ROLE OF SEBI IN INVESTORS PROTECTION

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Abstract:

Investor protection is among the most talked topics in the securities market and safeguarding investor interest is one of the top priorities of the regulatory bodies. Investor protection means ensuring that the stock market and participants are fair to the investors and should not do anything which may appear deliberate attempts on their part to inflict loss to the investors.Investors can seek their protection within the provisions of the Indian Companies Act 1956, the Securities Contract (Regulation) Act 1956 and various measures taken by stock exchanges. But the Securities and Exchange Board of India(SEBI) has been mandated to protect the interest of investors in securities and to promote the development and regulate the securities market so as to establish a dynamic and efficient securities market contributing to Indian economy. SEBI was set up in 1992 and issued many guidelines on areas of vital interest in the Indian stock market. With a view to protect the investors and to redree their grievances and complaints SEBI has an Investor Grievance Cell, Investor Protection Fund, Web based centralized complaint redessal system etc. These various measures of SEBI make sure that every aspect of the investor interest is secured.

Key Words:

Investor protection, SEBI, Complaints, Grievances, Redressal system, Measures, Companies Act, Securities Contract Act.

INTRODUCTION:

Investors are the backbone of the securities market. They not only determine the level of activity in the securities market but also the level of activity in the economy. The growth in the number of investors in india encouraging. However, many investors may not possess adequate expertise or knowledge to take informed investment decisions. Some investors may not be fully aware of the precausions they should take while dealing with market intermediaries and dealing in different securities. They may not be familier with the market mechanism and the practices as well as their rights and obligations. As a result, there occurs a need of organization or institution, which protect the interest of investors, help them to gain confidence in the capital market and gives them adequate knowledge to take right investment decision.

NEED FOR INVESTOR PROTECTION:

Investor is a person who allocates capital with the expectation of a financial return. They are the pillar of the financial and securities market. Therefore it is very important to protect the interest of the investor and the investor protection affects significantly the financial structure of an economy. Strong investor protection is essential for the healthy growth of financial markets. Investor protection involves various measures/guidelines established to protect the interest of investors from malpractices in share, stock market, mutual fund etc. It encourages accurate security prices, efficient investments and better access to external finance.

METHODOLOGY:

This paper is conceptual in nature primarily , largely based on secondary sources of information and focuses on various investor protection measures taken by SEBI from time to time. Though the guidelines issued by SEBI are not covered exhaustively, the impact of investor education campaign, grievance redresal mechanism, compensation from investor protection fund and the like are being studied towards restoring investor confidence in the stock markets.

SEBI – INTRODUCTION:

Investors are making their investments with the expectations to maximize their returns and to achieve their financial objectives. But ever increasing investor population and growth in the dealings of stock market has lead to variety of malpractices on the part of the companies, brokers, investment consultants in stock market etc in the form of price rigging, unofficial premium on new issue, delay in delivery of shares, violation of rules and regulations, listing requirements and so on. Due to these malpractices the customers started losing confidence and faith in the stock exchange. Hence, to protect the interest of investors, Government of India has established Securities Exchange Board India (SEBI) in the year 1988 and given statutory powers in 1992 through SEBI Act

1992, as a regulator of the Indian financial market. It protects the investors from the exploitations by the swindlers and restores confidence in the minds of the investing community. It also educates the invetors about how to be prudent enough to make their investments wisely in the stock market through Investor Education Campaign. In addition to that SEBI has maintained Investors Protection Fund, Investor Grievance Redressal System etc.

As a statutory body SEBI has a dedicated department viz., Office of Investor Assistance and Education (OIAE) to receive investors grievances and to provide assistance to investors by way of education. SEBI also permit investors to form an Association of Investors and register the same under SEBI. This will provide an immediate forum to investors to discuss their difficulties and to take measures for speedy removal of their problems.

OBJECTIVES OF SEBI:

- To protect the interest of investors in securities.
- To protect the rights of investors and ensuring safety to the investment.
- To regulate the securities market and for matters connected therewith or incidental thereto.
- To regulate and develop a code of conduct for intermediaries such as brokers, underwriters etc.
- To prevent fraudulent and malpractices by having balance between self regulation of business and its statutory regulations.
- Transparency in work.

FUNCTIONS OF SEBI:

SEBI performs various functions to meet its objectives. In order to meet the objectives, SEBI has three important functions.

