

PART III

FUNCTIONS OF SEBI IN RESPECT OF MATTERS SPECIFIED IN SECTION 11 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992

A) REGULATION OF BUSINESS IN THE STOCK EXCHANGES

Under the SEBI Act, 1992, SEBI has been empowered to conduct inspection of stock exchanges. The SEBI has been inspecting all the stock exchanges once every year since 1995-96. However, in view of the low/insignificant turnover recorded at the OTCEI, Saurashtra-Kutch, MadhyaPradesh, Jaipur, Mangalore, Magadh, Bhubaneswar and Gauhati Stock Exchanges, these exchanges were not inspected during 1999-2000.

During these inspections, a review of the market operations, organisational structure and administrative control of the exchange is made to ascertain whether:

- the exchange provides a fair, equitable and growing market to investors
- the exchange's organisation, systems and practices are in accordance with the Securities Contracts (Regulation) Act (SC(R) Act), 1956 and rules framed thereunder
- the exchange has implemented the directions, guidelines and instructions issued by the SEBI from time to time
- the exchange has complied with the conditions, if any, imposed on it at the time of renewal/ grant of its recognition under section 4 of the SC(R) Act, 1956.

Based on the observations/suggestions made in the inspection reports, the exchanges are advised to send a compliance report to the SEBI within one month of the receipt of the inspection report by the exchange and thereafter quarterly reports indicating the progress made by them in implementing the suggestions contained in the inspection report. The SEBI nominee directors and public representatives on the governing board/council of management of the stock exchanges also pursue the matters in the meetings of the governing board/council of management. If the performance of the exchanges whose renewal of recognition is due, is not found satisfactory, SEBI grants further recognition for a short period only, subject to fulfillment of certain conditions. Further, the functioning of the exchanges are also being monitored through a Monthly Development Report which the exchanges are required to submit to the SEBI every month.

It was observed in the inspections conducted during 1998-99 and 1999-2000 that there has been considerable improvement in the functioning of the exchanges relating to timely settlement of trades, compulsory auction at the end of a settlement, adherence to Capital Adequacy Norms, better monitoring of payment of margins by brokers, etc.