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Investors' Protection and Role of sebi as a Regulatory Agency

Abstract ::

Planning of finances is essential for each and every one. Person has to plan that how much he has to spend on current transactions and how much he has to save. So some part of his income he spends and remaining income he will invest. person may invest his money in bank, insurance or by purchasing shares, debentures and mutual funds i.e, stock exchange . But when he invests in stock exchange he may have more risk. So for the protection of such investors the regulatory authority has been established named SEBI by the government. This paper shows the role of regulatory bodies for the protection of investors money. In this paper mainly role of SEBI (Securities and Exchange Board of India) as regulatory body has been discussed. Securities and Exchange Board of India (SEBI) has been established with the prime mandate to protect the interest of investors in securities. It is also mandated to promote the development of, and to regulate the securities market. The Primary function of Securities and Exchange Board of India under the SEBI Act, 1992 is the protection of the investors' interest and the healthy development of Indian financial markets. No doubt, it is very difficult and herculean task for the regulators to prevent the scams in the markets considering the great difficulty in regulating and monitoring each and every segment of the financial markets and the same is true for the Indian regulator also. One of the weapons in the hand of the regulators is the collection and distribution of disgorged money to the aggrieved investors. SEBI had issued guidelines for the protection of the investors through the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000. These Guidelines have been issued by the Securities and Exchange Board of India under Section 11 of the Securities and Exchange Board of India Act, 1992. In this paper, we have discussed origin of stock market, need of regulatory body for Investors Protection, Role of SEBI as regulatory body, Purposes and Aims of SEBI, Functions of SEBI, Regulation of Business in Stock Exchanges and steps taken by SEBI to Improve Stock Market and Capital Market for protection of investors.

Introduction ::

Investment is an indicator of the development of any country. Investment plays very important role for an economic growth. For capital accumulation there should be an increase in an investment. Investment shows the level of an economy in the world economies. Investment is the function of the saving, while saving depends on an income of the person. Income of the person is divided into two parts consumption and saving. When the total saving is accumulated then it becomes an investment. When a person deposits his money in his saving account in a bank or buys the shares of a company we say that he has invested. So investment is used as a synonym of capital formation. To invest the financial system is prevailing and it plays as a mediator between lenders and borrowers. All the people save some portion of their income for future plans, uncertainties, unforeseen expenses, unemployment and sickness. For that they have to plan for investment in financial intermediaries. To encourage more investors to invest more protection for investors is needed. So government has given authority to Reserve bank of India and for protection of the investors who invest in stock market one institution named SEBI (Stock Exchange Board of India) is established. In this paper we have emphasized the role of SEBI as a regulatory authority.

Where people invest ?

In general, the financial market divided into two parts, Money market and capital market. Money market is a market which provides finance for short term while capital market provides finance for medium and long term finance. Generally people invest their money in banks, insurance corporations and other financial institutions. People also purchase securities like shares, debentures and mutual funds of companies i.e. stock market. Securities market is an important, organized capital market where transaction of capital is facilitated by means of direct financing using securities as a commodity. Securities market can be divided into a primary market and secondary market.

Origin of Indian Stock Market

The origin of the stock market in India goes back to the end of the eighteenth century when long-term negotiable securities were first issued. However, for all practical purposes, the real beginning occurred in the middle of the nineteenth century after the enactment of the companies Act in 1850, which introduced the features of limited liability and generated investor interest in corporate securities.

An important early event in the development of the stock market in India was the formation of the native share and stock brokers 'Association at Bombay in 1875, the precursor of the present day Bombay Stock Exchange. This was followed by the formation of associations/exchanges in Ahmedabad (1894), Calcutta (1908), and Madras (1937). In addition, a large number of ephemeral exchanges emerged mainly in buoyant periods to recede into oblivion during depressing times subsequently. Stock exchanges are intricacy inter-woven in the fabric of a nation's economic life. Without a stock exchange, the saving of the community- the sinews of economic progress and productive efficiency- would remain underutilized. The task of mobilization and allocation of savings could be attempted in the old days by a much less specialized institution than the stock exchanges. But as business and industry expanded and the economy assumed more complex nature, the need for 'permanent finance' arose. Entrepreneurs needed money for long term whereas investors demanded liquidity – the facility to convert their investment into cash at any given time. The answer was a ready market for investments and this was how the stock exchange came into being.

