PREFACE

'PROTECTED INVESTOR: HEALTHY GROWTH OF ECONOMY'

“PROTECTION OF INVESTORS AND SHAREHOLDERS: A CRITICAL STUDY OF ROLE OF SEBI” refer to the healthy environment to be given to the investors and shareholders in securities market.

India's economy is one of the fastest growing economies in the world. Sir Atlay has said while submitting the enquiry report on the Native Bombay stock exchange in 1924 "The stock and share market is a vital factor in the economic life of progressive nations. Order and confidence are equally essential elements in its continued prosperity and growth". In present scenario of globalization and liberalization, the economic growth of a country like India requires a huge participation of investors and shareholders in securities market. Moreover, unless and until there is a strong regulator of this vast and technical market, the investor and shareholder's rights cannot be protected. Eventually, investors will stop to invest in these markets; therefore, growth of country's economy may be impeded.

While presenting the budget for 1987-88, the then Prime Minister, Late Shri Rajiv Gandhi has assured the Parliament that for a healthy growth of capital markets, for protecting the rights of investors and for preventing trading malpractices the Government would set up a separate body for the regulation and orderly functioning of the Stock Exchange and the securities industry.

The decontrolled market attracted various scams; the main scam is Harsad Mehta in1992. It is said that 50 thousands crore rupees of investors got lost by this scam. Therefore, an effective regulator can curb the menace of irregularities prevalent in securities market.

The SEBI was given a statutory status on 30th January, 1992 by an ordinance to provide for the establishment of SEBI. A bill to replace the Ordinance was introduced in Parliament on 3rd March, 1992 and was passed by both Houses of Parliament on 1st April, 1992. The bill became an act on 4th April 1992, the date on which it received the
President's assent (Act No. 15 of 1992). In the Statement of Objects and Reasons appended to the SEBI Bill, 1992, the objects of the Act were stated as follows:

"Securities and Exchange Board of India (SEBI) was established in 1988 through a Government Resolution to promote orderly and healthy growth of the securities market and for investors' protection." SEBI has been monitoring the activities of stock exchanges, mutual funds and merchants bankers etc to achieve these goals.

In the past over twenty long years, SEBI has emerged as an effective regulatory body and has made commendable progress as a watchdog of the securities market. Its far flung reach has enabled it to monitor and regulate most of the players of the securities market effectively to serve the purpose for which SEBI was constituted, namely, to protect the interest of investors in securities and to promote the development of and to regulate, the securities market. There is no doubt that has SEBI not come on the India's capital market scene, the investors would not have been able to get the kind and degree of protection that they could get through SEBI. However, it is the beginning of the era of SEBI to protect the interest of investors; a lot needs to be done in this wide field. The objective of the present study is analyse the regulatory framework of capital market and to arrive at the conclusion that how SEBI is protecting the interests of investors and shareholders as a capital market regulator and what more can be done by SEBI in this direction.

The study has been divided into 14 chapters. Chapter 1 includes the introduction and concept of capital market, capital market instruments etc. Chapter 2 includes the history of legislative developments of statutory laws, those regulate the capital market from time to time, it starts with cotton fraud bill, Sir Wilfrid Atlay Committee Report 1924, The Bombay Securities Contract Control Act, 1925, Sir Morison Enquiry Committee Report 1937, The Capital Issue of Control Act, 1947 and concludes with present regulatory framework. The chapter 3 covers the SEBI, its establishment, objective, powers, function etc to protect the interest of Investors and Shareholders etc. The chapter 4 includes the protection of interest of the investors and shareholders in Primary market (IPOs) through the ICDR Regulations. Chapter 5 includes the provisions of protection of investors in Secondary Market through the Securities Contracts (Regulation) Act, 1956; it contains the provisions of recognition of stock exchange and their regulations etc. The most important part of the securities market are intermediaries i.e. stock broker and sub brokers, therefore looking at the interest of investors, the chapter 6 contains provisions to regulate stock
brokers so that they could not try to cheat the investors. The next chapter 7 deals with prohibition of Insider trading in securities market. Chapter 8 includes prohibition of fraudulent and unfair trade practices in securities market to protect the interest of investors and shareholders. In the present scenario the mergers and amalgamations are booming topics, the companies are taking over the other company’s management via obtaining shares and voting rights, which may result into prejudice of shareholders interest. The chapter 9 contains the take over regulations through which the shareholders have an opportunity to obtain the best price of their shares. The SEBI has established the fund to protect investor’s and shareholder’s rights by educating them, as well as giving informal guidance to intermediaries and companies on complex issue of regulations etc. Chapter 10 contains the investor and education fund. Without corporate Governance, no security market can protect the investors’ interests. Chapter 11 covers the corporate governance. The concept of Ombudsman (Lokpal) is now a days very burning issue, the SEBI has already established the office of Ombudsman to redress the grievances of investors, it can redress the complaint through mutual settlement or if necessary through award and its implementations. Chapter 12 contains the SEBI (Ombudsman) Regulation and prescribed the procedure to redress the investors’ grievances. In the world of globalisation and liberalization, without discussing the other countries’ capital market regulator, the thesis work is not supposed to be worthy. Chapter 13 includes the market regulator of USA (Securities Exchange Commission), UK (Financial Services Authority) and Hong Kong Market Regulator Securities and Future Commission. The last chapter 14 contains the conclusion of thesis and important suggestions for SEBI that may be proved to be helpful to achieve its main objective i.e. “to protect the interest of investors”.

While preparing the thesis, I have examined the role of SEBI, its regulations, circulars and rules issued from time to time in the light of “protection of the interest of investors and shareholder”. I hope the present study will be useful for the investors and for every person who wants to invest in securities market.