ISSN 2278-8808
UGC APPROVED SR. NO. 45269
SJIF 2016 = 6.177
An International Peer Reviewed & Referred
SCHOLARLY RESEARCH JOURNAL FOR INTERDISCIPLINARY STUDIES

FINANCIAL MARKET REGULATION: A REFORM IN EMERGING MARKET

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Abstract

Financial regulation is a form of regulation or supervision, which involves financial institutions to certain requirements, restrictions and guidelines that aimed to maintain the integrity of the financial system. The primary objective of regulation of financial market is the pursuit of macroeconomics and microeconomics stability. Financial regulation also influenced the structure of banking sector by decreasing its borrowing cost and by increasing the variety of financial product available. The purpose of the paper is to secure the appropriate degree of protection for consumers by reducing the extent to which it is possible for a financially regulated business. Contribution to the protection and enhancement of stability of the financial system also regulated the foreign participation in the financial market. The paper focuses on various investors program me has certainly being developed by the ministry of finance under financial market regulation and also outline the guidelines for issuers and investors to secure the securities market. The objective of the study is to review the development of financial market regulation in India and to make appropriate suggestions for strengthen of financial market in Indian financial system.

***Keywords**: Financial Regulation, Investor Protection, Financial Market*

INTRODUCTION

Financial sector regulation is broadly guided by two objectives named as prudential regulation & conduct of business regulation, including consumer protection. The four key institutional regulatory frameworks for financial sector at international level are institutional approach (entity based regulation), twin peaks approach (separation of prudential regulation and conduct of business regulation), integrated approach (universal regulator model) and functional approach (activity based regulator). Historically primarily bank dominated financial system regulatory framework as evolved in financial market in India. In early nineties the financial reform process was initiated and the regulation of banks started getting aligned to international best practices with market development agenda. Study of the development of the financial market in India provides an opportunity to analyze an alternate and the functioning model of financial regulatory market.

FINANCIAL REGULATION IN INDIA

Indian capital market are monitored & regulated by the finance ministry, the securities and exchange board of India (SEBI) and the reserve bank of India. The ministry of finance regulates the capital market through the department of economic affairs-capital market division. This division is responsible for formulating the policies relating to orderly growth and development of securities market (i.e. share, debt of derivatives) as well as protecting the interest of investors. It is particularly responsible for the institutional reform in the securities market, building regulatory and market institutions, strengthening investor protection mechanism and also to provide efficient legislative framework for securities markets. This division outline the particular rules made under legislations are

Depositories act, 1996

Securities contract (regulation) act, 1956

Securities and exchange board of India act, 1992

DEPOSITORIES ACT, 1996

It provide for regulation of depositories in securities. This Act was first came as an ordinance, the depositories ordinance,1995 and was designed as a legal framework for establishment of depositors to record ownership details in books and to facilitate holding of securities including shares. Every depository is required to be registered with SEBI and get a certificate for commencement of business on fulfillment of specified conditions. Investor which join the system are required to get registered with one or more participants and have the choice of continuing with the existing securities certificates. The depository system considers a security deposit by various investors. Once the securities are lodged with the depository their transfer is through book entry transfers in depository account.

SECURITIES CONTRACT (REGULATION) ACT 1956

This act was enacted in order to prevent the undesirable transactions in securities and to control the undertakings of stock exchanges in the country.

SECURITIES AND EXCHANGE BOARD OF INDIA ACT 1992

This act was enabled for the establishment of a board to protect the interest of investor in securities and to promote the development of and to control the undertakings of securities market and for matters connected therewith. This act is an act of the parliament of India enacted for regulation and development of securities market in India.

AIM OF REGULATION

MARKET CONFIDENCE

Consumer confidence is an economic indicator that measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. The "consumer confidence" studies the "spending" and "saving" intention of customer" and to maintain confidence in the financial system.

FINANCIAL STABILITY

Contributing to the protection and enhancement of stability, review of which provide an overview of the financial system of risk and vulnerability. It aims to provide awareness of issues which are relevant for safeguarding the stability of financial system.