Stock exchange means any body of individuals, whether incorporated or not, constituted for the purpose of regulating or controlling the business of buying, selling or dealing in securities. These securities include:

- Shares, scrip, stocks, bonds, debentures stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;
- Government securities; and
- Rights or interest in securities.

The Bombay Stock Exchange (BSE) and the National Stock Exchange of India Ltd (NSE) are the two primary exchanges in India. In addition, there are 22 Regional Stock Exchanges. However, the BSE and NSE have established themselves as the two leading exchanges and account for about 80 per cent of the equity volume traded in India. The NSE and BSE are equal in size in terms of daily traded volume. The average daily turnover at the exchanges has increased from Rs 851 crore in 1997-98 to Rs 1,284 crore in 1998-99 and further to Rs 2,273 crore in 1999-2000 (April - August 1999). NSE has around 1500 shares listed with a total market capitalization of around Rs 9, 21,500 crore.

The BSE has over 6000 stocks listed and has a market capitalization of around Rs 9, 68,000 crore. Most key stocks are traded on both the exchanges and hence the investor could buy them on either exchange. Both exchanges have a different settlement cycle, which allows investors to shift their positions on the bourses. The primary index of BSE is BSE Sensex comprising 30 stocks. NSE has the S&P NSE 50 Index (Nifty) which consists of fifty stocks. The BSE Sensex is the older and more widely followed index.

Both these indices are calculated on the basis of market capitalization and contain the heavily traded shares from key sectors. The markets are closed on Saturdays and Sundays. Both the exchanges have switched over from the open outcry trading system to a fully automated computerized mode of trading known as BOLT (BSE on Line Trading) and NEAT (National Exchange Automated Trading) System.

It facilitates more efficient processing, automatic order matching, faster execution of trades and transparency; the scrip's traded on the BSE have been classified into 'A', 'B1', 'B2', 'C', 'F' and 'Z' groups. The 'A' group shares represent those, which are in the carry forward system (Badla). The 'F' group represents the debt market (fixed income securities) segment. The 'Z' group scrip's are the blacklisted companies. The 'C' group covers the odd lot securities in 'A', 'B1' & 'B2' groups and Rights renunciations. The key regulator governing Stock Exchanges, Brokers, Depositories, Depository participants, Mutual Funds, FIIs and other participants in Indian secondary and primary market is the Securities and Exchange Board of India (SEBI) Ltd.

The Securities Contracts (Regulation) Act, 1956

With a view to regulate functions of stock exchanges in country the government passed the the Securities Contracts (Regulation) Act in 1956. The act came into force in 1957.

Objectives of the Act

The main objectives of the Act are as under:

- To empower the Central government to regulate dealings and control the functioning of the stock changes in the country.
- To promote healthy and orderly development of stock exchanges in the country.
- To ensure reasonable uniformity regarding rules and bye-laws of different stock exchanges in the country.
- To prevent unhealthy speculation and other undesirable practices in the stock exchanges.
- To protect the interests of the investors.

Recognition of Stock Exchanges

The Act provides that only recognised stock exchanges can function in the country. According to the Act,any stock exchange, which is desirous of being recognised may apply to the Central government in the prescribed form. The application must be accompanied by:

- A copy of the bye-laws of the stock exchange for the regulation and
- A copy of the rules relating in general to the constitution of the stock exchange.

The rules shall, in particular, relate to

- the constitution and powers of the governing body of the stock exchange and the manner in which business is to be transacted;
- the powers and duties of the members of the stock exchange;
- matters relating to membership of the stock exchange such as the qualifications for membership; fusion, suspension, expulsion and re-admission of members etc.; and ' nomination and
- the nomination and appointment of authorized representatives and clerks.

The Act lays down that the Central government may grant recognition to the stock exchange, if it is lat

- the rules and bye-laws of the stock exchange are in conformity with such conditions as may be ascribed with a view to ensure fair dealing and to protect investors;
- the stock exchange is willing to comply with any other conditions (including conditions as to the number of members) which the Central government may impose in accordance with the Act; and
- it would be in the interest of the trade and also in the public interest to grant recognition to the stock exchange.

As far as the conditions that may be prescribed by the Central government are concerned, these may relate to (a) the qualifications for membership of stock exchanges; (b) the manner in which contracts shall be entered into and enforced between members; (c) the representation of the Central government on the stock exchange; and (d) the maintenance of accounts of members and their proper audit by chartered accountants.

Why do we need a regulatory body for Investor protection in India?

