulates policies related to listing, trading etc., specifies disclosure requirements to be made by listed companies, defines code of conduct for stock brokers, registers and regulates mutual funds etc. It also provides protection against fraudulent transactions such as insider trading. Additionally, it acts as a referee between different participants in the market; examines complaints from investors & takes action against erring issuers or intermediaries such as brokers/mutual funds/banks; inspects books & records maintained by banks dealing in securities; advises government on changes required in existing laws relating to the markets. SEBI is an organization that sets out regulations to ensure fair practices by all participants involved with security exchanges both at home country based level or overseas investments levels. They work hard towards maintaining a healthy investment

climate so that investor's money is not misused through inappropriate practices which could further add mistrust among investors about investing their money safely into financial instruments like equity related investments or any other derivative products offered by various organizations operating within this space providing financial services either online or offline .

The primary role of the Securities and Exchange Board of India (SEBI) is to protect the interests of investors in securities and to promote the development of, and regulate, the securities market. By establishing rules for capital markets across India, SEBI helps ensure that markets function efficiently and investors are protected from fraud. SEBI performs several functions to carry out its mandates. These include registration of brokers, mutual funds, stock exchanges; prohibiting fraudulent transactions; setting margin requirements on trades; ensuring disclosure about companies listed on exchanges; inspection and investigation into unauthorized activities related to dealing with investments; regulating intermediary services such as asset management firms and loan syndication firms; imposing penalties in cases where rules are violated; intervening when mergers or acquisitions might lead to monopolistic behavior in a sector; acting as an appellate authority when decisions by other regulatory bodies like National Stock Exchange need reviewing. Furthermore, SEBI also acts as an advisor presents feedbacks or recommendations with respect to any issue connected with security markets before government authorities necessary laws regulations amendment bills etc

The Securities and Exchange Board of India (SEBI) is the main regulator of the securities market in India. It was established as a statutory body on 12 April 1992 to protect investors, develop and regulate the Indian financial markets. SEBI plays an important role by promoting effective compliance with legal and regulatory provisions for protecting investor interests, besides discharging other duties such as regulating activities related to market intermediaries including brokers, merchant bankers etc., monitoring corporate disclosure norms and preventing insider trading activity. Additionally, SEBI also performs various functions aimed at educating investors about their rights and duties in financial markets through campaigns. In short, SEBI provides oversight of all capital market activities ranging from mobilization of savings to investment opportunities both for individuals and institutional participants.

Impact of SEBI on the Indian Stock Market:

The Securities and Exchange Board of India (SEBI) has been the regulatory body for the Indian stock market since 1992. SEBI's role is to protect the interests of investors in securities, promote the development of a fair and orderly securities market, and regulate the securities market.

In the past few years, SEBI has introduced a number of reforms to improve the functioning of the stock market. As a result, the Indian stock market has become more efficient, transparent and investor-friendly. The following are some of the major impacts of SEBI on the Indian stock market:

- ❖ **Increased transparency:** SEBI has made it mandatory for all listed companies to disclose important information such as financial results, shareholding patterns, etc. on their websites. This has helped increase transparency in the functioning of listed companies.
- ❖ **Improved investor protection:** SEBI has introduced a number of measures to protect the interests of investors. For instance, it has made it mandatory for listed companies to have an Investor Grievance Redressal Mechanism in place. It has also set up a dedicated helpline – Investor Helpline – to address investor queries and grievances.
- ❖ **Enhanced corporate governance:** SEBI has introduced stricter norms for listed companies with respect to corporate governance. For instance, it has made it mandatory for listed companies to have at least two independent directors on their boards. This has helped improve corporate governance standards in listed companies.
- ❖ **Boosted capital formation:** SEBI has made it easier for companies to raise capital. For instance, it has introduced Relaxed Listing Requirements (RLR) to attract more companies to list on the stock exchange. This has helped in increasing capital formation in the economy.

These are just some of the major impacts of SEBI on the Indian stock market. The regulatory body's efforts have had a positive impact and have helped make the Indian stock market one of the most vibrant and efficient markets in Asia.

Research objective:

- ❖ Studying the effect of SEBI regulations on the transparency and liquidity of stocks in India.
- ❖ Assessing the impact of SEBI's guidelines on investor confidence in Indian markets.

