

## Financial Regulatory Bodies in India



### Commerce

**KEYWORDS :** Regulation, Regulatory body, Reserve bank of India, Securities and Exchange Board of India.

**Ms. INDIRA KUMARI**

Research scholar (JRF), Department of Commerce, Dibrugarh University, Dibrugarh(Assam), India

### ABSTRACT

*The different segments of the Indian financial system (IFS) are monitored and controlled by the Regulatory institutions. These institutions have been given adequate powers by legal acts or by acts of parliament to enable them to supervise the segments assigned to them. It is the duty of the regulator to ensure that the players in the segment work within recognized business parameters maintain sufficient levels of disclosure and transparency of operations and do-not act against national interest. In the present paper an attempt has been made to highlight the objectives as well as role played by financial regulatory bodies in India.*

### INTRODUCTION

The term regulation refers to “Controlling human or societal behaviour by rules or regulations or alternatively a rule or order issued by an executive authority or regulatory agency of a government and having the force of law. The bodies that are established as an independent organization by government to regulate the activities of companies in an industry is termed ‘Regulatory bodies’. The different segments of the Indian financial system (IFS) are monitored and controlled by these Regulatory institutions. These institutions have been given adequate powers by legal acts or by acts of parliament to enable them to supervise the segments assigned to them. It is the duty of the regulator to ensure that the players in the segment work within recognized business parameters, maintain sufficient levels of disclosure and transparency of operations and do-not act against national interest.

There are certain principles related to the regulators such as (i) They should have clearly and objectively stated responsibilities; (ii) The regulator should have operational independence and accountability in the exercise of its powers and functions; (iii) The regulators should adopt clear and consistent regulatory processes; (iv) They should observe the highest professional standards including appropriate standards of confidentiality.

### OBJECTIVE OF THE PAPER:

The objective of the paper is:

- 1) To view the general objective of the financial regulators and
- 2) To highlight the role of financial regulators in India.

### METHODOLOGY OF THE STUDY:

The data for the purpose of the study has been collected through secondary sources, which mainly include websites. The paper includes brief study on objectives, description and role played by regulatory bodies in India.

### DESCRIPTION ON THE OBJECTIVES OF THE REGULATORS:

The objectives of the financial regulators are closely related. A brief description of these objectives are given below -

**(i) Protection of Investors:** Investors are required to be protected from being misled or manipulated from fraudulent practices including insider trading and misuse of client assets. It is the task of the regulator to set minimum standard for market participants in order to achieve a level of investor protection. The market intermediaries should be able to refer to rules of business conduct that ensure that investors will be treated in a just and equitable manner.

**(ii) Ensuring that markets are clear, efficient and transparent:** The laws, regulation and rules which ensure that the investor is protected also tend to ensure that the market is fair. However, investor information is also a substantial part of the fairness and transparency of the market. The degree and speed that information is transmitted and propagated through the market defines the transparency of the market. It is the task of the regulator to ensure that there are regulations for the pro-

tection of the investor and to ensure fairness while at the same time ensuring that there is efficient and transparent dissemination of information.

**(iii) Reduction of systemic Risk:** No amount of regulation or oversight can guarantee against the possibility of financial failure of a market intermediary. However, regulation can and should aim to reduce the risk of failure. Where such failure does occur, it is the role of the regulator to seek to reduce the impact of that failure and to attempt to isolate the risk solely to the failing institution.

### DESCRIPTION ON FINANCIAL REGULATORY BODIES IN INDIA

The following are five major regulatory bodies in India.

**Reserve Bank of India:** Reserve bank of India is the apex monetary institution of India. It is also called as the central bank of the country. The RBI was established on April 1<sup>st</sup>, 1935 in accordance with the provision of the RBI act, 1934 and got nationalized in the year 1949.

The Regulation and supervision of banks are key elements of a financial safety net as banks are often found at the centre of systemic financial crisis. The Reserve bank regulates and supervises the major part of the financial system. The supervisory role of the Reserve Bank covers commercial banks, urban cooperative Banks, some FIs and NBFCs. Some of the FIs, in turn, regulate and/or supervise other institutions in the financial sector, viz., RRB and central and state cooperative banks are supervised by National Bank for Agriculture and Rural development (NABARD); and housing finance companies by National Housing Bank (NHB).

Its objectives are to maintain public confidence in the system, protect depositors’ interest and provide cost-effective banking services to the public. The Banking Ombudsman Scheme has been formulated by the Reserve Bank of India (RBI) for effective addressing of complaints by bank customers. The RBI controls the monetary supply, monitors economic indicators like the gross domestic product and has to decide the design of the rupee banknotes as well as coins. In accordance with the provisions of the RBI Act, 1934 its main functions are:

(i) Operating monetary policy with the aim of maintaining economic and financial stability and ensuring adequate financial resources for development purposes

(ii) Meeting the currency requirement of the public;

(iii) Promotion of an efficient financial system;

(iv) Foreign exchange reserve management;

(v) The conduct of banking and financial operations of the government.

It can be summarised by the preamble as “...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the curren-

cy and credit system of the country to its advantage.”

**Securities and Exchange Board of India:** A regulating body called the Securities and Exchange Board of India (SEBI) was established in 1992 with a view of protecting the interest of investors. This body lays down regulations in order to ensure orderly growth and smooth functioning of the Indian Capital market. The overall objectives of SEBI are to protect the interest of investors and to promote the development of stock exchanges and to regulate the activities of stock market. In order to perform these three objectives SEBI has three important functions known as protective functions, developmental functions and regulatory functions.