- India is an `informationally weak market'.
- Boosting capital market demands restoring the confidence of lay investors who have been beaten down by repeated scams
- Progressively softening interest rates and an under performing economy have eroded investment

options, and require enhanced investing skills.

Securities and Exchange Board of India (SEBI)

Prior to the setting up of the Securities and Exchange Board of India (SEBI), capital issues in India were regulated by the Capital Issues (Control) Act, 1947. The main objectives of this Act were:

- to ensure that investment in the private corporate sector does not violate priorities and objectives laid down in the Five Year Plans or flow into unproductive sectors;
- to promote the expansion of private corporate sector on sound lines in general, and further the growth of particular corporate enterprises having sound capital structure; and
- to distribute capital issues time-wise in such a manner that there is no overcrowding in a particular period. The task of administering the capital issues control in accordance with the principles and policies laid down by the Central government was entrusted to the Controller of Capital Issues (CCI). Prior approval of the CCI was necessary for any new issues in the market.

The Narasimham Committee in its Report on the Financial System submitted in 1991 argued that the capital market was tightly controlled by the government and there were a number of restrictions placed by the CCI on the operations of this market. This restrictive environment was "neither in tune with the new economic reforms nor conducive to the growth of the capital market."2 The Committee strongly favored substantial speedy liberalization of the capital market by closing down the office of the CCI. It suggested that SEBI set up in 1988 should be entrusted with the task of "a market regulator to see that the market is operated on the basis of well laid principles and conventions."3 However, SEBI should not become a controlling authority substituting the CCI.

Consequent upon the recommendations of the Committee, the Capital Issues (Control) Act, 1947 was repealed in 1992, and the office of the Controller of Capital Issues (CCI) was subsequently abolished. With the abolition of CCI, prior permission of the government is not now required by the companies to access the capital markets. Companies are free to approach the capital markets without prior government permission subject to getting offer documents cleared by SEBI. Controls over price and premium fixation have also been removed and most issuing companies are free to fix the price of their securities for public as well as rights issues.

Purposes and Aims of SEBI

The Securities and Exchange Board of India (SEBI) set up in 1988 was given statutory recognition in 1992 on recommendations of the Narasimham Committee. Among other things, the Board has been mandated to create an environment which would facilitate mobilization of adequate resources through the securities market and its efficient allocation. The purposes and aims of SEBI are as follows:

- Regulating the business in stock markets and other securities markets.
- Registering and regulating the working of stock brokers and other intermediaries associated with the securities markets.
- Registering and regulating the working of collective investment schemes including mutual funds.
- Promoting and regulating the self-regulatory organizations.
- Prohibiting fraudulent and unfair trade practices relating to securities markets.
- Promoting investors' education and training of intermediaries of securities markets.
- Prohibiting insider trading in securities.
- Regulating substantial acquisition of shares and takeover of companies.
- Performing such functions and exercising such powers under the provisions of the Capital Issues (Control) Act, 1947 and Securities Contracts (Regulations) Act, 1956, as may be delegated to it by the Central government.

Functions of SEBI

Section 11 of the Securities and Exchange Board of India Act. Regulation Of Business In The Stock Exchanges

A) A review of the market operations, organizational structure and administrative control of the exchange

- All stock exchanges are required to be Body Corporates.
- The exchange provides a fair, equitable and growing market to investors.
- The exchange's organisation, systems and practices are in accordance with the Securities Contracts (Regulation) Act (SC(R) Act), 1956

B) Registration and Regulation of the Working of Intermediaries

- regulates the working of the depositories [participants], custodians of securities, foreign institutional investors, credit rating agencies and such other intermediaries
- SEBI (Mutual Funds) Regulations, 1996 lays down the provisions for the appointment of the trustees and their obligations Every new scheme launched by a mutual fund needs to be filed with SEBI and SEBI reviews the document in regard to the disclosures contained in such documents.
- Regulations have been laid down regarding listing of funds, refund procedures, transfer procedures, disclosures, guaranteeing returns etc
- SEBI has also laid down advertisement code to be followed by a mutual fund in making any publicity regarding a scheme and its performance
- SEBI has prescribed norms / restrictions for investment management with a view to minimize / reduce undue investment risks.
- SEBI also has the authority to initiate penal actions against an erring MF.
- In case of a change in the controlling interest of an asset management company, investors should be given at least 30 days time to exercise their exit option.

