LECTURE 1
SEBI – Securities and Exchange Board of India

Learning Objectives:

1. What is SEBI?
2. Structure of SEBI
3. Functions of SEBI
4. Authority and Power of SEBI
5. Mutual Fund Regulations by SEBI
6. SEBI Notifications
7. Mutual Funds and SEBI
8. SEBI Guidelines on Mutual Funds Reclassification

SEBI plays an important role in regulating all the players operating in the Indian capital markets. It attempts to protect the interest of investors and aims at developing the capital markets by enforcing various rules and regulations.

1. What is SEBI?

SEBI is a statutory regulatory body established on the 12th of April, 1992. It monitors and regulates the Indian capital and securities market while ensuring to protect the interests of the investors formulating regulations and guidelines to be adhered to. The head office of SEBI is in Bandra Kurla Complex, Mumbai.

2. Structure of SEBI

SEBI has a corporate framework comprising various departments each managed by a department head. There are about 20+ departments under SEBI. Some of these departments are corporation finance, economic and policy analysis, debt and hybrid securities, enforcement, human resources, investment management, commodity derivatives market regulation, legal affairs, and more.

The hierarchical structure of SEBI consists of the following members:

- The chairman of SEBI is nominated by the Union Government of India.
- Two officers from the Union Finance Ministry will be a part of this structure.
- One member will be appointed from the Reserve Bank of India.
- Five other members will be nominated by the Union Government of India.

3. Functions of SEBI

- SEBI is primarily set up to protect the interests of investors in the securities market.
- It promotes the development of the securities market and regulates the business.
- SEBI provides a platform for stockbrokers, sub-brokers, portfolio managers, investment advisers, share transfer agents, bankers, merchant bankers, trustees of trust deeds, registrars, underwriters, and other associated people to register and regulate work.
- It regulates the operations of depositories, participants, custodians of securities, foreign portfolio investors, and credit rating agencies.
- It prohibits inner trades in securities, i.e. fraudulent and unfair trade practices related to the securities market.
- It ensures that investors are educated on the intermediaries of securities markets.
- It monitors substantial acquisitions of shares and take-over of companies.

- SEBI takes care of research and development to ensure the securities market is efficient at all times.

4. Authority and Power of SEBI

The SEBI has three main powers:

i. Quasi-Judicial: SEBI has the authority to deliver judgements related to fraud and other unethical practices in terms of the securities market. This helps to ensure fairness, transparency, and accountability in the securities market.

ii. Quasi-Executive: SEBI is empowered to implement the regulations and judgements made and to take legal action against the violators. It is also authorised to inspect Books of accounts and other documents if it comes across any violation of the regulations.

iii. Quasi-Legislative: SEBI reserves the right to frame rules and regulations to protect the interests of the investors. Some of its regulations consist of insider trading regulations, listing obligation, and disclosure requirements. These have been formulated to keep malpractices at bay.

Despite the powers, the results of SEBI's functions still have to go through the Securities Appellate Tribunal and the Supreme Court of India.

5. Mutual Fund Regulations by SEBI

Some of the regulations for mutual funds laid down by SEBI are:

1. A sponsor of a mutual fund, an associate or a group company, which includes the asset management company of a fund, through the schemes of the mutual fund in any form cannot hold: (a)10% or more of the shareholding and voting rights in the asset management company or any other mutual fund. (b)An asset management company cannot have representation on a board of any other mutual fund.

2. A shareholder cannot hold 10% or more of the shareholding directly or indirectly in the asset management company of a mutual fund.
3. No single stock can have more than 35% weight in the index for a sectoral or thematic index; the cap is 25% for other indices.
4. The cumulative weight of the top three constituents of the index cannot exceed 65%.
5. An individual constituent of the index should have a trading frequency of a minimum of 80%.
6. Funds must evaluate and ensure compliance to the norms at the end of every calendar quarter. The constituents of the indices must be made public by publishing it on their website.
7. New funds must submit their compliance status to SEBI before being launched.
8. All liquid schemes must hold a minimum of 20% in liquid assets such as government securities (G-Secs), repo on G-Secs, cash, and treasury bills.
9. A debt mutual fund can invest up to only 20% of its assets in one sector; previously the cap was 25%. The additional exposure to housing finance companies (HFCs) is updated to 15% from 10% and a 5% exposure on securitised debt based on retail housing loan and affordable housing loan portfolios.
10. As per SEBI's recommendation, the amortisation is not the only method for evaluating debt and money market instruments. The market-to-market methodology is also used.
11. An exit penalty will be levied on investors of liquid schemes who exit the scheme within a period of seven days.
12. Mutual funds schemes must invest only in the listed non-convertible debentures (NCD). Any fresh investment in commercial papers (CPs) and equity shares are allowed in listed securities as per the guidelines issued by the regulator.
13. Liquid and overnight schemes are no longer allowed to invest in short-term deposits, debt, and money market instruments that have structured obligations or credit enhancements.

