

UNIT-III CHAPTER 8

SECURITIES EXCHANGE BOARD OF INDIA (SEBI)

INTRODUCTION

The Securities and Exchange Board of India is the regulator for the securities market in India. It was established in 1988. The statutory powers for SEBI was given on 30th January 1992. In the year 1992 the SEBI act was passed by the Indian Parliament. The headquarters of SEBI is situated in Mumbai. SEBI has to be responsive to the needs of three groups, which constitute the markets namely, Issuers of the Securities, Investors, Market Intermediaries. SEBI has enjoyed success as a regulator by pushing systematic reforms aggressively and successively. This chapter clearly defines the Functions and Powers of SEBI.

I. CHOOSE THE CORRECT ANSWERS

- Securities Exchange Board of India Was first established in the year _____**
a) 1988 b) 1992
c) 1995 d) 1998
- The headquarters of SEBI is _____**
a) Calcutta b) Bombay
c) Chennai d) Delhi
- In which year SEBI was constituted as the regulator of capital markets in India?**
a) 1988 b) 1992
c) 2014 d) 2013
- Registering and controlling the functioning of collective investment schemes as _____**
a) Mutual Funds b) Listing
c) Rematerialization d) Dematerialization
- SEBI is empowered by the finance ministry to nominate _____ members on the Governing body of every stock exchange.**
a) 5 b) 3 c) 6 d) 7
- The process of converting physical shares into electronic form is called _____**
a) Dematerialization b) Delisting
c) Materialisation d) Debarring
- Trading is dematerialized shares commenced on the NSE is _____**
a) January 1996 b) June 1998
c) December 1996 d) December 1998

- _____ was the first company to trade its shares in Demat form.**

- a) Tata Industries b) Reliance Industries
c) Infosys d) Birla Industries

- _____ enables small investors to participate in the investment on share capital of large companies.**

- a) Mutual Funds b) Shares
c) Debentures d) Fixed deposits

- PAN stands for _____**

- a) Permanent Amount Number
b) Primary Account Number
c) Permanent Account Number
d) Permanent Account Nominee

ANSWERS

1.	a)	2.	b)	3.	a)	4.	d)	5.	b)
6.	a)	7.	c)	8.	b)	9.	a)	10.	c)

II. VERY SHORT ANSWER QUESTIONS:

- Write short notes on SEBI.**
 - ❖ SEBI is an apex body that maintains and regulates the capital market.
 - ❖ It was established in the year 1988.
 - ❖ It got the statutory powers in the year 1992.
 - ❖ It has its headquarters in Mumbai.
- Write any two objectives of SEBI.**
 - 1. Regulation of Stock Exchanges**

- ❖ The first objective of SEBI is to regulate stock exchanges.
- ❖ So that efficient services may be provided to all the parties operating there.

2. Control over Brokers

- ❖ It is important to supervise/check the activities of the brokers and other middlemen in order to control the capital market.
- ❖ To regulate their activities, it was necessary to establish the SEBI.

3. What is DEMAT account?

- ❖ A demat account holds all the shares that are purchased in electronic or dematerialized form.
- ❖ A demat account is to shares what a bank account is to money
- ❖ Like a bank account, a demat account holds the certificated of financial instruments like shares, bonds, government securities, mutual funds and exchange traded funds(ETFs)
- ❖ Every shareholder should have a dematerialized account for the purpose of transacting.
- ❖ Trading through demat account is commenced on by the NSE in December 1996.
- ❖ Reliance Industries was the first company to trade its 100 shares in demat form.

4. Mention the headquarters of SEBI.

- ❖ BandraKurla Complex in Mumbai
- ❖ New Delhi
- ❖ Kolkata
- ❖ Chennai
- ❖ Ahmadabad

5. What are the various ID proofs?

- ❖ PAN card
- ❖ Voter's ID
- ❖ Passport
- ❖ Driver's license,
- ❖ Bank attestation,
- ❖ IT returns
- ❖ Electricity Bill
- ❖ Telephone bill

III. SHORT ANSWER QUESTIONS:

1. What is meant by Dematerialization?

- ❖ Dematerialization is the process by which physical share certificates of an investor are taken back by the company/registrar and destroyed.
- ❖ An equivalent number of securities in the electronic form are credited to the investors account with his Depository Participant.
- ❖ Dematerialization is done at the request of the investor.
- ❖ Investors will first have to open an account with a DP (Depository Participant)
- ❖ Trading in dematerialized shares commenced on the NSE in December 1996.