- Regulatory Functions
- Developmental Functions
- Protective Functions

REGULATORY FUNCTIONS:

*Regulation of stock exchange and self-regulatory organizations

*Registration and regulation of stock brokers, sub brokers,registrar to all issues, merchant Bankers, underwriters, portfolio managers etc

*Registration and regulation of the working of collective investment schemes including Mutual funds

*Regulating substantial acquisitions of shares and take over of companies

DEVELOPMENTAL FUNCTIONS:

*Training of intermediaries

*Conducting research and published information useful to all market participants

*Promoting self-regulatory organizations

PROTECTIVE FUNCTIONS:

These functions are performed by SEBI to protect the interest of investors and provide Safety of investment.

*SEBI checks price Rigging:

Price Rigging refers to manipulating the process of securities with the main objective Of inflating or depressing the market price of securities. SEBI prohibits such practice because this Can defraud and cheat the investors.

*SEBI prohibits Insider Trading :

Insider is any person connected with the company such as directors, promoters etc. These insiders have sensitive information which affects the prices of the securities. This information Is not available to people at large but the insiders get this priviledged information by working inside The company and if they use this information to make profit, then it is called as insider trading.e.g. The directors of a company may know that company will issue bonus shares to its shareholders at Year end and they purchase shares from market to make profit with bonus issue. This is known as Insider trading. SEBI keeps a strict check when insiders are buying securities of the company and Strict actions are being taken on insider trading.

*SEBI prohibits fraudulent and unfair trade practices:

SEBI does not allow the companies to make misleading statements which are likely to induce the Sale or purchase of securities by any other person.

*Educate the Investors :

SEBI undertake steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities.

*Promotion of fair practices and code of conduct in security market:

i) SEBI has issued guidelines to protect the interest of debentureholders wherein companies cannot change terms in midterm.

ii) SEBI is empowered to investigate cases of insider trading and has provisions for stiff fine and imprisonment.

iii) SEBI has stopped the practice of making preferential allotment of shares unrelated to market prices.

INVESTOR PROTECTION MEASURES BY SEBI:

Sec 11(2) of the SEBI Act contains measures available with SEBI to implement the legislated desire of investor protection. It includes

*Regulating the business in Stock Exchanges (SEs) and any other securities market.

*Registering and regulating the working of intermediaries like stock brokers, sub brokers, share transfer agent, bankers to an issue, trustees of trust deed, registrars of an issue, merchant bankers, underwriters, portfolio managers, investment advisors etc associated with securities market

*Registering and regulating the working of the depositories,participants, custodians of securities, foreign institutional investors, credit rating agencies and other intermediaries.

*Registering and regulating the working of venture capital funds and collective investment schemes including mutual funds.

*Promoting and regulating self – regulatory organizations.

*Prohibiting fraudulent and unfair trade practices relating to securities market.

*Prohibiting insider trading in securities.

*Regulating substantial acquisition of shares and take over of companies.

*Promoting investors education and training of intermediaries of securities market.

*Carry out inspection/audit of the SEs/intermediaries etc.

*Call for information from any bank/any authority/corporation/agencies in respect of any transaction in securities which is under investigation or inquiry by SEBI.

SEBI has given out various methods and measures to ensure the investor protection from time to time.

INVESTOR EDUCATION AND PROTECTION FUND (IEPF):

Investor protection measures by SEBI includes the Government of India established a fund called Investor Education and Protection Fund(IEPF) under Companies Act. According to this act, the company which has completed seven years in the business should hand over all the unclaimed fund dividends, matured deposits and debenture, share application money etc to the Government through IEPF.This fund can be utilized to compensate the claims of investors against the members of exchanges (brokers) who have defaulted or failed to pay. The investor can ask for the compensation if a member (broker) of the National Stock Exchange (NSE) or Bombay Stock Exchange (BSE) or any other stock exchange fails to pay the due money for the investment made. The Stock Exchanges have put certain limits on the level of compensation paid to investors. This limitation has been put according to the discussions and guidance with the Investor Protection Fund Trust. The limit allows that the money to be paid as a compensation for a single claim shall not be less than INR One Lakh for the case major stock exchanges like BSE and NSE and it should not be less than INR 50,000 in case of other stock exchanges.

INVESTOR AWARENESS PROGRAMME (IAP):

Investor Protection measures by SEBI follows the slogan " An informed investor is a safe investor ". SEBI has thus launched the Securities Market Awareness Campaign in 2003. Such programmes are now regularly organized by SEBI to educate and create awareness among the investors. The programme covers major subjects like portfolio management, mutual funds, tax provisions, investor protection fund, investor's grievance redressal system of SEBI. It also conducts workshops on derivatives, stock exchanges trade sensex etc. SEBI has now conducted these workshops in more than 500 cities across the country through various formats like radio, print media, television and internet.

