

## **ROLE OF SEBI UNDER STOCK EXCHANGES REGULATION AND THEIR DEPOSITORY**

**Dr. Sadhna Trivedi, Dr. Vir Vikram Bahadur Singh, Dr. Pranav Singh, Dr. Inderjeet Kaur,  
Dr. Priya Jain, Ms. Diksha Taneja, Ms. Kaneez Fatima**  
*Faculty of Juridical Sciences, Rama university, Mandhana, Kanpur*

### **ABSTRACT**

In the nation's economic development as a Stock Exchange performs economic function and is the barometer of the national economy and plays a vital role in the Country. The public's money is also typically directed into useful endeavors at the stock exchange. A double auction market, as opposed to a regular auction market, is one in which several prospective buyers and sellers compete with one another to place bids and counterbids. The One Stock Exchange approves the listings of the different firms wishing to offer their shares. Through the listing agreement, it keeps an eye on the corporate governance standards of the various listed businesses, and through the arbitration mechanism, it settles complaints from investors.

In its analysis of the purpose of the stock exchange, the Madras High Court noted that “a stock exchange plays a vital role in the nation's economic development and performs economic function as the barometer of the national economy.” The public's money is also typically directed into useful endeavors at the stock exchange. Companies wishing to list their shares are granted approval by the Stock Exchange to list. Through the listing agreement, the Stock Exchange keeps an eye on the Corporate Governance Norms of the various listed businesses. It also handles investor complaints through the Arbitration Mechanism. Any authorized stock exchange may create bye-laws for the regulation and control of contracts, with SEBI's prior permission.

**KEYWORDS:** SEBI, Stock Exchange, Etc

### **INTRODUCTION**

Since entry 48 in the union list in the seventh schedule designates the stock exchange as a central issue under the Indian Constitution, the union government is the only body with the power to enact legislation on this topic. The Bombay Securities and Control Act of 1925 was the first piece of legislation pertaining to stock exchange regulation. This Act was created in order to govern and manage specific agreements for the buying and selling of securities in Bombay. The government established the Morrison committee in 1936 in response to public outcry about the massive losses incurred by the investing public between 1928 and 1938. It recommended a number of measures, including as requiring security deposits from its members and giving stock exchanges the authority to halt buyouts and sellouts.

Gorewala Committee had explained in its report the object of the Stock Exchange as “the legitimate function of the Stock Exchange is to provide consistently with the larger public interest a forum and a service which are so organized, in the interest of both buyer and sellers, as to ensure the smooth and continual marketing of shares. Buyers and sellers are of different inds”. In 1956, following the

**Published/ publié in ResMilitaris (resmilitaris.net), vol.13,n°4, Winter-Spring 2023**

adoption of that Securities Contract Regulation Act, it became effective in 1957. This Regulation has been introduced to prevent inappropriate trading in securities markets and to regulate stock exchanges. Most of the powers conferred upon the Central Government have been transferred to SEBI<sup>3</sup> since 1992, when the SEBI Act was enacted.<sup>3</sup>

---

## **MEANING OF CORPORATE GOVERNANCE**

The Latin roots of the word governance allude to the idea of "steering". Whether the social or economic group is a country, state, professional association, or business, human society requires governance. Finding rights, obligations, and duties as well as establishing accountability are some of the main purposes of governance. When governance is conceived in this way, it may be applied to any size nation state that is wanted, companies, non-profits, NGOs, partnerships, other alliances, project teams, and any number of individuals involved in a meaningful activity. "The exercise of political authority and the use of institutional resources to manage society's problems and affairs" is how the World Bank defines governance.

"The use of institutions, structures of authority, and even collaboration to allocate resources and coordinate or control activity in society or the economy" is another definition of governance. Sometimes, English speakers mistakenly mix up the terms "government" with "governance." "Governance has been defined as the rules of the political system to solve conflicts between actors and adopt decision (legality)" states the UNDP's Regional Project on Local Governance for Latin America. The phrase "proper functioning on institutions and their acceptance by the public" has also been employed, as well as references to the effectiveness of democratic processes and the attainment of consensus<sup>4</sup>.