C) Registration and Regulation of Mutual Funds, Venture Capital Funds & Collective Investment Schemes

- MFI-Self Regulatory Organization-'promoting and protecting the interest of mutual funds and their unit-holders, increasing public awareness of mutual funds, and serving the investors' interest by defining and maintaining high ethical and professional standards in the mutual funds industry'.
- Every mutual fund must be registered with SEBI and registration is granted only where SEBI is satisfied with the background of the fund.
- SEBI has the authority to inspect the books of accounts, records and documents of a mutual fund, its trustees, AMC and custodian where it deems itnecessary

D) Promoting & Regulating Self Regulatory Organizations In order for the SRO to effectively execute its responsibilities, it would be required to be structured, organized, managed and controlled such that it retains its independence, while continuing to perform a genuine market development role

E) Prohibiting fraudulent and unfair trade practices in the Securities Market

SEBI is vested with powers to take action against these practices relating to securities market manipulation and misleading statements to induce sale/purchase of securities.

F) Prohibition of Insider Trading

Stock Watch System, which has been put in place, surveillance over insider trading would be further strengthened.

G) Investor Education and the training of Intermediaries

SEBI distributed the booklet titled "A Quick Reference Guide for Investors" to the investors

SEBI also issued a series of advertisement /public notices in national as well as regional newspapers to educate and caution the investors about the risks associated with the investments in collective investment schemes

SEBI has also issued messages in the interest of investors on National Channel and Regional Stations on Doordarshan.

H) Inspection and Inquiries

I) Regulating substantial acquisition of Shares and take-overs

J) Performing such functions and exercising such powers under the provisions of the Securities Contracts (Regulation) Act, 1956 as may be delegated to it by the Central Government;

K) Levying fees or other charges for carrying out the purposes of this section

L) Conducting Research For The Above Purposes

SEBI has been vested with wide-ranging powers. Firstly, to oversee constitution as well as the operations of mutual funds including presentation of accounts, following the decision to allow the entry of private sector and joint sector mutual funds. Secondly, all stock exchanges in the country have been brought under the annual inspection regime of SEBI for ensuring orderly growth of stock markets and investors' protection. Thirdly, with the repealing of the Capital Issues (Control) Act, 1947, in May 1992, SEBI has been made the regulatory authority in regard to new issues of companies. An amendment to the SEBI Act (1992) carried out March 25, 1995 has empowered SEBI to register and regulate new intermediaries in the capital market. With this empowerment, all intermediaries associated with the securities market are now regulated by SEBI. Fourthly, with effect from 1995, the SEBI has been empowered to impose penalties on different intermediaries for defaults.

Steps taken by SEBI to improve Stock Market and Capital Market

To introduce improved practices and greater transparency in the stock markets and capital markets in the interest of healthy capital market development, a number of steps have been taken by SEBI during recent years. The important steps are;

1. SEBI has drawn up a programme for inspecting stock exchanges. Under this programme, inspections in of some stock exchanges have already been carried out. The basic objective of such inspections is to improve the functioning of stock exchanges.
2. SEBI has introduced a number of measures to reform the primary market. The objective is to strengthen the standards of disclosure, introduce certain procedural norms for the issuers and intermediaries, and remove the inadequacies and systemic deficiencies in the issue procedures. For example, an advertisement code has been laid down to ensure that the advertisements are fair and do not contain statements to mislead the investors; a system of appointing SEBI representatives to supervise the allotment process has been introduced to minimize malpractices in allotment of oversubscribed issues; prudential norms have been laid down for rights issues, etc.
3. The process of registration of intermediaries such as stock brokers and sub-brokers has been provided under the provisions of the Securities and Exchange Board of India Act, 1992. The registration is on the basis of certain eligibility norms such as capital adequacy, infrastructure etc. According to the SEBI (Stock Brokers and Sub-Brokers) Rules 1992 announced on August 20, 1992, no person can act as a stock-broker for the purpose of buying/selling or dealing in securities, unless he holds a certificate granted by SEBI and conditions for grant of such certificates have been laid down in the rules. SEBI issued regulations relating to stock-brokers and sub-brokers in October 1992 which, inter alia, cover registration of brokers and sub-brokers, their general obligations and responsibilities, procedures for inspection of their operations and actions to be initiated in case of default.
4. Through an order under the Securities Contracts (Regulations) Act, 1956, SEBI has directed the stock exchanges to broad-base their governing boards and change the composition of their arbitration, default and disciplinary committees. The broad basing of the governing boards of the stock exchanges would help them function with greater degree of autonomy and independence so that they become truly self regulatory organizations.
5. Merchant banking has been statutorily brought under the regulatory framework of SEBI. The merchant bankers have to be authorized by SEBI. They will have to adhere to stipulated capital adequacy norms and abide by a code of conduct which specifies a high degree of responsibility towards inspectors in respect of the pricing and premium fixation of issues.
6. SEBI issued regulations pertaining to "Insider Trading" in November 1992 prohibiting dealings, communication or counseling in matters relating to insider trading. Such regulations will help in

