Rohini college of Engineering and Technology
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Unit III ,

Securities and Exchange Board of India

CONTENTS

After studying this unit, you will be able to:

- Know the guidelines
- State the types of exchanges Identify
- national exchange
- List the regional exchange or local stock exchange

Introduction

SEBI is the Regulator for the Securities Market in India. The Securities and Exchange Board of India was established in 1988 and was given the statutory status on April, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as:

"....**.to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto**".

5.1 SEBI Functions and Responsibilities

Chapter IV of the SEBI Act, 1992 deals with the powers and functions of the board. SEBI has to be responsive to the needs of three groups, which constitute the market:

1. Issuers of securities
2. Investors
3. Market intermediaries.

SEBI has three functions rolled into one body quasi-legislative, quasi-judicial and quasi-executive. It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity. Though this makes it very powerful, there is an appeals process to create accountability. There is a Securities Appellate Tribunal which is a three-member tribunal. A second appeal lies directly with the Supreme Court.

5.2 Guidelines

SEBI has enjoyed success as a regulator by pushing systemic reforms aggressively and successively.

Example: On April 1, 2003, SEBI made it compulsory for all transactions in all groups of securities in the equity segment and fixed income securities listed on BSE, to be settled within 2 days after the trade day. (T+2 rolling settlement). This made a quick movement of the market to get electronic and paperless.

SEBI has been active in setting up the regulations as required under law. Section 11 of the Act lays down that it shall be the duty of the board to protect the interests of the investors in securities and to promote the development of and to regulate the securities markets by such measures as it thinks fit. These measures would include:

1. Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities market in any manner.
2. Registering and regulating the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies and such other intermediaries as the board may, by notification, specify in the behalf.
3. Registering and regulating the working of venture capital funds and collective investment schemes, including mutual funds.
4. Promoting and regulating self-regulatory organizations.
5. Prohibiting fraudulent and unfair trade practices relating to securities markets.
6. Promoting investors education and training of intermediaries of securities markets.
7. Prohibiting insider trading in securities.
8. Regulating substantial acquisition of shares and takeover of companies.
9. Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organizations in the securities market
10. Performing such functions and exercising such powers under the provisions of the Securities Contracts Act, 1956, as may be delegated to it by the Central Government.
11. Levying fees or other charges for carrying out the purposes of this section.
12. Conduction research for the above purposes.

Caselet

SEBI eases Lending Disclosure Norms for FIIs

securities lent by them to overseas entities (for the purpose of short selling) on a

S weekly rather than a daily basis.

The information will be submitted every Friday and SEBI will make it public the following Tuesdays This circular will be implemented from July 2.

The first such report will be submitted to SEBI on July 9 and it will be made public on July 13, said the SEBI circular.

According to the current guidelines, FIIs have to submit reports to the markets regulator on a daily basis and the details are made public by SEBI on Tuesdays and Fridays.

Participatory Notes issuing FIIs are required to submit details regarding "any fresh short positions" to SEBI immediately, the circular said.

Brokers are of the view this will not make much difference to the Securities Lending and Borrowing segment as there is hardly in activity happening in it.

The exchanges of India can be divided into national, regional or local exchanges. A detailed explanation of each is as follows:

National Exchange

The National Stock Exchange of India Limited (NSE), is a Mumbai-based stock exchange. It is the second largest stock exchange in India in terms of daily turnover and number of trades, for both equities and derivative trading. Though a number of other exchanges exist, NSE and the Bombay Stock Exchange are the two most significant stock exchanges in India, and between them are responsible for the vast majority of share transactions. The NSE's key index is the S&P CNX Nifty, known as the Nifty, an index of fifty major stocks weighted by market capitalisation.

NSE is mutually-owned by a set of leading financial institutions, banks, insurance companies and other financial intermediaries in India but its ownership and management operate as separate entities.

NSE is the third largest Stock Exchange in the world in terms of the number of trades in equities. It is the second fastest growing stock exchange in the world with a recorded growth of 16.6%.

NSE has remained in the forefront of modernization of India's capital and financial markets, and its pioneering efforts include:

1. Being the first national, anonymous, electronic Limit Order Book (LOB) exchange to trade securities in India. Since the success of the NSE, existent market and new market structures have followed
2. the "NSE" model.
3. Setting up the first clearing corporation "National Securities Clearing Corporation Ltd." in India. NSCCL was a landmark in providing innovation on all spot equity market (and later derivatives market) in India.
4. Co-promoting and setting up of National Securities Depository
5. Limited, first depository in India.
6. Setting up of

7. S&P CNX Nifty.
8. NSE pioneered commencement of Internet Trading in February 2000, which led to the wide popularization of the NSE in the broker community.
9. Being the first exchange that, in 1996, proposed exchange traded derivatives, particularly on an equity index, in India. After four years of policy and regulatory debate and formulation, the NSE was permitted to start trading equity derivatives.
10. Being the first and the only exchange to trade GOLD ETFs (exchange traded funds) in India.
11. NSE has also launched the NSE-CNBC-TV18 media centre in association with CNBC- TV18.

