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)

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