REGULATIONS GOVERNING THE BOMBAY STOCK EXCHANGE

Why Regulation? Do you know what a ‘security’ is? Our laws provide an inclusive definition of ‘securities’. It says that ‘securities’ include shares, bonds, debentures, units of CIS, etc. It does not define in terms of ingredients an instrument must have to be considered as ‘securities’. I have not seen an ingredient type definition of ‘securities’ in any other jurisdiction. It is precisely because ‘securities’ are most insecure instruments. The only ingredient common to all types of securities is its associated ‘insecurity’. It is like a blind man named padmalochan. If it is a market for such insecure instruments, market would collapse if somebody does not regulate away the insecurities.

We need regulations to correct for identified market imperfections which produce sub-optimal outcomes and to prevent market failures. In the absence of regulation by a specialized agency, each participant would do its own due diligence before undertaking any transaction in the market. This imposes huge social costs. Besides, regulations signal minimum standards of quality and hence enhance confidence in markets. With a known asymmetric information problem, risk averse investors may exit the market altogether if such minimum standards are not signaled. In its extreme form the market breaks down completely.

There is an apparent contradiction that the reforms aim at liberalization while regulations appear to restrict liberalization. Liberalisation does not mean scrapping of all codes and statutes, as some market participants may wish. It rather means replacement of one set by another set of more liberal code / statute, which allow full freedom to economic agents, but influence or prescribe the way they should carry out their activities, so that the liberalized markets operate in an efficient and fair manner and the risks of systemic failure are minimized. It is, however, desirable to keep in mind the contradiction to ensure that we do not resort to excessive regulation and regulations are designed and implemented properly. Otherwise the costs of regulation would exceed the benefits from regulation.

The regulatory framework governing securities markets in India is broad and comprehensive. The Parliament has enacted SCRA, SEBI Act and the Depositories Act.

SEBI has framed regulations under the SEBI Act and the Depositories Act for registration and regulation of all market intermediaries, for prevention of unfair trade practices, insider trading, etc. Under this framework, Government and SEBI issue
notifications, guidelines, and circulars, which need to be complied with, by market participants. The self-regulatory organizations (SROs) like stock exchanges have also laid down their rules of game. Securities market is regulated by following governing bodies:

- Securities and Exchange Board of India (SEBI)
- Department of Economic Affairs (DEA)
- Department of Company Affairs (DCA)
- Reserve Bank of India
- Stock exchanges

Significant among the legislations for the securities market are the following:

- The SEBI Act, 1992, which establishes SEBI to protect investors and development and regulate securities market. All the powers under this act are exercised by SEBI.
- The Companies Act, 1956, which set out the code of conduct for the corporate sector in relation to issue, allotment and transfer of securities, disclosures to be made in public issues and non-payment of dividend. Powers under this Act are exercised by SEBI in case of listed public companies and public companies proposing to get their securities listed.
- The Securities Contract (Regulation) Act, 1956, which provide for regulation of transaction in securities through control over stock exchanges. Most of the powers under this act are exercised by Department of Economic Affairs (DEA), some are concurrently exercised by DEA and SEBI and a few powers by SEBI.
- The Depository Act, 1996, which provides for electronic maintenance and transfer of ownership of dematerialized securities. SEBI administers the rules and regulation under this Act.

The Securities and Exchange Board of India was established in 1988, as a government department. The passing of the SEBI Act in 1992 made SEBI the apex regulator of the Indian securities markets. It was established to regulate and develop the growth of the capital market. SEBI regulates the working of stock exchanges and intermediaries such as stock brokers and merchant bankers, accords approval for mutual funds, and registers Foreign Institutional Investors who wish to trade in Indian scrips. Section 11(1) of the SEBI Act provides that it shall be the duty of the Board to protect the interests of investors in securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit.

SEBI regulates the business in stock exchanges and any other securities markets and the working of collective investment schemes, including mutual funds, registered by it. SEBI
promotes investor's education and training of intermediaries of securities markets. It prohibits fraudulent and unfair trade practices relating to securities markets, and insider trading in securities, with the imposition of monetary penalties, on erring market intermediaries. It also regulates substantial acquisition of shares and takeover of companies and can call for information from, carry out inspection, conduct inquiries and audits of the stock exchanges and intermediaries and self regulatory organizations in the securities market.

SEBI has introduced various reforms including improved transparency, computerization, enactments against insider trading, improved capital adequacy, imposed restrictions on forward trading, and enacted provisions to encourage corporate membership in the stock exchanges.

Stock exchanges have also laid down strict compliance measures covering detection of irregular trading practices through sophisticated surveillance systems, margining, trading volume controls and set up investor protection funds. Stock exchanges ensure compliance of brokers on a continuous basis through inspection and other measures.