protecting and preserving the market's integrity, and in the long run inspire investor confidence in the market.

7. SEBI issued a separate set of guidelines for development financial institutions in September 1992 for disclosure and investment protection regarding their raising of funds from the market. As per the guidelines, there is no need for promoter's contribution. Besides, underwriting is not mandatory. Moreover, free pricing is permitted subject to consistent track record for three years and credit rating is compulsory for debentures and bonds of more than 18 months.
8. SEBI has notified the regulations for mutual funds. For the first time mutual funds are governed by a uniform set of regulations which require them to be formed as trusts and managed by a separate asset management company (AMC) and supervised by a board of trustees or trustee company. The SEBI (Mutual Fund) Regulations also provide for an approval of the offer documents of schemes by SEBI. The regulations prescribe minimum amount to be raised by each scheme. A close ended scheme with a fixed size of mutual fund must raise a minimum of Rs. 20 crore and open ended scheme of Rs. 50 crore. The entire subscription amount must be refunded within six weeks of the closure of the scheme in case the amount collected by the scheme falls short of the prescribed amount. There will also be certain investment restrictions for AMCs. The advertisement code prescribes norms for fair and truthful disclosures by the mutual funds in advertisements and publicity materials. The regulations are intended to ensure that the mutual funds grow on healthy lines and investors' interests are protected. On January 30, 1997, SEBI allowed mutual funds to mention an indicative return for schemes for fixed income securities with certain disclosures to draw investors' attention.
9. To bring about greater transparency in transactions, SEBI has made it mandatory for brokers to maintain separate accounts for their clients and for themselves. They must disclose the transaction price and brokerage separately in the contract notes issued to their clients. They must also have their books audited and audit reports filed with SEBI.
10. SEBI has issued directives to the stock exchanges to ensure that contract notes are issued by brokers to clients within 24 hours of the execution of the contract. Exchanges are to see that time limits for payment of sale proceeds and deliveries by brokers and payment of margins by clients to brokers are complied with. For ensuring the fulfilment of deals (safety of the deals) in the market and protecting investors, SEBI has introduced capital adequacy norms for brokers.
11. The 'Banker to the issue' has been brought under purview of SEBI for investor protection. Unit Trust of India (UTI) has also been brought under the regulatory jurisdiction of SEBI.
12. With a view to expediting the process of dematerialization of securities and settlement of transactions in the depository, SEBI, on October 22, 1997, decided that with effect from January 15, 1998, settlement of trades in the depository would be compulsory for domestic financial institutions, banks, mutual funds and foreign institutional investors (FIIs) having a minimum portfolio of securities of Rs. 10 crore as on their latest balance sheet. In the interest of small investors, SEBI has allowed investors with very small holding to sell in the stock exchange in physical form under a special scheme. Such securities are then dematerialised by the buyers.
13. SEBI has exempted infrastructure firms from certain norms while floating a public issue. In particular, they would be exempted from the requirements such as, making a minimum public offer of 25 per cent of equity, five shareholders per Rs. one lakh of offer, and minimum subscription of 90 per cent.
14. The Companies (Amendment) Ordinance (October 31, 1998 and January 7, 1999) allows companies to buy back their own shares subject to regulations laid down by SEBI. The new Sections (77A and 77B) in the Ordinance lay down the provisions/restrictions concerning buy back of shares. A company can finance its buy back out of (/) its free reserves, (ii) the securities premium account or (Hi) proceeds of an earlier issue other than fresh issue of shares made specifically for buy back purposes.
15. SEBI has dispensed with the requirement to issue shares with a fixed par value of Rs. 10 and Rs. 100 and has given freedom to companies to determine the par value of shares issued by them. Companies with dematerialised shares have been allowed to alter the par value of a share indicated in the Memorandum and Articles of Association. The existing companies, which have issued shares at Rs. 10 and Rs. 100 can avail of this facility by consolidating/splitting their existing shares.
16. In order to popularize the book building mechanism for public issues, SEBI modified the existing framework for book building. It is optional for investors to use either the existing framework or the modified framework. Public issues are now being floated by many companies adopting the book-building route
17. SEBI's regulations for Collective Investment Schemes (CIS) were notified on October 15, 1999.4 Under the SEBI Act and Regulations framed thereunder, no person can carry on any CIS unless

