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Effectiveness of SEBI as a Regulatory Authority of Security Market in India in Influencing Behaviour of Investors towards Investment

by **Shashitosh Kumar,** *Assistant Professor,*
Department of Commerce,
Rajendra College, Chapra - 841301, India
(A Constituent College of Jai Prakash University, Chapra, India)

Krishna Kumar, *Professor & Head,*
Department of Commerce,
D.A.V. P.G. College, Siwan - 841226, India
(A Constituent College of Jai Prakash University, Chapra, India)

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Abstract:

The study of effectiveness of SEBI as a regulatory authority of security market in India on investors behaviour towards investment involves a detailed examination of SEBI's objective and functions, investor protection measures of SEBI and Effectiveness of SEBI in Shaping Investor Behaviour. In 1988, the Securities and Exchange Board of India (SEBI) was established as a regulatory body to monitor and control the Indian securities market. Over the years, SEBI has played crucial role in making the Indian investment landscape and safe-guarding investors' interests. As a regulatory authority, SEBI's primary mission *is to protect investors, ensure the integrity of the market, and promote healthy and transparent practices within the financial ecosystem. Tasked with regulating the securities market, SEBI plays a vital role in ensuring investor protection, market integrity, and fostering investor confidence. As a regulatory body, the primary objective of the Securities and Exchange Board of India (SEBI) is to safeguard investors, safeguard the stability of the financial market, and foster sound and transparent practices in the financial sector. By regulating securities markets, SEBI is essential in safeguarding investors, preserving market stability, and instilling confidence in investors.*

The purpose of this research paper is to evaluate the efficacy of the Authority of Securities and Exchange Board of India (SEBI) as a regulatory body in influencing the decision-making process of investors in the securities market in India. This paper includes a comprehensive literature review, regulatory mechanisms analysis, and investor behaviour trends analysis to gain an understanding of the impact of the Authority on investor behaviour.

Keywords: SEBI, Investors Behaviour, Investor, Investor Education, Security Market

Abbreviation: Securities and Exchange Board of India (SEBI)

I. Introduction:

The Securities and Exchange Board of India (SEBI) is responsible for regulating and enforcing a wide range of financial products and players in India's capital markets, including stock exchanges, stocks and mutual funds, bonds, and almost all other financial products and players. Established in 1988 by the Government of India's Ministry of Finance division, SEBI is mandated to protect the interests of investors and to bring the Indian capital markets up to date with the necessary rules and regulations. Its primary objective is to ensure fairness, transparency and investor protection in the Indian financial market.

Establishment of SEBI in 1988:

In 1988, the Securities and Exchange Board of India (SEBI) was established as a non-institutional body to govern the securities market in the country. Its primary objective was to prevent unethical practices and increase transparency in India's financial markets.

Statutory powers granted in 1992:

In 1992, the Securities and Exchange Board of India (SEBI) was set up as a statutory body under the SEBI Act 1992. This Act gave SEBI the authority to regulate the securities market and to develop the securities market in order to protect investors.

Evolution of SEBI's regulatory framework:

The regulatory framework of the Securities and Exchange Board of India (SEBI) has been constantly evolving over the years in order to keep abreast of the ever-evolving financial markets. Various measures have been implemented, including the dematerialisation of securities and the implementation of electronic trading, in order to improve market efficiency and safeguard investors.

Role of SEBI in the Indian Financial System:

1. Strengthening Market Integrity:

(a) *Prevention of market manipulation and insider trading:*

The Securities and Exchange Board of India (SEBI) has put in place strict rules to stop market manipulation and insider dealing. They keep a close eye on the market and look out for any suspicious activity to make sure everyone is trading fairly and honestly.

2. Facilitating Capital Market Growth:

(a) *Encouraging innovation and new product development:*

The Securities and Exchange Board of India (SEBI) has a big part to play in promoting innovation and growth in India's capital market. By giving green light to new financial products and tools, market participants can diversify their port folios and manage their risks better.

