CHAPTER - IX
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I. FINDINGS AND CONCLUSION:

Finance is the main constituent of an economy. It is life blood of all the organizations. There are four constituents i.e. land, labour, capital and enterprise of all economic entities. All the constituents except capital can be acquired with the help of capital but the other three factors cannot acquire capital. Thus, it may be said that capital is the basic factor required for all economic activities. The capital may be defined as a constituent without which no economy can exist. The capital formation and allocation needs a proper system under which all the constituents can work together for the economic development of a country. This system under which all the constituents work together is termed as the Financial system. Financial system facilitates the transfer of economic resources from one section of the economy, who have surplus funds lying idle with them to the other sectors of the economy, who are in need of the funds. It helps mobilization of funds so as to generate a return on the funds which are otherwise lying idle with the individuals and institutions. Financial system is a broader term that covers the financial institutions, financial markets, financial instruments and financial services which work with each other to compliment the system.

In the Indian context the financial system consists of the formal and informal financial system. Formal financial system consists of financial intermediaries, financial markets, financial instruments and financial services. In all these constituents the financial markets are the main as they provide a platform for all the other constituents to perform all the activities entrusted upon them. Financial markets consist of the Money market and Capital
market along with the intermediaries associated with them. Money market deals with short term funds whereas Capital market deals with the long term funds. Capital market consists of the primary market, secondary market and their intermediaries. All these three are the major components of the capital market and work conducively with each other to complete the system. With the increase of activities in the market certain mal practices also occur which have to be checked and corrected and there causes the main thrust for the introduction of an effective regulator for the market. There were various regulations issued by the government and concerned authorities again and again but none of them could achieve the desired results. Thus government thought of establishing a separate body corporate with statutory powers. Thus SEBI was created as a statutory body by the Government in the year 1992 under the SEBI Act, 1992 with the basic objective of regulating the securities market and protecting the interest of the investors.

SEBI started its working from the year 1992 when all the statutory power of the CIC were vested with it and CIC was abolished. All the other regulations existing were repealed and remaining were merged with SEBI so that the regulation may be vested in one body corporate. In the context of the formation of SEBI it could be observed that the earlier bodies were not quite sufficient with powers to regulate the affairs of the securities market and objective to protect the interest of investors. Hence it was necessary for the formation of a separate body corporate free from government intervention & control and vested with extensive powers to regulate the securities market. SEBI was entrusted with various roles and functions to be performed as specified under the objectives of the SEBI Act, 1992. SEBI has been governed by the SEBI Act, 1992 which contains various provisions regarding the establishment, management and control with regulations for all the sections of the market coming under its supervision and control.
Primary market in India was not well developed after independence. The repeal of the Capital Issues (Control) Act, 1947 on May 13, 1992 was a major development for the securities market. With the repeal of the Act, the issuers of the securities could raise the capital from the market without seeking the prior consent of the central government and to freely price such securities. Immediately after the vesting of the regulation of the primary market in the hands of SEBI, it issued guidelines for Disclosure and Investor protection which the issuers had to follow before raising capital through public issue. These guidelines made the market transparent and free from any misleading information as all the information had to be disclosed by the companies before making public issue. Since then SEBI has been continuously amending these guidelines with the changing market conditions in order to make them more effective and vigilant. SEBI has also been continuously working to protect the interest of the investors so as to remain the confidence of the investors in the market. In the context of the Primary Capital market it is opined that SEBI has succeeded in preventing the market from unfair practices and also has helped in securing the interest of the investors but still there is scope for further improvement in order to make the control effective.