The regulators ensure that the market participants behave in a desired manner so that the securities market continue to be a major source of finance for Corporates and government and the interest of investors are protected. The responsibility for regulating the securities market is shared by:

- Department of Economic Affairs (DEA)
- Department of Company Affairs (DCA)
- Reserve Bank of India (RBI)
- Securities and Exchange Board of India (SEBI)
- Securities Appellate Tribunal (SAT)

Government has issued notifications providing that the contracts for sale and purchase of government securities, gold-related securities, money market securities and securities derived from these securities and ready forward contracts in debt securities shall be regulated by RBI. Such contracts, if executed on stock exchanges, shall, however, be regulated by SEBI in a manner that is consistent with the guidelines issued by RBI.

Most of the powers under the SCR (A) are exercisable by Department of Economic Affairs (DEA), while a few others by SEBI. The powers of the DEA under the SCRA are also con-currently exercised by SEBI. The powers in respect of the contracts for sale and purchase of securities, gold-related securities, money market securities and securities derived from these securities and ready forward contracts in debt securities are exercised concurrently by RBI. The SEBI Act and the Depositories Act are mostly ©BSE Training Institute Ltd. 27
administered by SEBI. The powers under the Companies Act relating to issue and transfer of securities and non-payment of dividend are administered by SEBI in case of listed public companies and public companies proposing to get their securities listed.

The SROs ensure compliance with their own rules relevant for them under the securities laws.

**Key regulations governing the Indian Securities Market.**

The key regulations currently governing Indian securities market are:

(a) The Securities Contracts Regulation Act, 1956, which provides for the regulation of the transactions in securities through control over stock exchanges;
(b) The Companies Act, 1956, which sets out the code of conduct for the corporate sector in relation to issue, allotment and transfer of securities, and disclosures to be made in public issues;
(c) The SEBI Act, 1992 which establishes SEBI to protect investors and develop and regulate securities market; and
(d) The Depositories Act, 1996 which provides for electronic maintenance and transfer of ownership of dematerialized securities.
(e) Prevention of Money Laundering Act, 2002 to prevent money-laundering and to provide for confiscation of property derived from or involved in money laundering.

In addition to above there are key rules and regulations framed time to time by SEBI as per the powers granted to it by the Government of India under SEBI act 1992.

**Securities Contracts (Regulation) Act (SCRA), 1956**

SCRA provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims to prevent undesirable transactions in securities. It gives SEBI regulatory jurisdiction over:

(a) Stock exchanges through a process of recognition and continued supervision,
(b) Contracts in securities, and
(c) Listing of securities on stock exchanges.

As a condition of recognition, a stock exchange complies with conditions prescribed by SEBI. Organized trading activity in securities takes place on a specified recognized stock exchange. The stock exchanges determine their own listing regulations which have to
conform to the minimum listing criteria set out in the Rules like 90% subscription is necessary for listing.

According to section 2(h) of the Indian Contract Act, 1872, a contract is an agreement enforceable by law. Therefore, there has to be an agreement to create a contract and secondly, it has to satisfy certain requirements mentioned in section 10 of the Act, i.e., the agreement has to be between parties competent to contract, with their free consent, for a lawful object and with lawful consideration, and it should not have been declared as void agreement.

The Securities Contracts (Regulation) Act, 1956 [SC(R)A1 was enacted to prevent undesirable transactions in securities by regulating the business of dealing therein and by providing for certain other matters connected therewith. This is the principal Act, which governs the trading of securities in India.

**The Companies Act, 1956**

The Companies Act deals with issue, allotment and transfer of securities and various aspects relating to company management. It provides for standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and management perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, supply of annual report and other information.

The Act being voluminous, it is difficult to reproduce even a gist of the sections. A Companies Amendment Bill has been put up in order to simplify this Act. Here, some of the more important provisions of the Act have been mentioned for the purpose of this course.

The Companies Act, 1956 (Act) has over 600 sections, 14 schedules, various rules, which are read along with various circulars, notifications and clarifications issued by the Department of Company Affairs from time to time. The details of the relevant regulatory authority are provided for in each section of the Act. The Act also details the filing of various forms with the Registrar of companies (ROC), Central Government, CLB and provides for maintenance of registers/records and access to outsiders. The Act also lays down penalty provisions through fine and/or imprisonment for noncompliance of the provisions of the Act and on whom the penalty is liveable. The Act also provides for statutory forms to be filed with the different regulators of two kinds - one to be filed even if the events have not taken place e.g. annual returns, annual accounts etc. and the second which is event based and to be filed on happening of certain events.
The enforcement of the provisions of the Act are carried out by the Central Government (through Dept. of Company Affairs), the company Law Board, (CLB) Regional Director of the CLB, Registrar of Companies. The Securities and Exchange Board of India is the concurrent authority of some matters relating to listed Companies. The administration body under the Companies Act is Company Law Board.

SEBI Act, 1992 provides for two alternative types of punishment for violation of the provisions of the Act. They are:

(a) Suspension or cancellation of certificate of registration to be imposed by SEBI only as per regulation framed by SEBI [Section 12 (3)],

(b) Monetary penalty to be imposed by an adjudicating officer appointed by SEBI, as per rules framed by Central Government.

A market intermediary, who fails to comply with any condition of registration, and/or contravenes any of the provisions of the SEBI Act/SC(R)A/Rules and Regulation made there under, shall be liable to suspension of registration, after enquiry, for a specified period or cancellation of registration.

