



UNIT III

FINANCIAL MARKETS - II



8

CHAPTER

SECURITIES EXCHANGE BOARD OF INDIA (SEBI)

அறன்ஈனும் இன்பமும் ஈனும் திறனறிந்து
தீதின்றி வந்த பொருள்.

– குறள் 754



COUPLET

The wealth acquired with a knowledge of the proper means
and without foul practices will yield virtue and happiness.



Learning Objectives

To enable the students to understand the

- Meaning and Origin of SEBI
- Objectives, Features, Functions and Powers of SEBI
- Dematerialization
- Demat account
- Working of Demat account

8.01 Introduction



Securities and exchange Board of India (SEBI) was first established in the year 1988 as a non-statutory body for regulating the securities market. It was made as an autonomous body by The Government of India on 12 May 1992 and given statutory powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament. SEBI has its headquarters at the business district of BandraKurla Complex in Mumbai, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad respectively.

Chapter Synopsis

- 8.01 Introduction of SEBI
- 8.02 Objectives of SEBI
- 8.03 Functions of SEBI
- 8.04 Powers of SEBI
- 8.05 Dematerialization
- 8.06 Benefits of Dematerialization

Initially SEBI was a non statutory body without any statutory power. However, in 1992, SEBI was given additional statutory power by the Government of India through an amendment to the Securities and Exchange Board of India Act, 1992

The SEBI is managed by its members, which consists of following:

Organization Structure of SEBI



Securities and exchange board of India(SEBI) is an apex body that maintains and regulates our capital market. It was established in 1988 by Indian government but got the statutory powers in 1992. Well it plays a great role in Indian economy such as it...



1. Monitor's the working of mutual funds



2. Restricts illegal practices of firms



3. Plays a great role in protecting investors interest



4. Regulates working of stock exchanges



5. Conducts audit, inspection



6. Prohibits insider activity



8.02 Objectives of SEBI

The various objectives of a Stock Exchange are explained below

1. Regulation of Stock Exchanges

The first objective of SEBI is to regulate stock exchanges so that efficient services may be provided to all the parties operating there.

2. Protection to the Investors

The capital market is meaningless in the absence of the investors. Therefore, it is important to protect the interests of the investors. The protection of the interests of the investors means protecting them from the wrong information given by the companies in their prospectus, reducing the risk of delivery and payment, etc. Hence, the foremost objective of the SEBI is to provide security to the investors.

3. Checking the Insider Trading

Insider trading means the buying and selling of securities by directors Promoters, etc. who have access to some confidential information about the company and who wish to take advantage of this confidential information. This affects the interests of the general investors and is essential to check this tendency. Many steps have been taken to check insider trading through the medium of the SEBI.

4. Control over Brokers

It is important to supervise/check the activities of the brokers and other middlemen in order to control the capital market. To regulate their activities, it was necessary to establish the SEBI.

8.03 Functions of SEBI

Securities and Exchange Board of India (frequently abbreviated **SEBI**) is the nodal agency which safeguards the interests of an investor in the Indian Financial market. SEBI performs three key functions: **quasi-legislative, quasi-judicial and quasi-executive**. It drafts regulations, conducts

investigation & enforcement action and it passes rulings and orders.

- i. Safeguarding the interests of investors by means of adequate education and guidance. SEBI makes rules and regulation that must be followed by the financial intermediaries like portfolio exchanges, underwriters and merchant bankers, etc. It takes care of the complaints received from investors . Additionally, it issues notices and booklets for the information, assistance and protection of small investors.
- ii. Regulating and controlling the business on stock markets. Registration of brokers and sub-brokers is made mandatory and they have to abide by certain regulations and rules.
- iii. Conduct inspection and inquiries of stock exchanges, intermediaries and self-regulating organizations and to take appropriate measures wherever required. This function is carried out for organized working of stock exchanges and intermediaries.
- iv. Barring insider trading in securities.
- v. Prohibiting deceptive and unfair methods used by financial intermediaries operating in securities markets.
- vi. Registering and controlling the functioning of stockbrokers, sub-brokers, share transfer agents, bankers, trustees, registrars, merchant bankers, underwriters, portfolio managers, investment advisers and various other intermediaries who might be linked to securities markets in any manner.
- vii. SEBI issues Guidelines and Instructions to businesses concerning capital issues. Separate guidelines are provided for initial public issue made by listed companies, etc. It conducts research and publishes information beneficial to all market players (i.e. all buyers and sellers).
- viii. SEBI regulates mergers and acquisitions as a way to protect the interest of investors. For this, SEBI has released appropriate guidelines with the intention that such mergers and takeovers won't be at the expense of small investors.