1. Protective function – This function is performed by SEBI to protect the interest of investor and provide safety of investment. In its protective function SEBI checks price rigging, prohibits insider trading, prohibits fraudulent and unfair trade practices in which it does- not allow the companies to make misleading statements which are likely to induce the sale and purchase of securities by any other person.

2. Developmental function – These functions are performed by the SEBI to promote and develop activities in stock exchange and increase the business in stock exchange. Under developmental categories, SEBI promotes training of intermediaries of the securities market, tries to promote activities of the stock exchange by adopting flexible and adoptable approach.

3. Regulatory functions – These functions are performed by SEBI to regulate the business in stock exchange. To regulate the activities of stock exchange following functions are performed:

(i) SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries such as merchant bankers, brokers, under writers, etc.

(ii) SEBI registers and regulates the working of stock brokers, sub brokers, share. Transfer agents, and all those who are associated with stock exchange in any manner.

(iii) SEBI registers and regulates the working of mutual funds etc.

(iv) SEBI regulates takeover of the companies.

(v) SEBI conducts inquiries and audit of stock exchanges.

**Pension fund Regulatory Development Authority:** Pension fund regulatory development authority (PFRDA) was established by Government of India on 23<sup>rd</sup> August, 2003. The government has, through an executive order dated 10<sup>th</sup> October 2003, mandated PFRDA to act as a regulator for the pension sector. The mandate of PFRDA is development and regulation of pension sector in India. The National Pension System Trust is composed of members representing diverse fields and brings wide range of talent to the regulatory framework. PFRDA also intends to intensify its effort towards financial education and awareness as a part of its strategy to protect the interest of the

subscribers. PFRDA'S efforts are an important milestone in the development of a sustainable and efficient voluntary defined contribution based pension system in India.

**Insurance Regulatory and Development Authority:** The Insurance regulatory and development Authority (IRDA) is an autonomous apex statutory body which regulates and develops the insurance industry in India. It was constituted by a parliament of India act called Insurance Regulatory and Development Authority Act, 1991 and duly passed by the Government of India, which was amended in 2002 to incorporate some emerging requirements. As a key part of its role, it is responsible to protect the rights of policyholders. Its role and responsibilities involves providing certificate of registration to a life insurance company, to frame regulations on protection of policyholder's interests, specifying the requisite qualifications, code of conduct and practical training for intermediaries or insurance intermediaries and agents. It also aims to promote and regulate activities of professional organizations connected with life insurance, to adjudicate disputes between insurers and intermediaries or insurance intermediaries etc.

**Forward Market Commission:** The Forward market commission is the chief regulator of forwards and futures market in India. The Forward Markets Commission (FMC) is a statutory body set up under the Forward Contracts (Regulation) Act, 1952. It functions under the administrative control of the Department of Economic Affairs, Ministry of Finance since September 2013. Before this, FMC used to function under Department of Consumer Affairs, Ministry of Consumer Affairs, Food & Public Distribution, Government of India. Forward Markets Commission provides regulatory oversight in order to ensure financial integrity (i.e. to prevent systematic risk of default by one major operator or group of operators), market integrity (i.e. to ensure that futures prices are truly aligned with the prospective demand and supply conditions) and to protect & promote interest of consumers /non-members. The Forward Market Commission performs the role of a market regulator. After assessing the market situation and taking into account the recommendations made by the Board of Directors of the Commodity Exchange, the Commission approves the rules and regulations of the Exchange in accordance with which trading is to be conducted. It has its headquarters at Mumbai and one regional office at Kolkata. The Commission comprises of a Chairman, and two Members. It is organized into five administrative divisions to carry out various tasks

## CONCLUSION

The task of the regulator is not an easy one. Above all else, the regulator should facilitate capital formation and economic growth. While it is crucial that the regulator achieve the core objectives, it is also of paramount importance that there be no inappropriate regulation which impresses an unjustified burden on the market and there by inhabit market growth and development. Better regulation ensures transparency and fewer chances for manipulation and finally healthy economic growth of the country.

## REFERENCE

- 1 <http://www.oecd.org/gov/regulatory-policy/44925979.pdf> | 2 [www.gasci.com/The%20Role%20of%20Securities%20Regulators%20an...](http://www.gasci.com/The%20Role%20of%20Securities%20Regulators%20an...) | 3 <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/69297.pdf> | 4 [www.manupatrafast.com/.../PopOpenArticle.aspx?ID...%20Banking](http://www.manupatrafast.com/.../PopOpenArticle.aspx?ID...%20Banking) | 5 [www.smarterwithmoney.in/Trading/Equity/.../How\\_Is\\_the\\_Indian\\_Stock...](http://www.smarterwithmoney.in/Trading/Equity/.../How_Is_the_Indian_Stock...) | 6 [www.yourarticlelibrary.com/.../sebi-the-purpose-objective-and-functions...](http://www.yourarticlelibrary.com/.../sebi-the-purpose-objective-and-functions...) | 7 [pfrda.org.in/](http://www.pfrda.org.in/) | 8 <http://www.maxlifeinsurance.com/insurance-explained/Role-Of-IRDA.aspx> | 9 [en.wikipedia.org/wiki/Forward\\_Markets\\_Commission\\_\(India\)](http://en.wikipedia.org/wiki/Forward_Markets_Commission_(India)) | 10 [www.arthapedia.in/index.php?title=Forward\\_Markets\\_Commission](http://www.arthapedia.in/index.php?title=Forward_Markets_Commission) |