14. When investing in debt securities having credit enhancements, a minimum of four times security cover is mandatory for investing in mutual funds schemes. A prudential limit of 10% is prescribed on total investment by such schemes in debt and money market instruments.

6. SEBI Notifications

Date	Title
August 2, 2019	Streamlining issuance of SCORES Authentication for SEBI registered intermediaries
August 1, 2019	Database for Distinctive Number (DN) of Shares – Action against non-compliant companies
August 1, 2019	Rationalisation of the imposition of fines for false/incorrect reporting of margins or non-reporting of margins by Trading Member/Clearing Member in all segments
July 26, 2019	Streamlining the Process of Public Issue of Equity Shares and convertibles- Implementation of Phase II of Unified Payments Interface with Application Supported by Block Amount
July 26, 2019	Staggered Delivery Period in Commodity futures contracts
Jul 26, 2019	Guidelines for Liquidity Enhancement Scheme (LES) in Commodity Derivatives Contracts

Role of SEBI and stock exchanges in investor protection

Securities and **Exchange** Board of India (**SEBI**) is responsible for regulations of the Mutual Funds and safeguard the interests of the investors. **Investor protection** measures by **SEBI** are in place to safeguard the investors from the malpractices in shares, the **stock market**, Mutual Fund, etc.

Investor Protection Definition. **Investor protection** means that up to a certain limit, **you** receive your money back if the broker goes into bankruptcy or commits fraud. ... The **investor protection** amount defines the limit of **protection** and it varies country by country.

Equity Investors Have Substantial Rights

- The right to vote to elect a board of directors;
- The right to vote on all major business decisions;
- The right to be informed about all significant business decisions;
- The right to sue you or the company if they feel their rights aren't be respected.

Why is investor protection needed?
Investor protection affects significantly the financial structure of an economy. Strong **investor protection** is essential for the healthy growth of financial markets. It encourages accurate security prices, efficient investments, and better access to external finance.

SEBI Guidelines for protecting interest of investors

The main object of SEBI is not only to regulate stock markets but also to protect the interest of investors. For this purpose, SEBI has given following guidelines:

Before you proceed with the guidelines of SEBI towards protecting investors interest, you may also would like to read SEBI Guidelines in issue of Fresh capital Share, Guidelines on Primary markets and secondary markets

1. SEBI has been encouraging investor-education. For this purpose, certain investors' associations have been registered.
2. Companies raising public deposits as well as huge capital must undergo credit rating. Credit rating by an authorized authority gives a fair view about the financial strength of the organization. For this purpose, there are four credit rating agencies. They are:
   - CRISIL
   - ICRA
   - CARE and
   - Duff and Phelps Credit Rating India Pvt. Ltd.
3. SEBI has taken the responsibility of disclosing fair and adequate information for investors for the purpose of investment decisions.

4. For the benefit of the investors, company has to disclose its capacity utilization, adverse events and material changes of key personnel.
5. Disclosure on market prices for listed company.
6. Arrangement for disclosing investors grievances and redressal system.
7. Compulsory disclosure in the prospectus.
8. Contribution by promoters whose name figure in the prospectus.
9. In case of over subscription of any company issue, SEBI representatives will be present there to look into the allotment process.
10. Setting up of investors grievances cell for handling complaints of investors.
11. SEBI has right to cancel registration of any underwriter who fails to furnish business details to SEBI.
12. SEBI has made it mandatory for Merchant bankers to attach diligence certificate with the prospectus for extending their accountability to the investors. The diligence certificate gives a detailed position of the issue of shares. Only by such a certificate, the investor can file a case of incorrect statement in the prospectus on erring companies.
13. There is an advertisement code by SEBI which has to be followed by companies or investors.
14. To avoid any malpractice in allotment process, SEBI has appointed its representatives to look into allotment process which boosts the confidence of individual investors.
15. Underwriters, registrar to issue and share transfer agent and portfolio managers have been brought under SEBI for the first time.
16. Even the mutual funds have been brought under SEBI and they have to disclose NPV (Net present value) of units every day which benefits investors.
17. For the benefit of the individual investors, a new scheme called stock invest account has been introduced in banks. From this stock invest account, the new issue of shares will be applied. In that, the investor will intimate the stock invest account to the company issuing the shares.
18. In case of allotment, the company will inform the banker as per SEBI guidelines, and funds will be released from the stock invest account to the bank.
19. **SEBI** has taken various measures such as screen based trading system, dematerialization of securities, T+2 rolling settlement, and