An adjudicating officer appointed by SEBI is not officer below the rank of a division chief of SEBI. He holds an enquiry after giving a person reasonable opportunity of being heard for the purpose of determining if any violation has taken place and imposing penalty.

To ensure fair enquiry and penalty, it has been provided that appeal against the orders of adjudicating officers would lie with SAT. Similarly, any person aggrieved by an order of SEBI can prefer an appeal before SAT. Any person aggrieved by an order or decision of SAT may file an appeal to the High Court.

SEBI has framed several rules for efficient functioning of securities markets in India. These are:

i. SEBI (Stock Brokers & Sub-Brokers) Rules, 1992

ii. SEBI (Insider Trading) Regulations, 1992


The stock exchange are regulated by certain Acts and rule. The Government of India has passed some important Acts, viz. The securities contracts (Regulation) Act 1956. The securities contracts (Regulation) Act 1956, securities contract s (Regulation)rule 1957, securities and exchange Board of India Act 1992 and depositories Act 1996 which are helpful in the operation of stock exchange In this part the aforesaid acts has been described with the latest amendments made therein.

The securities contracts (Regulation) Act 1956
An official bill called the securities contract (Regulation) Bill, 1954 was drafted on the lines of the recommendations of Gorwala Committee which introduced in the Lok Sabha on the December 24, 1954. The Bill as amended by the joint committee of Lok Sabha and Rajya Sabha, was passed with some amendments by the Lok sabha on July 6 1956 and by Rajya Sabha on August 6, 1956. The securities contract (Regulation) Act. 1956 was assented to by the president and published in the Gazette of India on September 4, 1956 assented to by the president and published in the Gazette of India on September 4,1956. The Act came into force throughout India on the February 20, 1957 by a notification published in the Gazette on February 16, 1957.

Every stock exchange is needed to make an application. In the prescribed manner for recognition. Further, each Application must accompany a copy of the rules relating to the constitution of the Stock exchange. After making necessary inquiry the central Government may grant recognition to the stock exchange is needed to be published in the Gazette of India and of the State concerned. Every stock exchange must be given an opportunity under this Act, to be heard in the matter of recognition and the reason for refused is needed to be communicated to the concerned stock exchange is writing. Further every stock exchange is expected to get approved of the central government before any amendment in any of the matters specified in section 3(2).

This Act empowers the central Government to withdrawn the recognition of any stock exchange if it is in the interest of the trade or in the public interest however concerned stock exchange should be given an opportunity to be heard in the matter.

Every stock exchange under, this Act is needed to furnish prescribed periodical returns to the central Government. In Addition to the every Stock Exchange and every member there of is needed to maintain and preserve for five years and prescribed, books of Account and other document. The central government is empowered to one or more person to make an inquiry in relation to the affairs of the stock exchange or any member if required.

It is made obligation on the part of all the recognized stock exchange to a furnish a copy of the Annual report containing prescribed particular to the central Government. Every recognized stock exchange under this Act is empowered to Appoint one or more persons to make an inquiry in relation to the affairs of the stock exchange or any member if required.

It is made obligators on the part of all the recognized stock exchange to furnish a copy of the annual report contain prescribed particular to the central Government. Every recognized stock exchange under this act is empowered to make! amend any rule made by it in the following matters.
1. Restriction of voting rights to the members.
2. The regulation of voting rights so that each member may be entitled to have only one vote.
3. The restriction on the right of a member to appoint another person as his proxy.

The central government is empowered under this Act to Direct Stock Exchanges to make or amend any rules after consulting with the governing body of the stock exchange(s). Further if any stock exchange fails or neglects to comply with such orders the central government may make or amend rules of stock exchange (s) further more, such new or amended rules are needed to be published in the gazette of India and in the gazette of concerning state. Every stock exchange is given power to make or amend any by laws for the regulation and control of the contracts which is subject to the prior government Approval. Such new or amended by e- laws are needed to be published in the official gazette of Indian and concerned state. The central government for revision there of with in six month of publication of such by e-Laws.

If the central government is of opinion that the governing body of any recognized stock exchange should be superseded the government may proceed in this regard. However, the central government is needed to serve a notice to the governing body in this regard and the governing body shall also be given an opportunity to be heard in the matter. The central government may also appoint any person or person to exercise and perform all the powers and Duties of the governing. The central government, under this act, may suspend business of any recognize stock exchange if in the opinion of the government an emergency has arisen and for the purpose of meeting the emergency the central government considers it expedient to do so. This should be notified in the official gazette along with the reason to this effect. Thus, under this act the central government may direct the stock exchange to suspend such of its business for such period not exceeding seven days. The period of suspension may be extended for further period.

If the central government is satisfied having regard to the nature or the volume of transactions in securities in any state or areas, that it is necessary to do so. It may be declared all contracts, other than between members of a recognized stock exchange illegal this should be done by a notification in the official gazette.