Currently, NSE has the following major segments of the capital market:

1. Equity
2. Futures and Options
3. Retail Debt Market
4. Wholesale Debt Market
5. Currency futures.

It is the one of the most important stock exchanges in the world.

There are 23 stock exchanges in India. Among them two are national level stock exchanges namely Bombay Stock Exchange (BSE) and National Stock Exchange of India (NSE). The rest 21 are Regional or Local Stock Exchanges (RSE).

List of Regional Stock Exchanges in India

Ahmedabad Stock Exchange

- Bangalore Stock Exchange
- Bhubaneshwar Stock Exchange
- Calcutta Stock Exchange
- Cochin Stock Exchange
- Coimbatore Stock Exchange
- Delhi Stock Exchange
- Guwahati Stock Exchange

- Hyderabad Stock Exchange
  - Jaipur Stock Exchange
  - Ludhiana Stock Exchange
  - Madhya Pradesh Stock Exchange
  - Madras Stock Exchange
  - Magadh Stock Exchange
  - Mangalore Stock Exchange
  - Meerut Stock Exchange
  - OTC Exchange of India
  - Pune Stock Exchange
  - Saurashtra Kutch Stock Exchange
  - Uttar Pradesh Stock Exchange
  - Vadodara Stock Exchange.

- The Regional Stock Exchanges started clustering from the year 1894, when the first RSE, the Ahmedabad Stock Exchange (ASE) was established. In the year 1908, the second in the series, Calcutta Stock Exchange (CSE) came into existence.

During the early sixties, there were only few recognized RSEs in India namely Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore. The number remained unchanged for the next two decades. 1980s was the turning point and many RSEs was incorporated. The latest is Coimbatore Stock Exchange and Meerut Stock Exchange.

A new share trading platform called the BSEIndonext, inaugurated recently, might at best provide a lifeline to regional stock exchanges. These have been fast losing business to the two principal stock exchanges, the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). A more optimistic inference seems premature if recent stock exchange history is anything to go by. Until the mid-1990s the regional stock exchanges were significant players in the Indian
capital market. Company law as well as capital market rules and regulations gave them a sizable captive business from companies located in their areas.

A company going public had to have its shares listed in the regional stock exchange nearest to its place of incorporation and only optionally with the BSE. In case of oversubscription, it was the regional exchange that approved the allotment pattern. Companies having a large market capitalisation as well as a wide branch network chose to have their shares listed in many regional stock exchanges as well as in the BSE. A major reason for the survival of regional stock exchanges was seen in the slow pace of technological progress. Well into the 1990s, Indian stock exchanges in general were laggards in adopting communication technology that was transforming bourses in the U.S. and Europe. Regional exchanges could still conduct trade in isolation from one another and from the BSE. This had several undesirable consequences: illiquidity of stocks, possibilities of manipulation, and arbitrage were some of them.

A vastly expanded reach was one of the major benefits the new technology conferred on the stock exchanges. Significantly improved trading and settlement practices resulted. These advantages were dramatically demonstrated by the advent of the NSE; it came into being in November 1994 with a specific mandate to develop a better model than the existing exchanges. Adopting the state of the art in technology and stock exchange management skills — the NSE is the only exchange run wholly by professionals — the new exchange soon acquired pre-eminence. Investors in many centres, outside the metros and even in semi urban areas, could trade on the all-India exchange. Very soon the BSE followed suit with its own "BOLT" system. The marginalisation of the regional stock exchanges became complete. Many large corporates, not perceiving any benefit in sticking to a regional exchange, opted out. This process was facilitated by the changed rules. Simultaneously, as part of stock market reform in India, exchanges were required to professionalise their management and change their organisational structure from a "mutual" basis — essentially a club type format with stock brokers as the only members — to a "demutual" basis, a corporate form. That move has gathered momentum with the Government amending the relevant legislation.

Will the regional exchanges adapt to the requirements of technology and organisational restructuring and remain viable entities? Until recently many experts felt the regional exchanges would go the way of many smaller exchanges in the developed world. However, the advent of Indonext opens up many possibilities for survival by coming together and trading through a new platform specially designed for the stocks of small and medium companies. As a rule such stocks do not have liquidity. The hope is that the new platform will pool the resources of its 18 members and overcome the deficiencies of trading in illiquid stocks and small exchanges. There have been some tall claims of Indonext paving the way for a strong all-India exchange that would eventually be up in competition with the BSE and the NSE. A more realistic view is that the new platform will give regional exchanges a lease of life.