framed various regulations to regulate intermediaries, issue and trading of securities, corporate restructuring, etc. to **protect the interests of investors** in securities.

20. The **Investor Protection** Act of 2009 was designed to expand the powers of the Securities and Exchange Commission. Part of the Dodd-Frank Act, it was created to prevent some of the problems that caused the financial crisis from reoccurring in the future.

Investors Protection-Grievances and their Redressal System

1. MEANING • In India investment risks are very high due to dishonest practices, frauds and unethical investment culture. Investors experience a sense of helplessness and insecurity, they have hardly any confidence in financial markets. • Investors are cheated by companies, by lead managers, by brokers and by everybody, who is capable of cheating them. • The Government, the Company Law Board and the SEBI, in recent years have made efforts to protect the investors. • "Investors protection is a wide term, it encompasses all the measures designed to protect investors from malpractices of brokers, companies managers to issue, merchant bankers, registrar to issues etc. The main complaints are against brokers of stock exchanges, against listed companies and mutual funds.

2. **USUAL GRIEVANCES OF INVESTORS**

• Against Companies.
• Against Brokers.
• Against depositories.

3. **USUAL GRIEVANCES AGAINST COMPANIES**
1. Delay in registering transfer of securities.
2. Non-payment or delay in payment of dividend.
3. Non-repayment or delayed repayment of public deposits.
4. Non-receipt of rights issue offer.
5. Non-receipt of duplicate share certificate.
6. Transmission of shares
7. Non-receipt of notice of meeting.

4. **USUAL GRIEVANCES AGAINST BROKERS**
1. Delay or default in payment for securities sold.

2. Delay or default in delivery of purchased security to the client.
3. Non-Issue of contract note.
4. Charging brokerage from clients.
5. Non-passing of corporate benefits.

5. **GRIEVANCE AGAINST DEPOSITORY PARTICIPANTS**

1.Depository Participant is an institution which acts as an agent to hold securities either in certificated or uncertificated form, dematerialization of securities etc. of the holder. Various banks and other institutions are doing this work. Every depository participant must forward all the dematerialization or materialization requests of his clients to the concerned company within 7 days of the receipt of the request but delays are quite common. Main Depositories are:

• NSDL: National Securities Depositories Limited (1996)
• CDSL: Central Depositories Services Limited (1999)

6. **METHODS OF REDRESSAL OF INVESTORS GRIEVANCES**

An investor can seek redressal of his grievances from, the following agencies:

1. Grievance cells in stock exchanges
2. SEBI
3. Company Law Board
4. Courts
5. Press

7. **1. GRIEVANCE CELL IN STOCK EXCHANGES**

• All the recognised stock exchanges have established Investors services cells to redress the grievances of investors.
• These cells have played an important role in settlement of grievances and have infused confidence among investor.
• Investors approach these investors grievance cells to lodge complaints against companies and members of the stock exchange acting as brokers.
• Both BSE and NSE too have their grievance cells.

8. . **1.1 GRIEVANCE OF INVESTORS AGAINST COMPANIES**

1. After receiving the complaint from investors, these are forwarded to the concerned company which is directed to solve the matter within 15 days, progress is monitored.

2. If, in spite of reminder, the company fails to resolve the complaints and the total number of pending complaints against the company exceeds 25 and if these complaints are pending for more than 45 days, the cell issues a show cause notice of 7 days to the company.
3. If the company still fails to resolve the complaint within 7 days of issue of show cause notice the scrip of the company is suspended from trading.
4. Investors grievance cell can also transfer scrips of defaulting company to Z category for non-resolution of investors complaints
5. Companies which have a long history of not resolving investors grievances and have large number of pending complaints are instructed to employ special personnel to clear pending complaints on priority basis.

