http://ijopaar.com; 2016 Vol. 3(2); pp. 153-159

SEBI: A DIRECTIVE HAND FOR CAPITAL MARKETS

Vivek Kumar Tiwari

Assistant Professor,

Career Convent Girls Degree College, Lucknow, India

Email: vivek.tiwari020@gmail.com

Date of revised paper submission: 27th August 2016; Date of acceptance: 12st September 2016
Date of publication: 30th September 2016; Impact Factor: 3.498; Quality Factor: 4.39
***First Author / Corresponding Author; Paper ID: C16310**

Abstract

This paper primarily focuses on Indian capital markets working under the guiding force of SEBI.This study also focuses on identifying the flaws in the Indian financial system. It consists of role of SEBI in Indian stock market. SEBI is the regulator for the securities market in India. It was formed officially by the Government of Indiaon 12 April 1988 and given statutory powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament. Being the study descriptive in nature, findings have been made through theoretical analysis in order to know the impact of SEBI on Indian capital market and to provide in-depth analysis of the Indian stock market.

Keywords: Indian capital market, flaws, SEBI, stock market.

1. Introduction

The capital market plays a very important role in promoting economic growth through the mobilization of long-term savings and the savings get invested in the economy for productive purpose. The capital market in India is a well-integrated structure and its components include stock exchanges, developed banks investment trusts, insurance corporations and provident fund organization. It caters to the varied needs for capital of agriculture, industrial and trading sectors of the economy. There are two important operations carried on in these markets. The raising the new capital and Trading in the securities already issued by the companies. The capital market deals with capital. Capital Market is generally understood as a market for long term funds and investments in long term instruments available in this market. Capital markets mean the market for all the financial instruments, short term and long term as so commercial industrial and government paper.

The capital market is a market where borrowing and lending of long term funds takes place. Capital market deals in both, debt and equity. In these markets productive capital is raised and made available to the corporate. The governments both central and state raise money in the capital market through the issue of government securities. Capital market refers to all the institutes and mechanisms of raising medium and long-term funds, through various instruments available like shares, debentures, bonds etc.

With the pace of economic reforms followed in India, the importance of capital markets has grown in the last ten years. Corporate both in the private sector as well as in the public sector raise thousands of crores of rupees in these markets. The governments, through Reserve Bank of India, as well as financial institutes also raise a lot of money from these markets. The capital market serves a very useful purpose by pooling the savings. The capital markets encourage capital formation in the country. The capital markets mobilize savings of the households and of the industrial concerns. Such savings are then invested for productive purposes. Capital markets also facilitate the growth of the industrial sector, as well as the other sectors of the economy. The capital markets provide funds for the projects in backward areas. Thus, Capital markets generate employment in the country.

2. Objectives of the study

1. To gain insight into the capital markets in India.

2. To examine the roles of capital market in an economy.

3. To estimate and analyse the growth trend of the stock market.

4. To identify the loopholes in the financial system that allows capital market scams to happen and suggest a suitable course of action to avoid them.

3. Research methodology

This study is mainly based on secondary data which has been gathered from various newspapers, journals, magazines and websites for this purpose to know insights about the Indian capital market and the Impact of SEBI on Indian capital market.

4. What is the 'Stock Market'

The stock market is the market in which shares of publicly held companies are issued and traded either through exchanges or over-the-counter markets. Also known as the equity market, the stock market is one of the most vital components of a free-market economy, as it provides companies with access to capital in exchange for giving investors a slice of ownership in the company.

5. Types of stock market in India

Bombay Stock Exchange

The Bombay/Mumbai Stock Exchange is India's oldest. Commonly called the BSE, it was established in 1875 and includes more than 6,000 stocks. The BSE is the largest stock exchange in South Asia and is rapidly becoming one of the biggest in the world due to India's economic growth. The most commonly watched BSE index is called the sensitive index, or Sensex, of 30 large stocks.

National Stock Exchange

The National Stock Exchange, also located in Bombay/Mumbai, is India's other dominant stock market along with the BSE. The rapidly growing exchange was founded in 1992. The NSE and BSE are responsible for the vast majority of trading volume in India. The NSE's best-known index is the S&P CNX Nifty, which comprises the stocks of 50 large companies.

Other Stock Exchanges

Although the NSE and BSE are the two largest stock markets in India, there are a total of 22 stock exchanges in the country. They are located in other large Indian cities including Ahmedabad, Bangalore, Calcutta, Chennai and Delhi. There is also an over-the-counter stock exchange in India that is used to invest in smaller companies.

6. Importance or Functions of Stock market:

The main functions of stock market are as follows:

1. Providing a ready market.
2. Providing quoting market prices.
3. Providing facilities for working.
4. Safeguarding activities for investors.
5. Operating a compensation fund.
6. Creating the discipline.
7. Checking functions.
8. Adjustment of equilibrium.
9. Maintenance of liquidity.
10. Promotion of the habit of saving.
11. Refining and advancing the industry.
12. Promotion of capital formation.
13. Increasing Govt. Funds.