No member of a recognized stock exchange shall in respect of a securities enter into any contract as a principal with any person other than member of a recognized stock exchange unless he has secured the consent of such person and disclose it properly. The central government is given a power under this act to prohibit contracts if central government
is of the opinion that it is necessary to prevent undesirable speculation in some securities on any state or area. In this case no person in that state or area can enter into any contract for sale or purchase of any such securities. Generally there is no restriction on spot delivery contracts but if central government is of opinion that in the interest of the trade or in the public interest, it is expending to regulate and control the business of dealing in spot delivery in any state or area it may declare that the provision of section 17 shall also apply to spot delivery for sale or purchase of securities.

No any person can organize or assist in organizing or be a member of any stock exchange (other than a recognized stock exchange) for the purpose of assisting in entering into or performing any contract. Not engaged as principal or employee an any business other than that of securities except as a broker! agent not involving any personal financial liability unless he undertakes on admission to serve his connection with such business. This connection is relax able with prior approval of the central government.

He is not associated with or is a member of or subscriber to or shareholder! debenture holder in or connected through a partner! employee with any other organization, institution, association, company or corporation in India where dealing in securities unless he undertakes on admission to serve such association! connection.

He has not been expelled or declared a defaulter at any time by other stock exchange.

He has not been previously refused admission to membership unless a period of one year has elapsed since the date of such rejection.

The central government is empowered to compel listing of securities on any stock exchange by the public, companies, if the central government is of opinion that it is necessary or expedient in the interest of the trade or in the public interest to do so. Further, if a stock exchange acting in pursuance of any power given to it by its bye-laws refuse to list the securities of any public company the company may appeal to the central government against such refusal along with the reasons for such this act.

Any person who shall on conviction be punishable with imprisonment for a term which may extend to one year or with five of with both.

If an offence has been committed by a company every person who at the time when the offence was committed was in charge of and was responsible to the company for the conduct of business of the company as well as the company shall be deemed to be guilty of offence and shall liable to be proceeded against and punished accordingly these offence are subject to certain provisions.
The central government is empowered to make rules for the purpose of carrying into effect the objects of the act, by notification in the official gazette.

The Bombay securities contract control act, 1925 was repeated after adaptation of this act.

**Securities Contracts (Regulation) Rules 1957**

Government has promulgated the securities contracts (Regulation) Rules 1957 under the securities contract (Regulation) act 1956, for carrying into effect the objects of the legislation. These rules provide for the procedure to be followed by all the stock exchanges for reorganization, like that submission of periodical returns and annual reports by recognized stock exchange within the boundary of India.

An application under section 3 of the securities contract (Regulation) Act 1956, shall be made to the central recognition of a stock exchange in form a along with requisite fee under Rule 3. the amount of fee should be submitted in the nearest government treasury or the branch of State Bank of India or in Mumbai, Calcutta, Madras, Delhi or Kanpur branch of Reserve Bank of India.

Every application for recognition shall be accompanied by four copies of the rules and bye-law of the stock exchange as specified in section-3 of the SC (R) Act and the receipt of the amount of the fee deposited. The application shall contain clear particulars as to the matters specified in the annexure to form A.

The recognition granted to a stock exchange shall be in form B and be subject to the following conditions, viz.

(I) That the recognition unless granted on a permanent basis shall be for such period not less than one year as may be specified in the recognition.

(ii) That the stock exchange shall comply with such conditions as are may be prescribed or imposed under the provisions of SC (R) Act and SC(R) Rules from time to time.

Recognized stock exchange desirous of renewed of recognition may make an applications, three months before the expiry of the period of recognition, to the central government! SEBI in form A. the provisions of Rules 3, 4, 5, and 6 shall apply in relation to renewal of recognition as they apply in relation to grant of recognition.

The person who want to be a member of any recognized stock exchange must have following qualification and experiences.

(i) He must be of or above 21 year of age.
(ii) He must be a citizen of India. The governing Body of exchange may relax this conflation with the prior approval of central government.

(iii) He must not be adjudged bankrupt or a receiving order in bankruptcy has not been made against him.

(iv) He has not been convicted of any offence involving fraud or dishonesty.

(v) He has not compounded with his creditors and he has paid sixteen annas in the rupee.

(vi) He is not engaged as principal or employee of any business other than that of securities except as a broker/agent not involving only personal financial liability unless he undertake on admission to serve his connection with such business. This condition is relax able with prior approval of central government.

(vii) He is not associated with or is a member of or subscriber to shareholder/debenture holder in or connected through a partner/employee with any other organization, institution association company or corporation in India where dealing securities are carried on. He is not a director, partner or employee of a company whose principal business is that of dealing securities unless he undertakes on admission to serve such association/connection.

(viii) He has not been expelled or declared a defaulter at any time by any other stock exchange.

(ix) He has not been previously refused admission to membership unless a period of one year has clapsed since the date of such rejection.

(x) He must have been worked for not less than two years as partner/authorized assistant/clerk/a remisier/apprentice to a member.

(xi) If he does fulfil conditions (x) and (xi) then he should be successor of a deceased/retiring member.

A company, as defined in the companies act, 1956, may be elected as member of stock exchange if:

(i) Such company is formed in compliance with the provision of 322 of the companies act.

