



## Stock Market Regulation

**Prelims:** Stock Market Regulation, SC, SEBI, SCRA, Free-Market Economy, BSE, NSE.

**Mains:** Stock Market Regulation and Safeguards against Frauds.

### Why in News?

Recently, the [Supreme Court](#) asked the [Securities and Exchange Board of India \(SEBI\)](#) and the government to produce the existing regulatory framework in place to protect investors from Stock Market [volatility](#).

### What is the Stock Market?

#### ▪ About:

- Stock markets are venues where **buyers and sellers meet to exchange equity shares** of public corporations.
- Stock markets are components of a **Free-Market economy because they enable democratized access to investor trading** and exchange of capital.
  - A free-market economy is an economic system in which **the prices of goods and services are determined by supply and demand**, without interference from government regulation.
- India has two stock exchanges - the [Bombay Stock Exchange \(BSE\)](#) and the National Stock Exchange (NSE).
- SEBI is **the regulator of the securities market in India**. They set the legal framework and regulate all entities interested in operating in the market.
  - The **SCRA (Securities Contracts Regulation Act)** has empowered SEBI to recognise and regulate stock exchanges and later commodity exchanges in India; this was earlier done by the Union government.

#### ▪ Laws for Regulation:

- **Securities and Exchange Board of India Act, 1992 (SEBI Act):**
  - The SEBI Act empowers **SEBI to protect the interests of investors and to promote the development of the capital/securities market**, besides regulating it.
  - It sets out the functions and **powers of SEBI and establishes its structure and management**.
- **Securities Contracts (Regulation) Act, 1956 (SCRA):**
  - This law provides the **legal framework for the regulation of securities contracts in India**.
  - It covers the **listing and trading of securities, the registration and regulation of stockbrokers** and sub-brokers, and the prohibition of insider trading.
- **Companies Act, 2013:**
  - This law regulates the **incorporation, management, and governance of companies in India**.

- It also sets out the rules for the issue and transfer of securities by companies.
- **Depositories Act, 1996:**
  - This law provides for the regulation and supervision of depositories in India. It sets out the procedures for the dematerialization and transfer of securities held in electronic form.
- **Insider Trading Regulations, 2015:**
  - These regulations prohibit insider trading in securities listed on Indian stock exchanges. They prescribe the code of conduct for insiders, the procedures for disclosures, and the penalties for violations.

## What is the Role of SEBI at Curbing Market Volatility?

- While SEBI does not interfere to prevent market volatility, **exchanges have circuit filters — upper and lower** — to prevent excessive volatility.
- But SEBI can issue directions to those who are associated with the market, and has powers to **regulate trading and settlement on stock exchanges.**
- Using these powers, **SEBI can direct stock exchanges to stop trading, totally or selectively.**
- It can also prohibit entities or persons from **buying, selling or dealing in securities**, from raising funds from the market and being associated with intermediaries or listed companies.

## What are the Safeguards Against Fraud?

- SEBI notified the **Prohibition of Fraudulent and Unfair Trade Practices Regulations in 1995** and the **Prohibition of Insider Trading Regulations in 1992** to prevent the two key forms of fraud, market manipulation, and insider trading.
  - These regulations define a species of fraud, who is an insider and prohibit such fraudulent **activity and provide for penalties including disgorgement of ill-gotten gains.**
  - Violations of these regulations are predicate offenses that can lead to a deemed violation of the [Prevention of Money Laundering Act 2002.](#)
- **SEBI has notified the Substantial Acquisition of Shares and Takeovers Regulations to ensure that acquisitions** and changes of management are done only after giving an opportunity to public shareholders to exit the company if they want to.
  - Appeals against orders of SEBI and the stock exchanges can be made to the [Securities Appellate Tribunal \(SAT\)](#) comprising three members.
  - Appeals from the SAT can be made to the Supreme Court.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

**Q. Which of the following is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly? (2019)**

- (a) Certificate of Deposit
- (b) Commercial Paper
- (c) Promissory Note
- (d) Participatory Note

**Ans: (d)**

[Source: TH](#)

