



**“ESTABLISHMENT OF SEBI AS A REMEDIAL MEASURE TO OVERCOME  
THE PROBLEMS FACED BY CCI: -- AN OVERVIEW. ”**

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**ABSTRACT:**

Capital Market is the most important segment of financial market. Financial Market are those market where the funds are borrowed and loaned. financial Market includes Money Market and Capital Market. Capital Market includes Primary market and Secondary Market (Stock Exchanges). This paper tries to understand the Causes why CCI lost their relevance and what were the problems of the Stock Exchanges at the time of CCI (control of Capital Issue) and why SEBI was established. The limitation of CCI Act was responsible for establishment of SEBI Act. The main object of establishing SEBI were need For Comprehensive Securities Law With Unified Set Of Objectives, need For Healthy And Orderly Development Of Securities Market, need For Developing Intermediaries Business, Regulation Of The Stock Exchanges, to Control Fraudulent And Unfair Trade Practices, to Attract Foreign Funds. This paper tries to see that what were problems faced by investors before establishment of SEBI.

**KEYWORD:** SEBI, CCI .BSE .NSE, FII.

**INTRODUCTION**

**MEANING OF CAPITAL MARKET:-** The capital market is the market for long term funds which are given and utilized. The stock markets are an important segment of this capital market. the real development of the Nation requires the development of Money market and capital market. Hence the Government of India has taken the steps to closing the office of the CCI and in the place of CCI, Government of India established on the basis of U,S,A, is having Securities Exchange Commission.[SEC] and in U.K is having Securities Investment Board [SIB]. On that basis Government of India is also established Securities and Exchange Board in India called [SEBI] in 1992. There were many problems of stock exchanges which was very harmful to the investors. The most important problem was there was rules and regulation to stock exchanges and intermediaries.

**RESEARCH METHODOLOGY**



**A] OBJECTIVES OF STUDY:** - The Objective of the study is as under

1. To study the reasons why CCI was closed.
2. To study the Problems of Stock Exchanges before establishment of SEBI in detail.
3. To know the causes responsible for establishment of SEBI.

**B] RESEARCH DESIGN**

The Researchers has also collected the secondary data from various sources like reference book, economic survey, research journals and web sites. Data collected with the

secondary sources was interpreted. The accessible data is intensively used.

### **CJ] NECESSITY FOR ESTABLISHMENT OF SEBI ACT**

The limitation of CCI act was responsible for establishment of SEBI Act. The following points shows the necessity of establishment of SEBI

- Need For Comprehensive Securities Law With Unified Set Of Objectives
- Need For Healthy And Orderly Development Of Securities Market
- Need For Developing Intermediaries Business
- Regulation Of The Stock Exchanges
- To Control Fraudulent And Unfair Trade Practices
- To Attract Foreign Funds

### **PROBLEMS OF STOCK EXCHANGES BEFORE ESTABLISHMENTS OF SEBI**

Before inception of SEBI, there were number of problems of the stock exchanges relating to their functioning and operations:-

#### **1. LACK OF SELF REGULATION WITH DISCIPLINE**

Before establishment of SEBI, it was observed that there was lack of self to be regulated by their own governing board and by different committees. However, this self regulation was not working to the best interest of the investors. Basically the stock exchanges have to act as public services institutions and not as private club of brokers. This type of public services attitude was never seen in the stock exchanges.

#### **2. LESS WORKING DAYS OF STOCK EXCHANGES IN YEAR**

In the year 191-1992, the Mumbai stock exchange carried out transactions in less than 220 days in the whole year. Similarly other stock exchanges were working for a limited number of days only. Besides national holidays, the working was frequently disrupted due other reasons; such disruption reduces the liquidity and adversely affected the investors.

#### **3. SUPREMACY OF MUMBAI STOCK EXCHANGE & LESS SCOPE FOR REGIONAL STOCK EXCHANGES**

Before SEBI, about 70 percent to 80 percent of the total turnover on the stock exchange. The financial institutions out other large corporate investors used to carry out their transactions mainly on the Mumbai stock exchanges and a few other stock exchanges like Delhi, Calcutta, madras and Ahmadabad. At that time the NSE was not established.