With the advent of the activities in the Primary Capital market there also arised a need for the various intermediaries in the market. With the issue of the Disclosure and Investor protection guidelines issued by SEBI, it became necessary for all the companies to appoint such intermediaries as being provided by the provision of the guidelines. These intermediaries when evolved were under no specific control which resulted in their malfunctioning. There was no set of rules and regulations specified for them, they had no accountability to any authority in the economy. Due to no accountability each and every intermediary started moulding the law
according to itself and any person whether admissible or not became intermediary in the market. These illiterate and inefficient intermediaries caused a chaos in the market and they also started befooling the investors, thereby harming their interests. Thus arised a need for particular rules and regulations to be framed for governing of such intermediaries in due regard to the existing guidelines being prevalent in the market. Thus SEBI framed separate set of rules and regulations regarding each intermediary thereby specifying their minimum eligibility requirements and their powers and functions. It helped in signifying a line of action for each set of intermediary thereby effecting a control on the activities of such intermediary. Since then SEBI has been continuously acting as watchdog on the activities of these intermediaries and has been amending the related provisions within the regulatory framework being modified from time to time. SEBI has also been conducting inquires and investigations in the working of these intermediaries along with the search and seizure of their books of account to verify their working whether on the basis of a complaint or on itself. These intermediaries have been registered with SEBI and have been regulated effectively by the various provisions as being made by SEBI till date.

Secondary market is also an equally important segment of the securities market. It has also developed with the increase in the structure of the primary market. As the investors take interest in only those investments which are liquid, it led to the development of the secondary market. Secondary market provides a platform for the liquidity of the securities issued in the primary market i.e. buying and selling of securities. Secondary market mainly consists of Stock exchanges in which the securities are traded. Previously, there was no specific regulation which would regulate the working of these stock exchanges which led to various manipulations in these exchanges. These exchanges were then regulated by SEBI by amending various enactments in
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which the Securities Contract (Regulation) Act was the main. It emphasizes the basic structure, organization, characteristics and the provisions relating to dealing of the exchanges and provides in detail the procedures to be followed by the various persons dealing in and with the exchanges. In regard to the secondary market several other steps have been also undertaken by SEBI to increase the surveillance on these markets as these markets were prone to high risks. SEBI established the depository system ad made it mandatory for dematerialized issue of securities which made the controlling more easy and less risky. It may be noted that SEBI introduced the Integrated Market Surveillance system which ultimately caused integration of these exchanges and also a composite control on these exchanges. It may be also seen as per the reports published by SEBI that the regulation on these markets is made tight and new areas or loopholes are being continuously evolved which would help in more effective management of these markets. It may be noted that these markets require more surveillance as their working area would expand in future due to the large number of public issues. This segment of the economy still requires attention of SEBI as it is still unhealthy.

Derivative segment of the securities market in India is still in its growing stage. It has not been fully developed till yet. It requires more attention as its in the developing stage and the investors are also not aware of it. The Indian market is not fully acquainted till date with these instruments and there is still a fear in the eyes of the investors while dealing with these instruments. Although the various rules and regulation made by SEBI governing these instruments have posed a spirit of confidence in the investors regarding them but still the development of these markets has not been seen upto the mark. It may be noted in this context that a major part of the investors in India are not qualified to that extent so that they can deal with all such instruments, which is also a major cause for the non-development of the
derivatives market. Thus, it is an important work on the part of SEBI and stock exchanges to guide and increase the participation of the investors in the derivative market segment so that the Indian derivatives market may be also developed in parallel to all the other markets internationally.

SEBI has taken various steps in the other sections of the market which are also related to capital market and which affect the working of the aforesaid sections of the market which include credit rating agencies, mutual funds etc. In this context the major part of this area is the regulation of insider trading which is harming the Primary and Secondary securities market. SEBI has established an effective regulation over insider trading as it has made rules and regulations governing it. In addition to all the above constituents SEBI has also undertaken to regulate the various unfair and restrictive trade practices. These practices relate to the manipulation and concealment of material information required to be disclosed under the law. It is the prime objective of SEBI that the investors are aware of all the facts and figures they should be while investing their funds. In this regard SEBI has established various penal provisions to regulate such concealments and has also succeeded in achieving it.