## **ROLE AND FUNCTIONS OF STOCK EXCHANGE**

The only venues for trading securities are the stock exchanges. In order to give investors the chance to purchase local company stocks, firms must be listed on stock exchanges. The Stock Exchange's main purpose is to give its members a venue to purchase and sell assets on behalf of their clients. The Stock Exchange, in contrast to a common market, is a two-way market where buyers and sellers place their respective bids and counterbids until a price is agreed upon. Over the past few years, exchange trade volumes have grown astronomically. Since the introduction of the screen-based trading system in 1994–1995, it has seen exponential growth, reporting a total turnover of Rs. 51, 30,816 crore. The increase in turnover occurred mainly at the large stock exchanges (NSE and BSE) and partly also at the expense of small stock exchanges, which could not keep up with the pace of change. Trading moved from small exchanges to large exchanges where technically better trading and settlement systems were introduced. NSE and BSE are the main stock exchange operations nationwide.

## **OVER VIEW OF STOCK EXCHANGE WORKING AT PRESENT**

Stock Exchange means a stock exchange in India or outside India recognized as an approved stock exchange by the Central Government. SEBI has the right to recognize the stock exchange. Currently there are 23 recognized stock exchanges in India. Stock exchanges are exclusive centers for

securities trading. The listing of companies in the stock exchange is mandatory for investors to invest in the securities of local companies. NSE and BSE are the largest stock exchanges with nationwide operations. Gandhi Vs. Bombay Stock Exchange, The Supreme Court observed: "The history of stock exchanges in foreign countries and in India shows that the development of a stock company would never have reached its present stage without the facilities offered by stock exchanges for trading securities. They have a very important function in the economy of country." Their main function is to liquefy capital by enabling a person who has invested money in, say, a factory or railway, to convert it into cash by disposing of his share in the enterprise to someone else". Supreme Court further emphasized that "Without the Stock Exchange, capital would become immobilized.

The proper working of a Stock Exchange depends upon not only the moral stature of them embers but also on their caliber. It is a trite saying that a jobber or dealer is born and not made. In the word Soft the same author, a jobber must be a man of good nerve, cool judgment, and ready to deal under any ordinary conditions, and he must be a man of financial standing, considerable experience, with an understanding of market psychology"<sup>5</sup>.

## **REGULATORY FRAME WORK OF STOCK EXCHANGES**

Any organization can operate as a stock exchange only if it is approved by the state board in the prescribed manner. A recognized stock exchange is considered an exchange that is currently recognized by the state board. Basically, the SCRA Act, 1956 and the regulation issued by SEBI and the rules framed by the central government in this behalf provide the regulatory framework for the functioning of stock exchanges.

### **Corporatisation & Demutualization of Stock Exchanges:**

Originally, exchanges were established as mutual organizations by members trading for their own benefit. Ownership and trading rights of members were combined. The disadvantage of such organizations is that they act primarily in the interests of members, not investors. Another problem was that members had access to all kinds of information that they could misuse. Thus, there was a lack of transparency and a professional approach. Due to these shortcomings, the Government of India made policy decisions on Stock Exchange Corporation and Conversion, whereby each stock exchange should become a corporation and separate ownership, management and business. Company Registration - a recognized stock exchange which is a body of persons registered under the Companies Registration Act 1860 or a body of persons incorporated to assist, regulate or control the business of buying, selling or trading or dealing in securities of such persons or society.<sup>6</sup>

"Demutualization" means the separation of ownership and management of trading rights of members of a recognized stock exchange under a scheme approved by the Securities and Exchange Board of India. Demutualization is the process by which a member-owned company becomes a shareholder-owned company. Globally, stock markets have given a clear example of the transition trend, with London Stock Exchange (LSE), New York Stock Exchange (NYSE), Toronto Stock Exchange (TSE) and most other stock exchanges around the world moving towards demutualization and India. There is no exception to this. In January 2002, SEBI directed all recognized stock exchanges to

amend their rules, articles, etc. within two months of the order accordingly, so that no broker of the stock exchange is an officer of the Stock Exchange, i.e. acting as president, vice president, President, treasurer, etc. This was done in implementation of the decision taken by SEBI and the political decision of the government regarding exchange/corporation of stock markets whereby the ownership.

