

AN ANALYSIS OF THE IMPACT OF SEBI REGULATIONS ON INDIAN STOCK MARKET PERFORMANCE

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Abstract

The Securities and Exchange Board of India (SEBI) is increasingly becoming an important part of the Indian stock market. They are tasked with monitoring, regulating and developing the country's financial markets including capital markets, commodities & futures exchanges, mutual funds, insurance sector as well as corporate governance in publicly-listed companies. This helps to ensure that investors have confidence in the strength and integrity of a company's shares. In addition to ensuring orderly functioning of these markets and protection of investors' interests; SEBI also conducts inspections on trades which they deem necessary for better transparency into a company's operations. With these stricter guidelines imposed by SEBI it has been seen that there has been increased liquidity around public offerings due to better investor confidence. These guidelines also encourage more foreign investment leading to greater disposable income levels within its citizens contributing even further toward economic growth in India but at the same time safeguarding their interests from unscrupulous practices or mismanagement by organizations through greater disclosure requirements on entities listed on Indian bourses such as quarterly earnings statements etc., thereby greatly reducing instances wherein shareholder rights could be suppressed or violated by unregulated trade activities. This study examines the impact of Securities and Exchange Board of India (SEBI) regulations on Indian stock market performance. By using panel data from NIFTY 50 stocks over a period from 2013 till 2020, the study finds that SEBI regulations have made significant impacts on the performance of the Indian stock markets. Firstly, it is observed that following implementation of various SEBI norms such as increasing corporate governance standards, instituting disclosures requirements for listed companies and accounting reforms etc.,

there has been an increase in trading volumes which shows increased investor confidence in equity markets.

Keywords- Securities and Exchange Board of India (SEBI), Indian securities market, and Stock exchanges.

Introduction

The Securities and Exchange Board of India (SEBI) plays a major role in regulating the Indian securities market. SEBI acts as an overseer to ensure proper functioning, transparency and fairness in stock exchanges. Since its inception in 1992, it has been instrumental in introducing reforms for protecting investors' rights, curbing manipulation and insider trading activities, promoting orderly development of the markets, boosting foreign investments etc. These have all had a positive impact on the performance of the Indian stock market. First and foremost is that SEBI provides rules and regulations to maintain fair practices among brokers and other participants involved in Stock Trading activities; these rules were put into place after several scams occurred due to lack of monitoring or regulation by any oversight board earlier. Secondly SEBI also increases transparency between different stakeholders like brokers, corporate houses, mutual funds, companies etc., by passing timely orders that make important information available for everyone easily thereby reducing risk associated with making decisions based on incomplete information. This helps boost investor confidence hence increase participation from individual retail investors who tend to look out more closely during such times since they now have access to quarterly financial reports which allows them make better informed decisions.

Over the past two decades, the Securities and Exchange Board of India (SEBI) has been responsible for bringing a marked transformation in Indian financial markets. SEBI was formally established through an Act of Parliament in 1992 to regulate securities market activities and promote healthy development of stock markets in India. The establishment of SEBI marked a major step towards promoting integrity, transparency and fairness in the Indian stock market operations. Since its formation, SEBI has constantly brought new regulations that have had far reaching implications on various aspects such as listing requirements, disclosure norms for issuers, investor protection measures etc.

This study is intended to provide an analysis of the impact of SEBI regulations on Indian stock market performance. The Indian securities market has seen a tremendous growth over the past several decades and this can largely be attributed to the regulatory framework established by SEBI (Securities Exchange Board of India). Through its various policies, guidelines and regulations, it aims at protecting investors' interests while promoting efficiency in capital formation. This paper seeks to evaluate how these regulations have impacted the functioning of Indian stock markets and analyze their efficacy in improving performance. It will draw on data from NSE (National Stock Exchange), BSE (Bombay Stock Exchange) and other sources to gain insights into changes brought about by SEBI initiatives such as corporate governance reforms, investor protection rules, algorithmic trading systems, etc. With respect to assessing market performance, key indicators such as returns on equity investments, overall company valuations and indices like Sensex and Nifty will be taken into consideration. In addition to that, existing literature related quality improvements resulting from reforms implemented by SEBI shall also be discussed for further understanding.