- ix. Registering and controlling the functioning of collective investment schemes such as mutual funds. SEBI has created regulations and guidelines that should be followed by mutual funds. The aim is to maintain effective supervision and avoid any unfair and anti-investor actions.
- x. Promoting self-regulatory organization of intermediaries. It has extensive legal powers. Having said that, self-regulation is preferable to external regulation. The function of SEBI is to motivate financial intermediaries to create their professional associations and manage harmful actions of their members. It can also make use of its powers when needed for protection of investors.
- xi. Carrying out steps in order to develop the capital markets by having an accommodating approach.
- xii. Provide appropriate training to financial intermediaries. This function is great for healthy environment in the stock markets and also for the protection of investors.
- xiii. Levying fee or any other type of charges to carry out the purpose of the Act.
- xiv. Performing functions that may be assigned to it by the Central Government of India.

8.04 Powers of SEBI

The various powers of a Stock Exchange are explained below

1. Powers Relating to Stock Exchanges & Intermediaries

SEBI has wide powers regarding the stock exchanges and intermediaries dealing in securities. It can ask information from the stock exchanges and intermediaries regarding their business transactions for inspection or scrutiny and other purpose.

2. Power to Impose Monetary Penalties

SEBI has been empowered to impose monetary penalties on capital market intermediaries and other participants for

a range of violations. It can even impose suspension of their registration for a short period.

3. Power to Initiate Actions in Functions Assigned

SEBI has a power to initiate actions in regard to functions assigned. For example, it can issue guidelines to different intermediaries or can introduce specific rules for the protection of interests of investors.

4. Power to Regulate Insider Trading

SEBI has power to regulate insider trading or can regulate the functions of merchant bankers.

5. Powers Under Securities Contracts Act

For effective regulation of stock exchange, the Ministry of Finance issued a Notification on 13 September, 1994 delegating several of its powers under the Securities Contracts (Regulations) Act to SEBI.

SEBI is also empowered by the Finance Ministry to nominate three members on the Governing Body of every stock exchange.

6. Power to Regulate Business of Stock Exchanges

SEBI is also empowered to regulate the business of stock exchanges, intermediaries associated with the securities market as well as mutual funds, fraudulent and unfair trade practices relating to securities and regulation of acquisition of shares and takeovers of companies.

8.05 Dematerialization (DEMAT)

Dematerialization is the process by which physical share certificates of an investor are taken back by the company/registrar and destroyed. Then an equivalent number of securities in the electronic form are credited to the investors account with his Depository Participant.

Dematerialization is done at the request of the investor. Investors will first have to open an account with a DP (Depository Participant) and then request for dematerialization of certificates through the DP.

Purchases made by an investor are credited to his account and sales are debited. The securities held in dematerialized form are fungible. In other words they do not have any distinguishing features. Dematerialized shares do not have any distinctive numbers. All the holdings of a particular security will be identical and interchangeable.

Trading in dematerialized shares commenced on the NSE in December 1996 where Reliance Industries was the first company to trade its 100 shares in demat form. In case of the BSE, dematerialization of shares commenced in the year December 1997.

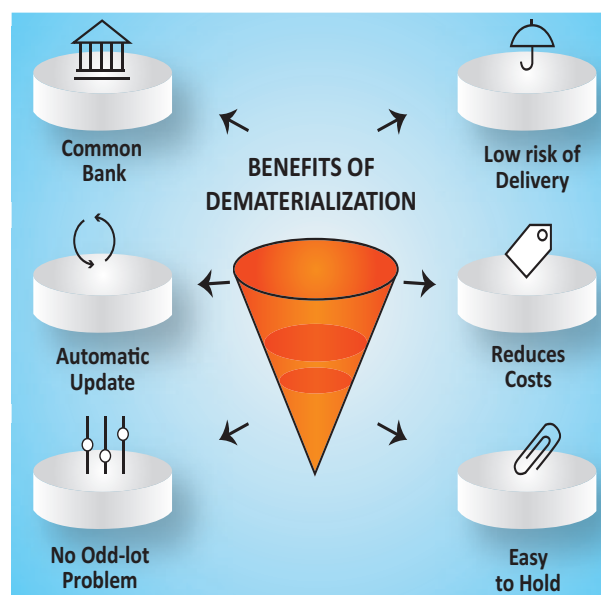
8.06 Benefits of Dematerialization

- i. The risks pertaining to physical certificates like loss, theft, forgery and damage are eliminated completely with a DEMAT account.
- ii. The lack of paperwork enables quicker transactions and higher efficiency in trading.
- iii. Trading has become more convenient as one can trade through computers at any location, without the need of visiting a broker.
- iv. The shares that are created through mergers and consolidation of companies are credited automatically in the DEMAT account.
- v. As all the transactions occur through the depository participant, a trader does not have to communicate individually with each and every company.
- vi. There is no need for stamp duty for transfer of securities; this brings down the cost of transaction significantly.
- vii. Certain banks also permit holding of both equity and debt securities in a single account.

viii. Banks also provide dedicated and trained customer care officers to assist through all the procedures.

ix. A DEMAT account holder can buy or sell any amount of shares. However, there is limit on the number of transactions done using physical securities.