In regard to the collective investment vehicles, they were not under any specific control when they were evolved. They made various false statements to the public to collect funds from them and started befuddling them. This led to a situation of chaos in the economy. These schemes promised higher returns to the investors due to which the investors started diverting their funds from other schemes to these schemes. It was in this regard a major step taken by SEBI when it covered these schemes under its regulation and supervision and made various provisions regarding their management. It also made various provisions regarding the advertisements to be made by them to include a cautionary statement so that the investors may be aware of the risks before
investing their funds. It also made aware the investors of the unreasonable profits being unfair which were offered to the investors by these vehicles in order to obtain their funds. With the intervention of SEBI these unfair trade practices have reduced to a large extent and the investors have been made proficient about the market and companies. There is a scope for further improvement in this regard as still there are cases being observed where the investors are befooled and their funds have been falsified.

As per the basic objective of SEBI, Investor protection was the first and foremost one. In this connection SEBI has undertaken various steps and has succeeded too. It has undertaken various manures to guide the investors and also to make them aware of the current market conditions so that they can invest their funds in an efficient avenue. In the process of streamlining the interest of the investors SEBI has organised in past numerous campaigns and workshops and is continuously doing so to educate the investors about the various malpractices existing in the market. It has also made an investor protection cell which is entrusted with the duty of hearing the complaints of the investors and rectifying them as early as possible. There is continuous maintenance of records regarding the investor complaints specifying the total number of complaints received, solved and pending. This data is made publicly available and any person can inspect it. The efforts of SEBI can be also judged by the various other steps taken by SEBI in regard to the market protection. SEBI has made various committees over and above its working departments which are entrusted with guiding the departments and making new policies regarding the issues. These committees hold meetings and decide all the major issues and guide SEBI in its working. SEBI has also established an audit committee on its own movement in order to check the audited results filed by the companies with the stock exchanges. SEBI as on the whole was fulfilled its part as a regulator in each and every section of the
securities market. It has nearly covered up all the areas which require supervision and through which unfair practices have been conducted. On an analysis made in the relation to the working of the capital market before the formation of SEBI and after that it may be noted by the market conditions that the presence of a regulator in the market affects the market. SEBI has continuously worked to build up interest and confidence in the eyes of the investors for the market and has made the market sound and efficient. SEBI has performed all the functions of a regulator in an impartial and transparent manner without benefit to any particular class of society which may be observed apparently. It may be also observed by the efficient working of the securities market that the presence of regulator in the market has corrected all the activities of the components of the market for moving them in right direction. It has succeeded in imposing a terror in the eyes of the constituents that there is a supervisory authority over and above them which is closely watching their each and every activity.

Any activity involves certain benefits and certain limitations too as each coin has two sides. There are still certain areas which require more attention and also certain areas which have still not been covered under SEBI Act 1992. These areas have to be covered so as to make SEBI an effective regulator of the capital market of India. In the end it would be not false to say that SEBI has succeeded to a large extent in regulating the capital market of India and has been still working to uplift the standard of the Indian capital market upto the mark of all the other markets internationally.

