Chapter 1

Introduction
Indian economy was facing severe financial crisis in the early part of the financial year 1991-92. It was difficult time for Indian economy due to accelerated rate of growth of inflation, widening fiscal deficit and serious deterioration in the external account. The government accepted the challenge to avert the crisis by introducing major changes in economic policies over a wide spectrum, covering fiscal, trade and exchange policies as a combined and consistent operation. The changes represented a major structural adjustment made with an object to enhance competition, efficiency and productivity in the economy so to assist the country’s quest for accelerated growth, greater equity and external viability.

As a result the Indian securities market also undergone sweeping reforms and the process of its liberalization continued in tune with changed economic policy. The process of liberalization and controlled free market forces has shown an overwhelming euphoric in the market. It is evident from the figure that the companies raised funds to the tune of rupees 4,200 during the year 1990-91 as compared to meager rupees 100 crore during seventies.

During 1993-94, the primary market was expected to be around rupee 10,000 crore. The institutional finance during the year 1980-81 was rupees 2,525 crore, which increased to rupees 19, 917 crore during the year 1990-91. As far as number of listed companies are concerned it went up to 6,500 at various stock exchanges during 1990-91 from 2,500 during 1980-81. The daily
turn over at various stock exchanges, which was rupees 15-20 crore during 1980, went up to rupees 300 crore during 1990-91.

These figures show that the Indian securities market scenario witnessed unprecedented boom during the period of 1990-91. At the same time there were blatant violations of laws, obvious non-compliances of rules and regulations and surreptitious dealings with inadequate and non-disclosures.

With the growth of securities market, number of malpractices also increased both in primary as well as in secondary market.

After the liberalization of the economy and opening of the market to foreign institutional investors, the objective of the regulation of securities market is to ensure the growth of normal market in a stable manner. Stability is an essential pre-requisite for vibrancy and vitality of the stock market. Stability ensures fairly and orderly price movements and build up investor confidence.

For proper regulation of the securities market, the government of India set up SEBI in 1988, which became statutory body after passing of SEBI Act, 1992.

Thus, it was the beginning of the legal reforms of securities market. The reforms were followed by enactment of many other acts i.e. the Securities Laws (Amendment) Act, 1995, the Depositories Act, 1996, the Securities Laws (Amendment) Act, 1999, the Securities Laws (Second Amendment) Act, 1999, and SEBI (Amendment) Act, 2002 etc.
The Securities Laws (Amendment) Act, 1995 extended SEBI's jurisdiction to all intermediaries and persons associated with securities market. It empowered SEBI to appoint adjudicating officers to adjudicate a wide range of violations and impose monetary penalties. The Depositories Act, 1996 provide for the establishment of depositories in securities market for the purpose of ensuring free transferability of securities with speed, accuracy and security. Further down the line, the Securities Laws (Amendment) Act 1999 was enacted to provide a legal framework for trading of derivatives of securities and units of collective investments schemes. The Securities Laws (Second Amendment) Act 1999 was enacted to empower SAT to deal with appeals against the orders of SEBI under Depositories Act and SEBI Act and against refusal of stock exchanges to list securities under SC (R) Act.

SEBI (Amendment) Act, 2002 enhanced powers of SEBI substantially, in respect of inspection, investigation and enforcement. It enhanced penalties for the offences from a maximum of rupees 5 lakh as provided earlier to maximum of rupees 25 crore or three times the amount of profit made out of violations whichever is higher. The problem that needs examination is, how far SEBI has succeeded in protecting the interest of investors and to what extent it has removed the malpractices and deficiencies from the securities market?

Review of literature

Stock Market and Financial Journalism of SK Aggarwal, 1998: Here the author has explained basic terminology of stock market like shares, bulls,
bears, spot trading, forward delivery etc. He has also given a general idea of history of stock exchanges. The author focused on the transactions on OTCEI, its formation, need for OTCEI etc. and also discussed price rigging on stock market.

*A Profile of Indian Capital Market edited by N Vinayakam, 1994*: The book is divided in three parts. First part deals with capital market, second part deals with banking system and third part deals with stock exchanges. The book contains various papers presented in National Seminars and Conferences by the editor as well as other research scholars. The papers contained in the book are related to various issues like Investment climate in India, Mutual funds boom, Investor protection, An appraisal of the performance of commercial banks, Emerging trend in securities market with special reference to convertible debenture issues etc. The book, when it was written in 1994 was certainly useful for the readers as it provided the changing scenario of the Indian capital market but now its significance has been reduced due to the changed condition of the Indian capital market.

*Basics of Stock Market Investing of David Sutton, 1993*: Here the author has discussed stock market transactions. He has given an idea of the evaluation of companies and their stocks at the time of investment in the concerned companies. The author discussed about the factors, which an investor should keep in mind while investing in stock market. He also explained how to buy
and sell securities in stock market. The book is helpful for the investors who want to invest in securities.

Stock Exchange Trading in India of LC Gupta, 1992: In this book the author has made empirical analysis of the selected problems and has given various suggestions based on his findings. He suggested that the carry forward (badla) system should be banned, as it is a kind of privilege artificially created for a handful of shares terming the specified group. Such privilege has no economic justification. He also suggested introduction of uniform one-week settlement system in all stock exchanges and in all shares. Further he suggested a change in the governing boards of the stock exchanges on 50:50 basis i.e. 50% brokers and 50% non-brokers. Now these suggestions became outdated.

