

**EVOLUTION OF SEBI AS A REGULATORY AUTHORITY IN THE INDIAN  
CAPITAL MARKET TO PROTECT THE INTERESTS OF INVESTORS**

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**ABSTRACT**

India currently possesses the fifth largest economy globally. The capital market has experienced significant growth as a result of economic liberalization, divestment of public sector enterprises, and increased participation from both retail and institutional investors. The Central Depository Services Limited (CSDL) currently holds 6.71 crore accounts, while the National Securities Depository Limited (NSDL) holds 2.17 crore accounts. The combined market value of these accounts is 200 lakh crore, with over 5000 listed enterprises. Additionally, there is a foreign exchange reserve of \$579 billion. This exemplifies the participation of the capital market in India's narrative of economic expansion. Hence, it is imperative to safeguard all parties involved, specifically investors, from instances of money misappropriation, deceit, and fraudulent activities. The Securities and Exchange Board of India (SEBI) was established on April 12, 1988, initially by an administrative Order. However, it gained legislative status and significant authority in the year 1992. Investor protection is a widely discussed subject in the securities market, and ensuring the safety of investor interests is a primary focus for regulatory agencies. Investors can find protection under the terms of the Indian Companies Act 1956, the Securities Contract Act 1956, and the procedures implemented by stock exchanges. Investor protection refers to the measures used to ensure fairness in the stock market and prevent deliberate actions that could harm investors. In order to safeguard the interests of investors and mitigate their concerns and objections, SEBI has established an Investor Grievance Unit, an Investor Protection Fund, and a web-based centralized system for addressing complaints.

***KEYWORD: Economic Liberalization, Divestment, Stock Market, Grievance***

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## 1. INTRODUCTION

***“AN EDUCATED INVESTOR IS A PROTECTED INVESTOR”***

***(SECURITIES MARKET AWARENESS CAMPAIGN – MOTTO OF THE CAMPAIGN WHICH WAS INITIATED BY OUR FORMER PRIME MINISTER SHRI ATAL BIHARI VAJPAYEE IN 2003)***

Over the past three decades, the Indian economy has experienced significant transformations as a result of liberalization, privatization, and globalization. It is currently one of the dynamic and resilient major economies in the globe. The Indian economy is projected to exceed \$3 trillion in nominal GDP for the year 2022. Our goal is to attain a GDP of \$5 trillion within the coming years. This has facilitated the growth of the Indian capital markets throughout the years. The present market capitalization of equities stands at approximately \$3.21 trillion, positioning it as one of the most lucrative emerging markets globally. In order to accommodate the scale of our equity market, it is imperative to establish a robust and dynamic market environment that ensures investor protection through the implementation of transparent legislative, judicial, and grievance mechanisms.

An investor is an individual who allocates capital to a corporate entity with the objective of obtaining a financial gain. Investing in the securities market benefits both the investor and the company organization. The investor is provided with the chance to generate income while the business entity obtains the necessary funds to operate the operation. Investors play a key role in the economic advancement of a nation. They facilitate the expansion and prosperity of a corporation, hence influencing the economy. Investments are the primary factor that distinguishes developed, developing, and under-developed economies. Hence, investors hold significant importance, and safeguarding them from such hazards is imperative. Enhanced investor protection fosters confidence and incentivizes prospective individuals to emulate and engage in investment activities.

In order to safeguard the interests of investors, it is imperative to establish a certain framework of legislation and regulations that commercial entities must adhere to. Although these regulations are imperfect, a multitude of scams still take place. Nevertheless, ongoing efforts are underway

to formulate fresh legislation and revise existing laws to ensure robust investor protection and prevent the recurrence of fraudulent activities.

The SEBI Act, enacted in 1992, functions as the principal regulatory authority in India. The Securities and Exchange Board of India (SEBI) was created by the Government of India (GOI) as a regulatory authority. Subsequently, it was endowed with authority as a regulatory and legislative entity under the "Securities Exchange Board of India Act, 1992 (Act of 1992)". The primary objective of SEBI, as outlined in Section 11 of the SEBI Act of 1992, is to safeguard the interests of investors and regulate, foster, and enhance the securities market.