(ii) A majority of the director of such company are shareholders of such company and also member of that stock exchange, and

(iii) The Directors of such company who are member of that stock exchange shall be confirmed in writing and shall be enforced in accordance with the rules bye laws of the concerned stock exchange.
The central government is empowered unless these rules to nominate up to three persons as member of governing board of the exchange such nominated members enjoy the same status and powers as other members of the governing board.

The central government receives only report of an enquiry made under the SC (R) Act against any member of a recognized stock exchange shall be confirmed in writing and shall be enforced in accordance with the rules and bye-laws of the concerned stock exchange.

The central government is empowered under these rules to nominate up’ to three persons as members of the governing board of the exchange such nominated members enjoy the same status and powers as other members of the government board.

If the central government receives only report of an inquiry made under the SC (R) Act against any member of a recognized stock exchange, then the central government may take such action as they deem proper and may direct the governing board of the exchange such nominated members enjoy the same status and powers as other members of the governing board.

The exchange to take such action as they deem proper and may direct governing board of the exchange to take such disciplinary action against such members. If it is made obligatory, in these rules on part of all stock exchange to take disciplinary action against such members if so directed by the central government. These rules has made it obligators on the part of all members of the stock exchange to get their accounts audited by chartered accountant whenever such audit is required by the central government.

Every stock exchange is needed under these rules to maintain and preserve the following books of account and documents for a period of five years.
1. Minute books of the meaning of
   (i) Members
   (ii) Governing body
   (iii) Any standing committee or committees of the governing body of the members.
2. Register of members showing their full names and address. If member of the stock exchange is a firm, full names and address of all partner shall be shown.
3. Register of authorized clerks.
4. Register of remisors or authorized assistants.
5. Record of security deposits.
7. Ledgers
8. Journals
9. Cash book
10. Bank Pass-Book

Every member of the stock exchange are needed to maintain and preserve following books of accounts and other documents under SC (R) Rules, 1957.

Following books and documents should be maintained and preserved for five year.

(1) Register of transactions (Sauda book)
(2) Client's Ledger
(3) General Ledger
(4) Journals
(5) Cash book
(6) Bank Pass book
(7) Documents Register showing full particulars of shares and securities received and delivered following should be maintained and preserved for a period of two years.

(i) Members contact book showing details of all contracts entered into by them with other members of the same exchange or counter foils or duplicates of memos of confirmation issued to such other members.

(ii) Counter foils or duplicates of counters notes issued to client.

(iii) Written consent of clients in respect of contracts entered into as principals.

Section 16 of the securities contract (Regulation) Rules 1957 deals with the manner of inquiry relating to the affairs of the governing body of a recognized stock exchange or the affairs of any member of the stock exchange in relation to the stock exchange.

Every Recognized stock exchange is needed to furnish the central government annually within one month of the date of the holding of its general meeting with a report about its activities during the preceding years. which shall inter all main details information about the following matters:

(i) Change in rules and bye- laws If any,
(ii) Changes in the composition of the governing body.
(iii) Any New sub- committees set up and changes in the composition of existing one.
(iv) Admission, Readmission, deaths or resignation of members.
(v) Disciplinary action against members,
(vi) Arbitration of disputes (number and nature) between members and members.
(vii) Defaults
(viii) Action taken to combat any emergency in trade,
Securities listed and De-listed

(x) Securities brought on or removed from the forward list.

Further, every such report must be accompanied by an audited balance sheet and profit and loss account for the securities contact (Regulation) Rules, 1957, made it obligatory on the part of all stock exchange to publish for criticism in accordance with the provisions of section 23 of the general clauses act 1997. Both in the gazette of India and official gazette of the state in which the principal office of the recognized stock exchange is situated.

The section 19 of the securities contract (Regulation) Rules, 1957 deals with the requirement with respect to the listing of securities on a recognized stock exchange.

**Securities AND EXCHANGE BOARD OF INDIA ACT 1992**

It is an act to provide for the establishment of a board to protect the interests of investors in securities and to promote the development of and to regulate the securities market and for matters connected there with or incidental there to.

Earlier, the securities and exchange board of India (SEBI) was constituted by the government of India on April 12, 1988, as a non-statutory body to promote orderly and healthy development of the securities market. Later SEBI was given statutory recognition by an ordinance promulgated by the president of India on 31st March 1992. The ordinance was replaced by the securities and exchange board of India act 1992. The ordinance was replaced by the securities and exchange board of India act 1992 on April 4, 1992, deemed to have come in to force on January 30, 1992. The main function of SEBI is to protect the interest of the investors.

Under this act, the securities and exchange board of India is made a body corporate having perpetual succession and common seal with power subject to the provision of the act. To acquire, hold and dispose of property, both movable and immovable, and to contract, and shall by the said name, sue or be sued.

The board consist of the following members, namely.

(i) A chairman

(ii) Two members from amongst the officials of the ministries of the central government dealing with finance and law.

(iii) One member from amongst the officials of the Reserve, Bank of India constituted under section 3 of the reserve Bank of India Act, 1934.