CONSUMER PROTECTION

Securing the appropriate degree of protection for consumer, government may require businesses to disclose detail information about securities and financial disclosure as well particularly in those areas where risk is involved.

REDUCTION OF FINANCIAL CRIME

Financial crime is being reduced to the extent to which it is possible for a regulated business, and by using effective systems and controls we can detect and prevent from financial crime.

REGULATORY FOREIGN PARTICIPATION IN THE FINANCIAL MARKET

Engaging in internationally regulatory efforts, financial market is regulated by the government intended to promote high quality standards and practices.

THE REGULATORS

SEBI (SECURITIES AND EXCHANGE BOARD OF INDIA)

SEBI (securities and exchange board of India) is the regulatory authority established under SEBI Act 1992, its primary function include protecting investor interest, promoting and regulating the Indian securities market. SEBI regulate and governed all financial intermediaries which participate in the Indian securities market, whether domestic or foreign. Foreign investors are required to register with DDPs with result to participate in Indian securities market.

SEBI functions to regulate Indian stock market:-

SPECIFY RULES AND REGULATIONS

SEBI has the power to control stock exchange. As the time of the market has been determined by SEBI and SEBI has the right to change the timing if necessary.

PROVIDING LICENCE TO DEALERS AND BROKERS

SEBI has the right to withhold or cancel the license of brokers and dealers which are not following the specified guidelines and no dealer can start distributing securities to investors without getting a license or approval from SEBI.

AUDITING THE PERFORMANCE OF VARIOUS STOCK EXCHANGES

SEBI is that regulatory body which is responsible for auditing the performance of various stock exchanges and brings transparency in their functions.

CONTROLLING MERGERS ACQUISITION AND TAKEOVERS OF THE COMPANIES

SEBI can control the function of mergers, acquisition and takeovers of the companies if it is not in the interest of the company, as some companies try to manipulate stocks by taking majority of shares of other companies with an intention to take-over.

PROHIBITING UNFAIR TRADE PRACTICES IN THE MARKET

SEBI has generated some specific guidelines that contain fair trade practices, but some companies may not follow it so SEBI has the power to prohibit such activities and take necessary action against such parties involved in unfair trade practices.

STREAMLINING CAPITAL RISING

SEBI transforms the primary security market by introducing the book building for public issue, margining and proportional allotment for all categories of investors in book-built issues, qualified institutional placements, IPO grading, fast track issues, proper procedure opt for issue of right shares and bonus shares.

REDUCTION IN TRANSACTION COST

Growth in investors in the market with various types of product, transaction cost have came down on account of reduction in commission, rationalization of fees, and market impact cost. Investment in mutual fund is easy as entry load has been abolished from it.

TRANSPARENCY

SEBI introduction of book building process disclosed necessary information which is mandatory in offer document. In secondary market transparency is measured by introducing screen-based order matching system which provides price and volume data available to an investor anytime.

DISCLOSURE-BASED REGULATIONS

Companies desire to raise their capital in securities market through public issue and disclose necessary information so as to facilitate informed investment decision, it is mandatory for companies that propose to list their securities.

PROMOTION OF MARKET INTEGRITY

IMSS (integrated market surveillance system) has been put by SEBI to generate alert arising out of unusual market movements, which enhance efficiency of surveillance function.

INVESTOR ASSISTANCE AND EDUCATION

Investor education has received much attention by SEBI in recent past. A comprehensive mechanism is set to facilitate redressal of grievances against intermediaries and companies whose securities are listed or proposed to be listed in stock exchange.

ADOPTION OF INTERNATIONAL STANDARDS

The legal and regulatory framework governing the Indian securities market named international organization of securities commission (IOSCO) which assesses the equity/corporate bond market.

RBI (RESERVE BANK OF INDIA)

RBI is governed under RBI act 1934, RBI implements monetary and credit policies, issue currency notes, regulates banking system, manages foreign exchange, regulator of payments & settlement system and responsible for the same and works towards the development of Indian financial market. RBI regulates the foreign exchange market under foreign exchange management act 1999. RBI was initially privately owned but in 1949, since nationalization the reserve bank is owned by the government of India.