7. Role of capital markets in an economy

- Provides an important alternative source of long-term finance for long-term productive investments. This helps in diffusing stresses on the banking system by matching long-term investments with long-term capital.
- Provides equity capital and infrastructure development capital that has strong socio-economic benefits - roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. - ideal for financing through capital markets via long dated bonds and asset backed securities.
- Provides avenues for investment opportunities that encourage a thrift culture critical in increasing domestic savings and investment ratios that are essential for rapid industrialization.
- Encourages broader ownership of productive assets by small savers to enable them benefit from India's economic growth and wealth distribution. Equitable distribution of wealth is a key indicator of poverty reduction.
- Promotes public-private sector partnerships to encourage participation of private sector in productive investments.

- Improves the efficiency of capital allocation through competitive pricing mechanism for better utilization of scarce resources for increased economic growth.
- Provides a gateway to India for global and foreign portfolio investors, which is critical in supplementing the low domestic saving ratio.

8. Regulatory body

8.1 SECURITIES EXCHANGE BOARD OF INDIA (SEBI)

It was established by The Government of India on 12 April 1988 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 Bandra Kurla Complex in Mumbai, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad respectively. It has opened local offices at Jaipur and Bangalore and is planning to open offices at Guwahati, Bhubaneshwar, Patna, Kochi and Chandigarh in Financial Year 2013 - 2014.

Controller of Capital Issues was the regulatory authority before SEBI came into existence; it derived authority from the Capital Issues (Control) Act, 1947.

Initially SEBI was a non statutory body without any statutory power. However, in 1995, the SEBI was given additional statutory power by the Government of India through an amendment to the Securities and Exchange Board of India Act, 1992. In April 1988 the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India.

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

1. **The chairman** who is nominated by Union Government of India.
2. **Two members**, i.e., Officers from Union Finance Ministry.
3. **One member** from the Reserve Bank of India.
4. The remaining **five members** are nominated by Union Government of India, out of them at least three shall be whole-time members.

8.2 Objectives of SEBI

As an important entity in the market it works with following objectives:

1. It tries to develop the securities market.
2. Promotes Investors Interest.
3. Makes rules and regulations for the securities market.

8.3 SEBI committees

1. Technical Advisory Committee
2. Committee for review of structure of market infrastructure institutions

3. Advisory Committee for the SEBI Investor Protection and Education Fund
4. Takeover Regulations Advisory Committee
5. Primary Market Advisory Committee (PMAC)
6. Secondary Market Advisory Committee (SMAC)
7. Mutual Fund Advisory Committee
8. Corporate Bonds & Securitization Advisory Committee

8.4. Functions and responsibilities

1.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.
2. SEBI has to be responsive to the needs of three groups, which constitute the market:

a) the issuers of securities
b) the investors
c) the market intermediaries.

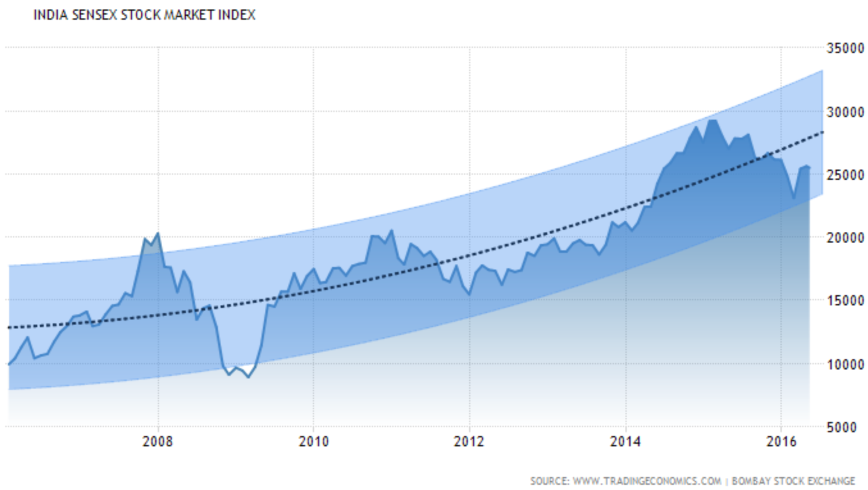
3. SEBI has three functions rolled into one body: quasi-legislative, quasi-judicial and quasi-executive.
4. It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity.
5. Though this makes it very powerful, there is an appeal process to create accountability.
6. There is a Securities Appellate Tribunal which is a three-member tribunal and is presently headed by Mr. Justice J P Devadhar, a former judge of the Bombay High Court.
7. A second appeal lies directly to the Supreme Court.
8. SEBI has taken a very proactive role in streamlining disclosure requirements to international standards.