### **1.1 NEED OF THE STUDY**

Investors have a crucial role in the stability and functioning of the financial and securities market. They ascertain the degree of activity in the securities market as well as the level of activity in the economy. They may lack familiarity with the market mechanism, procedures, as well as their rights and obligations. Some investors may lack comprehensive knowledge of the precautions they should use when engaging with market intermediaries and trading various securities. There is a requirement for an institution that safeguards the interests of investors and assists them in building confidence in the capital market. It provides them with sufficient knowledge to make informed investing decisions. Investors play a crucial role in the functioning of the Securities market. An investor is an individual who allocates resources with the anticipation of receiving a financial return. Robust investor safeguards are needed for the sustainable expansion of financial markets. Safeguarding the interests of investors is of utmost importance, since it has a considerable impact on the financial framework of an economy. Investor protection encompasses a range of actions implemented to safeguard the interests of investors against fraudulent activities in the stock market, share market, mutual funds, and other related areas.

### **1.2 SCOPE OF THE STUDY**

The concept of investor protection encompasses a broad range of features. To narrow down the study, the researcher will focus on the following aspects: Securities Exchange Board of India, investor protection in the Indian capital market, investor awareness, disclosures made by listed companies, the grievance mechanism of SEBI, and SEBI's laws and policies for investors.

## 2. REVIEW OF LITERATURE

Devaraja and Kusuma (2016) conducted a study to assess the efficacy of regulatory measures in safeguarding retail investors in Karnataka. Their study addresses the gap in knowledge by examining the investor's impression of current regulatory measures aimed at preventing various forms of market misconduct. Their work is an initial endeavor to examine the level of perception among small investors in Karnataka, with numerous research studies completed in this domain. They vary significantly in terms of their purpose and scope. Moreover, the majority of the studies have concentrated on examining the characteristics and magnitude of challenges encountered by investors. The regulators' measures are not sufficiently studied for their desired effectiveness. Therefore, they have deemed this study intriguing and pertinent for the subsequent justifications. Firstly, their study sheds light on the effectiveness of the current grievance redressal mechanism of SEBI and the level of awareness and perception among retail investors regarding this mechanism. Furthermore, it assesses the efficacy of employing the Investor Education and Protection Fund (IEPF) as per the regulations of the Ministry of Corporate Affairs (MCA), and examines the level of awareness and perception among retail investors on these measures. Overall, their paper advocates for the deployment of robust regulatory measures to prevent various forms of market misconduct, thereby enhancing the trust and confidence of retail investors. Indian regulators can do this by launching comprehensive awareness campaigns and programs nationwide. These initiatives would enable the regulators to establish an investor democracy by integrating investors into the mainstream.

Jeelan (2017)<sup>1</sup> conducted a study on the receipt and resolution of complaints by SEBI. The paper also includes an analysis of the findings and conclusions. The study is characterized by its analytical approach, utilizing secondary data analysis to achieve its aims. The study utilizes data spanning a period of seventeen years, specifically from 1997-98 to 2014-15. Both descriptive and inferential statistics are employed. SEBI is accelerating its actions against companies in various categories that have experienced a Compound Annual Growth Rate of 19.45% throughout the research period. The receipt and resolution of concerns by SEBI have shown a

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<sup>1</sup> Jeelan, Basha, V. Dr. (2017). Empirical Study on Receipt and Redressal of Grievances (With “AnReferenceto Special SEBI)”, *Global Journal for Research Analysis (GJRA)*, Vol.6, No.1, January, pp.663-665.

reduction over the study period, with values of -0.08035 and -0.10303, respectively. Therefore, it is evident that SEBI is efficiently functioning as a regulatory watchdog.

Ruby and Vethirajan (2017)<sup>2</sup> conducted a study. The study indicates that investors in the stock market are motivated by the desire to obtain tax benefits, in addition to seeking regular, greater, and speculative returns. Nevertheless, the objective of investing in the market differs based on the gender, age, occupation, and family size of the investors. Investors have shown a preference for the secondary market over the main market when it comes to making investments. The preference for either the primary or secondary market is influenced by the socio-economic position of investors and the purpose of their investment.

Ruby and Vethirajan (2017)<sup>3</sup> SEBI's effectiveness in grievance redressal pertaining to share trading and ensuring sufficient protection for investors is well-established. It is also efficient in promoting transparency standards and resolving disputes in order to enhance investors' protection. SEBI's effectiveness in minimizing frauds in the market is limited, but it demonstrates a moderate level of effectiveness in formulating comprehensive rules and regulations, controlling intermediaries, regulating the market, preventing price manipulation, curbing insider trading, and issuing guidelines to boost investor confidence. Additionally, SEBI is responsive to complaints from retail investors and takes appropriate measures to address them in a timely manner. Furthermore, it may be inferred that SEBI's proficiency in formulating rules and regulations has a tendency to encourage investors to allocate more funds into FX instruments in the capital market, notwithstanding SEBI's limited efficacy in regulating intermediaries. Overall, it may be inferred that SEBI is proficient in addressing grievances but inadequate in mitigating stock market fraud.