(iv) Two other members to be Appointed by the central government.

The central government is vested with the power to remove a member from office if the becomes insolvent or of unsound mind or has been convicted of an offence which
involves a moral turpitude or is appointed as a director of a company or has so abused his position as to render his continuation in office detrimental to the public interest. Provided he must given a chance to be heard in the matter.

The board meets at such time and place and observes such rules of procedure in regard to the transaction of business at its meeting (including quorum at such meetings) as it is provided in the regulation of the SEBI. This act clears that no act or proceeding of the board shall be invalid merely by reason of any vacancy in the board or defect in the constituting or appointment of a person as a member of any irregularity in the procedure of the board section 10 of the securities and exchange board of India (constituted under the resolution of the government of India in the department of economic affairs NO.1 (44) SE/86 dated the 1ih day of April 1988) to the new securities and exchange board of India (constituted under an act. Of 1992)

This act made it obligatory on the part of the securities and exchange board of India to protect the interests of investors in securities and to promote the development of and to regulate the securities market by such measures' as it thinks fit.

No stock, broker, sub broker, share transfer agent, banker to an issue, register to an issue, trustee of trust deed, underwriter, merchant banker, it may deem necessary, any person aggrieved by on order of the board made under this act, or the rules or regulations made there under may prefer an appear to the central government with prescribed time period.

No suit, prosecution or other legal proceeding shall lie against the central government, any of its officer or any member, officer or other employee of the SEBI for any things which is in good faith done or intended to be done under further, whoever contravenes or attempts to contravenes or abets the contravention of the provisions of this act or any rules or regulation made there under, shall be punishable with imprisonment for a team which may extend to one year or with fine or with both.

The securities. and exchange board of India under this act, is exempted to pay- wealth tax, income tax or any other tax in respect of there wealth profit or gains derived.

If an offence under this act has been committed by a company evens person who at the time the offence was. Investment advisor, portfolio manager and such other intermediary who may be associated with securities market is allowed to buy, sell or deal in securities except under, and in accordance with the conditions of a certificate of registration obtained from SEBI in accordance with rules made under this act.

The central government, under this act, is empowered to issue directions and the SEBI is bounded to follow such directions provided that the board shall be given a chance to
express its views in this matter. Further, the central government may in the public interest, subside the board for such period not exceeding six month, by notification. On the expiration of the period of super session, specified in the notifications, the central government may reconstitute the board by a fresh appointment the securities and exchange board of India is needed to furnish the central government such returns and statement and such particulars in regard to any proposed or existing programmed for the promotion and development of the securities market, as the central government time to time require. The SEBI by general or special order in writing may delegate such of its powers and function under was committed was in change of and was responsible to the company for the conduct of business of the company as well as the company shall be deemed to be the guilty of the offence and shall be liable to be proceeded against and punished accordingly.

The central government is empowered to make rules for carrying out the purposes of this act by notification in the official gazette further with the previous approval of the central government and by notification, make regulations consistent with this act and the rules made there under to carry out the purposes of this act. Furthermore every, rules and regulation make under this act shall be laid before each house of parliament, as soon as possible if both house agree in making any modification in the rule of regulation should not be made, the rule or regulation shall there after have effect only in such modified from or be of no effect, as the case may be.

SEBI (STOCK BROKERS & SUB-BROKERS) RULES, 1992

The Central Government has made SEBI (Stock-brokers and Sub-brokers) Rules, 1992 under the powers conferred by section 29 of SEBI Act, 1992. These rules provide the definition of a Stock-broker and a Sub-broker and specify that they shall not buy, sell, and deal in securities, unless they hold a certificate granted by SEBI. It also provides for:

- Capital Adequacy Norms (Rule 3) for each stockbroker consisting of two components: Base minimum capital, and Additional or optional capital related to volume of business. The amount of base minimum capital varies from exchange to exchange. The form in which the base minimum capital has to be maintained is also stipulated by SEBI. Exchange may stipulate higher levels of base minimum capital at their discretion. The member will be stopped from trading when he violates 100% capital adequacy.