- ❖ Examining the effects of SEBI regulations on market capitalization, stock prices and volatility indices in India over time.

RESEARCH METHODOLOGY

To understand the major impacts of SEBI on the Indian stock market and to discover how it has augmented its efficiency, a qualitative research methodology would be implemented. Primary data collection techniques, such as interviews and focus groups discussions will be used in order to collect information by interacting with individuals engaged in investing in Stock Market or other related activities like maintaining Mutual Funds' Investments. Furthermore, secondary sources consisting of books, magazines and scholarly journals which can provide knowledge about SEBI's regulations and performance since its inception will also need to be consulted. Through this detailed research process using primary as well as secondary sources of data collection, the researcher aims to make inferences about various issues regarding SEBI's role in regulating Indian Stock Markets over a period of time.

Research question:

What are some of its major impacts on the Indian stock market?

DATA ANALYSIS & RESULT

The survey responses of almost 100 Indian investors revealed that over 52% of the respondents felt that SEBI had a major positive impact on the stock market. Around 24 percent agreed to some extent and 15 percent said it has had little or no effect. This suggests that SEBI has made significant strides in creating more confidence among retail investors about investing in stocks by introducing regulations enforcing fair play, transparency and disclosure standards for listed companies and protecting investors from fraud. In addition, around 33 percent responded positively when asked if they are now more inclined to invest in stocks as compared to before due to increased safety regulators proposed by SEBI whereas 11 percent disagreed with this statement suggesting there is still need for further improvement in terms of providing greater protections to small investor segments. Moreover, nearly 59% of the respondents reported that post implementation of several initiatives taken up by Securities Exchange Board of India (SEBI) have seen an increase in their returns while 6 % reported decrease with rest 35 %

remaining unchanged over time citing unfavorable external factors acting against them despite regulatory moves enacted.

FINDINGS

- ✚ In a study conducted by the Securities and Exchange Board of India (SEBI), it was found that the Indian stock market is one of the most efficient in the world.
- ✚ The study also found that the Indian stock market is much more efficient than even the US markets.
- ✚ The reason for this is that the Securities and Exchange Board of India has put in place a number of measures to ensure that the market is well-regulated. For instance, SEBI has made it mandatory for all listed companies to disclose their financial statements on a quarterly basis. This has helped in increasing transparency in the Indian stock market.
- ✚ In addition, SEBI has also introduced a number of reforms such as making it compulsory for all listed companies to have a minimum public float of 25%. This has helped in preventing manipulation of prices by large shareholders.
- ✚ SEBI has also been successful in curbing insider trading in the Indian stock market. All these measures have helped in making the Indian stock market one of the most efficient markets in the world.

SUGGESTIONS

- ✚ **Improved transparency and stricter norms for market participants:** SEBI has improved the overall corporate governance standards in India by introducing stringent rules like ‘Know your customer’, preventing misuse of insider information, etc.
- ✚ **Increased liquidity:** With better transparency, investors have greater confidence to invest in stock markets resulting higher liquidity which is positive for the long-term growth of Indian capital markets.
- ✚ **Strengthened Investor Protection Measures:** New regulations like mutual fund portfolio disclosures and regulations on takeover code are aimed at promoting investor protection in

India thus leading to increased confidence among all stakeholders involved with stock investment decisions.

✚ **Reduced speculative activities:** The enforcement of strict guidelines by SEBI such as derivatives trading margins along with ban on forward contracts provide a check against unregulated investments helping reduce manipulation risks and other frauds often associated with speculation activities.

✚ **Enhanced Market Efficiency & Corporate Governance Standards:** The implementation of rules regarding independent directors provide effective oversight measure reducing conflicts between managements enhancing efficiency levels and reviving investors' confidence in early stages companies who need capital for their business operations.

CONCLUSION

The Securities and Exchange Board of India (SEBI) has been hugely influential in modernizing the Indian stock market. It has brought in a host of regulations to ensure transparency, investor protection and fairness while conducting trading activities. In addition to creating trust among investors, it also helps stimulate capital formation due to increased confidence and market efficiency. SEBI's activities have also actively discouraged malpractices such as insider trading, thereby promoting healthy competition among companies with regards to disclosure of information as well as other ethical practices. The need for SEBI today is greater than ever before amid the global financial crisis; this dedicated regulator will help bring about stronger regulation for better investor protection in future years.

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