### **3. OBJECTIVES OF THE STUDY**

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<sup>2</sup> R.Ruby, and C.Vethirajan (2017) Relationship between the Socio Economic Status and Investment Behavior of Investors in Chennai City, Indian Journal of Applied Research Volume – 7 | Issue - 5 | May - 2017 | ISSN - 2249-555X | IF : 4.894 | IC Value : 79.96, PP:446 450

<sup>3</sup> R.Ruby, and C.Vethirajan (2017), Effectiveness of SEBI in Protecting the Investors-A Study of Investors in Chennai City, Global Journal For Research Analysis, Volume 6, Issue 5, May 2017 IF : 4.547 | IC Value 80.26, PP: 445-450

1. To pinpoint the deficiency in the regulatory framework that resulted in the failure to safeguard the interests of investors despite the implementation of many rules and regulations by SEBI.
2. To analyze the disclosure system of different companies in accordance with the SEBI Act.
3. The purpose of this discussion is to thoroughly examine the concept, significance, framework, and procedures related to Investor Protection.

#### **4. RESEARCH METHODOLOGY**

The researcher employed a judicious combination of doctrinal and empirical research methodologies. The researcher does empirical study to gather data by analyzing the behavior of investors in connection to investor protection, investor grievance mechanism, investor education, corporate disclosures, and the applicability of laws and policies in India.

The researcher's empirical study entails collecting data and evaluating investor behavior in relation to investor protection, investor grievance procedures, investor education, corporate disclosures, and the implementation of laws and regulations in India.

1. Sources of Data: The scholar has built on both Primary and Secondary Data from the investors and the regulatory body (SEBI) respectively.
2. Stakeholders: Investors, SEBI, Intermediaries, companies
3. Sources of Data: The scholar has built on both Primary and Secondary Data from the investors and the regulatory body (SEBI) respectively

The sample was selected by a process of randomization. The researcher conducted a limited number of personal interviews with investors and sent them the questionnaire via email. A limited quantity of samples were additionally obtained by direct communication with the SEBI office. The study additionally contacted Investor Associations in order to collect data. The sample consisted of diverse stakeholders, encompassing retail investors, SEBI licensed financial advisers, SEBI officials, brokers, individuals from brokerage houses, and other intermediaries.

#### **5. DATA ANALYSIS AND INTERPRETATION**

The researcher collected secondary data for her research topic from the annual report produced by the Securities and Exchange Board of India. The researcher collected six years' worth of SEBI annual reports, which covered a range of topics including SEBI investigations, investor grievances received and redressed by SEBI, the nature of investigations undertaken and completed by SEBI, actions taken by SEBI, regional seminars and the number of awareness programs/workshops conducted by SEBI.

**5.1 Investigations by SEBI**

The below table shows the number of investigation of the cases taken up by SEBI from the year 2014-2020

**TABLE -5.1: INVESTIGATION BY SEBI**

“Year”	“Cases Taken up for Investigation”	“Cases Completed”
2014-15	70	122
2015-16	133	123
2016-17	245	155
2017-18	117	145
2018-19	194	110
2019-20	161	170

Table displays the SEBI investigation data from 2014 to 2020 regarding the cases initiated and resolved by SEBI. In the 2015-16 period, a total of 133 newly reported cases were examined, and 123 instances were resolved. This is in contrast to the 70 new cases in 2014-15 and the 122 cases resolved in the preceding year. Based on the data presented in Figure 7.1 and Table 7.1, it can be observed that the highest number of SEBI investigations occurred during the year 2016-17. In the fiscal year 2017-18, the number of cases subjected to investigation was decreased to 117, while 145 cases were successfully concluded. The most recent annual report was for the fiscal year 2019-20, and the Securities and Exchange Board of India (SEBI) conducted a total of 161 investigations, completing 170 of them. Table demonstrates that the most significant number of

instances occurred in the 2016-17 period, while the maximum number of cases was recorded in the year 2019-20.

## 5.2 INVESTOR GRIEVANCES RECEIVED AND REDRESSED BY SEBI

SEBI has enforced various regulatory steps to accelerate the resolution of investor grievances. As to the SEBI annual report, investor grievances are addressed by the relevant listed company or intermediary and are consistently supervised by SEBI.