The Mumbai stock exchanges had more turnovers as compared to regional stock exchanges. Hence, it was difficult to get the business to regional stock exchanges

#### **4. BE SHORT OF UNIFORM PRACTICES AMONGST THE VARIOUS STOCK EXCHANGES**

Though before establishment of SEBI, we had 22 stock exchanges in India, there were no uniform practices in these stock exchanges, the trading in stock exchanges is of two types of securities i.e. specified securities and non specified securities. Generally. Trading of specified securities was carried only at Mumbai, Calcutta, Chennai, Ahmadabad and Delhi stock exchanges and not on the remaining stock exchanges.

#### **5. NOT HAVING OF ADEQUATE INFRASTRUCTURE**

For successful running of stock exchanges requires infrastructure which was not existent in all the stock exchange. Except the BSE and other large stock exchanges like the DSE .

All stock exchanges were faced with the problems of inadequate infrastructure facilities, like inadequate office space, ineffective computerization and telecommunication system etc. as a result of that

the stock exchanges were not able to provide member with the facilities needed for efficient trading, backup office for member, library and other administration requirements.

#### **6. TINY LEVEL OF TECHNOLOGY**

The various stock exchanges of India were not in position to adopt high level of technology like computer system and telecommunication for the purpose of market information, dissemination, trading and trading and post trading activity ties

However, the Mumbai stock exchanges had such types of facilities but the remaining stock exchanges had a very low level of technology leading to ineffectiveness in the operating system

#### **7. LACK OF LIQUIDITY**

The explosive growth of the Indian capital market in the last decade before establishment of SEBI had largely been confined to the stock exchanges at Mumbai, Delhi, Calcutta, Chennai and Ahmadabad. In most of the other markets, there had been a relative lack of liquidity was reflected by an inadequate supply of stocks/ tradable scrip's on the one hand , and inadequate demand on the other:-

- a. Smaller stock exchanges had to faced considerable problems in inducing companies to get their securities listed on their exchanges. Consequently, these exchanges had been unable to provide adequate infrastructures and services to their member and investor
- b. On the demand side, the absence of large institutional players in the smaller stock affected the liquidity at these exchanges

#### **8. AN INEFFICIENT AND OUTDATED TRADING SYSTEM**

The poor infrastructural facilities at stock exchanges before establishment of SEBI resulted in the exchanges following an inefficient and outdated trading system. Poor infrastructure includes lack of computerization and lack of screen based trading.

A major drawback had been the absences of on line transaction recording system. this had lead to a lack of transparency which in turn affected the investors' confidence and acted as an impediment to the spread of the equity cult.

#### **9. OUTDATED SETTLEMENT SYSTEM ON THE STOCK EXCHANGES**

A major shortcoming of the settlement system before inception of SEBI was the need for physical transfer of stocks. This resulted in enormous paper work, bad and improper delivery of stocks and delays in registration and transfer of scrip's. Objections raised during registration of transfer of scrip's. Objections raised during registration of transfer used to result in further delay in settlement

#### **10. LACK OF PROFESSIONAL CODE OF CONDUCT FOR BROKERS**

Before establishment of SEBI the main problem of brokers was lack of a professional code of conduct for brokers.

There was no minimum basic qualifications for appointment as brokers, no uniform standard of accounting norms and no proper reporting requirements etc.

Brokers were not maintaining their books of accounts a on separate basis, generally, the brokers were perceived to buy on their account if the share prices were high and vice –versa for the selling transitions. Thus the investors were cheated to a great extent by the brokers.

#### **11. LACK OF CAPITAL ADEQUACY NORMS FOR BROKERS**

Before establishment of SEBI there was no capital adequacy norms for brokers, generally brokers could do their business with a small amount of capital. As a result of that the brokers could manipulate their activities. If any brokers was declared insolvent then it was impossible to recovers the balance from him.

## **12. LACK OF SUFFICIENT NUMBER OF BROKERS**

Before the inception of SEBI there was limited number of brokers to provide proper services to the investors. There were about 5500 brokers and more than one crore investors in stock securities. This meant that on an average one broker had to service about 1800 investors. Due to shortage of brokers it was not possible to provide proper services to investors. This was compounded by the fact that there was a lack of proper infrastructure for the brokers .

Similarly within the member, there was a substantial number which was inactive. These brokers for some or the other reasons which was inactive. These brokers for some or the other reasons did not trade at all and just maintained their membership cards. Investors faced difficulty even in finding recognized brokers, who would be willing to handle his order.

## **13. DELAY IN LISTING & TRADING**

In stock exchange only those securities are traded which are listed. Basically listing ensures liquidity . before establishment of SEBI many companies after their issues were over, used to purposely delay the listing of the securities for their advantage, which was detrimental to the investors.