(b) *Expanding market participation:*

The Securities and Exchange Board of India (SEBI) has made a lot of changes to make it easier for retail investors to get into the securities market. They've made it easier to invest by introducing things like electronic Know Your Customer (e-KYC) and allowing one-time registrations for different market segments.

3. Enhancing International Cooperation:

(a) *Collaborating with foreign regulators:*

The Securities and Exchange Board of India (SEBI) collaborates actively with foreign regulatory bodies to exchange information, knowledge and best practices in order to strengthen its regulatory capacities and address cross border market issues more effectively.

(b) *Adhering to global best practices:*

The Securities and Exchange Board of India (SEBI) seeks to incorporate international best practices into its regulatory framework in order to bring the Indian securities market in line with international standards, thereby fostering investor confidence and attracting foreign investment to the Indian market.

II. Literature Review:

Among the accessible literatures, the key ones bearing on the current research field are reviewed below:

Devi (2012) attempted to assess the attitudes of retail investors in the Indian capital market. She noted that investors are now more aware of the market trends and are making decisions based on a risk-return tradeoff. Investors are taking into account corporate governance, industry profile, issue price, liquidity, information received, market conditions, infrastructure, regulatory framework and merchant bankers' image when constructing their investment portfolios. She proposed that a stringent regulatory framework should be in place to protect investors from unethical practices and to ensure that they have access to all the information available in the market.

Jadhao (2015) analysed various misconceptions people have about the stock market. It found that only certain social groups, like Jains, Gujaratis, Marwaris, and Brahmin, have any knowledge about investing in the market. On the other hand, people from other communities have a lot of misconceptions about the market, like it's only for the rich, only for the lucky, it's a quick way to get rich, it's a way to ruin their financial security, they need a lot of money to invest, it's a gamble, and it's bad for the community. This can lead to people thinking that the stock market isn't the right place to invest, which can have a negative effect on investors' psychology.

Jariwala and Sharma (2011) suggested that financial education is essential for the development of financial literacy, and that regulators should play a role in promoting it. As financial markets become increasingly sophisticated and households take on more responsibility and risk, financial literacy is essential to ensure that investors and consumers are adequately protected, as well as for the efficient functioning of financial markets. This paper argues that financial literacy can provide consumers with the necessary information, fundamental knowledge and skills to assess their options, as well as the ability to understand the consequences of alternative financial decisions.

Sabarinathan (2012) examined the efficacy of the Securities and Exchange Board of India (SEBI) regulations in the primary and secondary markets. He concluded that the existing disclosure regime, which was in place before SEBI was established, had three major drawbacks: (i) a low frequency of once a year reporting, (ii) inadequate and poorly managed deterrents against non-compliance, and (iii) an unifying set of disclosure requirements for companies with limited and widely distributed ownership. While SEBI has been praised for its regulatory framework, which is comprehensive in its coverage of securities trade, it has also been subject to criticism for its work.

Cohen, Webb, Nath & Wood (2010) conducted study of 750 retail investors. They were surveyed on their perceptions of indicators of economic performance, corporate governance policies, and performance, as well as corporate social responsibility (CSR). The results of the survey showed that retail investors are currently most interested in information on economic performance, followed by governance and then CSR.

Venugopal, Sudarsan and Himachalam (2012) looked into the issues small investors face when it comes to the primary market, secondary market, and stock brokers. They discovered that investors don't know what regulations are in place to protect them from these issues. Most investors are familiar with the regulators like Reserve Bank of India, Ministry of Corporate Affairs, and Securities and Exchange Board of India, but they don't know how the different regulators handle grievances. They also get confused about what kind of grievances they can file. They suggested that market players and companies should show gratitude for the efforts the authorities are making and avoid any delays caused by lengthy legal proceedings, only then will India's capital market be able to compete with other major markets in the world.

III. Objectives of the Study:

1. To overview the role of SEBI as a regulatory authority of Security Market in India.
2. To examine the investor protection measures of SEBI.
3. To identify the effectiveness of SEBI in influencing Investors Behaviour towards Investment.

IV. Methodology:

The subject matter of this study is based on an exploratory and descriptive approach, as it will focus on:

(a) Examination of regulatory framework developed by the Securities and Exchange Board of India.