8.5. Powers of SEBI

For the discharge of its functions efficiently, SEBI has been vested with the following powers:

1. To approve by−laws of stock exchanges.
2. To require the stock exchange to amend their by−laws.
3. To inspect the books of accounts and call for periodical returns from recognized stock exchanges.
4. To inspect the books of accounts of a financial intermediaries.
5. To compel certain companies to list their shares in one or more stock exchanges.

9. GROWTH TREND OF STOCK MARKET



Forecast	Actual	Q2/16	Q3/16	Q4/16	Q1/17	2020	Unit
Stock Market	25490	25300	24500	23800	23200	32300	points

India SENSEX Stock Market Index Forecasts are projected using an autoregressive integrated moving average (ARIMA) model calibrated using our analysts expectations. We model the past behaviour of India SENSEX Stock Market Index using vast amounts of historical data and we adjust the coefficients of the econometric model by taking into account our analysts assessments and future expectations. The forecast for - India SENSEX Stock Market Index - was last predicted on Saturday, May 14, 2016.

India Markets	Last	Q2/16	Q3/16	Q4/16	Q1/17	2020
Currency	66.99	67.47	68.13	68.8	69.46	39.69
Stock Market	25490	25300	24500	23800	23200	32300
Government Bond 10Y	7.45	7.62	7.84	8.22	8.59	11.21

10. FLAWS IN INDIAN STOCK MARKET

1. **They don't properly prime themselves on the trading market**: There is a wide range of stock traders, ranging from novice to intermediate, to advance. Learning how to hack the stock market, novices must learn the real truth of the market rather than academic fluff. The real truth as in other forces that influence the price of a stock. While advanced traders may need to rethink what they think they know.
2. **They don't look for loopholes**: Think of loopholes as a flaw in the system that is not caused by natural market forces that very occasionally pushed the price of a specific stock lower or higher. For example, it could be a group of traders acting from emotions or certain news that came out in the media, etc.
3. **They don't calculate a fair price per share**: It is critical to know how to value any share of stock. Most investors are very bad in valuing stocks and tend to buy stocks overpriced. To get the most return on investment when learning how to hack the stock market you must learn to buy stocks at a bargain. Most importantly, learning the criteria of picking a bargain stock.
4. **They don't follow a proven system for plan:** When you know how to hack the stock market, you will not achieve maximum success until you formulate a system or plan that put it all together. A plan that includes, But not limited to, when to sale, when to buy, stop loss positions, triggers and most importantly what to buy. A trader can run into many mistakes that

cause him/her to lose money if they do not know properly learn about the stock market and take advantage of market loopholes.

11. CONCLUSION

Stock market is considered as the most suitable investment for the common people as they can invest their money into the diversified managed portfolio at relatively low cost. It may be concluded that due to number of reforms, the capital market of India has developed a lot; it has made it possible to compare Indian capital market with the international capital market. SEBI is doing a lot of work for the development of capital market. It has brought greater transparency in the affairs of organizations and stock exchanges, though not to the optimum mark. Still the investor doesn't have hundred percent confidences in capital market. It seems that SEBI worked slowly in transforming Indian stock market into a globally competitive and contemporary market.

REFERENCES

1. Goyal, Ashima, 2005; Regulation and Deregulation of the Stock Market in India, Available at SSRN: http://ssrn.com/abstract=6093222.
2. Ahmad, Khan Masood; Ashraf, Shahid and Ahmed, Shahid, 2005; “Foreign Institutional Investment Flows and Equity Returns in India”, TheIUPJournal of Applied Finance, March, pp. 16-30.
3. Sabarinathan, G., 2010; “Securities and Exchange Board of India and the Regulation of Indian Securities Market.
4. Nayak, Jayendra P., 1999; in India's Financial System: Getting Ready for the Twenty First Century, edited by James AHanson and Sanjay Kathuria.
5. Mukherjee, P., Bose, S. and Coondoo, D., 2002; “Foreign Institutional Investment in the Indian Equity Market”, Money and Finance, 3, pp. 21-51.
6. North, Douglass C., 1993; “The New Institutional Economics and Development”, Essay.
7. Singh, Jitendra, Useem, Mike and Singh, Harbir, 2007; “Corporate Governance in India: Has Clause 49 Made a Difference?” Published in IndiaKnowledge@Wharton: January 25.
8. Shah, Ajay and Thomas, Susan, 2000a; “David and Goliath: Displacing A Primary Market, Global Financial Market, Spring, 14-23.
9. Patibandla, Murali, 2005; “Equity Pattern, Corporate Governance and Performance: A Study of India's Corporate Sector,” Journal of Economic Behavior and Organization, Vol. 30, pp. 1-16