## **14. DEFICIENCY IN THE ALLOTMENT RATIO**

Before establishment of SEBI generally more weight age was given to the applicants of small lots which were usually of 100 shares each. This tendency had lead to the fraudulent practice of multiple applications which was unfair, especially if the issue was oversubscribed. Although multiple application were not allowed. In practice it was difficult to locate such applications. This was because the investors applying made nominal changes in their names and addresses which made it difficult to locate such multiple applications.

## **15. DELAY IN ALLOTMENT PROCEDURE**

Before the establishment of SEBI . One of the main complaints of investors in primary market was the delay in the process of allotment of shares. The stock exchanges were not ensuring that the allotment is carried out in the minimum possible time.

## **16. RIGGING THE PRICES DURING THE ISSUES PERIOD**

Before the establishment of SEBI the management of some companies during rights issues purposely used to rig the market prices of the securities. By rigging the market prices, were kept at high levels in order to attract investment. This specially done when the issue were at a high premium. This Harmful to the investors and the stock exchanges were not in a position to prevent this malpractice by the companies.

## **17. ABSENCE OF COMPUTERIZATION AND SCREEN BASED TRADING**

Due to floor based trading system, it was not possible for the investors to see an on line screen display of prices, at which the transactions taken place. The lack of screen based trading had its own shortcomings.

## **18. ABSENCE OF SCRIP LESS TRADING AND CUSTODIAN SERVICES**

Before establishment of SEBI, due to mass work and transfer deeds, it was not possible for all the stock exchanges to ensure that the trading was executed efficiently in recent years, there has been a tremendous growth of the capital market. This had increased the paper work, in the absence of scrip less trading.

## **19. LESS TRADING HOURS ON THE STOCK EXCHANGES**

Before inception of SEBI, the trading hours were only two to and half hours which was not sufficient for developing the capital market. Due to less working hours , less numbers of scrip's were traded on the

stock exchanges which lead to a slow development of stock exchanges. There was time of the stock exchanges trading hours, from 12 noon to 2.30 p.m.

## **20.HIGHER SETTLEMENT PERIOD**

Before establishment of SEBI, there were longer settlement periods . a larger settlement period caused a delay by the brokers in giving delivery deliveries to the investors and in settlement of accounts. It also leads to speculation in shares which was not legal. This was done by either purchasing or selling the shares at the beginning of settlement period and carrying out a Reverse transaction at the end settlement period without actual delivery of shares

The settlement period before establishment of a SEBI was 14 days which was definitely more as compared to stock exchanges abroad. However, after establishment of SEBI settlement period has been reduced.

## **21.NEED OF TRADING IN DEBT INSTRUMENTS**

For the companies in need of funds, issuing debentures bonds etc. is one of the best methods of raising finance.. However, the investors do not prefer such instruments since however; the investors do not prefer such instruments since capital appreciation is less. There number of banks, trust, societies and individuals interest in such debt instruments which gives constant returns. Before establishment of SEBI, there was a lack of trading in the debts instruments leading to lesser demand for such instruments

## **22. DIFFICULTIES OF TRADING IN ODD LOT SHARES**

Before establishment of SEBI, there were lot of problems of dealing in odd lot shares as there was no separate trading sessions for them.

Some companies deliberately issued rights or bonus shares in a proportion which lead to odd lots. This was to prevent excessive liquidity in the market, so that the market price was maintained at higher levels. Thus before establishment of SEBI, trading in odd lot share was one of the important difficulties experienced by the investors.

## **23. DELAY IN TRANSFER OF SECURITIES**

Before establishment of SEBI, although the stock markets had number of regulations governing the transfers there was an inordinate delay in transfer of securities by the companies. In fact this was one of the most important difficulties experienced by the investors. Many companies deliberately delay the transfer procedure so that at any given time, the number of securities floating or available in the market was less and with lesser supply the stock prices tend to go up. Also the rules regarding bad deliveries were not properly laid down by the stock exchanges before establishment of SEBI. Thus before establishment of SEBI, there were a number of problems related to the working of stock exchanges in India.

## **CONCLUSIONS**

The CCI was responsible the many problems in the capital market. Most importantly many problems of the functioning of stock exchanges and intermediaries were responsible for inception of SEBI .The Object of establishing SEBI as Regulator of capital market and not controller of the capital market. As result of the that Government of India has taken steps to established SEBI for the real and healthy development of the capital market in general and protection of the interest of the investors in particular.

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