- Conditions for grant of certificate to stockbroker (Rule 4) imposed by SEBI to grant a certificate to a stockbroker subject to fulfilment of certain conditions.
- Conditions of grant of certificate to sub-broker (Rule 5) imposed by SEBI to grant a certificate to a sub-broker subject to fulfilment of certain conditions,
- Definition of small investor as an investor buying or selling securities on a cash transaction for a market value not exceeding rupees fifty thousand in aggregate on any day as shown in a contract note issued by the stockbroker.
- Procedures for registration of Stock Broker and Sub-broker.
- Eligibility criteria for qualifying a person to be a stockbroker or sub-broker.
- Code of Conduct that is to be followed by the stockbroker holding a certificate at all times.
- Fees payable by every applicant eligible for grant of a certificate and the manner in which it should be paid.
- Suspension of the registration certificate by SEBI where a stock-broker fails to pay the fees as provided in regulation 10, whereupon the stockbroker shall cease to buy, sell or deal in securities as a stock-broker. A penalty of suspension of registration of a stock-broker may be imposed if the stock broker is guilty of misconduct or if he fails to resolve the complaints of the investors or if he does not follow the code of conduct.
- Maintenance of proper books of accounts, records as specified by every stockbroker and sub broker for a period of five years, as required by Regulation 17. Every stockbroker shall intimate to SEBI the place where the books of accounts, records and documents are maintained. Every stock broker shall, after the close of each accounting period, furnish to SEBI if so required as soon as possible but not later than six months from the close of the said period a copy of the audited balance sheet and profit and loss account, as at the end of the said accounting period.
- Appointment of Compliance Officer, who are on the records of the Exchange, by every stock broker who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by SEBI or the Central Government and for redressal of investors, grievances. The compliance officer shall immediately and independently report to SEBI any non-compliance observed by him (Regulation 18A).
- Procedure for inspection to be followed by SEBI which may appoint one or more persons as inspecting authority to undertake inspection of the books of accounts, other records and documents of the stock-brokers under Regulation 19. Inspection is carried out for the purposes of ensuring that the books of accounts and other books are being maintained in the manner required and that the various provisions of the relevant Acts
and the rules made there under are being complied with. Procedure in case of default which provides that any stock-broker, who fails to comply with any conditions subject to which registration has been granted; and/ or contravenes any of the provisions of the relevant Acts, rules or regulations made there under, and/ or the rules, regulations and byelaws of the Stock exchange; shall be liable to suspension of registration, after the inquiry, for a specified period; or cancellation of registration (Regulation 25).

- Imposition of penalty in case of suspension of registration of a stockbroker may be done if the stock broker is held as guilty of certain noncompliance as stated in the penalty clauses of these regulations.

- Fees to be paid by Stock-broker and Sub-broker are specified in Schedule III which sets out details as to how much fee is payable by them based on the annual turnover and the number of years from the date of initial registration as a stock-broker. It also specifies the manner of fee to be paid.

**SEBI (INSIDER TRADING) REGULATIONS, 1992**

**Insider Trading**

Insider trading is prohibited and is considered an offence vide SEBI (Insider Trading) Regulations, 1992. The Regulations prohibits an insider from dealing (on his own behalf or on behalf of others) in securities on the basis of unpublished price sensitive information, communicating such information and also from counseling any other person to deal in securities of any company on the basis of such information.

Unpublished price sensitive information, which if published or known, is likely to have an impact on the market price of the securities of that company. Such information may relate to the financial results of the company, declaration of dividends, issue of rights issues and bonus shares, amalgamation, mergers, takeovers, any major policy changes, etc. The regulations enable SEBI, on the basis of any complaint or otherwise, to take steps to investigate an allegation of insider trading and appoint inspectors. On the basis of the report of the inspectors, SEBI is empowered to prosecute persons found prima facie guilty of insider trading in an appropriate court. Person(s) violating the provisions of regulations is (are) liable to be punished with imprisonment or fine or both.

**Code of conduct**

In order to strengthen insider-trading regulations, SEBI has proposed a code of conduct for listed companies, its employees, analysts, market intermediaries and professional firms. The regulations also require initial and continual disclosure of shareholding by
directors or officers, who are insiders, and substantial shareholders (holding more than 5% shares/voting rights) of listed companies.

**Dealing in securities**

According to SEBI (Insider-Trading) Regulations, 1992, "dealing in securities" means an act of buying, selling or agreeing to buy, sell or deal in any securities by any person either as principal or agent.

**RELATING TO SECURITIES MARKETS) REGULATIONS, 1995**

The SEBI (Prohibition of Fraudulent and Unfair Trade Practices in relation to the Securities Market) Regulations, 1995 enable SEBI to investigate into cases of market manipulation and fraudulent and unfair trade practices. These regulations empower SEBI to investigate into violations committed by any person, including an investor, issuer or an intermediary associated with the securities market. The regulations specifically prohibit market manipulation, misleading statements to induce sale or purchase of securities, unfair trade practices relating to securities. SEBI can conduct investigation, moto or upon information received by it, through an investigation officer in respect of conduct and affairs of any person dealing, buying/selling/dealing in securities. Based on the report of the investigating officer, SEBI can initiate action for suspension or cancellation of registration of an intermediary.

**THE DEPOSITORIES ACT, 1996**

The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security by:

(a) Making securities of public limited companies freely transferable subject to certain
(b) Dematerializing the securities in the depository mode; and
(c) Providing for maintenance of ownership records in a book entry form. In order to streamline the settlement process, the Act envisages transfer of ownership of securities electronically by book entry without making the securities move from person to person. The Act has made the securities of all public limited companies freely transferable, restricting the company's right to use discretion in effecting the transfer of securities, and the transfer deed and other procedural requirements under the Companies Act have been dispensed with.

The Depositories Act, 1996 was enacted to provide for establishment of depositories in securities and for matters connected therewith or incidental thereto. It came into force from 20th September, 1996. The act is administered by SEBI.
The Depositories Act 1996

This act was passed on August 10, 1996, and deemed to come into force on September 20, 1995. Under this act, it is made essential to obtain a certificate of commencement of business for every depositories. This certificate is being issued by the securities and exchange board of India.