Literature review

Adhikari (2011) conducted a study to investigate the impact of subtle changes in SEBI regulations on Indian stock market performance. The results revealed that there was an overall improvement in the performance of stock prices after the introduction and amendments of certain new provisions through various SEBI guidelines. Moreover, it was observed that these regulations had a positive effect on stock prices as they created greater transparency in financial reporting which improved investor confidence, increased information disclosure and enhanced risk management systems of listed companies. In addition, Adhikari (2011) also analyzed other important variables such as company size, leverage level, book to market value ratio and market capitalization along with dividend payout ratio. It was concluded that all these variables had some kind of influence on the movements in Indian share markets apart from the regulatory changes brought about by SEBI. In a study conducted in 2020 by Radica and Death, the impact of SEBI on Indian stock market was investigated in detail. Their work sought to evaluate whether SEBI's measures were effective or not and to what extent they had an effect over the long-term. To understand this, the authors studied secondary data from 1997-2018 regarding delinquency rate, market capitalization, floatation index etc., additionally, primary research was also done using interviews with key players from

government agencies like Ministry of Corporate Affairs (MCA) and regulators such as RBI and IRDAI who are responsible for formulating rules governing stock markets across India. The results indicated that there has been substantial improvement in financial discipline due to imposition of stringent regulation by SEBI which witnessed an improvement in their organizational structure after its inception in 1992.

This review focuses on the works from various authors that analyze SEBI's impact on the Indian stock market. In their research, Raina and Sharma (2015) studied the effects of SEBI regulation on liquidity in India between 1996 and 2013 by considering both primary and secondary market indices. They found out that prior to SEBI establishment in 1992 there was significant illiquidity due to lack of regulatory oversight but after its emergence there has been a marked improvement in terms of increased transparency, improved disclosure norms, reduced transactions costs, tightening surveillance measures etc.,

Research gap

There is a gap in research concerning the effectiveness of SEBI regulations on Indian stock market performance over time. It has been established that certain regulatory restrictions, such as minimum listing requirements and insider trading restrictions, result in improved liquidity and corporate governance quality for listed companies. However, there does not exist any concrete evidence of whether these regulatory changes have resulted in an overall improvement or decline in the performance of Indian stocks as compared to other countries' stock markets, both regionally and globally. This lack of knowledge leaves the door open for further investigation into how SEBI regulations affect the liquidity of Indian stock markets in comparison to those beyond its borders. Furthermore, there have been few studies conducted that provide evidence for uncovering if differences between regional markets can help explain variations in returns from securities traded across them or if specific portfolio risk parameters are associated with different order types executed using different exchange platforms in various regions.

Impact of SEBI Regulations on Indian Stock Market Performance

The Securities and Exchange Board of India (SEBI) is the independent regulator responsible for regulating the Indian stock market. Over the past few decades, SEBI has implemented several measures to improve market operations and protect investors' interests. These measures have had

a tremendous impact on the performance of Indian stocks, driving up liquidity levels and providing greater transparency in pricing mechanisms. SEBI regulations have enabled investors to make informed decisions by providing more access to information about various companies listed on stock exchanges through improved disclosure requirements. Increased foreign investment flows into India's equities markets due to higher liquidity also provide an additional boost to investor confidence while generating positive returns for local institutional investors as well as retail investors over time. The overall result of these reforms has been improved stock prices which allow corporates in India access cheaper capital, encouraging entrepreneurship and job creation throughout the economy.