The permeable of RBI

Central board

The central board of directors governs all the reserve bank affairs. The board is appointed by government of India keeping in view the RBI act. All members of RBI are appointed for a period of four years. The board consists of full time governor as official director and non-official directors nominated by government, these members provide general superintendence and directing the bank affairs.

Local board

In Mumbai, Calcutta, Chennai and New Delhi are the four regions where four local boards are located. Every local board consist of five members each, which are appointed by central government for four years. These members advice the central board on local matters and represents territorial and economic interest of local co-operatives.

Functions of RBI

It formulates implements and monitors the financial policies, maintain price stability, and ensure adequate flow of credit to productive sectors.

The main aim is to maintain public confidence in the system by protecting the interest of investor by suggesting parameters of banking operations for country banking and financial system functions and also provide cost-effective banking solution for the public.

RBI promotes external trade and payments and developments of foreign exchange market

NSE (NATIONAL STOCK EXCHANGE)

NSE is also had a role as securities market participant, it set out and implements rules and regulation to govern the securities market. Different rules and regulations are for member's registration, listing of securities, monetary transactions compliance by members to SEBI/RBI regulations, investor protection etc. NSE set rules specifically to each of its trading segment.NSE regulated and inspected on regular basis by SEBI to ensure compliance.

Function of NSE to regulate financial market

- Norms, procedures, terms and condition to be compiled with for inclusion of securities in the official list of NSE securities.
- Prescription from time to time, of capital adequacy and other norms which shall be required to be maintained by trading members.
- Maintenance of records and books of account by trading members as it may deem fit and record as required under securities contract (regulation) act.
- Settlement of dispute, complaints, claims arising between trading members and non trading members relating to any transaction in securities made on the exchange including settlement by arbitration.
- Norms and procedures, in respect of incidental or consequential to closing out of contract, deals or transaction.
- Norms, procedure, terms and condition for registration and continuance of registration of participants.
- Dissemination of information, announcements to be placed on the trading system.

INVESTOR PROTECTION MEASURED BY SEBI

Under section 11(2) of SEBI act contain measures for investor protection they are:-

- Regulation in business of stock exchange and any other securities market.
- Regulating and registering the working of intermediaries like brokers, sub-brokers of stocks, share transfer agents, deed trustees, banker to an issue, registrars to an issue, underwriters, merchant bankers, investment advisers, portfolio managers etc. which are associated with securities market.
- Regulating and promoting self regulatory organizations

- Carry out inspections, audits of securities exchange and intermediaries etc.
- Promoting investor education and training of intermediaries of securities market.
- Prohibiting unfair trade practices and fraudulent relating to securities market
- Regulating substantial acquisition of shares, through amalgamation or take-over of companies
- Prohibiting insider trading in securities
- Any information relating to transaction in securities from any bank, authority corporation agencies which is under investigation or inquiry by SEBI
- Regulating the work of depositories, participants, custodians of securities credit rating agencies, foreign institutional investor etc.

INVESTOR AWARENESS CAMPAIGN

The main focus of SEBI is to educate the small investor which is clearly evident from the motto "an informed investor is safe investor". Awareness is spread through various conferences, exhibitions, mela, seminars, union budget meetings for small investors all over India, around 2188 workshops have been conducted in around 500 towns/cities and more than 5 lakh investors took part in various programmes.

ADVERTISEMENT: SEBI has planned simple "do's and "don'ts for investor of securities market, Till now more than 700 advertisement relating to securities market appeared in 48 different newspapers, magazines etc.

EDUCATING MATERIAL: SEBI has prepared educating material for the investor as standardized reading material and presentation for the workshops.

SEBI WEBSITE: (http://investor.sebi.gov.in)

ALL INDIA RADIO: special programmes have been held on all India radio. SEBI officially participate in programmes aired by all India radio.