he obtains a certificate of registration from SEBI. All existing collective investment schemes were required to apply for registration by December 14, 1999. An existing scheme which does not obtain registration from SEB shall have to wind up and repay the money to the investors.

18. In keeping with international best practice, SEBI introduced compulsory rolling settlement in ten select scrips on January 10, 2000. Since then more scrips have been brought under compulsory rolling settlement in a phased manner. In June 2000, SEBI introduced derivatives trading. The product spectrum for trading in equity derivatives was widened in 2001-02. As far as internet trading is concerned, SEBI has prescribed minimum technical standards to be enforced by the stock exchanges for ensuring safety and security of transactions via the internet.
19. An Ordinance promulgated on October 28, 2002 gave the following four powers to SEBI: (i) SEBI can search an entity's premises and seize documents; (ii) It can impound cash proceeds and securities connected to any transaction it is investigating and can even freeze bank accounts; (iii) Regardless of the nature or scale of market violation, SEBI could earlier fine an offender a maximum of Rs. 5 lakh. The Ordinance increased this limit manifold — in market manipulation or insider trading violations, to Rs. 25 crore or three time the profits made by the entity concerned, whichever is higher and for other violations like non-disclosures, up to Rs. 1 crore; and (iv) The size of the SEBI Board has been increased. The idea behind this is to move from individual-based to group-based decision making, thereby reducing the possibility of errors or bias. Moreover, insider trading and market manipulation has been defined clearly. The Ordinance was followed by the Securities and Exchange Board of India (Amendment) Act, 2002 adopted in December 2002.
20. In November 2002, SEBI approved the establishment of a 'Central Listing Authority' which would centralize the listing function that currently takes place at the exchange level.
21. In order to provide an additional route for raising funds in the domestic market, SEBI permitted listed companies in May 2006 to raise funds in the form of 'Qualified Institutional Placement' (QIP).
22. In June 2006, SEBI asked the stock exchanges to make the existing margining system more stock in the cash segment. The stock exchanges were directed to update risk arrays in the cash market at least five times in a day (as is done in derivatives market) and accordingly update applicable margin rates.
23. In September 2006, SEBI widened the range of international entities that can invest in the stock market by including an institution established as incorporate outside India as a pension fund, mutual fund, investment trust, insurance company and reinsurance company as registered FIIs (Foreign Institutional Investors). The list would also include international or multilateral agencies, foreign governmental agencies or foreign central banks.
24. PAN was made mandatory for all the entities/persons, desirous of transacting in cash market with effect from October 1, 2006.
25. In December 2006, SEBI directed BSE to set up and maintain corporate bond reporting platform. For that purpose, SEBI made it mandatory for market participants to report all corporate bond deals, aggregating Rs. 1 lakh or above to the Bombay Stock Exchange Limited (BSE) from January 1, 2007. All transact above Rs. 1 lakh shall be reported within 30 minutes of closing the deal.
   Settlements have to be reported within one trading day from completion of trades.
26. In March 2007 SEBI allowed the National Stock Exchange of India Ltd. (NSE) to set up and maintain a corporate bond reporting platform to capture all information relating to trading in corporate bonds as accurately as close to execution as possible. In this connection, SEBI ruled that trades executed by the members of BSE and NSE shall be reported on the reporting platforms of their respective stock exchanges who would host such information on their websites.
27. In April 2007, PAN was made the sole identification number for all transactions in securities market.
28. In April 2007, SEBI amended (Disclosure and Investor Protection) Guidelines, 2000 to make garding of IPOs mandatory and permitted companies with listing history less than six months to raise money through preferential allotment.
29. In May 2007, SEBI decided that mutual funds can invest in ADRs/GDRs/foreign securities within overall limit of US $ 4 billion. This will be with a sub-ceiling for individual mutual funds which should not exceed 10 per cent of the net assets managed by them as on March 31 of each relevant year and subject to a maximum of US $ 200 million per mutual fund.
30. In August 2007, SEBI decided that companies issuing debentures and the respective debenture trustees/stock exchanges shall disseminate all information regarding debentures to investors and general public.
31. In August 2007, SEBI issued guidelines for overseas investment by VCFs (Venture Capital

Funds).