SEBI has completed 25 years of its working in the year 2013. These 25 years of working it has achieved a great success in its objectives. The basic success which SEBI has achieved in 25 years of its working is the confidence of the investors. It may be seen recently when the control of the commodities market has been merged with SEBI. In the union budget
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of 2014-15, the government has moved ahead for merge the commodities market regulator forward markets commission (FMC) with the capital market watchdog SEBI. In his pronouncement the finance minister Sri Arun Jaitley aptly remarked "I propose to merge the Forward Markets Commission with SEBI to strengthen the regulation of the commodity forward market and reduce wild speculation." In this context the other market participants, while welcoming the government proposal, said that the presence of a strong regulator will act as a deterrent against wrongdoers and could also lead to the entry of strong institutional investors in the commodity market. They remarked, "The presence of a strong counterpart autonomous regulator like SEBI could make the RBI more comfortable and it could even think of allowing banks and other domestic institutions under its purview to participate in the commodities space." Thus, from all the above it may be drawn that SEBI is entrusted as a responsible authority by Government. In addition to the Indian context, SEBI has continued to actively engage and contribute to the ongoing works in the international arena. Along with contributing towards substantive projects and issues, SEBI has been seen playing a pivotal role in many areas at the bilateral, Asia-Pacific regional and international levels. SEBI has been continuously playing an important role in the meetings of IOSCO and thus strengthened its position in the global space. Amongst other significant work streams, SEBI also has actively engaged in cooperation on investigation/enforcement/supervisory matters with other overseas regulators under the framework of mutual collaboration provide under IOSCO Multilateral Memorandum of understanding (MMoU) and several bilateral MoUs. In addition SEBI has continued to make a meaningful contribution as a member of the leading international bodies and for a, such as the Financial Stability Board (FSB), the
international body that has been mandated by G20 to promote implementation of financial sector regulatory reforms in the world, and Joint Forum (JF), a cooperative cross sector group established in 1996 to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates. As part of its other varying commitments as the securities market regulator, SEBI on several occasions, provides inputs to the Government of India on international issues/treaties and financial sector dialogues, hosted and organized visits of foreign delegates, international seminars and training programs. In addition to the aforesaid SEBI has been also conducting research on the market activities and the changes being occurred in the market with globalization of the economy so that the rules and regulations may also be amended from time to time. The research is also conducted in search of the new areas of operation in which till yet provisions have not been made and are causing any violation in the economy. During its eventful years of working, it has successfully not only modernized Indian capital markets bringing in line the best international practices and standards but has taken initiatives that were subsequently adopted by other countries. However the challenges to regulation persist induced by advances of technology driving innovations and complexities in the market, products and platforms. SEBI aims to continuously upgrade and improve its human and technological capabilities so that it can fulfill its mandate of delivering strong enforcement, protection of investors and development of market.

As the new financial year commences, the journey of SEBI continues with new challenges moulded by innovations, technologies, manipulators and systematically important institutions. Notwithstanding these, SEBI would incessantly strive to make Indian securities market world-class by pursuing its
mandatory objectives, "Protection of interests of investors, promote the regulation and development of market."

II. SUGGESTIONS:

The following suggestions are advanced to improve the effectiveness of SEBI in regulating the capital market of India. These would help in improving the efficiency of SEBI to manage and regulate the market in more efficient way and would make it also responsive to environmental changes:

i) Suggestions in connection with the organisation of SEBI: In relation to the organisation of SEBI it consists of a chairman, two members from the Central Government, one member from RBI and five other members of whom three shall be whole time members and these members to be appointed by Central Government. The interference of the Central Government in the appointment of the members increases beauraucracy in the Board. It also affects the fairness and transparency in the actions taken by the Board as any member who is appointed by the Central Government is guided by the Ministers who may induce them to take unfair and partial decisions. It is hereby suggested that the interference of the Central Government must be reduced and the members must be appointed among the learned people working in the area of matters relating to the working of SEBI. The members shall be appointed among the researchers, officials of companies with sound and efficient track record and officials of various other agencies working in line with the objectives of SEBI. This would increase the proficiency of SEBI as these people would have more deep knowledge of the subject matter ad the various loopholes of the system from where several frauds are committed and would
also help SEBI to attain its objectives more effectively and efficiently.

ii) **Suggestions in connection with the primary market:** In the context of the primary market several initiatives have to be taken to make the market perfect. SEBI has initiated various steps in regard to the disclosure of all the material information by the companies making public issue but still there is various data which the companies conceal and which at later affects the interests of the investors. SEBI shall ensure and enable strict compliance of the disclosure requirements in integration with the stock exchanges for all the companies desiring to make a public issue. It shall be made compulsory for all the companies making a public issue to disclose each and every aspect of their company which may affect the interest of the investors. In addition to this SEBI shall also make several facilitation centres to guide the investors about the various procedures to assess the credibility of the companies making the public issue.

It shall be the endeavour of SEBI to educate the investors about the various methods of analysing and assessing the future prospects of the companies in which they are investing their surplus funds. In my opinion SEBI shall add a note in the advertisement of public issue of a company of its opinion about the present position of the company and its future prospects. The facilitation centres shall be opened in all the cities and the investors shall be informed about them and these centres shall guide the investors about the public issues and financial position of the companies in which the investors are investing their funds.