**TABLE 5.2: INVESTOR GRIEVANCES**

<b>Period</b>	<b>Grievances Received During the Period</b>	<b>Grievances Redressed During the Period</b>
2014-15	38,442	35,090
2015-16	28,938	35,145
2016-17	40,000	49,301
2017-18	43,131	43,308
2018-19	42,202	42,576
2019-20	55,526	39,624

Table reveals that there were 2,271 review complaints handled in the 2019-20 period. By March 31, 2020, a total of 7,053 review complaints had been resolved. As of March 31, 2020, there were still 1,165 unresolved review concerns. The table also demonstrates that the year 2016-17 had the highest resolution of complaints.

## 5.3 NATURE OF SEBI INVESTIGATIONS

SEBI conducts diverse investigations in response to complaints.

**TABLE 5.3: “NATURE OF SEBI INVESTIGATIONS TAKEN BY SEBI”**

Year	“Market manipulation and price rigging”	“Issue related manipulation”	“Insider trading”	Takeovers	Miscellaneous
2014-15	41	3	10	3	13
2015-16	84	9	12	2	26
2016-17	185	8	34	3	15
2017-18	40	1	15	1	60
2018-19	84	2	70	6	32
2019-20	35	2	49	2	73
Grand Total	469	25	190	17	<sup>469</sup> 219

Based on the data shown in Table, it can be observed that in the year 2015-16, market manipulations and price rigging constituted 63% (84 out of 133) of the cases analyzed. This is in comparison to the previous year, 2014-15, where market manipulations and price rigging accounted for 59% (41 out of 70) of the cases. Insider trading accounted for 9% of the instances, while takeovers accounted for 2%. Out of the 194 instances investigated in 2018-19, market manipulation and price rigging were found to be involved in 43% (84 cases), while insider trading and market manipulation were found to be involved in 40% and 17% of the cases, respectively. During the fiscal year 2019-20, there were 49 instances (30.4%) of insider trading that were examined, 35 cases (21.7%) of market manipulation and price rigging, four cases (2.5%) of manipulation and takeovers linked to "Issue", and the other 73 cases (45.4%) were related to various violations of securities laws."Types of investigations conducted by SEBI"

**5.4 ACTIONS TAKEN BY SEBI**

The following table and figure present the specifics of the several measures implemented by SEBI throughout the specified timeframe.

**TABLE 5.4: ACTIONS TAKEN BY SEBI**

Year	Cancellation	Suspension	Warning issued/Warning letter issued/Deficiency observations issued/ Advice letter issued	Prosecutions Filed	Convictions by courts	Prohibitive directions issued under Section 11Bof SEBI Act	judication orderspassed
2014-15	5	19	274	157	Na	310	685
2015-16	3	6	4	268	Na	175	567
2016-17	0	7	383	237	Na	563	296
2017-18	2	1	705	407	31	1,136	2,410
2018-19	5	2	638	399	19	672	2,099
2019-20	2	0	452	94	66	766	1,818

The enforcement actions undertaken by SEBI in the fiscal year 2018-19 are presented in Table. A total of 672 entities were granted restrictive directions under Section 11 of the SEBI Act of 1992. Additionally, adjudication decisions were issued to 2099 companies, administrative warnings or warning letters were sent to 481 entities, and deficiency observations were made for 100 entities. SEBI's enforcement actions in the fiscal year 2019-20. 766 entities were subjected to restricted directives, while adjudication orders were issued to 1,818 businesses under Section 11 of the SEBI Act of 1992. Additionally, 325 entities received management alert letters, and 55 entities were handed advising letters.

**6. CONCLUSION**

Over the years, SEBI has evolved into a robust and influential regulator of the securities industry. The SEBI initially operated as an administrative body, but in response to a string of capital market frauds, it was granted legislative, judicial, and administrative authority. Addressing the intricacies of the capital market was important in order to enhance its functionality and protect the interests of investors. Consequently, SEBI has bestowed upon itself the power to handle investor grievances and ensure investor safeguarding by implementing

periodic norms and regulations. Investor protection is not only ensured by the SEBI Act and SEBI guidelines, but also by other legislation that aim to preserve the interests of investors. Consequently, the subsequent chapter delves into the numerous statutes and regulations instituted by SEBI, along with other pertinent legislation concerning investor safeguarding in India. SEBI effectively fulfills its role through programs and measures such as the Investor Awareness Programme, Investor Education and Protection fund, and Grievance Redressal Mechanism. These initiatives have contributed to making the Indian Security Market one of the safest and most efficient trading destinations worldwide. Investors are advised to contact SEBI through SCORES for resolution of their issues, complaints, and any other problematic transactions. Investors themselves have a vested interest in being thoroughly informed about the provisions of several acts, SEBI rules, and grievance redressal mechanisms in order to ensure their own protection.

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