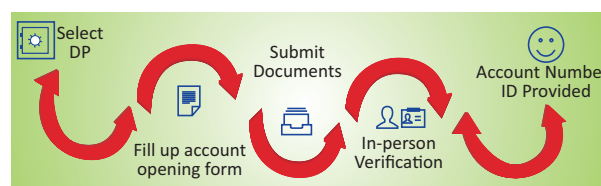
x. One can also choose to take a loan against securities which are held in a DEMAT account by offering it as a collateral to the lender.



What is Demat Account?

A demat account holds all the shares that are purchased in electronic or dematerialized form. Basically, a demat account is to shares what a bank account is to money. Like the bank account, a demat account holds the certificates of financial instruments like shares, bonds, government securities, mutual funds and exchange traded funds (ETFs).

How to Open a Demat Account?



- i. Fill up an account opening form and submit along with copies of the required documents and a passport-sized photograph. You also need to have a PAN card. Also carry the original documents for verification.
- ii. You will be provided with a copy of the rules and regulations, the terms of the agreement and the charges that you will incur.
- iii. During the process, an In-Person Verification would be carried out. A member of the DP's staff would contact you to check the details provided in the account opening form.
- iv. Once the application is processed, the DP will provide you with an account number or client ID. You can use the details to access your demat account online.
- v. As a demat account holder, you would need to pay some fees like the annual maintenance fee levied for maintenance of account and the transaction fee levied for debiting securities to and from the account on a monthly basis. These fees differ from every service provider (called a Depository Participant or DP). While some DPs charge a flat fee per transaction, others peg the fee to the transaction value, and are subject to a minimum amount. The fee also differs based on the kind of transaction (buying or selling). In addition to the other fees, the DP also charges a fee for converting the shares from the physical to the electronic form or vice-versa.
- vi. Minimum shares: A demat account can be opened with no balance of shares. It also does not require that a minimum balance be maintained.

What are the documents required for a Demat Account?

You need to submit proof of identity and address along with a passport size photograph and the account opening form. Only photocopies of the documents are required for submission, but originals are also required for verification.

Proof of identity: PAN card, voter's ID, passport, driver's license, bank attestation, IT returns, electricity bill, telephone bill, ID cards with applicant's photo issued by the central or state government and its departments, statutory or regulatory authorities, public sector undertakings (PSUs), scheduled commercial banks, public financial institutions, colleges affiliated to universities, or professional bodies such as ICAI, ICWAI, ICSI, bar council etc.

Proof of address: Ration card, passport, voter ID card, driving license, bank passbook or bank statement, verified copies of electricity bills, residence telephone bills, leave and license agreement or agreement for sale, self-declaration by High Court or Supreme Court judges, identity card or a document with address issued by the central or state government and its departments, statutory or regulatory authorities, public sector undertakings (PSUs), scheduled commercial banks, public financial institutions, colleges affiliated to universities and professional bodies such as ICAI, ICWAI, Bar Council etc.

Key Words

Dematerialization
Depository
Investors



PAN, or permanent account number, is a unique 10-digit alphanumeric identity allotted to each taxpayer by the Income Tax Department under the supervision of the Central Board of Direct Taxes. It also serves as an identity proof.

Format of DEMAT APPLICATION FORM



Internal Ref. No. 1

STATE BANK OF INDIA

Application Form for Opening a Demat Account
Individual ☐ **NRI** ☐ **Foreign National**

Reference Sr. No.

Branch Code
 Branch Name
 Pl. Open Demat A/C

Br. Manager

Branch Seal

Please fill all the details in BLOCK LETTERS in English															Br. Code		Year		Sr. No.								
Application No.										Ref. No.																	
Date										Account No.		1	3	0	1	9	3	0	0								

(To be filled by the Depository Participant/Br.)