As is clear from the above description, SEBI has introduced a number of measures to reform India's capital market. By improving market efficiency, enhancing transparency, preventing unfair trade practices, it has succeeded to a considerable extent in bringing up the Indian market to international standards. The important developments can be highlighted as under: (1) the issuers complying with the eligibility criteria are allowed freedom to issue the securities at market-determined rates; (2) the secondary market has overcome the geographical barriers by moving to screen-based trading; (3) all kinds of securities — debt and equity, government and corporate—are traded on exchanges, side by side; (4) trades enjoy counter-party guarantee; (5) the trading cycle has been shortened to a day and trades are settled within 2 working days; (6) physical security certificates (and attendant risks) have almost disappeared; (7) a variety of derivatives are permitted; (8) corporate governance has improved significantly; (9) the confidence of international investors in the Indian securities market has increased considerably and now more than 500 FIIs (Foreign Institutional Investors) are registered with SEBI ; and (10) the Indian market is getting integrated with the global market, though in a limited way, through euro issues.5

As a result of these reforms, the market design has changed drastically, for better, as is clear from Box given.

Changes In Elements of Market Design in Indian Securities Market

Features	Prior to statutory recognition to SEBI (1992)	The present design
Regulator	No specific regulator, but Central Government oversight	A specialized regulator for securities market (SEBI) vested with powers to protect investors' interest and to develop and regulate securities market. Self Regulatory Organisations (SROs) strengthened.
Intermediaries	Some of the intermediaries (stock brokers, authorized clerks and remisiers) regulated by the SROs.	A variety of specalized intermediaries emerged. They are registered and regulated by SEBI (also by SROs)
Access to market	Granted by Central Government	Eligible issuers access the market after complying with < the issue requirements.
Pricing of securities	Determined by Central Government	Determined by market, either by the issuer through fixed price or by the investors through book building.
Access of international market	No access	Corporates allowed to issue ADRs/GDRs and raise ECBs. ADRs/GDRs have two way fungibility. FIIs allowed to trade in Indian market. MFs also allowed to invest overseas.
Corporate compliance	Very little emphasis	Emphasis on disclosures, accounting standards and corporate governance.
Mutual funds	Restricted to public sector	Open to private sector and emergence of a variety of funds and schemes.
Trading mechanism	Open outcry, Available at the trading rings of the exchanges, Opaque, Auction/negotiated deals	Screen-based trading system, orders are matched on price-time priority; transparent, trading platform accessible from all over country.

Aggregation order flow	Fragmented market through geographical distance. Order flow unobserved.	Order flow observed. The exchanges have open electronic consolidated unit order book (OECLOB).
Anonymity in trading	Absent	Complete.
Settlement system	Bilateral	Clearing House of the Exchange or the Clearing Corporation is the central counter-party.
Settlement cycle	14 day account period settlement.	Rolling settlement on T+3 basis
Counterparty risk	Present	Absent
Basis of settlement	Bilateral Netting	Mostly Electronic. Multilateral Netting.
Transfer of securities	Cumbersome. Transfer by endorsement on security and registration by issuer.	Securities are freely transferable. Transfers are recorded electronically in book entry form by depositories.
Risk management	No focus on risk management	Comprehensive risk management system encompassing capital adequacy, limits on exposure and turnover, online position monitoring, etc.
Derivatives trading	Absent	Exchange traded futures and options available on two indices and selected securities.

Conclusion :

The paper has presented the role of regulatory authorities for the protection of investors to encourage investors so capital formulation can be done. In this paper we have emphasized the role of SEBI as a regulatory authority. The paper has included the functions and aims of it. Securities and Exchange Board of India (SEBI) has been established with the prime mandate to protect the interest of investors in securities. It is also mandated to promote the development of, and to regulate the securities market. The main thing of this paper is that it has emphasized the steps taken by SEBI for the protection of investors. The paper has also discussed the latest changes in Indian securities market after the steps taken by the regulatory authorities. So to minimize risk of the investors and to encourage investors to increase more the regulatory authority plays an important role in Indian securities market.

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