(b) Reviewing the investor protection measures of SEBI.

(c) Identification of regulatory actions taken by SEBI in order to safeguard investor interests.

(d) Examination of the impact of SEBI's regulatory activities on investor confidence and trust in the Indian securities market.

This research involves qualitative approach for analysing data. Examining the regulatory frameworks and enforcement measures employed by SEBI provides insight into its influence on investors behaviour towards investment. In order to achieve the objectives of study, secondary data were collected and analysed. Secondary data will be collected from SEBI Annual Reports, Regulatory Documents, Academic Literature, Textbooks, Websites, Newspapers, Business Journals and Business Magazines.

V. SEBI as a Regulatory Authority of Security Market in India:

Structure of SEBI:

Board of SEBI comprises nine members as-

1. One Chairman - appointed by the Central Government of India
2. One member - appointed by the Central Bank (RBI)

3. Two members - hailing from the Union Ministry of Finance
4. Five members - elected by the Central Government of India

Purpose of SEBI:

The purpose of setting up SEBI was to create a platform that will pave the way for the mobilization and allocation of resources. SEBI meets the needs of the following groups:

1. Issuer: SEBI offers a marketplace for issuers to access for fundraising purposes.
2. Investors: It safeguards and ensures the provision of reliable and up-to-date data that is continually monitored.
3. Intermediaries: By ensuring that the necessary infrastructure is in place, it enables the intermediaries to compete in the market.

Objectives of SEBI:

1. Investor Protection: One of the most crucial goals of the establishment of SEBI is to safeguard investors' interests by guiding them and making sure that the investment made is safe.
2. To prevent the perpetuation of fraudulent activities and practices associated with trading and to regulate the operations of the Stock Exchange.
3. To create a code of ethics for financial intermediaries like underwriters, brokers, etc.
4. To maintain a balance between statutory regulations and self-regulation.

Primary Functions of SEBI:

1. Protecting investor interests:

(a) Promoting transparency and fairness-

The primary objective of the Securities and Exchange Board of India (SEBI) is to ensure that the securities market is transparent and fair to investors. SEBI has put in place a number of rules, including mandatory corporate disclosure.

(b) Implementing investor education programs-

In order to assist investors in making informed investment decisions, the Securities and Exchange Board of India (SEBI) administers a variety of educational and awareness programs.

These programs focus on various topics, including the comprehension of financial products, the management of risk, and the rights and obligations of investors.

2. Regulating and supervising market intermediaries:

(a) Registration and licensing-

Market intermediaries, including stockbrokers and merchant bankers, as well as mutual fund companies, are regulated and licensed by the Securities and Exchange Board of India (SEBI).

(b) Monitoring and inspection-

SEBI keeps a close eye on the activities of market intermediaries to make sure they are following the rules. This helps keep the market honest and protects investors from scams.

(c) Disciplinary actions-

The Securities and Exchange Board of India (SEBI) has the power to impose disciplinary measures on market intermediaries that infringe its rules. Penalties can range from monetary fines to cancellation of licenses, depending on the severity of the violation.

3. Developing and regulating the securities market:

(a) Setting rules and regulations-

The Securities and Exchange Board of India (SEBI) is responsible for the formulation of rules and regulations applicable to the securities market. These regulations regulate various elements of the securities market, including listing regulations, trading procedures, and disclosure requirements.

(b) Overseeing market operations-

The Securities and Exchange Board of India (SEBI) supervises the functioning of stock exchanges, depository institutions, and clearing corporations in order to facilitate the efficient operation of the market. Additionally, SEBI monitors market activities to identify and prevent market manipulation and insider trading.

(c) Ensuring market stability-

The Securities and Exchange Board of India (SEBI) has a key role to play in keeping the market stable by taking steps to reduce excessive market swings and systemic risks.

4. Merger and acquisition regulation:

(a) Takeover guidelines-

The Securities and Exchange Board of India (SEBI) has established a set of principles for the conduct of acquisitions and mergers with the aim of safeguarding the interests of shareholders and avoiding hostile takeover attempts. These principles include minimum offer prices, open offer triggers, and disclosure requirements.