UNIQUE ORDER CODE NUMBER:

All stock exchanges have been required to ensure that a system is put in place whereby each transaction is assigned a unique order code number which is intimated by the broker to his client. Once the order is executed, this number is to be printed on the contract note.

TIME STAMPING OF CONTRACTS:

Stock brokers have been required to maintain a record of time when the client has placed the order and reflect the same in the contract note along with the time of the execution of the order. This will ensure that the broker gives due preference in execution of client's order and charges the correct price to his client without taking advantage of any intra – day price fluctuation for himself.

ISSUE OF GUIDELINES:

SEBI has issued guidelines to companies. These guidelines are for bringing transparency in their operations and also for avoiding exploitation of investors. SEBI keeps watch on all intermediaries and see that they follow the guidelines in the right spirit. It also takes panel actions when the guidelines are not followed. These steps give protection to investors.

PUBLIC INTEREST ADVERTISEMENT :

SEBI issues public interest advertisement to enlighten investors on the basic features of various instruments and minimum precautions they should take before choosing an investment.

INVESTOR GRIEVANCE REDRESSAL MECHANISM:

There will be occations when an investor has a complaint against a listed company or an intermediary registered with SEBI. In the event of such complaint, the investor should first approach the concerned company/intermediary against whom there is a complaint.

*HANDLING THE COMPLAINT WITH RESPECT TO STOCK EXCHANGES:

(i) Investor Services Cell (ISC) :

If the complaint is against a stock broker/authorized persons/listed companies and depositories if it is against depository participants, investors may sent the complaint to the nearest office of the stock exchanges/depositories. In this cell the stock exchanges have been advised to redress the complaints within 15 days.

(ii) Investor Grievance Redressal Committee (IGRC) :

The complaint not redressed through Investor Services Cell (ISC) get referred to IGRC. i.e., If the investors are not satisfied they may approach Investor Grievance Redressal Committee (IGRC). Within 15 days IGRC solve the investor complaint. If not, IGRC ascertain the value of the claim admissible to the investor and the amount is blocked in Investor Protection Fund (IPF). Then, the investor may be given 7 days from the date of IGRC to inform whether he would pursue arbitration.

Arbitration:

It is the quasi judicial process of settlement of dispute, if one party feels that satisfactory redressal of grievance has not taken place at IGRC.

*HANDLING THE COMPLAINT WITH RESPECT TO SEBI:

(i) Office of Investor Assistance and Education (OIAE):

SEBI has a dedicated department i.e., Office of Investor Assistance and Education to receive investor grievance and to provide assistance to investors by way of education.

(ii) SEBI Complaints Redress System (SCORES):

SCORES is a web based centralized grievance redress system of SEBI. An investor who is not familiar with or does not have access to SCORES can lodge complaints in physical form by writing or sending the complaints to any of the offices of SEBI. Such complaints would be scanned and uploaded in SCORES for processing.

Features of SCORES:

*Online access 24 *7

*An email and SMS is generated instantaneously acknowledging the receipt of complaint and allotting a Unique Complaint Registration Number to the complainant for future reference and tracking.

*Investor can view the status online by logging in the unique complaint registration number and provides for sending reminders.

*Audit trail of each complaint

*All the complaint are saved in acentral database which generate relevant MIS reports enabling SEBI to take appropriate policy decisions and remedial actions if any.

TYPES OF COMPLAINTS HANDLED BY SEBI:

*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 the provisions that are covered under sec 55A of companies act 1956 are handled by SEBI

COMPLAINTS AGAINST SEBI REGISTERED ENTITIES:

*Stock broker/authorised agent

*Stock Exchange

*Debenture trustees

*Depository

*Depository Participants

*Mutual Funds

*Registrar to an issue/share transfer agent

*Banker to an issue

*Merchant banker

*Portfolio managers

*collective investment schemes

*custodian of securities

*credit rating agency

*Investment advisers etc

OTHER MEASURES:

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 interest of investor in securities.

CONCLUSION:

It may be concluded that SEBI performs its role extremely well through various programmes and measures like Investor Awareness Programme, Investor Education and Protection Fund, Grievance Redressal Mechanism etc which has made the Indian security market as one among the safest and most efficient trading destination globally.

It is in the interest of investors themselves to be fully aware about the provisions of various act, SEBI guidelines and grievance redressal mechanism with regard to their protection. It is also advisable that investors should approach SEBI through SCORES for redressal of their grievances, complaints and any other difficulty relating to their security transactions.

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