I/We request you to open a Demat Account in my / our name/s as per the following details :

Sole / First Holder's Details

First Name																	
Middle Name																	
Father / Husband Name																	
Title										Mr.	Mrs.	Ms.	Other			Suffix	
Correspondence Address																	
City										State							
Country										PIN							
Telephone No.										Fax No.							
PAN / GIR No.																	
IT Circle Ward / District										Mobile No.							
E-mail ID																	
MAPIN Code																	

Join Holders - Second Holder's Details

First Name																	
Middle Name																	
Last Name																	
Father / Husband Name																	
Title										Mr.	Mrs.	Ms.	Other			Suffix	
PAN / GIR no.																	
IT Circle Ward / District										Mobile No.							
Date of Birth																	
E-mail ID																	
MAPIN Code																	

Join Holders - Third Holder's Details

First name																	
Middle Name																	
Last Name																	
Father / Husband Name																	
Title										Mr.	Mrs.	Ms.	Other			Suffix	
PAN / GIR No.																	
IT Circle Ward / District										Mobile No.							
Date of Birth																	
E-mail ID																	
MAPIN Code																	



Case Study

- a. Aishwarya's father has gifted her the shares of a large cement company with which he had been working. The securities were in physical form. She already has a bank account and does not possess any other forms of securities.

She wishes to sell the shares and approached a registered broker for the purpose. Mention one mandatory detail which she will have to provide with the broker.

- b. Mr.Kumar was the Chairman of Thangam Bank. The bank was earning good profits. Shareholders were happy as the bank was paying regular dividends. The market price of their share was also steadily rising. The bank was about to announce taking over the 'Trinity Bank'. Mr.Kumar knew that the share price of Thangam Bank would rise on this announcement. Being a part of the bank, he was not allowed to buy shares of the bank. He called one of his rich friends Mr.Prabhu and asked him to invest ₹5 crores in shares of his bank promising him the capital gains.

As expected, the share prices went up by 40% and the market price of Prabhu's shares was now ₹7 crores. He earned a profit of ₹2 crores. He gave ₹1 crore to Mr.Kumar and kept ₹1 crore with himself. On regular inspection and by conducting enquires of the brokers involved, the Securities and Exchange Board of India (SEBI) was able to detect this irregularity. The SEBI imposed a heavy penalty on Mr.Kumar.

By quoting the lines from the above paragraph, identify and state any two functions that were performed by SEBI in the above case.



For Own Thinking

1. Collect the information on various measures taken by SEBI to protect the interests of investors since its inception.
2. Send a group of students to a trading terminal in your city to gain first hand information on securities trading and prepare a report.
3. Collect information about SEBI action for Investor Protection taken during last two years.



For Own Thinking

1. Prepare a report on the role of SEBI in regulating the Indian stock market.
You can get this information on its website namely www.sebi.gov.in. Do you think something else should be done to increase the number of investors in the stock market?
2. **Investors' Grievances Redressal**
 - i. SEBI and Stock Exchanges have set up investor grievance redressal cells for fast redressal of investor complaints relating to securities markets
 - ii. SEBI has directed all the stock exchanges, registered brokers, sub-brokers, depositories and listed companies to make a provision for a special email ID of the grievance redressal division/ compliance officer for the purpose of registering complaints by the investors
 - iii. SEBI has set up a mechanism for redressal of investor grievances arising from the issue process
 - iv. SEBI provides "walk-in" service at its head office at Mumbai and its regional offices at New Delhi, Chennai, Kolkata and Ahmedabad on all working days. Investors can meet the officials and get guidance relating to the grievances that they may have against issuers. Investors can also meet the higher officials of SEBI on specified working days
 - v. Investors can lodge their complaints with SEBI at: investorcomplaints@sebi.gov.in
 - vi. Investors can approach SEBI for any assistance at: asksebi@sebi.gov.in



Exercise



I. Choose the Correct Answers:

1. Securities Exchange Board of India was first established in the year ____
a) 1988 b) 1992
c) 1995 d) 1998
2. The headquarters of SEBI is ____
a) Calcutta b) Bombay
c) Chennai d) Delhi
3. Registering and controlling the functioning of collective investment schemes as ____
a) Mutual Funds b) Listing
c) Rematerialisation d) Dematerialization
4. SEBI is empowered by the Finance ministry to nominate ____ members on the Governing body of every stock exchange.
a) 5 b) 3
c) 6 d) 7
5. Trading is dematerialized shares commenced on the NSE is ____
a) January 1996 b) June 1998
c) December 1996 d) December 1998

Answers:

1	a	2	b	3	a	4	d	5	c
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II. Very Short Answer Questions:

1. Write a short notes on SEBI.
2. Write any two objectives of SEBI.
3. Mention the headquarters of SEBI.
4. What are the various ID proofs?

III. Short Answer Questions:

1. What is meant by Dematerialization?
2. What are the documents required for a Demat account?
3. Draw the organization structure of SEBI.

IV. Long Answer Questions:

1. What are the functions of SEBI? (any 5)
2. Explain the powers of SEBI. (any 5)

References:

1. Sundar K. Business Organisation, Vijay Nichole Imprints Private Ltd., Chennai, 2017.
2. Gurusamy S. Financial Markets and Institutions, Vijay Nichole Imprints Private Ltd., Chennai, 2012.