Stock Market Analysis – Intelligent investor of N.J. Yasaswy, 1994: Here the author has discussed the money game on Dalal Street. He explained various types of risks involved in the investments in securities. The author has also classified various kinds of stocks. The author has also explained national and international developments having impact on economies.

Stock Market in India of Dr. Veena: In this book the author briefly discussed history of stock exchanges, transactions on stock exchanges. The author focused on the methods and process for understanding and analysing the balance sheets of companies. The author also explained investments pattern – shares, debentures and other securities.
Liquidity of Corporate Securities of V. Prabhu Dev, 1997: The author here has focused on corporate liquidity and explained relation between companies and liquidity, investors and liquidity, brokers and liquidity and market and liquidity. The author correctly identified the factors that influence liquidity of corporate securities. The author has also suggested various measures like scrip less trading, T-5 rolling settlement system, and opening of additional trading floors; buy back of shares by companies, multiple memberships of stock exchanges, investor’s awareness etc. for the purpose of increasing liquidity of corporate securities.

Working of Stock Exchanges in India of A. Sudhakar, 1995: Here the author has discussed the historical developments of stock exchanges and factors, which influence the working of stock exchanges.

Earlier Studies

As seen above earlier studies conducted by academicians are mostly related to stock market and they are of general nature. No study so far has been conducted specifically to evaluate the working of SEBI except some two three pages articles. No detailed study has been made in this regard. Thus, the subject chosen for this study is quite new and useful for suggesting measures to further improving functioning of SEBI.

Present Study

The subject chosen for the study i.e. securities market and regulatory mechanism is vary wide, though; the scope of this study is very limited. The
study gives a general idea of securities market, how it works, who are the participants in the securities market, what are their functions etc. The study focuses on the functioning of SEBI, its powers, defects in the existing laws related to the regulation of the securities market. Regulation of securities market in USA and UK is also discussed.

**Objectives of the Study**

The establishment of SEBI is a very important step as regard to regulation of the securities market in India and it raises hope for an independent regulatory body which can evolve and administer policies that are conducive to the interest of not only securities market but also to the investors and market intermediaries. Therefore, the main objectives of the study are as follows:

- to examine the regulatory framework of securities market before SEBI Act, 1992,
- why SEBI was established?
- to examine critically the powers, functions and objects of SEBI,
- to evaluate the approach adopted by SEBI for protecting the interest of investors,
- to examine defects in the existing statutory provisions related to regulatory mechanism of securities market,
- malpractices and deficiencies in securities market: if still exist?
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- to ascertain how far SEBI has succeeded in protecting the interest of investors and removing the malpractices and deficiencies from the securities market, and

- to make suitable suggestions for improving the functioning of SEBI.

Research Methodology

Research methodology is the means through which desired objectives are sought to be achieved. The main purpose of the present study is to ascertain how far SEBI has succeeded in achieving its goals. This research is a doctrinal research. Accordingly, data is collected from journals, magazines various committee reports, statutory material of India and other countries, published books and Internet. Without overloading the thesis with quotations, necessary paraphrasing of the underlying ideas has freely been taken from large number of books, magazines, reports and other documents, which have been duly recognized in the bibliography.

Presentation of Study

As seen above, there are many interconnected objects of the study. However, the problem chosen for the study is how far SEBI has succeeded in removing the malpractices from the securities market and improving the trading conditions in market. In view of this, the present study has been divided in seven chapters.
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Chapter one deals with the growth of the securities market during 1990-91, earlier studies related to this study, present study, objectives of this study and the methodology of the study.

Chapter two contains the general idea of the securities market. It deals with the functions of the primary market i.e. origination, underwriting and distribution of securities. It also deals with the players in the securities market, their regulation by SEBI and the methods of the floating of securities in the primary market. A discussion on the legal provisions and SEBI guidelines regarding the issue of securities has also been made.

Chapter third devoted to the discussion on the secondary or stock market. It deals with the origin of stock market in India. The functions and role of the stock exchanges have also been discussed. It deals with the procedure of trading in stock exchanges, reforms made by SEBI regarding secondary market and the regulation of the securities market in India, both historical as well as present statutes governing the securities market in India.

The constitution, management, powers and functions of SEBI under different acts have been discussed in the fourth chapter. It also undertakes a critical analysis of the constitution of SEBI and inadequacies in the functioning of SEBI. It also shows the condition of securities market in India before and after 1992.

The fifth chapter highlights the existing abusive corporate activities and the other problems in the securities market, the manner in which SEBI is
exercising its powers and a critical analysis of the role of SEBI in the recent securities market scams.

The sixth chapter deals with general aspect of regulation of securities market in USA and UK. It deals with the statutes, which substantially regulate the securities market in USA and UK. It also has a discussion on the powers and functions of SEC and FSA.

The last chapter contains the findings and suggestions. In the light of the findings various suggestions have been made for the better functioning of SEBI and for improving the regulatory framework of securities market.