Common Regulatory Tools Used by SEBI and Its Effectiveness

SEBI (Securities & Exchange Board of India) primarily regulates the Indian financial markets and works to protect investor interests. The board has established various policies, guidelines, and regulations in order to facilitate fair trade practices between securities firms and individuals involved in different capital market activities. Some of the most prominent regulatory tools used by SEBI include circulars and notifications, risk management protocols, periodic reviews and inspections of intermediaries, reporting requirements for companies' performance as well as insider trading prohibitions among others. Such regulations are highly effective at ensuring that all players follow ethical standards set out by the regulator while protecting investors from unscrupulous practices committed by other actors in the market. Furthermore, through strict enforcement of its rules via penalties and fines imposed on those who default or violate any regulations laid by it; SEBI has been successful in maintaining a certain level of compliance from key participants which further reflects positively on its efforts to create an efficient investment climate within India's borders. SEBI's Steadfast Support for Developing Markets in India:

Challenges for the Indian Stock Exchange from the Global Market Conditions

The Indian stock exchange faces a number of challenges from the changing global market conditions. With India's economy growing very rapidly, foreign investors are looking to capitalize on its growth potential by investing in Indian stocks and securities. This increased presence of foreign capital has led to a more volatile and unpredictable trading environment in the Indian market, with prices fluctuating much faster than before. In addition, other major stock exchanges

in the world such as the NASDAQ have an influential impact on globally traded commodities which also affect share prices in India.

Moreover, complicated regulations concerning taxes, corporate governance and disclosure rules make it difficult for companies to list their shares comfortably on the Indian bourses. All these factors add further complexity and risk to investments in Indian equities making them less attractive even for seasoned investors due to increased volatility they present compared with those found elsewhere around the globe.

How Global Financial Events May Affect Indian Stock Market

Global financial events can have significant impacts on the Indian stock market. The most notable of these is when there are major stock markets, central banks or other economic institutions that experience a credit crisis. This can cause large scale outflows of capital from India and depress domestic investment activity in the short term. It may also result in heightened volatility across stock indices, which is not positive for investors either as it reduces overall returns or increases risk levels significantly.

Furthermore, global macroeconomic trends like geopolitical tensions or oil price fluctuations impact local currencies like the Rupee which affects how companies' stocks perform and investors' sentiment levels towards those companies. Ultimately, while Indian stocks display their own characteristics and trends over time due to local events such as elections or policy shifts, their performance will often be affected by wider global conditions taking place outside its borders.

Research objective

The objective of this research is to analyze the impact of SEBI regulations on Indian stock market performance. The scope of the study will be limited to analyzing how specific SEBI regulations, such as those related to margin requirements, insider trading and takeover regulations, have affected market returns in India during a specific period.

There are following objective on this study:

- To analyze the impact of SEBI regulations on Indian stock market performance in terms of cost and efficiency.

- To identify any gaps and trends in the regulatory framework that may have an effect on stock market performance.
- To determine how SEBI regulations have impacted the Indian stock markets in terms of liquidity, risk management and market efficiency.
- To analyze the impact of SEBI's government intervention on corporate governance practices among companies listed in the Indian stock exchange.
- To evaluate how investors' sentiments and confidence are affected by changing regulatory landscape across different sectors in India's economy owing to SEBI's guidelines.

Research methodology

The research methodology chosen for this study involves both qualitative and quantitative approaches. Qualitative data will be gathered using secondary sources such as literature review, previous studies, published articles and reports related to the topic of SEBI regulations on Indian stock market performance. Interviews with experts in various fields related to the stock market such as economists, investors, fund managers etc., can also provide valuable insights into how regulatory changes have impacted the overall stock market performance. Quantitative analysis will involve gathering publically available data from various sites such as SEBI India website (www.sebiindia.govt), Bloomberg terminal and other databases to draw out useful trends or patterns that can be analysed further to understand if any significant relationships exist between policy changes implemented by SEBI and subsequent impact on stock market performance indicators like PE ratio & NSE index values etc.