2. What are the documents required for a Demat account?

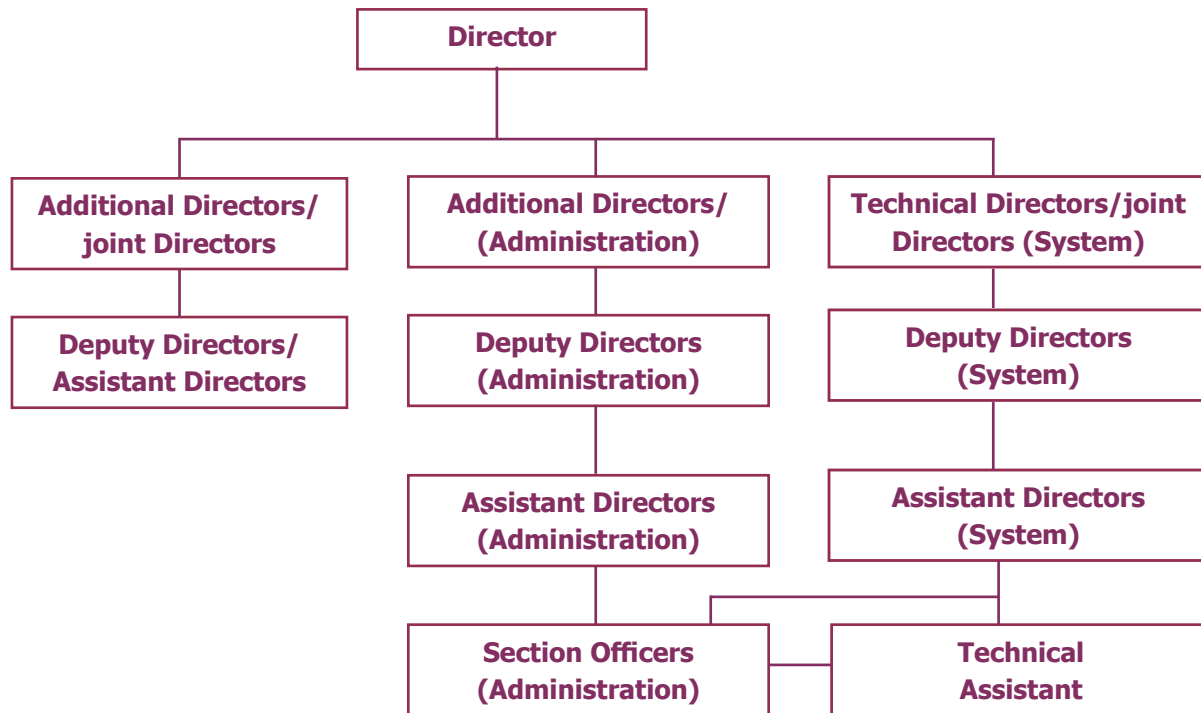
- ❖ Investors will first have to open an account with a DP (Depository Participant)
- ❖ The investor has to submit proof of identity and address along with the passport size photograph and the account opening form.
- ❖ Then request for dematerialization of certificates through the DP.

3. What is the power of SEBI under Securities Contract Act?

- ❖ The Ministry of Finance issued a Notification on 13 September, 1994 delegating several of its powers under the Securities Contracts (Regulations) Act to SEBI.
- ❖ SEBI is also empowered by the Finance Ministry to nominate three members on the Governing Body of every stock exchange.

4. What is meant by Insiders trading?

- ❖ Insider trading is the buying or selling of a publicly traded company's stock.
- ❖ Insider trading can be illegal or legal depending on when the insider makes the trade
- ❖ It is illegal when the material information is still non-public.