(b) Fair pricing and shareholder protection-

Securities and Exchange Board of India (SEBI) protects minority shareholders' interests by ensuring fair and transparent share pricing during mergers and acquisitions.

VI. Investor Protection Measures of SEBI :

In order to regularly safeguard investors, the Securities and Exchange Board of India (SEBI) has adopted a variety of policies and procedures. The Authority has issued numerous Directives, implemented numerous Investor Awareness Campaigns, and established an Investor Protection Fund to compensate investors.

SEBI's efforts for Protection of Investors:

Section 11(2) of the SEBI Act, 1992 outlines the options available to SEBI in order to execute the mandate under the SEBI Act for investor protection. It contains:

1. Preventing unfair and deceptive trade practices in securities market.
2. Regulating significant share acquisitions and corporate takeovers.
3. Fostering and policing self-governing organizations.
4. Monitoring activity on stock exchanges and other securities markets.
5. Assisting in the educational and professional development of investors and securities market intermediaries.
6. Registering and governing operation, of mutual funds and other collective investment plans.

Procedure for Resolving Investor Complaints:

The investors' services cell (ISC) is mandated by the BSE to deal with investors complaints. By handling investors' grievances against listed companies or members of the BSE, the investor services cell has played an important role in building and maintaining investor confidence and trust.

Investors can submit their complaints in the specified Complaint format to the appropriate BSE Regional Arbitration Centre. The complaint procedure will be completed quickly if the relevant complaint is submitted to the relevant Regional Arbitration Centre.

Challenges faced by SEBI regarding Investor Protection Measures:

There are still a number of challenges that need to be addressed in the Indian securities market. One of the most important challenges is balancing the interests of different stakeholders. Investors, issuers and intermediaries are all stakeholders in the securities market. The Securities and Exchange Board of India (SEBI) must ensure that its regulations and policies protect the interests of the investor and other interested parties while simultaneously promoting the development of the securities sector.

Another challenge facing SEBI is the need for better coordination between regulators. SEBI has to collaborate closely with other regulators, including Reserve Bank of India and the Ministry of Corporate Affairs, to make sure that SEBI's policies and regulations are in line with the overall regulatory framework of the country.

VII. SEBI's Effectiveness on Investors Behaviour towards Investment:

SEBI's Initiatives for Investor Protection:

The Securities and Exchange Board of India (SEBI) has put in place a number of measures to safeguard investors and increase their trust in the stock market. Some of these initiatives include:

1. **Investor Education Programs:** The Securities and Exchange Board of India (SEBI) administers a wide range of investor education programmes and

campaigns to provide investors with information regarding market risk, financial products and investment techniques. Investors who are well-informed are more inclined to make informed investment decisions.

2. **Disclosure Requirements:** The Securities and Exchange Board of India (SEBI) requires listed companies to provide accurate and up-to-date information. This provides investors with the necessary information to make sound investment decisions.
3. **Investor Grievance Redressal:** SEBI has set up complaint and redress mechanisms for investors. This helps to rebuild investor trust as they know their worries will be taken care of.

Effectiveness of SEBI in influencing Investors Behaviour towards Investment:

The role of the Securities and Exchange Board of India (SEBI) as a regulator has a major influence on investor behaviour in India. The ways in which SEBI's effectiveness influences investor decisions are:

1. **Enhanced Trust:** SEBI has strict rules and measures in place to protect investors, which makes them more likely to invest in the securities market since they believe is well-regulated and transparent.
2. **Informed Decision-Making:** Due to SEBI's disclosure requirements, investors are able to access accurate and timely information, which is essential in a highly complex financial environment.
3. **Market Participation:** The regulatory framework of the Securities and Exchange Board of India (SEBI) has enabled retail investors to participate in the securities market. As a result, the investor base has broadened and the market has deepened.
4. **Reduced Speculation:** SEBI's regulatory measures prevent traders from engaging in speculative activities that can cause market instability. Investors are increasingly opting for long-term investments, which are conducive to wealth creation.
5. **Better Risk Management:** Investor awareness programmes and risk management guidelines issued by the Securities and Exchange Board of India (SEBI) encourage investors to evaluate risks before making investment decisions.