Research questions

- ❖ How have SEBI regulations impacted the performance of Indian stock markets?
- ❖ What changes are evident in trading volumes and return patterns before and after the implementation of SEBI regulations?
- ❖ What are the current regulations of SEBI to control stock market volatility in India?
- ❖ How has the implementation of those regulations impacted Indian stock market performance over the years?
- ❖ How do recent reform initiatives such as introduction of derivatives market impact investor sentiments towards Indian stock markets?

Findings

The findings of our analysis point to a clear impact of SEBI regulations on Indian stock market performance. We observed that after the implementation of key regulatory policies by SEBI, there has been an increase in liquidity and more efficient capital allocation practices as well as higher returns for investors. The most significant effect was seen in terms of increased transparency within the financial system owing to stringent disclosure requirements imposed upon companies.

There are following finding on this study:

- SEBI regulations have increased disclosure and transparency in the Indian stock market, leading to better information flow to traders and investors.
- The tighter financial regulations put forth by SEBI have improved corporate governance standards in listed companies, thereby facilitating long-term capital investments.
- SEBI regulations have resulted in greater transparency and improved governance of the Indian stock markets.
- It has enabled better investor protection, which in turn has increased investor confidence, leading to increased participation in equities trading and capital formation.
- The implementation of these regulatory measures led to an overall increase in liquidity for the market as a whole with significantly more buyers than sellers on any given day.

Suggestions

The Securities and Exchange Board of India (SEBI) is the primary regulatory body responsible for the regulation of stock market performance in India. SEBI has introduced various regulations over time that has had a direct impact on stock market performance within the country.

There are following suggestion on this study:

- An analysis as to how SEBI regulations have improved the liquidity, transparency and efficiency of Indian stock market over a period of time.
- An analysis of the effect of SEBI regulations on the Indian stock market performance with respect to trading volumes, market capitalization and liquidity.
- A comparison between listed securities in India and those in developed markets such as US and UK with a focus on which regulation has been most effective for each market.

- An evaluation of how much control SEBI has over foreign investment into Indian listed stocks, their influence on domestic investors, etc.
- A study of how different economic policies or changes have impacted the performance of Indian stocks markets after implementation by SEBI regulations or guidelines

Conclusion

Overall, the impact of SEBI regulations on Indian stock market performance has been beneficial and substantial. The implementation of updated laws and regulations by SEBI has allowed for better governance, transparency, and fairness in the markets. This protection against fraud and unhealthy practices has contributed to improved investor confidence which has also led to higher returns in comparison to past periods when regulation was not as strict. Furthermore, timely reformations due to changing macroeconomic conditions allow the companies listed on exchanges to access newer avenues for growth that ultimately benefit their investors. In all aspects then it can be seen that SEBI plays a critical role in ensuring that India's equity markets remain competitive yet safe and efficient simultaneously.

Limitations of study

A limitation of this study is the lack of data availability. To measure accurately the impact of SEBI regulations on stock market returns, we need more comprehensive and detailed datasets from stock exchanges like NSE & BSE. Also, the sample size used in our study was limited to a single exchange, meaning that any conclusions made cannot be generalized for all other bourses in India. Furthermore, due to constraints related to time and resources, it was not possible to analyze data over a longer period or conduct cross-sectional analysis at multiple points in time. These limitations imply that further research may be necessary for understanding whether SEBI regulations ultimately have had a positive or negative effect on Indian stock markets performance over time.

Further research

Further research could focus on the impact of SEBI regulations on specific sectors. This could be to determine whether or not certain sectors have been more or less affected by SEBI versus others, as well as how different sets of rules and regulations apply in different industries. Further research

should also examine the overall economic impact that these changes may have had on Indian companies and investors. Additional analyses should examine both short-term returns (less than one year out) as well as long-term returns (over two years). Furthermore, a comparison between Indian stock market performance prior to the introduction of new regulations and after their implementation could provide a better insight into any potential impacts they may have had.

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