CAUTIONERY MESSAGE ON TELEVISION: to reach out to the large number of investors, use of electronic media is used and a short cautionary message which has been prepared and telecast wherever necessary.

PROTECTION OF RETAIL INVESTOR: retail investor is not in a position to identify the real picture of risk factors associated with certain schemes. So they are not able to make informed decision. Small investors must take adequate precaution before investing in any securities or IPO issues.

RECENT REFORMS IN FINANCIAL MARKET

PROPOSAL TO MERGE FMC WITH SEBI

To strengthen the regulation of commodity forward market, our finance minister proposed to merge the FMC(forwards markets commission) with the capital market and SEBI, FMC is a statutory body which was set up in 1953 and FCRA(forward contracts regulation act) is the regulatory authority takeover by the ministry of finance, government of India. The merger will prevent the illicit off-market trades which extends to many parts of the country. Such merger will definitely help in curbing such practice with SEBI having jurisdiction to regulate the commodity market in addition to its well-managed capital market.

PROPOSAL TO SET UP PUBLIC DEBT MANAGEMENT AGENCY

In fast developing Indian equity market, which intent to promote investment in India and deepening the Indian bond market, government of India proposed public debt management agency (PDMA) to control India's external borrowing and domestic debt simultaneously, Which will impact the bond market and will help RBI focusing on its core functions with the bond market and facilitate better planning and management of domestic and foreign market borrowing.

ESTABLISH FINANCIAL REDRESSEL AGENCY

FRA is been develop with a view to address grievances against all financial service providers. It must be a single complaints resolution agency which become a reality for consumer and command a trust among consumer also create a responsibility among seller.

PROPOSED OPTIONS TO EMPLOYEES FOR EPF (EMPLOYEES PROVIDENT FUND)

With the proposed changes under EPF and employers state insurance (ESI) the employer has an option not to pay his contribution under EPF and the employer will continue to contribute his share under PF, as it is mandatory to contribute 12% of basic wages (salary+ DA) to PF and the employer also to make on the same rate with 8.33% to pension, 0.5% towards employees deposit linked insurance (EDLI) scheme and remaining in PF. But now employee has an option to choose between ESI and health insurance products recognized by the insurance regulatory development authority.

SUGGESTIONS

- Strong financial sector and good credit delivery system should be build up
- There should be better coordination between the center and state high officials and in their policies initiation.

- Government should be liberal towards foreign investors and treat them at par with domestic investors
- The rights of investor should be the priority and must be protected
- Development of Indian stock market is necessary but it should not be achieved on the cost of local investors
- As SEBI is the watchdog of Indian capital market so it may play a vital role in increase the confidence among the domestic individual investor so that they must actively participate in the stock market
- The government should formulate such policies which encourage the mutual funds companies to participate actively in stock market, both in index and non-index stocks so that there must be stability in the stock market
- There should be more transparency, fair trading practices in foreign exchange transaction which are helpful in attracting investment in Indian capital market
- A restriction related to the track record of sub-accounts is also to be made on the investors who withdrew money out of the Indian stock market
- Simple procedures and relaxing entry barriers are made for business activities and providing investor friendly laws and tax system
- Speculators and gamblers are shaking the confidence of real investors in the market, there should be a watch, identification and monitor by the regulator. They should be discouraged from speculative activities which lead to build the confidence of real investors
- For the best result of Indian financial market proper economic policies should be formulated as well as implemented to boost the foreign investment.

CONCLUSION

It may be concluded that government has introduced various measures on the way to development of financial market in India with due care for investor’s interest and greater transparency. In the recent past thanks to many favorable conditions contributing to the quality measures adopted for financial market by ministry of finance, Government of India has successfully introduced the derivative trading in the stock exchange. Inspite of the fact that Indian capital market has made a marvelous dent both in primary as well as secondary market, Government of India forecast better prospects in future. Strong macro-economic aggregates have shown and a committee has also been made for certain operational suggestions in the body of report to facilitate an efficient implementation.

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