9. **. 1.2 INVESTORS GRIEVANCES AGAINST STOCK BROKER**

1. When a complaint is lodged with the stock exchange authorities, they forward it to the investor service cell which refers the complaint to the concerned broker and asks him to settle the complaint and send a reply within 7 days.
2. If no reply is received or the received reply is not satisfactory the matter is placed before the Investors Grievance Redressal Committee (IGRC) of the stock exchange.
3. This committee hears both, the complainant, the broker and efforts are made the solve the matter failing which, it is referred for arbitration which is a quasi judicial process.
4. A sole arbitrator is appointed if the sum is for less than Rs. 25 lakhs, for claims above Rs. 25 lakhs, a penal of 3 arbitrators is appointed.
5. An aggrieved party can file an appeal against the award given by the arbitrator in appropriate court.

10. **2. REDRESSAL OF GRIEVANCES THROUGH SEBI**

• SEBI has a dedicated department viz., Office of Investor Assistance and Education (OIAE) to receive investor grievances and to provide assistance to investors by way of education.
• Complaints arising out of activities that are covered under SEBI Act, 1992; Securities Contract Regulation Act, 1956; Depositories Act, 1996 and Rules and Regulations made there under and provisions that are covered under Section 55A of Companies Act, 1956 are handled by SEBI.
• Grievances pertaining to stock brokers and depository participants are taken up with respective stock exchange and depository for redressal and monitored by SEBI through periodic reports obtained from them.

• Grievances pertaining to other intermediaries are taken up with them directly for redressal and are continuously monitored by SEBI.
• Grievances against listed company are taken up with the respective listed company and are continuously monitored. The company is required to respond in prescribed format in the form of Action Taken Report (ATR).. Upon the receipt of ATR, the status of grievances is updated.

11.. **SCORES (SEBI online complaint redressal system)**

• SCORES is a web based centralized grievance redressal system of SEBI. (http://scores.gov.in)
• SCORES is web enabled and provides online access 24 x 7.
• Complaints and reminders thereon can be lodged online at the above website at anytime from anywhere.
• An email is generated instantaneously acknowledging the receipt of complaint and allotting a unique complaint registration number to the complainant for future reference and tracking.
• The complaint forwarded online to the entity concerned for its redressal
• The entity concerned uploads an Action Taken Report (ATR) on the complaint.
• SEBI peruses the ATR and closes the complaint if it is satisfied that the complaint has been redressed adequately.
• The concerned investor can view the status of the complaint online from the above website by logging in the unique complaint registration number.

12. **3. Redressal by Company Law Board**
• Company law Board which was constituted in May 1991 has been entrusted with many powers which were previously exercised by high

courts. Every bench of company Law Board is deemed to be a civil court and every proceeding before it is deemed as judicial proceeding.

• To protect the interests of investors it has the power of inspection of records and documents and enforcing attendance of witnesses.

• An aggrieved investor can apply to the Company Law Board (i) To investigate the affairs of the company (ii) For relief in case of oppression of management and/or mismanagement

• investors can also lodge complaints about delay and non-payment of fixed deposits and interest thereon with the Company Law Board.

• Representations about desired changes in the Companies Act for investors protection can also be made to the Company Law Board

13. **4. REDRESSAL OF GRIEVANCES THROUGH COURTS**

• When an investor has tried all other ways of getting his grievance settled there is no other way left with him except to proceed against the company or the intermediary by way of civil and criminal proceedings.

• Suits against companies can be filed in the high courts of the states. Every high court has special designated benches about company affairs and all complaints against companies in breach of Companies Act are heard there.

• An aggrieved party can file cases in high courts against the companies to get justice but the process of law is quite time consuming and costly and hence beyond the reach of small investors.

14. **5. REDRESSAL OF INVESTORS GRIEVANCES THROUGH PRESS**

• if an investor fails to get his grievance remedied from concerned company or authorities, he thinks of bringing bad publicity to the company or to the authorities not listening to him, by reporting the matter to the press.

• Investors form unfavorable opinion about such company and think that this may happen to them also. So they avoid investing in this company. Such a situation can prove suicidal for the company

• To avoid bad publicity the concerned company or the stock exchange management or the government agency like SEBI settles his grievance and report back to the newspaper as to what they have done about the complaint.