5. Draw the organization structure of SEBI.**IV. LONG ANSWER QUESTIONS:****1. What are functions of SEBI?**

The following are the functions of SEBI:

- i. **Safeguarding the interests of investors** by means of adequate education and guidance. It issues notices and booklets for the information, assistance and protection of small investors.
- ii. **Regulating and controlling the business on stock markets.** Registration of brokers and sub-brokers is made mandatory and they have to abide by certain regulations and rules.
- iii. **Conduct inspection and inquiries of stock exchanges,** intermediaries and self-regulating organizations and to take appropriate measures wherever required. This function is carried out for organized working of stock exchanges and intermediaries.
- iv. Barring insider trading in securities.
- v. **Prohibiting deceptive and unfair methods** used by financial intermediaries operating in securities markets.

- vi. **Registering and controlling the functioning of stock brokers,** sub-brokers, share transfer agents, bankers, trustees, registrars, merchant bankers, underwriters, portfolio managers, investment advisers and various other intermediaries who might be linked to securities markets in any manner.
- vii. **SEBI issues Guidelines and Instructions to businesses concerning capital issues.** Separate guidelines are provided for initial public issue made by listed companies, etc. It conducts research and publishes information beneficial to all market players (i.e. all buyers and sellers).
- viii. **SEBI regulates mergers and acquisitions** as a way to protect the interest of investors. For this, SEBI has released appropriate guidelines with the intention that such mergers and takeovers won't be at the expense of small investors.
- xi. Carrying out steps in order to develop the capital markets by having an accommodating approach.
- x. Provide appropriate training to financial intermediaries. This function is great for healthy environment in the stock markets and also for the protection of investors.

- xi. Levying fee or any other type of charges to carry out the purpose of the Act.
- xii. Performing functions that may be assigned to it by the Central Government of India.

2. Explain the powers of SEBI.

The various powers of a Stock Exchange are explained below:

1. Powers Relating to Stock Exchanges & Intermediaries

- ❖ SEBI has wide powers regarding the stock exchanges and intermediaries dealing in securities.
- ❖ It can ask information from the stock exchanges and intermediaries regarding their business transactions for inspection or scrutiny and other purpose.

2. Power to Impose Monetary Penalties

- ❖ SEBI has been empowered to impose monetary penalties on capital market intermediaries and other participants for a range of violations.
- ❖ It can even impose suspension of their registration for a short period.

3. Power to Initiate Actions in Functions Assigned

- ❖ SEBI has a power to initiate actions in regard to functions assigned.
- ❖ For example, it can issue guidelines to different intermediaries or can introduce specific rules for the protection of interests of investors.

4. Power to Regulate Insider Trading

- ❖ SEBI has power to regulate insider trading or can regulate the functions of merchant bankers.

5. Powers Under Securities Contracts Act

- ❖ For effective regulation of stock exchange, the Ministry of Finance issued a Notification on 13 September, 1994 delegating several of its powers under the Securities Contracts (Regulations) Act to SEBI.

- ❖ SEBI is also empowered by the Finance Ministry to nominate three members on the Governing Body of every stock exchange.

6. Power to Regulate Business of Stock Exchanges

- ❖ SEBI is also empowered to regulate the business of stock exchanges
- ❖ It controls intermediaries associated with the securities market as well as mutual funds, fraudulent and unfair trade practices relating to securities and regulation of acquisition of shares and takeovers of companies.

3. What are the benefits of Dematerialisation?

- ❖ The risks pertaining to physical certificates like loss, theft, forgery and damage are eliminated completely with a DEMAT account.
- ❖ The lack of paperwork enables quicker transactions and higher efficiency in trading.
- ❖ Trading has become more convenient as one can trade through computers at any location, without the need of visiting a broker.
- ❖ The shares that are created through mergers and consolidation of companies are credited automatically in the DEMAT account.
- ❖ As all the transactions occur through the depository participant, a trader does not have to communicate individually with each and every company.
- ❖ There is no need for stamp duty for transfer of securities; this brings down the cost of transaction significantly.
- ❖ Certain banks also permit holding of both equity and debt securities in a single account.
- ❖ Banks also provide dedicated and trained customer care officers to assist through all the procedures.
- ❖ A DEMAT account holder can buy or sell any amount of shares. However, there is limit on the number of transactions done using physical securities.
- ❖ One can also choose to take a loan against securities which are held in a DEMAT account by offering it as a collateral to the lender.

