LEGISLATIVE AND REGULATORY FRAMEWORK OF STOCK MARKET

“In this chapter, the main discussion is on the legal and regulatory framework of stock market in selected countries, namely, United State (U.S.), United Kingdom (U.K.) and India. It is studied with the consideration of related securities exchange law like, The U. S. Securities and Exchange Commission (SEC), The Financial Conduct Authority (FCA) and SEBI (Securities and Exchange Board of India)”.

3.1 U. S. Securities and Exchange Commission

“The U. S. Securities and Exchange Commission (SEC) is an agency of United States federal government, holds primary responsibility for enforcing the federal securities laws, proposing securities rules, and regulating the securities industry, the nation’s stock and option exchanges, and other activities and organization, including the electronic securities markets in the United States”.

Fig: 3.1

“The SEC enforces following statutory requirement”:-

- “Public companies have to submit quarterly and annual reports, as well as other periodic reports”.
- “Management Discussion and Analysis” (MD&A), means a narrative account provided by company executives.
• EDGAR (the Electronic Data Gathering, Analysis, and Retrieval system), is an online database, maintains by SEC makes reports available to the public.

3.2 Financial Conduct Authority (FCA)

“The Financial Conduct Authority (FCA) is a financial regulatory body in the United Kingdom, On December 19, 2012 the Financial Service Act 2012 received royal assent, abolished the Financial Services Authority and came in to force on April 1, 2013. It operates independently of the UK government, and is financed by charging fees to members of the financial services industry. The firms, providing services to consumers, regulates by FCA and maintains the integrity of the UK’s financial markets. It focuses on the regulation of conduct by both retail and wholesale financial services firms. Like its predecessor the FSA, the FCA is structured as a company limited by guarantee”.

• “The Act gave the Bank of England responsibility for financial stability, bringing together macro and micro prudential regulation, created a new regulatory structure consisting of the Bank of England's Financial Policy Committee, the Prudential Regulation Authority and the Financial Conduct Authority”.

Fig: 3.2
3.3 SEBI (Securities and Exchange Board of India)

“The regulator of Indian stock market, set up under the **Security and Exchange Board of India Act, 1992** (as a non–statutory body set on 12 April, 1988 through a government resolution in an effort to give the Indian stock market an organised structure) with its head office in Mumbai. Its initial paid – up capital was Rs 50 crore provided by the promoters – the IDBI, the IFCI and the ICICI”.

The Board of SEBI comprises nine members excluding the chairman – one member each from Ministries of Finance and Law, one member from the RBI and two other members appointed by central government. It has four full time members (including the chairman).

**Fig: 3.3**

- Main functions/powers of the Board as per the SEBI Act, 1992 are:
  - Registering and stock exchanges, merchant banks, mutual funds, underwriters, registrars to the issues, brokers, sub-brokers, transfer agents and others.
  - Levying various fees and other charges (as 1 per cent of the issue amount of every company issuing shares is kept by it as caution money in the concerned stock exchange where the company is enlisted).
  - Promoting investor education.
  - Inspection and audit of stock exchanges and various intermediaries
  - Performing other concerned function as may be prescribed from time to time.
<table>
<thead>
<tr>
<th>Base</th>
<th>Securities and Exchange Board of India</th>
<th>Financial Conduct Authority</th>
<th>U.S. Securities and Exchange Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formed</strong></td>
<td>12 April 1992, through the SEBI Act,</td>
<td>On 19 December 2012 the Financial Services Act 2012 received royal assent, and it came into force on 1 April 2013.</td>
<td>June 6, 1934, United States federal government</td>
</tr>
<tr>
<td><strong>Regulator</strong></td>
<td>For the securities market in India</td>
<td>Regulates financial firms providing services to consumers and maintains the integrity of the UK’s financial markets</td>
<td>An agency of the United States federal government</td>
</tr>
<tr>
<td><strong>Jurisdiction</strong></td>
<td>Government of India</td>
<td>United Kingdom</td>
<td>United States federal government</td>
</tr>
<tr>
<td><strong>Headquarters</strong></td>
<td>Mumbai, Maharashtra</td>
<td>25 North Colonnade London</td>
<td>Washington, D.C.</td>
</tr>
<tr>
<td><strong>Agency executive</strong></td>
<td>U K Sinha, Chairman</td>
<td>John GriffithJones, Chairman</td>
<td>Mary Jo White</td>
</tr>
<tr>
<td><strong>Website</strong></td>
<td><a href="http://www.sebi.gov.in">www.sebi.gov.in</a></td>
<td><a href="http://www.thefca.org.uk/">www.thefca.org.uk</a></td>
<td><a href="http://www.sec.gov/">www.SEC.gov</a></td>
</tr>
<tr>
<td><strong>History</strong></td>
<td>“Controller of Capital Issues was the regulatory authority before SEBI came into existence; it derived authority from the Capital Issues (Control) Act, 1947”.</td>
<td>“A new regulatory framework for financial services and abolished the Financial Services Authority. Specifically, the Act gave the Bank of England responsibility for financial stability, bringing together macro and micro prudential regulation, created a new regulatory structure consisting of the Bank of England's Financial Policy Committee, the Prudential Regulation Authority and the Financial Conduct Authority”.</td>
<td>“Prior to the enactment of the federal securities laws and the creation of the SEC there existed so called blue sky laws. They were enacted and enforced at the state level, and regulated the offering and sale of securities to protect the public from fraud”.</td>
</tr>
</tbody>
</table>
### TABLE: Summary of Legislative and Regulatory Framework of Stock Market

<table>
<thead>
<tr>
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</table>
| **Powers** | • To require the stock exchange to amend their by−laws.  
• Inspect the books of accounts and call for periodical returns from recognized stock exchanges.  
• Inspect the books of accounts of financial intermediaries.  
• Compel certain companies to list their shares in one or more stock exchanges.  
• Registration brokers. | • To regulate conduct related to the marketing of financial products.  
• It is able to specify minimum standards and to place requirements on products.  
• The power to investigate organizations and individuals.  
• The FCA is able to ban financial products for up to a year while considering an indefinite ban; It will have the power to instruct firms to immediately retract or modify promotions which it finds to be misleading, and to publish such decisions.  
• Responsible for regulating the consumer credit industry from 1 April 2014, taking over the role from the Office of Fair Trading. | • Assisting the Commission in interpreting laws and regulations for the public and SEC inspection and enforcement staff;  
• Responding to no action requests and requests for exemptive relief;  
• Reviewing investment company and investment adviser filings;  
• Assisting the Commission in enforcement matters involving investment companies and advisers; and  
• Advising the Commission on adapting SEC rules to new circumstances. |