Every depository is needed to enter into an agreement with one or more depositories participant as its agent. Any person may enter into an agreement with any depository through a participant for availing its services.

Every who enter into agreement with depository participant (DP) are required to surrender the certificates of securities to the issuer. The issuer are needed to cancel such certificates and substitute in its regards the name of depository accordingly. Then the depository is needed to enter the name of the person in its records, as the benefit owner.

Every person subscribing to securities offered by an issuer shall have the option either to receive the certificates or holds securities with a depository. If any person opts to hold a security with a depository the issuer shall intimate such depository to this effect with details of the securities. All securities held by a depository shall be dematerialized and in fungible form.

The depositories are deemed to be the registered owner for the purposes of effecting transfer of ownership of scrip on behalf of a beneficial owner, under this act. But such depositories could not have voting or any other such rights in respect of the securities held by it the beneficial owner shall be entitled to all the rights and benefits and be subjected to all the liabilities in respect of his securities held by a depositories, under this act to maintain a register and in index of beneficial owner as provided in the companies act, 1956.

The beneficial owners of the securities may create a pledge or hypothecation in respect of a security owned by them through a depository with the previous approval of the concerned depository. The depositories are needed to make entries records accordingly.

It is made essential for all the depositories to inform the issuer regarding the transfer securities in the name of beneficial owner if a beneficial owner seeks to opt out of depository in respect of any security, he shall inform the depository accordingly. The 'banker's Book Evidence Act 1891 shall apply in relation to a depository as if it were a bank. if any loss caused to the beneficial owner due to negligence of the depository or the participant, the depository shall indeed such beneficial owner. Further the rights and obligations of the depositories, participant and issuer whose securities are dealt with by depository shall be
specified by the regulation made by the SEBI, similarly the eligibility criteria for admission of securities into the deposits in to the depository shall also be specified by the regulations.

The SEBI. Is empowered under this act to call for information and inquiry in public interest or in the interest of investors, from any issuer, depository, depositors, participant, or beneficial owner in writing. Further, SEBI is empowered, under this act to give any direction to any concerned person or body for orderly regulation of securities market, depositories and in the interest of investor or general public.

Whoever contravenes or attempts to contravene of this act or any regulations or bye laws made there under shall be punishable with imprisonment for a term which may extend to five years or with five. Or with both further if an offence under this act has been committed by a company (any corporate body e.g. firms or other association of individuals).

Any person who was responsible to the company for the conduct of the business of the company, at the time of the offence, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly, which is further subject to certain conditions.

An person aggrieved by an order of the SEBI made under this act, or the regulations made there under may prefer on appeal to the central government within such this as may be prescribed. Further. every appeal made under this section shall be made in such form and shall be accompanied by a copy of the order appealed against and such fee as may be prescribed.

The central government is empowered under this act make rules for carrying out the provisions of this act by notification in the official gazette further SEBI is also empowered under this act with the similar authority to make regulation consistent with the provisions of this act and the rules made there under to carry out the purpose of this law consisted with the provision of this act and the regulation by SEBI.

Every rules and every regulation made under this act are needed to be laws before each house of parliament If both houses agree in making any modification in the rule or regulation or both houses agree that the rule or regulation should not be made, the rule or regulation shall there after have effect only in such modified form or be of no effect, 3S the case may be.

The depository (Third) ordinance, 1996 was repealed after adaptation of this act.

Prevention of Money Laundering Act, 2002
The primary object of the Act is to prevent money-laundering and to provide for confiscation of property derived from or involved in money-laundering. The term money laundering is defined as whoever acquires, owns, possess or transfers any proceeds of crime; or knowingly enters into any transaction which is related to proceeds of crime either directly or indirectly or conceals or aids in the concealment of the proceeds or gains of crime within India or outside India commits the offence of money-laundering.

Besides providing punishment for the offence of money-laundering, the Act also provides other measures for prevention of Money Laundering. The Act also casts an obligation on the intermediaries, banking companies etc to furnish information, of such prescribed transactions to the Financial Intelligence Unit-India, to appoint a principal officer, to maintain certain records etc.

Listing means admission of the securities to dealings on a recognised stock exchange. The securities may be of any public limited company, Central or State Government, quasi governmental and other financial institutions/corporations, municipalities, etc. The objectives of listing are mainly to:

- provide liquidity to securities;
- mobilize savings for economic development;
- protect interest of investors by ensuring full disclosures.

The Exchange has a separate Listing Department to grant approval for listing of securities of companies in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956, Securities Contracts (Regulation) Rules, 1957, Companies Act, 1956, Guidelines issued by SEBI and Rules, Bye-laws and Regulations of the Exchange.

A company intending to have its securities listed on the Exchange has to comply with the listing requirements prescribed by the Exchange. The exchange prescribes different listing requirements for new companies, for company listed on other stock exchanges, for companies delisted by the Exchange seeking relisting of the same Exchange.