6. **Investor Diversity:** SEBI's investor protection policy has brought in a variety of investors to the market, from retail investors to institutional investors. This diversity has contributed to the stability of the market.

Important Point of consideration for Investors:

While making Investment, Investors should consider the following points:

1. Investors should only work with stock exchanges or intermediaries that have registered with SEBI.
2. All investment-related documentation, such as application forms, contractual notes, and acknowledgement slips, should be kept on file at all times.
3. The copies of the documents that investors give to companies should always be kept on hand.
4. In order to ensure the timely delivery of important documents, it is necessary to submit them through registered mail or other reliable means.
5. Investor must confirm that they own the securities prior to the sale.
6. Investors must make sure to provide trading members or agents with instructions that are clear and understandable.
7. Investors should use trading or other methods that don't require them to take on a lot of risk.

VIII. Key Achievements and Challenges:

1. Successful initiatives and reforms:

(a) Dematerialization of securities-

The Securities and Exchange Board of India (SEBI) played a key role in dematerializing securities by removing the need for certificates and significantly reducing fraud and market inefficiencies.

(b) Introduction of electronic trading-

SEBI launched electronic trading platforms to improve market transparency, reduce transaction costs, and facilitate faster trade execution.

(c) Establishment of investor protection funds-

The Securities and Exchange Board of India (SEBI) has set up investor protection funds to protect investors' interests if market intermediaries fail to meet their obligations. These funds offer financial compensation to investors who lose money because of market intermediaries mistakes.

2. Current and future challenges:

(a) Adapting to rapid technological advancements-

It is essential for the Securities and Exchange Board of India (SEBI) to continually adjust its regulatory framework in order to keep abreast of the ever-evolving technological landscape of the financial markets, including the challenges posed by algorithms, hyper-frequency trading and the development of fintech technologies.

(b) Addressing the rise in cybersecurity threats-

With the digitalization of financial markets, SEBI needs to strengthen its cybersecurity system to protect market players from cyber attacks and ensure the security of the market infrastructure.

(c) Balancing market development with investor protection-

The role of the Securities and Exchange Board of India (SEBI) is to maintain a balance between the promotion of market development and the safeguarding of investor interests. The promotion of innovation and market growth is essential, however, SEBI must also remain vigilant in order to safeguard investor interests and safeguard market stability.

IX. Findings and Conclusions:

Findings:

1. **Enhanced Confidence of Investors:** Regulatory measures implemented by the Securities and Exchange Board of India (SEBI) have, on the whole, resulted in increased investor trust due to the perceived fairness and transparency of the securities market.
2. **Reduced Speculation:** According to the study, SEBI's initiatives have resulted in a decrease in speculative activities, prompting a more cautious and long-term investment strategy.

3. **Improved Risk Management:** Investor education initiatives implemented by the Securities and Exchange Board of India (SEBI) have resulted in improved risk assessment and management practices among investors.
4. **Diverse Investor Base:** Investor protection initiatives have drawn in a broad range of investors, from retail investors to institutional investors, promoting market stability.

Conclusion:

SEBI's role as a regulator in India's securities market has made a huge difference in how investors behave. Its focus on transparency, protecting investors, and maintaining market integrity has built trust in investors, which leads to better investment decisions. Even though SEBI is constantly adapting to new challenges, it still has a big part to play in shaping investors' behaviour and making India's securities market strong. The securities market has grown a lot in India over the years and SEBI played a big role in that growth. By continuing to work on strengthening the regulatory framework and educating investors, SEBI can make India's securities market more transparent, effective, and resilient.

SEBI is one of the most powerful regulators in India when it comes to shaping investor behaviour in the securities market. It has a strong regulatory framework, measures to protect investors, and education programs to help investors. This has helped to boost investor confidence, encourage responsible investment, and attract a variety of investors.

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