### **Recognition of Stock Exchange**

One deterrent to the rules and regulations is that once made, it cannot be changed without SEBI's approval. The Central Government or SEBI, after receiving such application on its behalf and after receiving such additional information as may be necessary, to examine the rules and regulations of the records of the Sofa Exchange applying for registration to see whether it complies with such conditions which can be prescribed to ensure fair trade and protection of investors and whether it would be compatible with trade and also in the public interest, the Exchange accepts. After satisfying the same, he can give recognition to the Exchange, provided that it is in the manner previously stated and in such form as may be prescribed.<sup>7</sup>

In the case of Coimbatore Stock Exchange Limited v SEBI Madras, the Supreme Court observed that "when a company is authorized to become a stock exchange, it can become a stock after those companies have brought appropriate amendments to the rules. The said stock exchange cannot on the one hand and changes in the rules of the exchange can be made only with the permission of the Central Government/SEBI under Article 4(5) read with Article 2(g) SCRA."

Every appreciation of an Exchange under this section shall be published in the Official Gazette of India and also in the Official Gazette of the State in which the head office of the Exchange is situated and such recognition shall take effect on the date of such recognition, Publication in the Indian edition. A request for recognition cannot be refused unless the exchange in question has been given an opportunity to be heard on the matter; and the reasons for refusal must be reported to the Exchange in writing. Clause 4 (5) emphasizes that "No rule of a recognized stock exchange relating to the matters mentioned in Clause 3 (2) shall be amended without the consent of the State Government". The application should be submitted to SEBI in Form A prescribed under the Securities Regulations, 1957. The application should be accompanied by four copies of the rules and Rs 500 as fees and after due enquiry, SEBI will issue an acknowledgment in Form B. be permanent or temporary as per the terms of the Exchange and its rules.

### **POWER' S OF SEBI WITH RESPECT TO STOCK EXCHANGES**

Therefore, SEBI as a regulator must make the market efficient and clean to protect the interests of the investors and the integrity of the market where all participants work diligently and professionally in the four corners of the system without any possibility of abuse system. It is imperative for SEBI to intervene and curb further wrongdoing and take necessary steps to maintain public confidence in the integrity of the securities market. Also SEBI must prevent the loss or damage of the assets of the Stock Exchange, only a public institution, and also protect the interests of investors in the market. In the case of

Coimbatour Stock Exchange v. SEBI<sup>9</sup> said that "Since the Stock Exchange, the State under Article 12 of the Constitution of India (SCRA): n aims to prevent securities transactions by regulating the transactions and stock exchanges are credible for economic development. The proper functioning of the stock exchange depends not only on its caliber members, but perhaps even more importantly their status when trading on the Stock Exchange, should be open, reasonable men with balance, prudence and maturity, and the persons appointed to the position should have the necessary professional knowledge and experience in the fields related to the securities market affairs are conducted in a healthy manner and according to the highest professional standards in terms of good governance and transparency inspire and support a trusting public.

### **Power of SEBI to Supersede Governing Body/Suspend Business**

The State or SEBI may delist any stock exchange, if it so decides by giving an opportunity to the Board of the Stock Exchange to be heard in writing and publishing the matter in the Official Gazette. In addition, the state has the right to appoint any person or persons to act and perform all the powers and duties of the board, and if there is more than one person, it can appoint one of them as the president and the other as the vice president. After the publication of the notice in the Official Notices as mentioned above, the replaced members of the board shall cease to act as such members and the person or persons elected may exercise and perform all the powers and duties of the board. Which has been granted to the Exchange, as the designated person or persons may notify it by written order, which is necessary to enable the commercial operations of the Exchange, is the right of such person or persons. The above-mentioned person or persons must fulfill the period specified in the notification published in accordance with this paragraph during the period of authorization, and the State Council may change this period from time to time by corresponding notification<sup>10</sup>.

### **Power to Suspend Business of the Recognized Stock Exchange**

The National Council has the right to suspend the activity of the stock exchange by notification in accordance with section 12 "If the National Council finds that an emergency situation has arisen and the National Council deems it appropriate to resolve the activities of the stock exchange. . in an emergency, it may directly suspend the activity of the Stock Exchange for the most trivial reasons with the notification of Official Announcements for a maximum of seven days and by notification under the specified conditions and if, in the opinion of the Central Government, commercial interest or public interest requires an extension of the deadline, the deadline may be extended from time to time with similar notice. The objection raised by the board of the approved stock exchange is dealt with in the case 42. After giving a suitable opportunity for consultation, the central board may revoke the member and its members by publishing an announcement in Official Gazettes in accordance with Section 11. (2) The governing body for to be replaced shall cease to act as members from the date of the notice of resignation. The person named under subsection 1 of the section or persons may use and perform all the powers and duties of the deposited administrative body, as well as all the properties of the recognized stock exchange, as the person or persons named according to

paragraph 1, may determine in this regard by written order that it is necessary for him to be able to perform the activities of the Stock Exchange, has the right to such person or individuals.<sup>11</sup>