ADDITIONAL QUESTIONS:**I. CHOOSE THE CORRECT ANSWERS:**

- Trading in dematerialized shares commenced on NSE in _____.**
 a) December 1996 b) July 1996
 c) December 1969 d) July 1969
- Trading in dematerialized shares commenced on BSE in _____.**
 a) December 1997 b) July 1997
 c) December 1979 d) July 1997
- _____ Industries was the first company to trade its 100 shares in demat form.**
 a) TATA b) Reliance
 c) Banking d) None
- In the process of Demat the investors have to open an account with a _____.**
 a) Depository Participant b) Joint account
 c) Online account d) None
- _____ is the unique 10 – digit alphanumeric identity number.**
 a) PAN b) VAN
 c) LAN d) None
- Assertion (A): Dividend paid out of pre-acquisition profit by the subsidiary company to the holding company is deducted from the cost of investment. Reason (R): Dividend paid out of pre-acquisition profit by the subsidiary company should be treated as a return of capital to the holding company.**
 Which one of the following is correct?
 (A) Both (A) and (R) are correct.
 (B) (A) is correct, but (R) is wrong.
 (C) (A) is wrong, but (R) is correct.
 (D) (A) is correct, but (R) is wrong.
- Which of the following statement is not correct about the SEBI?**
 a) At present it is a non statutory body
 b) At present it is a statutory body

- c) It got statutory powers by an ordinance in 1992
 d) SEBI is managed by 6 members.

- Assertion (A): SEBI regulates mergers and acquisitions as a way to protect the interest of investors. Reason(R) : Registration of brokers and sub-brokers is made mandatory and they have to abide by certain rules and regulations.**
 Which one of the following is correct?
 (A) Both (A) and (R) are correct.
 (B) (A) is correct, but (R) is wrong.
 (C) (A) is wrong, but (R) is correct.
 (D) (A) is correct, but (R) is wrong.
- Assertion (A): SEBI is an apex body that maintains and regulate the capital market. Reason (R): A apex body is a national organisation which concentrates on resources management.**
 (A) Both (A) and (R) are correct.
 (B) Both (A) and (R) are incorrect.
 (C) (A) is not correct, but (R) is correct.
 (D) (A) is correct, but (R) is wrong.
- Assertion (A): A demat account holds all the shares that are purchased in electronic or dematerialized form. Reason(R): Every share holder should have a dematerialized account for the purpose of transacting.**
 (A) Both (A) and (R) are correct.
 (B) Both (A) and (R) are incorrect.
 (C) (A) is not correct, but (R) is correct.
 (D) (A) is correct, but (R) is wrong.

ANSWERS

1	a)	2	a)	3	b)	4	a)	5	a)
6	a)	7	a)	8	a)	9	a)	10	a)

II. VERY SHORT ANSWER QUESTIONS:

- What is meant by PAN?**
 - PAN or Permanent Account Number is a unique 10 digit alphanumeric identity number.
 - It is allotted to each taxpayer by the Income Tax Department under the supervision of the Central Board of Direct Taxes.

- ❖ It also serves as an identity proof.

2. How do SEBI act as a Regulator of the Stock Exchanges?

- ❖ It is important to supervise/check the activities of the brokers and other middlemen in order to control the capital market.
- ❖ Registration of brokers and sub-brokers is made mandatory .
- ❖ They have to abide by certain regulations and rules.
- ❖ Thus SEBI act as a regulator of the stock exchanges.

