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**ROLE OF SECURITIES & EXCHANGE BOARD OF
INDIA (SEBI): ANALYSIS ON SPECIFIC TO
PROTECTIVE FUNCTION OF SEBI**

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Role of Securities & Exchange Board of India (SEBI): Analysis on Specific to Protective Function of SEBI

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Abstract – Different investment avenues are available to investors. Mutual funds also offer good investment opportunities to the investors. Like all investments, they also carry certain risks. The investors should compare the risks and expected yields after adjustment of tax on various instruments while taking investment decisions. The investors may seek advice from experts and consultants including agents and distributors of mutual funds schemes while making investment decisions.

With an objective to make the investors aware of functioning of mutual funds, an attempt has been made to provide information in question-answer format which may help the investors in taking investment decisions.

Keywords: Investors, Mutual Funds, SEBI

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1. INTRODUCTION

With the growth in the dealings of stock markets, lot of malpractices also started in stock markets such as price rigging, 'unofficial premium on new issue, and delay in delivery of shares, violation of rules and regulations of stock exchange and listing requirements. Due to these malpractices the customers started losing confidence and faith in the stock exchange. So government of India decided to set up an agency or regulatory body known as Securities Exchange Board of India (SEBI).

The Organizational Structure of SEBI:

1. SEBI is working as a corporate sector.
2. Its activities are divided into five departments. Each department is headed by an executive director.
3. The head office of SEBI is in Mumbai and it has branch office in Kolkata, Chennai and Delhi.
4. SEBI has formed two advisory committees to deal with primary and secondary markets.
5. These committees consist of market players, investors associations and eminent persons.

Certain structural changes have also been made in the mutual fund industry, as part of which mutual funds are required to set up asset management companies with fifty percent independent directors, separate board of trustee companies, consisting of a minimum fifty percent of independent trustees and to appoint independent custodians. This is to ensure an arm's length relationship between trustees, fund managers and custodians, and is in contrast with the situation prevailing earlier in which all three functions were often performed by one body which was usually the sponsor of the fund or a subsidiary of the sponsor.

2. REVIEW OF LITERATURES:

Role of SEBI in Preserving the Shareholders' Interests through Regulation over Intermediaries:
One of the main objectives of SEBI is 'Promotion of efficient services by brokers, merchant Bankers and other intermediaries so that they become competitive and professional.'

Risks are inherent in any competitive market, and investors benefit from competitive markets so therefore management of the intermediaries are required to develop and implement effective processes and management systems commensurate with their business operations and risk characteristics in accordance with the general principles set out in

the regulation (Friend *et. al.*, 1995. Friend *et. al.*, 2007).

In order to interpose between issuers and investors, regulators recognize various classes of intermediaries in the capital market. Regulation through intermediaries has been found, perhaps more effective in certain spheres of activity. SEBI, over the period, has recognized many types of capital market intermediaries in India. Intermediaries such as merchant bankers, underwriters, debenture trustees, bankers to an issue, registrars to an issue and share transfer agents and portfolio manager are the intermediaries that function in the inter alia in the primary markets. Regulating and registering the workings of such intermediaries' forms and essential function of the SEBI.

Role of SEBI in regulating Insider Trading:

Company insiders have information unavailable to the public. These individuals have firsthand knowledge of what the company is doing and better information concerning what the future might hold. If there are likely problems for the company in the future, such as poor earnings, slow growth, or lawsuits, then insiders can sell their stock before these events happen. When this information becomes public, the stock's price should decrease. However, this price decrease occurs after the insider has sold his or her shares, thus avoiding the loss. In this case the insider beats the market. On the other hand, insiders know when their company has a bright future, high potential earnings, innovative products being developed, etc. When the future looks bright, insiders can buy shares before the public becomes aware of these facts. The price, later, fully increases to represent the positive information. In both cases, insiders use private information to beat the market (Friend, *et. al.*, 1970. Friend *et. al.*, 2003. Garodia, Sunil, 1991).

Earlier, the concept of insider trading was limited to the aspect of a company insider tipping of an outsider and the outsider using the tip and trading in the company's shares, this constitutes a breach of fiduciary duty owed by the insider to the company's shareholders; it was called the classical theory of insider trading (Graham, *et. al.*, 1962. Haslem, John 1988. Hazard, *et. al.*)

3. PROTECTIVE FUNCTIONS:

These functions are performed by SEBI to protect the interest of investor and provide safety of investment.

As protective functions SEBI performs following functions:

(i) It Checks Price Rigging:

Price rigging refers to manipulating the prices of securities with the main objective of inflating or depressing the market price of securities. SEBI

prohibits such practice because this can defraud and cheat the investors.

(ii) It Prohibits Insider trading:

Insider is any person connected with the company such as directors, promoters etc. These insiders have sensitive information which affects the prices of the securities. This information is not available to people at large but the insiders get this privileged information by working inside the company and if they use this information to make profit, then it is known as insider trading, e.g., the directors of a company may know that company will issue Bonus shares to its shareholders at the end of year and they purchase shares from market to make profit with bonus issue. This is known as insider trading. SEBI keeps a strict check when insiders are buying securities of the company and takes strict action on insider trading.

(iii) SEBI prohibits fraudulent and Unfair Trade Practices:

SEBI does not allow the companies to make misleading statements which are likely to induce the sale or purchase of securities by any other person.

(iv) SEBI undertakes steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities.

(v) SEBI promotes fair practices and code of conduct in security market by taking following steps:

- (a)** SEBI has issued guidelines to protect the interest of debenture-holders wherein companies cannot change terms in midterm.
- (b)** SEBI is empowered to investigate cases of insider trading and has provisions for stiff fine and imprisonment.
- (c)** SEBI has stopped the practice of making preferential allotment of shares unrelated to market prices.

CONCLUSION:

These functions are performed by the SEBI to promote and develop activities in stock exchange and increase the business in stock exchange. Under developmental categories following functions are performed by SEBI:

- i.** SEBI promotes training of intermediaries of the securities market.
- ii.** SEBI tries to promote activities of stock exchange by adopting flexible and adoptable approach in following way:

- iii. SEBI has permitted internet trading through registered stock brokers. http://www.sebi.gov.in/faq/mf_faq.html
- iv. SEBI has made underwriting optional to reduce the cost of issue. <http://www.yourarticlelibrary.com/economics/14-important-steps-taken-by-sebi-for-regulating-mutual-funds-in-india/1335/>
- v. Even initial public offer of primary market is permitted through stock exchange. <http://www.yourarticlelibrary.com/education/sebi-the-purpose-objective-and-functions-of-sebi/8762/>
- vi. SEBI undertakes steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities.
- vii. SEBI promotes fair practices and code of conduct in security market by taking following steps:
- viii. SEBI has issued guidelines to protect the interest of debenture-holders wherein companies cannot change terms in midterm.

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