### **ROLE OF SEBI IN REGULATING DEPOSITORIES**

Trustees are, in a sense, custodians of securities who hold the securities for the benefit of the beneficiaries. With the introduction of the Demat system, everything is held electronically. The current settlement system based on the physical delivery of paper certificates was probably sufficient even earlier when there were few investors on the capital market. The old trading system was affected by many problems such as undue delay in transfer of shares, duplicates/fake shares, court orders, bad deliveries, loss in transit/theft/mutilation, disputes or corporate actions, high transaction costs, longer settlement periods, poor infrastructure and a large amount of paper. All these factors prevent investors from entering the market. This failure gave rise to the idea of creating an electronic system that allows for less business and faster payments. The technological revolution affected the entire country at that time and the Indian capital market took advantage of the dominant change to adopt demat for securities trading. There, tying, holding and holding of shares in dematerialized form are now a global practice followed by all developed and developing countries of the world. Before discussing the role of SEBI vis-à-vis the trustee, the dematerialization regime needs to be discussed.

### **CONCLUSION**

The effectiveness and efficacy of law has to be tested in the form of role played by the SEBI in enforcing the laws. In a country like India where stealing 10 rs is considered as crime and in the Stock market where crores and crores of rupees can be easily made by doing unfair practices and market manipulations, and the most important thing is that it is being committed by top professionals who are not only qualified but also in the certain cases are license holders of the stock market. It makes role of SEBI more important. Mainly its public money and specially the money of small investors who takes a lot of pain in saving the money with keeping little faith on SEBI and system as their money will be safe. But From Harshad Mehta to ketan parekh and recent controversy of Satyam Fraud shows us either weakness of the system or some lacuna in the role played by the market regulator which could properly secure investors' money with orderly growth of economy.

With the advent of liberalization and globalization now focus is more on making the investment friendly Rules and Regulations as it is considered that more liberalized a securities market is the better is its impact on economic growth. Interventions in the securities market were originally designed to help governments expropriate much of the control and direct the flow of funds for favored uses. From the very beginning in India we were suffering from the problem of implementation of Rules and Regulations. Governance is the major task for all the developing economies as corruption is so high and is so systematic that it's very difficult to enforce the Rules and Regulations<sup>12</sup>.

### **REFERENCES**

1. A Ramaiya "Guide to the Companies Act", Wadhwa publication Nagpur, 16th ed, 2004.
2. Sahani. D.K, "Stock Exchange in India Practices, Problems and Prospects", North Publishing Corporation, Delhi ed 1985.
3. Venkaraman, R, "SEBI and Listing Procedure", Commercial Law

- Publisher, ed 2003.
4. Harry Domash, "Fire your Stock Analyst", 2006,.
  5. Sahani. D.K, "Stock Exchange in India Practices, Problems and Prospects", North Publishing Corporation, Delhi, ed 1985, pp33.
  6. Supra note 1, Id at pp66
  7. Coimbatore Stock Exchange. SEBI, MadH. C., Available on [www.sebi.gov.in](http://www.sebi.gov.in) visited on 28-12-2009. 4 Securities Contract Regulation Act, 1956, Sec 2(14).
  8. Study Material on "Financial Market: A Beginners Module" Available on [www.nseindia.com](http://www.nseindia.com) Visited on 20-9-2008
  9. Ibid.
  10. Supra note 4, Sec 2(f). 1961 SCR(1)191.
  11. Datey, V.S., "Corporate Laws and Secretarial Practice" Taxman Publication, 2005 ed, pp484.
  12. Report on "Corporatisation and Demutualisation of Stock Exchanges" Available on [www.sebi.gov.in](http://www.sebi.gov.in), visited on 20-12-2009.
  13. Watson Denzil & Head Antony "Corporate Finance Principles and Practice", Pearson Education Ltd. Delhi, First Indian Reprint, 2002.
  14. Supra note 3.