III. SHORT ANSWER QUESTIONS:

1. What are various documents used for proof of address?

The following can be used for various proof of address:

- ❖ Ration card
- ❖ Passport,
- ❖ Voter ID card,
- ❖ Driving license,
- ❖ Bank passbook or bank statement,
- ❖ Verified copies of electricity bills,
- ❖ Residence telephone bills,
- ❖ Leave and license agreement or agreement for sale,
- ❖ Self-declaration by High Court or Supreme Court judges,
- ❖ Identity card or a document with address issued by the central or state government and its departments,
- ❖ Statutory or regulatory authorities,
- ❖ Public sector undertakings (psus),
- ❖ Scheduled commercial banks,
- ❖ Public financial institutions,
- ❖ Colleges affiliated to universities and
- ❖ Professional bodies such as ICAI, ICWAI, Bar Council etc.

2. Write the role of SEBI in Indian Economy.

- ❖ SEBI monitors the working of mutual funds
- ❖ SEBI restricts illegal practices of firms
- ❖ It plays a great role in protecting investors interest
- ❖ It regulates working of stock exchanges

- ❖ It conducts audit and inspection
- ❖ It prohibits insider activity

IV. LONG ANSWER QUESTIONS:

1. Write a note on opening of a Demat Account:

The following are the procedures to open a Demat Account:

- ❖ Fill up an account opening form and submit along with copies of the required documents and a passport-sized photograph.
- ❖ The customer will be provided with a copy of the rules and regulations, the terms of the agreement and the charges that you will incur.
- ❖ During the process, an In-Person Verification would be carried out.
- ❖ A member of the DP's staff would contact you to check the details provided in the account opening form.
- ❖ Once the application is processed, the DP will provide the customer with an account number or client ID.
- ❖ The customer can use the details to access your demat account online.
- ❖ As a demat account holder, customer would need to pay some fees like the annual maintenance fee levied for maintenance of account and the transaction fee levied for debiting securities to and from the account on a monthly basis.
- ❖ These fees differ from every service provider (called a Depository Participant or DP).
- ❖ The fee also differs based on the kind of transaction (buying or selling).
- ❖ In addition to the other fees, the DP also charges a fee for converting the shares from the physical to the electronic form or vice-versa.
- ❖ Minimum shares: A demat account can be opened with no balance of shares. It also does not require that a minimum balance be maintained.
- ❖ The customer need to submit proof of identity and address along with a passport size photograph and the account opening form.
- ❖ Only photocopies of the documents are required for submission, but originals are also required for verification.

2. What are the objectives of a stock exchange?

The various objectives of a Stock Exchange are explained below

1. Regulation of Stock Exchanges

- ❖ The first objective of SEBI is to regulate stock exchanges so that efficient services may be provided to all the parties operating there.

2. Protection to the Investors

- ❖ The capital market is meaningless in the absence of the investors. Therefore, it is important to protect the interests of the investors.
- ❖ The protection of the interests of the investors means protecting them from the wrong information given by the companies in their prospectus, reducing the risk of delivery and payment, etc.
- ❖ Hence, the foremost objective of the SEBI is to provide security to the investors.

3. Checking the Insider Trading

- ❖ Insider trading means the buying and selling of securities by directors Promoters, etc. who have access to some confidential information about the company and who wish to take advantage of this confidential information.
- ❖ This affects the interests of the general investors and is essential to check this tendency.
- ❖ Many steps have been taken to check insider trading through the medium of the SEBI.

4. Control over Brokers

- ❖ It is important to supervise/check the activities of the brokers and other middlemen in order to control the capital market.

- ❖ To regulate their activities, it was necessary to establish the SEBI.

OWN THINKING:

1. Investors' Grievances Redressal

- SEBI and Stock Exchanges have set up investor grievance redressal cells for fast redressal of investor complaints relating to securities markets
- SEBI has directed all the stock exchanges, registered brokers, sub-brokers, depositories and listed companies to make a provision for a special email ID of the grievance redressal division/compliance officer for the purpose of registering complaints by the investors
- SEBI has set up a mechanism for redressal of investor grievances arising from the issue process
- SEBI provides "walk-in" service at its head office at Mumbai and its regional offices at New Delhi, Chennai, Kolkatta and Ahmedabad on all working days. Investors can meet the officials and get guidance relating to the grievances that they may have against issuers. Investors can also meet the higher officials of SEBI on specified working days.