SEBI and RBI control over Corporate Finance

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Description of Module

Items	Description of Module
Subject Name	Law
Paper Name	Corporate Finance
Module Name /Title	SEBI and RBI control over corporate Finance
Module No.	X

SEBI and RBI control over corporate Finance

Objective: After reading this module, the learners will have a clear picture of :

It is the duty of the Board to protect the interests of the investors in securities and to promote the development and regulate the securities market.

Learning Outcomes:

The acceptance of deposits by companies is regulated by Reserve Bank of India, SEBI and control over the deposit acceptance activity of non financial companies is vested in Department of Company affairs.

Introduction:

Prior 1992 there are three principal act governing to the securities Market were:

1. The Capital issue control Act 1947 which restricted the issuer's access to the securities market and controlled the pricing of issues.
2. The companies act 1956 which set out the code of conduct for the corporate sector in relation to issue allotment and transfer of securities.
3. The securities contract Regulation act 1956 which provides for regulation of transactions in securities through control over stock exchanges.

In addition a number of other Acts I'e The Public Debt act 1944, The income tax act 1961, the Bnaking Regulation act 1949 etc.

The Securities and Exchange Board of India (SEBI), which was established on april 12,1988 through an extraordinary notification of the Government of India. The Ordinance was replaced by the SEBI Act 1992. The Board consist of a chairman and five other members: One each from the Ministry of Finance, One from Ministry of Law and Justice and company affairs and one from the Reserve Bank of India and two others to be appointed by the Central Government. The duty of the Board to protect the interests of the investors in securities and to promote the development and regulate the securities market.

Power and function of the Securities and Exchange Board of India (SEBI):

I. Regulating the business in stock exchanges and any other securities markets.

ii Registering and regulating the working of stock Brokers,sub-Brokers,Share transfer agents, Registrar to an issue, Merchant Bankers, Portfolio managers etc.
iii Registering and regulating the working of collective investment schemes including Mutual fund
Iv.Promoting and regulating self regulatory organizations.
V.Prohibiting fraudulent and unfair trade practices in securities market.
Vi.Promoting investors education and training of intermediaries in securities market.
Vii.Prohibiting insider trading in securities.
viii. Regulating substantial acquisition of shares and takeover of companies.
ix. Calling for information, undertaking inspection, audit of the stock exchanges etc.
x levying fees or other charges for carrying out of this section.
xi.Conducting research for the above purpose
xii performing such other functions as may be prescribe by the Government.

Power of the Board:

1.The Board shall have the same powers as are vested in a Civil Court under the code of Civil procedure 1908 while trying suit in following matters namely:-
i. The Discovery and production of books of account and other documents at such place and such time as may be specified by the board.
Ii. Summoning and enforcing the attendance of persons and examining them on oath.
Iii Inspection of any books, register and other documents of any person I;e stock-broker, share transfer agent etc at any place.
iv. Inspection of any book, or Register or other document or record of the company I;e listed public company or any recognized stock exchange.
V Issuing commissions for the examination of witness or documents.
vi. Suspend the trading of any security in a recognized stock exchange
Vii. Restrain persons from accessing the securities market and prohibit any person associated with securities market to Buy, sell or deal in securities.
Viii. Suspend any office- Bearer of any stock exchanges.
Ix Board to regulate or prohibit issue of prospectus, offer document or advertisement soliciting money for issue of securities.
X power to issue direction and investigation.

RBI Regulation:

1. RBI Empowered: Deposits of non-banking companies attracted official attention only in 1964 when the RBI was empowered to regulate the quantum of company deposits.

2. **Objective:** The primary objective of exercising control over deposit acceptance on companies is to regulate the growth of deposits outside the banking system as also afford a degree of indirect protection to the depositors.
3. **Acceptance of Deposits:** The acceptance of deposits by companies is regulated by Reserve Bank of India and control over the deposit acceptance activity of non financial companies is vested in Department of Company affairs.
4. **Celling of Interest:** Restrictions on quantum and tenure of deposits and ceiling of interest rates.
5. **Mantain Liquid assets:** They require certain type of companies to maintain liquid assets and all companies to submit returns/Balncesheet etc.
6 The RBI Regulation of Public Deposits has six main aspects:
1. **Ceilling of Quantum Deposits:** There is a ceiling on the quantum of deposits in terms of paid-up capital and reserves by the company because undue accumulation of short-term liabilities in the form of deposits can lead a company into financial difficulties.
i. **Deposits:** Any money received by a non banking company by way of deposits or loan or in any other form but excludes money raised by way of share capital or contributed as capita by proprietors.
2. **Limit on Period:** The Reserve bank Regulation is the limit on the period of such deposits. Formerly in order to avoid direct competition with short-term public deposits, companies were prohibited from accepting deposits for a period of less than 12 months. But the amendment of 1973 reduced the period to less than 6 months. The short term deposit is now pegged down to 10% of the aggregate to the paid-up capital.
3. **Information about Repayment:** The Reserve Bank has made obligatory on the part of the companies accepting deposits to regularly file returns giving detailed information about them their repayment etc.
4. **While issuing Newspapers:** The Reserve Bank has stipulated that while issuing newspaper advertisement certain specified information regarding the financial position and the working of the company must accompany.
5. **Auditors:** The RBI has entrusted the auditors of the companies with additional responsibility of reporting to it that the provisions under the Act had been strictly followed by the company.

6. **Issued Brochure:** The RBI has issued brochure RBI directives and company Deposits in order to clarify its role in protecting depositors.