SEBI shall also take certain measures to verify the soundness of the data being disclosed by the companies and the responsibility of this shall be
vested with the intermediaries which are registered with SEBI and engaged in formation of the company. The provisions regarding the issue of capital and disclosure requirements shall also be amended and it may contain along with the responsibility statement of the promoters by the company also a responsibility statement of the intermediaries associated in the formation of the company and the penal provisions in such cases for any default shall restrict the further working of such intermediaries forever. There shall also be provisions made in this context for the companies to lock in the funds received from the public issue and an explanatory statement shall be given to SEBI for all the expenses incurred by those funds.

iii) **Suggestions in connection with the secondary market**: Secondary market is also an important part of the securities market in India. The development of the secondary market is also a precondition for an efficient primary market as it makes the securities issued in the primary market liquid. In the context of the secondary market there must be integration of the various stock exchanges working in the country. It shall be the endeavour of SEBI to bring about an integration in the working of the stock exchanges as it would be beneficial in the regulation of the working of the stock exchanges and further economic development. In order to effect the integrated stock market surveillance system, the integration of the stock exchanges is necessary.

Further, it shall be seen by SEBI that the all departments of the stock exchanges are working in compliance with the legal procedures involved and various checks shall be imposed on the companies engaged in trading in the stock exchanges. In relation to the secondary market there is a need for more effective control as it has been seen since the formation of SEBI that continuous malfunctioning has been inquired in the various stock exchanges. The penal
provisions shall be also made strict in relation to the stock exchanges as a small penalty does not create a fear in their eyes. The penal provisions may be made so high that the malfunctioning would decline on its own.

In relation to the secondary market it shall be also endeavoured that all the companies abide by the listing agreement specified by SEBI and its shall be the duty of the stock exchanges to see that all the requirements are being complied by the companies. The changes as notified in the listing agreement in accordance with the amendments in the related regulations shall be also forced mandatory for all the companies so that the controls may be imposed in a more critical way.

iv) Suggestions in relation to market intermediaries: Intermediaries are the connectors which are involved between the ultimate borrowers and lenders. It is necessary for an effective capital market that the intermediaries working in those market are fair and efficient as they are the catalyzing and guiding agents in the market. Although various rules and regulations have been made by SEBI, regarding these intermediaries but still there is a scope for further improvement. The regulation on these intermediaries shall be made more specific as inspite of the continuous control various malpractices being committed by them they have not been fully cured. In my opinion it shall be endeavoured by SEBI, that a separate regulator shall be placed on them who shall independently check all their operations and report independently about them to SEBI. In relation to the intermediaries it shall be also endeavoured that the new entities and old entities existing should comply with the changes being done in the rules with the latest amendments so that a uniformity is maintained.

General suggestions:
i) **Need for integration among the various parts of the financial system:** In order to improve the working and to achieve higher economic development in the country it is necessary that all the parts of the financial system work in integration with each other and in the same direction.

ii) **Need for simplified procedures:** Certain procedures envisaged by SEBI are typical and cannot be understood by a simple investor which leads to involvement of various intermediaries causing malpractices with the investors. Thus it is required that the various regulations and forms shall be simplified so that they may be understood properly even by a simple investor.

iii) **Need for investor facilitation centres:** In order to make the investors more trained and educated there shall be established various facilitation centres at various places so that proper guidance may be given to the investors. It shall be done by SEBI in order to protect the interest of the investors.

iv) **Coordination among the various committees formed by SEBI:** There shall be coordination among the various committees formed by SEBI to regulate and guide in regard to the various matters. They shall work in close relation with each other so that all the efforts may be put in the right and desired direction.

The above noted suggestions, if implemented honest by and sincerely, would make the regulation of SEBI more effective on the capital market. The interest of investors would be more secured which would lead to better and enhanced economic development of the country. It would lead to benefit of the main sections of the investors as they are the prime participants in the system because without their funds no system would exist. Improvement in the regulations and procedures would lead to better market conditions and decrease in the malpractices.